PUBLIC JOINT STOCK COMPANY
"FIRST UKRAINIAN INTERNATIONAL BANK"

Financial Statements

As of and for the year ended 31 December 2012
Together with Independent Auditor's Report

Contents

Translation from original in Ukrainian

ERNST & YOUNG

Ernst & Young Audit Services LLC
Khreschatyk Street, 19A
Kyiv, 01001, Ukraine
Tel: +380 (44) 490 3000
Fax: +380 (44) 490 3030
Ukrainian Chamber of Auditors
Certificate: 3516
www.ey.com/ukraine

ТОВ «Ернст енд Янг Аудиторські Послуги»
Україна, 01001, Київ
вул. Хрещатик, 19А
Тел.: +380 (44) 490 3000
Факс: +380 (44) 490 3030
Свідоцтво Аудиторської
Палати України: 3516

INDEPENDENT AUDITOR'S REPORT

To the Shareholders and Management Board of
PUBLIC JOINT STOCK COMPANY "FIRST UKRAINIAN INTERNATIONAL BANK"

We have audited the accompanying financial statements of PUBLIC JOINT STOCK COMPANY "FIRST UKRAINIAN INTERNATIONAL BANK", which comprise the statement of financial position as at 31 December 2012, and the statement of income, statements of comprehensive income, of cash flows and of changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory information.

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.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of PUBLIC JOINT STOCK COMPANY "FIRST UKRAINIAN INTERNATIONAL BANK" as at 31 December 2012, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young Audit Services LLC

28 February 2013

(in thousands of US dollars)
Translation from original in Ukrainian

	Notes	2012	2011
Assets			
Cash on hand and in transit		87,941	78,964
Balance with the National Bank of Ukraine	7	185,820	263,271
Due from other banks	8	300,848	585,358
Loans to customers	9	2,237,433	2,055,754
Investment securities in trading portfolio	10	46,765	-
Investment securities available for sale	10	378,291	522,909
Current income tax assets		-	38
Other assets	12	35,903	37,252
Property and equipment	11	153,589	158,534
Investment property	11	10,215	8,845
Intangible assets	11	10,630	7,465
Deferred tax asset	28	-	2,498
Total assets		**3,447,435**	**3,720,888**
Liabilities			
Due to the National Bank of Ukraine	13	127,130	127,182
Due to other banks	14	146,633	65,228
Customer accounts	15	2,203,297	2,531,250
Eurobonds issued	16	246,796	245,230
Bonds issued	17	14	14
Other borrowed funds	18	11,840	48,320
Other liabilities	19	13,807	13,428
Subordinated debt	20	60,870	85,305
Deferred tax liability	28	3,994	-
Total liabilities		**2,814,381**	**3,115,957**
Equity			
Share capital	22	428,794	428,966
Share premium		7,106	7,109
Merger reserve	22	4,287	4,288
Revaluation reserve for property and equipment		76,346	77,258
Revaluation reserve for investment securities available for sale		(2,129)	5,024
Currency translation reserve		(280,768)	(280,715)
Other reserves	22	259,250	259,000
Retained earnings		140,168	104,001
Total equity		**633,054**	**604,931**
Total liabilities and equity		**3,447,435**	**3,720,888**

Signed on behalf of the Management Board on 28 February 2013.

S. P. Chernenko (Chairman of the Management Board)

O. M. Moshkalova (Chief Accountant)

(in thousands of US dollars)
Translation from original in Ukrainian

	Notes	2012	2011
Interest income	24	343,969	301,289
Interest expense	24	(200,057)	(178,610)
Net interest income	24	**143,912**	**122,679**
Allowance for impairment	8,9	(35,738)	(8,074)
Net interest income after allowance for loan impairment		**108,174**	**114,605**
Fee and commission income	25	62,001	48,216
Fee and commission expense	25	(23,540)	(15,751)
Net fee and commission income	25	**38,461**	**32,465**
Net gains from dealing in foreign currencies		8,426	3,649
Foreign exchange translation result		(4,565)	(1,216)
Net gains / (losses) from investment securities available for sale		385	(144)
(Provision)/reversal of provision for credit related commitments	31	(436)	418
Gains less losses on revaluation of investment property		2	1,336
Impairment of investment securities available for sale	10	(74)	(2,379)
Revaluation of investment securities through profit or loss		30	-
Gains less losses from financial derivatives		14,137	12,757
Other income	26	3,734	3,877
Operating income		**168,274**	**165,368**
Operating expenses	27	(118,411)	(96,894)
Profit before income tax expense		**49,863**	**68,474**
Income tax expense	28	(15,195)	(12,093)
Net profit for the year		**34,668**	**56,381**

(in thousands of US dollars)
Translation from original in Ukrainian

	Notes	2012	2011
Net profit for the year		**34,668**	**56,381**
Other comprehensive income:			
Revaluation of investment securities available-for-sale		(8,340)	2,253
Reclassification adjustment for (losses)/ gains included in the statement of income		(385)	144
Income tax effect	28	1,572	(482)
Total other comprehensive (loss)/income on investment securities available for sale		**(7,153)**	**1,915**
Revaluation of property and equipment	11	787	5,064
Income tax effect on revaluation of property and equipment	28	(126)	(815)
Income tax effect of changes in tax legislation	28	-	17,314
Total other comprehensive income on revaluation of property and equipment		**661**	**21,563**
Currency translation differences		(53)	(2,039)
Other comprehensive (losses)/income for the year, net of tax		**(6,545)**	**21,439**
Total comprehensive income for the year, net of tax		**28,123**	**77,820**

The notes set out on pages 6 to 91 form an integral part of these financial statements.

(in thousands of US dollars)

	2012	**2011**
Cash flows from operating activities:		
Interest income received	333,603	289,264
Interest expense paid	(186,627)	(167,335)
Fee and commission income received	61,945	47,918
Fee and commission expense paid	(23,685)	(15,793)
Income received from trading in foreign currencies	8,426	3,649
Gains less losses from financial derivatives	14,137	11,202
Other income received	3,890	1,508
Operating expenses paid	(104,638)	(87,123)
Income tax paid	(7,297)	(6,106)
Cash flows from operating activities before changes in operating assets and liabilities	**99,754**	**77,184**
Net (increase)/decrease in operating assets:		
Mandatory reserve balance with the National Bank of Ukraine	(10,720)	(15,460)
Due from other banks	40,997	(4,332)
Loans to customers	(218,027)	(250,789)
Other assets	4,551	(12,090)
Net increase/(decrease) in operating liabilities:		
Due to the National Bank of Ukraine	-	(46,756)
Due to other banks	81,302	(7,509)
Customer accounts	(338,135)	591,112
Other liabilities	295	3,191
Net cash (used in) / from operating activities	**(339,983)**	**334,551**
Cash flows from investing activities		
Purchase of property and equipment and intangible assets	(12,635)	(16,251)
Proceeds from sale of property and equipment	381	116
Purchase of investment securities available for sale	(1,530,501)	(1,290,146)
Proceeds from sale and redemption of investment securities available for sale	1,624,701	1,166,417
Net cash from / (used in) investing activities	**81,946**	**(139,864)**
Cash flows from financing activities		
Redemption of subordinated debt	(25,000)	-
Redemption of other borrowed funds	(38,829)	(119,510)
Net cash used in financing activities	**(63,829)**	**(119,510)**
Effect of exchange rate changes on cash and cash equivalents	(661)	(3,866)
Net (decrease) / increase in cash and cash equivalents	**(322,527)**	**71,311**
Cash and cash equivalents at the beginning of the year	802,381	731,070
Cash and cash equivalents at the end of the year (Note 6)	**479,854**	**802,381**

Investing transactions that did not require the use of cash and cash equivalents were excluded from the statement of cash flows and are disclosed in Note 6.

(in thousands of US dollars)
Translation from original in Ukrainian

	Share capital	Share premium	Merger reserve	Revaluation reserve for property and equipment	Revaluation reserve for investment securities available for sale	Currency translation reserve	Other reserves	Retained earnings	Total equity
Balance at 1 January 2011	**333,560**	**7,134**	**101,224**	**57,318**	**3,288**	**(278,676)**	**257,142**	**46,121**	**527,111**
Net profit for the year	-	-	-	-	-	-	-	56,381	56,381
Other comprehensive income / (loss) for the year	-	-	-	21,563	1,915	(2,039)	-	-	21,439
Total comprehensive income for the year	-	-	-	21,563	1,915	(2,039)	-	56,381	77,820
Share issue	96,585	-	(96,585)	-	-	-	-	-	-
Transfer of property and equipment revaluation	-	-	-	(1,499)	-	-	-	1,499	-
Translation to presentation currency	(1,179)	(25)	(351)	(124)	(179)	-	1,858	-	-
Balance at 31 December 2011	**428,966**	**7,109**	**4,288**	**77,258**	**5,024**	**(280,715)**	**259,000**	**104,001**	**604,931**
Net profit for the year	-	-	-	-	-	-	-	34,668	34,668
Other comprehensive income / (loss) for the year	-	-	-	661	(7,153)	(53)	-	-	(6,545)
Total comprehensive income for the year	-	-	-	661	(7,153)	(53)	-	34,668	28,123
Transfer of property and equipment revaluation	-	-	-	(1,542)		-	-	1,542	-
Translation to presentation currency	(172)	(3)	(1)	(31)	-	-	250	(43)	-
Balance at 31 December 2012	**428,794**	**7,106**	**4,287**	**76,346**	**(2,129)**	**(280,768)**	**259,250**	**140,168**	**633,054**

1. Principal activities

PUBLIC JOINT STOCK COMPANY "FIRST UKRAINIAN INTERNATIONAL BANK" (the "Bank") was established on 20 November 1991 and commenced operations in April 1992. The Bank provides a full range of banking services, including taking deposits and granting loans, investing in securities, transfer of payments in Ukraine and abroad, exchange of currencies and issuance and processing of payment cards.

The Bank is a member of Individuals Deposits Guarantee Fund starting from 2 September 1999 (registration certificate #102 dated 29 September 2009), which operates according to the Law #2740-III "On Individuals Deposits Guarantee Fund". The Individuals Deposits Guarantee Fund guarantees repayment of individual deposits up to UAH 200 thousand, or USD 25 thousand (2011: UAH 150 thousand, or USD 19 thousand).

The registered office of the Bank is located at: 2-a Universytetska Street, Donetsk, Ukraine. As at 31 December 2012, the Bank had 10 regional centres throughout Ukraine (2011: 11 branches throughout Ukraine). The Bank had 3,952 employees as at 31 December 2012 (2011: 3,872 employees).

On the General Shareholders' Meeting held on 10 November 2010, shareholders of PUBLIC JOINT STOCK COMPANY "FIRST UKRAINIAN INTERNATIONAL BANK" and shareholders of Public Joint Stock Company "Dongorbank" (PJSC "Dongorbank") made a decision regarding the legal combination of the two banks merging PJSC "Dongorbank" into the Bank. Balances on accounts of PJSC "Dongorbank" were transferred to the Bank's accounting system on 15 July 2011. As a result of the legal combination, shares of PJSC "Dongorbank" were exchanged for the Bank's shares of additional issue on the basis of 230 shares per 1 share of the Bank (Note 22). No recognized adjustments were made in the current year which related to the above combination of the banks.

The Bank's shareholders as at 31 December 2012 are "SCM FINANCE" (92.2% of share capital), SCM FINANCIAL OVERSEAS LIMITED (7.7% of share capital) and a private shareholder (0.1% of share capital) (31 December 2011: "SCM FINANCE" (89.9% of share capital), SCM FINANCIAL OVERSEAS LIMITED (10% of share capital) and a private shareholder (0.1% of share capital)). The ultimate controlling party of the Bank is a Ukrainian citizen, Mr. R.L. Akhmetov.

2. Operating environment of the Bank

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, the existence of a currency that is not freely convertible outside of Ukraine, restrictive currency controls, relatively high inflation and high interest rates. 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.

2. Operating environment of the Bank (Continued)

The Ukrainian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. The ongoing global financial crisis has resulted in considerable instability in the capital markets, significant deterioration in the liquidity of banks, much tighter credit conditions where credit if available, and significant devaluation of the national currency against major currencies. Borrowers of the Bank were adversely affected by the financial and economic environment, which in turn impacted their ability to repay the amounts owed. As a significant part of loans to customers was issued in foreign currencies, UAH depreciation against these currencies in 2008-2009 had a significant impact on borrowers' ability to service the loans. Worsening of economic conditions due to the crisis resulted in the revision of estimated cash flows from loans issued.

Since 2010, the banking system has been periodically experiencing difficulties with liquidity. Thus, in the second half of 2012, the banking sector again experienced problems with short-term liquidity.

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

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

3. Basis of preparation

General

The financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention except recognition of financial instruments at fair value, revaluation of investment property, premises, and works of art. These policies have been consistently applied to all the periods presented, unless otherwise stated.

The Bank's functional currency is the Ukrainian hryvnia. However, these financial statements are presented in thousand of US dollars ("USD") unless otherwise indicated (Note 4).

Inflation accounting

The Ukrainian economy was regarded as being hyperinflationary for the ten-year period ended 31 December 2000. As such, the Bank has applied IAS 29 "Financial reporting in hyper-inflationary economies". The effect of applying IAS 29 is that non-monetary items were restated using the Consumer Price Index to measuring units current at 31 December 2000, and these restated values were used as a basis for accounting in subsequent accounting periods.

Under the Ukrainian law, the Bank is required to prepare financial statements in accordance with International Financial Reporting Standards in the national currency of Ukraine – hryvnia. Separately, the Bank has prepared these financial statements in a different presentation currency – U.S. dollars. The translation to the presentation currency was made in accordance with the accounting policies set out below.

4. Summary of significant accounting policies

The Bank adopted the following amended IFRS and IFRIC Interpretations during the reporting year.

Amendments to ***IFRS 7 "Financial Instruments: Disclosures"*** were issued in October 2010 and are effective for annual periods beginning on or after 1 July 2011. The amendments require additional disclosure about financial assets that have been transferred to enable the users of the Bank's financial statements to evaluate the risk exposures relating to those assets.

Amendments to ***IAS 12 "Income Taxes"*** in the part of "Deferred Taxes: Recovery of Underlying Assets".

Amendments to ***IFRS 1 "First-Time Adoption of International Financial Reporting Standards"*** in the part of "Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopter"

The above amendments had no material impact on the financial statements of the Bank.

4. Summary of significant accounting policies (Continued)

Financial assets

Key measurement terms
Depending on their classification financial instruments are carried at fair value or amortised cost as described below.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Fair value is the current bid price for financial assets and current asking price for financial liabilities which are quoted in an active market. For assets and liabilities with offsetting market risks, the Bank may use mid-market prices as a basis for establishing fair values for the offsetting risk positions and apply the bid or asking price to the net open position as appropriate. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange or other institution and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Valuation techniques such as discounted cash flows models or models based on recent arm's length transactions or consideration of financial data of the investees are used to fair value certain financial instruments for which external market pricing information is not available. Valuation techniques may require assumptions not supported by observable market data. Disclosures are made in these financial statements if changing any such assumptions to a reasonably possible alternative would result in significantly different profit, income, total assets or total liabilities.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Amortised cost is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related items in the statement of financial position.

4. Summary of significant accounting policies (Continued)

The effective interest method is a method of allocating interest income or interest expense over the relevant period to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date except for the premium or discount, which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate.

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

Date of recognition
All regular way purchases and sales of financial assets are recognised on the settlement date, i.e. the date that an asset is delivered to or by the Bank. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Measurement at the reporting date
Financial assets at fair value through profit or loss and financial assets available for sale are measured at fair value, and other financial assets are measured at amortised cost.

Impairment of financial assets
The Bank assesses at the end of each reporting period 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 occurred after the initial recognition of the financial asset (an incurred "loss event") and that loss event (or events) has an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. 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, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in overdue amounts or economic conditions that correlate with inability to settle a liability (default).

4. Summary of significant accounting policies (Continued)

Classification of financial assets

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

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

Cash and cash equivalents
Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes. For an investment to qualify as a cash equivalent it must be readily convertible to a known amount of cash and be subject to an insignificant risk of changes in value. Cash and cash equivalents include balances on correspondent accounts and overnight deposits due from other banks, cash on hand and in transit and balances with the National Bank of Ukraine ("NBU"), excluding mandatory reserve balances. Mandatory cash balances with the NBU are carried at amortised cost and represent mandatory reserve deposits which are not available to finance the Bank's day to day operations and hence are not considered as part of cash and cash equivalents for the purposes of the statement of cash flows.

Sale and repurchase agreements
Sale and repurchase agreements ("repo agreements") are treated as secured financing transactions. Securities sold under sale and repurchase agreements are retained in the statement of financial position. The securities are not reclassified in the statement of financial position unless the transferee has the right by contract or custom to sell or re-pledge the securities, in which case they are reclassified as securities pledged under sale and repurchase agreements.

The corresponding liability is presented within amounts due to other banks or other borrowed funds. Securities purchased under agreements to resell ("reverse repo") are recorded as amounts due from credit institutions 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 yield method.

4. Summary of significant accounting policies (Continued)

Securities lent to counterparties are retained in the statement of financial position. Securities borrowed are not recorded in the statement of financial position, unless these are sold to third parties, in which case the purchase and sale are recorded within gains less losses from trading securities in the statement of income. The obligation to return them is recorded at fair value as a trading liability.

Promissory notes
Promissory notes are included in investment securities available for sale or in loans to customers, depending on their substance and are recognised and subsequently remeasured and accounted in accordance with the accounting policies for these categories of assets.

