PJSC "BANK CREDIT DNEPR"
Financial statements

As at and for the year ended 31 December 2012
Together with Independent Auditor's Report (Auditor's Opinion)

Translation from Ukrainian original

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INDEPENDENT AUDITOR'S REPORT (AUDITOR'S OPINION)

To the Shareholder and the Management Board of PUBLIC JOINT STOCK COMPANY "BANK CREDIT DNEPR"

Report on the Financial Statements

We have audited the accompanying financial statements of PUBLIC JOINT STOCK COMPANY "BANK CREDIT DNEPR" ("the Bank") (code ERDPU – 14352406; actual address – 17 Lenina Str., Dnipropetrovsk, Ukraine; date of state registration – 7 July 1993), which comprise the statement of financial position as at 31 December 2012, and 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.

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

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

Ernst & Young

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.

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 ("the Resolution"), 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 513,631 thousand, which is greater than its registered statutory capital.

2) As at the date of the financial statements approval for issuance by the management, the Bank has not yet prepared information to be presented in the annual securities issuer report. Accordingly, we were not able to read that information and do not report on existence of significant discrepancies between the accompanying financial statements and the annual securities issuer report.

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 establishing corporate governance bodies and developing a code (principles) of corporate governance. The Bank has developed the code of corporate governance, and has established the Supervisory Board in accordance with the Resolution of the General Shareholders' Meeting dated 21 April 2011 and the internal audit division in accordance with the Resolution of the Supervisory Board dated 3 August 2009. No clear criteria for standards of corporate governance and its compliance with the Law are established by the Law or other regulations. Accordingly, we do not express an opinion as to the effectiveness of the Bank's corporate governance.

5) In the course of our audit of the financial statements, 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 conducted our audit of the financial statements of the Bank based on the agreement No. ATTEST-2012-00363 dated 5 November 2012. Our audit has been performed during the period from 17 December 2012 to 24 April 2013.

Alexander Svistich
General Director

Sergiy Gonchar
Audit Manager

Auditor's certificate
Series B No. 0162
valid till 22 December 2016

Registered by the National Bank of Ukraine
as the banking auditor under No. 0000162

24 April 2013
Kyiv, Ukraine

Translation from Ukrainian original

STATEMENT OF FINANCIAL POSITION

As at 31 December 2012

(Thousands of Ukrainian hryvnias)

	Notes	2012	2011
Assets			
Cash and cash equivalents, except for balances on accounts with the National Bank of Ukraine	5	1,839,947	1,975,159
Balances with the National Bank of Ukraine	6	363,330	392,436
Amounts due from banks	7	33,728	15,393
Loans to customers	8	5,114,901	5,360,147
Financial assets available-for-sale	9	161,369	156,847
Property, equipment and intangible assets	10	193,287	202,816
Investment property	11	72,711	84,205
Assets held-for-sale	12	63,336	66,765
Deferred income tax assets	13	21,057	-
Other assets	14	37,309	33,826
Total assets		**7,900,975**	**8,287,594**
Liabilities			
Amounts due to banks	16	756,975	1,503,894
Amounts due to customers	17	6,286,316	5,584,811
Debt securities issued	18	532	106,363
Current income tax liabilities	13	2,288	1,876
Deferred income tax liabilities	13	-	26,278
Subordinated debt	19	293,103	292,398
Other liabilities	20	48,130	18,609
Total liabilities		**7,387,344**	**7,534,229**
Equity	21		
Share capital		338,666	338,666
Additional paid-in capital		17,678	17,678
Revaluation reserve		97,130	97,402
Retained earnings		60,157	299,619
Total equity		**513,631**	**753,365**
Total equity and liabilities		**7,900,975**	**8,287,594**

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

Chairman of the Management Board — Pavel Makarov

Chief Accountant — Larisa Petrova

24 April 2013

The accompanying notes on pages 6 to 48 form an integral part of these financial statements

Translation from Ukrainian original

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2012

(Thousands of Ukrainian hryvnias)

	Notes	*2012*	*2011*
Interest income			
Loans to customers		725,560	668,865
Financial assets available-for-sale		21,412	5,673
Cash and cash equivalents, except for balances on accounts with the National Bank of Ukraine		15,361	7,057
Balances with the National Bank of Ukraine		1,591	1,389
		763,924	**682,984**
Interest expenses			
Amounts due to customers		(555,820)	(395,187)
Amounts due to banks		(53,073)	(55,441)
Subordinated debt		(23,622)	(13,124)
Debt securities issued		(1,186)	(7,372)
		(633,701)	**(471,124)**
Net interest income		**130,223**	**211,860**
Charges to allowance for impairment of loans to customers	8	(247,918)	(40,839)
Net interest (expenses)/income after impairment of interest earning assets		**(117,695)**	**171,021**
Net fee and commission income	23	77,465	53,441
Net gains from financial assets available-for-sale		-	2,354
Net gains /(losses) arising from foreign currencies:			
- trading		45,078	38,037
- translation differences		(7,674)	(671)
- transactions with derivative financial instruments	22	13,849	3,317
Other income		4,327	3,411
Non-interest income		**133,045**	**99,889**
Personnel expenses	24	(123,102)	(110,819)
Other operating expenses	24	(130,544)	(135,408)
Depreciation and amortisation	10	(26,621)	(15,410)
Other charges to allowances for impairment and provisions	15	(15,246)	(1,775)
Non-interest expenses		**(295,513)**	**(263,412)**
(Loss)/profit before income tax expense		**(280,163)**	**7,498**
Income tax benefit/(expense)	13	40,701	(3,297)
(Loss)/profit for the year		**(239,462)**	**4,201**

The accompanying notes on pages 6 to 48 form an integral part of these financial statements

Translation from Ukrainian original

STATEMENT OF COMPREHENSIVE INCOME (continued)

For the year ended 31 December 2012

(Thousands of Ukrainian hryvnias)

	Notes	*2012*	*2011*
Other comprehensive income, net of tax			
Unrealised losses from financial assets available-for-sale		(302)	(1,367)
Realised gains from financial assets available-for-sale reclassified to profit or loss		-	(2,354)
Income tax relating to components of other comprehensive income		30	703
		(272)	**(3,018)**
Total comprehensive (loss)/income for the year		**(239,734)**	**1,183**
Basic and diluted (loss)/earnings per share	25	**(0.0008)**	**0.00001**

Chairman of the Management Board Pavel Makarov

Chief Accountant Larisa Petrova

24 April 2013

The accompanying notes on pages 6 to 48 form an integral part of these financial statements

Translation from Ukrainian original

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2012

(Thousands of Ukrainian hryvnias)

	Share capital	*Additional paid-in capital*	*Revaluation reserve*	*Retained earnings*	*Total equity*
31 December 2010	**338,666**	**17,678**	**100,420**	**295,418**	**752,182**
Comprehensive income for the year			(3,018)	4,201	**1,183**
31 December 2011	**338,666**	**17,678**	**97,402**	**299,619**	**753,365**
Comprehensive loss for the year			(272)	(239,462)	**(239,734)**
31 December 2012	**338,666**	**17,678**	**97,130**	**60,157**	**513,631**

Chairman of the Management Board Pavel Makarov

Chief Accountant Larisa Petrova

24 April 2013

Translation from Ukrainian original

STATEMENT OF CASH FLOWS

For the year ended 31 December 2012

(Thousands of Ukrainian hryvnias)

	2012	*2011*
Cash flows from operating activities		
Interest received	753,810	716,691
Interest paid	(619,915)	(453,324)
Fee and commission income received	87,799	70,208
Fee and commission expenses paid	(10,441)	(16,858)
Net income from trading and other activities	75,683	21,283
Other operating expenses paid	(252,156)	(243,270)
Cash flows from operating activities before changes in operating assets and liabilities	**34,780**	**94,730**
Net (increase)/decrease in operating assets		
Balances with the National Bank of Ukraine	12,125	(86,681)
Amounts due from banks	(18,213)	(252,877)
Loans to customers	(628)	(1,580,915)
Other assets	9,390	(44,109)
Net increase/(decrease) in operating liabilities		
Amounts due to banks	(746,214)	285,725
Amounts due to customers	665,505	1,840,386
Other liabilities	28,588	35,139
Net cash flows from operating activities before income tax	**(14,667)**	**291,398**
Income tax paid	(6,192)	(21,505)
Net cash (used in)/from operating activities	**(20,859)**	**269,893**
Cash flows from investing activities		
Proceeds from sale and redemption of financial assets available-for-sale	179,847	180,088
Purchase of financial assets available-for-sale	(184,092)	(269,490)
Dividends received	14	24
Purchase of property, equipment and intangible assets	(19,198)	(41,669)
Proceeds from disposals of property and equipment	194	30
Net cash used in investing activities	**(23,235)**	**(131,017)**
Cash flows from financing activities		
Proceeds from subordinated debt received	-	223,359
Proceeds from debt securities issued	-	106,470
Redemption of debt securities issued	(99,500)	-
Net cash (used in)/from financing activities	**(99,500)**	**329,829**
Effect of exchange rates changes on cash and cash equivalents	(8,639)	7,995
Net (decrease)/increase in cash and cash equivalents	**(152,233)**	**476,700**
Cash and cash equivalents at the beginning of the year	**2,217,600**	**1,740,900**
Cash and cash equivalents at the end of the year (Note 5)	**2,065,367**	**2,217,600**

Chairman of the Management Board Pavel Makarov

Chief Accountant Larisa Petrova

24 April 2013

The accompanying notes on pages 6 to 48 form an integral part of these financial statements

1. Principal activities

Public Joint Stock Company "BANK CREDIT DNEPR" (the "Bank") was established on 7 July 1993 according to the decision of the General Meeting of Shareholders of the Bank and in accordance with the laws of Ukraine. The change in the legal name and organizational form of the Bank from a closed joint-stock company to a public joint-stock company was officially registered on 16 July 2009. The Bank operates under the general banking license №70 renewed by the NBU on 13 October 2011, which allows the Bank to conduct banking operations, including foreign currency transactions. The Bank also has licenses for securities operations and custody services from the National Commission for Securities and Stock Market of Ukraine, which were renewed on 17 October 2012 for an unlimited period.

The Bank accepts deposits from individuals and grants loans, transfers payments across Ukraine and abroad, exchanges foreign currencies and provides banking services to its corporate customers and individuals. Historically, the Bank's activities were focused on lending to corporate customers operating in various industries and attracting deposits from individuals.

The Bank has 90 outlets all over Ukraine (2011: 95 outlets). The Bank's Head Office registered address is 17, Lenina Str., Dnipropetrovsk, Ukraine.

As at 31 December 2012, 100% of the Bank's shares were owned by Brancroft Enterprises Limited (the "Shareholder"), a company incorporated in a non-OECD country. In turn, 100% of shares of the company are indirectly held by the discretionary trust established for investments, including those to the Bank. Mr. Viktor Pinchuk, a citizen of Ukraine, and his family members are beneficiaries of the discretionary trust.

Operating environment in Ukraine

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

In 2012, due to a significant deterioration in the financial standing and, as a result, the status of loan servicing by several large borrowers, and, accordingly, the deterioration of the loan portfolio, a significant decrease in the net interest income and increase in the losses from impairment of loans to customers, the Bank recognized loss before tax in the amount of UAH 280,163 thousand.

Based on the detailed analysis of the causes of performance deterioration, the management has developed a plan of actions for 2013 to restore the quality of the loan portfolio, improve debt servicing, optimise operating expenses and comply with the NBU's regulatory requirements, including capital adequacy ratios. In particular, the plan includes obtaining, if necessary, a financial support from the Bank's Shareholder in the form of credit portfolio quality enhancement instruments.

Further deterioration of these factors could adversely affect the Bank's performance and financial position in a manner not currently determinable. However, the management believes that implementation of the planned measures is a sufficient condition to ensure sustainable operations and economic viability of the Bank, and the realisation of assets and settlement of liabilities will occur in the normal course of business. The Bank's financial statements have been prepared on a going concern basis.

2. Basis of preparation

Statement of compliance

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

IFRS have become a primary set of accounting standards for Ukrainian public joint stock companies, banks and insurance companies starting from 1 January 2012 in accordance with the requirements of the Law of Ukraine "On Accounting and Financial Reporting in Ukraine". Accordingly, the Bank has ceased to prepare its financial statements in accordance with the "Regulations on the Organisation of Accounting and Reporting in the Banking Institutions of Ukraine" issued by the National Bank of Ukraine, since 1 January 2012.

Basis of preparation

The financial statements are prepared under the historical cost convention except for buildings and investment property stated at revalued amount, available-for-sale securities and derivative financial instruments stated at fair value, as well as assets held-for-sale stated at the lower of cost and fair value less cost to sell.

Functional and presentation currency

The national currency of Ukraine is Ukrainian hryvnia ("UAH"). The presentation currency for these financial statements is Ukrainian hryvnia, which is also the Bank's functional currency. These financial statements are presented in thousands of Ukrainian hryvnias ("the thousands of UAH") unless otherwise is indicated.

Inflation accounting

The Ukrainian economy was considered hyperinflationary until 31 December 2000. As such, the Bank has applied IAS 29 "Financial accounting in hyperinflationary economies". The effect of applying IAS 29 is that non-monetary items of the financial statements were restated to the measuring units current at 31 December 2000 by applying the consumer price indices to the historical cost, and that these restated values were used as a basis for accounting in the subsequent accounting periods.

3. Summary of accounting policies

Changes in accounting policies

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

Amendments to IFRS 7 "Financial Instruments: Disclosures"

The Amendments were issued in October 2010 and are effective for annual periods beginning on or after 1 July 2011. The amendments require additional disclosure about the financial assets that have been transferred to enable the users of the financial statements to evaluate the risk exposures relating to those assets. The amendments did not affect the disclosure and have no impact on the Bank's financial position or performance.

