Joint stock company
"The State Export-Import Bank of Ukraine"
Consolidated Financial Statements

For the year ended 31 December 2012
and Independent Auditor's Report

CONTENTS

INDEPENDENT AUDITORS' REPORT

CONSOLIDATED FINANCIAL STATEMENS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

BAKER TILLY

28 Fizkultury Street
Kyiv, 03680
Ukraine

T: + 380 (44) 284 18 65
F: + 380 (44) 284 18 66

info@bakertillyukraine.com
www.bakertillyukraine.com

INDEPENDENT AUDITORS' REPORT

To the Shareholder and the Board of Directors of
Joint Stock Company "The State Export-Import Bank of Ukraine"

We have audited the accompanying consolidated financial statements of Joint Stock Company "The State Export-Import Bank of Ukraine" and its subsidiaries ("the Bank"), which comprise the consolidated statement of financial position as at 31 December 2012 and the consolidated income statement, consolidated statements of comprehensive income, of changes in equity, and of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated 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 consolidated 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 consolidated financial statements present fairly, in all material aspects, the financial position of the Bank as at 31 December 2012, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards.

Partner — Alexander Konovchenko

Kyiv, Ukraine
24 April 2013

Reg. № 13-082

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
For the year ended 31 December 2012
(thousands of Ukrainian hryvnia)

	Notes	2012	2011 (reclassified)	2010 (reclassified)
Assets				
Cash and cash equivalents	6	19,197,296	10,051,840	10,779,310
Mandatory reserves with the National bank of Ukraine	7	531,152	580,176	590,685
Amounts due from credit institutions	8	1,141,287	1,272,687	652,274
Loans to customers	9	39,365,763	41,855,467	43,681,189
Investment securities:	10			
- designated at fair value through profit or loss		3,538,447	3,221,305	107,796
- available-for-sale		15,026,195	9,855,267	8,861,028
- held-to-maturity		1,372,237	1,372,342	1,641,477
Investment securities pledged under repurchase agreements		-	-	94,640
Current income tax assets	14	492,257	528,500	570,144
Investment property	11	3,707,841	3,088,254	2,380,711
Property and equipment	12	2,277,255	2,232,340	2,204,565
Intangible assets	13	10,770	13,050	13,559
Deferred income tax assets	14	85,216	163,287	11,771
Other assets	16	460,369	290,772	265,359
Total assets		**87,206,085**	**74,525,287**	**71,854,508**
Liabilities				
Amounts due to the National Bank of Ukraine	17	7,824,914	6,197,074	4,156,617
Amounts due to credit institutions	18	7,244,300	7,664,410	7,379,450
Amounts due to customers	19	42,834,285	29,678,011	27,810,735
Eurobonds issued	20	8,554,063	10,438,526	11,789,395,
Other debt securities issued		-	-	404,340
Current income tax liabilities	14	13,243	2,673	7,339
Subordinated debt	21	3,106,645	3,101,995	3,098,955
Provisions	15	-	307	181
Other liabilities	16	248,151	184,027	136,337
Total liabilities		**69,825,601**	**57,267,023**	**54,783,349**
Equity				
Share capital	22	17,160,050	17,126,718	17,106,742
Revaluation reserve	22	914,633	919,600	872,834
Accumulated deficit		(840,431)	(931,694)	(1,050,473)
Reserve and other funds	22	146,232	143,640	142,056
Total equity		**17,380,484**	**17,258,264**	**17,071,159**
Total equity and liabilities		**87,206,085**	**74,525,287**	**71,854,508**

Signed and authorised for release

24 April 2013

Chairman of the Board Vitalii Bilous

Chief Accountant Natalia Potemska

CONSOLIDATED INCOME STATEMENT
For the year ended 31 December 2012

(thousands of Ukrainian hryvnia)

	Notes	2012	2011
Interest income			
Loans to customers		5,762,104	5,808,330
Investment securities other than designated at fair value through profit or loss		1,315,561	1,054,231
Amounts due from credit institutions		301,457	306,104
Amounts due from the National Bank of Ukraine		10,387	38,248
		7,389,509	7,206,913
Investment securities designated at fair value through profit and loss		301,655	89,282
		7,691,164	7,296,195
Interest expense			
Amounts due to customers		(1,923,132)	(1,832,478)
Eurobonds issued		(885,582)	(1,083,453)
Amounts due to the National Bank of Ukraine		(612,707)	(547,691)
Subordinated debt		(327,388)	(326,647)
Amounts due to credit institutions		(384,403)	(319,248)
Other debt securities issued		-	(31,956)
		(4,133,212)	(4,141,473)
Net interest income		**3,557,952**	**3,154,722**
Allowance for loan impairment charge	8,9	(3,070,870)	(2,898,131)
Net interest income/ (expense) after allowance for loan impairment		**487,082**	**256,591**
Commission income		497,753	489,586
Commission expense		(113,559)	(122,216)
Net commission income	24	**384,194**	**367,370**
Net losses from investment securities designated at fair value through profit and loss:			
- change in fair value		9,871	(7,342)
Net gains/(losses) from available-for-sale investment securities:			
- dealing		270,243	107,738
- reversal of losses/(losses) on impairment		(3,414)	11,830
Net gains from foreign currencies and precious metals:			
- dealing		291,153	308,641
- translation differences		(33,777)	76,623
Other income		91,195	54,474
Non-interest income		**625,271**	**551,964**
Loss on initial recognition of loans to customers		-	(5,335)
Personnel expenses	25	(812,543)	(676,383)
Depreciation and amortisation	12,13	(89,237)	(72,936)
Other operating expenses	25	(313,705)	(251,834)
Other impairment and provisions	15	(19,772)	20,047
Non-interest expense		**(1,235,257)**	**(986,441)**
Profit before income tax expense		**261,290**	**189,484**
Income tax expense	14	(123,975)	(58,461)
Profit for the year		**137,315**	**131,023**