Impairment of financial assets

Due from other banks and loans to customers
For due from other banks and loans to customers carried at amortised cost, the Bank first assesses whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

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

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

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

4. Summary of significant accounting policies (Continued)

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

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

Repossessed collateral
Repossessed collateral represents financial and non-financial assets acquired by the Bank in settlement of overdue loans. The assets are initially recognised at fair value when acquired and included in premises and equipment, other financial assets or inventories within other assets depending on their nature and the Bank's intention in respect of recovery of these assets and are subsequently remeasured and accounted for in accordance with the accounting policies for these categories of assets.

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

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of income – is removed from other comprehensive income and recognised in the statement of income. Impairment losses on equity investments are not reversed through the statement of income; increases in their fair value after impairment are recognised directly 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. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. 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 income, the impairment loss is reversed through the statement of income.

4. Summary of significant accounting policies (Continued)

Renegotiated loans
Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. Loans are subject to individual or collective assessment for impairment.

Derecognition of financial assets
The Bank derecognises financial assets (or, where applicable, a part of a financial asset or part of a group of similar financial assets) when (i) the contractual rights to the cash flows from the financial asset expire or (ii) the Bank transfers its contractual rights to receive the cash flows of the financial asset, or retains the contractual rights to receive the cash flows of the financial asset, but assumes a contractual obligation to pay these cash flows of the financial asset and (iii) the Bank either (a) transfers substantially all the risks and rewards of ownership of the financial asset, or (b) neither transferred nor retained substantially all risks and rewards of ownership of the financial asset but has not retained control of this asset. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose restrictions on the sale.

Financial liabilities

Initial recognition
Financial liabilities are classified as either financial liabilities at fair value through profit or loss or other financial liabilities, as appropriate. Financial liabilities are are measured at fair value on initial recognition, unless those liabilities are not at fair value through profit or loss, directly attributable transaction costs. The Bank determines the classification of its financial liabilities upon initial recognition.

Classification of financial liabilities

Borrowings
Issued financial instruments or their components are classified as liabilities, where the substance of the contractual arrangements 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 for a fixed amount of cash or another financial asset for a fixed number of the Bank's own equity instruments. Such instruments include liabilities due to the National Bank of Ukraine, due to other banks, customer accounts, subordinated debt, Eurobonds issued, bonds issued and other borrowed funds. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in the statement of income when the borrowings are derecognised, expense is recognised through the amortisation process.

Subordinated debt
Subordinated debt represents long-term borrowing agreements that, in case of the Bank's default, would be secondary to the Bank's primary debt obligations. Subordinated debt is carried at amortized cost.

4. Summary of significant accounting policies (Continued)

Financial guarantees
Financial guarantees represent irrevocable assurances to make payments in the event that a customer cannot meet its obligations to third parties and carry the same credit risk as loans. Financial guarantees are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the commitment. At each reporting date, the financial guarantees are measured at the higher of (i) the unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the commitment at the reporting date. Any increase in the liability relating to financial guarantees is taken to the statement of income.

Other credit related commitments
In the normal course of business, the Bank enters into other credit related commitments including loan commitments and letters of credit. When a loss is considered probable, provisions are recorded against other credit related commitments.

Measurement at the reporting date
Financial liabilities at fair value through profit or loss are measured at fair value, and other financial liabilities are measured at amortised cost.

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

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

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

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

4. Summary of significant accounting policies (Continued)

Precious metals

The Bank has a practice of taking delivery of precious metals and selling them within a short period after delivery, for the purpose of generating a profit from short-term fluctuations in price or dealer's margin. Precious metals are recognized in other assets with gains or losses recognised in other income.

Property and equipment

Property and equipment, other than premises and items of arts, acquired after 31 December 2000 are stated at cost, less accumulated depreciation and any accumulated impairment, where required. The above cost is restated to the equivalent purchasing power of the Ukrainian hryvnia at 31 December 2000 less accumulated depreciation and any accumulated impairment, where required.

Following initial recognition at cost, the Bank's premises and works of arts are carried at revalued amount, which is the fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount.

Any revaluation surplus is credited to other comprehensive income, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in the statement of income, in which case the increase is recognised in the statement of income. A revaluation deficit is recognised in the statement of income, except that a deficit directly offsetting a previous surplus on the same asset is directly offset against the surplus in the revaluation reserve for premises and recognised in other comprehensive income.

When an item of premises is revalued, any accumulated depreciation is restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount.

The revaluation reserve is transferred directly to retained earnings when the surplus is realised, i.e. either on the retirement or disposal of the asset, or as the asset is used by the Bank; in the latter case, the amount of the surplus realised is the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost.

Construction in progress is carried at cost, less provision for any impairment in value. Upon completion, assets are transferred to premises or leasehold improvements at their carrying value. Construction in progress is not depreciated until the asset is available for use.

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists, management 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 profit or loss for the year. 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.

4. Summary of significant accounting policies (Continued)

Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in profit or loss for the year (within other operating income or expenses).

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

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets using the following annual rates:

Premises	2%-5%	
Leasehold improvements	20%	or over the term of lease if shorter than 5 years
Computers and other equipment	20-33%	

Works of art are not amortised. The asset's residual values, useful lives, and methods are reviewed, and adjusted as appropriate, at each financial year-end.

Intangible assets
All of the Bank's intangible assets have a definite useful life and include capitalised computer software and licences.

Acquired computer software licences are capitalised based on the costs incurred to acquire and bring to use the specific software. Development costs that are directly associated with identifiable and unique software controlled by the Bank are recorded as intangible assets if inflow of incremental economic benefits exceeding costs is probable. Capitalised costs include staff costs of the software development team and an appropriate portion of relevant overheads. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred. Capitalised computer software and licences are amortised on a straight-line basis over expected useful lives of 3 to 10 years.

Investment property
Investment property is property, which is held by and not occupied by the Bank, to earn rental income or for capital appreciation.

Investment property is initially recognised at cost and subsequently measured at fair value, which reflects market conditions at the reporting date. Gains and losses resulting from changes in the fair value of investment property are recorded in the statement of income in losses less gains on revaluation of investment property in the year in which they arise.

Trade and other payables
Trade payables are accrued when the counterparty has performed its obligations under the contract and are carried at amortised cost.

Share capital
Ordinary shares are classified as equity. Share premium represents the excess of contributions over the nominal value of the shares issued. Gains and losses arising on the sale of treasury shares are shown as adjustments to share premium.

4. Summary of significant accounting policies (Continued)

Foreign currency translation

The Ukrainian hryvnia is the Bank's functional currency as it is the currency of the primary economic environment in which the Bank operates. Transactions in other currencies are treated as transactions in foreign currencies. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the official exchange rate of the NBU at the end of the respective reporting period. Gains and losses resulting from the translation of foreign currency transactions are recognised in the statement of income as foreign exchange translation results. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

The Bank uses the US dollar as the currency in which it presents its financial statements, which means that statement of financial position items are translated into US dollars at the exchange rate ruling at the year-end. Income statement items are translated at the exchange rate at the date of the transaction. Equity items other than the net profit or loss for the year that is included in the balance of retained earnings are translated at the closing rate ruling at the date of each statement of financial position presented. All exchange differences resulting from translation of statement of financial position items and income statement items are recognised in other comprehensive income.

The US dollar ("USD") has been selected as the presentation currency for the Bank for the following reasons:

- a significant portion of the transactions of the Bank are denominated in USD;
- the USD is the currency in which the Management of the Bank manages business risks and exposures, and measures the performance of its business.

As at 31 December 2012, the exchange rate of the Ukrainian hryvnia as established by the NBU was UAH 7.993 to 1 US dollar (2011: UAH 7.9898) and UAH 10.537172 to 1 Euro (2011: UAH 10.298053).

Recognition of income and expenses

Interest and similar income and expense

Interest income and expense are recorded in the statement of income for all financial instruments measured at amortised cost and interest bearing securities classified as available for sale at the effective interest method. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment option) but does not consider future credit losses. The calculation includes all fees paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the original effective interest rate applied to the new carrying amount.

4. Summary of significant accounting policies (Continued)

Fee and commission income
Fees, commissions and other income and expense items, including fees for issuance of guarantees, are generally recorded on an accrual basis by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided. Commitment fees for loans or borrowings which are probable of being drawn down, are deferred (together with related direct costs) and recorded as an adjustment to the effective interest on the loan or borrowings. Commissions and fees arising from negotiating, or participating in the negotiation of a transaction for a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses, are recorded on completion of the underlying transaction.

Income taxes
Income taxes have been provided for in the financial statements in accordance with Ukrainian legislation enacted or substantively enacted by the end of reporting period. The income tax charge comprises current tax and deferred tax and is recognised in the statement of income except if it is recognised in other comprehensive income or directly in equity because it relates to transactions that are also recognised, in the same or a different period, in other comprehensive income or directly in equity.

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxes, other than on income, are recorded within operating expenses.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax balances are measured at tax rates enacted or substantively enacted at the reporting date, which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

Fiduciary activities
Assets and liabilities held by the Bank in its own name, but on the account of third parties, are not reported on the statement of financial position. Commissions received from such business are shown in fee and commission income within the statement of income.

Provisions for contingencies
Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events, 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 the obligation can be made.

4. Summary of significant accounting policies (Continued)

Retirement and other employee benefit obligations
The Bank pays the unified social tax and contributes to the social insurance funds to the state budget in respect of its employees. The Bank's contributions are expensed as incurred. The Bank has no other post-retirement benefit plans.

Operating leases
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 other operating expenses.

The Bank presents assets subject to operating leases in the statement of financial position according to the nature of the asset. Lease income from operating leases is recognised in the income statement on a straight-line basis over the lease term as other income. The direct costs incurred in modernisation are added to the carrying amount of the leased asset.

Segment reporting
Operating segments are reported in a manner consistent with the internal reporting provided to the Bank's Management Board that is defined as chief operating decision maker. Segments whose revenue, result or assets are ten percent or more of all the segments are reported separately. The analysis of geographical information is based on domicile of the customer.

Combination of businesses under common control
Combinations of businesses under common control are accounted for using the predecessor values method. Under this method, amounts are presented in the financial statements after the business combination as combined amounts of the two entities from the beginning of the earliest period presented. Assets and liabilities of an acquired entity are recognised in the financial statements of a combined entity similarly to consolidation of the corresponding items of a subsidiary in the financial statements of a parent company after eliminating all intergroup balances and transactions. Any difference between the combined amounts and consolidated amounts of assets and liabilities determined under the predecessor values method is recognised as changes in equity in a separate reserve. No goodwill arises on the combination of businesses under common control accounted for under the predecessor values method.

Amendments of the financial statements after issue.

The Bank's shareholders have the power to amend the financial statements after issue.

New Accounting Pronouncements

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2013 and which the Bank has not early adopted.

IFRS 9 "Financial Instruments Part 1: Classification and Measurement"

IFRS 9 issued in November 2009 replaces those parts of IAS 39 relating to the classification and measurement of financial assets. IFRS 9 was further amended in October 2010 to address the classification and measurement of financial liabilities and in December 2011 to:

- change its effective date to annual periods beginning on or after 1 January 2015; and
- add transition disclosures.

4. Summary of significant accounting policies (Continued)

Key features of the standard are as follows:

- financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument;
- an instrument is subsequently measured at amortised cost only if it is a debt instrument and both:
  - the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and
  - the asset's contractual cash flows represent only payments of principal and interest (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss;
- all equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment; and
- most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated as at fair value through profit or loss in other comprehensive income.

While adoption of IFRS 9 is mandatory from 1 January 2015, earlier adoption is permitted.

IFRS 13 "Fair value measurement" (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013), aims to improve consistency and quality of disclosures about fair value, insofar as it requires to apply a single definition of fair value, requirements to disclosure requirements and sources of fair value measurement across IFRSs.

Amendments to IAS 1 "Presentation of Financial Statements" (issued in June 2011, effective for annual periods beginning on or after 1 July 2012), changes the disclosure of items presented in other comprehensive income. The amendments require entities to separate items presented in other comprehensive income into two groups, based on whether or not they may be reclassified to profit or loss in the future. The suggested title used by IAS 1 has changed to "statement of profit or loss and other comprehensive income".

Amendments to IFRS 7 "Disclosures – Offsetting Financial Assets and Financial Liabilities" (issued in December 2011 and effective for annual periods beginning on or after 1 January 2013). The amendment requires disclosures that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off. 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.

4. Summary of significant accounting policies (Continued)

Amendments to IAS 32 "Offsetting Financial Assets and Financial Liabilities" (issued in December 2011 and effective for annual periods beginning on or after 1 January 2014). The amendment added application guidance to IAS 32 to address inconsistencies identified in applying some of the offsetting criteria. This includes clarifying the meaning of "currently has a legally enforceable right of set-off" and that some gross settlement systems may be considered equivalent to net settlement.

Amendment to IFRS 1 "Government loans". These amendments require 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.

Management is considering the impact of the new standards, amendments and interpretations on the financial statements of the Bank.

Other new standards were issued, including IFRS 10 "Consolidated Financial Statements" IFRS 11 "Joint Arrangements", IFRS 12 "Disclosure of Interest in Other Entities". These new standards will not have any impact on these financial statements.

Other revised standards and interpretations: the amendments to IAS 19 "Employee Benefits", IAS 27 "Separate Financial Statements", and IAS 28 "Investments in Associates and Joint Ventures" will not have any impact on these financial statements.

Improvements to IFRSs

The amendments are effective for annual periods beginning on or after 1 January 2013 and they will not have an impact on the Bank:

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

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

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

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

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

5. Critical accounting estimates and judgements in applying accounting policies

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

Impairment losses on loans and receivables

The Bank regularly reviews its loan portfolios to assess impairment. In determining whether an impairment loss should be recorded in profit or loss for the year, the Bank makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

The Bank regularly assesses assets pledged as collateral for the individually impaired loans to estimate the amount of losses likely to be incurred. The amount of the future cash flow from sale of assets is influenced by the value of the assets held by the Bank as collateral and the expected term of the assets' sale. A simultaneous 10% decrease in the value of assets held by the Bank as collateral on loans and 50% increase in the expected term of assets' sale would result in an increase in impairment losses of USD 34,430 thousand (2011: USD 33,584 thousand) on loans individually determined to be impaired. A 10% increase in the value of assets held by the Bank as collateral on loans impaired would result in a decrease of expected loss of USD 10,589 thousand (2011: USD 19,995 thousand).

Expected loss on corporate loans with the collectively assessed allowances for impairment may be influenced by the probability of borrower's default (PD) and cure rate (CR), representing the statistics of the recovery of impaired loans. A simultaneous 10% increase in PD and 10% decrease in CR would result in an increase in impairment losses of USD 1,111 thousand (2011: USD 1,265 thousand). A simultaneous 10% decrease in PD and increase in CR would result in a decrease in impairment losses of USD 1,041 thousand (2011: USD 1,148 thousand).

Expected loss on collectively assessed retail loans may be influenced by the probability of borrower's default (PD) and recovery rate (RR). A simultaneous 10% increase in PD and 10% decrease in RR would result in an increase in impairment losses of USD 5,324 thousand (2011: USD 6,684 thousand). A simultaneous 10% decrease in PD and increase in RR would result in a decrease in impairment losses of USD 5,311 thousand (2011: USD 11,244 thousand).

5. Critical accounting estimates and judgements in applying accounting policies (Continued)

Fair value of own use premises and investment property, works of arts and investment property

As stated in Note 4, the premises and the investment property of the Bank are subject to revaluation on a regular basis. Such revaluations are based on the results of work of independent appraiser. The basis for their work is the sales comparisons approach, which is further confirmed by the income approach. When performing the revaluation certain judgments and estimates are applied by the appraisers in determination of the comparable premises to be used in the sales comparison approach, the useful life of the assets revalued, the capitalization rate to be applied for the income approach. In 2012, the Bank held the assessment of fair value of own premises without engaging the independent appraisers and made a conclusion that their fair value differs from the carrying value no more than 5 %, that's why the Bank management made a decision not to revalue own premises in the reporting year. To the extent that the price per square meter differs in the range of 5%, the fair value of own use premises would be USD 6,710 thousand higher or lower, respectively, and the fair value of investment property would be USD 511 thousand higher or lower, respectively.

Related party transactions

In the normal course of business the Bank enters into transactions with its related parties. IAS 39 requires initial recognition of financial instruments based on their fair values. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for such judgement is the pricing for similar types of transactions with unrelated parties and effective interest rate analysis. Terms of related party transactions are disclosed in Note 32.

(in thousands of US Dollars)

6. Cash and cash equivalents

For the purpose of the cash flow statement cash and cash equivalents comprised the following:

	2012	2011
Cash on hand and in transit	87,941	78,964
Current account with the National Bank of Ukraine (Note 7)	173,007	233,136
Current account with the National Bank of Ukraine – mandatory reserve balance (Note 7)	(44,687)	(16,645)
Current accounts and overnight deposits with other banks (Note 8)	263,778	506,982
Current accounts and overnight deposits with other banks – interest income accrued (Note 8)	(185)	(56)
Total cash and cash equivalents	**479,854**	**802,381**

7. Balance with the National Bank of Ukraine

	2012	2011
Current account with the National Bank of Ukraine, including:	173 007	233 136
- part of mandatory reserve balance	44 687	16 645
Mandatory reserve balance	8 537	26 857
Other mandatory reserve balance	4 276	3 278
Total balance with the National Bank of Ukraine	**185 820**	**263 271**

In accordance with the NBU requirements, the Bank is required to maintain the mandatory reserve balance with the NBU, which is computed as a percentage of certain of the Bank's liabilities for the prior period of provisioning. Mandatory reserve balance for December 2012 amounted to USD 92,934 thousand (2011: USD 66,579 thousand). As at 31 December 2012, 50% of the mandatory reserve balance for the previous month (2011: 70% of the mandatory reserve balance for the previous month) should be maintained on a separate account with the NBU, with interest accrued at 30% of the official discount rate of the NBU, being 2.25 % as at 31 December 2012 (2011: 30% of the official discount rate of the NBU, being 2.325%). As at 31 December 2012, the amount of interest accrued on the account balance was USD 17 thousand (2011: USD 52 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 treasury bills issued for the purpose of financing preparation of Ukraine to EURO 2012 football tournament in the amount of 50% of their par value and treasury bills with face value in foreign currency in the amount of 10% of their par value (2011: balance on a separate account with the NBU and EURO 2012 treasury bills in the amount of 50% of their par value). As at 31 December 2012, the value of treasury bills used by the Bank as a part of mandatory reserve requirements was USD 36,167 thousand (2011: USD 19,800 thousand).