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

- IAS 12 "Income Taxes" (Amendment) – Deferred Taxes: Recovery of Underlying Assets
- IFRS 1 "First-Time Adoption of International Financial Reporting Standards" (Amendment) – Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters.

Foreign currency translation

Transactions in foreign currencies are translated to hryvnias at the foreign exchange rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to hryvnias at the foreign exchange rate prevailing at that date. Foreign exchange differences arising on translation are recognised in Net gains/(losses) from foreign currencies in the profit or loss. Non-monetary assets and liabilities denominated in foreign currencies are translated to hryvnias at the foreign exchange rate prevailing at the date of the transaction.

The principal UAH exchange rates used in the preparation of these financial statements as at 31 December are as follows:

Currency	***2012***	***2011***
US Dollar	7.993	7.9898
Russian Rouble	0.26316	0.24953
Euro	10.537172	10.298053

Financial instruments

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those that the management intends to sell immediately or in the near term, those that the management upon initial recognition designates as at fair value through profit or loss.

Financial assets available-for-sale are non-derivative financial assets designated as available for sale or are not classified as loans and receivables, held-to-maturity assets or financial instruments at fair value through profit or loss.

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

Recognition

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

Measurement

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

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

- loans and receivables that are measured at amortised cost using the effective interest method;

- investments into the equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, which are measured at cost less impairment losses.

All financial liabilities other than those designated at fair value through profit or loss and financial liabilities that arise when a transfer of a financial asset carried at fair value does not qualify for derecognition, are measured at amortised cost. The amortised cost is calculated using the effective interest method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

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

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 and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Reclassification of financial assets

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

- 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.

A financial asset classified as available-for-sale that would have met the definition of loans and receivables 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.

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 banks that mature within ninety days of the date of origination and are free from contractual encumbrances.

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 banks, amounts due to customers, debt securities issued and subordinated debt. Borrowings are initially recognised at fair value. Any gains or losses on initial recognition of loans received from the Shareholder are recognised as additional paid-in capital in equity (upon repayment of these loans the said additional paid-in capital is transferred to the accumulated deficit). After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in the statement of comprehensive income when the borrowings are derecognised as well as through the amortisation process.

Fair value measurement principles

The fair value of financial instruments is based on their market quotations at the reporting date without deduction for transaction costs. If market quotations are not available as at the reporting date, the fair value of an instrument is estimated using appropriate valuation models. The models may contain modelling based on net present value, comparison with similar instruments for which prices exist on the observable market, options pricing models and other valuation techniques.

Where discounted cash flow techniques are used, estimated future cash flows are based on the management's best estimates using a discount rate representing a market rate at the reporting date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market related measures at the reporting date. If there are no appropriate methods to determine the fair value of the equity instruments for which a quoted market price is not available, these instruments are carried at historical cost less the impairment allowance.

Gains and losses on subsequent measurement

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

- a gain or loss from financial asset available-for-sale is recognised directly in other comprehensive income (except for interest income, impairment losses and gains and losses from translation differences) until the asset is derecognised or impaired, at which time the cumulative gain or loss previously recognised as other comprehensive income is recognised in profit or loss in "Net gains from financial assets available-for-sale". Interest in relation to financial asset available-for-sale is recognised as earned in the profit or loss as "Interest income on financial assets available-for-sale" and is calculated using the effective interest method;

- for financial assets and liabilities carried at amortised cost, a gain or loss is recognised in profit or loss in the course of amortisation, impairment of the asset or when the financial asset or liability is derecognised.

Derecognition

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 from the statement of financial position where:

- the rights to receive cash flows from the asset have expired;

- the Bank has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without 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 cash flows from an 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 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, original liability is derecognized and a new liability is recognized, and the difference in the respective carrying amounts is recognised in profit or loss.

Derivative financial instruments

Derivative financial instruments include foreign exchange swaps, forward transactions and any combinations of these instruments.

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

Changes in the fair value of derivatives are recognised immediately in the statement of comprehensive income as "Net gains/(losses) arising from foreign currencies".

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.

Loans to customers

The management reviews the loan portfolio to assess impairment on a regular basis. A loan (or a group of loans) is impaired and individual impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the loan and that event (or events) has an impact on the estimated future cash flows of the loan (or the group of loans) that can be reliably estimated.

The Bank uses internal expert rating model for assessment of significant loans on an individual basis. In accordance with that model each loan transaction is assigned a credit rank that is based on financial standing of the borrowers, qualitative assessment of solvency, debt servicing, etc. The Bank applies several credit rank categories and each is featured by different credit risk ratio. If the Bank determines that no objective signs of impairment exist in regard of the asset assessed for impairment individually disregarding its significance, the Bank includes that asset in the group of assets with similar characteristics assessed for impairment collectively. Loans that are individually assessed for impairment and for which an impairment loss is not recognised are included in a collective assessment of impairment.

Amount of allowance for impairment of loans to customers is estimated by deduction of discounted value of expected future cash flows excluding future losses not yet incurred and amounts of expected reimbursement from collateral adjusted using weighting discounts that take into account the type of collateral and terms of its disposal from gross exposure of the borrower. The gross exposure of the borrower includes outstanding principal loan amount, accrued interest income as at the date of the statement of financial position, unamortised discount/premium as at the date of the statement of financial position, etc. Discounted value of expected future cash flows from the loan is calculated through discounting the expected future cash flows at the original effective interest rate. When estimation of the allowance for impairment of loans is based on assessment of expected cash flows from disposal of collateral and/or for calculation of expected reimbursement from collateral adjusted using weighting discounts, the Bank uses the collateral related to any of the following "solid" categories only:

- term deposits placed with the Bank;
- residential mortgage;
- non-residential mortgage;
- land plots;
- property complexes;
- cars and other motor vehicles.

The Bank applies weighting discounts to fair value of collateral depending on credit rank of the borrower and type of the collateral. Those discounts reflect time and efforts required to dispose of the respective type of collateral.

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 statement of comprehensive income. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. If in a subsequent year amount of estimated impairment losses increases or decreases due to event occurred after impairment losses have been recognized, amount of previously recognized impairment losses increases or decreases by means of allowance account adjustment. If amount written-off is subsequently recovered, then recovered amount is recognized in the profit or loss as "Charges to / (recoveries of) allowance for impairment of loans to customers". 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.

Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, high probability that they will enter bankruptcy or other financial reorganisation as well as evidence based on observable data which indicate that there is a measurable decrease in the estimated reimbursement, such as changes in arrears or economic conditions that correlate with defaults.

Factors taken into consideration when assessing whether objective evidence of impairment exists for loans assessed individually may include the following:

- any overdue principal and/or interest amounts;

- indications that the borrower or group of borrowers is in financial difficulties supported by their financial information;

- the borrower's ability to sustain the performance results even if there are financial difficulties;

- evidence that the borrower's or group's industry, geographic region or other relevant economic area is, or may be exposed in the foreseeable future to adverse changes that may result in significant changes in future cash flows;

- evidence of that the borrower may enter bankruptcy or financial reorganisation;

- evidence of adverse changes in international, national or local business environment that affects the borrower's cash flows;

- other observable data providing evidence of decrease in the cash flows.

Factors taken into consideration when assessing probability of collection of collectively assessed loans include historical data on default probability and indirect losses taking into account the data on overdue loans in similar portfolios. Credit risk ratios for groups of financial assets with similar characteristics of credit risk are determined in accordance with the internal methodology of probability of default rates calculation that is based on the history of changes in quality of debt servicing by borrowers based on the number of days past due of the debt principal and/or accrued interest income. The amount of allowance for impairment is assessed using other historical data and taking into account the current economic conditions.

In some cases the observable data required to estimate the amount of an impairment loss on a loan may be limited or no longer fully relevant to current circumstances. This may be the case when a borrower is in financial difficulties and there are few available historical data relating to similar borrowers. In such cases, management uses its experience and judgment to estimate the amount of any impairment loss. The assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience taking into consideration gained experience in determination of losses from lending activities.

Renegotiated loans

Where possible, the Bank seeks to restructure loans rather than to enforce the collateral as well as for the purpose of time and material costs optimisation on the collateral agreement roll-over when prolongation of the loan agreement is executed. This may involve extending the payment arrangements and the agreement of 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 in the statement of financial position;
-
- If the loan restructuring is not caused by the financial difficulties of the borrower, the Bank uses the approach similar to derecognition of financial liabilities.
-
- If the loan restructuring is caused by the financial difficulties of the borrower and the loan is impaired after restructuring, the Bank recognises the difference between the present value of future cash flows with regard to new terms discounted using the original effective interest rate and the carrying amount before restructuring in the profit or loss as "Charges to allowance for impairment of loans to customers". If the loan is not impaired after restructuring, the Bank recalculates the effective interest rate.

Once the terms have been renegotiated, the loan is no longer considered to be past due. The Bank's management continuously reviews 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, and their recoverable amount is calculated using the loan's original effective interest rate.

Financial assets available-for-sale

For financial assets available-for-sale, the Bank assesses at each reporting date whether there is objective evidence that an asset or a group of assets 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 coast and the current fair value, less any impairment loss on that investment previously recognised in the statement of comprehensive income – is reclassified from other comprehensive income to the profit or loss line "Net gains from financial assets available-for-sale". Impairment losses on equity instruments are not reversed through profit and loss in the statement of comprehensive income; increases in their fair value after impairment are recognised in other comprehensive income.

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. Interest income accrual is based on the reduced carrying amount using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recognized in the profit or loss as "Interest income on financial assets available-for-sale". 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 statement of comprehensive income, the impairment loss is reversed through the profit or loss line "Net gains from financial assets available-for-sale".

Repurchase and reverse repurchase agreements

Sale and repurchase agreements ("repos") are treated as secured financing transactions. Securities sold under sale and repurchase agreements (direct "repo") are retained in the statement of financial position and, in case the transferee has the right by contract or custom to sell or repledge them, reclassified as securities pledged under sale and repurchase agreements. The corresponding liability is presented within amounts due to banks or customers. Securities purchased under agreements to resell ("reverse repo") are recorded as amounts due from banks or loans to customers as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of repo agreements using the effective interest rate method.

Securities lent to counterparties on direct "repo" deal terms are retained in the statement of financial position. Securities borrowed on reverse "repo" deal terms are not recorded in the financial statements, unless these are sold to third parties, in which case the purchase and sale are recorded within profit or loss line "Net gains from financial assets available-for-sale". The obligation to return them is recorded at fair value as a trading liability.

Property, equipment, intangible assets and investment property

Following initial recognition at cost, buildings are carried at a revalued amount, representing fair value at the revaluation date less subsequent accumulated depreciation and subsequent accumulated impairment losses.

The Bank believes that the revaluation model is more relevant to account for the buildings as revalued cost of buildings owned by the Bank reflects more precisely their current value as opposed to historical value.

To determine the fair value of buildings the management obtains appraisals from independent professionally qualified appraisers. Revaluations of buildings are made with sufficient regularity such that carrying amount does not differ materially from that which would be determined using fair value at the revaluation date.

The accumulated depreciation as at the revaluation date is eliminated with simultaneous decrease in gross carrying value of the asset and the net amount is restated based on revalued amount. A revaluation surplus on buildings is recognised in other comprehensive income, except to the extent that it reverses a previous revaluation decrease recognised in the profit or loss as "Other charges to allowances for impairment and provisions". A revaluation deficit on buildings is recognised in the profit or loss as "Other charges to allowances for impairment and provisions", except that a deficit directly offsetting a previous surplus on the same asset is directly offset against the surplus in the buildings revaluation reserve. On the retirement or disposal of the asset, the remaining buildings revaluation reserve is immediately transferred to the retained earnings.

The equipment and intangible assets are carried at cost less accumulated depreciation and amortisation and impairment losses. The carrying amount of equipment is assessed for impairment in case of events occurrence or changes in circumstances evidencing on probable inability to recover carrying value of the asset. At the end of each reporting date, the Bank assesses whether there is any indication of impairment of equipment and intangible assets. If any such indication exists, the Banks estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in the profit or loss as "Other charges to allowances for impairment and provisions". An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Costs of minor repairs and maintenance are expensed when incurred. Expenditures for capital repairs and cost of replacing major parts or components of property and equipment are capitalised and further depreciated over the useful lives.

Property and equipment used by the Bank either to earn rental income or for capital appreciation or for both are carried as investment property at fair value. Changes in the fair value of investment properties are included in the profit or loss as "Other charges to allowances for impairment and provisions" or as "Other income" in case of the fair value increase.
Intangible assets acquired separately (i.e., in the way other than business combination) 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.

Depreciation and amortisation

Depreciation and amortisation is calculated on a straight-line basis over the estimated useful lives of the assets. Depreciation and amortisation commences from the date when the acquired assets becomes ready for use or, in respect of internally constructed assets, from the time an asset is completed and ready for use.

The estimated useful lives are as follows:

Buildings	50 years
Furniture and equipment	5-7 years
Computers and software	2-5 years
Motor vehicles	5 years

Costs on capital leasehold improvements are recognised as assets and charged to the profit or loss as "Depreciation and amortization" on a straight-line basis over the shorter of the applicable lease or the economic life of the leasehold improvement.

Intangible assets are amortised over the useful lives of 2-5 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

Assets held-for-sale

The Bank classifies a non-current asset (or a disposal group) as held-for-sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. For this case, the non-current asset (or disposal group) must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets (or disposal groups) 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 (or disposal group) and an active program to locate a buyer and complete the plan must have been initiated. Further, the non-current asset (or disposal group) must have been actively marketed for a sale at 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 (or disposal group) as held-for-sale.

The Bank measures an asset (or disposal group) 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 as in other charges to allowances for impairment and provisions for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell if events or changes in circumstance indicate that their carrying amount may be impaired.

Leases

Finance – Bank as a lessor

The Bank recognises lease receivables at 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.

