JSCB INDUSTRIALBANK

Financial Statements

Year ended 31 December 2012
Together with Independent Auditors' Report

Translation from Ukrainian original

Translation from Ukrainian original

Contents

INDEPENDENT AUDITORS' REPORT

NOTES TO THE 2012 FINANCIAL STATEMENTS

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Independent Auditors' Report (Audit Opinion)

To the Shareholders and the Management Board of PUBLIC JOINT-STOCK COMPANY "JOINT-STOCK BANK "INDUSTRIALBANK"

Report on the Financial Statements

We have audited the accompanying financial statements of PUBLIC JOINT-STOCK COMPANY "JOINT-STOCK BANK "INDUSTRIALBANK" ("the Bank") (code ERDPU – 13857564; actual address – 39-d, 40 Rokiv Radianskoyi Ukrayiny St., Zaporizhya; date of state registration – 16 October 1991), which comprise the statement of financial position as at 31 December 2012, and the income statement, statement of comprehensive income, statement of changes in equity, and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2012, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

ERNST & YOUNG

Report on Other Legal and Regulatory Requirements

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

1) Section 3 of Article 155 of the Civil Code of Ukraine requires a joint stock company to announce reduction of its share capital and make appropriate changes to its charter documents in accordance with the effective legislation, if its net assets as at the end of the second annual reporting period (from the inception) and all subsequent reporting periods are lower than its statutory capital. A joint stock company should be dissolved, if its net assets are lower than the minimum share capital required by the effective legislation. The Bank's net assets as at 31 December 2012 are UAH 821,048 thousand, which is greater than its registered statutory capital.

2) We have read the other information disclosed by the Bank in its annual report of the issuer of securities, which includes, but is not limited to the accompanying financial statements. We have not noted any material inconsistencies between the accompanying financial statements and the unaudited annual report of the issuer of securities.

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

4) The Law requires joint stock companies developing a code (principles) of corporate governance, and requires establishing a supervisory committee and an audit committee. The Bank has developed the code of corporate governance, and has established the Supervisory Board as per decision of the general meeting of founders and shareholders dated 12 September 1990 and the internal audit division as per decision of the Supervisory Board dated 6 February 2006. No clear criteria for standards of corporate governance are established by the Law or other regulations. Accordingly, we do not express an opinion as to the effectiveness of the Company's corporate governance.

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

Other Matters – Contractual arrangements and timing of the audit

We have been engaged by the Bank to perform audit of financial statements for the year ended 31 December 2012 and concluded an agreement No. GFS-2012-00223 dated 2 October 2012. Our audit of the financial statements of the Bank has been performed during the period from 10 December 2012 to 8 April 2013.

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

Svistich O.M.
General Director

Studynska Y.S.
Partner

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

Registered in the NBU banking auditors register
No. 0000111

10 April 2013
Kyiv, Ukraine

STATEMENT OF FINANCIAL POSITION

At 31 December 2012

(Thousands of Ukrainian hryvnia)
Translation from Ukrainian original

	Notes	*2012*	*2011 (reclassified)*	*2010 (reclassified)*
Assets				
Cash and cash equivalents	6	584,317	746,294	682,649
Mandatory reserve balance with the National Bank of Ukraine		24,397	32,593	48,509
Precious metals		5,659	22,014	5,288
Amounts due from credit institutions	7	75,904	77,202	20,234
Derivative financial assets	8	-	10,916	7,238
Loans to customers	9	1,582,892	1,614,765	1,964,182
Available-for-sale securities	11	353,300	389,810	263,607
Investments in associates	12	8,006	8,009	-
Investment property	13	157,537	148,485	50,075
Property and equipment	14	184,671	217,067	214,167
Intangible assets	15	9,907	10,509	10,795
Current income tax assets		-	-	1,127
Assets held for sale	10	7,195	766	24,206
Other assets	19	6,272	23,114	2,804
Total assets		**3,000,057**	**3,301,544**	**3,294,881**
Liabilities				
Amounts due to the National Bank of Ukraine	18	33,509	-	243,012
Amounts due to credit institutions	20	331,287	271,041	6,219
Derivative financial liabilities	8	4,710	-	603
Amounts due to customers	21	1,744,442	2,129,476	2,187,964
Other borrowed funds	22	5,588	8,067	1,340
Prepaid share capital contribution		-	-	47,131
Current income tax liabilities		692	825	-
Deferred tax liabilities	16	21,605	59,647	52,437
Provisions for liabilities	17	20,355	21,500	21,503
Other liabilities	19	16,821	17,440	15,612
Total liabilities		**2,179,009**	**2,507,996**	**2,575,821**
Equity				
Share capital	23	619,017	619,017	571,886
Additional paid-in capital		8,022	8,022	8,022
Reserve and other funds		137,686	136,842	136,326
Retained earnings		56,123	29,667	14,100
Revaluation reserve		200	-	(11,274)
Total equity		**821,048**	**793,548**	**719,060**
Total equity and liabilities		**3,000,057**	**3,301,544**	**3,294,881**

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

L.A. Grebinskyi — Chairman of the Management Board

T.V. Grebeshkova — Chief Accountant

10 April 2013

The accompanying notes on pages 6 to 45 are an integral part of these financial statements.

INCOME STATEMENT
For the year ended 31 December 2012

(in thousands of Ukrainian hryvnia, unless otherwise indicated)
Translation from Ukrainian original

	Notes	*2012*	*2011*
Interest income			
Loans to customers		256,426	290,291
Amounts due from credit institutions		64,000	56,291
Available-for-sale securities		63,370	55,457
		383,796	**402,039**
Interest expense			
Amounts due to customers		(188,948)	(180,809)
Amounts due to the National Bank of Ukraine		(338)	(3,197)
Amounts due to credit institutions		(40,046)	(18,737)
Other borrowed funds		(741)	(1,076)
		(230,073)	**(203,819)**
Net interest income		**153,723**	**198,220**
Provisions for impairment of financial assets	9, 11	(102,904)	(5,082)
Net interest income after allowance for loan impairment		**50,819**	**193,138**
Net fee and commission income	25	25,111	24,627
Net gains / (losses) from derivatives		(5,891)	3,605
Net gains / (losses) from securities available-for-sale			
- dealing		-	911
- reversal of impairment / (impairment)		75,415	(36,882)
Net gains / (losses) from foreign currencies:			
- dealing		3,309	30,872
- translation differences		1,264	(2,461)
Other income	26	31,870	9,220
Non-interest income		**131,078**	**29,892**
Personnel expenses	27	(94,450)	(97,021)
Depreciation and amortisation	13, 14, 15	(15,273)	(13,777)
Other administrative and operating expenses	27	(74,594)	(78,757)
Reversal of provisions/ (provisions) for impairment of other assets and liabilities	19	1,382	(457)
Non-interest expense		**(182,935)**	**(190,012)**
(Loss) / profit before income tax expense		**(1,038)**	**33,018**
Income tax benefit/(expense)	16	25,108	(16,935)
Profit for the year		**24,070**	**16,083**
Earning per share (UAH)	28	**0.13**	**0.09**

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L.A. Grebinskyi — Chairman of the Management Board

T.V. Grebeshkova — Chief Accountant

10 April 2013

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STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2012

(Thousands of Ukrainian hryvnia)
Translation from Ukrainian original

	Notes	*2012*	*2011*
Profit for the year		**24,070**	**16,083**
Other comprehensive income:			
Unrealised gains on available-for-sale securities		200	12,437
Realised gains on available-for-sale securities reclassified to the income statement		-	(911)
Income tax relating to components of other comprehensive income	16	3,230	(252)
Other comprehensive income for the year, net of tax		**3,430**	**11,274**
Total comprehensive income for the year		**27,500**	**27,357**

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L.A. Grebinskyi Chairman of the Management Board

T.V. Grebeshkova Chief Accountant

10 April 2013

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STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2012

(Thousands of Ukrainian hryvnia)
Translation from Ukrainian original

	Share capital	***Additional paid-in capital***	***Revaluation reserve***	***Reserve and other funds***	***Retained earnings***	***Total equity***
31 December 2010 *(reclassified)*	**571,886**	**8,022**	**(11,274)**	**136,326**	**14,100**	**719,060**
Issue of share capital (Note 23)	47,131					47,131
Allocation of retained earnings to increase the reserve funds				516	(516)	-
Profit for the year					16,083	16,083
Other comprehensive income for the year			11,274			11,274
Total comprehensive income for the year			11,274		16,083	27,357
31 December 2011 *(reclassified)*	**619,017**	**8,022**	**-**	**136,842**	**29,667**	**793,548**
Allocation of retained earnings to increase the reserve funds				844	(844)	-
Profit for the year					24,070	24,070
Other comprehensive income for the year			200		3,230	3,430
Total comprehensive income for the year			200		27,300	27,500
31 December 2012	**619,017**	**8,022**	**200**	**137,686**	**56,123**	**821,048**

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L.A. Grebinskyi — Chairman of the Management Board

T.V. Grebeshkova — Chief Accountant

10 April 2013

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STATEMENT OF CASH FLOWS
For the year ended 31 December 2012

(Thousands of Ukrainian hryvnia)
Translation from Ukrainian original

	Notes	2012	2011 reclassified)
Cash flows from operating activities			
Interest received		358,869	406,367
Interest paid		(228,316)	(204,764)
Fees and commissions received		37,231	34,929
Fees and commissions paid		(10,442)	(13,858)
Gains less losses from available-for-sale securities		-	911
Realised gains less losses from dealing in foreign currencies		3,309	30,872
Other income received		41,416	9,220
Personnel and other administrative and operating expenses paid		(168,292)	(176,530)
Cash flows from operating activities before changes in operating assets and liabilities		**33,775**	**87,147**
Net (increase) / decrease in operating assets			
Mandatory reserve balance with the National Bank of Ukraine		8,181	15,978
Amounts due from credit institutions		1,361	(56,936)
Loans to customers		(23,672)	255,299
Other assets		18,891	(25,932)
Net increase / (decrease) in operating liabilities			
Amounts due to the National Bank of Ukraine		33,509	(243,012)
Amounts due to credit institutions		59,370	263,793
Amounts due to customers		(388,047)	(56,507)
Other liabilities		2,165	13,122
Net cash (used in)/from operating activities before income tax		**(254,467)**	**252,952**
Income tax paid		(10,036)	(7,772)
Net cash (used in)/from operating activities		**(264,503)**	**245,180**
Cash flows from investing activities			
Proceeds from sale and redemption of securities available-for-sale		532,327	320,476
Purchase of securities available-for-sale		(436,054)	(493,898)
Purchase of property and equipment and intangible assets		(11,960)	(4,657)
Proceeds from sale of property and equipment and investment property		19,443	294
Acquisition of associates		-	(8,009)
Net cash from/(used in) investing activities		**103,756**	**(185,794)**
Cash flows from financing activities			
Proceeds from other borrowed funds		3,306	6,720
Redemption of other borrowed funds		(5,800)	-
Net cash (used in)/from financing activities		**(2,494)**	**6,720**
Effect of translation differences on cash and cash equivalents		1,264	(2,461)
Net (decrease)/increase in cash and cash equivalents		**(161,977)**	**63,645**
Cash and cash equivalents, 1 January		**746,294**	**682,649**
Cash and cash equivalents, 31 December	6	**584,317**	**746,294**

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L.A. Grebinskyi Chairman of the Management Board

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1. Principal activities

PUBLIC JOINT STOCK COMPANY JOINT STOCK COMMERCIAL BANK "INDUSTRIALBANK" (the "Bank") was established as a Joint Stock Bank through the reorganisation of Commercial bank "Spivdruzhnist" which was registered by the State Bank of the USSR under #744 on 6 November 1990 and registered by the National Bank of Ukraine under #36 on 16 October 1991. On 11 September 1996, the Bank changed its name to JOINT STOCK COMMERCIAL BANK "INDUSTRIALBANK". On 11 September 2009, the Bank changed its name to PUBLIC JOINT STOCK COMPANY JOINT STOCK COMMERCIAL BANK "INDUSTRIALBANK".