7. Balance with the National Bank of Ukraine (Continued)

In addition to the placement on a separate account with the NBU, the Bank is required to maintain an opening balance on the current account with the NBU on a daily basis amounting to 50% of the mandatory reserve balance.

Therefore, as at 31 December 2012, 100% of the mandatory reserve balance (2011: 95% of the mandatory reserve balance) is not available for the Bank's day-to-day operations and is excluded from cash and cash equivalents for the purpose of the cash flow statement.

In addition, with effect from 2009, Ukrainian banks are required to keep other mandatory reserves on a separate account with the NBU for:

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

(in thousands of US Dollars)

8. Due from other banks

	2012	2011
Current accounts and overnight deposits with other banks		
- OECD countries	210,176	472,354
- Domestic	45,712	27,595
- Non-OECD countries	7,890	7,033
Total current accounts and overnight deposits with other banks	**263,778**	**506,982**
including interest income accrued	185	56
Term deposits with other banks, including:		
- OECD countries	21,380	22,283
- Domestic	16,460	31,172
- Non-OECD countries	41	40
Reverse sale and repurchase agreements	-	25,785
Allowance for impairment	(811)	(904)
Total term deposits with other banks	**37,070**	**78,376**
Total due from other banks	**300,848**	**585,358**

Placements are made with Ukrainian and foreign banks. Analysis by credit quality of due from other banks outstanding at 31 December 2012 is as follows:

	Current accounts and overnight deposits with other banks	Term deposits with other banks	Total
Neither past due nor impaired			
– AA- to AA+ rated	29,034	-	**29,034**
– A- to A+ rated	179,879	21,380	**201,259**
– BBB- to BBB+ rated	2,697	-	**2,697**
– BB- to BB+ rated	5,103	-	**5,103**
– B- to B+ rated	90	41	**131**
– CCC- to CCC+ rated	11,170	4	**11,174**
– CC- to CC+ rated	-	10,158	**10,158**
– Unrated	35,805	5,487	**41,292**
Total neither past due nor impaired	**263,778**	**37,070**	**300,848**
Balances individually determined to be impaired			
– over 360 days overdue	-	811	**811**
Total individually impaired	-	811	**811**
Less allowance for impairment	-	(811)	**(811)**
Total due from other banks	**263,778**	**37,070**	**300,848**

The credit ratings are based on the ratings assigned by the international rating agencies Fitch, Moody's and S&P. Counterparties disclosed in the above table as "unrated" mainly include Ukrainian banks, considered to be mid-size or small banks in terms of the amount of total assets.

(in thousands of US Dollars)

8. Due from other banks (Continued)

Analysis by credit quality of due from other banks outstanding at 31 December 2011 is as follows:

	Current accounts and overnight deposits with other banks	Term deposits with other banks	Reverse sale and repurchase agreements	Total
Neither past due nor impaired				
– AA- to AA+ rated	101,594	-	-	**101,594**
– A- to A+ rated	368,900	22,283	-	**391,183**
– BBB- to BBB+ rated	3,694	-	-	**3,694**
– BB- to BB+ rated	3,337	-	-	**3,337**
– B- to B+ rated	12,568	18,548	-	**31,116**
– Unrated	16,889	11,760	25,785	**54,434**
Total neither past due nor impaired	**506,982**	**52,591**	**25,785**	**585,358**
Balances individually determined to be impaired				
– over 360 days overdue	-	904	-	**904**
Total individually impaired	-	904	-	**904**
Less allowance for impairment	-	(904)	-	**(904)**
Total due from other banks	**506,982**	**52,591**	**25,785**	**585,358**

Movements in the allowance for impairment of due from other banks during the year are as follows:

	2012	2011
	Term deposits with other banks	Term deposits with other banks
Balance as at 1 January	**904**	**947**
Release of allowance	(93)	-
Assets written off during the year as uncollectible	-	(39)
Exchange rate impact	-	(4)
Balance as at 31 December	**811**	**904**

As at 31 December 2012, term deposits placed with other banks in OECD and non-OECD countries of USD 21,421 thousand (2011: in OECD countries of USD 22,322 thousand) represented security deposits against import letters of credit and guarantees issued by the Bank in favour of its clients.

As at 31 December 2012, USD 127,667 thousand on current accounts and overnight deposits with other banks representing 42% of the total amount due from other banks before deduction of the allowance for impairment were placed with one OECD bank with A- to A+ rating confirmed by the international rating agencies (2011: USD 303,975 thousand representing 52% were placed with one OECD bank with A- to A+ rating confirmed by the international rating agencies).

(in thousands of US Dollars)

9. Loans to customers

	2012	2011
Corporate loans	1,925,409	1,816,157
Reverse sale and repurchase agreements	-	260
Less allowance for impairment	(209,035)	(213,895)
Total corporate loans	**1,716,374**	**1,602,522**
Loans to individuals:		
Mortgage loans	371,359	419,010
Car loans	75,850	90,786
Consumer loans	247,672	91,594
Other loans	6,121	4,878
Less allowance for impairment	(179,943)	(153,036)
Total loans to individuals	**521,059**	**453,232**
Total loans to customers	**2,237,433**	**2,055,754**

Included in gross loans to customers as at 31 December 2012 were loans of USD 2,570,089 thousand (2011: USD 2,383,640 thousand) with fixed interest rates and loans of USD 56,322 thousand (2011: USD 39,045 thousand) with floating interest rates.

(in thousands of US Dollars)

9. Loans to customers (Continued)

Movements in allowance for loan impairment

Movements in the allowance for impairment of the loan portfolio during the year ended 31 December 2012 were as follows:

	Corporate loans	Reverse sale and repurchase agreements	Mortgage loans	Car loans	Consumer loans	Other loans to individuals	Total
Allowance for impairment of loan portfolio at 1 January 2012	**213,635**	**260**	**135,572**	**13,814**	**3,027**	**623**	**366,931**
Provision/(reversal of provision) during the year	4,968	(260)	14,667	3,473	12,886	97	**35,831**
Loans written off during the year as uncollectable	(9,789)	-	(3,980)	-	(128)	(115)	**(14,012)**
Effect of translation to presentation currency	221	-	10	-	(3)	-	**228**
Allowance for impairment of loan portfolio at 31 December 2012	**209,035**	**-**	**146,269**	**17,287**	**15,782**	**605**	**388,978**

(in thousands of US Dollars)

9. Loans to customers (Continued)

Analysis of the allowance for impairment of the loan portfolio by class and provisioning rate as at 31 December 2012 is as follows:

	Corporate loans	Mortgage loans	Car loans	Consumer loans	Other loans to individuals	Total
Allowance recognised for loans individually determined to be impaired	171,151	76,012	594	-	-	**247,757**
Allowance recognised for loans collectively determined to be impaired	31,639	68,744	16,278	13,215	579	**130,455**
Allowance recognised on collective basis for loans without specific sign of impairment	6,245	1,513	415	2,567	26	**10,766**
Total recognised allowance for loan impairment	**209,035**	**146,269**	**17,287**	**15,782**	**605**	**388,978**
Gross amount of loans individually determined to be impaired, before deducting any impairment allowance	337,557	156,596	642	-	-	**494,795**
Gross amount of loans collectively determined to be impaired, before deducting any impairment allowance	48,984	112,222	23,039	29,148	628	**214,021**
Gross amount of loans without specific sign of impairment, before deducting any impairment allowance	1,538,868	102,541	52,169	218,524	5,493	**1,917,595**
Gross amount of loans before deducting any impairment allowance	**1,925,409**	**371,359**	**75,850**	**247,672**	**6,121**	**2,626,411**
Provisioning rate for individually impaired loans	51%	49%	93%	-	-	**50%**
Provisioning rate for collectively impaired loans	65%	61%	71%	45%	92%	**61%**
Provisioning rate for loans without specific sign of impairment	0%	1%	1%	1%	0%	**1%**

(in thousands of US Dollars)

9. Loans to customers (Continued)

Movements in the allowance for impairment of the loan portfolio during the year ended 31 December 2011 were as follows:

	Corporate loans	Reverse sale and repurchase agreements	Mortgage loans	Car loans	Consumer loans	Other loans to individuals	Total
Allowance for impairment of loan portfolio at 1 January 2011	**245,235**	**5,876**	**116,808**	**9,299**	**7,381**	**3,363**	**387,962**
Provision/(reversal of provision) during the year	228	(5,616)	19,010	4,634	(4,306)	(2,700)	**11,250**
Loans written off during the year as uncollectable	(28,052)	-	-	(25)	-	(1)	**(28,078)**
Reversal of provision at the disposal of loan	(3,176)	-	-	-	-	-	**(3,176)**
Effect of translation to presentation currency	(600)	-	(246)	(94)	(48)	(39)	**(1,027)**
Allowance for impairment of loan portfolio at 31 December 2011	**213,635**	**260**	**135,572**	**13,814**	**3,027**	**623**	**366,931**

(in thousands of US Dollars)

9. Loans to customers (Continued)

Analysis of the allowance for impairment of the loan portfolio by class and provisioning rate as at 31 December 2011 is as follows:

	Corporate loans	**Reverse sale and repurchase agreements**	**Mortgage loans**	**Car loans**	**Consumer loans**	**Other loans to individuals**	**Total**
Allowance recognised for loans individually determined to be impaired	184,081	260	80,880	524	-	-	**265,745**
Allowance recognised for loans collectively determined to be impaired	24,320	-	53,147	12,721	1,838	596	**92,622**
Allowance recognised on collective basis for loans without specific sign of impairment	5,234	-	1,545	569	1,189	27	**8,564**
Total recognised allowance for loan impairment	**213,635**	**260**	**135,572**	**13,814**	**3,027**	**623**	**366,931**
Gross amount of loans individually determined to be impaired, before deducting any impairment allowance	383,175	260	177,437	931	-	-	**561,803**
Gross amount of loans collectively determined to be impaired, before deducting any impairment allowance	48,451	-	107,292	22,952	3,097	617	**182,409**
Gross amount of loans without specific sign of impairment, before deducting any impairment allowance	1,384,531	-	134,281	66,903	88,497	4,261	**1,678,473**
Gross amount of loans before deducting any impairment allowance	**1,816,157**	**260**	**419,010**	**90,786**	**91,594**	**4,878**	**2,422,685**
Provisioning rate for individually impaired loans	48%	100%	46%	56%	-	-	**47%**
Provisioning rate for collectively impaired loans	50%	-	50%	55%	59%	97%	**51%**
Provisioning rate for loans without specific sign of impairment	0%	-	1%	1%	1%	1%	**1%**

9. Loans to customers (Continued)

Collateral and other credit enhancements

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

The main types of collateral obtained are as follows:

- for securities lending and reverse repurchase transactions: cash or securities;
- for commercial lending: charges over real estate property, inventory and trade receivables, rights to claim from deposit;
- for retail lending: property rights for movable and immovable property, rights to claim from deposit.

The Bank also obtains guarantees from parent companies of its borrowers for loans to their subsidiaries.

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

As at 31 December 2012, loans collateralised by customer deposits with the Bank amounted to USD 56,286 thousand (2011: USD 49,021 thousand) (Note 15).

9. Loans to customers (Continued)

Credit quality of the loan portfolio

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

The description of internal credit ratings used by the Bank for corporate borrowers is provided below.

High rating is assigned to the entities with the expanding of operating activity, stable financial position (sufficient share capital, low dependency of external sources of financing), high efficiency of business model. The entities with high rating are either the market leaders or have stable market position. Management and organisational structure are strong. The risk of the decrease in credit quality of the borrower is minimal, credit history is excellent.

Standard rating is assigned to the entities with stable volumes of operating activity, with performance effectiveness at industry average level or above. The dependency of external sources of financing is not critical. The entities with standard rating have stable market position at the regional and national level. Management and organisational structure are adequate. The risk of default is insignificant. Credit history is positive, with insignificant technical delays in repayment of borrowings.

Below standard rating is assigned to the entities with unstable or decreasing operational activities, low business efficiency, high dependency of external sources of financing. Market position is not stable, the decrease or loss of market share is possible. The risk of default should be considered in case of the decrease of available operating cash flows. Credit history may contain significant delays in repayment of borrowings.

The description of internal credit ratings used by the Bank for retail borrowers is provided below.

High rating is assigned to the borrowers with strong financial position. Credit quality and solvency are more than sufficient for the loan servicing. Risk of the decrease in credit quality is minimal.

Standard rating is assigned to the borrowers with stable financial position. Credit quality and solvency are sufficient for the loan servicing. The risk of default is insignificant.

(in thousands of US Dollars)

9. Loans to customers (Continued)

Below standard rating is assigned to the borrowers with unstable or worsening financial position. Credit quality and solvency are marginally sufficient for the loan servicing. The risk of default should be considered in case of any negative impact of external factors on the cash flows available for the repayment of credit exposure.

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

	Corporate loans	Mortgage loans	Car loans	Consumer loans	Other loans to individuals	Total
Neither past due nor impaired						
high rating	542,634	65,416	34,907	211,425	2,774	**857,156**
standard rating	699,206	20,107	13,497	1,545	2,089	**736,444**
below standard rating	289,922	6,352	461	841	23	**297,599**
Total neither past due nor impaired	**1,531,762**	**91,875**	**48,865**	**213,811**	**4,886**	**1,891,199**
Past due but not impaired						
- less than 30 days overdue	4,760	7,709	2,351	3,950	337	**19,107**
- 30 to 90 days overdue	-	2,957	953	763	270	**4,943**
- 181 to 360 days overdue	901	-	-	-	-	**901**
- more than 360 days overdue	1,445	-	-	-	-	**1,445**
Total past due but not impaired	**7,106**	**10,666**	**3,304**	**4,713**	**607**	**26,396**
Loans determined to be impaired individually or collectively						
- less than 30 days overdue	137,141	16,638	-	8,648	-	162,427
- 30 to 90 days overdue	14,775	47,865	-	5,479	-	**68,119**
- 91 to 180 days overdue	12,801	2,681	663	4,714	58	**20,917**
- 181 to 360 days overdue	9,536	19,102	1,169	7,439	21	**37,267**
- more than 360 days overdue	212,288	182,532	21,849	2,868	549	**420,086**
Loans determined to be impaired individually or collectively	**386,541**	**268,818**	**23,681**	**29,148**	**628**	**708,816**
Less allowance for impairment	**(209,035)**	**(146,269)**	**(17,287)**	**(15,782)**	**(605)**	**(388,978)**
Total loans to customers	**1,716,374**	**225,090**	**58,563**	**231,890**	**5,516**	**2,237,433**

(in thousands of US Dollars)

9. Loans to customers (Continued)

Analysis by credit quality of loans outstanding as at 31 December 2011 is as follows:

	Corporate loans	Reverse sale and repurchase agreements	Mortgage loans	Car loans	Consumer loans	Other loans to individuals	Total
Neither past due nor impaired							
high rating	508,027	-	84,073	42,440	15,551	1,917	**652,008**
standard rating	547,214	-	32,119	19,094	68,593	2,186	**669,206**
below standard rating	312,919	-	7,765	1,114	10	18	**321,826**
Total neither past due nor impaired	**1,368,160**	**-**	**123,957**	**62,648**	**84,154**	**4,121**	**1,643,040**
Past due but not impaired							
- less than 30 days overdue	10,725	-	7,541	2,807	4,323	102	**25,498**
- 30 to 90 days overdue	3,543	-	2,783	1,448	20	38	**7,832**
- 91 to 180 days overdue	1,982	-	-	-	-	-	**1,982**
- more than 360 days overdue	121	-	-	-	-	-	**121**
Total past due but not impaired	**16,371**	**-**	**10,324**	**4,255**	**4,343**	**140**	**35,433**
Loans determined to be impaired individually or collectively							
- less than 30 days overdue	194,506	-	74,849	117	-	-	**269,472**
- 30 to 90 days overdue	6,580	-	3,306	8	1,567	-	**11,461**
- 91 to 180 days overdue	22,185	-	6,816	860	815	32	**30,708**
- 181 to 360 days overdue	18,851	-	17,559	2,035	172	9	**38,626**
- more than 360 days overdue	189,504	260	182,199	20,863	543	576	**393,945**
Loans determined to be impaired individually or collectively	**431,626**	**260**	**284,729**	**23,883**	**3,097**	**617**	**744,212**
Less allowance for impairment	**(213,635)**	**(260)**	**(135,572)**	**(13,814)**	**(3,027)**	**(623)**	**(366,931)**
Total loans to customers	**1,602,522**	**-**	**283,438**	**76,972**	**88,567**	**4,255**	**2,055,754**

(in thousands of US Dollars)

9. Loans to customers (Continued)

Concentration of loans to customers

As at 31 December 2012, the Bank's 20 largest borrowers, with aggregate loan amount of USD 663,625 thousand, represented 25 % of the gross loan portfolio (2011: 20 largest borrowers, with aggregate loan amount of USD 653,533 thousand, represented 27% of the gross loan portfolio).