Signed and authorised for release

24 April 2013

Chairman of the Board **Vitalii Bilous**

Chief Accountant **Natalia Potemska**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2012
(thousands of Ukrainian hryvnia)

	Notes	*2012*	*2011*
Profit for the year		**137,315**	**131,023**
Other comprehensive income:			
Net gains on investment securities available-for-sale reclassified to the income statement		(270,243)	(107,738)
Net gains on investment securities available-for-sale	22	271,461	26,993
Revaluation of property	22	20,852	-
Reversal of deferred income tax relating to tangible fixed asset revaluations consequent to enactment of new Tax Code	14, 22	-	134,677
Income tax relating to components of other comprehensive income	14, 22	(10,729)	17,542
Other comprehensive income for the year, net of tax		**11,341**	**71,474**
Total comprehensive income for the year		**148,656**	**202,497**

Signed and authorised for release

24 April 2013

Chairman of the Board **Vitalii Bilous**

Chief Accountant **Natalia Potemska**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2012
(thousands of Ukrainian hryvnia)

	Share capital	*Revaluation reserve*	*Accumulated loss*	*Reserve and other funds*	*Total equity*
31 December 2010	**17,106,742**	**872,834**	**(1,050,473)**	**142,056**	**17,071,159**
Total comprehensive income for the year	-	71,474	131,023	-	202,497
Depreciation of revaluation reserve, net of tax (Note 22)	-	(15,156)	15,156	-	-
Revaluation reserve on property transferred to investment property, net of tax (Note 22)	-	(9,552)	9,552	-	-
Distribution of profit to the shareholder (Note 22)	-	-	(15,392)	-	(15,392)
Allocation of profits to reserve and other funds	-	-	(1,584)	1,584	-
Increase in share capital (Note 22)	19,976	-	(19,976)	-	-
31 December 2011	**17,126,718**	**919,600**	**(931,694)**	**143,640**	**17,258,264**
Total comprehensive income for the year	-	11,341	137,315	-	148,656
Depreciation of revaluation reserve, net of tax (Note 22)	-	(16,290)	16,290	-	-
Realised revaluation reserve on property transferred to accumulated deficit	-	(18)	18	-	-
Distribution of profit to the shareholder (Note 22)	-	-	(26,436)	-	(26,436)
Allocation of profits to reserve and other funds	-	-	(2,592)	2,592	-
Increase in share capital (Note 22)	33,332	-	(33,332)		-
31 December 2012	**17,160,050**	**914,633**	**(840,431)**	**146,232**	**17,380,484**

Signed and authorised for release

24 April 2013

Chairman of the Board **Vitalii Bilous**

Chief Accountant **Natalia Potemska**

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 31 December 2012
(thousands of Ukrainian hryvnia)