The Bank operates under the general banking licence #126 issued by the National Bank of Ukraine (the "NBU") on 12 October 2011. The Bank also possesses the license issued by the State Commission for Securities and Stock Market of Ukraine to perform professional activities in the stock market – securities trading activity: series AB #493339 dated 21 October 2009 (securities management); licenses issued by the National Commission of Securities and Stock Market: series AE #185078 dated 17 October 2012 (brokerage), series AE #185079 dated 17 October 2012 (dealing), series AE #185080 dated 17 October 2012 (underwriting).

The Bank accepts deposits from the public and extends credits, transfers payments in Ukraine and abroad, trades with securities, issues debit and credit cards, exchanges currencies and provides banking services to its commercial and retail customers. Its main office is in Zaporizhya. As at the end of the reporting period, the Bank did not have branches (2011 – 7 branches) and it had 51 outlets (2011 – 47 outlets) throughout Ukraine covering districts and major industrial centres in various regions of Ukraine. In 2012, the representative office was opened in Kyiv. The Bank's registered address is 39-d, 40 Rokiv Radianskoyi Ukrayiny St., Zaporizhya, Ukraine.

The Bank is a member of the Individuals Deposits Guarantee Fund. The fund is state owned and operates under the Ukrainian laws and regulations. The individuals deposit insurance payment amounts to UAH 200 thousand (2011 – UAH 150 thousand) for each individual in case of the Bank's bankruptcy and revocation of the Bank's banking license.

As at 31 December, the following shareholders owned more than 5% of the outstanding shares.

Shareholder	***2012 ,%***	***2011 ,%***
Insurance Additional responsibility society "Zakhid-Rezerv"	17.2	17.2
Soldatenko Mykola	11.1	11.1
Pol Invest Group LLC	9.4	9.1
FINVAL Group LLC	9.1	9.1
Nolva LLC	7,7	7.7
Sauslenk-Zaporizhzhya LLC	7.7	7.9
Ukrtransnafta PJSC	5.0	5.0
Other	32.8	32.9
Total	**100**	**100**

As at 31 December 2012, the members of the Bank's Supervisory Board and Management Board controlled 25.9% of the Bank's share capital.

There is no ultimate controlling shareholder of the Bank. The Bank is controlled directly and/or indirectly by three individuals.

2. Basis of preparation

General

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

IFRS have become the uniform accounting standards for Ukrainian public joint stock companies, banks and insurance companies since 1 January 2012 in accordance with the Law of Ukraine "On Accounting and Financial Reporting in Ukraine". Accordingly, the Bank has discontinued the preparation of financial statements in accordance with the statutory requirements for accounting and reporting in the banking institutions of Ukraine issued by the National Bank of Ukraine, since 1 January 2012.

The financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies below. For example, derivative financial instruments and available-for-sale securities have been measured at fair value.

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

Inflation accounting

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

Reclassifications

The following reclassifications have been made to 2011 and 2010 balances to conform to the 2012 presentation.

Statement of Financial Position as at 31 December 2011	***As previously reported***	***Amount reclassified***	***As reclassified***
Mandatory reserve balance with the National Bank of Ukraine	-	32,593	32,593
Amounts due from credit institutions	109,795	(32,593)	77,202
Total assets	**3,301,544**	**-**	**3,301,544**
Additional paid-in capital	119,832	(111,810)	8,022
Reserve and other funds	0	136,842	136,842
Retained earnings	54,699	(25,032)	29,667
Total equity	**793,548**	**-**	**793,548**
Total equity and liabilities	**3,301,544**	**-**	**3,301,544**

Statement of Financial Position as at 31 December 2010	***As previously reported***	***Amount reclassified***	***As reclassified***
Mandatory reserve balance with the National Bank of Ukraine	-	48,509	48,509
Amounts due from credit institutions	68,743	(48,509)	20,234
Total assets	**3,294,881**	**-**	**3,294,881**
Additional paid-in capital	119,832	(111,810)	8,022
Reserve and other funds	-	136,326	136,326
Retained earnings	38,616	(24,516)	14,100
Total equity	**719,060**	**-**	**719,060**
Total equity and liabilities	**3,294,881**	**-**	**3,294,881**

3. Summary of accounting policies

Changes in accounting policies

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

Amendment to IFRS 7 Financial Instruments: Disclosures
The amendment was issued in October 2010 and is effective for annual periods beginning on or after 1 July 2011. The amendment requires additional disclosure about financial assets that have been transferred to enable the user of the Bank's financial statements to understand the risks associated with these assets. The amendment affects the disclosure only and has no impact on the Bank's financial position or performance.

The following other amendments to standards did not have any impact on the accounting policies, financial position or performance of the Bank:

- Amendment to IAS 12 Income Taxes – Deferred tax: Recovery of underlying assets
- Amendment to IFRS 1 First-time Adoption of International Financial Reporting Standards - Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters

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Investments in associates

Associates are the entities in which the Bank generally has between 20% and 50% of the voting rights, or is otherwise able to exercise significant influence, but which it does not control or jointly control. Investments in associates are accounted for under the equity method and are initially recognised at cost. Subsequent changes in the carrying amount reflect the post-acquisition changes in the Bank's share of net assets of the associate. The Bank's share of its associates' profits or losses is recognised in the income statement, and its share of movements in reserves is recognised in other comprehensive income. However, when the Bank's share of losses in an associate equals or exceeds its interest in the associate, the Bank does not recognise further losses, unless the Bank is obliged to make further payments to, or on behalf of, the associate.

Unrealised gains on transactions between the Bank and its associates are eliminated to the extent of the Bank's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Financial assets

Initial recognition

Financial assets in the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not classified at fair value through profit or loss, directly attributable transaction costs. The Bank determines the classification of its financial assets upon initial recognition, and can subsequently reclassify financial assets in certain cases as described below.

Date of recognition

All regular way purchases and sales of financial assets are recognised on the trade date i.e. the date that the Bank commits to purchase the asset. Regular way purchases or sales are the purchases or sales of financial assets that require the delivery of assets within the period generally established by the regulation or convention in the marketplace.

Loans and receivables

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

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified as financial assets at fair value through profit or loss, held-to-maturity financial assets or loans and receivables. After initial recognition, available-for-sale financial assets are measured at fair value with gains or losses being recognised in other comprehensive income until the investment is derecognised, or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in other comprehensive income is reclassified to the income statement. However, the interest calculated using the effective interest method is recognised in the income statement.

Determination of fair value

The fair value for the financial instruments traded in an active market at the reporting date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist, option pricing models and other relevant valuation models.

Offsetting

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the statement of financial position.

Reclassification of financial assets

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

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

Financial assets are reclassified at their fair value on the date of reclassification. Any gain or loss already recognised in profit or loss is not reversed. The fair value of the financial asset on the date of reclassification becomes its new cost or amortised cost, as applicable.

Cash and cash equivalents

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

Precious metals

Gold and other precious metals are recorded at purchase prices (the NBU exchange rates). Changes in purchase prices (the NBU exchange rates) are recorded in the income statement as translation differences from precious metals in other income.

Derivative financial instruments

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

Promissory notes

Promissory notes purchased are included in available-for-sale securities, or in amounts due from credit institutions or in loans to customers, depending on their substance, and are accounted for in accordance with the accounting policies for these categories of assets.

Borrowings

Issued financial instruments or their components are classified as liabilities, where the substance of the contractual arrangement results in the Bank having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity instruments. Such instruments include amounts due to credit institutions, amounts due to customers and debt securities issued. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in the income statement when the borrowings are derecognised as well as through the amortisation process.

Leases

i. ***Finance – Bank as a lessor***

The Bank recognises lease receivables at a value equal to the net investment in the lease, starting from the date of commencement of the lease term. Finance income is based on a pattern reflecting a constant periodic rate of return on the net investment outstanding. Initial direct costs are included in the initial measurement of the lease receivables.

ii. ***Operating – Bank as a lessee***

Leases of assets under which the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. Lease payments under the operating lease are recognised as expenses on a straight-line basis over the lease term and included into other operating expenses.

iii. ***Operating – Bank as a lessor***

The Bank presents assets subject to operating leases in the statement of financial position according to the nature of the asset. Lease income from operating leases is recognised in the income statement on a straight-line basis over the lease term as other income. The aggregate cost of payments to lessees is recognised as a reduction of rental income over the lease term on a straight-line basis. Expenses related to the leased property are recognised as part of this property cost.

(in thousands of Ukrainian hryvnia, unless otherwise indicated)
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Impairment of financial assets

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

Amounts due from credit institutions and loans to customers

For amounts due from credit institutions and loans to customers carried at amortised cost, the Bank first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence exists that impairment was incurred 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. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Bank. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the income statement.

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

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Bank's internal credit grading system that considers credit risk characteristics such as the type of an asset, industry, geography, collateral type, past-due status and other relevant factors.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of 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 years on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the group or their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Available-for-sale financial assets

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

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement – is reclassified from other comprehensive income to the income statement. Impairment losses on equity investments are not reversed through the income statement; increases in their fair values after impairment are recognised in other comprehensive income.

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In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.
The interest income is recorded in the income statement. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed through the income statement.

Renegotiated loans

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

The accounting treatment of such restructuring is as follows:

- If the currency of the loan has been changed the old loan is derecognised and the new loan is recognised.
- If the loan restructuring is not caused by the financial difficulties of the borrower but the cash flows were renegotiated on the favourable terms for the borrower: in this case the loan is not recognised as impaired. Such loan is not derecognised, future cash flows remaining until the loan repayment are discounted at the original effective interest rate;
- If the loan is impaired after restructuring, the Bank uses the original effective interest rate in respect of new cash flows to estimate the recoverable amount of the loan. The difference between the recalculated present value of the new cash flows taking into account collateral and the carrying amount before restructuring is included in the provision charges for the period.

The management continuously reviews the renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive the cash flows from the asset have expired;
- the Bank has transferred its rights to receive the cash flows from the asset, or retained the right to receive the cash flows from the asset, but has assumed an obligation to pay them in full without a material delay to a third party under a 'pass-through' arrangement; and
- the Bank either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Bank has transferred its rights to receive the cash flows from the asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Bank's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the income statement.