The loan portfolio of the Bank by economic sectors, the credit risk of which has an impact on the credit quality, is as follows:

	2012	2011
Individuals	701,002	606,268
Trade and agency services	508,362	506,680
Food industry and agriculture	415,728	338,575
Property development	391,763	366,186
Machine building	147,183	100,194
Metallurgy	132,948	131,310
Transport, communication and infrastructure	83,751	104,148
Non-banking financial institutions	79,125	58,881
Woodworking	63,377	66,561
Chemical	22,453	20,798
Mining	15,819	46,765
Other	64,900	76,319
Total loans to customers (gross amount)	**2,626,411**	**2,422,685**

The Bank's lending activities are conducted in Ukraine. The ability of borrowers to repay their debt is dependent on a number of factors including the overall financial health of the borrower and the Ukrainian economy.

As at 31 December 2012, included in loans to customers were loans with the carrying value before the allowance of USD 223,397 thousand (2011: USD 115,554 thousand) placed as collateral for loans received from the NBU (Note 13).

As at 31 December 2012, included in loans to customers were loans with the carrying value before the allowance of USD 8,546 thousand (2011: USD 8,552 thousand) placed as collateral for due to other banks (Note 14).

The financial effect of collateral is presented by disclosing collateral values separately for:

- those financial assets where collateral and other credit enhancements are equal to, or exceed, carrying value of the asset ("over-collateralised assets") and
- those financial assets where collateral and other credit enhancements are less than the carrying value of the asset ("under-collateralised assets").

(in thousands of US Dollars)

9. Loans to customers (Continued)

Effect of collateral as at 31 December 2012 is as follows:

	Over-collateralised assets		Under-collateralised assets	
	Carrying value net of allowance	**Fair value of collateral**	**Carrying value net of allowance**	**Fair value of collateral**
Corporate loans	1,217,210	2,373,005	499,164	325,418
Mortgage loans	154,073	306,810	71,017	41,188
Car loans	53,992	120,974	4,571	444
Consumer loans	127	301	231,763	-
Other loans (overdrafts)	2,432	11,101	3,084	-
Total	**1,427,834**	**2,812,191,**	**809,599**	**367,050**

Effect of collateral as at 31 December 2011 is as follows:

	Over-collateralised assets		Under-collateralised assets	
	Carrying value net of allowance	**Fair value of collateral**	**Carrying value net of allowance**	**Fair value of collateral**
Corporate loans	1,281,774	2,561,489	320,748	211,421
Reverse sale and repurchase agreements	-	-	-	-
Mortgage loans	173,829	284,214	109,609	96,479
Car loans	36,519	67,226	40,453	26,723
Consumer loans	22	45	88,545	-
Other loans (overdrafts)	-	-	4,255	-
Total	**1,492,144**	**2,912,974**	**563,610**	**334,623**

(in thousands of US Dollars)

10. Investment securities

Investment securities in the trading portfolio

	2012	2011
Ukrainian Government debt securities	46,765	-
Total investment securities in the trading portfolio	**46,765**	-

Investment securities in the trading portfolio are rated B- to B+.

Investment securities available for sale

	2012	2011
Ukrainian Government debt securities	359,727	259,343
Deposit certificates issued by the NBU	-	250,087
Corporate bonds	17,681	12,596
Total debt securities	**377,408**	**522,026**
Shares	883	883
Total investment securities available for sale	**378,291**	**522,909**

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

	Ukrainian Government debt securities	Corporate bonds	Total
Neither past due nor impaired			
− B- to B+ rated	359,727	-	**359,727**
− Unrated	-	17,491	**17,491**
Total neither past due nor impaired	359,727	17,491	**377,218**
Balances individually determined to be impaired			
− more than 360 days overdue	-	190	**190**
Total individually impaired securities	-	190	**190**
Total debt securities	**359,727**	**17,681**	**377,408**

(in thousands of US Dollars)

10. Investment securities (Continued)

Analysis by credit quality of debt securities outstanding as at 31 December 2011 is as follows:

	Ukrainian Government debt securities	Deposit certificates issued by the NBU	Corporate bonds	Total
Neither past due nor impaired				
− B- to B+ rated	259,343	250,087	-	**509,430**
− Unrated	-	-	12,374	**12,374**
Total neither past due nor impaired	259,343	250,087	12,374	**521,804**
Balances individually determined to be impaired				
− more than 360 days overdue	-	-	222	**222**
Total individually impaired securities	-	-	222	**222**
Total debt securities	**259,343**	**250,087**	**12,596**	**522,026**

The credit ratings for Ukrainian Government debt securities and deposit certificates issued by the NBU are based on sovereign country rating, and for corporate bonds – on ratings assigned by international rating agencies Fitch, Moody's and S&P.

The primary factor that the Bank considers in determining whether a debt security is impaired is its overdue status. Based on this factor, the Bank presents above an ageing analysis of debt securities that are individually determined to be impaired.

As at 31 December 2012, the Ukrainian Government debt securities include state treasury bonds with the final maturity dates from 20 February 2013 to 25 August 2015 and the effective interest rates from 7% to 40% p.a.

As at 31 December 2012, corporate bonds include bonds issued by corporate entities with the final maturity dates from 1 September 2013 to 9 February 2015 and overdue bonds. The corporate bonds carry effective interest rates from 9% to 21% p.a.

As at 31 December 2012, debt securities with a carrying amount of USD 10,637 thousand (2011: nil) were pledged as collateral for the loans received from the NBU (Note 13).

In 2012, the Bank recognised the impairment of debt securities in the amount of USD 74 thousand (2011: impairment in the amount of USD 2,379 thousand).

(in thousands of US Dollars)

11. Property and equipment, investment property and intangible assets

	Premises	Leasehold improvements	Works of art	Computers and other equipment	Capital investments in property and equipment	Total property and equipment	Intangible assets	Total
Cost or revalued amount at 1 January 2011	153,956	4,491	353	45,446	3,379	207,625	11,625	**219,250**
Accumulated depreciation and amortisation	(23,512)	(2,995)	-	(30,587)	-	(57,094)	(6,465)	**(63,559)**
Carrying amount at 1 January 2011	**130,444**	**1,496**	**353**	**14,859**	**3,379**	**150,531**	**5,160**	**155,691**
Additions	223	206	-	9,098	2,243	11,770	4,144	**15,914**
Disposals/write-offs	(61)	(120)	-	(352)	(14)	(547)	(290)	**(837)**
Transfers to another category	4,037	3	-	-	(4,040)	-	-	**-**
Transfers to investment property	(1,944)	-	-	-	-	(1,944)	-	**(1,944)**
Transfers from investment property	4,204	-	-	-	-	4,204	-	**4,204**
Revaluation	5,064	-	-	-	-	5,064	-	**5,064**
Impairment loss	(1,345)	-	-	-	-	(1,345)	-	**(1,345)**
Reversal of impairment through profit or loss	988	-	-	-	-	988	-	**988**
Depreciation and amortisation charge	(3,053)	(672)	-	(5,930)	-	(9,655)	(1,530)	**(11,185)**
Effect of translation to presentation currency	(465)	(7)	-	(52)	(8)	(532)	(19)	**(551)**
Carrying amount at 31 December 2011	**138,092**	**906**	**353**	**17,623**	**1,560**	**158,534**	**7,465**	**165,999**
Cost or revalued amount at 31 December 2011	167,083	3,901	353	51,700	1,560	224,597	14,306	**238,903**
Accumulated depreciation and amortisation	(28,991)	(2,995)	-	(34,077)	-	(66,063)	(6,841)	**(72,904)**
Carrying amount at 1 January 2012	**138,092**	**906**	**353**	**17,623**	**1,560**	**158,534**	**7,465**	**165,999**
Additions	-	-	-	6,864	556	7,420	6,027	**13,447**
Disposals/write-offs	-	(55)	-	(468)	-	(523)	(471)	**(994)**
Transfers to another category	798	149	-	-	(947)	-	-	**-**
Transfers to investment property	(3,455)	-	-	-	-	(3,455)	-	**(3,455)**
Transfers from investment property	2,084	-	-	-	-	2,084	-	**2,084**
Revaluation	-	-	787	-	-	787	-	**787**
Depreciation and amortisation charge	(3,271)	(492)	-	(7,161)	-	(10,924)	(2,388)	**(13,312)**
Effect of translation to presentation currency	(48)	1	-	(286)	(1)	(334)	(3)	**(337)**
Carrying amount at 31 December 2012	**134,200**	**509**	**1,140**	**16,572**	**1,168**	**153,589**	**10,630**	**164,219**
Cost or revalued amount at 31 December 2012	166,779	3,417	1,140	54,685	1,168	227,189	19,343	**246,532**
Accumulated depreciation and amortisation	(32,579)	(2,908)	-	(38,113)	-	(73,600)	(8,713)	**(82,313)**
Carrying amount at 31 December 2012	**134,200**	**509**	**1,140**	**16,572**	**1,168**	**153,589**	**10,630**	**164,219**

(in thousands of US Dollars)

11. Property and equipment, investment property and intangible assets (Continued)

As at 31 December 2012, the Bank's own premises, furniture, equipment and ATMs, with a net book value of USD 151,186 thousand (2011: USD 104,634 thousand), were insured against risks of natural disasters, robbery, fire and unlawful acts of third parties.

As at 31 December 2012, the Bank's premises with a carrying value of USD 91,952 thousand (2011: USD 94,838 thousand) and investment property with a carrying value of USD 3,251 thousand (2011: USD 2,372 thousand) were pledged as collateral for loans received from the NBU (Note 13).

As at 31 December 2012, the carrying amount of premises would have been USD 56,416 thousand (2011: USD 59,522 thousand) had these assets been measured using the cost model. The amount reconciles to the carrying value of the premises as follows:

	2012	**2011**
Premises at revalued amount in the statement of financial position	134,200	138,092
Revaluation reserve presented in equity, net of tax	(76,346)	(77,258)
Deferred tax on revaluation of property and equipment	(1,438)	(1,312)
Premises at cost less accumulated depreciation and impairment	**56,416**	**59,522**

The Bank's premises and investment property were not valued as at 1 December 2012. For the sensitivity analysis of the fair value of premises before changes in the key assumptions used during the valuation, refer to Note 5.

Investment property movements are as follows:

	2012	**2011**
Fair value of investment property at 1 January	**8,845**	**9,816**
Transfer to owner-occupied premises	(2,084)	(4,204)
Transfer from owner-occupied premises	3,455	1,944
Fair value gain	2	1,336
Effect of translation to presentation currency	(3)	(47)
Fair value of investment property at 31 December	**10,215**	**8,845**

The rental income received in respect of investment property for 2012 amounted to USD 729 thousand (2011: USD 883 thousand) (Note 26.) The operating and maintenance expenses related to investment property for 2012 were USD 243 thousand (2011: USD 321 thousand.)

The fair value gains less losses on investment property of USD 2 thousand (2011: gains less losses of USD 1,336 thousand) were recognised in the statement of income.

(in thousands of US Dollars)

12. Other assets

	2012	2011
Financial assets		
Settlements on card operations	8,252	4,565
Derivative financial assets (Note 21)	1,100	4,255
Receivables on loans sold	-	2,912
Receivables on transactions with securities	-	1,102
Other financial assets	1,928	1,180
Allowance for impairment	(376)	(1,268)
Total financial assets	**10,904**	**12,746**
Non-financial assets		
Prepayments for property, equipment and intangible assets	3,021	3,899
Precious metals	5,925	4,656
Receivables on purchase of precious metals	-	2,891
Repossessed collateral		
− real estate properties accepted in settlement of loans	12,478	7,827
− other assets accepted in settlement of loans	-	249
Other	3,620	5,083
Allowance for impairment	(45)	(99)
Total non-financial assets	**24,999**	**24,506**
Total other assets	**35,903**	**37,252**

Repossessed collateral represents assets acquired by the Bank in settlement of overdue loans. The Bank expects to dispose of the assets in the foreseeable future. The assets do not meet the definition of non-current assets held for sale due to their unlikely disposal within a year, and are classified as inventories in accordance with IAS 2 Inventories. The assets were initially recognised at fair value when acquired.

Movements in allowance for impairment of other financial assets during the year were as follows:

	2012	2011
Allowance for impairment as at 1 January	**1,268**	**2,752**
Impairment loss / (decrease of impairment) for the year	241	(1,469)
Assets written off during the year as uncollectible	(1,132)	(9)
Effect of translation to presentation currency	(1)	(6)
Allowance for impairment as at 31 December	**376**	**1,268**

Movements in allowance for impairment of other non-financial assets during the year were as follows:

	2012	2011
Allowance for impairment as at 1 January	**99**	**4,650**
Impairment reversal for the year	(54)	(4,496)
Effect of translation to presentation currency	-	(55)
Allowance for impairment as at 31 December	**45**	**99**

13. Due to the National Bank of Ukraine

As at 31 December 2012, the Bank had two loans due to the National Bank of Ukraine.

In January 2009, the Bank obtained a liquidity support loan of UAH 500,000 thousand (USD 64,935 thousand at UAH/USD exchange rate at the date of receipt). The loan had interest at 18.5% p.a. and final maturity date in December 2009. In December 2009, the maturity of the loan was extended until December 2012 with a change in interest rate to the official discount rate of the NBU + 2% p.a., which represents 9.5% p.a. as at the reporting date. In December 2012, the maturity of the loan was extended to December 2016. As at 31 December 2012, the carrying amount of this loan was USD 43,787 thousand (2011: USD 43,805 thousand).

In March 2009, the Bank obtained a further liquidity support loan of UAH 1,336,900 thousand (USD 171,306 thousand at UAH/USD exchange rate at the date of receipt.) The loan had interest at 16.5% p.a. and final maturity in March 2010. In December 2009, the maturity of the loan was extended to April 2013 with a change in interest rate to the official discount rate of the NBU + 2% p.a., which represents 9.5% p.a. as at the reporting date. In December 2012, the maturity of the loan was extended to December 2016. As at 31 December 2012, the carrying value of the loan was USD 83,343 thousand (2011: USD 83,377 thousand).

These loans are secured by loans to the Bank's customers with a carrying amount of USD 223,397 thousand (Note 9) and the Bank's premises and investment property with a fair value of USD 91,952 thousand and USD 3,251 thousand respectively (Note 11) as well as debt securities with a carrying value of USD 10,637 thousand (Note 10) (2011: the loans were secured by loans to customers with a carrying amount of USD 115,554 thousand and the Bank's premises and investment property with a fair value of USD 94,838 thousand and USD 2,372 thousand respectively; debt securities – nil.)

(in thousands of US Dollars)

14. Due to other banks

	2012	2011
Current accounts of other banks		
- Domestic	98,806	25,190
- Non-OECD countries	53	51
Total current accounts of other banks	**98,859**	**25,241**
Term deposits of other banks		
- Domestic	47,774	39,987
Total term deposits of other banks	**47,774**	**39,987**
Total due to other banks	**146,633**	**65,228**

As at 31 December 2012, included in term deposits of other banks were USD 66 thousand (2011: USD 66 thousand) held as collateral for commitments under import letters of credit and guarantees (Note 31) as well as USD 400 thousand held as collateral for unconfirmed letters of credit.

As at 31 December 2012, placements of 10 largest banks of USD 119,039 thousand made 81% due from other banks (2011 – USD 50,924 thousand made 78% due from other banks.)

As disclosed in Note 9, term placements of other banks of USD 8,542 thousand (2011: USD 8,546 thousand) were secured by loans to customers of USD 8,546 thousand (2011: USD 8,552 thousand.)

15. Customer accounts

	2012	2011
Legal entities		
- Current accounts	588,006	1,144,345
- Term deposits	335,313	303,034
Individuals		
- Current accounts	222,742	193,555
- Term deposits	1,057,236	890,316
Total customer accounts	**2,203,297**	**2,531,250**

As at 31 December 2012, the Bank's 10 largest customers, with an aggregate amount of accounts of USD 332,493 thousand, represented 15% of customer accounts (2011: 10 largest customers, with an aggregate amount of deposits of USD 843,200 thousand, represented 33% of customer accounts).

(in thousands of US Dollars)

15. Customer accounts (Continued)

As at 31 December 2012, included in customer accounts were deposits of USD 56,286 thousand (2011: USD 49,021 thousand) held as part of collateral for loans to customers with a carrying amount of USD 69,358 thousand (2011: USD 80,391 thousand) (Note 9) and loan commitments of USD 7,179 thousand (2011: USD 3,242 thousand.) In addition, USD 6,074 thousand (2011: USD 20,979 thousand) is held as collateral for commitments under import letters of credit, guarantees and promissory notes endorsements (Note 31).

In accordance with Ukrainian legislation, the Bank is obliged to repay term deposits of individuals upon demand of a depositor. In the event that a term deposit is repaid upon demand of the depositor prior to maturity, interest is paid based on the interest rate for demand deposits, unless a different interest rate is specified in the agreement.

Economic sector concentrations within customer accounts are as follows:

	2012	2011
Individuals	1,279,978	1,083,871
Trade and agency services	179,525	263,490
Transport and infrastructure	166,326	117,611
Metallurgy	144,597	650,391
Machine building	127,384	111,513
Mining and energy	47,355	51,971
Property development	40,238	42,322
Non-banking financial institutions	39,840	33,425
Food industry and agriculture	22,483	10,367
Chemical	19,563	19,944
Woodworking	6,490	13,376
Other	129,518	132,969
Total customer accounts	**2,203,297**	**2,531,250**

(in thousands of US Dollars)

16. Eurobonds issued

In February and May 2007, the Bank obtained a loan amounting to USD 275,000 thousand from Standard Bank Plc. This loan with original maturity in February 2010 was funded by 9.75% loan participation notes ("Eurobonds") issued by, but without recourse to, Standard Bank Plc, for the sole purpose of funding the loan to the Bank.