	Notes	*2012*	*2011*
Cash flows from operating activities			
Interest and commissions received		7,268,152	7,314,293
Interest and commissions paid		(3,977,029)	(4,034,878)
Gains less losses from dealing in foreign currencies and precious metals		291,153	308,641
Other operating income		71,336	53,291
Personnel expenses		(799,059)	(663,002)
Other operating expenses		(308,395)	(246,951)
Cash flow from operating activities before changes in operating assets and liabilities		**2,546,158**	**2,731,394**
Net (increase)/decrease in operating assets			
Amounts due from credit institutions		120,503	(587,914)
Deposit with the National Bank of Ukraine		50,465	10,211
Loans to customers		20,377	(1,293,501)
Other assets		(96,604)	(104,931)
Net increase / (decrease) in operating liabilities			
Amounts due to the National Bank of Ukraine		1,512,868	1,899,256
Amounts due to credit institutions		278,410	434,939
Amounts due to customers		12,912,058	1,988,626
Other liabilities		19,144	42,711
Net cash flows from operating activities before income tax		**17,363,379**	**5,120,791**
Income tax paid		(9,820)	(20,780)
Net cash flows from operating activities		**17,353,559**	**5,100,011**
Cash flows from investing activities			
Proceeds from sale and redemption of investment securities		56,638,450	16,175,109
Purchase of investment securities		(61,492,000)	(19,704,782)
Dividends received		-	34
Purchases of property, equipment and intangible assets		(111,120)	(111,625)
Proceeds from sale of property and equipment		453	425
Proceeds from sale of investment property		8,906	-
Net cash flows used in investing activities		**(4,955,311)**	**(3,640,839)**
Cash flows from financing activities			
Distribution of profit to the shareholder		(26,436)	(15,392)
Proceeds from borrowings from credit institutions		1,685,701	2,111,847
Repayment of borrowings from credit institutions		(3,128,924)	(2,478,333)
Redemption of Eurobonds issued		(1,880,993)	(3,780,383)
Proceeds from Eurobonds issued		-	2,362,704
Redemption of other debt securities issued		-	(400,000)
Net cash flows used in financing activities		**(3,350,652)**	**(2,199,557)**
Effect of exchange rates changes on cash and cash		97,860	12,915
Net (decrease)/ increase in cash and cash equivalents		**9,145,456**	**(727,470)**
Cash and cash equivalents, 1 January		**10,051,840**	**10,779,310**
Cash and cash equivalents, 31 December	6	**19,197,296**	**10,051,840**

Signed and authorised for release
24 April 2013

Chairman of the Board **Vitalii Bilous**

Chief Accountant **Natalia Potemska**

1. Principal activities

"The State Export-Import Bank of Ukraine" (hereinafter – UkrEximBank) was founded in 1992. UkrEximBank was registered by the National bank of Ukraine (NBU) on 23 January 1992 and on 18 September 2000 was re-registered as a joint stock company. Currently UkrEximBank operates under a general banking license No.2 renewed by the NBU on 5 October 2011, which provides UkrEximBank with the right to conduct banking operations, including currency operations. UkrEximBank is registered in Ukraine.

As at 31 December 2012 and 2011, 100% of UkrEximBank's shares were owned by the Cabinet Ministers of Ukraine on behalf of the State of Ukraine.

UkrEximBank's head office is in Kyiv at 127 Gorky St. It has 29 branches and 96 operating outlets (2011: 29 branches and 97 operating outlets) located in Kyiv and other regions of Ukraine and 2 representative offices located in London and New-York. UkrEximBank and its branches form a single legal entity.

Historically, the main focus of UkrEximBank's operations was servicing various export-import transactions. Currently, UkrEximBank's customer base is diversified and includes some large industrial and State owned enterprises. UkrEximBank accepts deposits from the public and makes loans, transfers payments in Ukraine and abroad, exchanges currencies, invests funds and provides cash and settlements, and other banking services to its customers.

One of the activities of UkrEximBank is to facilitate, on behalf of the Ukrainian Government, the administration of loan agreements entered into by the Ukrainian Government with other foreign governments. UkrEximBank acts as an agent, on behalf of the Ukrainian Government, with respect to loans from foreign financial institutions based on the aforementioned agreements. The loan proceeds are advanced to various enterprises within Ukraine based on separate loan agreements between UkrEximBank and Ukrainian enterprises.

A letter from the Cabinet of Ministers dated 4 August 1995, which was subsequently formalised in an agency agreement dated 19 September 1996, confirms that the responsibility of UkrEximBank is to act as an agent of the Ukrainian Government for the above-described activities and consequently the loan obligations and related risks belong to the Government.

These consolidated financial statements comprise UkrEximBank and its subsidiaries (together referred to as the "Bank"). A list of consolidated subsidiaries is as follows:

"Ukreximleasing", a 100% owned subsidiary was founded in 1997 and operates in Ukraine in the trading and leasing business.

"Eximleasing" Ltd, a 100% owned subsidiary was founded in 2006.

2. Basis of preparation

General information

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

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

The annual consolidated financial statements are prepared under the historical cost convention except as disclosed in the accounting policies, investment securities available-for-sale, investment securities designated at fair value through profit or loss, buildings and investment property have been measured at fair value.

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

Inflation accounting

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

Changes in the presentation

When preparing the consolidated financial statements for the year 2012, the Bank made the following changes in presentation for the consolidated statement of financial position as at 31 December 2011 for compliance with the presentation for the year 2012:

	As previously reported	*Effect of change*	*As reclassified*
Consolidated statement of financial position on 31 December 2011			
Amounts due from credit institutions	1,852,863	(580,176)	1,272,687
Mandatory reserves with the National Bank of Ukraine	-	580,176	580,176
Accumulated deficit	(788,054)	(788,054)	-
Accumulated deficit	-	(931,694)	(931,694)
Reserve and other funds	-	143,640	143,640

3. Summary of accounting policies

Changes in accounting policies

During the year, the Bank has adopted the following amended IFRS and new IFRIC Interpretations. The principal effects of these changes are as follows:

Amendments to IFRS 7 “Financial instruments: disclosures”
In October 2010, the ISAB issued amnedments to IFRS 7, that are effective for annual reporting periods beginning 1 July 2011 or after this date. These amendments require disclosure of information about financial assets that have been transferred to enable users of the financial statements of the Bank assess the risks associated with such assets. The amendments change the disclosure requirements only, and have no impact on the financial position or results of the Bank.