Financial guarantees

In the ordinary course of business, the Bank gives financial guarantees consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognised in the financial statements at fair value, in 'Other liabilities', being the premium received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amortised premium and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is taken to the income statement. The premium received is recognised in the income statement on a straight-line basis over the life of the guarantee.

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Taxation

The current income tax expense is calculated in accordance with Ukrainian taxation regulations.

Deferred tax assets and liabilities are calculated in respect of temporary differences using the balance sheet liability method. Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes, except where the deferred income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on the tax legislation that have been enacted or substantively enacted at the reporting date.

Ukraine also has various operating taxes that are imposed on the Bank's activities. These taxes are included in other administrative and operating expenses in the income statement.

Property and equipment

Property and equipment are carried at cost, less accumulated depreciation and any accumulated impairment. Such cost includes the cost of replacing a part of equipment when that cost is incurred if the recognition criteria are met.

The carrying amounts of equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable.

Depreciation of an asset begins when it is available for use. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

	Years
Buildings	50
Furniture and fixtures	2-28
Computers and office equipment	5-20
Motor vehicles	8-18

The asset's residual values, useful lives and methods are reviewed, and adjusted as appropriate, at each financial year-end.

Costs related to repairs and renewals are charged when incurred and included in other administrative and operating expenses, unless they qualify for capitalization.

Intangible assets

Intangible assets include computer software and licenses.

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic lives of one to twenty years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation periods and methods for intangible assets with finite useful lives are reviewed at least at each financial year-end.

Investment property

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

Investment property is initially recognised at cost, including the acquisition costs, and carried at cost less accumulated depreciation and any accumulated impairment. Depreciation is calculated on a straight-line basis over the estimated useful lives of 50 years for buildings. The assets' residual values, useful lives and method are reviewed and adjusted at each reporting date. Gains or losses on disposal of investment property are calculated as proceeds less residual value. Subsequent expenditure is capitalised to the asset's carrying amount only when it is probable that future economic benefits associated with the expenditure will flow to the Bank and the cost can be measured reliably. All other repairs and maintenance costs are expensed when incurred.

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Assets classified as held for sale

The Bank classifies a non-current asset as held for sale if its carrying amount is recovered principally through a sale transaction rather than through continuing use. For this to be the case, the non-current asset must be available for immediate sale in its present condition subject only to the terms that are usual and customary for sales of such assets and its sale must be highly probable.

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

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

Provisions

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

Retirement and other employee benefit obligations

The Bank does not have any pension arrangements separate from the state pension system, which requires current contributions by the employer calculated as a percentage of current gross salary payments; such expense is charged in the income statement in the period, in which the related salaries are earned. The Bank has no additional post-retirement obligations.

Share capital

Share capital

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

Dividends

Dividends are recognised as a liability and deducted from equity at the reporting date only if they are declared before or on the reporting date. Dividends are disclosed when they are proposed before the reporting date or proposed or declared after the reporting date but before the financial statements are authorised for issue.

Fiduciary assets

Assets held in a fiduciary capacity are not reported in the financial statements, as they are not the assets of the Bank.

Segment reporting

The Bank's segment reporting is based on the following operating segments: Retail banking, Corporate banking, Financial institutions and Investments, Other. An operating segment is a component of the Bank that is engaged in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same group); which operating results are regularly reviewed by the Management Board to make decisions about the resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Contingencies

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

Recognition of income and expenses

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

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Interest and similar income and expense

For all financial instruments measured at amortised cost and interest bearing securities classified as trading or available-for-sale, interest income or expense is recorded at the effective interest rate, which is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the original effective interest rate and taking into account the impairment. No interest income is recognised on the financial assets, which carrying amount is equal to zero due to impairment, and when there is a decision of the Management Board and/or Supervisory Board on interest accrual suspension.

Fee and commission income

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

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

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

- Fee income from providing transaction services

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

Foreign currency translation

The financial statements are presented in Ukrainian hryvnia, which is the Bank's functional and presentation currency. Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognised in the income statement as gains less losses from foreign currencies - translation differences. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Differences between the contractual exchange rate of a transaction in a foreign currency and the NBU exchange rate on the date of the transaction are included in gains less losses from foreign currencies: translation differences.

As at 31 December 2012, the exchange rate of Ukrainian hryvnia as established by the NBU was UAH 7.993 to 1 US dollar (2011 – UAH 7.9898) and UAH 10.537172 to 1 euro (2011 – UAH 10.298053). The average exchange rate of Ukrainian hryvnia for 2012 was UAH 7.9910 to 1 US dollar (2011 – UAH 7.9676) and UAH 10.2693 to 1 euro (2011 – UAH 11.0918).

Going concern

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

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Future changes in accounting policies

Standards and interpretations issued but not yet effective

IFRS 9 "Financial Instruments"
IFRS 9 as issued reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard should have been effective for annual periods beginning on or after 1 January 2013; but the amendments to IFRS 9 *Mandatory Effective Date and Transition Disclosures* issued in December 2011 postponed the effective date to 1 January 2015. In the subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The Bank will assess the effect of adoption of IFRS 9 on the financial statements in conjunction with the other phases, when the final wording of the standard is issued.

IFRS 10 "Consolidated Financial Statements"
IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require the management to exercise a much more significant judgement to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in IAS 27. In addition, IFRS 10 introduces a specific application guidance for agency relationships. The Standard includes accounting requirements and consolidation procedures carried forward unchanged from IAS 27. IFRS 10 replaces the requirements to consolidation contained in SIC-12 *Consolidation — Special Purpose Entities* and IAS 27 *Consolidated and Separate Financial Statements*. It is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted. The Bank expects that the adoption of IFRS 10 will have no effect on its financial position and performance.

IFRS 11 "Joint Arrangements"
IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. IFRS 11 supersedes IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly Controlled Entities – Non-monetary Contributions by Venturers* and is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted. The Bank expects that the adoption of IFRS 11 will have no effect on its financial position and performance.

IFRS 12 "Disclosure of Interests in Other Entities"
IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. IFRS 12 is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted. The adoption of the standard will require new disclosures to be made in the financial statements of the Bank but will have no impact on its financial position or performance.

IFRS 13 "Fair Value Measurement"

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. IFRS 13 is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted. The adoption of the IFRS 13 may have effect impact on the measurement of the Bank's assets and liabilities accounted for at fair value. The Bank is currently evaluating the impact of the adoption of IFRS 13 on its financial position and performance.

IAS 27 "Separate Financial Statements" (as revised in 2011)
As a consequence of the new IFRS 10 and IFRS 12, what remains of IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The amendment becomes effective for annual periods beginning on or after 1 January 2013. The Bank expects that the adoption of IAS 27 will have no effect on its financial position and performance.

IAS 28 "Investments in Associates and Joint Ventures" (as revised in 2011)
As a consequence of the new IFRS 11 and IFRS 12, IAS 28 has been renamed IAS 28 *Investments in Associates and Joint Ventures*, and describes the application of the equity method to investments in joint ventures in addition to associates. The amendment becomes effective for annual periods beginning on or after 1 January 2013. The Bank is currently evaluating the impact of the adoption of IAS 28 on its financial position and performance.

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

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Amendments to IAS 1 Changes to the Presentation of Other Comprehensive Income
The amendments to IAS 1, effective for annual periods beginning on or after 1 July 2012, change the grouping of items presented in other comprehensive income. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. These amendments will change the presentation of information, but will have no effect on the Bank's financial position or performance.

Amendments to IFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities
These amendments require an entity to disclose the information about the rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with the information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32 *Financial Instruments: Presentation*. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32. These amendments will not impact the Bank's financial position or performance and become effective for annual periods beginning on or after 1 January 2013.

Amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities

These amendments clarify the meaning of "currently has a legally enforceable right to set-off". The effect of adoption of these amendments on the Bank should be evaluated by analysing the calculation procedures and legal documentation which will show the possibility of offsetting in situations in which it was carried out in the past. In certain cases offsetting may be impossible. In other situations, the renegotiation of contracts may be required. The requirement under which all counterparts of netting arrangements have the right to offset may be difficult in situations where only one party has the right to set-off in the event of default.

The amendments also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. Many settlement systems will meet the new criteria, and some will not. It is not practical to evaluate the impact of adoption of these amendments on the financial statements, insofar as the Bank should analyse the operating procedures of single clearing centres and settlement systems which it uses to draw a conclusion on their compliance with the new criteria.

These amendments are effective for annual periods beginning on or after 1 January 2014.

Amendments to IFRS 1 Government Loans
These amendments require the first-time adopters to apply the requirements of IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*, prospectively to government loans existing at the date of transition to IFRS. The amendments will not impact the financial statements of the Bank.

Improvements to IFRSs

The amendments become effective for annual periods beginning on or after 1 January 2013. These amendments will have no impact on the Bank.

IFRS 1 *First-time Adoption of International Financial Reporting Standards*. This improvement clarifies that an entity that stopped applying IFRS in the past and chooses, or is required, to apply IFRS, has the option to re-apply IFRS 1. If IFRS 1 is not re-applied, an entity must retrospectively restate its financial statements as if it had never stopped applying IFRS.

IAS 1 *Presentation of Financial Statements*. This improvement clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative information is the previous period.

IAS 16 *Property Plant and Equipment*. This improvement clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventory.

IAS 32 *Financial Instruments: Presentation*. This improvement clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 *Income Taxes*.

IAS 34 *Interim Financial Reporting*. The amendment aligns the disclosure requirements for total segment assets with total segment liabilities in interim financial statements. This clarification also ensures that interim disclosures are aligned with annual disclosures.

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4. Significant accounting judgments and estimates

In the process of applying the Bank's accounting policies, the management has used its judgments and made estimates in determining the amounts recognised in the financial statements. The most significant judgments and estimates are as follows:

Fair value of financial instruments

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

Allowance for loan and receivables impairment

The Bank regularly reviews its loans and receivables to assess impairment. The Bank uses its experienced judgment to estimate the amount of any impairment loss in cases where a borrower is in financial difficulties and there are few available sources of historical data relating to similar borrowers. Similarly, the Bank estimates changes in future cash flows based on the observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. The management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of loans and receivables. The Bank uses its experienced judgment to adjust the observable data for a group of loans or receivables to reflect the current circumstances.

Deferred tax asset recognition

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on the tax legislation that have been enacted or substantively enacted at the reporting date.

5. Segment information

For management purposes, the Bank is organised into four operating segments based on products and services as follows:

Retail banking	Principally handling individual customers' deposits, and providing consumer loans to individuals, credit cards facilities and funds transfer facilities.
Corporate banking	Principally handling loans and deposit and current accounts for corporate customers.
Financial institutions and Investments	Principally include products for securities transactions or for rendering services to financial and investments market participants (interbank operations, stock market, etc.).
Other/Unallocated	Other not directly allocated operation.

The management monitors the operating results of its business units separately for the purpose of making decisions about the resource allocation and performance assessment. Segment performance, as explained in the table below, is measured differently from the financial statements. Income taxes are managed on a group basis and are not allocated to operating segments.

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The following tables present income and profit and certain asset and liability information regarding the Bank's operating segments.