In December 2009, as a result of restructuring of the Bank's borrowings, the loan was replaced by the loan with interest rate of 11% p.a. and the final maturity term in December 2014. In November 2010, the amendments were signed to the agreement, taking into account the future merger of two banks (Note 1). The change in the agreement's terms did not result in derecognition of the liability as the difference between the present value of future cash flows, discounted using the original effective interest rate, and the book value of borrowings as at the date of amendments represented 0.34%. During 2010, the Bank repaid part of the loan in the amount of USD 22,512 thousand (including USD 4,936 thousand according to the change in the arrangement.) As at 31 December 2012, the carrying amount of this loan was USD 246,796 thousand (2011: USD 245,230 thousand.)

17. Bonds issued

In April 2008, the Bank issued hryvnia denominated Series B bonds for the total nominal amount of UAH 300,000 thousand (USD 61,870 thousand at the exchange rate as at the date of issue.) The interest rate was initially at 13.5% p.a. and changed in 2010 to 17%.

In 2009, the Bank repaid before maturity Series B bonds with a total nominal amount of UAH 284,566 thousand (USD 36,938 thousand at the exchange rate as at the date of repayment) and in 2010, Series B bonds with a total nominal amount of UAH 1,915 thousand (USD 242 thousand at the exchange rate as at the date of repayment.)

In 2011, the Bank's Supervisory Board decided to extend the maturity of the Series B bonds issued and approved new redemption and repayment dates. The term to maturity was extended to 3 April 2014 inclusive. The interest rate for these bonds was set at 13.75% for a 12-month period beginning in April 2011; the interest rate for the subsequent periods will be based on market interest rates but cannot be lower than 3% p.a.

	2012		**2011**	
	Nominal value	**Carrying value**	**Nominal value**	**Carrying value**
Series B bonds issued	13	14	13	14
Total bonds issued	**13**	**14**	**13**	**14**

(in thousands of US Dollars)

18. Other borrowed funds

	2012	2011
Landesbank Berlin AG	6,206	10,021
Deutsche Bank	3,499	5,726
Other loans	2,135	3,492
HSBC Bank Plc	-	29,081
Total other borrowed funds	**11,840**	**48,320**

Loans from Landesbank Berlin AG are denominated in euro and bear interest at a weighted average rate of EURIBOR + 0.6% p.a. on the outstanding amount with maturity from 28 June 2013 to 30 May 2014. The loans were received for the purpose of financing the acquisition of the imported equipment by the Bank's customers.

Loans from Deutsche Bank are denominated in euro and bear interest at a weighted average rate of EURIBOR + 0.7% p.a. on the outstanding amount with maturity on 12 February 2014. The loans were received for the purpose of financing the acquisition of the imported equipment by the Bank's customers.

Other facilities represent the funds received from other banks for the purposes of financing the acquisition of the imported equipment by the Bank's customers. These facilities are denominated in US dollars and bear interest at a weighted average rate of LIBOR + 5.1% p.a. on the outstanding amount with maturity from 2 December 2013 to 17 February 2014.

19. Other liabilities

	2012	2011
Financial liabilities		
Payable under operations with plastic cards	1,486	570
Provision for credit related commitments (Note 31)	646	205
Software costs payable under licensing agreements	514	959
Amounts in the course of settlements	478	289
Derivative financial liabilities (Note 21)	232	2,479
Other financial liabilities	621	574
Total financial liabilities	**3,977**	**5,076**
Non-financial liabilities		
Amounts payable to employees	7,007	6,732
Other taxes payable	2,443	1,620
Other accruals and deferred income	380	-
Total non-financial liabilities	**9,830**	**8,352**
Total other liabilities	**13,807**	**13,428**

20. Subordinated debt

The UAH-denominated subordinated debt was issued to PJSC "Dongorbank" by a local company in 2009 in the amount of UAH 127,300 thousand (USD 15,899 thousand at the exchange rate as at the date of issue) carrying an interest rate of 12.75% p.a. and maturing in November 2014. As at 31 December 2012, the carrying amount of this subordinated debt was USD 16,088 thousand (2011: USD 16,105 thousand.) In addition, the UAH-denominated subordinated debt was issued to PJSC "Dongorbank" by a local company in 2009 in the amount of UAH 135,000 thousand (USD 16,854 thousand at the exchange rate as at the date of issue) with the carrying amount of USD 17,061 thousand as at 31 December 2012 (2011: USD 17,080 thousand) carrying an interest rate of 12.75% p.a. and maturing in November 2014.

Also, the UAH-denominated subordinated debt was issued to the Bank by a local company in 2009 in the amount of UAH 220,000 thousand (USD 27,491 thousand at the exchange rate as at the date of issue) with the carrying amount of USD 27,721 thousand as at 31 December 2012 (2011: with the carrying amount of USD 27,746 thousand) carrying an interest rate of 9% p.a. and maturing in October 2015.

In December 2012, the Bank paid the subordinated debt of USD 25,000 thousand in full.

(in thousands of US Dollars)

21. Derivative financial instruments

The table below shows the fair values of derivative financial instruments recorded as assets or liabilities.

The Bank had outstanding foreign exchange contracts with banks as at 31 December 2012 and 31 December 2011:

	2012		2011	
	Contracts with positive fair value	**Contracts with negative fair value**	**Contracts with positive fair value**	**Contracts with negative fair value**
Foreign exchange forwards: fair values, at the end of the reporting period, of				
- EUR receivable on settlement (+)	42,317	27,827	-	64,729
- UAH receivable on settlement (+)	48,020	-	-	-
- USD receivable on settlement (+)	42,594	29,473	114,497	-
- USD payable on settlement (-)	(89,435)	(28,020)	-	(62,883)
- EUR payable on settlement (-)	(42,328)	(26,267)	(113,319)	-
- Other payable on settlement (-)	(68)	(3,227)	-	(2,282)
Net fair value of foreign exchange forwards	**1,100**	**(214)**	**1,178**	**(436)**
Foreign exchange swaps: fair values, at the end of the reporting period, of				
- USD receivable on settlement (+)	-	-	48,851	124,020
- USD payable on settlement (-)	(10,640)	(36,311)	(273,631)	(115,284)
- EUR receivable on settlement (+)	-	-	-	111,754
- EUR payable on settlement (-)	-	(2,644)	(48,387)	-
- UAH receivable on settlement (+)	9,000	38,937	281,668	1,000
- UAH payable on settlement (-)	-	-	(5,000)	(124,470)
- Other receivable on settlement (+)	1,640	-	-	937
- Other payable on settlement (-)	-	-	(469)	-
Net fair value of foreign exchange swaps	**-**	**(18)**	**3,032**	**(2,043)**

The resulting net fair value gain or loss was recorded in the gains less losses from financial derivatives.

(in thousands of US Dollars)

22. Share capital

As at 31 December 2012, the Bank's authorised share capital comprises 14,323,880 ordinary shares with a nominal value of UAH 230 (USD 28.78 at the 31 December 2012 exchange rate of UAH 7.993 for USD 1) per share. All shares have equal voting rights.

As at 31 December 2010, the share capital of FUIB comprised 10,968,880 ordinary shares with a nominal value of UAH 230 (USD 28.89 at the exchange rate of UAH 7.9617 for USD 1) per share. As at 31 December 2010, the share capital of PJSC "Dongorbank" comprised 771,650,000 ordinary shares with a nominal value of UAH 1 (USD 0.13 at the exchange rate of UAH 7.9617 for USD 1) per share. In these financial statements, the inflation-adjusted share capital of PJSC "Dongorbank" as at 31 December 2010 was included in the Merger reserve.

On 13 December 2011, the State Commission for Securities and Stock Market issued a statement of registration of the merged bank's share capital. The difference between the carrying value of the share capital of PJSC "Dongorbank" and its nominal value as at 31 December 2011 was recorded in the Merger reserve in the amount of USD 4,288 thousand.

	Number of shares	Nominal amount	Inflation-adjusted amount
At 1 January 2011	**10,968,880**	**316,872**	**333,560**
New shares issued	3,355,000	96,585	96,585
Translation to presentation currency	-	(1,120)	(1,179)
At 31 December 2011	**14,323,880**	**412,337**	**428,966**
Translation to presentation currency	-	(165)	(172)
At 31 December 2012	**14,323,880**	**412,172**	**428,794**

As at 31 December 2012, all shares were fully paid and registered.

Nature and Purpose of Other Reserve

Other reserve is used to record accumulated currency translation differences arising as a result of translation of equity items into the Bank's presentation currency at the closing rate ruling at the reporting date.

(in thousands of US Dollars)

23. Segment analysis

Segment information for assets and liabilities of the reportable operating segments of the Bank as at 31 December 2012 is set out below:

2012	Retail banking	Corporate banking	Investment banking	Unallocated	Total
Segment assets	**704,475**	**1,836,010**	**914,488**	**(422)**	**3,454,551**
including					
Cash balances	68,506	31,741	-	-	**100,247**
Balance with the National Bank of Ukraine	8,780	3,209	173,831	-	**185,820**
Due from other banks, net			301,897		**301,897**
Loans to customers, net	521,064	1,716,494	-	-	**2,237,558**
- loans to customers, gross	701,007	1,925,529	-	-	**2,626,536**
- allowance	(179,943)	(209,035)	-	-	**(388,978)**
Investment securities	-	-	425,057	-	**425,057**
Other financial statements items	106,125	84,566	13,703	(422)	**203,972**
Segment liabilities	**1,289,814**	**935,272**	**408,114**	**188,160**	**2,821,360**
including					
Due to the National Bank of Ukraine	-	-	-	127,130	**127,130**
Due to other banks	-	-	146,630	-	**146,630**
Customer accounts	1,280,859	928,779	-	-	**2,209,638**
Eurobonds issued and other borrowed funds	-	-	258,637	-	**258,637**
Bonds issued	-	-	14	-	**14**
Subordinated debt	-	-	-	60,870	**60,870**
Other financial statements items	8,955	6,493	2,833	160	**18,441**

(in thousands of US dollars)

23. Segment analysis (Continued)

Segment information for profit and loss of the reportable operating segments of the Bank for 2012 is set out below:

2012	Retail banking	Corporate banking	Investment banking	Unallo-cated	Total
Loans to customers	90,654	215,621	-	-	**306,275**
Due from other banks	-	-	35,345	-	**35,345**
Investment securities	-	-	40,959	-	**40,959**
Interest income	**90,654**	**215,621**	**76,304**	**-**	**382,579**
Customer accounts	(87,333)	(54,445)	-	-	**(141,778)**
Loans from the NBU	-	-	-	(12,186)	**(12,186)**
Due to other banks	(251)	(1,146)	(19,867)	-	**(21,264)**
Loans from international institutions	-	(403)	(33,222)	-	**(33,625)**
Securities in issue	-	-	(2)	-	**(2)**
Subordinated debt	-	-	-	(8,976)	**(8,976)**
Interest expense	**(87,584)**	**(55,994)**	**(53,091)**	**(21,162)**	**(217,831)**
Transfers	78,279	(77,215)	(18,493)	17,429	**-**
Net interest income	**81,349**	**82,412**	**4,720**	**(3,733)**	**164,748**
Fee and commission income	39,779	16,644	4,541	-	**60,964**
Fee and commission expense	(20,872)	(693)	(803)	-	**(22,368)**
Net fee and commission income	**18,907**	**15,951**	**3,738**	**-**	**38,596**
Net gains from dealing in foreign currencies, translation result	1,183	75	3,052	-	**4,310**
Net losses from investment securities available for sale	-	-	385	-	**385**
Trading income	**1,183**	**75**	**3,437**	**-**	**4,695**
Other income / (expense)	558	349	66	(282)	**691**
Operating income	**101,997**	**98,787**	**11,961**	**(4,015)**	**208,730**
Operating expenses	(60,288)	(38,558)	(6,891)	(8,141)	**(113,878)**
Provisions for credit related commitments	-	(436)	-	-	**(436)**
Allowance for impairment of loans and securities	(39,060)	(6,366)	308	-	**(45,118)**
Allowance for prepayments	-	-	-	563	**563**
Segment result	**2,649**	**53,427**	**5,378**	**(11,593)**	**49,861**
Income taxes	-	-	-	(15,201)	**(15,201)**
Profit/(loss) for the year	**2,649**	**53,427**	**5,378**	**(26,794)**	**34,660**

(in thousands of US dollars)

23. Segment analysis (Continued)

Segment information for assets and liabilities of the reportable operating segments of the Bank as at 31 December 2011 presented in accordance with the information analysed by the management for the Bank before the merger is set out below:

2011	Retail banking	Corporate banking	Investment banking	Unallocated	Total
Segment assets	**621,520**	**1,737,500**	**1,356,740**	**(265)**	**3,715,495**
including					
Cash balances	41,803	43,677	-	-	**85,480**
Balance with the National Bank of Ukraine	13,867	9,751	239,652	-	**263,270**
Due from other banks, net	-	-	549,574	-	**549,574**
Loans to customers, net	452,738	1,604,677	-	-	**2,057,415**
- loans to customers, gross	605,774	1,814,529	-	-	**2,420,303**
- allowance	(153,036)	(209,852)	-	-	**(362,888)**
Investment securities available for sale	-	-	551,036	-	**551,036**
Other financial statements items	113,112	79,395	16,478	(265)	**208,720**
Segment liabilities	**1,091,192**	**1,444,724**	**360,188**	**210,721**	**3,106,825**
including					
Due to the National Bank of Ukraine	-	-	-	127,182	**127,182**
Due to other banks	-	-	65,247	-	**65,247**
Customer accounts	1,087,022	1,439,202	-	-	**2,526,224**
Eurobonds issued and other borrowed funds	-	-	293,550	-	**293,550**
Bonds issued	-	-	14	-	**14**
Subordinated debt	-	-	-	86,067	**86,067**
Other financial statements items	4,170	5,522	1,377	(2,528)	**8,541**

(in thousands of US dollars)

23. Segment analysis (Continued)

Segment information for profit and loss of the reportable operating segments of the Bank for 2011 presented in accordance with the information analysed by the management for the Bank before the merger is set out below:

2011	**Retail banking**	**Corporate banking**	**Investment banking**	**Unallo-cated**	**Total**
Loans to customers	57,664	201,118	-	-	**258,782**
Due from other banks	-	87	24,831	-	**24,918**
Investment securities available for sale	-	-	36,314	-	**36,314**
Interest income	**57,664**	**201,205**	**61,145**	**-**	**320,014**
Customer accounts	(76,169)	(29,536)	(3,000)	-	**(108,705)**
Due to the National Bank of Ukraine	-	-	-	(14,541)	**(14,541)**
Due to other banks	(136)	(588)	(10,105)	-	**(10,829)**
Loans from international institutions	-	(686)	(41,358)	-	**(42,044)**
Securities in issue	-	-	(2)	-	**(2)**
Subordinated debt	-	-	-	(8,275)	**(8,275)**
Interest expense	**(76,305)**	**(30,810)**	**(54,465)**	**(22,816)**	**(184,396)**
Transfers	57,341	(101,870)	16,735	27,794	**-**
Net interest income	**38,700**	**68,525**	**23,415**	**4,978**	**135,618**
Fee and commission income	30,804	15,270	4,209	-	**50,283**
Fee and commission expense	(15,773)	(1,202)	(196)	-	**(17,171)**
Net fee and commission income	**15,031**	**14,068**	**4,013**	**-**	**33,112**
Net gains from dealing in foreign currencies, translation result	1,144	-	1,143	-	**2,287**
Net losses from investment securities available for sale	-	-	(241)	-	**(241)**
Trading income	**1,144**	**-**	**902**	**-**	**2,046**
Other income / (expense)	(290)	(772)	982	208	**128**
Operating income	**54,585**	**81,821**	**29,312**	**5,186**	**170,904**
Operating expenses	(55,164)	(37,073)	(7,200)	-	**(99,437)**
Provisions for credit related commitments	-	436	-	-	**436**
Allowance for impairment of loans and securities	(15,976)	5,684	3,429	-	**(6,863)**
Allowance for prepayments	-	-	1,778	4,170	**5,948**
Segment result	**(16,555)**	**50,868**	**27,319**	**9,356**	**70,988**
Income taxes	-	-	-	(13,842)	**(13,842)**
Profit for the year	**(16,555)**	**50,868**	**27,319**	**(4,486)**	**57,146**

(in thousands of US dollars)

23. Segment analysis (Continued)

Capital expenditure is not included into the segment information reviewed by the Management Board of the Bank. Capital expenditure represents additions to non-current assets other than financial instruments, deferred tax assets, post-employment benefit assets and rights arising under insurance contracts.

Reconciliation of reportable segment assets and liabilities as at 31 December 2012 is set out below:

2012	Total amount for all reportable segments	Adjustment 1	Other adjustments	As reported
Assets	**3,454,551**	**(6,339)**	**(777)**	**3,447,435**
including				
Cash balances	100,247	(12,306)	-	**87,941**
Balance with the National Bank of Ukraine	185,820	-	-	**185,820**
Due from other banks, net	301,897	-	(1,049)	**300,848**
Loans to customers	2,237,558		(125)	**2,237,433**
- loans to customers, gross	2,626,536	-	(125)	**2,626,411**
- allowance	(388,978)		-	**(388,978)**
Investment securities	425,057	-	(1)	**425,056**
Other financial statements items	203,972	5,967	398	**210,337**
Liabilities	**2,821,360**	**(6,341)**	**(638)**	**2,814,381**
including				
Due to the National Bank of Ukraine	127,130	-	-	**127,130**
Due to other banks	146,630	-	3	**146,633**
Customer accounts	2,209,638	(6,341)	-	**2,203,297**
Eurobonds issued and other borrowed funds	258,637	-	(1)	**258,636**
Bonds issued	14	-	-	**14**
Subordinated debt	60,870	-	-	**60,870**
Other financial statements items	18,441	-	(640)	**17,801**

Adjustment 1 relates to the amounts of cash withdrawals through ATMs on 31 December 2012, which are not reflected in the segment reporting.