Other amendments that derive from Improvements to the following standards, had no impact on the accounting policies, financial position or results of the Bank:

- IAS 12 *“Income tax” (Amendments)* – “Deferred Tax: Recovery of Underlying Assets”
- IFRS 1 *“First-time application of IFRS” (Amendments)* – “Hyperinflation and Removal of Fixed Dates for the First-time Adopters of IFRS”.

Presentation of the accumulated depreciation after revaluation of property, plant and equipment

During the year the Bank changed its method of presenting accumulated depreciation at the date of revaluation. In particular, the accumulated depreciation at the revaluation date is subtracted from the original (revalued) cost of property, plant and equipment, and the resulting net carrying amount is revalued to its fair value. The Bank applied these changes in accounting policies retrospectively (see Note 12).

Basis of consolidation

Subsidiaries, which are those entities in which the Bank has an interest of more than one half of the voting rights, or otherwise has power to exercise control over their operations, are consolidated. Subsidiaries are consolidated from the date on which control is transferred to the Bank and are no longer consolidated from the date that control ceases. All intra-Bank transactions, balances and unrealised gains on transactions between Bank companies are eliminated in full; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Bank.

A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction. Losses are attributed to the non-controlling interests even if that results in a deficit balance.

If the Bank loses control over a subsidiary, it derecognises the assets (including goodwill) and liabilities of the subsidiary, the carrying amount of any non-controlling interests, the cumulative translation differences, recorded in equity; recognises the fair value of the consideration received, the fair value of any investment retained and any surplus or deficit in profit or loss and reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss.

Financial assets

Initial recognition

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

Date of recognition

All regular way purchases and sales of financial assets are recognised on the trade date i.e. the date that that the Bank commits itself to purchase an asset. 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 market place.

Financial assets at fair value through profit or loss

Financial assets, designated at fair value through profit or loss at inception, are included in the category 'investment securities'. Derivatives are classified as held for trading unless they are designated and effective hedging instruments. Gains or losses on financial assets at fair value through profit or loss are recognised in the consolidated income statement.

Financial asset classified in this category are designated by management on initial recognition when the following criteria are met:

- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on them on a different basis; or
- The assets are part of a group of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
- The financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Bank has the positive intention and ability to hold them to maturity. Investments intended to be held for an undefined period are not included in this classification. Held-to-maturity investments are subsequently measured at amortised cost. Gains and losses are recognised in the consolidated income statement when the investments are impaired, as well as through the amortisation process.

Loans and receivables

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

Available-for-sale financial assets

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

Investments in equity instruments that do not have a quoted market price in an active market and if their fair value cannot be reliably measured are accounted at cost less any allowance for impairment.

Determination of fair value

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

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

Offsetting

Financial assets and liabilities are offset and the net amount is reported in the consolidated 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.

Reclassification of financial assets

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

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

A financial asset classified as available-for-sale that would have met the definition of loans and receivables may be reclassified to loans and receivables category if the Bank has the intention and ability to hold it for the foreseeable future or until maturity.

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

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, amounts due from the NBU, excluding mandatory reserves, amounts due from credit institutions and reverse repurchase agreements that mature within ninety days of the date of origination and are free from contractual encumbrances, and are not impaired individually.

Precious metals

Gold and other precious metals are recorded at the NBU bid prices, which approximate fair values and are quoted at a discount to London Bullion Market rates. Changes in the NBU bid prices are recorded as translation differences in net gains from foreign currencies and precious metals in the consolidated income statement.

Repurchase and reverse repurchase agreements and securities lending

Sale and repurchase agreements ("repos") are treated as secured financing transactions. Securities sold under sale and repurchase agreements are retained in the statement of financial position and, in case the transferee has the right by contract or custom to sell or repledge them, reclassified as securities pledged under sale and repurchase agreements. The corresponding liability is presented within amounts due to credit institutions, the NBU or customers. Securities purchased under agreements to resell ("reverse repo") are recorded as cash and cash equivalents, 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 interest method.

Securities lent to counterparties are retained in the financial statements. Securities borrowed are not recorded in the consolidated financial statements, 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 consolidated income statement. The obligation to return them is recorded at fair value as a trading liability.

Promissory notes

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

Derivative financial instruments

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

Derivatives embedded in other financial instruments are treated as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contract, and the host contract is not itself held for trading or designated at fair value through profit or loss.