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 an operating lease are recognised as expenses on a straight-line basis over the lease term and included into the profit or loss as "Other operating expenses".

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

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.

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 the statement of financial position as "Other liabilities", being the premium received. Commission received is recognized in the profit or loss on a straight-line basis during the financial guarantee agreement term. 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.

Increase in liability relating to financial guarantee agreements is recognised in the profit or loss.

Income and expense recognition

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.

Interest and similar income and expenses

For all financial instruments measured at amortised cost and interest bearing securities classified as available-for-sale, interest income or expense is recorded at the effective interest rate, which is the rate that exactly discounts 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 carrying value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the original effective interest rate applied to the new carrying amount.

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 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.

Dividend income

Revenue is recognised when the Bank's right to receive the payment is established.

Share capital

Ordinary shares are recorded as share capital. External costs directly attributable to the issue of new shares are shown as a deduction from the proceeds in equity. Any excess of the fair value of consideration received over the par value of shares issued is recognised as additional paid-in capital.

Taxation

The income tax for the year comprises current and deferred tax. The income tax is recognised in the profit or loss as "Income tax (benefit)/expenses" except to the extent that it relates to items of other comprehensive income, or to items of the statement of changes in equity, in which case it is recognised respectively in other comprehensive income or in the statement of changes in equity.

Current income tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Current income tax expenses are calculated in accordance with the legislation of Ukraine.

Deferred tax is provided using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates which will be effective in the periods of possible realization of temporary differences between tax and financial accounting.

Deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the unused tax losses and credits can be utilized. Deferred tax asset is reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Ukraine also has various operating taxes that are assessed on the Bank activities. These taxes are included in other operating expenses.

Employee benefits

There is the State pension system in Ukraine. Under the system rules the Bank and its employees execute obligatory payments calculated based on income received by the employees. The Bank recognizes amounts paid to that system in the statement of comprehensive income as "Personnel expenses", in the period the related salaries are earned. The Bank does not have any additional pension schemes and does not provide significant post-retirement benefits to its employees.

Precious metals

Gold and other precious metals are recorded at the NBU exchange rates, which approximate fair values. Changes in the NBU bid prices are recorded as translation differences on transactions with precious metals in the profit or loss as "Net gains/(losses) arising from foreign currencies".

Contingent assets and liabilities

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 is disclosed in the financial statements when an inflow of economic benefits is probable.

Standards and interpretations issued but not year effective

IFRS 9 “Financial Instruments” (the first phase)”

In November 2009 and 2010 the IASB issued the first phase of IFRS 9 Financial instruments. This Standard will eventually replace IAS 39 “Financial Instrument: Recognition and Measurement”. IFRS 9 becomes effective for financial years beginning on or after 1 January 2015. The first phase of IFRS 9 introduces new requirements on classification and measurement of financial instruments. In particular, for subsequent measurement all financial assets are to be classified at amortised cost or at fair value through profit or loss with the irrevocable option for equity instruments not held for trading to be measured at fair value through other comprehensive income. For financial liabilities designated at fair value through profit or loss using fair value option IFRS 9 requires the amount of change in fair value attributable to changes in credit risk to be presented in other comprehensive income. The Bank now evaluates the impact of the adoption of new Standard and considers the initial application date.

IFRS 10 “Consolidated Financial Statements”

IFRS 10 “Consolidated Financial Statements” establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise 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 specific application guidance for agency relationships. The Standard includes accounting requirements and consolidation procedures carried forward unchanged from IAS 27 IFRS 10 supersedes he consolidation requirements raised in SIC 12 “Consolidation – Special Purposes 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 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 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 have no effect on the Bank’s financial position and 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 requirements for an entity to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. IFRS 12 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 on the measurement of the Bank’s assets and liabilities accounted for at fair value. Currently the Bank evaluates possible effect 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. This amendment will have no impact on financial position and performance of the Bank.

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. This amendment will have no impact on financial position and performance of the Bank.

Amendments to IFRS 7 "Disclosures – Offsetting Financial assets and Financial Liabilities"

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

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 proposes major changes to the accounting for employee benefits, including the removal of the option for deferred recognition of changes in pension plan assets and liabilities (known as the "corridor approach"). In addition, these amendments will limit the changes in the net pension asset (liability) recognised in profit or loss to net interest income (expense) and service costs. This amendment will have no impact on financial position and performance of the Bank.

Amendments to IAS 1 "Presentation of Financial Statements"

The amendments to IAS 1 "Presentation of Financial Statements", 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 presentation in the statement of comprehensive income but will have no effect on its financial position and performance.

Amendments to IAS 32/ IFRS 7 "Offsetting Financial Assets and Financial Liabilities"

Amendments to IAS 32 address inconsistencies in current practices of application of offsetting terms in accordance with IAS 32 "Financial Instruments: Presentation. The amendments clarify the definition "to have current legally enforceable right to offset recognised amounts" and clarify certain arrangements of gross payments that may be treated actually equivalent to offsetting. The amendments are effective for annual periods beginning on or after 1 January 2014, retrospective application is required.

These amendments are the part of IASB offsetting program. Within the program the IASB has also separately published amendments to IFRS 7 "Disclosures: offsetting of financial assets and financial liabilities". New disclosure requirements shall facilitate investors and other users of financial statements in better estimation of (potential) effect of offsetting arrangements on financial position of the entity. The amendment shall be applied for annual periods beginning on or after 1 January 2013. The Bank is currently estimates possible impact of the adoption of these amendments on its financial position and performance.

Amendment 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 amendment will have no impact on the Bank's financial position or performance.

Improvements to IFRSs

The amendment becomes effective for annual periods beginning on or after 1 January 2013. They 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 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.

4. Significant accounting judgments and estimates

Judgments and estimates

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expense. The estimates and associated assumptions are based on historical management experience and various other factors, which are believed to be reasonable under the circumstances that form a basis for judgement on the carrying values of assets and liabilities that are not readily available from other sources. Although these estimates are based on management's best understanding of the current events, actual results may ultimately differ from those estimates. Estimates and underlying assumption are reviewed on an ongoing basis.

Uncertainty of estimations

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 observable markets where possible, but where this is not feasible, a degree of judgment is otherwise required in establishing fair values.

Allowance for impairment of loans to customers and amounts receivable

The Bank regularly reviews its loans and receivables to assess their impairment. Based on existing experience the Bank uses its judgment to estimate the amount of any impairment loss in cases where a borrower is in financial difficulties and there is little available historical data and facts 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. Management uses estimates based on historical loss experience for assets with common credit risk characteristics and objective evidence of impairment similar to those in the group of loans and receivables. Based on existing experience the Bank uses its judgment to adjust observable data for a group of loans or receivables to reflect current circumstances.

Determination of revalued amount of buildings and investment property items

Buildings are carried at revalued amount that equals to fair value as at valuation date less any subsequent accumulated depreciation and impairment losses. Investment property is carried at fair value. Fair value of mentioned assets is determined using market approach. The market approach is based upon an analysis of the results of comparable sales of similar buildings, as well as possible lease income. Estimating the fair value of buildings requires the exercise of judgment and the use of assumptions regarding the comparability of buildings and other factors. The Bank's management engages external independent appraisers to estimate the fair value of buildings and investment property.

(Thousands of Ukrainian hryvnias, unless otherwise is indicated)

Deferred income tax assets

As at 31 December 2012, the Bank recognised the deferred income tax assets in the amount of UAH 21,057 thousand (Note 13). The Bank's management believes that within a reasonable period the Bank will have sufficient taxable profit that will enable it to utilise its deferred tax benefit.

5. Cash and cash equivalents, except for balances on accounts with the National Bank of Ukraine

Cash and cash equivalents, except for current accounts with the NBU, comprised the following:

	2012	*2011*
Cash on hand	263,631	316,598
Current accounts with banks	1,576,316	1,566,327
Term loans and deposits with banks maturing up to 90 days	-	92,234
Cash and cash equivalents, except for balances on accounts with the National Bank of Ukraine	**1,839,947**	**1,975,159**

As at 31 December 2012, the amount equivalent to UAH 1,391,644 thousand (2011: UAH 1,390,907 thousand) was placed on current accounts with two banks from OECD countries and one bank from a non-OECD country (2011: three banks from OECD countries), who are the main counterparties of the Bank in performing international settlements. For the purpose of the statement of cash flows cash and cash equivalents comprised the following items net of accrued interest income on respective balances on accounts:

	2012	*2011*
Cash on hand	263,631	316,598
Current accounts with banks	1,576,316	1,566,319
Term loans and deposits with banks maturing up to 90 days	-	92,234
Balances on accounts with the NBU (Note 6)	225,420	242,449
Cash and cash equivalents	**2,065,367**	**2,217,600**

6. Balances with the National Bank of Ukraine

Amounts due from the National Bank of Ukraine comprised:

	2012	*2011*
Balances on accounts with the NBU	225,420	242,449
Obligatory reserves with the NBU	137,910	149,987
Balances with the National Bank of Ukraine	**363,330**	**392,436**

In accordance with the NBU requirements banks shall create a number of obligatory reserves in cash and other high-liquid assets defined by the NBU. The use of such funds by the Bank is significantly restricted by the legislation. The Bank met the NBU obligatory reserve requirements as at 31 December 2012 and 2011.

From June 2012, Ukrainian banks are required to keep 50% of the obligatory reserve for the previous month on a separate account with the NBU (2011: 70%). The interest rate for this obligatory is 30% of the official NBU discount rate, which amounted to 2.25% per annum as at 31 December 2012 (2011: 2.33% per annum). As at 31 December 2012, the amount placed by the Bank on this account is UAH 90,810 thousand (2011: UAH 95,241 thousand). In accordance with the NBU requirements, Ukrainian banks may satisfy their mandatory reserve requirements with balances placed on a separate account with the NBU and Government bonds issued for the purpose of financing Ukraine's preparation for EURO 2012 football tournament in the amount of 50% of their par value, as well as the Government bonds denominated in foreign currency in the amount of 10% of their par value (2011: balance on a separate account with the NBU and EURO 2012 Government bonds in the amount of 50% of their par value). As at 31 December 2012, available-for-sale financial assets include EURO 2012 Government bonds issued by the Ministry of Finance with par value of UAH 34,000 thousand (2011: UAH 34,000 thousand) and carrying amount of UAH 35,124 thousand (2011: UAH 37,682 thousand), as well as the Government bonds denominated in USD with par value of USD 15,000 thousand (2011: nil) and carrying amount of UAH 125,728 thousand (2011: nil) (Note 9) used by the Bank to cover the NBU's obligatory reserve requirements. As at 31 December 2012, the weighted value of the Government bonds used by the Bank to cover the obligatory reserve requirements amounted to UAH 28,990 thousand (2011: UAH 17,000 thousand).

(Thousands of Ukrainian hryvnias, unless otherwise is indicated)

The Bank shall maintain a cash balance on a separate account with the NBU in the amount determined by the latter requirements with respect to loans denominated in foreign currencies of the first group of the NBU classifier and issued to those customers who have no foreign currency cash inflows herewith. Further, the Bank shall place 20% of funds borrowed from non-residents maturing up to 183 days from the reporting date in the account with the NBU. As at 31 December 2012, such obligatory reserves amounted to UAH 47,100 thousand (2011: 54,615 thousand).

7. Amounts due from banks

As at 31 December 2012, amounts due from banks include guarantee deposits in the amount of UAH 24,911 thousand (2011: UAH 15,393 thousand), placed with one Ukrainian bank (2011: one) as a collateral under transactions with payment cards of the Bank's customers. As at the reporting date, the deposit is not overdue, has no evidence of impairment and has maturity up to 3 months from the reporting date (Note 26).
In addition, amounts due from banks include balances in current accounts with two banks from OECD countries (2011: nil) denominated in precious metals in the amount of UAH 8,817 thousand (2011: nil). These funds are non-financial by their origin and are not taken into account for the financial risks management purposes.

8. Loans to customers

Loans to customers comprised:

	2012	***2011***
Loans to legal entities	5,231,425	5,107,423
Loans to individuals	375,457	496,705
- mortgage	36,749	46,459
- car	53,353	43,734
- credit cards	69,045	40,868
- other	216,310	365,644
Total loans to customers	**5,606,882**	**5,604,128**
Allowance for loan impairment	(491,981)	(243,981)
Loans to customers	**5,114,901**	**5,360,147**

Loans granted to five largest groups of borrowers, among which no entities being related parties of the Bank, amounted to UAH 1,283,520 thousand, or 22.9% of the total loans to customers as at 31 December 2012 (2011: UAH 1,249,892 thousand, or 22.3%).

Loans to individuals classified as "Other" include general purpose loans which cannot be included into any other category. Mortgage loans represent loans granted for purchase of residential property, which are secured by this property only.

(Thousands of Ukrainian hryvnias, unless otherwise is indicated)

The structure of allowance for impairment losses as at 31 December 2012 is:

	Gross exposure	*Impairment*	*Net exposure*	*Impairment to gross exposure*
Loans to individuals				
Individually impaired loans	132,115	(64,634)	67,481	48.9%
Loans with no individual impairment identified, including:	235,425	(6,252)	229,173	2.7%
- mortgage	17,169	(83)	17,086	0.5%
- car	31,421	(208)	31,213	0.7%
- credit cards	69,045	(5,839)	63,206	8.5%
- other	117,790	(122)	117,668	0.1%
Total loans to individuals	**367,540**	**(70,886)**	**296,654**	**19.3%**
Loans to legal entities				
Individually impaired loans	1,111,699	(415,365)	696,334	37.4%
Loans with no individual impairment identified	3,206,990	(5,730)	3,201,260	0.2%
Total loans to legal entities	**4,318,689**	**(421,095)**	**3,897,594**	**9.8%**
Total loans to customers less loans fully secured by cash	**4,686,229**	**(491,981)**	**4,194,248**	**10.5%**
Loans to customers fully secured by cash				
Loans to individuals	7,917	-	7,917	0.0%
Loans to legal entities	912,736	-	912,736	0.0%
Total loans to customers fully secured by cash	**920,653**	**-**	**920,653**	**0.0%**
Total loans to customers	**5,606,882**	**(491,981)**	**5,114,901**	**8.8%**

As at 31 December 2012, accrued interest income from individually impaired loans was UAH 78,043 thousand (2011: UAH 67,430 thousand).