(in thousands of US dollars)

23. Segment analysis (Continued)

Reconciliation of reportable segment revenues, profit or loss for 2012 is set out below:

2012	Total amount for all reportable segments	Adjustment 1	Other adjustments	As reported
Interest income	382,579	(31,911)	(6,699)	**343,969**
Interest expense	(217,831)	17,774	-	**(200,057)**
Net interest income	**164,748**	**(14,137)**	**(6,699)**	**143,912**
Allowance for loan impairment	-	-	(35,738)	**(35,738)**
Net interest income after allowance for loan impairment	**164,748**	**(14,137)**	**(42,437)**	**108,174**
Fee and commission income	60,964	-	1,037	**62,001**
Fee and commission expense	(22,368)		(1,172)	**(23,540)**
Net fee and commission income	**38,596**	**-**	**(135)**	**38,461**
Net gains from dealing in foreign currencies, translation result	4,310	-	(449)	**3,861**
Net losses from investment securities	385	-	-	**385**
Trading income	**4,695**	**-**	**(449)**	**4,246**
Reversal of provision for credit related commitments	-	-	(436)	**(436)**
Gains less losses on revaluation of investment property	-	-	2	**2**
Allowance for impairment of investment securities available for sale	-	-	(74)	**(74)**
Revaluation of investment securities through profit/ loss	-	-	30	**30**
Gains less losses from financial derivatives	-	14,137	-	**14,137**
Other income / (expense)	691	-	3,043	**3,734**
Operating income	**208,730**	**-**	**(40,456)**	**168,274**
Operating expenses	(113,878)	-	(4,533)	**(118,411)**
Provision for credit related commitments	(436)	-	436	**-**
Allowance for impairment of assets	(45,118)	-	45,118	**-**
Allowance for prepayments	563	-	(563)	**-**
Segment result / Profit before income tax expense	**49,861**	**-**	**2**	**49,863**
Income taxes	(15,201)	-	6	**(15,195)**
Net profit for the year	**34,660**	**-**	**8**	**34,668**

Adjustment 1 is explained by presentation of cross interbank loans and deposits on a net basis, in the management and IFRS accounts, respectively.

(in thousands of US dollars)

23. Segment analysis (Continued)

Reconciliation of reportable segment assets and liabilities as at 31 December 2011 presented in accordance with the information analysed by the management for the Bank before the merger to the financial statements of the Bank, presented under predecessor basis of accounting, with the effect of the merger and changes in presentation and accounting for interest income shown separately, is set out below:

2011	Total amount for all reportable segments	Adjust-ment 1	Adjust-ment 2	Adjust-ment 3	Adjust-ment 4	Other adjust-ments	As reported
Assets	**3,715,495**	**(6,516)**	**11,295**	**(1,652)**	**-**	**2,266**	**3,720,888**
including							
Cash balances	85,480	(6,516)	-	-	-	-	**78,964**
Balance with the National Bank of Ukraine	263,270	-	-	-	-	1	**263,271**
Due from other banks, net	549,574	-	11,295	25,786	-	(1,297)	**585,358**
Loans to customers	2,057,415	-	-	758	-	(2,419)	**2,055,754**
- loans to customers, gross	2,420,303	-	-	1,767	-	615	**2,422,685**
- allowance	(362,888)	-	-	(1,009)	-	(3,034)	**(366,931)**
Investment securities available for sale	551,036	-	-	(28,196)	-	69	**522,909**
Other financial statements items	208,720	-	-	-	-	5,912	**214,632**
Liabilities	**3,106,825**	**(6,516)**	**11,295**		**(762)**	**5,115**	**3,115,957**
including							
Due to the National Bank of Ukraine	127,182	-	-	-	-	-	**127,182**
Due to other banks	65,247	-	-	-	-	(19)	**65,228**
Customer accounts	2,526,224	(6,516)	11,295	-	-	247	**2,531,250**
Eurobonds issued and other borrowed funds	293,550	-	-	-	-	-	**293,550**
Bonds issued	14	-	-	-	-	-	**14**
Subordinated debt	86,067	-	-	-	(762)	-	**85,305**
Other financial statements items	8,541	-	-	-	-	4,887	**13,428**

Adjustments stated in the above table are described as follows:

- Adjustment 1 relates to the amount of cash withdrawals through ATMs on 31 December 2011, which is not reflected in the segment reporting;
- Adjustment 2 refers to the timing differences on nostro accounts as at the reporting date, which were not reflected in the segment reporting;
- Adjustment 3 is explained by the reclassification of balances on repo deals and receivables and related allowances, which are recognised as purchases and sales of securities in the segment reporting; and
- Adjustment 4 relates to gain at initial recognition of subordinated debt at the interest rate below the market rate, which is not recorded in the segment reporting.

(in thousands of US dollars)

23. Segment analysis (Continued)

Reconciliation of reportable segment revenues, profit or loss as at 31 December 2011 presented in accordance with the information analysed by the management for the Bank before the merger, to the financial statements of the Bank, presented under predecessor basis of accounting, with the effect of the merger and changes in presentation and accounting for interest income shown separately, is set out below:

2011	Total amount for all reportable segments	Adjust-ment 1	Adjust-ment 2	Adjust-ment 3	Other adjust-ments	As reported
Interest income	320,014	(19,154)	-	-	429	**301,289**
Interest expense	(184,396)	6,299	(733)	-	220	**(178,610)**
Net interest income	**135,618**	**(12,855)**	**(733)**	**-**	**649**	**122,679**
Allowance for loan impairment	-	-	-	-	(8,074)	**(8,074)**
Net interest income after allowance for loan impairment	**135,618**	**(12,855)**	**(733)**	**-**	**(7,425)**	**114,605**
Fee and commission income	50,283	-	-	(1,038)	(1,029)	**48,216**
Fee and commission expense	(17,171)	-	-	1,038	382	**(15,751)**
Net fee and commission income	**33,112**	**-**	**-**	**-**	**(647)**	**32,465**
Net gains from dealing in foreign currencies, translation result	2,287	-	-	-	146	**2,433**
Net losses from investment securities available for sale	(241)	-	-	-	97	**(144)**
Trading income	**2,046**	**-**	**-**	**-**	**243**	**2,289**
Reversal of provision for credit related commitments	-	-	-	-	418	**418**
Gains less losses on revaluation of investment property	-	-	-	-	1,336	**1,336**
Impairment of investment securities available for sale	-	-	-	-	(2,379)	**(2,379)**
Gains less losses from financial derivatives	-	12,855	-	-	(98)	**12,757**
Other income / (expense)	128	-	-	-	3,749	**3,877**
Operating income	**170,904**	**-**	**(733)**	**-**	**(4,803)**	**165,368**
Operating expenses	(99,437)	-	-	-	2,543	**(96,894)**
Provision for credit related commitments	436	-	-	-	(436)	**-**
Allowance for impairment of assets	(6,863)	-	-	-	6,863	**-**
Allowance for prepayments	5,948	-	-	-	(5,948)	**-**
Segment result / Profit before income tax expense	**70,988**	**-**	**(733)**	**-**	**(1,781)**	**68,474**
Income taxes	(13,842)	-	-	-	1,749	**(12,093)**
Net profit for the year	**57,146**	**-**	**(733)**	**-**	**(32)**	**56,381**

Adjustments stated in the above table are described as follows:

- Adjustment 1 is explained by presentation of cross interbank loans and deposits on a net basis, in the management and IFRS accounts, respectively;
- Adjustment 2 refers to gain at initial recognition of subordinated debt at the interest rate below the market rate, which is not recorded in the segment reporting; and

23. Segment analysis (Continued)

- Adjustment 3 refers to internal income and expenses of FUIB and PJSC "Dongorbank" related to the processing centre's operations during the period of 2011 before the date of merging accounts, which are not eliminated in the segment reporting.

Revenues for each individual country are not reported to the chief operational decision maker as they are mainly represented by revenues from Ukraine, including revenues from off-shore companies of Ukrainian customers, based on the domicile of the customer. Revenues from other countries comprise interest income and fee and commission income and do not exceed 10% of total revenues of the Bank.

Capital expenditure comprising additions to non-current assets other than financial instruments is represented by assets located in Ukraine.

The Bank has no customer for which the revenue represents 10% or more of the total revenues.

(in thousands of US dollars)

24. Interest income and expense

	2012	2011
Interest income		
Loans to customers		
- legal entities	217,245	201,465
- individuals	82,903	58,173
Securities	38,918	35,968
Due from other banks	4,903	5,683
Total interest income	**343,969**	**301,289**
Interest expense		
Individuals		
- term deposits	(85,142)	(73,563)
- current accounts	(2,191)	(2,700)
Legal entities		
- term deposits	(34,523)	(21,521)
- current accounts	(19,922)	(11,165)
Eurobonds issued	(29,953)	(30,087)
Loans from the NBU	(12,186)	(14,541)
Subordinated debt	(8,976)	(9,008)
Due to other banks	(4,619)	(4,066)
Other borrowed funds	(2,543)	(11,957)
Bonds issued	(2)	(2)
Total interest expense	**(200,057)**	**(178,610)**
Net interest income	**143,912**	**122,679**

(in thousands of US dollars)

25. Fee and commission income and expense

	2012	2011
Payment cards	36,613	26,359
Foreign currency exchange	8,505	8,002
Settlement transactions with customers	7,097	6,842
Documentary operations	4,846	3,544
Cash deposits and withdrawals	2,640	2,269
Servicing of loans	1,830	798
Fiduciary activities	135	131
Other	335	271
Fee and commission income	**62,001**	**48,216**
Payment cards	(19,428)	(13,603)
Servicing of acquired loans	(1,241)	(300)
Cash collections	(1,221)	(1,075)
Settlement transactions	(1,057)	(612)
Documentary operations	(126)	(65)
Fiduciary activities	(59)	(21)
Other	(408)	(75)
Fee and commission expense	**(23,540)**	**(15,751)**
Net fee and commission income	**38,461**	**32,465**

26. Other income

	2012	2011
Penalties received	1,173	207
Other rental income	1,038	556
Rental income from investment properties (Note 11)	729	883
Gain from sale of precious metals	319	501
Reversal of previously recognised premises impairment	-	988
Other income	475	742
Total other income	**3,734**	**3,877**

(in thousands of US dollars)

27. Operating expenses

	2012	2011
Salary, employee benefits and compulsory contributions to State funds	60,058	52,037
Depreciation and amortisation (Note 11)	13,312	11,185
Maintenance of premises and equipment	8,256	6,547
Advertising, entertainment expenses	6,363	3,467
Contributions to Individuals Deposits Guarantee Fund	6,305	5,139
Audit, legal, consulting services	4,769	7,607
Lease of premises	4,720	4,796
Impairment of premises	-	1,345
Communication	2,429	1,855
State duties and taxes, other than on income	2,034	1,658
Security services	1,160	1,205
Losses from loans sale	1,080	-
Staff training	407	437
Provision/ (reversal of provision) for impairment of other assets (Note 12)	187	(5,965)
Charitable contributions	104	85
Other	7,227	5,496
Total operating expenses	**118,411**	**96,894**

Included in salary, employee benefits and compulsory contributions to State funds is the unified social tax in the amount of USD 12,261 thousand and social insurance contributions (hospital ward payment) of USD 280 thousand (2011: unified social tax in the amount of USD 10,974 thousand and one-off pension contributions of USD 255 thousand). Starting from 2011, in accordance with the Ukrainian legislation, the unified social tax is implemented, with further allocation of contributions between the respective state social funds. Pension contributions are made to the State Pension Fund which is a defined contribution plan. The contribution to the State Pension Fund comprises 90.2174% of the unified social tax, amounting to USD 11,062 thousand in 2012.

(in thousands of US dollars)

28. Income taxes

Income tax expense was comprised of the following:

	2012	2011
Current tax charge	7,259	9
Deferred tax expense	7,936	12,084
Income tax expense for the year	**15,195**	**12,093**

The income of the Bank for 2012 is taxable at the rate of 21%. In 2011, the income of the Bank was taxable at the rate of 25% before 1 April, and at the rate of 23 % after 1 April of the previous year. The reconciliation between the expected and the actual income tax expense is provided below:

	2012	2011
Profit before income tax expense	**49,862**	**68,474**
Theoretical tax charge at the applicable statutory rate	10,471	16,091
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Income assessable for tax purposes only	984	4,629
- Tax-free income	-	(4,103)
- Non deductible expenses	1,834	2,229
- Income assessable for tax purposes only	(394)	-
- Exchange rate differences on recognition of current and deferred income tax	(1)	(32)
- Other non-temporary differences	160	(283)
- Recognition of previously unrecognised tax loss carried forward	-	(2,895)
- Utilisation of previously unrecognised tax loss carried forward	-	(3,543)
- Change in income tax amount for income tax rate applicable in future	2,141	-
Income tax expense for the year	**15,195**	**12,093**

The differences between the national and IFRS taxation result in specific temporary differences arising between the carrying values of some assets and liabilities for the purposes of financial reporting and their tax bases. The tax effect of changes in such temporary differences shall be accounted for at the income tax rates expected to be applied in the period of realization of such differences.

(in thousands of US dollars)

28. Income taxes (Continued)

Deferred tax assets and liabilities as at 31 December 2012 and 31 December 2011 and their movements for the respective years are as follows:

	31 December 2011	**Credited/ (charged) to other comprehensive income**	**Credited/ (charged) to statement of income**	**Effect of translation to presentation currency**	**31 December 2012**
Tax effect of deductible and taxable temporary differences					
Allowances for loan impairment and credit related commitments	(26,275)	-	1,882	10	**(24,383)**
Investment securities available for sale	11,130	1,572	(9,289)	(5)	**3,408**
Property and equipment and investment property	(3,211)	(126)	482	1	**(2,854)**
Accrued interest and commission income	18,005	-	(578)	(7)	**17,420**
Accrued interest and commission expense	(1,450)	-	643	1	**(806)**
Subordinated debt	(160)	-	160	-	**-**
Other	1,278	-	42	(1)	**1,319**
Estimated net deferred tax liability	**(683)**	**1,446**	**(6,658)**	**(1)**	**(5,896)**
Tax loss carry forward	3,181	-	(1,278)	(1)	**1,902**
Net deferred tax asset / (liability)	**2,498**	**1,446**	**(7,936)**	**(2)**	**(3,994)**

(in thousands of US dollars)

28. Income taxes (Continued)

	31 December 2010	**Credited/ (charged) to other comprehensive income**	**Credited/ (charged) to statement of income**	**Effect of translation to presentation currency**	**31 December 2011**
Tax effect of deductible and taxable temporary differences					
Allowances for loan impairment and credit related commitments	(851)	-	(25,427)	3	**(26,275)**
Investment securities available for sale	8,713	(482)	2,930	(31)	**11,130**
Property and equipment	(18,569)	16,499	(1,206)	65	**(3,211)**
Accrued interest and commission income	10,851	-	7,192	(38)	**18,005**
Accrued interest and commission expense	(4,121)	-	2,657	14	**(1,450)**
Subordinated debt	(344)	-	183	1	**(160)**
Other	2,595	-	(1,308)	(9)	**1,278**
Estimated net deferred tax liability	**(1,726)**	**16,017**	**(14,979)**	**5**	**(683)**
Tax loss carry forward	287	-	2,895	(1)	**3,181**
Net deferred tax (liability) / asset	**(1,439)**	**16,017**	**(12,084)**	**4**	**2,498**

29. Risk management

Introduction

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

29. Risk management (Continued)

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

Risk Management Process
The risk management policy, monitoring and control are conducted by a number of specialised bodies and units within the Bank. The unit most actively involved in such management is the Risk Management Division subordinated to the Chairman of the Management Board and reporting to the Bank Management Board, Credit Council and the Assets and Liabilities Management Committee.

Supervisory Board
The Supervisory Board has the highest degree of authority with respect to the Bank's risk management, and is empowered through the Bank's Charter to approve any transactions on behalf of the Bank for amounts in excess of USD 150,000 thousand.

Management Board
The Management Board is generally responsible for the activities of the Bank, including those relating to risk management. The Management Board delegates its powers with respect to the overall asset and liability management of the Bank to the Assets and Liabilities Management Committee, approves the composition of this Committee and the Tariff Committee. In addition, the Management Board is responsible for development and preliminary approval of the Bank's credit policy, before the final approval by the Supervisory Board.

Credit Council
The Credit Council of the Bank approves loans issued with the maximum credit exposure of USD 150,000 thousand and sets limits on interbank deals. A representative of the shareholders is a member of the Credit Council. The decisions taken by the Credit Council in terms of the projects which maximum credit exposures exceed USD 20,000 thousand shall become valid if four positive votes are in place, one being of the Credit Council's member from the Supervisory Board. The decisions taken by the Credit Council in terms of the projects which maximum credit exposures are below USD 20,000 thousand shall become valid if four positive votes are in place, one being of the Credit Council's member from the Supervisory Board or of an external expert (a representative of the shareholder). The Council meets twice a week.

Credit Committee
The Credit Committee is responsible for the decision on restructuring and issue of loans with a maximum credit exposure of USD 2,000 thousand irrespectively of collateral. Also, the Credit Committee of the Bank approves loans which bear no credit risk covered by cash collateral for loans with a maximum credit exposure of USD 10,000 thousand. The Committee meets several times per week when the need arises.