Borrowings

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

If the Bank purchases its own debt, it is removed from the consolidated statement of financial position and the difference between the carrying amount of the liability and the consideration paid is recognised in the consolidated income statement.

Leases

i. Finance – Bank as a lessor

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

ii. Operating – Bank as a lessee

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

iii. Operating – Bank as a lessor

The Bank presents assets subject to operating leases in the consolidated statement of financial position according to the nature of the asset. Lease income from operating leases is recognised in the consolidated income statement on a straight-line basis over the lease term as other income. The aggregate cost of incentives provided to lessees is recognised as a reduction of rental income over the lease term on a straight-line basis. Initial direct costs incurred specifically to earn revenues from an operating lease are added to the carrying amount of the leased asset.

Impairment of financial assets

The Bank assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. 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 indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Amounts due from credit institutions and loans to customers

For amounts due from credit institutions and loans to customers carried at amortised cost, the Bank first assesses individually whether objective evidence of impairment exists 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 of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risks 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 an 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 consolidated income statement. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Bank. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the consolidated income statement.

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

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

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

Held-to-maturity investments

For held-to-maturity investments the Bank assesses individually whether there is objective evidence 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 asset's carrying amount and the present value of estimated future cash flows. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated income statement.

If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognised, any amounts formerly charged are credited to the consolidated income statement.

Available-for-sale financial assets

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

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the consolidated income statement — is reclassified from other comprehensive income and recognised in the consolidated income statement. Impairment losses on equity investments are not reversed through the consolidated income statement; 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 amounts due from credit institutions and loans to customers. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded in the consolidated income statement. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the consolidated income statement, the impairment loss is reversed through the consolidated income statement.

Renegotiated loans

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

The accounting treatment of such renegotiation is as follows:

- If the currency of the loan has been changed the old loan is derecognised and a new loan is recognised.
- If the loan renegotiation is not caused by the financial difficulties of the borrower but the cash flows were renegotiated on favourable terms for the borrower: the loan is not recognised as impaired. The loan is not derecognised but the new effective interest rate is determined based on the remaining cash flows under the loan agreement until maturity.
- If the loan is impaired after renegotiation, the Bank uses the original effective interest rate in respect of new cash flows to estimate the recoverable amount of the loan. The difference between the recalculated present value of the new cash flows taking into account collateral and the carrying amount before renegotiation is included in the allowance charges for the period.

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. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original or current effective interest rate.

Asset management

The Bank acts as an asset manager for a number of construction financing funds. The Bank acts as an agent in such arrangements and its responsibility is limited to fiduciary duties, which are commonly applied in the asset management business. Accordingly, the Bank does not recognise liabilities relating to the funds under management, but assesses the need to recognise any provisions related to additional guarantees issued by the Bank with respect to the activities of such funds. Funds under management are not legal entities under the laws of Ukraine. The management of fund activity is effectively delegated to the Bank. The funds keep their current accounts in the Bank to the extent to which the funds are not invested in eligible assets, which meet the investment profile for the fund.

Derecognition of financial assets and liabilities

Financial assets

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

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

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

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Bank's continuing involvement is the amount of the transferred asset that the Bank may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Bank's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

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 consolidated income statement.

Financial guarantees

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

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

Taxation

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

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

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

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Ukraine also has various operating taxes, which are assessed on the Bank's activities. These taxes are included as a component of operating expenses.

Property and equipment

Equipment is carried at cost or restated cost (for assets acquired prior to 31 December 2000), excluding the costs of day-to-day servicing, less accumulated depreciation and any accumulated impairment. Buildings are measured at fair value less depreciation and impairment charged subsequent to the date of the revaluation.

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

Following initial recognition at cost, buildings are carried at their 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 the property revaluation reserve which is included in other comprehensive income, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in the consolidated income statement, in which case the increase is recognised in the consolidated income statement. A revaluation deficit is recognised in the consolidated income statement, except that a deficit directly offsetting a previous surplus on the same asset is directly offset against the surplus in the property revaluation reserve.

An annual transfer from the property revaluation reserve to retained earnings is made for the difference between depreciation based on the revalued carrying amount of the assets and depreciation based on the assets' original cost. Additionally, accumulated depreciation as at the revaluation date is restated proportionally 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. Upon disposal, any revaluation of property relating to the particular asset being sold is transferred to retained earnings.

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

	Years
Buildings	15-75 years
Furniture, fixture and other assets	2-25 years
Equipment and computers	2-15 years
Motor vehicles	5 years

Leasehold improvements (restructuring costs for premises under lease contract) are depreciated over a period not exceeding the leasing period.

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

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

Intangible assets

Intangible assets include acquired computer software and licences. Intangible assets acquired separately are measured on initial recognition at cost or restated cost (for assets acquired prior to 31 December 2000). Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic lives of five to ten years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation periods and methods for intangible assets with finite useful lives are reviewed at least at each financial year-end.