2012	*Retail banking*	*Corporate banking*	*Financial institutions and Investments*	*Other/ Unallocated*	*Total*
External customers					
Interest income	20,007	236,419	127,370	-	383,796
Fee and commission income	22,246	13,362	666	-	36,274
Non-interest income, except for fee and commission income and net gains on reversal of impairment of securities available for sale	3,075	3,019	9,830	14,628	30,552
Total revenue	**45,328**	**252,800**	**137,866**	**14,628**	**450,622**
Interest expense	(117,211)	(71,737)	(41,125)	-	(230,073)
Fee and commission expense	(5,198)	(1)	(5,776)	(188)	(11,163)
Charge for impairment of assets and provisions	4,059	(81,941)	51,603	172	(26,107)
Non-interest expense, except for reversal of provisions for impairment of other assets and for liabilities	(36,356)	(13,974)	(4,264)	(129,723)	(184,317)
Segment results	**(109,378)**	**85,147**	**138,304**	**(115,111)**	**(1,038)**
Income tax benefit					25,108
Profit for the year					**24,070**
Segment assets	201,021	1,706,402	1,046,892	45,742	3,000,057
Segment liabilities	1,167,127	561,908	377,452	72,522	2,179,009
Other segment information					
Capital expenditure	-	-	-	11,960	11,960

2011	*Retail banking*	*Corporate banking*	*Financial institutions and Investments*	*Other/ Unallocated*	*Total*
External customers					
Interest income	20,496	269,795	111,748	-	402,039
Fee and commission income	25,804	11,995	686	-	38,485
Non-interest income, except for fee and commission income	3,072	26,560	3,700	(28,067)	5,265
Total revenue	**49,372**	**308,350**	**116,134**	**(28,067)**	**445,789**
Interest expense	(137,380)	(43,430)	(23,009)	-	(203,819)
Fee and commission expense	(4,981)	(4)	(6,281)	(2,592)	(13,858)
Provisions for impairment of assets and other reserves	9,153	(18,862)	4,627	-	(5,082)
Non-interest expense	-	-	-	(190,012)	(190,012)
Segment results	**(83,836)**	**246,054**	**91,471**	**(220,671)**	**33,018**
Income tax expense					(16,935)
Profit for the year					**16,083**
Segment assets	268,631	1,568,062	1,438,700	26,151	3,301,544
Segment liabilities	1,161,124	856,011	447,650	43,211	2,507,996
Other segment information					
Investments in associates	-	-	8,009	-	8,009
Capital expenditure	-	-	-	4,657	4,657

The Bank is located in Ukraine and almost 100% of the revenue is from Ukraine. For the details of geographical concentration of the Bank's monetary assets and liabilities see Note 29.

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6. Cash and cash equivalents

Cash and cash equivalents comprise:

	2012	*2011*
Cash on hand	98,718	110,425
Current accounts with the National Bank of Ukraine	51,472	93,877
Current accounts with other credit institutions	434,127	541,992
Cash and cash equivalents	**584,317**	**746,294**

As at 31 December 2012, UAH 19,921 thousand (2011 – UAH 45,012 thousand) was placed on current accounts with seven (2011 – seven) internationally recognised OECD banks, which are the main counterparties of the Bank in performing international settlements. The placements have been made under normal banking terms and conditions.

7. Amounts due from credit institutions

Amounts due from credit institutions comprise:

	2012	*2011 (reclassified)*	*2010 (reclassified)*
Term deposits with maturity over 90 days	68,277	68,277	-
Guarantee deposits	7,627	8,925	20,234
Amounts due from credit institutions	**75,904**	**77,202**	**20,234**

As at 31 December 2012, inter-bank deposits and loans include UAH 68,227 thousand (2011 – UAH 68,227 thousand; 2010 - nil) placed with one Ukrainian bank.

8. Derivative financial instruments

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

	2012			*2011*		
	Notional amount	*Fair value*		*Notional amount*	*Fair value*	
		Assets	*Liabilities*		*Assets*	*Liabilities*
Forwards – Ukrainian banks	85,716	-	(4,434)	101,553	10,274	-
SWAPs	36,125	-	(276)	158,467	642	-
Total derivative assets/ (liabilities)		**-**	**(4,710)**		**10,916**	**-**

As at 31 December 2012 and 31 December 2011, the Bank has positions in the following types of derivatives:

Forwards
Forward contracts are contractual agreements to buy or sell a specified financial instrument at a specific price and date in the future. Forwards are customised contracts transacted in the over-the-counter market.

SWAPs
Swaps are contractual agreements between two parties to exchange movements in foreign currency rates. The management believes that offsetting the loans with the same counterparty bank denominated in different currencies is, in substance, equivalent to a currency swap. These transactions have been recorded on a net basis as derivative financial instruments rather than amounts due to/from credit institutions.

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9. Loans to customers

Loans to customers comprise:

	2012	*2011*
Corporate lending	1,705,255	1,655,786
Consumer lending	120,203	161,675
Residential mortgages	47,643	52,290
Gross loans to customers	**1,873,101**	**1,869,751**
Less – Allowance for impairment	(290,209)	(254,986)
Loans to customers	**1,582,892**	**1,614,765**

Allowance for impairment of loans to customers

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

	Corporate lending 2012	*Consumer lending 2012*	*Residential mortgages 2012*	*Total 2012*
At 1 January 2012	**210,418**	**34,192**	**10,376**	**254,986**
Charge / (release) for the year	83,150	(3,347)	(776)	79,027
Amounts written-off during the year as uncollectible	(21,906)	-	-	(21,906)
Assignment of rights	(21,965)	-	-	(21,965)
Currency translation difference	4	44	19	67
At 31 December 2012	**249,701**	**30,889**	**9,619**	**290,209**
Individual impairment	249,028	6,389	1,260	256,677
Collective impairment	673	24,500	8,359	33,532
	249,701	**30,889**	**9,619**	**290,209**
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	**1,133,929**	**71,990**	**2,728**	**1,208,647**

In 2012, the Bank assigned its right of claim under an individually impaired loan with the null carrying amount for the consideration of UAH 21,965 thousand (Note 26).

	Corporate lending 2011	*Consumer lending 2011*	*Residential mortgages 2011*	*Total 2011*
At 1 January 2011	193,710	44,622	12,220	250,552
Charge / (release) for the year	18,862	(7,250)	(1,903)	9,709
Amounts written-off during the year as uncollectible	(2,850)	(3,306)	-	(6,156)
Currency translation difference	696	126	59	881
At 31 December 2011	**210,418**	**34,192**	**10,376**	**254,986**
Individual impairment	206,869	5,036	1,411	213,316
Collective impairment	3,549	29,156	8,965	41,670
	210,418	**34,192**	**10,376**	**254,986**
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	**962,128**	**33,300**	**2,538**	**997,966**

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Individually impaired loans

Interest income accrued on loans, for which individual impairment allowances have been recognised, for the year ended 31 December 2012, comprised UAH 5,905 thousand (2011 – UAH 6,657 thousand).

Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.
The main types of collateral obtained are as follows:

- For commercial lending – charges over real estate properties, land and cash,
- For retail lending – mortgages over residential properties and cash.

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

During the year, the Bank took possession of residential and non-residential buildings with an estimated value of UAH 6,912 thousand and a car with an estimated value of UAH 421 thousand (2011: residential and non-residential buildings with an estimated value of UAH 6,113 thousand). The proceeds are used to reduce or repay the outstanding claim. In general, the Bank does not occupy repossessed properties for business use. The car is used for the Bank`s business use.

Concentration of loans to customers

As at 31 December 2012, the Bank had a concentration of loans represented by UAH 1,265,457 thousand due from ten largest third party borrowers (68% of gross loan portfolio) (2011 – UAH 1,173,833 thousand, or 64%). As at 31 December 2012, an allowance of UAH 191,489 thousand (2011 – UAH 110,791 thousand) was recognised against these loans.

Loans have been extended to the following types of customers:

	2012	*2011*
Private companies	1,705,255	1,655,786
Individuals	167,846	213,965
	1,873,101	**1,869,751**

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

	2012	*2011*
Real estate construction and management	648,348	610,586
Manufacturing	415,806	277,425
Trading enterprises	196,160	162,310
Finance	182,346	405,941
Individuals	167,846	213,965
Transport	92,815	119,799
Agriculture and food processing	85,573	75,162
Extractive industry	82,522	2,261
Services	1,685	1,497
Other	-	805
	1,873,101	**1,869,751**

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Finance lease receivables

Included in corporate lending portfolio are finance lease receivables:

	Not later than 1 year	Later than 1 year and not later than 5 years	Total
Gross investment in finance lease	1,081	641	1,722
Unearned future finance income on finance lease	(167)	(168)	(335)
Net investment in finance lease	**914**	**473**	**1,387**

The analysis of finance lease receivables as at 31 December 2011 is as follows:

	Not later than 1 year	Later than 1 year and not later than 5 years	Total
Gross investment in finance lease	3,388	1,331	4,719
Unearned future finance income on finance lease	(191)	(240)	(431)
Net investment in finance lease	**3,197**	**1,091**	**4,288**

10. Assets held for sale

	2012	2011
Assets held for sale as at 1 January	**766**	**24,206**
Additions	7,195	9,003
Disposal	-	(13,170)
Transfer to other assets (Note 19)	(766)	(19,273)
Assets held for sale as at 31 December	**7,195**	**766**

As at 31 December 2012, assets held for sale consist of non-residential property, a land plot and an apartment. The Bank intends to sell these assets by the end of 2013. As at 31 December 2012, the fair value less estimated costs to sell these assets is UAH 7,192 thousand (2011 – UAH 766 thousand). An independent appraisal of assets held-for-sale was held as at 31 December 2012.

11. Available-for-sale securities

Available-for-sale securities comprise:

	2012	2011
Ukrainian state bonds refinanced by the NBU	56,393	-
Corporate bonds	83,621	70,906
Promissory notes	213,266	318,899
Corporate shares	20	5
Available-for-sale securities	**353,300**	**389,810**

Included in promissory notes are securities, for which interest is to be accrued at the weighted average interest rate of 16%, and which mature in January-December 2013.

Corporate bonds are represented by securities with a fixed coupon rate of 8% and maturity before July 2014.

Ukrainian state bonds refinanced by the NBU are the USD-denominated mid-term state bonds. As at 31 December 2012, the bonds with the carrying amount being the equivalent of UAH 38,249 thousand are the collateral for the loans provided by the NBU (2011 - nil) (Note 18).

According to the NBU, Ukrainian banks are allowed to cover the mandatory reserves with the Ukrainian state bonds denominated in a foreign currency in the amount of 10% of their nominal value. As at 31 December 2012, the value of the bonds used by the Bank to cover the mandatory reserves with the NBU was equivalent to UAH 5,595 thousand, which was 10% of their total nominal value (2011 – nil).

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In 2012, the expenses related to the impairment of the available-for-sale securities were accrued in the amount of UAH 23,877 thousand. In 2011, the reversal of the expenses related to the impairment of the available-for-sale securities was UAH 4,627 thousand.