Assets and Liabilities Management Committee
The Assets and Liabilities Management Committee is responsible for managing the Bank's assets and liabilities and the overall financial structure. It is also primarily responsible for monitoring the interest rate, currency and liquidity risks of the Bank.

29. Risk management (Continued)

Risk Management Division
The Risk Management Division is responsible for the development of the credit risk management methodologies, implementing and maintaining credit risk related procedures, reporting.

Market and Operational Risk Management Division
The Market and Operational Risk Management Division is responsible for the development of risk management methodologies, procedures and reporting, which allow the Bank to perform a quantitative assessment of interest rate, currency, operating and liquidity risks. This structural unit monitors the above mentioned risks on a permanent basis and controls the implementation of the decisions of the Assets and Liabilities Management Committee.

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

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

The Management Board receives a comprehensive risk report, which is designed to provide all the necessary information to assess and conclude on the risks of the Bank, on a monthly basis.

29. Risk management (Continued)

Risk mitigation
As part of its overall risk management, the Bank uses derivatives and other instruments to manage exposures resulting from changes in interest rates, foreign currencies, equity risks, credit risks, and exposures arising from forecast transactions.

The Bank actively uses collateral to reduce its credit risks (see below for more detail).

Excessive risk concentration
Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risks, the Bank's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

Credit risk
The Bank takes on exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers. Such risks are monitored on a revolving basis and subject to a regular review. Limits on the level of credit risk by borrower are approved regularly by the Credit Council and Credit Committee of the Bank.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and principal repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed, in part, by obtaining collateral and corporate guarantees.

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

Credit-related commitments risks
The Bank makes available guarantees and letters of credit to its customers which may require that the Bank make payments on their behalf. They expose the Bank to similar risks to loans and these are mitigated by the same control processes and policies.

29. Risk management (Continued)

The maximum exposure to credit risk for the components of the statement of financial position, including derivatives before the effect of mitigation through the use of master netting or collateral agreements, is shown in their carrying values as accurately as possible.

If recorded at fair value, their carrying values represent the current credit risk exposure but not the maximum risk exposure that could arise in future as a result of changes in values.

For more detail on the maximum exposure to credit risk for each class of financial instruments, references shall be made to the specific notes. The effect of collateral and other risk mitigation techniques is shown below.

Credit quality of financial assets
The credit quality of financial assets is managed by using both external and the Bank's internal credit ratings. The credit quality by class of asset for loan-related statement of financial position lines, based on the external ratings and the Bank's credit rating system is presented in Note 8, Note 9 and Note 10.

Impairment assessment
The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue by more than 30 days or there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract. The Bank addresses impairment assessment in two areas: individually assessed allowances and collectively assessed allowances.

Individually assessed allowances
The Bank determines the allowances appropriate for each individually significant loan on an individual basis. The items considered when determining the allowance amounts include the feasibility of the counterparty's business plan, its ability to improve the performance once a financial difficulty has arisen, projected receipts and the expected dividend payment in case of bankruptcy, the availability of other financial support, the realisable value of collateral, and the timing of the expected cash flows. The impairment losses are evaluated at each reporting date, unless any unforeseen circumstances require more careful attention.

Collectively assessed allowances
Allowances are assessed collectively for losses on loans to customers that are not individually significant (including credit cards, residential mortgages and unsecured consumer lending) and for individually significant loans where there is no yet objective evidence of impairment. The allowances are evaluated at each reporting date, with each portfolio receiving a separate review. The collective assessment takes account of the impairment that is likely to be present in the portfolio even though there is no yet any objective evidence of impairment in an individual assessment. The impairment losses are estimated by taking into consideration the following information: historical losses on the portfolio, current economic conditions, the appropriate delay between the time the loss is likely to have been incurred and the time it will be identified as requiring an individually assessed impairment allowance, and expected receipts and recoveries once impaired. The impairment allowance is then reviewed by the credit management to ensure its alignment with the Bank's overall policy.

(in thousands of US dollars)

29. Risk management (Continued)

Financial guarantees and letters of credit are assessed based on the methods applied for loans; when the loss is considered probable, provisions are recorded against other credit related commitments.

Liquidity risk and funding management

Liquidity risk is the risk that the Bank will be unable to discharge its payment obligations when due in the course of usual economic activity and under stress circumstances. To limit this risk, the management has ensured diversified funding sources in addition to the Bank's core deposit base, manages assets in compliance with its liquidity principles and monitors future cash flows and liquidity on a daily basis.

During the crisis period, the Bank, with the view to ensuring proper discharge of both its own and clients' obligations, has implemented the policy aimed at maintaining the liquid assets at the level sufficient to cover any unplanned withdrawal of a part of the client deposits placed with the Bank as a precaution against further deterioration in the economic situation. The liquidity risk is measured by the Bank by using the gap analysis and forecasts of the expected future cash flows during a 1-year term. In addition, the stress tests scenarios are applied to the forecasted future cash flows developed based on the statistical data of the Ukrainian banks' results under the conditions of the financial crisis.

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

Ratio	**2012 , %**	**2011 , %**
N4 "Instant Liquidity Ratio" (cash and balances on correspondent accounts / liabilities repayable on demand) (minimum required by the NBU – 20%)	45.01	55.00
N5 "Current Liquidity Ratio" (assets receivable or realisable within 31 days / liabilities repayable within 31 days) (minimum required by the NBU – 40%)	70.20	68.34
N6 "Short-term Liquidity Ratio" (certain assets with original maturity up to 1 year / liabilities with original maturity up to 1 year including off-balance sheet commitments) (minimum required by the NBU – 60%)	84.34	77.65

(in thousands of US dollars)

29. Risk management (Continued)

Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Bank's financial liabilities at 31 December 2012 based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay and the table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

At 31 December 2012	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 12 months	Total
Due to the National Bank of Ukraine	1,006	2,013	3,019	6,039	163,363	**175,440**
Due to other banks	137,807	185	677	555	9,282	**148,506**
Derivative financial instruments:	215	-	-	-	-	**215**
- inflows	(57,300)	-	-	-	-	**(57,300)**
- outflows	57,515	-	-	-	-	**57,515**
Customer accounts	1,114,188	299,829	297,182	491,884	85,395	**2,288,478**
Eurobonds issued	2,314	4,629	6,943	13,887	280,262	**308,035**
Bonds issued	-	-	1	1	13	**15**
Other borrowed funds	51	34	634	690	10,613	**12,022**
Other financial liabilities	3,762	-	-	-	-	**3,762**
Subordinated debt	528	1,110	1,665	3,331	68,717	**75,351**
Total undiscounted financial liabilities	**1,259,871**	**307,800**	**310,121**	**516,387**	**617,645**	**3,011,824**

(in thousands of US dollars)

29. Risk management (Continued)

At 31 December 2011	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 12 months	Total
Due to the National Bank of Ukraine	1,019	1,970	2,990	49,659	85,448	**141,086**
Due to other banks	55,483	106	1,738	651	13,327	**71,305**
Derivative financial instruments:	2,479	-	-	-	-	**2,479**
- inflows	(302,440)	-	-	-	-	**(302,440)**
- outflows	304,919	-	-	-	-	**304,919**
Customer accounts	1,647,292	287,058	214,919	355,177	66,708	**2,571,154**
Eurobonds issued	-	6,943	6,943	13,887	308,035	**335,808**
Bonds issued	-	-	14	-	-	**14**
Other borrowed funds	150	279	10,601	20,842	19,882	**51,754**
Other financial liabilities	1,724	-	-	258	615	**2,597**
Subordinated debt	1,425	1,332	2,032	29,056	75,078	**108,923**
Total undiscounted financial liabilities	**1,709,572**	**297,688**	**239,237**	**469,530**	**569,093**	**3,285,120**

The table below shows the contractual expiry of the Bank's financial commitments and contingencies.

	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 12 months	Total
2012	5,251	88,195	35,680	47,107	37,806	**214,039**
2011	4,248	40,942	7,260	46,254	40,447	**139,151**

Financial commitments and contingences include guarantees, letters of credit and credit limits on overdrafts, with the expected draw-down at any time starting from the reporting date till the date of contractual expiry. The Bank expects that not all of the contingent liabilities or commitments will be drawn before the expiry of the commitments.

(in thousands of US dollars)

29. Risk management (Continued)

The table below shows the analysis of carrying values of assets and liabilities according to when they are expected to be recovered or settled as at 31 December 2012:

	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 12 months	Total
Assets						
Cash on hand and in transit	87,941	-	-	-	-	**87,941**
Balance with the National Bank of Ukraine	185,820	-	-	-	-	**185,820**
Due from other banks	265,874	23,044	9,053	81	2,796	**300,848**
Loans to customers	251,938	423,535	180,919	507,046	873,995	**2,237,433**
Investment securities through profit /loss	-	-	-	46,765	-	**46,765**
Investment securities available for sale	190	102,705	54,187	50,412	170,797	**378,291**
Gross settled swaps and forwards:						
- inflows	132,932	-	-	-	-	**132,932**
- outflows	(131,832)	-	-	-	-	**(131,832)**
Other financial assets	9,804	-	-	-	-	**9,804**
Total financial assets	**802,667**	**549,284**	**244,159**	**604,304**	**1,047,588**	**3,248,002**
Liabilities						
Due to the National Bank of Ukraine	-	-	-	-	127,130	**127,130**
Due to other banks	137,691	-	400	-	8,542	**146,633**
Customer accounts	1,090,524	148,935	150,732	667,952	145,154	**2,203,297**
Eurobonds issued	-	-	-	-	246,796	**246,796**
Bonds issued	-	-	1	-	13	**14**
Other borrowed funds	44	21	591	580	10,604	**11,840**
Subordinated debt	528	-	-	-	60,342	**60,870**
Gross settled swaps and forwards:						
- inflows	(57,300)	-	-	-	-	**(57,300)**
- outflows	57,514	-	-	-	-	**57,514**
Other financial liabilities	3,763	-	-	-	-	**3,763**
Total financial liabilities	**1,232,764**	**148,956**	**151,724**	**668,532**	**598,581**	**2,800,557**
Liquidity gap arising from financial instruments	**(430,097)**	**400,328**	**92,435**	**(64,228)**	**449,007**	**447,445**

The maturity analysis does not reflect the historical stability of current liabilities. Their realisation historically took place within the period exceeding the one indicated in the table above. The management believes that despite the current economic situation, the balances of current accounts will remain stable. These balances are included in the table above as the amounts with the maturity dates in the period of up to 1 month.

(in thousands of US dollars)

29. Risk management (Continued)

The table below shows the analysis of assets and liabilities according to when they are expected to be recovered or settled as at 31 December 2011:

	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 12 months	Total
Assets						
Cash on hand and in transit	78,964	-	-	-	-	**78,964**
Balance with the National Bank of Ukraine	263,271	-	-	-	-	**263,271**
Due from other banks	563,461	7,354	6,920	7,584	39	**585,358**
Loans to customers	192,791	242,989	180,477	339,371	1,100,126	**2,055,754**
Investment securities available for sale	250,338	29,241	7,095	17,151	219,084	**522,909**
Gross settled swaps and forwards:						
- inflows	446,369	-	-	-	-	**446,369**
- outflows	(442,114)	-	-	-	-	**(442,114)**
Other financial assets	5,579	-	-	115	2,797	**8,491**
Total financial assets	**1,358,659**	**279,584**	**194,492**	**364,221**	**1,322,046**	**3,519,002**
Liabilities						
Due to the National Bank of Ukraine	-	-	-	43,805	83,377	**127,182**
Due to other banks	55,363	2	1,317		8,546	**65,228**
Customer accounts	1,642,939	276,767	205,093	343,368	63,083	**2,531,250**
Eurobonds issued	-	-	-	-	245,230	**245,230**
Bonds issued	-	-	14	-	-	**14**
Other borrowed funds	58	58	9,718	19,385	19,101	**48,320**
Subordinated debt	703	-	-	24,238	60,364	**85,305**
Gross settled swaps and forwards:						
- inflows	(302,440)	-	-	-	-	**(302,440)**
- outflows	304,919	-	-	-	-	**304,919**
Other financial liabilities	1,724	-	-	258	615	**2,597**
Total financial liabilities	**1,703,266**	**276,827**	**216,142**	**431,054**	**480,316**	**3,107,605**
Liquidity gap arising from financial instruments	**(344,607)**	**2,757**	**(21,650)**	**(66,833)**	**841,730**	**411,397**

The maturity analysis does not reflect the historical stability of current liabilities. Their realisation historically took place within the period exceeding the one indicated in the table above. The management believes that despite the current economic situation, the balances of current accounts will remain stable. These balances are included in the table above as the amounts with the maturity dates in the period of up to 1 month.

The Bank's ability to repay its liabilities depends on its ability to attract the equivalent amount of assets within the same period of time. The current volume of liquid assets will enable the Bank to operate in a stable manner even under a situation when there may be a partial withdrawal of clients' deposits from the Bank and in case of further deterioration of the economic situation. The management believes that in spite of a substantial portion of the customers accounts being on demand, the diversification of these deposits by number and type of depositors, and the past experience of the Bank would indicate that these customer accounts provide a long-term and stable source of funding for the Bank.

Included in customer accounts are term deposits of individuals. Pursuant to the Ukrainian legislation, the Bank is obliged to repay such deposits upon the depositor's demand (Note 15).

(in thousands of US dollars)

29. Risk management (Continued)

Market risk – Non-trading
Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, exchange rates and other prices. The Bank manages its exposures to market risk for non-trading portfolios. Non-trading positions are managed and monitored using the sensitivity analysis. Except for the foreign currency related concentrations, the Bank has no significant market risk concentration.

Interest rate risk
Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The interest risk is measured based on the reports of changes in spread and margin. Also, the Bank performs the duration analysis and modelling of interest income in case of a parallel shift of the yield curve. The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Bank's income statement.

The sensitivity of the statement of income is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating interest rate of the non-trading financial assets and financial liabilities held at 31 December, taking into account the repricing periods according to the contractual terms on the respective assets and liabilities.

	2012		2011	
Interest rate	**Change in interest rate, basis points**	**Effect on net profit and equity**	**Change in interest rate, basis points**	**Effect on net profit and equity**
Libor	+15	(509)	+15	(4)
Libor	-10	339	-10	2
Euribor	+50	(50)	+50	26
Euribor	-30	30	-30	(16)

The above effect of changes in interest rates on the net profit and equity does not include the impact of taxation. Tax rate applicable for 2012 is 21% (Note 2).

The Bank's assessment of the interest rate risk is based on the scenario of a parallel shift of the yield curve towards the increase of interest rates by 100 basis points in major currencies (UAH, USD, Euro). As at 31 December 2012, the Bank's exposure to the interest rate risk may affect the net interest income within 1 year – possible decrease by USD 4,700 (as at 31 December 2011 – decrease by USD 9,200 thousand).

The Bank assesses the above level of the interest rate risk as acceptable and controllable, which is not to affect significantly the Bank's yield and stable financial position. The basis rates are stated by the Bank's Assets and Liabilities Management Committee. The delegation of authority regarding the change of interest rates is established by the internal policies of the Bank. The actual interest rates are monitored monthly by the Assets and Liabilities Management Committee.

29. Risk management (Continued)

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Management Board has set the limits on positions by currency based on the NBU regulations. The positions are monitored on a daily basis. The currency risk is measured by using the VaR methodology and stress tests for significant fluctuations of currency exchange rates.

The table below summarises the Bank's exposure to the foreign currency risk as at 31 December 2012, presented in thousands of US dollars:

	UAH	USD	EUR	Other	Total
Assets					
Cash on hand and in transit	62,526	17,192	3,733	4,490	87,941
Balance with the National Bank of Ukraine	181,544	2,953	1,323	-	185,820
Due from other banks	39,917	210,541	40,944	9,446	300,848
Loans to customers	1,195,556	924,931	115,388	1,558	2,237,433
Investment securities available for sale	235,114	142,294	-	-	377,408
Investment securities in the trading portfolio	-	46,765	-	-	46,765
Other financial assets	7,681	2,065	1,151	7	10,904
Total financial assets	**1,722,338**	**1,346,741**	**162,539**	**15,501**	**3,247,119**
Liabilities					
Due to the National Bank of Ukraine	127,130	-	-	-	127,130
Due to other banks	50,520	96,018	86	9	146,633
Customer accounts	1,095,969	944,593	149,521	13,214	2,203,297
Eurobonds issued	-	246,796	-	-	246,796
Bonds issued	14	-	-	-	14
Other borrowed funds	-	2,135	9,705	-	11,840
Other financial liabilities	2,758	477	720	22	3,977
Subordinated debt	60,870	-	-	-	60,870
Total financial liabilities	**1,337,261**	**1,290,019**	**160,032**	**13,245**	**2,800,557**
Less net derivatives	139	55	676	(2)	868
Total assets and liabilities net of derivatives	**384,938**	**56,722**	**1,831**	**2,258**	**445,749**
Derivatives (Note 21)	95,957	(92,339)	(1,095)	(1,655)	868
Net currency position	**480,895**	**(35,617)**	**736**	**603**	**446,617**
Credit related commitments	40,486	98,328	61,221	6,230	206,265

29. Risk management (Continued)

The table below summarises the Bank's exposure to the foreign currency risk as at 31 December 2011, presented in thousands of US dollars:

	UAH	USD	EUR	Other	Total
Assets					
Cash on hand and in transit	53,472	16,433	6,041	3,018	78,964
Balance with the National Bank of Ukraine	259,993	2,940	338	-	263,271
Due from other banks	49,110	483,364	42,468	10,416	585,358
Loans to customers	1,085,056	853,160	117,406	132	2,055,754
Investment securities available for sale	522,026	-	-	-	522,026
Other financial assets	9,361	3,032	333	20	12,746
Total financial assets	**1,979,018**	**1,358,929**	**166,586**	**13,586**	**3,518,119**
Liabilities					
Due to the National Bank of Ukraine	127,182	-	-	-	127,182
Due to other banks	37,092	21,850	6,273	13	65,228
Customer accounts	1,397,145	975,489	147,441	11,175	2,531,250
Eurobonds issued	-	245,230	-	-	245,230
Bonds issued	14	-	-	-	14
Other borrowed funds	-	32,573	15,747	-	48,320
Other financial liabilities	1,727	2,300	1,034	15	5,076
Subordinated debt	60,931	24,374	-	-	85,305
Total financial liabilities	**1,624,091**	**1,301,816**	**170,495**	**11,203**	**3,107,605**
Less net derivatives	1,961	(185)	-	-	1,776
Total assets and liabilities net of derivatives	**352,966**	**57,298**	**(3,909)**	**2,383**	**408,738**
Derivatives (Note 21)	153,198	(163,077)	14,777	(1,814)	3,084
Net currency position	**506,164**	**(105,779)**	**10,868**	**569**	**411,822**
Credit related commitments	18,609	25,018	65,503	5,529	114,659

The amounts disclosed in respect of derivatives represent the fair value, at the reporting date, of the respective currency that the Bank agreed to buy (positive amount) or sell (negative amount) before netting of positions and payments with the counterparty. The amounts by currency are presented gross as stated in Note 21. The net total represents the fair value of the currency derivatives. The above analysis includes only monetary assets and liabilities. The investments in equities and non-monetary assets are not considered to give rise to any material currency risk.