(Thousands of Ukrainian hryvnias, unless otherwise is indicated)

The structure of allowance for impairment losses as at 31 December 2011 is:

	Gross exposure	*Impairment*	*Net exposure*	*Impairment to gross exposure*
Loans to individuals				
Individually impaired loans	135,178	(54,609)	80,569	40.4%
Loans with no individual impairment identified, including:	260,130	(7,921)	252,209	3.0%
- mortgage	25,536	(90)	25,446	0.4%
- car	20,045	(309)	19,736	1.5%
- credit cards	40,868	(5,747)	35,121	14.1%
- other	173,681	(1,775)	171,906	1.0%
Total loans to individuals	**395,308**	**(62,530)**	**332,778**	**15.8%**
Loans to legal entities				
Individually impaired loans	**637,813**	**(172,579)**	**465,234**	**27.1%**
Loans with no individual impairment identified	**3,906,199**	**(8,872)**	**3,897,327**	**0.2%**
Total loans to legal entities	**4,544,012**	**(181,451)**	**4,362,561**	**4.0%**
Total loans to customers less loans fully secured by cash	**4,939,320**	**(243,981)**	**4,695,339**	**4.9%**
Loans to customers fully secured by cash				
Loans to individuals	101,397	-	101,397	0.0%
Loans to legal entities	563,411	-	563,411	0.0%
Total loans to customers fully secured by cash	**664,808**	**-**	**664,808**	**0.0%**
Total loans to customers	**5,604,128**	**(243,981)**	**5,360,147**	**4.4%**

Changes in allowance for impairment of loans to customers for the year ended 31 December 2012 are:

	Loans to legal entities	*Loans to individuals*	*Total*
1 January 2012	**181,451**	**62,530**	**243,981**
Charge of allowance	238,395	9,523	**247,918**
Bad debt write-off	-	(1,207)	**(1,207)**
Translation differences	1,249	40	**1,289**
31 December 2012	**421,095**	**70,886**	**491,981**
Individual assessed impairment	415,365	64,634	**479,999**
Collectively assessed impairment	5,730	6,252	**11,982**
	421,095	**70,886**	**491,981**

Changes in allowance for impairment of loans to customers for the year ended 31 December 2011 are:

	Loans to legal entities	*Loans to individuals*	*Total*
1 January 2011	**149,173**	**55,377**	**204,550**
Charge of allowance	32,958	7,881	**40,839**
Bad debt write-off	(264)	(892)	**(1,156)**
Translation differences	(416)	164	**(252)**
31 December 2011	**181,451**	**62,530**	**243,981**
Individual assessed impairment	172,579	54,609	**227,188**
Collectively assessed impairment	8,872	7,921	**16,793**
	181,451	**62,530**	**243,981**

As at 31 December 2012 and 2011 the Bank had no loans that were past due but not impaired, because all past due loans were either individually or collectively assessed.

(Thousands of Ukrainian hryvnias, unless otherwise is indicated)

The breakdown below presents overdue loans to customers as at 31 December 2012, which were assessed for impairment collectively disregarding existence of overdue amounts:

	Up to 30 days	*From 30 to 60 days*	*From 60 to 90 days*	*From 90 to 180 days*	*Over 180 days*	*Total*
Loans to legal entities	101,116	-	19,100	36,082	6,462	**162,760**
Loans to individuals	8,650	1,069	9,815	1,049	6,819	**27,402**
Loans to customers	**109,766**	**1,069**	**28,915**	**37,131**	**13,281**	**190,162**

The breakdown below presents overdue loans to customers as at 31 December 2011, which were assessed for impairment collectively disregarding existence of overdue amounts:

	Up to 30 days	*From 30 to 60 days*	*From 60 to 90 days*	*From 90 to 180 days*	*Over 180 days*	*Total*
Loans to legal entities	-	3 238	-	-	22 886	**26 124**
Loans to individuals	5 760	1 870	15 629	567	5 297	**9 123**
Loans to customers	**5 760**	**5 108**	**15 629**	**567**	**28 183**	**55 247**

Collateral

Amount and type of collateral required by the Bank depends on assessment of the counterparty's credit risk. The Bank has policies and procedures established for accepting collateral types and their valuation.

The main types of the collateral received under for loans to legal entities and individuals are cash, real estate and other pledged assets, guarantees issued by individuals and legal entities, however guarantees, goods in turnover and property rights on contracts are generally not considered in determining allowance for impairment.

Breakdown of loans to customers by industries as at 31 December is:

	2012	*2011*
Trade	2,485,030	2,139,109
Agriculture and foods processing	1,239,903	1,251,836
Production of goods and equipment	588,816	480,998
Individuals	375,457	496,705
Heavy industries	355,168	585,246
Services	275,946	271,876
Energy	153,452	188,043
Transportation	92,756	126,963
Finance	22,352	42,793
Construction	8,346	7,653
Other	9,656	12,906
	5,606,882	**5,604,128**

As at 31 December 2012, loans to customers with carrying amount of UAH 457,995 thousand were pledged as collateral for the loan from the NBU (2011: UAH 607,432 thousand) (Note 16).

9. Financial assets available-for-sale

Investments in available-for-sale securities comprise:

	2012	*2011*
Domestic state bonds (OVDP)	160,852	156,330
JSC "All-Ukrainian Securities Depository"	330	330
Other	187	187
Financial assets available-for-sale	**161,369**	**156,847**

As at 31 December 2012, state bonds denominated in US Dollars with carrying amount of USD 15,730 thousand (UAH 125,728 thousand in equivalent) (2011: USD 15,032 thousand (UAH 120,100 thousand in equivalent)) were pledged as collateral for the loans received from the NBU under direct "repo" deal terms (Note 16).

(Thousands of Ukrainian hryvnias, unless otherwise is indicated)

As at 31 December 2012, available-for-sale financial assets include EURO 2012 Government bonds issued by the Ministry of Finance with par value of UAH 34,000 thousand (2011 : 34,000 thousand) and carrying amount of UAH 35,124 thousand (2011: UAH 37,682 thousand), as well as the Government bonds denominated in USD with par value of USD 15,000 thousand (2011: nil) and carrying amount of UAH 125,728 thousand (2011: nil) used by the Bank to cover the NBU's obligatory reserve requirements (Note 6).

10. Property, equipment and intangible assets

Movements in property, equipment and intangible assets during the year ended 31 December 2012 are:

	Buildings	*Leasehold improvements*	*Furniture and equipment*	*Computers and software*	*Motor vehicles*	*Construction in progress*	*Total*
Cost or revalued amount							
31 December 2011	**151,860**	**19,393**	**36,051**	**25,760**	**11,258**	**13,614**	**257,936**
Additions	-	-	969	11,293	438	4,728	**17,428**
Transfers from assets held-for-sale (Note 12)	-	-	-	-	147	-	**147**
Placement into use	1,683	2,770	11,537	-	-	(15,990)	**-**
Transfers to assets held-for-sale (Note 12)	-	-	-	-	(233)	-	**(233)**
Disposals	(293)	(1,370)	(454)	(444)		(111)	**(2,672)**
31 December 2012	**153,250**	**20,793**	**48,103**	**36,609**	**11,610**	**2,241**	**272,606**
Accumulated depreciation and amortisation							
31 December 2011	**(8,967)**	**(7,097)**	**(20,154)**	**(16,031)**	**(2,871)**		**(55,120)**
Charge for the year	(2,937)	(7,600)	(7,415)	(6,843)	(1,826)		**(26,621)**
Transfers to assets held-for-sale (Note 12)	-	-	-	-	81		**81**
Disposals	293	1,258	392	398	-		**2,341**
31 December 2012	**(11,611)**	**(13,439)**	**(27,177)**	**(22,476)**	**(4,616)**		**(79,319)**
Net book value							
31 December 2011	**142,893**	**12,296**	**15,897**	**9,729**	**8,387**	**13,614**	**202,816**
31 December 2012	**141,639**	**7,354**	**20,926**	**14,133**	**6,994**	**2,241**	**193,287**

Buildings are carried at a revalued amount representing fair value less subsequent accumulated depreciation and subsequent accumulated impairment losses. On 1 December 2008, the revaluation of assets included in buildings was conducted by an independent qualified appraiser with the relevant experience in appraising similar assets in similar locations. The buildings were revalued to their fair value using a combination of generally accepted appraisal methods. Key assumptions used consider the location and specific features of the buildings.

In December 2012, the Bank's management decided not to adjust the carrying amount assets classified as buildings based on the results of their fair value assessment provided in the report prepared by independent appraisers as at 1 December 2012. The report confirmed absence of significant differences between the fair value and carrying amount of buildings.

As at 31 December 2012 the cost of fully depreciated or amortised property, plant and equipment included in "Leasehold improvements" was UAH 2,671 thousand (2011: UAH 1,332 thousand), included in "Furniture and equipment" - UAH 13,828 thousand (2011: UAH 9,697 thousand), included in "Computers and software" - UAH 8,673 thousand (2011: UAH 8,796 thousand), included in "Motor vehicles" - UAH 364 thousand (2011: UAH 364 thousand).

As at 31 December 2012, the carrying value of premises, which would have been included in the financial statements should the premises continued to be carried at historical cost less accumulated depreciation, was UAH 52,077 thousand (2011: UAH 52,635 thousand).

As at 31 December 2012, property and equipment in the amount of UAH 122,159 thousand (2011: 123,399 thousand) were pledged as collateral for the loan from the NBU (Note 16).

(Thousands of Ukrainian hryvnias, unless otherwise is indicated)

Movements in property, equipment and intangible assets during the year ended 31 December 2011 are:

	Buildings	*Leasehold improvements*	*Furniture and equipment*	*Computers and software*	*Motor vehicles*	*Construction in progress*	*Total*
Cost or revalued amount							
31 December 2010	**149,730**	**9,974**	**22,830**	**18,043**	**6,896**	**5,314**	**212,796**
Additions	-	-	13,349	7,771	5,415	20,117	**46,652**
Transfers from assets held-for-sale (Note 12)	-	-	-	-	399	-	**399**
Placement into use	2,130	9,475	-	-	-	(11,605)	**-**
Transfers to assets held-for-sale (Note 12)	-	-	-	-	(1,452)	-	**(1,452)**
Disposals	-	(56)	(137)	(54)		(212)	**(459)**
31 December 2011	**151,860**	**19,393**	**36,051**	**25,760**	**11,258**	**13,614**	**257,936**
Accumulated depreciation and amortisation							
31 December 2010	**(6,002)**	**(3,242)**	**(16,528)**	**(12,743)**	**(1,932)**		**(40,477)**
Charge for the year	(2,965)	(3,881)	(3,757)	(3,342)	(1,465)		**(15,410)**
Transfers to assets held-for-sale (Note 12)	-	-	-	-	526		**526**
Disposals	-	26	131	54	-		**211**
31 December 2011	**(8,967)**	**(7,097)**	**(20,154)**	**(16,031)**	**(2,871)**		**(55,120)**
Net book value							
31 December 2010	**143,728**	**6,732**	**6,311**	**5,300**	**4,964**	**5,314**	**172,349**
31 December 2011	**142,893**	**12,296**	**15,897**	**9,729**	**8,387**	**13,614**	**202,816**

11. Investment property

Investment property initially received through enforcement of collateral is recognized in the statement of financial position as at 31 December 2012 at fair value of UAH 72,711 thousand (2011: UAH 84,205 thousand).

The Bank leases out this investment property to third parties under operating lease agreements and does not use it for personal needs. In 2012, the Bank received UAH 1,990 thousand as rental income recorded within "Other income" in the statement of comprehensive income (2011: 1,947 thousand).

In December 2012, the Bank's management decided to adjust the carrying amount of investment properties based on the results of their fair value assessment provided in the report prepared by independent appraisers as at 1 December 2012. Based on the carrying amount adjustment the impairment was recognised in the amount of UAH 11,509 thousand (2011: nil) (Note 15).

12. Assets held-for-sale

Assets held-for-sale were received through enforcement of collateral and are is recognised in the statement of financial position as at 31 December 2012 at fair value of UAH 63,336 thousand (2011: UAH 66,765 thousand).

Changes in the structure of assets held-for-sale are:

	2012	*2011*
At 1 January	**66,765**	**8,766**
Foreclosure of collateral accepted to secure loans	11,877	63,181
Disposal of assets held-for-sale	(7,527)	(3,534)
Reclassification to property and equipment (Note 10)	(147)	(399)
Reclassification from property and equipment (Note 10)	152	926
Reclassification to other assets	(5,720)	-
Decrease in carrying value of assets held-for-sale up to fair value (Note 15)	(2,064)	(2,175)
At 31 December	**63,336**	**66,765**

(Thousands of Ukrainian hryvnias, unless otherwise is indicated)

As at 31 December 2012, the Bank reclassified some assets accounted for as assets held-for-sale as at 31 December 2011, for the total amount of UAH 5,720 thousand to other assets. The reason for reclassification was that these assets no longer met the requirements of IFRS 5, insofar as the completion of their sale did not take place within one year from the date of classification as assets held-for-sale and the delay was not caused by events or circumstances beyond the Bank's control. This reclassification had no effect on profit or loss of the Bank.

13. Taxation

According to the Tax Code of Ukraine, the corporate income tax rate was decreased to 21% from 1 January 2012, to 19% from 1 January 2013 and to 16% from 1 January 2014. The Bank estimated deferred tax assets and liabilities using the income tax rate that will be effective in the period, in which the respective deferred tax assets and liabilities are expected to be realized.