In 2012, the impairment provisions for the available-for-sale securities were UAH 33,441 thousand; in 2011 – UAH 9,564 thousand.

12. Investments in associates

The following associate is accounted for under the equity method:

Associates	***Ownership, %***	***Country***	***Date of incorporation***	***Industry***	***Date of acquisition***
LLC "POL Invest Group"	7.2%	Ukraine	30 November 2011	Research of market conditions and public opinion	30 November 2011

As at 30 November 2011, the Bank acquired 7.2% of shares of LLC "POL Invest Group" (the "Company"). The Bank treats this Company as an associate, as the Bank has a representative in the governing body of the Company and participates in the Company's policy-making process (including the participation in dividend distribution).
During 2012, the ownership in the associate did not change.

The movement in investments in associates was:

	2012	***2011***
Opening balance	8,009	-
Purchase cost	-	8,009
Carrying amount adjustment	(3)	-
Investments in associates, end of the period	**8,006**	**8,009**

The following table illustrates the summarised financial information of the associates:

Aggregated assets and liabilities of associates	***2012***	***2011***
Assets	111,205	222,386
Liabilities	(4)	(111,185)
Net assets	**111,201**	**111,201**

Aggregated revenue and profit of associates	***2012***	***2011***
Revenue	-	-
Loss	-	(24)

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13. Investment property

The movements in investment property were as follows:

	2012	*2011*
Cost: opening balance	**151,251**	**51,168**
Transfer from finance lease and fixed assets	9,814	100,067
Capital investments	65	16
Transfer from other assets	17,818	-
Disposal (sale)	(14,899)	-
Cost: closing balance	**164,049**	**151,251**
Accumulated depreciation: opening balance	**(2,766)**	**(1,093)**
Charge/ (release) for the year	(3,101)	(1,673)
Transfer from finance lease and fixed assets	(967)	-
Disposal (sale)	322	-
Accumulated depreciation: closing balance	**(6,512)**	**(2,766)**
Net book value	**157,537**	**148,485**

According to the independent appraisal report, the fair value of investment property as at 31 December 2012 is UAH 158,044 thousand, which does not differ significantly from the cost. No impairment losses were recognised over the investment property during 2012 and 2011.

14. Property and equipment

The movements in property and equipment were as follows:

	Buildings	*Computers and office equipment*	*Motor vehicles*	*Furniture and fixtures*	*Assets under construction*	*Total*
Cost						
31 December 2011	**178,002**	**255,341**	**18,713**	**70,257**	**32,463**	**554,776**
Additions	795	1,189	439	913	9,317	12,653
Disposals	-	(2,363)	-	(1,740)	(3,439)	(7,542)
Sales	(430)	(7)	(991)	(5,045)	-	(6,473)
Transfers	(9,812)	(440)	(32)	(177)	(16,803)	(27,264)
31 December 2012	**168,555**	**253,720**	**18,129**	**64,208**	**21,538**	**526,150**
Accumulated depreciation						
31 December 2011	**(28,507)**	**(240,635)**	**(14,577)**	**(53,990)**		**(337,709)**
Charge for the year	(3,405)	(3,183)	(1,050)	(2,928)		(10,566)
Disposals	-	2,295	-	1,563		3,858
Sales	96	2	766	743		1,607
Transfers	864	436	31	-		1,331
31 December 2012	**(30,952)**	**(241,085)**	**(14,830)**	**(54,612)**		**(341,479)**
Net book value:						
31 December 2011	**149,495**	**14,706**	**4,136**	**16,267**	**32,463**	**217,067**
31 December 2012	**137,603**	**12,635**	**3,299**	**9,596**	**21,538**	**184,671**

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	Buildings	***Computers and office equipment***	***Motor vehicles***	***Furniture and fixtures***	***Assets under construction***	***Total***
Cost						
31 December 2010	**193,750**	**254,404**	**18,172**	**44,838**	**32,011**	**543,175**
Additions	9,563	2,614	769	10,896	5,058	28,900
Disposals	-	(614)	(57)	(838)	(4,607)	(6,116)
Sales	-	(207)	(171)	-	-	(378)
Transfers	(25,311)	(856)	-	15,361	1	(10,805)
31 December 2011	**178,002**	**255,341**	**18,713**	**70,257**	**32,463**	**554,776**
Accumulated depreciation						
31 December 2010	**(39,664)**	**(239,067)**	**(13,786)**	**(36,491)**		**(329,008)**
Charge for the year	(3,405)	(3,005)	(1,067)	(3,018)		(10,495)
Disposals	-	602	57	823		1,482
Sales		45	39			84
Transfers	14,562	790	180	(15,304)		228
31 December 2011	**(28,507)**	**(240,635)**	**(14,577)**	**(53,990)**		**(337,709)**
Net book value:						
31 December 2010	**154,086**	**15,337**	**4,386**	**8,347**	**32,011**	**214,167**
31 December 2011	**149,495**	**14,706**	**4,136**	**16,267**	**32,463**	**217,067**

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15. Intangible assets

The movements in intangible assets were as follows:

	Computer software and licenses
Cost	
31 December 2011	**20,679**
Additions (purchase)	1,006
Disposals (write-offs)	(222)
Transfers	(23)
31 December 2012	**21,440**
Accumulated depreciation	
31 December 2011	**(10,170)**
Charge for the year	(1,606)
Disposals (write-offs)	220
Transfers	23
31 December 2012	**(11,533)**
Net book value:	
31 December 2011	**10,509**
31 December 2012	**9,907**

	Computer software and licenses
Cost	
31 December 2010	**19,361**
Additions	1,324
Disposals	(6)
31 December 2011	**20,679**
Accumulated depreciation	
31 December 2010	**(8,566)**
Charge for the year	(1,609)
Disposals	5
31 December 2011	**(10,170)**
Net book value:	
31 December 2010	**10,795**
31 December 2011	**10,509**

16. Taxation

The corporate income tax expense comprises:

	2012	*2011*
Current income tax charge	9,704	9,473
(Benefit) / deferred tax charge – origination and reversal of temporary differences	(34,812)	7,462
Income tax expense / (benefit)	**(25,108)**	**16,935**

The standard corporate income tax rate comprised 21% as at the end of 2012 and 23% as at the end of 2011. In December 2010, Ukrainian Parliament adopted the new Tax Code of Ukraine, which became effective on 1 January 2011, while the corporate income tax provisions take effect from 1 April 2011. In accordance with the new Tax Code, the income tax rate was decreased to 23% from 1 April till 31 December 2011; and 21% and 19% in 2012 and 2013, respectively. Since 2014, the income tax rate is 16%. From 1 January 2013, the income tax rate for transactions with securities and derivatives is 10%. Deferred tax balances are measured using the tax rates that will be applicable when temporary differences are expected to reverse.

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

	2012	*2011*
(Loss) / profit before income tax expense	**(1,038)**	**33,018**
Statutory tax rate	21%	23%
Theoretical income tax (benefit)/expense at the statutory rate	**(218)**	**7,594**
Effect from changes in the tax base	-	209
Effect from change in the tax rate	(22,469)	(8,164)
Reversal of temporary differences	(14,143)	16,102
Non-deductible expenditures	11,722	1,194
Income tax (benefit) / expense	**(25,108)**	**16,935**

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

		Origination and reversal of temporary differences			*Origination and reversal of temporary differences*		
	2010	*In the income statement*	*In other compre-hensive income*	*2011*	*In the income statement*	*In other compre-hensive income*	*2012*
Tax effect of deductible temporary differences:							
Accrued expenses, other liabilities	2,103	(173)	-	1,930	(271)	-	1,659
Property and equipment	353	224	-	577	(2,805)	2,729	501
Deferred tax asset	**2,456**	**51**	**-**	**2,507**	**(3,076)**	**2,729**	**2,160**
Tax effect of taxable temporary differences:							
Allowance for impairment of assets	4,306	(18,103)	-	(13,797)	13,019	-	(778)
Interest income accrued, other assets	(4,475)	1,058	-	(3,417)	2,345	-	(1,072)
Available-for-sale securities	(54,724)	9,532	252	(44,940)	22,524	501	(21,915)
Deferred tax liabilities	**(54,893)**	**(7,513)**	**252**	**(62,154)**	**37,888**	**501**	**(23,765)**
Deferred tax liabilities, net	**(52,437)**	**(7,462)**	**252**	**(59,647)**	**34,812**	**3,230**	**(21,605)**

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17. Other impairment and provisions

The movements in other impairment allowances and provisions were as follows:

	Other assets	*Guarantees and commitments*	*Legal claims*	*Total*
31 December 2010	**2,404**	**997**	**20,506**	**23,907**
Charge /(reversal), including translation differences	460	(3)	-	457
31 December 2011	**2,864**	**994**	**20,506**	**24,364**
Reversal, including translation differences	(237)	(994)	(151)	(1,382)
Amounts written-off during the year as uncollectible	(20)	-	-	(20)
31 December 2012	**2,607**	**-**	**20,355**	**22,962**

Allowance for impairment of assets is deducted from the carrying amounts of the related assets. Provisions for claims, guarantees and commitments are recorded in liabilities.

18. Amounts due to the National Bank of Ukraine

As at 31 December 2012, included in amounts due to the NBU are two loans received during 2012 with the carrying and nominal values of UAH 33,509 thousand (UAH 3,509 thousand and UAH 30,000 thousand). The loans are UAH-denominated, bear the interest rate of 7.5% p.a. and mature in January 2013 and October 2013, respectively. The loans are secured by the USD-denominated Ukrainian state bonds with the carrying amount equivalent to UAH 38,249 thousand (UAH 6,008 thousand and UAH 32,241 thousand, respectively) (Note 11).

19. Other assets and liabilities

Other assets comprise:

	2012	*2011 (reclassified)*	*2010 (reclassified)*
Other financial assets			
Accrued income	1,355	2,313	1,171
Settlements with clients	911	560	248
	2,266	**2,873**	**1,419**
Less – Allowance for impairment of other assets (Note 17)	(1,466)	(2,538)	(767)
Other non-financial assets			
Prepayments for assets and services	2,649	2,225	1,940
Pledged property passed to the pledge holder (Note 10)	2,221	19,273	-
Materials	996	776	1,087
Deferred expenses	503	502	560
Prepaid taxes other than income tax	137	221	194
Other	107	108	8
	6,613	**23,105**	**3,789**
Less – Allowance for impairment of other non-financial assets (Note 17)	(1,141)	(326)	(1,637)
Other assets	**6,272**	**23,114**	**2,804**

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Other liabilities comprise:

	2012	2011 (reclassified)	2010 (reclassified)
Other financial liabilities			
Dividends payable	4,656	4,657	4,657
Accrued expenses	1,509	788	771
	6,165	**5,445**	**5,428**
Other non-financial liabilities			
Accrual for unused vacation	7,256	8,929	8,039
Taxes payable other than income taxes	2,294	2,310	1,775
Deferred income	615	296	234
Other	491	460	136
	10,656	**11,995**	**10,184**
Other liabilities	**16,821**	**17,440**	**15,612**

20. Amounts due to credit institutions

Amounts due to credit institutions comprise:

	2012	2011
Current accounts	273,383	213,509
Term deposits and loans	57,904	57,532
Amounts due to credit institutions	**331,287**	**271,041**

As at 31 December 2012, the received funds in the amount equivalent to UAH 56,077 thousand are represented by interbank deposits and loans received from Ukrainain banks in various currencies (2011 – equivalent of UAH 45,493 thousand represented by the USD-denominated interbank deposits received from Ukrainian banks); the received funds in the amount equivalent to UAH 1,827 thousand are represented by a long-term USD-denominated loan received from a foreign bank (2011 – equivalent of UAH 12,039 thousand represented by the USD-denominated loans received from foreign banks).