(in thousands of US dollars)

29. Risk management (Continued)

The table below presents the effect of a reasonably possible movement of the currency rate against UAH, with all other variables held constant on the statement of income (due to the fair value of currency sensitive non-trading monetary assets and liabilities). The effect on equity does not differ from the effect on the statement of income. A negative amount in the table reflects a potential net reduction in the statement of income or equity, while a positive amount reflects a net potential increase.

	2012		2011	
Currency	**Change in currency rate, %**	**Effect on net profit and equity**	**Change in currency rate, %**	**Effect on net profit and equity**
US dollars	+6	676	+6	(6,347)
US dollars	-4	(450)	-4	4,231
Euro	+9	304	+9	978
Euro	-5	(169)	-5	(543)

The above effect of changes in currency rates on the net profit and equity does not include the impact of taxation. The tax rate applicable for 2012 is 21% (Note 2.)

The above effect of changes in currency rates on the net profit and equity relates to the revaluation of an open currency position only and does not take into account the potential decrease in the credit quality of assets as a result of devaluation of Ukrainian hryvnia.

(in thousands of US dollars)

30. Fair values of financial instruments

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

Set out below is the comparison by class of the carrying amounts and fair values of the Bank's financial instruments that are carried at amortised cost in the financial statements. The table does not include the fair values of non-financial assets and non-financial liabilities.

	2012		2011	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
Financial assets				
Cash on hand	87,941	87,941	78,964	78,964
Balance with the National Bank of Ukraine	185,820	185,820	263,271	263,271
Due from other banks				
- Current accounts and overnight deposits	263,778	263,778	506,982	506,982
- Term deposits with other banks	37,070	37,070	52,591	52,591
- Repurchase agreements with other banks	-	-	25,785	29,196
Loans to customers				
- Corporate loans	1,716,374	1,548,740	1,602,522	1,594,302
- Mortgage loans	225,090	199,264	283,438	251,724
- Car loans	58,563	54,799	76,972	84,737
- Consumer loans	231,890	223,359	88,567	89,294
- Other loans (overdrafts)	5,516	5,516	4,255	4,255
Financial liabilities				
Due to the National Bank of Ukraine	127,130	127,130	127,182	127,182
Due to other banks				
- Current accounts of other banks	98,859	98,859	25,241	25,241
- Term deposits of other banks	47,774	47,774	39,987	39,987
Customer accounts				
- legal entities	923,319	921,373	1,447,379	1,446,768
- individuals	1,279,978	1,245,396	1,083,871	1,104,880
Eurobonds issued	246,796	255,397	245,230	224,757
Bonds issued	14	13	14	13
Other borrowed funds	11,840	11,840	48,320	48,320
Subordinated debt	60,870	60,888	85,305	85,914

(in thousands of US dollars)

30. Fair values of financial instruments (Continued)

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

Assets for which fair value approximates carrying value
For the financial assets and financial liabilities that are liquid or have a short term maturity (less than three months), it is assumed that their carrying amounts approximate their fair values. This assumption is also applied to demand deposits, savings accounts without a specific maturity and variable rate financial instruments.

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

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

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

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

At 31 December 2012	Level 1	Level 2	Level 3	Total
Financial assets				
Derivative financial assets	-	1,100	-	1,100
Ukrainian Government debt securities	406,492	-	-	406,492
Corporate bonds	-	17,681	-	17,681
Shares	-	-	883	883
Financial liabilities				
Derivative financial liabilities	-	232	-	232

(in thousands of US dollars)

30. Fair values of financial instruments (Continued)

At 31 December 2011	Level 1	Level 2	Level 3	Total
Financial assets				
Derivative financial assets	-	4,255	-	4,255
Ukrainian Government debt securities	257,510	1,833	-	259,343
Deposit certificates issued by the NBU	-	250,087	-	250,087
Corporate bonds	-	12,596	-	12,596
Shares	-	-	883	883
Financial liabilities				
Derivative financial liabilities	-	2,479	-	2,479

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

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

Investment securities available for sale
The investment securities available for sale valued using a valuation technique or pricing models primarily consist of unquoted debt securities. These securities are valued using discounted cash flows models which sometimes only incorporate the data observable in the market, such as interest rates, and at other times use both observable and non-observable data. The non-observable inputs to the models include the assumptions regarding the future financial performance of the investee, its risk profile, and economic assumptions regarding the industry in which the investee operates.

During 2012 and 2011, the Bank did not transfer any financial assets or financial liabilities from either level 1 to level 2 or from level 2 to level 1.

During 2012 and 2011, the Bank recognised neither any changes in the carrying values of the level 3 financial assets at fair value nor any resulting profit or loss.

31. Contingencies and commitments

Legal

The Bank is involved in various legal proceedings in the ordinary course of business. On the basis of its own estimates and internal professional advice, the management does not believe the result of any such actions will have a material adverse effect on the Bank's financial position or results of operations.

Tax and other regulatory compliance

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

At the same time, there is a risk that the transactions and interpretations not challenged in the past may be challenged by the authorities in the future, although this risk significantly diminishes with passage of time. It is not practical to determine the amount of unasserted claims that may manifest, if any, or the likelihood of any unfavourable outcome.

Capital expenditure commitments

As at 31 December 2012, the Bank had capital expenditure commitments in respect of purchase of equipment of USD 492 thousand (2011: USD 1,972 thousand.) The Bank's management has already allocated the necessary resources in respect of these commitments. The Bank's management believes that the future income and funding will be sufficient to cover these commitments and any similar commitments.

Compliance with covenants

The Bank is subject to certain covenants related primarily to Eurobonds issued, due to the National Bank of Ukraine and other borrowed funds. The non-compliance with such covenants may result in negative consequences for the Bank including the growth in the cost of borrowings and declaration of default. In particular, the Bank is required to maintain a certain level of equity, capital adequacy ratio, liquid to total assets ratio, maximum exposure to a single party to capital ratio, maximum exposure to a single party which is a related party to the Bank to capital ratio, operating expenses to operating results ratio, fixed and intangible assets to capital ratio. The failure to comply with these requirements could lead to early withdrawal of funds by the creditors upon their discretion. The management believed that the Bank was in compliance with all covenants as at 31 December 2012 and 31 December 2011.

(in thousands of US dollars)

31. Contingencies and commitments (Continued)

Credit related commitments

The guarantees and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the risk of the clients' defaults or inability to perform the contracts with third parties. The Bank manages its risk of loss by requiring a significant proportion of guarantees to be secured with deposits in the Bank. Documentary and commercial letters of credit, which are written undertakings by the Bank on behalf of the customers authorising third parties to draw drafts on the Bank up to a stipulated amount under the specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate or cash deposits and therefore carry less risk than direct borrowings.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to the credit risk on commitments to extend credit, the Bank is potentially exposed to loss. However, due to its revocable nature the Bank is able to refuse to issue the loans, guarantees or letters of credit to the customer due to the deterioration of the customer's solvency.

The total outstanding contractual amount of undrawn credit lines, letters of credit and guarantees does not necessarily represent future cash needs, as these financial instruments may expire or terminate without being funded.

The letters of credit issued by the Bank are as follows:

	2012	**2011**
Confirmed export letters of credit	32,202	-
Import letters of credit	-	25,661
Cash collateral (Note 15)	(3,229)	(14,301)
Provision for import letters of credit	(137)	(65)
Total letters of credit	**28,836**	**11,295**

The guarantees issued are as follows:

	2012	**2011**
Guarantees and promissory note endorsements	165,361	101,376
Cash collateral (Note 14, 15)	(2,911)	(6,744)
Provision for guarantees	(509)	(140)
Total guarantees	**161,941**	**94,492**

The Bank's outstanding irrevocable commitments to extend credit were as follows:

	2012	**2011**
Commitments to extend credit	16,476	12,114
Cash collateral	(989)	(3,242)
Total irrevocable commitments to extend credit	**15,487**	**8,872**

(in thousands of US dollars)

31. Contingencies and commitments (Continued)

The amount of undrawn revocable commitments to extend credit issued by the Bank as at 31 December 2012 was USD 214,904 thousand (2011: USD 114,229 thousand). The management considers the commitments to extend credit as revocable due to the fact that the Bank can stop further financing of the client or early cancel the credit limit funds based on the agreements providing for a wide range of the trigger events for early cancellation of credit limits, such as worsening of the client's financial condition, decrease in volume of cash inflows to the clients' current accounts, loss of collateral or substantial decrease in its fair value, decisions of the regulatory bodies impacting the Ukrainian money market.

The movements in the provision for the letters of credit and guarantees are as follows:

	2012	2011
Provision for credit related commitments as at 1 January	**205**	**654**
Charge for provision for credit related commitments during the year / (Reversal of provision)	436	(418)
Effect of translation to presentation currency	5	(31)
Provision for letters of credit and guarantees as at 31 December (Note 19)	**646**	**205**

Operating lease commitments

Where the Bank is the lessee, the future minimum lease payments under cancellable operating leases of premises are as follows:

	2012	2011
Within 1 year	1,717	1,654
From 1 to 5 years	641	1,947
Later than 5 years	100	429
Total operating lease commitments	**2,458**	**4,030**

(in thousands of US dollars)

32. Related party transactions

For the purposes of these financial statements, parties are generally considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence over the other party in making financial or operational decisions as defined by IAS 24 "Related Party Disclosures". In considering each possible related party relationship, attention is paid to the substance of the relationship, not merely the legal form.

In the normal course of business, the Bank enters into transactions with significant shareholders, companies under common control and other related parties. These transactions include settlements, loans, deposits, trade finance and foreign currency transactions. The outstanding balances as at 31 December 2012 and as at 31 December 2011 and income and expenses for the years then ended are as follows:

As at and for the year ended 31 December 2012	Parent company	Entities under common control	Management	Other related parties
Assets				
Loans to customers (interest rate, % p.a.)	-	109,326(11,7)	25(14,0)	-
Allowance for loan impairment	-	(156)	-	-
Investment securities available for sale	-	2,984(18,0)	-	-
Due from other banks (interest rate, % p.a.)	-	37,043(11,9)	-	-
Other assets	-	279	-	-
Liabilities				-
Due to other banks (interest rate, % p.a.)	-	(1,541)	-	-
Customer accounts (interest rate, % p.a.)	(7)	(453,267)(1,4)	(1,371)(10,4)	(7,603)(9,5)
Other liabilities	-	(24)	-	-
Credit related commitments				
Revocable commitments to extend credit	-	4,250	-	-
Irrevocable commitments to extend credit		-	22	-
Guarantees	-	4,797	-	-
Letters of credit	-	479	-	-
Income / expense				
Interest income	-	15,325	7	-
Interest expense	-	(19,885)	(57)	(58)
Fee and commission income	1	3,593	-	-
Fee and commission expense	-	(1,241)	-	-
Other income	-	21	55	-
Allowance for loan impairment	-	83	-	-
Insurance expense	-	(277)	-	-

(in thousands of US dollars)

32. Related party transactions (Continued)

In September 2011, the Bank started buying unsecured retail loans from the related party (Ukrainian bank.) Portfolio purchases are made on a monthly basis. During the period of up to 31 December 2011, four tranches were purchased for the total amount of USD 83,826 thousand. The entire portfolios were purchased at fair value, no gain or loss on initial recognition was recorded. During 2012, twelve tranches were purchased for the total amount of USD 232,126 thousand.

As at and for the year ended 31 December 2011	Parent company	Entities under common control	Management	Other related parties
Assets				
Loans to customers (interest rate, % p.a.)	-	87,386(11)	83(16,6)	427(11,9)
Allowance for loan impairment	-	(115)	(0,1)	(0,8)
Due from other banks (interest rate, % p.a.)	-	18,879(6,1)	-	-
Other assets	-	29	-	-
Liabilities				
Due to other banks (interest rate, % p.a.)	-	8,636(2)	-	-
Customer accounts (interest rate, % p.a.)	3(0)	899,893(4,8)	1,554(7,2)	7,834(5,7)
Other liabilities	-	-	44	-
Credit related commitments				
Revocable commitments to extend credit	-	6,264	40	71
Guarantees	-	3	-	-
Letters of credit	-	1,253	-	-
Income / expense				
Interest income	-	7,999	50	109
Interest expense	-	(12,408)	(131)	(514)
Fee and commission income	-	3,788	2	19
Fee and commission expense	-	(300)	-	-
Other income	-	237	-	-
Allowance for loan impairment	-	56	2	1
Provision for credit related commitments	-	15	-	-
Insurance expense	-	(192)	-	-

The allowance for loan impairment in respect of loans to related parties has been assessed on a portfolio basis in respect of the majority of loans.

(in thousands of US dollars)

32. Related party transactions (Continued)

During the year, the movements on related parties' loan accounts were as follows:

	Parent company	Entities under common control	Management	Other related parties
Loans granted to related parties during the year	-	186,579	193	96
Amounts repaid by related parties during the year	-	(218,692)	(186)	(95)
Other change	-	54,053	(65)	(428)

During 2011, the movements on related parties' loan accounts were as follows:

	Parent company	Entities under common control	Management	Other related parties
Loans granted to related parties during the year	-	568,756	207	166
Amounts repaid by related parties during the year	-	546,247	1 205	929
Other change	-	(1,285)	(7)	(27)

In 2012, the remuneration of the members of the Management Board comprised salaries of USD 4,232 thousand (2011: USD 4,861 thousand), compulsory contributions to the State funds of USD 96 thousand (2011: USD 87 thousand and other benefits of USD 5 thousand.) In 2012, the remuneration to the members of the Supervisory Board was USD 3 thousand (2011: USD 5 thousand.)

33. 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 and the ratios established by the NBU in supervising the Bank. The Bank considers the total capital under management to be the total regulatory capital. The amount of the capital that the Bank manages is UAH 4,268,501 thousand, or USD 534,030 thousand as at 31 December 2012 (2011: UAH 4,461,640 thousand, or USD 558,417 thousand.)

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.

(in thousands of US dollars)

33. Capital (Continued)

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

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

	2012	**2011**
Main capital	364,317	366,648
Additional capital	169,713	191,769
Total equity	**534,030**	**558,417**
Risk-weighted assets	**3,029,230**	**3,521,502**
Capital adequacy ratio	**17.63%**	**15.86%**

The regulatory capital consists of the main capital, which comprises paid-in registered share capital, share premium, reserves created in accordance with the Ukrainian legislation less net book value of intangible assets and losses of current and prior years. The other component of the regulatory capital is additional capital, which includes standard provisions for interbank and customer loans, property revaluation reserve, current year profit decreased for the amount of accrued income overdue for more than 30 days net of the provision for overdue accrued interest, long-term subordinated debt, retained earnings of prior years. As at 31 December 2012 and 31 December 2011, the Bank is compliant with the regulatory requirements to capital.

The Bank is also subject to minimum capital requirements established by the covenants stated in the loan agreements, including the capital adequacy levels calculated in accordance with the requirements of the Basel Accord, as defined in the International Convergence of Capital Measurement and Capital Standards (updated in April 1998) and the Amendment to the Capital Accord to incorporate market risks (updated in November 2005), commonly known as Basel I. The Bank complied with this loan covenant. As at 31 December 2012 and 31 December 2011, the Bank's capital adequacy ratio calculated in accordance with the Basel I requirements is as follows:

(in thousands of US dollars)

33. Capital (Continued)

	2012	2011
Tier 1 capital		
Share capital	428,794	428,966
Share premium	7,106	7,109
Merger reserve	4,287	4,288
Retained earnings	140,168	104,001
Currency translation reserve and other reserve	(21,518)	(21,715)
Total tier 1 capital	**558,837**	**522,649**
Tier 2 capital		
Asset revaluation reserves	74,217	82,282
Eligible subordinated debt	29,892	46,983
Total tier 2 capital	**104,109**	**129,265**
Total equity	**662,946**	**651,914**
Capital adequacy ratio at 31 December		
Risk-weighted assets	2,821,985	2,575,904
Total equity	662,946	651,914
Capital adequacy ratio (%)	**23.49%**	**25.31%**

Signed on behalf of the Management Board on 28 February 2013.

S. P. Chernenko (Chairman of the Management Board)

O. M. Moshkalova (Chief Accountant)