Investment property

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

Investment property is initially recognised at cost, including transaction costs, and subsequently re-measured at fair value based on its market value. Market value of the Bank's investment property is obtained from reports of independent and internal appraisers, who hold a recognised and relevant professional qualification and who have recent experience in valuing property in similar locations and categories.

Assets held for sale

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

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

Provisions

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

Retirement and other benefit obligations

The Bank has defined contribution pension plan separate from the State pension system of Ukraine, which requires current contributions by the employer calculated as a percentage of current gross salary payments; such expense is charged in the period the related salaries are earned. The contribution payable to a defined contribution plan is in proportion to the services rendered to the Bank by the employees, age of employees and years working for the Bank and is recorded as an expense under "Personnel expenses". Unpaid contributions are recorded as a liability. In addition, the Bank has no post-retirement benefits or significant other compensated benefits requiring accrual.

Share capital

Ordinary shares are classified as equity. Share capital contributions received before 31 December 2000 are recognised at restated cost following the application of IAS 29 "Financial Reporting in Hyperinflationary Economies.

Segment reporting

The Bank's segmental reporting is based on the following operating segments: Retail banking, Corporate banking and Financial institutions and investments.

Contingencies

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

Recognition of income and expense

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

Interest and similar income and expense

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

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

Fee and commission income

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

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

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

- *Fee income from providing transaction services*

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

Dividend income

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

Foreign currency translation

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

Differences between the contractual exchange rate of a transaction in a foreign currency and the NBU exchange rate on the date of the transaction are included in gains less losses from dealing in foreign currencies. The official NBU exchange rates at 31 December 2012 and 2011 were UAH 7,9930 and UAH 7,9898 to 1 US dollar and UAH 10,5372 and UAH 10,2981 to 1 euro, respectively.

Future changes in accounting policies

Standards and interpretations issued but not yet effective

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

IFRS 10 "Consolidated Financial Statements"
IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgement to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in IAS 27. In addition, IFRS 10 introduces specific application guidance for agency relationships. IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial

statements. It also includes the issues raised in SIC-12 Consolidation — Special Purpose Entities. It is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted. The Bank is currently evaluating the possible effect of the adoption of IFRS 10 on its financial position and performance.

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

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

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

IAS 27 "Separate Financial Statements" (as revised in 2011)
As a consequence of the new IFRS 10 and IFRS 12, what remains of IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

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

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

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

Amendments to IFRS 7 "Financial Instruments: Disclosures"
These amendments require an entity to disclose information about rights of set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32 Financial Instruments: Presentation. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or 'similar agreement', irrespective of whether they are set off in accordance with IAS 32. These amendments will have no impact on the

financial condition or results of the Bank. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

Amendments to IAS 32 "Financial instruments: presentation"
These amendments refine the definition of the term "to have a legally secured right to off-set the recognized amounts". Effect of the application of the amendments to the Bank may be assessed by analysing the calculation procedures and legal documentation to determine the possibility to offset in situations in which the right of set-off was applied in the past. In some cases, the offset may not be possible, whereas in other situations it may be necessary to revise the agreement to achieve set-off. Requirements under which all counterparties have the right to exercise offset under a netting agreement may be difficult in situations where only one party has the right of offset in the case of default.

The amendments also describe how to appropriately apply the offset criteria in IAS 32 in relation to the payments systems (such as a clearing centre), within which the non-simultaneous mechanisms of gross payments are applied. Numerous settlement systems will meet the new criteria, and some - will not. Determining the impact of applying these amendments on the financial statements is not practicable because the Bank should analyse common operating procedures of clearing and settlement systems centres to conclude regarding their compliance with the new criteria.

Amendments are effective for annual periods beginning on 1 January 2014, or after that date.

Amendments to IFRS 1 "First-time Adoption of International Financial Reporting Standards – Government Loans".

According to such amendments companies applying IFRS for the first time must apply the requirements of IAS 20 "Accounting for Government Grants and Disclosure of Government Assistance" perspectively in relation to existing at the date of transition to IFRS of loans provided by the state. The Bank believes that these amendments will have no impact on its financial position or financial results.