21. Amounts due to customers

Amounts due to customers include the following:

	2012	2011
Current accounts	442,611	637,111
Term deposits	1,301,831	1,492,365
Amounts due to customers	**1,744,442**	**2,129,476**
Held as security against letters of credit (Note 24)	2,081	69,335
Held as security against guarantees (Note 24)	68	127

As at 31 December 2012, amounts due to customers of UAH 510,090 thousand (29% of total amounts due to customers) were due to ten largest third party customers (2011 – UAH 760,351 thousand (36% of total amounts due to customers).

Included in term deposits are deposits of individuals in the amount of UAH 888,358 thousand (2011 – UAH 919,104 thousand). In accordance with the Ukrainian legislation, the Bank is obliged to repay such deposits upon demand of a depositor. In case a term deposit is repaid upon demand of the depositor prior to maturity, interest on it is paid based on the interest rate for demand deposits, unless a different interest rate is specified in the agreement.

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Amounts due to customers include accounts with the following types of customers:

	2012	2011
Individuals	1,128,518	1,233,308
Private companies	577,679	863,382
Employees	38,245	32,786
Amounts due to customers	**1,744,442**	**2,129,476**

The analysis of customer accounts by economic sector is as follows:

	2012	2011
Individuals	1,166,763	1,266,094
Trade	239,955	118,796
Finance	145,039	154,224
Manufacturing	117,005	366,142
Real estate construction and management	44,185	156,254
Services	14,880	19,079
Transport	6,997	5,938
Energy	3,942	8,327
Agriculture and food processing	1,805	2,137
Extractive industry	403	24,000
Other	3,468	8,485
Amounts due to customers	**1,744,442**	**2,129,476**

22. Other borrowed funds

Included in other borrowed funds are loans received from the State Mortgage Institution in the amount of UAH 5,588 thousand (2011 – UAH 8,067 thousand). Those are the funds received as the consideration for the assignment of the right of claim under the mortgage loans of individuals for the established term with a repo liability.

23. Equity

Movements in shares outstanding, issued and fully paid were as follows:

	Number of ordinary shares	Nominal value	Inflation adjustment	Total
31 December 2010	**170,415,502**	**560,667**	**11,219**	**571,886**
Increase in share capital	14,325,548	47,131	-	47,131
31 December 2011	**184,741,050**	**607,798**	**11,219**	**619,017**
31 December 2012	**184,741,050**	**607,798**	**11,219**	**619,017**

As at 31 December 2012, the number of authorised ordinary shares is 184,741,050 (2011 – 184,741,050) with a nominal value of UAH 3,29 per share. All authorised shares have been issued and fully paid. All shares have equal voting rights. No dividends were declared or paid during 2012 and 2011.

The share capital of the Bank was contributed by the shareholders in Ukrainian hryvnia, and they are entitled to dividends and any capital distribution in Ukrainian hryvnia.

Revaluation reserve
This reserve records the fair value changes on available-for-sale investments.

Additional paid-in capital
Included in additional paid-in capital is share premium.

Reserves and other provisions
According to the Law of Ukraine "On Banks and Banking", the banks should create the reserves to cover the unexpected losses for all assets and off-balance sheet liabilities. Charges to the reserves should be not less than 5% of the bank`s profit up to 25% of the Bank`s regulatory capital calculated according to the NBU`s requirements.

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24. Commitments and contingencies

Operating environment

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

The Ukrainian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. The global financial crisis has resulted in a decline in the gross domestic product, instability in the capital markets, a significant deterioration in the liquidity of the banking sector, and tighter credit conditions within Ukraine. Whilst the Ukrainian Government continues to introduce various stabilisation measures aimed at supporting the banking sector and providing liquidity to Ukrainian banks and companies, there continues to be uncertainty regarding access to capital and its cost for the Bank and its counterparties, which could affect the Banks financial position, results of operations and business prospects.

In addition, factors including increased unemployment in Ukraine, reduced corporate liquidity and profitability, and increased corporate and personal insolvencies, have affected the ability of the Bank's borrowers to repay the amounts due to the Bank. Changes in economic conditions have resulted in deterioration in the value of collateral held against loans and other obligations. To the extent that information is available, the Bank has reflected revised estimates of expected future cash flows in its impairment assessment.

Legal
In the ordinary course of business, the Bank is subject to legal actions and complaints. The management believes that the ultimate liability, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations of the Bank.

Taxation
The Ukrainian legislation and regulations regarding taxation and other operational matters, including currency exchange control and custom regulations, continue to evolve. The legislation and regulations are not always clearly written and are subject to varying interpretations by local, regional and national authorities, and other Governmental bodies. The instances of inconsistent interpretations are not unusual. The management believes that its interpretation of the relevant legislation is appropriate and that the Bank has complied with all regulations, and paid or accrued all taxes that are applicable.

At the same time, transactions and correctness of interpretations which were not placed in question by regulatory authorities in the past create a risk of being placed in question in the future.

As at 31 December 2012, the management believes that its interpretation of the relevant legislation is appropriate and that the Bank's tax, currency and customs positions will be sustained.

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

	2012	*2011*
Credit-related commitments		
Letters of credit	64,029	73,529
Promissory note guarantees	3,349	2,965
Guarantees	68	134
Total	**67,446**	**76,628**
Operating lease commitments		
Not later than 1 year	4,307	5,432
Later than 1 year but not later than 5 years	6,713	7,186
Later than 5 years	2,514	109
Total	**13,534**	**12,727**
Less – Provisions (Note 17)	-	(994)
Commitments and contingencies (before deducting collateral)	**80,980**	**88,361**
Less – Cash held as security against letters of credit and guarantees (Note 21)	(2,149)	(69,462)
Commitments and contingencies	**78,831**	**18,899**

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The Bank requires collateral to support credit-related financial instruments when it is deemed necessary. Collateral held varies, but may include deposits held in the Bank, governments and international prime financial organisations' securities, and other assets.

25. Net fee and commission income

Net fee and commission income comprises:

	2012	*2011*
Cash and settlement operations	30,749	35,554
Fee and commission for currency market and precious metal transactions for customers	3,900	-
Credit servicing commission	1,113	2,414
Off-balance sheet transaction commission	86	145
Other commissions	426	372
Fee and commission income	**36,274**	**38,485**
Cash and settlement operations	(7,755)	(8,108)
Commission for International Payment Systems	(3,263)	(3,156)
Credit-related commitments	-	(2,361)
Other commissions	(145)	(233)
Fee and commission expense	**(11,163)**	**(13,858)**
Net fee and commission income	**25,111**	**24,627**

26. Other income

	2012	*2011*
Difference between the carrying amount and the consideration received on derecognition of a financial asset	21,965	-
Operating lease	7,060	5,108
Gain on sale of property and equipment	901	100
Penalties received	541	1,722
Other	1,403	2,290
Total other income	**31,870**	**9,220**

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27. Personnel and other administrative and operating expenses

Salaries and other employee benefits, as well as other administrative and operating expenses comprise:

	2012	*2011*
Salaries and other employee benefits	71,415	71,402
Social security costs	23,035	25,619
Personnel expenses	**94,450**	**97,021**
Repair and maintenance	13,321	12,778
Occupancy and rent	13,032	14,639
Office supplies	8,244	8,067
Security	6,982	7,406
Payments to the Individuals Deposits Guarantee Fund	6,734	7,212
Business travel and related expenses	5,202	6,836
Communications	4,053	4,350
Legal and consultancy	3,666	4,488
Data processing	3,606	3,547
Operating taxes	3,428	2,857
Marketing and advertising	2,191	2,260
Charity	928	943
Loss on disposal of property and equipment	-	26
Other	3,207	3,348
Other administrative and operating expenses	**74,594**	**78,757**

28. Earnings per share

Earnings per ordinary share comprise:

	2012	*2011*
Earnings attributable to the Bank's ordinary share holders (UAH'000)	24,070	16,083
Average annual number of ordinary shares in issue (number of shares)	184,741,050	183,994,689
Earnings per ordinary share (UAH)	0.13	0.09

29. Risk management

Introduction

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

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

Risk management structure

The Board of Directors is ultimately responsible for identifying and controlling risks. In addition, the Bank has separate independent bodies responsible for managing and monitoring risks.

Board of Directors

The Board of Directors is responsible for the overall risk management approach and for approving the risk strategies and principles.

Risk Management Committees (Assets and Liabilities Management Committee, Credit Investment Committee, Technologic Committee)

The Assets and Liabilities Management Committee has the overall responsibility for the development of the risk strategy and implementing principles, frameworks, policies and limits for liquidity and interest risks; the Credit Investment Committee - for credit risks; the Technologic Committee – for operational risks. They are responsible for the fundamental

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risk issues, and manage and monitor the relevant risk decisions, and maintain the risk-related procedures to ensure an independent control process.

Risk Management Unit

The Risk Management Unit is responsible for implementing and maintaining risk related procedures to ensure an independent control process. The Unit is also responsible for monitoring the compliance with the risk principles, policies and limits, across the Bank. This Unit also ensures complete capture of the risks in the risk measurement and reporting systems.

Bank Treasury

Bank Treasury is responsible for managing the Bank's assets and liabilities and the overall financial structure. It is also primarily responsible for the funding and liquidity risks of the Bank.

Internal Audit

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

Risk measurement and reporting systems

The Bank's risks are measured using a method which reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment. The Bank also runs worst case scenarios that would arise in the event that extreme events which are unlikely to occur do, in fact, occur.

Monitoring and controlling risks is primarily performed based on limits established by the Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept, with additional emphasis on the selected industries. In addition, the Bank monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risks types and activities.
Information compiled from all the businesses is examined and processed in order to analyse, control and identify early risks. This information is presented and explained to the Management Board, the Risk Management, and the head of each business division. The report includes aggregate credit exposure, credit metric forecasts, hold limit exceptions, VaR, liquidity ratios and risk profile changes. On a monthly basis, detailed reporting of industry, customer and geographic risks takes place. The senior management assesses the appropriateness of the allowance for credit losses on a monthly basis.

Risk mitigation

As part of its overall risk management, the Bank uses derivatives and other instruments to manage exposures resulting from changes in interest rates, foreign currencies, credit risks, and exposures arising from forecast transactions.
The Bank actively uses collateral to reduce its credit risks (see below for more detail).

Excessive risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location.
In order to avoid excessive concentrations of risks, the Bank's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. The whole process of credit management is carried out by established credit policy.

Credit risk

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

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

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The Bank monitors exposure of credit risk in relation to securities, related parties transactions and transactions with significant counterparties on a daily basis.