The components of income tax expense recognised in the profit or loss for the year ended 31 December are:

	2012	*2011*
Current income tax charge	6,604	19,885
Deferred income tax benefit – origination and reversal of temporary differences	(47,305)	(16,588)
Income tax (benefit)/expenses	**(40,701)**	**3,297**

The reconciliation between expected income tax benefit (expense) computed by applying the effective statutory income tax rate to profit before tax and the reported income tax benefit (expense) is as follows:

	2012	*%*	*2011*	*%*
(Loss)/profit before income tax	(280,163)		7,498	
Expected income tax (benefit)/expense computed at effective statutory rate	(58,834)	21.0%	1,725	23.0%
Reassessment of temporary differences	13,574	-4.8%	3,488	46.5%
Effect from changes in income tax rate	3,123	-1.1%	(3,728)	-49.7%
Net tax non-deductible expenses	1,436	-0.6%	1,812	24.2%
Income tax (benefit)/expenses	**(40,701)**	**14.5%**	**3,297**	**44.0%**

Deferred tax assets and liabilities as at 31 December 2012 are attributable to the items detailed as follows:

	At 31 December 2011	***Recognised in profit or loss***	***Recognised in other comprehensive income***	***At 31 December 2012***
	Asset/ (Liability)	***Benefit/ (expense)***	***Benefit***	***Asset/ (Liability)***
Amortised cost and allowance for impairment of loans to customers	(29,194)	48,041	-	18,847
Fair value of financial assets available-for-sale	725	(1,853)	30	(1,098)
Revalued amount of property and equipment	406	603	-	1,009
Revalued amount of investment property	(841)	1,841	-	1,000
Impairment of other assets	392	400	-	792
Amortised cost of amounts due to banks	(86)	174	-	88
Amortised cost of debt securities issued	1,336	(1,336)	-	-
Other temporary differences	984	(565)	-	419
	(26,278)	**47,305**	**30**	**21,057**

(Thousands of Ukrainian hryvnias, unless otherwise is indicated)

Deferred tax assets and liabilities as at 31 December 2011 are attributable to the items detailed as follows:

	At 31 December 2010	***Recognised in profit or loss***	***Recognised in other comprehensive income***	***At 31 December 2011***
	Asset/ (Liability)	***Benefit/ (Expense)***	***Benefit***	***Asset/ (Liability)***
Amortised cost and allowance for impairment of loans to customers	(46,236)	17,042	-	(29,194)
Fair value of financial assets available-for-sale	1,106	(1,084)	703	725
Revalued amount of property and equipment	-	406	-	406
Revalued amount of investment property	868	(1,709)	-	(841)
Impairment of other assets	8	384	-	392
Amortised cost of amounts due to banks	(139)	53	-	(86)
Amortised cost of amounts due to customers	84	(84)	-	-
Amortised cost of debt securities issued	-	1,136	-	1,336
Other temporary differences	740	244	-	984
	(43,569)	**16,588**	**703**	**(26,278)**

14. Other assets

As at 31 December other assets comprised:

	2012	***2011***
Other financial assets		
Accounts receivable on settlements with customers	5,719	2,290
Accrued income receivable	2,957	2,499
Accounts receivable on payments through plastic cards	1,154	7,755
Positive fair value of derivative financial assets (Note 22)	-	2,894
	9,830	**15,438**
Allowance for impairment	(2,424)	(781)
Other financial assets	**7,406**	**14,657**
Other non-financial assets		
Precious metals	11,679	7,127
Prepaid expenses	5,776	5,034
Repossessed collateral (Note 12)	5,720	-
Prepaid taxes and mandatory payments other than income tax	5,711	5,238
Inventories	1,017	1,770
Other non-financial assets	**29,903**	**19,169**
Other assets	**37,309**	**33,826**

15. Other charges to allowances for impairment and provisions

Movements in other allowances for impairment for the year are:

	2012	***2011***
1 January	**781**	**1,181**
Accrual / (reversal) of allowance for impairment	1,673	(400)
Write-offs	(30)	-
31 December	**2,424**	**781**

(Thousands of Ukrainian hryvnias, unless otherwise is indicated)

In addition, during the year, the Bank recognised in other charges to allowance for impairment and provisions the impairment of the fair value of investment property in the amount of UAH 11,509 thousand. (2011: nil) (Note 11), as well as decrease of the carrying amount of assets held-for-sale to their fair value in the amount of UAH 2,064 thousand. (2011: 2,175 thousand.) (Note 12).

16. Amounts due to banks

As at 31 December amounts due to banks include:

	2012	*2011*
Loans from the NBU	213,356	419,195
Current accounts with banks	408,879	948,693
Term deposits and loans due to banks	134,740	136,006
Amounts due to banks	**756,975**	**1,503,894**

As at 31 December 2012, the amount included in current accounts of other banks equivalent to UAH 408,475 thousand (2011: UAH 904,538 thousand) was placed by two (2011: two) Ukrainian banks.

In December 2012 the Bank attracted from the NBU a short-term loan under direct repo deal terms of UAH 119,540 thousand. The Bank provided state bonds denominated in USD with the fair value of UAH 125,728 thousand as at 31 December 2012 as a collateral under the loan (Note 9).

To secure a loan received from the NBU in 2009 with carrying value of UAH 93,000 thousand (2011: UAH 299,655 thousand) the Bank pledged the rights of demand under loans to customers with the carrying value of UAH 457,995 thousand (2011: UAH 607,432 thousand) and ownership rights for property and equipment with net book value of UAH 122,159 thousand (2011: UAH 123,399 thousand) (Notes 8, 10).

17. Amounts due to customers

As at 31 December amounts due to customers comprised:

	2012	*2011*
Current accounts:		
- legal entities	786,709	1,361,893
- individuals	487,624	464,322
	1,274,333	**1,826,215**
Time deposits:		
- legal entities	1,448,084	929,627
- individuals	3,563,899	2,828,969
	5,011,983	**3,758,596**
Amounts due to customers	**6,286,316**	**5,584,811**

As at 31 December 2012, the balances on current accounts of legal entities amounting to of UAH 421,526 thousand, or 33.1% of total amount on current accounts of customers, are placed by ten largest corporate customers (2011: UAH 983,105 thousand, or 53.8%). The balances on the current account in the amount of UAH 13,270 thousand, which makes 1.0% of total balances on current accounts of customers, are placed by one individual customer (2011: UAH 33,701 thousand, or 1.8%).

As at 31 December 2012, deposits of legal entities in the amount of UAH 931,932 thousand, or 18,6% of the total amount of deposits from customers (2011: UAH 694,748 thousand, or 18.5%) were placed by ten largest corporate customers, of which UAH 712,086 thousand (2011: UAH 519,306 thousand) is pledged as collateral for loans to those customers. As at 31 December 2012, deposits of individuals amounting to UAH 267,751 thousand, or 5.3% of the total amount of deposits from customers, were placed by three largest customers (2011: UAH 172,581 thousand, or 4.6%).

As at 31 December 2012, deposits of legal entities in the amount of UAH 7,572 thousand (2011: UAH 13,098 thousand) were pledged as collateral under the documentary transactions of the Bank (Note 22).

As at 31 December 2012, term deposits of legal entities in the amount of UAH 76,029 thousand (2011: UAH 7,990 thousand) were placed by two (2011: one) foreign non-banking financial organization outside OECD.

(Thousands of Ukrainian hryvnias, unless otherwise is indicated)

In accordance with Ukrainian legislation, the Bank is obliged to repay time deposits of individuals upon demand of a depositor.

18. Debt securities issued

On 28 January 2011, the Bank received a permission to issue F-series debt with the nominal amount of UAH 100,000 thousand and maturing in January 2016. The debt securities at 15.0% coupon rate were placed in full in July 2011. In January 2012, the Bank early redeemed F-series debt securities at the offer date in the amount of UAH 99,500 thousand. Bonds with nominal value of UAH 500 thousand and carrying amount of UAH 532 thousand changed the holder and continue to be traded in the market. The effective interest rate on the debt securities is 15.9%. In accordance with the placement terms, the debt securities shall be redeemed by the Bank if so requested by their holders at the end of each half-year coupon periods in January or July.

19. Subordinated debt

Subordinated debt represents the amounts received under the long-term loan agreements, which, in case of the Bank's failure to meet its obligations, would have to be repaid only after the repayment of amounts due to all the other creditors. The subordinated debt was drawn in 2006 and 2011 from a non-resident entity registered outside OECD. The loans are denominated in US Dollars and their aggregate principal amount equals to USD 35,900 thousand as at 31 December 2012 (2011: USD 35,900 thousand). In November 2012, the maturity of subordinated debt was prolonged until December 2021, and the interest rate was increased to 8.86%.

20. Other liabilities

Other liabilities as at 31 December include the following items:

	2012	*2011*
Other financial liabilities		
Balances on transit accounts on transactions with payment cards	26,852	459
Balances on transit accounts on transactions with customers	4,045	785
Amounts payable on purchased intangible assets	3,967	5,008
Accrued expenses payable	1,714	1,363
Negative fair value of a derivative financial instrument (Note 22)	143	-
Other	617	936
Other financial liabilities	**37,338**	**8,551**
Other non-financial liabilities		
Amounts payable to Individuals' Deposit Guarantee Fund	7,036	3,529
Accrued payments on unused vacations	3,590	4,362
Obligations on payments of taxes and mandatory payments, other than income tax	158	905
Salary accruals to employees	8	1,262
Other non-financial liabilities	**10,792**	**10,058**
Other liabilities	**48,130**	**18,609**

21. Equity

Movements in the Bank's shares issued, fully paid and outstanding are:

	Number of shares	***Nominal value***	***Inflation***	
	Ordinary	***Ordinary***	***adjustment***	***Total***
31 December 2010	**315,000,000**	**315,000**	**23,666**	**338,666**
31 December 2011	**315,000,000**	**315,000**	**23,666**	**338,666**
31 December 2012	**315,000,000**	**315,000**	**23,666**	**338,666**

The nominal value of the ordinary shares is UAH 1,00 per share as at 31 December 2012 and 2011. The inflation adjustment to share capital was made to account for the hyperinflation effect in accordance with IAS 29 "Financial Reporting in Hyperinflationary Economies" and the Bank's accounting policy.

(Thousands of Ukrainian hryvnias, unless otherwise is indicated)

All ordinary shares are fully paid and have equal voting, dividend and capital repayment rights. No dividends were declared by the Bank during 2012 and 2011, as well as 2013 and before the date of approval of these financial statements by the management.

As at 31 December 2012, the amount of reserve and other funds of the Bank stated in equity in accordance with the statutory requirements made UAH 188,321 thousand (2011: UAH 186,362 thousand).

Revaluation reserves and changes in the reserve comprise:

	Revaluation reserve of buildings	*Revaluation reserve of financial assets available-for-sale*	*Total*
31 December 2010	**96,447**	**3,973**	**100,420**
Unrealised losses from financial assets available-for-sale	-	(1,367)	**(1,367)**
Realised gains from financial assets available-for-sale reclassified to profit or loss	-	(2,354)	**(2,354)**
Income tax relating to components of other comprehensive income		703	**703**
31 December 2011	**96,447**	**955**	**97,402**
Unrealised losses from financial assets available-for-sale	-	(302)	**(302)**
Income tax relating to components of other comprehensive income	-	30	**30**
31 December 2012	**96,447**	**683**	**97,130**

22. Commitments and contingencies

Litigation

In the ordinary course of business, the Bank is subject to legal actions and complaints. The management believes that the ultimate liability, if any, 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.

Insurance

The insurance industry in Ukraine is at a developing stage and many forms of insurance protection common to other countries are not yet generally available. The Bank does not have full insurance coverage with respect to its assets, in case of business interruption, or third party liability in respect of damage arising from accidents with the Bank property or relating to its operations. Until the Bank obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on its operations and financial position.

Taxation and compliance with laws

The Ukrainian legislation applicable to taxation and other operational matters continue to evolve as a result of the economy being in transition to market economy. The legislation and regulatory acts are not always clearly written and their interpretation is subject to varying interpretations by local, regional and national authorities and other governmental bodies. Instances of inconsistent interpretations by different bodies are not unusual. Management believes that the Bank has complied with all regulations and paid or accrued all taxes that are applicable. Where the risk of outflow of resources is probable, the Bank and has accrued tax liabilities based on the management's best estimate.

The Bank's operations and financial position will continue to be affected by Ukrainian political developments including the application of existing and future legislation and tax regulations. Management of the Bank believes that obligations that could arise as a result of these contingencies, as relating to its operations, would not be more significant than those of similar businesses in Ukraine.

(Thousands of Ukrainian hryvnias, unless otherwise is indicated)

Commitments and contingencies

Revocable credit commitments and contingencies as at 31 December are:

	2012	*2011*
Guarantees	45,757	23,881
Letters of credit	31,888	36,951
Avals	-	5,657
	77,645	**66,489**
Cash collateral pledged for letters of credit and guarantees (Note 17)	(7,572)	(13,098)
Commitments and contingencies	**70,073**	**53,391**

As at 31 December 2012, loan facilities given by the Bank and yet undrawn by customers amounted to UAH 1,021,975 thousand (2011: UAH 1,689,728 thousand). Applications by the customers for drawing such facilities are subject to the mandatory consent procedure established by the Bank, and the Bank may decline issuing a loan if the applying borrower's financial standing has deteriorated, if the customer has not complied with the required loan-related procedures or due to other reasons.

All the operating lease commitments of the Bank are revocable.

Derivative financial instruments

As at 31 December 2012, the Bank entered into agreements on currency swap transactions with five Ukrainian banks and one non-OECD banks (2011: with seven Ukrainian banks and two non-OECD banks). According to its accounting policy, the Bank states the assets and liabilities as derivative financial instruments at their fair value.