Improvements to IFRS
The amendments become effective for annual periods beginning on or after 1 January 2013. Amendment to IFRS Improvement published in May 2012, which will have no impact on the financial position of the Bank, are described below:

- Amendments to IFRS 1 "First-time Adoption of International Financial Reporting Standards" explain that the company, which ceased to apply IFRS in the past and decided or is obliged to prepare the financial statements in accordance with IFRS, has the right to apply IFRS 1 again. If IFRS 1 is not applied again, the company has to recalculate the financial statements retrospectively as if it never ceased to apply IFRS.
- Amendments to (IAS) 1 "Presentation of Financial Statements" explain the difference between additional comparative information which is provided on a voluntary basis, and the minimum which is necessary for comparative information. As a rule, the minimum necessary information is comparative information for the previous accounting period.
- Amendments to IAS 16 "Property, plant and equipment" clarify the accounting of spare parts, stand-by equipment and servicing equipment. The definition of PPE is considered in determining whether these items should be accounted for under that Standard/ If these items do not meet the definition, they are accounted for using IAS 2 "Inventories"..
- Amendments to IAS 32 "Financial instruments: presentattion" clarifies that the income tax concerning the distributions to the holders of an equity instrument shall be recognized in accordance with IAS 12, "Income tax"
- Amendments to IAS 34 "Interim Financial Reporting" aligns the disclosure requirements for segment assets and segment liabilities in interim financial reports with those in IFRS 8 "Operating Segments"/ IAS 34 now requires the disclosure of a measure of total segment assets and liabilities. According to this clarification, the disclosures in interim financial should also comply with the disclosure in annual financial statements.

The Bank is currently assessing the effect of these amendments on its consolidated financial statements.

4. Significant accounting judgements and estimates

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

Allowance for impairment of loans and receivables

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

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

Deferred tax assets

As at 31 December 2012, the Bank has recognised a deferred tax asset of UAH 241,377 thousand (2011: UAH 221,231 thousand). The Bank's management believes that within a reasonable period the Bank will have sufficient taxable profits enabling it to utilise its deferred tax assets.

5. Segment information

For management purposes, the Bank recognizes the following operating units (business Units):

Retail banking	Business Unit focussing on servicing retail customers on the full list of products, and selling products that are mainly in standardized form (as per the tariffs approved and the standard procedures) and generally do not require individual approach.
Corporate banking	Business Unit focussing on corporate customers selling products that require individual approach and are mainly offered to corporate clients.
Financial institutions and investments	Business Unit focussing onthe provision of services to participants in the financial markets (money, currency, stock, etc.) and the sale of products related to transactions on the financial markets.
Other/Unallocated	Other not directly allocated operations.

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

For the purpose of segment reporting, interest is allocated based on a transfer pool rate determined by the Assets and Liabilities Committee based on the Bank's cost of borrowing.

No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Bank's total revenue in 2012 or 2011.

The Bank and its subsidiaries are located in Ukraine and almost 100% of the consolidated revenue is from Ukraine.
The following table presents income and profit, certain asset and liabilities information regarding the Bank's operating segments for the year ended 31 December 2012:

	Retail banking	***Corporate banking***	***Financial institutions and investments***	***Other/ Unallocated***	***Total***
Third party					
Interest income	261,166	5,648,051	1,781,947	-	7,691,164
Commission income	268,240	207,024	21,936	553	497,753
Other income	(21,993)	94,801	15,533	2,854	91,195

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

	Retail banking	***Corporate banking***	***Financial institutions and investments***	***Other/ Unallocated***	***Total***
Gain from foreign currencies and precious metals	99,794	90,797	118,155	-	308,746
Gain from investment securities available-for-sale	-	24	270,243	-	270,267
Gain from changes in the fair value of investment securities designated at fair value through profit and loss	-	-	9,871	-	9,871
Reversal of reserves for impairment of other assets and for covering other losses	-	-	257	-	257
Income from other segments	**1,509,432**	**(4,000,611)**	**849,393**	**1,641,786**	**-**
Total income	**2,116,639**	**2,040,086**	**3,067,335**	**1,645,193**	**8,869,253**
Interest expenses	(1,389,161)	(914,648)	(1,829,403)	-	(4,133,212)
Commission expenses	(87,473)	(18,987)	(6,892)	(207)	(113,559)
Loan impairment charge	65,092	(3,135,962)	-	-	(3,070,870)
Loss from operations with foreign currencies and precious metals	-	-	-	(51,370)	(51,370)
Loss from investment securities available-for-sale	(22)	-	(107)	(3,309)	(3,438)
Personnel expenses	(411,662)	(223,567)	(85,533)	(91,781)	(812,543)
Depreciation and amortization	(64,556)	(10,245)	(2,083)	(12,353)	(89,237)
Other operating expense	(133,810)	(35,661)	(31,064)	(113,170)	(313,705)
Charge of impairment of other assets and for covering other losses	(4,193)	(14,831)	-	(1,005)	(20,029)
Segment results	**90,854**	**(2,313,815)**	**1,112,253**	**1,371,998**	**261,290**
Income tax expense					(123,975)
Profit for the year					**137,315**
Assets and liabilities					
Segment assets	4,512,222	43,280,922	38,712,696		86,505,840
Unallocated assets				700,245	700,245
Total assets					**87,206,085**
Segment liabilities	19,182,794	27,206,448	23,406,664		69,795,906
Unallocated liabilities				29,695	29,695
Total liabilities					**69,825,601**
Other segment information					
Capital expenditure	(84,583)	(14,541)	(2,885)	(17,107)	(119,116)