Derivative financial instruments

Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded in the statement of financial position.

Credit-related commitments risks

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

The carrying value of credit risk for the components of the statement of financial position, including derivatives, before the effect of mitigation through the use of master netting and collateral agreements, is best represented by their carrying amounts.

Where financial instruments are recorded at fair value, the carrying amount represents the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

More detailed information about the maximum credit risk exposure by each class of financial instruments is given in separate Notes. The effect of collateral and other risk mitigation measures is shown in Note 9.

Credit quality per class of financial assets

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

In the table below, loans to customers of a high grade are those having a low level of credit risk, the possibility of deterioration is generally considered remote, the financial performance has been strong and very well collateralised. Other borrowers with a good financial position and good debt service are included in the standard grade. The sub-standard grade comprises the loans below the standard grade but not individually impaired.

		Neither past due nor impaired				
31 December 2012	***Notes***	***High grade***	***Standard grade***	***Sub-standard grade***	***Past due and individually impaired***	***Total***
Cash and cash equivalents, except for cash on hand	6	485,599	-	-	-	485,599
Mandatory reserve balance with the National Bank of Ukraine		24,397	-	-	-	24,397
Amounts due from credit institutions	7	75,904	-	-	-	75,904
Loans to customers	9					
Corporate lending		231,000	339,803	437	1,134,015	1,705,255
Consumer lending		18,952	1,815	-	99,436	120,203
Residential mortgages		21,062	8,818	-	17,763	47,643
		271,014	**350,436**	**437**	**1,251,214**	**1,873,101**
Available-for-sale securities	11	140,015	238,352	7,560	814	386,741
Total		**996,929**	**588,788**	**7,997**	**1,252,028**	**2,845,742**

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31 December 2011 (reclassified)	Notes	Neither past due nor impaired: High grade	Standard grade	Sub-standard grade	Past due and individually impaired	Total
Cash and cash equivalents, except for cash on hand	6	635,869	-	-	-	635,869
Mandatory reserve balance with the National Bank of Ukraine		32,593	-	-	-	32,593
Amounts due from credit institutions	7	77,202	-	-	-	77,202
Loans to customers	9					
Corporate lending		170,147	304,846	217,571	963,222	1,655,786
Consumer lending		38,266	29,069	26,244	68,096	161,675
Residential mortgages		6,015	18,140	9,621	18,514	52,290
		214,428	**352,055**	**253,436**	**1,049,832**	**1,869,751**
Available-for-sale securities	11	393,591	-	-	5,783	399,374
Total		**1,353,683**	**352,055**	**253,436**	**1,055,615**	**3,014,789**

The analysis of the past due loans, by age, is provided below. The majority of the past due loans are not considered to be impaired.

It is the Bank's policy to maintain accurate and consistent risk ratings across the credit portfolio. This facilitates focused management of the applicable risks and the comparison of credit exposures across all lines of business, geographic regions and products. The rating system is supported by a variety of financial analytics, combined with processed market information to provide the main inputs for the measurement of counterparty risk. All internal risk ratings are tailored to the various categories and are derived in accordance with the Bank's rating policy. The attributable risk ratings are assessed and updated regularly.

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

	Less than 30 days 2012	31 to 60 days 2012	61 to 90 days 2012	More than 90 days 2012	Total 2012
Corporate lending	-	-	-	85	85
Consumer lending to individuals	806	580	159	25,901	27,446
Residential mortgages to individuals	1,360	10	311	13,355	15,036
Total	**2,166**	**590**	**470**	**39,341**	**42,567**

	Less than 30 days 2011	31 to 60 days 2011	61 to 90 days 2011	More than 90 days 2011	Total 2011
Corporate lending	44	-	282	768	1,094
Consumer lending to individuals	2,380	305	126	31,985	34,796
Residential mortgages to individuals	956	208	185	14,627	15,976
Total	**3,380**	**513**	**593**	**47,380**	**51,866**

Impairment assessment

The main considerations for the loan impairment assessment include whether any payments of the 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. The Bank makes the impairment assessment at two levels: it makes the allowances assessed individually and those assessed collectively.

Individually assessed allowances

The Bank determines the allowances appropriate for each individually significant loan on an individual basis. The items considered when determining the allowance amounts include the sustainability of the counterparty's business plan, its ability to improve its performance once a financial difficulty has arisen, projected receipts and the expected dividend

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payout should bankruptcy ensue, the availability of other financial support and the realisable value of collateral, and the timing of the expected cash flows. The impairment losses are evaluated at each reporting date, unless any unforeseen circumstances require more careful attention.

Collectively assessed allowances

Allowances are assessed collectively for losses on loans to customers that are not individually significant (including residential mortgages and unsecured consumer lending) and for individually significant loans where there is not yet objective evidence of individual impairment. Allowances are evaluated on each reporting date with each portfolio receiving a separate review.

The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is no yet objective evidence of the impairment in an individual assessment. Impairment losses are estimated by taking into consideration the following information: historical losses on the portfolio, current economic conditions, the appropriate delay between the time a loss is likely to have been uncured and the time it will be identified as requiring an individually assessed impairment allowance, and expected receipts and recoveries once impaired. The local management is responsible for deciding on the length of this period, which can extend for as long as one year. The impairment allowance is then reviewed by the credit management to ensure the alignment with the Bank's overall policy.

Financial guarantees and letters of credit are assessed and provision made in a similar manner as for loans.

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

	2012			
	Ukraine	***OECD***	***CIS and other foreign banks***	***Total***
Assets:				
Cash and cash equivalents	561,241	19,921	3,155	584,317
Mandatory reserve balance with the National Bank of Ukraine	24,397	-	-	24,397
Amounts due from credit institutions	72,707	3,197	-	75,904
Loans to customers	1,501,578	-	81,314	1,582,892
Available-for-sale securities	353,300	-	-	353,300
Other financial assets	693	23	84	800
	2,513,916	**23,141**	**84,553**	**2,621,610**
Liabilities:				
Amounts due to the National Bank of Ukraine	33,509	-	-	33,509
Amounts due to credit institutions	329,460	1,827	-	331,287
Amounts due to customers	1,740,114	1,153	3,175	1,744,442
Other borrowed funds	5,588	-	-	5,588
Derivative financial liabilities	4,710	-	-	4,710
Provision for liabilities	20,355	-	-	20,355
Other financial liabilities	6,155	8	2	6,165
	2,139,891	**2,988**	**3,177**	**2,146,056**
Net assets	**374,025**	**20,153**	**81,376**	**475,554**

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	2011 (reclassified)			
	Ukraine	**OECD**	**CIS and other foreign banks**	**Total**
Assets:				
Cash and cash equivalents	701,282	45,012	-	746,294
Mandatory reserve balance with the National Bank of Ukraine	32,593	-	-	32,593
Amounts due from credit institutions	26,884	-	50,318	77,202
Derivative financial assets	10,916	-	-	10,916
Loans to customers	1,612,503	-	2,262	1,614,765
Available-for-sale securities	389,810	-	-	389,810
Other financial assets	335	-	-	335
	2,774,323	**45,012**	**52,580**	**2,871,915**
Liabilities:				
Amounts due to credit institutions	259,003	3,975	8,063	271,041
Amounts due to customers	2,120,585	4,352	4,539	2,129,476
Other borrowed funds	8,067	-	-	8,067
Provision for legal claims	-	20,506	-	20,506
Other financial liabilities (monetary)	5,433	12	-	5,445
	2,393,088	**28,845**	**12,602**	**2,434,535**
Net assets	**381,235**	**16,167**	**39,978**	**437,380**

Liquidity risk and funding management

Liquidity risk is the risk that the Bank will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, the management has arranged diversified funding sources in addition to its core deposit base, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis. This incorporates the assessment of the expected cash flows and the availability of high grade collateral, which could be used to secure additional funding if required.

The Bank maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of a cash flow. The Bank has also committed the credit lines that it can assess to meet the liquidity needs. In addition, the Bank maintains a cash deposit (obligatory reserve) with the NBU, the amount of which depends on the level of customer funds attracted.

The liquidity position is assessed and managed by the Bank based on certain liquidity ratios established by the NBU. As at 31 December, these ratios were as follows:

	2012, %	*2011, %*
N4 “Instant Liquidity Ratio” (cash and balances on correspondence accounts / liabilities repayable on demand) (minimum required by the NBU – not less than 20%)	71.41	83.30
N5 “Current Liquidity Ratio” (assets receivable or realisable within 31 days / liabilities repayable within 31 days) (minimum required by the NBU – not less than 40%)	42.73	70.22
N6 “Short-Term Liquidity Ratio” (certain assets with original maturity up to 1 year / liabilities with original maturity up to 1 year including off-balance sheet commitments) (minimum required by the NBU – not less than 60%)	63.16	87.83

Analysis of financial liabilities by remaining contractual maturities

The tables below summarize the maturity profile of the Bank’s financial liabilities at 31 December based on contractual undiscounted repayment obligations. Repayments, which are subject to notice, are treated as if the notice were to be given immediately. However, the Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay and the table does not reflect the expected cash flows indicated by the Bank’s deposit retention history.

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Financial liabilities At 31 December 2012	***Less than 3 months***	***3 to 12 months***	***1 to 5 years***	***Over 5 years***	***Total***
Amounts due to credit institutions	285,576	7	51,562	-	337,145
Amounts due to the National Bank of Ukraine	3,521	31,788	-	-	35,309
Amounts due to customers	1,028,121	485,396	285,148	124,647	1,923,312
Other borrowed funds	27	-	300	16,262	16,589
Other liabilities	6,163	2	-	-	6,165
Total undiscounted financial liabilities	**1,323,408**	**517,193**	**337,010**	**140,909**	**2,318,520**

Financial liabilities At 31 December 2011	***Less than 3 months***	***3 to 12 months***	***1 to 5 years***	***Over 5 years***	***Total***
Amounts due to credit institutions	223,620	4,471	54,392	-	282,483
Amounts due to customers	1,125,501	1,115,292	191,339	296,694	2,728,826
Other borrowed funds	232	6,457	3,782	6,356	16,827
Other liabilities	5,616	-	-	-	5,616
Total undiscounted financial liabilities	**1,354,969**	**1,126,220**	**249,513**	**303,050**	**3,033,752**

The table below shows the contractual expiry by maturity of the Bank's financial commitments and contingencies. Each undrawn loan commitment is included in the time band containing the earliest date it can be drawn down. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

	Less than 3 months	***3 to 12 months***	***1 to 5 years***	***Over 5 years***	***Total***
2012	526	66,920	-	-	**67,446**
2011	7,293	69,335	-	-	**76,628**

The Bank expects that not all of the contingent liabilities or commitments will be drawn before the expiry of the commitments.

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

Included in due to customers are term deposits of individuals. In accordance with the Ukrainian legislation, the Bank is obliged to repay such deposits upon demand of a depositor.

Market risk

Market risk is the risk that the fair value of future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates and equity prices. Market risk is managed and monitored using the sensitivity analysis. Except for the concentrations within foreign currency, the Bank has no significant concentration of the market risk.