Derivative financial instruments as at 31 December were as follows:

	2012			*2011*		
	Notional principal	***Fair value, asset***	***Fair value, liability***	***Notional principal***	***Fair value, asset***	***Fair value, liability***
Currency swaps	386 545	-	(143)	435 816	2 984	-

The derivative financial instruments are included in "Other assets" and "Other liabilities" at their fair value (Notes 14, 20). In 2012, the Bank received trading income from transactions with derivative financial instruments in the amount of UAH 13,849 thousand (2011: UAH 3,317 thousand), which is recognized within "Net gains /(losses) arising from foreign currencies".

Swaps are contractual agreements between two parties to exchange movements in foreign currency rates based on the notional amounts.

23. Net fee and commission income

Net fee and commission income for the year are:

	2012	*2011*
Fee and commission income		
Payments settlements	56,108	40,150
Foreign currency exchange transactions	24,494	16,478
Guarantees and letters of credit	4,251	5,106
Services to insurance companies	2,011	957
Loan service fee and commissions	764	1,157
Safe rent services	293	146
Depositary activities	262	372
Other	74	205
	88,257	**64,571**
Fee and commission expenses		
Payments settlements	(10,060)	(10,363)
Borrowing service fees	(273)	(533)
Guarantees and letters of credit	(160)	(87)
Other	(299)	(147)
	(10,792)	**(11,130)**
Net fee and commission income	**77,465**	**53,441**

24. Personnel and other operating expenses

Salaries and employee benefits and other operating expenses for the year are:

	2012	*2011*
Salaries and other employee benefits	93,292	85,173
Salary related charges	29,810	25,646
Personnel expenses	**123,102**	**110,819**
Rent	34,155	29,617
Insurance	26,483	27,715
Contributions to the Individuals' Deposits Guarantee Fund	19,830	12,860
Office maintenance	18,065	17,715
Security services	9,456	7,737
Communication services	8,229	6,657
Professional services	4,325	4,218
Business trip expenses	3,034	4,442
Marketing and advertisement	2,960	17,281
Taxes and other mandatory payments other than income tax	1,424	1,159
Cash collection services	295	299
Charity	53	335
Losses on loans restructuring	-	1,063
Other	2,235	4,310
Other operating expenses	**130,544**	**135,408**

Included in "Other" are administrative expenses, which cannot be allocated to any of the group above of expenses.

25. Basic and diluted loss per share

The basic and diluted loss per share is:

	2012	*2011*
(Loss)/profit for the year	(239,462)	4,201
Average annual number of outstanding ordinary shares (thousand)	315,000	315,000
Net basic and diluted (loss)/earnings per share	(0.0008)	0.00001

During 2012 and 2011, the Bank had no financial instruments which would result in a dilution of loss per share in the event of their conversion to shares.

During 2012 and 2011, there were no changes in the number of ordinary shares of the Bank.

26. Financial risk management policies

Risks are inherent in the Bank's activities but they are managed through a process of ongoing identification, measurement and monitoring, establishing of the 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 managing the risk exposures within 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 operating risks.

The independent risk control process is not applied to business risks such as changes in the environment, technology and industry. They are controlled through the Bank's strategic planning process.

Risk management framework

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

The risk management functions are divided among the Supervisory Board, the Management Board, Assets and Liabilities Management Committee (the "ALCO"), the Risk Management Department, the Tariff Committee and the Credit Committee.

The risk management functions within the Bank are divided as follows:

Supervisory Board

The Supervisory Board is responsible for establishing overall approach to risk management, and the approval of risk management strategy and principles.

Management Board

The Management Board implements and controls risk management process in the Bank. The Management Board's risk management function comprises development of risk management strategy, as well as the implementation of principles, concept, polices, and risk limits.

Risk Management Department

The Risk Management Department exercises an analytical and methodological function in risk management and is responsible for establishment of risk management procedures for the independent control purposes.

Committees

The Large and Small Credit Committees, the ALCO and the Tariff Committee are responsible for implementation of the risk management strategy.

Business Units

Each business unit has a separate independent risk control function, including control over adherence to the limits of the risk exposures and assessment of risks attributable to new products and structured transactions. In addition, business units are responsible for collecting the risk-related complete, reliable and operating information and risk reporting.

Internal Audit

The Internal Audit and Control Department performs regular audits of the risk management processes in order to review the adequacy of the risk management procedures and their execution. The Internal Audit and Control Department discusses findings from its audits and presents its conclusions and recommendations to the Supervisory and Management Boards.

Excessive risk concentration

Risk 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. The concentrations reflect 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 focused on portfolio diversification. Identified risk concentrations are controlled and managed accordingly.

Credit risk

Credit risk is the risk of a financial loss to the Bank if a borrower or counterparty fails to meet its contractual obligations. The Bank manages its credit risk by establishing risk (limits) in relation to a single counterparty or groups of counterparties with similar business risks, geographic/industry risk concentration, and by monitoring limit adherence.

Risks inherent in credit related commitments (undrawn loan commitments, letters of credit and guarantees) are similar to risks inherent in loans; they are mitigated using the same procedures and risk control policies. The maximum exposure related to commitments and contingencies is shown in Note 22.

The carrying amount of the items presented in the statement of financial position (including derivative instruments and excluding the risk mitigation effect of master netting and collateral agreements) corresponds the most closely to the maximum credit risk arising from these items.

The carrying amount of financial instruments carried at fair value reflects the current exposure to credit risk but not the maximum risk exposure, which may arise in future as a result of the changes in their values.

Risk concentrations reflect the relative sensitivity of the Bank's operational results to changes affecting specific industry or geographic location. In order to avoid unacceptable risk concentration, the Bank's applies specific policies and procedures aimed at diversification of the credit portfolio. Risk concentrations identified are managed accordingly.

Credit quality by class of financial asset

The Bank manages the credit quality of financial assets using its internal credit rating system. The system ensures focused risk management as well as it allows for credit risk exposure comparison by line of business, geographic location and product. The rating system is based on application of certain financial and analytical methods as well as use of observable market data, which represents main source of information for counterparty's risk assessment. All internal risk categories are determined in accordance with the credit rating policy. Assigned ratings are assessed and revised by the Bank regularly.

The Bank's management assesses the impairment of loans to customers by evaluating the likelihood of repayment and reimbursement of the amounts advanced based on the analysis of the specific borrowers by the specific significant loans as well as by the groups of loans with the similar terms and risk characteristics. The factors taken into account in evaluating the specific loans include the debt service history, the borrower's current financial position, timeliness of repayments and quality of collateral, future interest payment schedule, the borrower's industry conditions, etc. In assessing the amount of impairment, management takes into account the expected future principal and interest repayments as well as the proceeds from the sale of collateral, if any. Further, these cash flows are discounted using the original effective interest rate of the loan. The actual repayment of the loan principal and interest depends on the borrowers' ability to generate cash flows from their operations or to obtain alternative financing and may differ from the management's estimates.

The factors taken into account when assessing collective impairment include the historical impairment loss experience, portfolio delinquencies and general economic conditions.

(Thousands of Ukrainian hryvnias, unless otherwise is indicated)

The credit quality analysis of financial asset categories presented in the statement of financial position made using the Bank's credit rating system as at 31 December 2012 is:

	Notes	*High rating*	*Standard rating*	*Low rating*	*Individually impaired or past due*	*Total*
Cash and cash equivalents, except for cash on hand and balances on accounts with the National Bank of Ukraine	5	1,576,316	-	-	-	**1,576,316**
Balances with the National Bank of Ukraine	6	363,330	-	-	-	**363,330**
Amounts due from banks	7	24,911	-	-	-	**24,911**
Loans to customers	8					
- loans to legal entities		2,706,262	1,246,365	4,338	1,274,460	**5,231,425**
- loans to individuals		147,069	60,315	8,556	159,517	**375,457**
		2,853,331	1,306,680	12,894	1,433,977	**5,606,882**
Financial assets available-for-sale	9	160,852	-	-	-	**160,852**
Other financial assets		7,406	-	-	-	**7,406**
Total		**4,986,146**	**1,306,680**	**12,894**	**1,433,977**	**7,739,697**

The credit quality analysis of financial asset categories presented in the statement of financial position made using the Bank's credit rating system as at 31 December 2011 is:

	Notes	*High rating*	*Standard rating*	*Low rating*	*Individually impaired or past due*	*Total*
Cash and cash equivalents, except for cash on hand and balances on accounts with the National Bank of Ukraine	5	1,658,561	-	-	-	**1,658,561**
Balances with the National Bank of Ukraine	6	392,436	-	-	-	**392,436**
Amounts due from banks	7	15,393	-	-	-	**15,393**
Loans to customers	8					
- loans to legal entities		3,465,410	956,116	21,960	663,937	**5,107,423**
- loans to individuals		222,690	109,218	496	164,301	**496,705**
		3,688,100	1,065,334	22,456	828,238	**5,604,128**
Financial assets available-for-sale	9	156,847	-	-	-	**156,847**
Other financial assets		14,657	-	-	-	**14,657**
Total		**5,925,994**	**1,065,334**	**22,456**	**828,238**	**7,842,022**

In the tables above amounts due from banks, loans to customers and derivative financial instruments rated high are the assets whose credit rank is minimal. Counterparties with good financial standing and good debt servicing are rated standard. Low rating comprises assets whose rating is lower than standard, but that were not impaired individually. For financial assets available-for-sale the Bank uses its own internal credit rating policy. In accordance to that policy, high rating is assigned to the assets with minimal risk, other financial assets available-for-sale are assigned standard rating. Assets with high degree of risk except for those individually impaired are assigned low rating.

The Bank has developed credit quality review procedures aimed on early identification of the potential changes in borrowers' credit standing, including periodical review of the collateral value. The credit quality review allows the Bank to estimate potential loss from the risks faced and take appropriate actions.

One of the tools to mitigate the credit risk of the existing loan portfolio is the system of quick response to loan quality deterioration, which is based on the express analysis of the Bank's TOP-50 borrowers. The quick response system is a business process, which allows for a prompt evaluation of the borrowers' current financial position and, after taking into account the current debt service quality, marking the borrowers on the credit risk map. Further, depending on the location of the loan on the risk map, such loan is classified to a certain risk category. The Bank's Credit Committee decides on the follow-up actions in respect of the weak and bad loans.

(Thousands of Ukrainian hryvnias, unless otherwise is indicated)

The geographic concentration of financial assets and liabilities is as follows:

	2012				***2011***			
	Ukraine	***OECD***	***CIS and other countries***	***Total***	***Ukraine***	***OECD***	***CIS and other countries***	***Total***
Assets								
Cash and cash equivalents, except for balances on accounts with the National Bank of Ukraine	355,649	1,113,330	370,968	**1,839,947**	388,180	1,552,429	34,550	**1,975,159**
Balances with the National Bank of Ukraine	363,330	-	-	**363,330**	392,436	-	-	**392,436**
Amounts due from banks	24,911	-	-	**24,911**	15,393	-	-	**15,393**
Loans to customers	5,108,823	-	6,078	**5,114,901**	5,345,541	-	14,606	**5,360,147**
Financial assets available-for-sale	161,369	-	-	**161,369**	156,847	-	-	**156,847**
Other financial assets	7,381	2	23	**7,406**	14,652	-	5	**14,657**
	6,021,463	**1,113,332**	**377,069**	**7,511,864**	**6,313,049**	**1,552,429**	**49,161**	**7,914,639**
Liabilities								
Amounts due to banks	688,827	-	68,148	**756,975**	1,447,772	-	56,122	**1,503,894**
Amounts due to customers	6,133,162	37,381	115,773	**6,286,316**	5,503,215	34,878	46,718	**5,584,811**
Debt securities issued	532	-	-	**532**	79,671	-	26,692	**106,363**
Subordinated debt	-	-	293,103	**293,103**	-	-	292,398	**292,398**
Other financial liabilities	37,322	15	1	**37,338**	8,550	1	-	**8,551**
	6,859,843	**37,396**	**477,025**	**7,374,264**	**7,039,208**	**34,879**	**421,930**	**7,496,017**
Net geographic concentration	**(838,380)**	**1,075,936**	**(99,956)**	**137,600**	**(726,159)**	**1,517,550**	**(372,769)**	**418,622**

Market risk

Market risk is the risk that changes in the market prices, such as interest rate, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's/issuer's credit standing) will affect income or value of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the value at risk.

The Bank separates its exposure to market risk between trading and non-trading portfolios.

Trading portfolios are mainly held by the securities department and include positions arising from market making and own open position taking, together with financial assets and liabilities that are managed on a fair value basis.

The overall responsibility for market risk management is vested with the ALCO. The Risk Management Department is responsible for the development of detailed risk management policies (subject to review and approval by the Management Board) and for the day-to-day monitoring of the compliance with the policies.

Foreign currency risk

Currency risk is the risk that fluctuations in foreign exchange rates will affect the Bank's income or the value of its portfolios of financial instruments.

The Bank holds assets and liabilities denominated in several foreign currencies. Foreign currency risk arises when the existing or forecasted assets in a foreign currency are either greater or less than the liabilities in that currency. Management establishes limits and constantly monitors foreign currency positions in accordance with the regulations of the NBU and the internally developed methodology.
The policy with regard to open foreign currency positions is restricted by certain maximal exposure thresholds established under the Ukrainian statutory regulations; the NBU strictly monitors the compliance with the regulations on a daily basis.

(Thousands of Ukrainian hryvnias, unless otherwise is indicated)

Foreign currency position of the Bank on monetary assets and liabilities as at 31 December 2012 is:

	Ukrainian hryvnia	*US Dollar*	*Euro*	*Other*	*Total*
Assets					
Cash and cash equivalents, except for balances on accounts with the National Bank of Ukraine	138,954	1,260,118	408,736	32,138	**1,839,947**
Balances with the National Bank of Ukraine	316,230	45,041	2,059	-	**363,330**
Amounts due from banks	-	24,911	-	8,817	**33,728**
Loans to customers	2,594,568	2,294,106	185,988	40,239	**5,114,901**
Financial assets available-for-sale	35,124	125,728	-	-	**160,852**
Other monetary assets	1,932	4,006	570	12,577	**19,085**
Total assets	**3,086,809**	**3,753,910**	**597,353**	**93,771**	**7,531,843**
Liabilities					
Amounts due to banks	282,265	461,154	2,896	10,660	**756,975**
Amounts due to customers	2,651,359	2,950,199	640,372	44,386	**6,286,316**
Debt securities issued	532	-	-	-	**532**
Current income tax liabilities	2,288	-	-	-	**2,288**
Subordinated debt	-	293,103	-	-	**293,103**
Other monetary liabilities	37,274	9,008	1,668	180	**48,130**
Total liabilities	2,973,718	3,713,464	644,936	55,226	**7,387,344**
Net long /(short) currency position	**113,091**	**40,446**	**(47,583)**	**38,545**	**144,499**
Derivative financial instruments	178,438	(168,771)	32,296	(42,106)	**(143)**
Net long /(short) position	**291,529**	**(128,325)**	**(15,287)**	**(3,561)**	**144,356**

Foreign currency position of the Bank on monetary assets and liabilities as at 31 December 2011 is:

	Ukrainian hryvnia	*US Dollar*	*Euro*	*Other*	*Total*
Assets					
Cash and cash equivalents, except for balances on accounts with the National Bank of Ukraine	194,293	1,227,669	490,245	62,952	**1,975,159**
Balances with the National Bank of Ukraine	337,822	45,685	8,929	-	**392,436**
Amounts due from banks	-	15,393	-	-	**15,393**
Loans to customers	3,011,723	2,120,365	193,695	34,364	**5,360,147**
Financial assets available-for-sale	36,747	120,100	-	-	**156,847**
Other monetary assets	17,545	4,398	1,564	7,425	**30,932**
Total assets	**3,598,130**	**3,533,610**	**694,433**	**104,741**	**7,930,914**
Liabilities					
Amounts due to banks	504,174	930,224	69,271	225	**1,503,894**
Amounts due to customers	2,736,446	2,160,023	629,098	59,244	**5,584,811**
Debt securities issued	106,363	-	-	-	**106,363**
Current income tax liabilities	1,876	-	-	-	**1,876**
Subordinated debt	-	292,398	-	-	**292,398**
Other monetary liabilities	16,062	1,285	594	668	**18,609**
Total liabilities	**3,364,921**	**3,383,930**	**698,963**	**60,137**	**7,507,951**
Net long /(short) currency position	**233,209**	**149,680**	**(4,530)**	**44,604**	**422,963**
Derivative financial instruments	240,736	(204,904)	-	(32,938)	**2,894**
Net long /(short) position	**473,945**	**(55,224)**	**(4,530)**	**11,666**	**425,857**

As at 31 December, a 10 percent depreciation of the Ukrainian hryvnia against the following currencies would have had increased (decreased) pre-tax profit by the amounts shown below. This analysis assumes that all other variables, in particular, interest rates, remain constant:

	2012	***2011***
US Dollar	(12,832)	(5,526)
Euro	(1,529)	(177)

(Thousands of Ukrainian hryvnias, unless otherwise is indicated)

As at 31 December, a 10 percent appreciation of the Ukrainian hryvnia against the above currencies would have had an equal but opposite effect on the pre-tax profit in the amounts shown above, on the basis that all other variables remain constant.

Interest rate risk

Interest rate risk is the risk that movements in interest rates will affect future cash flows or fair value of financial instruments.

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

Interest margins on assets and liabilities having different maturities may increase as a result of changes in market interest rates. In practice, the Bank resets interest rates on both assets and liabilities based on current market conditions and mutual consent with its counterparties by formal amending the original agreements and setting forth the new interest rate.

The ALCO and the Credit Committee are responsible for interest rate risk management. The ALCO establishes the principal policies and approaches to interest rate risk management, including maximum loan and minimum borrowing rates by products, classes of customers and maturities. The Credit Committee is responsible for ensuring compliance with the guidelines set by the ALCO. At the same time, the Customers Management Department and the Retail Business Division, with the approval of the Risk Management Department, recommend to the ALCO altering certain interest rates subject to changes in the market conditions or for internal reasons. The interest rate risk is managed using the gap analysis method, whereby the difference or gap between the interest rate sensitive assets and the interest rate sensitive liabilities is determined and analysed.

The average effective interest rates of the major interest bearing assets and liabilities are:

	31 December 2012			***31 December 2011***		
	Ukrainian hryvnia	***US Dollar***	***Euro***	***Ukrainian hryvnia***	***US Dollar***	***Euro***
Balances with the National Bank of Ukraine	2.3%	-	-	2.3%	-	-
Loans to customers	18.7%	10.3%	10.3%	16.2%	10.6%	10.4%
Amounts due to banks	7.5%	1.3%	0.1%	10.8%	0.6%	-
Current accounts of customers	6.3%	3.5%	3.6%	5.8%	1.4%	2.7%
Term deposits of customers	19.1%	9.3%	7.3%	15.3%	9.0%	6.9%
Debt securities issued	15.9%	-	-	15.8%	-	-
Subordinated debt	-	8.9%	-	-	8.0%	-

In case of the market changes, the Bank's management, under the terms of the loan agreements, has the right to change the interest rates on the loans to customers. Moreover, the Bank regularly revises interest rates on amounts due to customers depending on market structure. The Bank calculates the absolute interest risk or changes in net interest income under the scenario of parallel shift in the yield curve. The increase in interest rates by 1%, with all other variables remained constant, would decrease the net interest income for the year by UAH 13,216 thousand (2011: decrease by UAH 9,780 thousand). A 1% decrease in interest rates would have had an equal but opposite effect on the net interest income by the amount shown above, on the basis that all other variables remain constant.

Liquidity risk

Liquidity risk arises in the course of general funding activities as well as from management of open positions. It includes both the risk of being unable to raise the funding with appropriate maturities and rates and the risk of being unable to liquidate an asset at a reasonable price and in a due time as well as the risk of the Bank's failure to meet its obligations when due in normal course of business or under unforeseen circumstances.

Management's approach to managing liquidity is to ensure that the Bank has reasonably sufficient liquidity to meet its liabilities when due, under both normal conditions and extraordinary circumstances, without incurring unjustifiable losses or damaging the Bank's reputation.

(Thousands of Ukrainian hryvnias, unless otherwise is indicated)

The Bank actively keeps a diversified and stable funding sources comprising of debt securities issued, long-term and short-term loans from other banks, core corporate and retail customer deposits, as well as diversified portfolios of highly liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

To maintain its short-term liquidity, the Bank takes short-term deposits, enters into repurchase transactions and buys and sells foreign currency, securities and precious metals. To maintain its long-term liquidity, the Bank takes medium and long-term deposits, purchases and sales securities, regulates its interest rate policy and controls expenses. In managing its liquidity, the Bank considers the obligatory reserve placement requirements set by the NBU, which size, in particular, depends on the level of finds deposited by the customers.

The Bank has to comply with the mandatory liquidity ratios set by the NBU on a daily basis. These ratios include:

- quick ("acid") liquidity ratio, which is calculated as the ratio of highly-liquid assets to liabilities payable on demand;

- current liquidity ratio, which is calculated as the ratio of liquid assets to liabilities maturing within 31 calendar days;

- short-term liquidity ratio, which is calculated as the ratio of liquid assets to short-term liabilities maturing within one year.

Liabilities repayable on demand are treated as if redemption claim would have been made at the earliest date possible. However, the Bank expects that majority of the customers will not claim for redemption at such earliest possible date and, consequently, the table does not reflect expected cash flows calculated by the Bank based on the information on deposits redemption in past periods.

The Bank's undiscounted financial liabilities grouped by their residual contractual maturities and other undiscounted cash outflows as at 31 December 2012 are:

	Up to 3 months	*From 3 months to 1 year*	*From 1 to 5 years*	*Over 5 years*	*Total*
Financial liabilities					
Amounts due to banks	567,568	198,481	-	-	**766,049**
Amounts due to customers	3,554,444	2,619,766	263,176	-	**6,437,386**
Debt securities issued	537	-	-	-	**537**
Subordinated debt	12,510	19,068	101,695	387,221	**520,494**
Other financial liabilities	37,338	-	-	-	**37,338**
Total liabilities	**4,172,397**	**2,837,315**	**364,871**	**387,221**	**7,761,804**
Gross amount payable under currency swap arrangements	386,545	-	-	-	**386,545**
Gross amount receivable under currency swap arrangements	(386,402)	-	-	-	**(386,402)**
Undiscounted cash outflow	**4,172,540**	**2,837,315**	**364,871**	**387,221**	**7,761,947**

The category "Up to 3 months" above also includes amounts on demand.

(Thousands of Ukrainian hryvnias, unless otherwise is indicated)

The Bank's undiscounted financial liabilities grouped by their residual contractual maturities and other undiscounted cash outflows as at 31 December 2011 are:

	Up to 3 months	*From 3 months to 1 year*	*From 1 to 5 years*	*Over 5 years*	*Total*
Financial liabilities					
Amounts due to banks	1,125,438	237,446	177,801	-	**1,540,685**
Amounts due to customers	3,484,241	2,018,812	241,893	14,387	**5,759,333**
Debt securities issued	106,565	-	-	-	**106,565**
Subordinated debt	5,564	17,226	383,021	-	**405,811**
Other financial liabilities	8,551	-	-	-	**8,551**
Total liabilities	**4,730,359**	**2,273,484**	**802,715**	**14,387**	**7,820,945**
Gross amount payable under currency swap arrangements	433,339	-	-	-	**433,339**
Gross amount receivable under currency swap arrangements	(435,816)	-	-	-	**(435,816)**
Undiscounted cash outflow	**4,727,882**	**2,273,484**	**802,715**	**14,387**	**7,818,468**

The category "Up to 3 months" above also includes amounts on demand.

Timing of cash flows on assets and liabilities and the ability to replace, at acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity position of the Bank and its exposure to changes in interest and foreign exchange rates.

Residual contractual maturities of financial assets, net of allowance for impairment, and financial liabilities as at 31 December 2012 are:

	Up to 3 months	*From 3 months to 1 year*	*From 1 to 5 years*	*Over 5 years*	*Total*
Assets					
Cash and cash equivalents, except for balances on accounts with the National Bank of Ukraine	1,839,947	-	-	-	**1,839,947**
Balances with the National Bank of Ukraine	363,330	-	-	-	**363,330**
Amounts due from banks	24,911	-	-	-	**24,911**
Loans to customers	1,407,556	2,759,759	897,698	49,888	**5,114,901**
Financial assets available-for-sale	30,862	130,507	-	-	**161,369**
Other financial assets	7,406	-	-	-	**7,406**
Total assets	**3,674,012**	**2,890,266**	**897,698**	**49,888**	**7,511,864**
Liabilities					
Amounts due to banks	561,274	195,701	-	-	**756,975**
Amounts due to customers	3,024,400	2,735,327	526,589	-	**6,286,316**
Debt securities issued	532	-	-	-	**532**
Subordinated debt	6,154	-	-	286,949	**293,103**
Other financial liabilities	37,338	-	-	-	**37,338**
Total liabilities	**3,629,698**	**2,931,028**	**526,589**	**286,949**	**7,374,264**
Liquidity gap for the period	44,314	(40,762)	371,109	(237,061)	**137,600**
Cumulative liquidity gap	**44,314**	**3,552**	**374,661**	**137,600**	

The category "Up to 3 months" above also includes amounts on demand.

(Thousands of Ukrainian hryvnias, unless otherwise is indicated)

Residual contractual maturities of financial assets, net of allowance for impairment, and financial liabilities as at 31 December 2011 are:

	Up to 3 months	*From 3 months to 1 year*	*From 1 to 5 years*	*Over 5 years*	*Total*
Assets					
Cash and cash equivalents, except for balances on accounts with the National Bank of Ukraine	1,975,159	-	-	-	**1,975,159**
Balances with the National Bank of Ukraine	392,436	-	-	-	**392,436**
Amounts due from banks	15,393	-	-	-	**15,393**
Loans to customers	1,963,583	2,125,140	1,221,644	49,780	**5,360,147**
Financial assets available-for-sale	1,309	120,100	34,921	517	**156,847**
Other financial assets	14,657	-	-	-	**14,657**
Total assets	**4,362,537**	**2,245,240**	**1,256,565**	**50,297**	**7,914,639**
Liabilities					
Amounts due to banks	1,114,397	216,599	172,898	-	**1,503,894**
Amounts due to customers	3,062,437	2,037,278	473,040	12,056	**5,584,811**
Debt securities issued	106,363	-	-	-	**106,363**
Subordinated debt	5,564	-	286,834	-	**292,398**
Other financial liabilities	8,551	-	-	-	**8,551**
Total liabilities	**4,297,312**	**2,253,877**	**932,772**	**12,056**	**7,496,017**
Liquidity gap for the period	65,225	(8,637)	323,793	38,241	**418,622**
Cumulative liquidity gap	**65,225**	**56,588**	**380,381**	**418,622**	

The category "Up to 3 months" above also includes amounts on demand.

In accordance with the Ukrainian legislation and contractual terms of the loans, the Bank has the right to demand the repayment of loans from customers prior to their contractual maturity if the borrowers' financial position deteriorates, or if the borrowers do not fulfil their contractual obligations as well as in some other cases. In accordance with the Ukrainian legislation and contractual terms of the deposits, the Bank's customers have the right to withdraw funds from term accounts prior to their contractual maturity with the accrued interest due being fully or partially lost.