Interest rate risk

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

The sensitivity of the income statement is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities held at 31 December. The sensitivity of equity is calculated by revaluing fixed rate available-for-sale financial assets at 31 December for the effects of the assumed changes in interest rates based on the assumption that there are parallel shifts in the yield curve.

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Currency	Increase in basis points 2012	Sensitivity of net interest income 2012	Sensitivity of equity 2012	Decrease in basis points 2012	Sensitivity of net interest income 2012	Sensitivity of equity 2012
Euro (EONIA)	+35	45	45	-35	(45)	(45)
USD (FFR)	+35	9	9	-35	(9)	(9)

Currency	Increase in basis points 2011	Sensitivity of net interest income 2011	Sensitivity of equity 2011	Decrease in basis points 2011	Sensitivity of net interest income 2011	Sensitivity of equity 2011
Euro (EONIA)	+35	925	313	-35	(925)	(313)

Currency risk

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

The tables below indicate the currencies to which the Bank had significant exposure at 31 December on its non-trading monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against the Ukrainian hryvnia, with all other variables held constant, on the income statement (due to the fair value of the currency-sensitive non-trading monetary assets and liabilities). The effect on equity does not differ from the effect on the income statement. A negative amount in the table reflects a potential net reduction in the income statement or equity, while a positive amount reflects a net potential increase.

Currency	Change in currency rate, %, 2012	Effect on profit before tax 2012	Change in currency rate,%, 2012	Effect on profit before tax 2012
RUR	+5.00	11	-5.00	(11)
USD	+5.00	(1,671)	-5.00	1,671
EUR	+5.00	(1,756)	-5.00	1,756

Currency	Change in currency rate, %, 2011	Effect on profit before tax 2011	Change in currency rate, %, 2011	Effect on profit before tax 2011
RUR	+5.00	39	-5.00	(39)
USD	+5.00	(3,329)	-5.00	3,329
EUR	+5.00	551	-5.00	(551)

Operational risk

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

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30. Fair value of financial instruments

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

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

The following table shows the analysis of the financial instruments recorded at fair value by level of the fair value hierarchy:

31 December 2012	*Level 1*	*Level 2*	*Total*
Financial assets			
Securities available for sale	140,014	213,266	353,280
	140,014	**213,266**	**353,280**
Financial liabilities			
Derivative financial instruments	(276)	(4,434)	(4,710)
	(276)	**(4,434)**	**(4,710)**

31 December 2011	*Level 1*	*Level 2*	*Total*
Financial assets			
Derivative financial instruments	642	10,274	10,916
Securities available for sale	70,906	318,899	389,805
	71,548	**329,173**	**400,721**

No inter-level transfers occurred in 2012 (2011 - none).

Financial instruments recorded at fair value

The following is the description of the determination of fair value for the financial instruments, which are recorded at fair value using valuation techniques. These incorporate the Bank's estimate of assumptions that a market participant would make when valuing the instruments.

Derivatives

Derivatives valued using a valuation technique with market observable inputs are mainly currency swaps and forward contracts. The most frequently applied valuation techniques include forward pricing and swap models, using the present value calculations.

Available-for-sale securities

Securities available-for-sale valued using a valuation technique or pricing models primarily consist of quoted bonds and unquoted promissory notes. The valuation of the bonds is based on market prices. The promissory notes are valued using the models, which incorporate the data observable in the market.

Fair value of financial assets and liabilities not carried at fair value

Set out below is the comparison by class of the carrying amounts and fair values of the Bank's financial instruments that are not carried at fair value in the statement of financial position. The table does not include the fair values of non-financial assets and non-financial liabilities. The fair value of financial assets and liabilities carried not at fair value in these financial statements is presented for information purposes only.

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	2012			**2011 (reclassified)**		
	Carrying amount	***Fair value***	***Unrecognised gain / (loss)***	***Carrying amount***	***Fair value***	***Unrecognised gain / (loss)***
Financial assets						
Cash and cash equivalents	584,317	584,317	-	746,294	746,294	-
Mandatory reserve balance with the National Bank of Ukraine	24,397	24,397	-	32,593	32,593	-
Amounts due from credit institutions	75,904	75,904	-	77,202	77,202	-
Loans to customers	1,582,892	1,641,766	58,874	1,614,765	1,636,598	21,833
Financial liabilities						
Amounts due to the NBU	33,509	33,509	-	-	-	-
Amounts due to credit institutions	331,287	331,287	-	271,041	271,041	-
Amounts due to customers	1,744,442	1,779,107	34,665	2,129,476	2,127,432	(2,044)
Total unrecognised change in unrealised fair value			**24,209**			**23,877**

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

Assets for which fair value approximates their carrying amount

For the financial assets and financial liabilities that are liquid or having a short-term maturity (less than 1 month), it is assumed that their carrying amounts approximate their fair values. This assumption is also applied to demand deposits and savings accounts without a specific maturity, as well as financial instruments with a floating interest rate.

Fixed and floating interest rate financial instruments

For quoted debt instruments, the fair values are determined based on quoted market prices. The fair values of unquoted debt instruments are estimated by discounting the future cash flows using the rates currently available for debt on similar terms, credit risk and remaining maturities.

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31. Maturity analysis of assets and liabilities

The table below shows the analysis of assets and liabilities according to when they are expected to be recovered or settled. See Note 29 "Risk management" for the Bank's contractual undiscounted repayment obligations.

	2012			*2011 (reclassified)*		
	Within one year	***More than one year***	***Total***	***Within one year***	***More than one year***	***Total***
Financial assets						
Cash and cash equivalents	584,317	-	584,317	746,294	-	746,294
Mandatory reserve balance with the National Bank of Ukraine	24,397	-	24,397	32,593	-	32,593
Precious metals	5,659	-	5,659	22,014	-	22,014
Amounts due from credit institutions	7,627	68,277	75,904	8,925	68,277	77,202
Derivative financial assets	-	-	-	10,916	-	10,916
Loans to customers	737,979	844,913	1,582,892	981,228	633,537	1,614,765
Available-for-sale securities	329,530	23,770	353,300	389,810	-	389,810
Investments in associates	-	8,006	8,006	-	8,009	8,009
Investment property	-	157,537	157,537	-	148,485	148,485
Property and equipment	-	184,671	184,671	-	217,067	217,067
Intangible assets	-	9,907	9,907	-	10,509	10,509
Assets held for sale	7,195	-	7,195	766	-	766
Other assets	3,655	2,617	6,272	23,114	-	23,114
Total	**1,700,359**	**1,299,698**	**3,000,057**	**2,215,660**	**1,085,884**	**3,301,544**
Financial liabilities						
Amounts due to the National Bank of Ukraine	33,509	-	33,509	-	-	-
Amounts due to credit institutions	285,572	45,715	331,287	222,368	48,673	271,041
Derivative financial liabilities	4,710	-	4,710	-	-	-
Amounts due to customers	1,476,864	267,578	1,744,442	1,484,438	645,038	2,129,476
Other borrowed funds	27	5,561	5,588	5,813	2,254	8,067
Current income tax liabilities	692	-	692	825	-	825
Deferred tax liabilities	21,605	-	21,605	-	59,647	59,647
Provisions	20,355	-	20,355	21,500	-	21,500
Other liabilities	16,774	47	16,821	17,440	-	17,440
Total	**1,860,108**	**318,901**	**2,179,009**	**1,752,384**	**755,612**	**2,507,996**
Net position	**(159,749)**	**980,797**	**821,048**	**463,276**	**330,272**	**793,548**

(in thousands of Ukrainian hryvnia, unless otherwise indicated)
Translation from Ukrainian original

32. Related party disclosures

In accordance with IAS 24 "Related Party Disclosures", parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related parties may enter into the transactions, which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

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

	2012				*2011*			
	Owners	***Key management personnel***	***Associates***	***Other related parties***	***Owners***	***Key management personnel***	***Associates***	***Other related parties***
Loans outstanding at 1 January, gross	-	10,057	-	23,530	-	49	-	5,010
Loans issued during the year	-	5,137	-	12,262	-	10,787	-	23,111
Loans repaid during the year	-	(5,120)	-	(32,505)	-	(779)	-	(4,591)
Loans outstanding at 31 December, gross	**-**	**10,074**	**-**	**3,287**	**-**	**10,057**	**-**	**23,530**
Less: allowance for impairment at 31 December	-	(1)	-	(18)	-	-	-	(4,025)
Loans outstanding at 31 December, net	**-**	**10,073**	**-**	**3,269**	**-**	**10,057**	**-**	**19,505**
Deposits at 1 January	104,150	32,309	14	305,694	101,092	10,641	-	344,690
Deposits received during the year	125,435	114,814	23	97,112	194,149	39,480	14	227,299
Deposits repaid during the year	(104,182)	(116,375)	(17)	(338,415)	(191,091)	(17,812)	-	(266,295)
Deposits at 31 December	**125,403**	**30,748**	**20**	**64,391**	**104,150**	**32,309**	**14**	**305,694**
Current accounts at 31 December	**16,713**	**9,653**	**129**	**280,010**	**33,667**	**477**	**1**	**94,287**

The income and expenses arising from related party transactions are as follows:

	2012				*2011*			
	Owners	Key management personnel	Associates	Other related parties	Owners	Key management personnel	Associates	Other related parties
Interest income from loans	-	1,064	-	33,527	-	787	-	15,664
Interest expenses from deposits	8,883	2,396	3	41,181	6,452	1,918	3	44,079
Fee and commission income	36	28	16	64	220	1	15	8,945
Other income	-	-	-	25	-	-	-	342
Other operating expenses	792	1	-	2,333	792	2	-	2,297

Transactions with related parties both with the key management personnel and other related parties are performed at arm's length terms.

Compensation of the key management personnel comprised:

	2012	*2011*
Salaries and other short-term benefits	10,091	10,130
Social security costs	1,662	1,332
Total key management personnel compensations	**11,753**	**11,462**

(in thousands of Ukrainian hryvnia, unless otherwise indicated)
Translation from Ukrainian original

33. Capital adequacy

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

During the past year, the Bank complied in full with all its externally imposed capital requirements.

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

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

NBU capital adequacy ratio

The NBU requires the banks to maintain a capital adequacy ratio of 10% of the risk-weighted assets based on NAS. As at 31 December 2012 and 2011, the Bank's capital adequacy ratio on this basis was as follows:

	2012	*2011*
Main capital	733,529	738,589
Additional capital	34,533	19,474
Less: deductions from capital	(8,006)	(8,009)
Total capital	**760,056**	**750,054**
Risk-weighted assets	**3,207,717**	**3,091,523**
Capital adequacy ratio	23.69%	24.26%

Capital adequacy ratio under Basel Capital Accord 1988

The Bank's capital adequacy ratio computed in accordance with the Basel Capital Accord 1988, with subsequent amendments including the amendment to incorporate the market risks, as at 31 December 2012 and 2011, comprised:

	2012	*2011*
Tier 1 capital	820,848	793,548
Tier 2 capital	200	-
Total capital	**821,048**	**793,548**
Risk-weighted assets	**2,395,137**	**2,443,833**
Tier 1 capital ratio	34.27%	32.47%
Total capital ratio	34.28%	32.47%