Operating risk

Operating risk is the risk arisen as a result of the system error, human errors, fraud or external events. Where the control system malfunctions, the operating risks can damage the reputation and have legal implications or lead to financial losses. The Bank cannot assume that all operating risks are eliminated, however, by applying internal controls and by keeping track and responding to the potential risks the Bank can manage such risks. The internal controls provide for the effective segregation of duties, access rights, approval and reconciliation procedures, personnel training as well as assessment procedures, including internal audit.

In 2012, in order to mitigate operational risks the Operating Risk Management Section has been established within the Bank's structure. The purpose of this subdivision's activities is to implement, control the activities and continuously improve the Bank's operational risk management system. In addition, the Operating Risk Management Committee was established, which consists of the Bank's managers whose activities are directly related to the main factors of operating risk and who will collegially make decisions on the most appropriate measures to mitigate the Bank's operating risks.

27. Related party disclosures

The Bank grants loans to customers, attracts deposits and performs other transactions with related parties in the ordinary course of business. Parties are considered to be related if one party has the ability to control the other party or exercises significant influence over the other party when making financial and operational decisions. Terms of transactions with related parties are established at the time of transaction. Related parties comprise the Shareholder of the Bank, members of the Supervisory Board, key management personnel and their close family members, companies that are controlled or significantly influenced by the Shareholder, by key management personnel or by their close family members. The key management personnel are those individuals who have the authority and responsibility for planning, directing and controlling the activities of the Bank directly or indirectly, and include the members of the Management Board and the Supervisory Board.

(Thousands of Ukrainian hryvnias, unless otherwise is indicated)

Management of the Bank believes that the terms of transactions with related parties were similar to those offered to non-related parties.

The Bank's transactions with the related parties and balances with related parties as at 31 December 2012 and 2011 are:

	2012			***2011***		
	Shareholder	***Key management personnel***	***Total related parties***	***Shareholder***	***Key management personnel***	***Total related parties***
Loans to customers	-	-	-	-	322	322
Amounts due to customers	-	19,443	19,443	-	50	50
Interest income	-	450	450	-	22	22
Interest expenses	-	2,013	2,013	-	-	-

Interest rates applicable to the transactions with related parties are:

	2012			***2011***		
	Shareholder	***Key management personnel***	***Total related parties***	***Shareholder***	***Key management personnel***	***Total related parties***
Loans to customers:						
- in UAH	-	-	-	-	18.0%	18.0%
Amounts due to customers:						
- in UAH	-	9.4%	9.4%	-	-	-
- in foreign currencies	-	6.5%	6.5%	-	2.0%	2.0%

Amounts due to customers, which are related parties of the Bank, are represented by current accounts on demand and term deposits of individuals. During 2012, the Bank received UAH 15 thousand of fee and commission income for servicing the related parties current accounts (2011: UAH 9 thousand).

The remuneration of the key management personnel for the year ended 31 December 2012 is represented by short-term employee benefits amounting to UAH 10,907 thousand (2011: UAH 11,461 thousand).

28. Segment reporting

For management purposes, the Bank is organised into three operating segments:

Corporate banking. Issuing loans, opening time deposit and serving current accounts of legal entities and institutional customers.

Retail banking. Serving deposits of individuals', and providing consumer loans, overdrafts, credit card and fund transfer facilities.

Investment banking. Providing investment banking services, which include trade financing, merger and acquisitions advice, specialised financial advice and trading.

(Thousands of Ukrainian hryvnias, unless otherwise is indicated)

The information on revenue and profit as well as assets and liabilities of the Bank's operating segments for the year ended 31 December 2012 is:

	Corporate banking	*Retail banking*	*Investment banking*	*Unallocated*	*Total*
Revenue					
External customers					
Interest income	679,174	46,387	38,363	-	**763,924**
Fee and commission income	39,922	39,391	8,944	-	**88,257**
Net gains /(losses) arising from foreign currencies	-	-	58,927	(7,674)	**51,253**
Other income	-	-	14	4,313	**4,327**
	719,096	**85,778**	**106,248**	**(3,361)**	**907,761**
Interest expenses	(204,481)	(351,340)	(54,259)	(23,621)	**(633,701)**
Fee and commission expenses	(273)	(299)	(10,220)	-	**(10,792)**
Allowance for impairment of loans to customers	(238,395)	(9,523)	-	-	**(247,918)**
Personnel expenses	(58,883)	(37,624)	(8,450)	(18,145)	**(123,102)**
Depreciation and amortisation	-	-	-	(26,621)	**(26,621)**
Other charges to allowances for impairment and provisions	-	-	-	(15,246)	**(15,246)**
Other operating expenses	(13,200)	(70,230)	(2,767)	(44,347)	**(130,544)**
Segment results	**203,864**	**(383,238)**	**30,552**	**(131,341)**	**(280,163)**
Income tax benefit	-	-	-	40,670	**40,701**
Profit/(loss) for the year	**203,864**	**(383,238)**	**30,552**	**(88,592)**	**(239,462)**
Segment assets	4,810,330	304,571	2,398,374	387,700	**7,900,975**
Segment liabilities	2,234,793	4,051,523	757,507	343,521	**7,387,344**
Additions to property and equipment	-	-	-	17,428	**17,428**

Unallocated net gains from transactions in foreign currencies represent the revaluation of foreign currency positions in the statement of financial position, as well as other income not related to principal operating activities of the Bank. Unallocated interest expenses are interest expenses paid under subordinated debt. Other unallocated expenses represent general administrative expenses of the Bank and other expenses related to impairment of assets.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. The segment results are determined differently to those presented in financial statements. Income taxes are managed centrally and are not allocated to the operating segments.

In 2012 and 2011, the Bank did not receive any revenue from a single external customer or counterparty which would account for 10% per cent or more of the total revenue.

The Bank operates in Ukraine and nearly all of its 2012 and 2011 revenues were earned from Ukrainian counterparties. As at 31 December 2012, all of tangible assets of the Bank were located in Ukraine (2011: 100%). The geographical concentration of financial assets and liabilities is presented in Note 25.

(Thousands of Ukrainian hryvnias, unless otherwise is indicated)

The information on revenue and profit as well as assets and liabilities of the Bank's operating segments for the year ended 31 December 2011 is:

	Corporate banking	*Retail banking*	*Investment banking*	*Unallocated*	*Total*
Revenue					
External customers					
Interest income	596,165	72,700	14,119	-	**682,984**
Fee and commission income	46,485	5,907	12,179	-	**64,571**
Net gains from financial assets available-for-sale	-	-	2,354	-	**2,354**
Net gains /(losses) arising from foreign currencies	-	-	41,354	(677)	**40,677**
Other income	-	-	24	3,393	**3,417**
	642,650	**78,607**	**70,030**	**2,716**	**794,003**
Interest expenses	(110,776)	(272,642)	(74,582)	(13,124)	**(471,124)**
Fee and commission expenses	(620)	(147)	(10,363)	-	**(11,130)**
Allowance for impairment of loans to customers	(32,958)	(7,881)	-	-	**(40,839)**
Personnel expenses	(52,074)	(34,417)	(7,730)	(16,598)	**(110,819)**
Depreciation and amortisation	-	-	-	(15,410)	**(15,410)**
Other charges to allowances for impairment and provisions	-	-	-	(1,775)	**(1,775)**
Other operating expenses	(10,944)	(60,611)	(704)	(63,149)	**(135,408)**
Segment results	**435,278**	**(297,091)**	**(23,349)**	**(107,340)**	**7,498**
Income tax expenses				(3,297)	**(3,297)**
Profit/(loss) for the year	**435,278**	**(297,091)**	**(23,349)**	**(110,637)**	**4,201**
Segment assets	4,926,141	434,005	2,539,696	387,752	**8,287,594**
Segment liabilities	2,291,520	3,293,291	1,610,257	339,161	**7,534,229**
Additions to property and equipment	-	-	-	46,652	**46,652**

29. Fair value measurement

The Bank applies the following hierarchic methods of measurement to determine and disclose the fair values of the financial instruments:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: measurement methods the inputs for which, having a material impact on fair values recognised in the financial statements, are based on observable market data, either directly or indirectly.
- Level 3: measurement methods the inputs for which, having a material impact on fair values recognised in the financial statements, are not based on observable market data.

Analysis of the financial instruments presented in the financial statements at fair value by hierarchic levels of fair value sources as at 31 December 2012 is:

	Level 1	*Level 2*	*Total*
Financial assets			
Financial assets available-for-sale	160,852	517	**161,369**
Financial liabilities			
Derivative financial instruments	-	(143)	**(143)**

Analysis of the financial instruments presented in the financial statements at fair value by hierarchic levels of fair value sources as at 31 December 2011 is:

	Level 1	*Level 2*	*Total*
Financial assets			
Financial assets available-for-sale	156,330	517	**156,847**
Derivative financial instruments	-	2,894	**2,894**

(Thousands of Ukrainian hryvnias, unless otherwise is indicated)

The Bank did not change classification of the financial assets between the hierarchy levels either in 2012 or 2011.

Financial assets available-for-sale

Financial assets available-for-sale, which are valued using a valuation technique, primarily consist of debt securities and unquoted equity shares. These assets are valued using models which sometimes incorporate only data observable in the market and at other times use both observable and non-observable data. The non-observable inputs to the models include assumptions regarding the future financial performance of the investee, its risk profile, and economic assumptions regarding the industry and the geographical jurisdiction in which the investee operates.

Derivatives

Derivatives, which are valued using a valuation technique with market observable inputs, mainly represent interest rate swaps, currency swaps and forward foreign exchange contracts. Valuation techniques most frequently applied include forward pricing and swap models, which use present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate curves.

Fair value of financial assets and liabilities not carried at fair value in the statement of financial position

The fair value of all short-tern financial assets and liabilities is considered to be approximate to their carrying amount due to short-term nature and market interest rates as at the period end. The fair value of loans and amounts due to customers maturing in more than one year is determined through discounting the future cash flows at the rates prevailing for similar instruments at the reporting date.

The comparison of carrying amount and fair value of the Bank's financial statements that are not carried at the fair value in the statement of financial position is:

	2012			***2011***		
	Carrying amount	***Fair value***	***Unrecognised gain/(loss)***	***Carrying amount***	***Fair value***	***Unrecognised gain/(loss)***
Financial assets						
Cash and cash equivalents, except for balances on accounts with the National Bank of Ukraine	1,839,947	1,839,947	-	1,975,159	1,975,159	-
Balances with the National Bank of Ukraine	363,330	363,330	-	392,436	392,436	-
Amounts due from banks	24,911	24,911	-	15,393	15,393	-
Loans to customers	5,114,901	5,098,197	(16,704)	5,360,147	5,350,710	(9,437)
Other financial assets	7,406	7,406	-	14,657	14,657	-
Financial liabilities						
Amounts due to banks	756,975	756,975	-	1,503,894	1,503,894	-
Amounts due to customers	6,286,316	6,278,984	7,332	5,584,811	5,584,130	681
Debt securities issued	532	532	-	106,363	106,363	-
Subordinated debt	293,103	293,103	-	292,398	292,398	-
Other financial liabilities	37,338	37,338	-	8,551	8,551	-
Total unrecognised change in unrealised fair value			**(9,372)**			**(8,756)**

(Thousands of Ukrainian hryvnias, unless otherwise is indicated)

30. Capital management

Regulatory capital

The Bank maintains an actively managed capital base to cover 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 (including as amended in November 2005, considering among other the inclusion of market risk) and the ratios established by the NBU in supervising the Bank.

The primary objectives of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Bank 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 adjustments to it in the light of changes in the economic conditions and the risks attributable to its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payment to shareholders, issue additional shares or return capital to shareholders. No changes were made in the objectives, policies and processes from the previous years.

NBU capital adequacy ratio (unaudited)

The NBU sets capital level requirements for banks and monitors their compliance. Under the current capital requirements set by the NBU, banks have to maintain a ratio of capital to risk weighted assets (the statutory capital adequacy ratio) above the established minimum level. If the bank does not maintain or sufficiently increase its capital base in line with the increase in its risk-weighted assets, it may violate the set capital adequacy benchmarks, which could lead to the sanctions from the NBU side and could affect the results of operations and the financial position. As at 31 December 2012, the minimum level of capital adequacy required by the NBU is 10.0% (2011: 10.0%). As at 31 December 2012 and 2011, the Bank had met the statutory capital adequacy requirements.

Capital adequacy ratio under the Basel Capital Accord requirements

As at 31 December, the Bank's capital adequacy ratio, calculated in accordance with the Basel Capital Accord, with subsequent amendments incorporating market risks, and on the basis of the amounts presented in these financial statements, comprised:

	2012	*2011*
Tier 1 capital		
Share capital	338,666	338,666
Retained earnings	60,157	299,619
Additional paid-in capital	17,678	17,678
Total tier 1 capital	**416,501**	**655,963**
Tier 2 capital		
Revaluation reserve	97,130	97,402
Allowable subordinated debt	208,251	292,398
Total tier 2 capital	**305,381**	**389,800**
Total regulatory capital	**721,882**	**1,045,763**
Total risk-weighted assets	**5,116,575**	**5,475,100**
Capital adequacy ratios		
Tier 1 capital adequacy ratio	**8.1%**	**12.0%**
Total capital adequacy ratio	**14.1%**	**19.1%**

31. Events after the reporting date

In March 2013, the Bank and the National Bank of Ukraine signed a supplementary agreement to extend the term of the refinancing loan, the repayment of which was planned on 1 April 2013. According to the new schedule, the refinancing loan will be repaid by equal monthly instalments until the final repayment in December 2016.

In March 2013, EURO 2012 Government bonds with par value of UAH 24,000 thousand were redeemed in full at their maturity.

Chairman of the Management Board Pavel Makarov

Chief Accountant Larisa Petrova

24 April 2013