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

The following table presents income and profit and certain asset and liability information regarding the Bank's business segments for the year ended 31 December 2011:

	Retail banking	*Corporate banking*	*Financial institutions and investments*	*Other/ Unallocated*	*Total*
Third party					
Interest income	220,852	5,612,655	1,462,688	-	7,296,195
Commission income	244,423	224,490	20,673	-	489,586
Other income	5,963	41,837	908	5,766	54,474
Gain from foreign currencies and precious metals	74,988	95,933	143,713	70,630	385,264
Gain from investment securities available-for-sale	9,613	-	109,955	-	119,568
Reversal of reserves for impairment of other assets and for covering other losses	2,007	-	22,128	-	24,135
Income from other segments	**1,318,101**	**(3,888,083)**	**949,927**	**1,620,055**	**-**
Total income	**1,875,947**	**2,086,832**	**2,709,992**	**1,696,451**	**8,369,222**
Interest expenses	(1,190,311)	(1,011,941)	(1,939,221)	-	(4,141,473)
Commission expenses	(81,347)	(36,391)	(4,008)	(470)	(122,216)
Reserves for loan impairment	(62,164)	(2,835,967)	-	-	(2,898,131)
Loss from changes in the fair value of investment securities designated at fair value through profit and loss	-	-	(7,342)	-	(7,342)
Loss on initial recognition of loans to customers	-	(5,335)	-	-	(5,335)
Personnel expenses	(340,306)	(205,776)	(62,346)	(67,955)	(676,383)
Depreciation and amortization	(56,338)	(9,533)	(1,840)	(5,225)	(72,936)
Other operating expenses	(123,532)	(17,153)	(13,279)	(97,870)	(251,834)
Charge of impairment of other assets and for covering other losses	-	(1,021)	-	(3,067)	(4,088)
Segment results	**21,949**	**(2,036,285)**	**681,956**	**1,521,864**	**189,484**
Income tax expense					(58,461)
Income for the year					**131,023**
Assets and liabilities					
Segment assets	4,620,632	44,627,729	24,324,856		73,573,217
Unallocated assets				952,070	952,070
Total assets					**74,525,287**
Segment liabilities	16,543,527	16,232,874	24,471,016		57,247,417
Unallocated liabilities				19,606	19,606
Total liabilities					**57,267,023**
Other segment information					
Capital expenses	(76,097)	(13,479)	(2,613)	(14,967)	(107,156)

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

6. Cash and cash equivalents

Cash and cash equivalents comprise:

	2012	*2011*
Cash on hand	801,270	792,686
Current account with the National Bank of Ukraine (other than mandatory reserve)	1,629,018	719,665
Current accounts with other credit institutions	10,066,166	6,525,178
Overnight deposits with other credit institutions	6,114,016	442,414
Time deposits with credit institutions up to 90 days	586,826	70,737
Deposit certificates of the National Bank of Ukraine up to 90 days	-	500,034
Reverse repurchase agreement with contractual maturity up to 90 days	-	1,001,126
Cash and cash equivalents	**19,197,296**	**10,051,840**

As at 31 December 2012 , included in current accounts with other credit institutions is UAH 9,543,007 thousand, placed on current accounts with five OECD banks and banks of Ukraine (2011: UAH 6,332,851 thousand). These banks are the main counterparties of the Bank in performing international settlements. The placements have been made under normal banking terms and conditions.

Overnight deposits represent overnight deposits placed with OECD banks. These placements bear market interest rates. As at 31 December 2012 UAH 6,019,440 thousand was placed with two OECD banks (2011: UAH 432,400 thousand).

7. Mandatory reserves with the National Bank of Ukraine

Since June 2012 Ukrainian banks are required to keep 50% of the mandatory reserve for the previous month on a separate account with the NBU (2011: 70%). The interest rate for this mandatory reserve is 30% of the official NBU discount rate. As at 31 December 2012, the amount, placed by the Bank on such account was UAH 385,474 thousand (2011: UAH 556,861 thousand).The Bank's ability to withdraw this deposit is restricted by regulatory and legislative provisions. Since July 2011, the Ukrainian banks have been allowed to cover 50% the NBU mandatory reserve requirement with the nominal value of certain Ukrainian state bonds. As at 31 December 2012 Ukrainian state bonds with a carrying value of UAH 3,214,963 thousand (2011: UAH 265,809 thousand) were used by the Bank to partially cover its NBU mandatory reserve requirement (Note 10).

Since September 2008, Ukrainian banks are required to deposit 20% of funds raised from non-residents in foreign currency for a period of less than 183 days on a separate account with the NBU, in the form of non-interest bearing cash deposit. As at 31 December 2012 the amount placed by the Bank on this account was UAH 39,458 thousand (2011: UAH 18,239 thousand). The Bank's right to withdraw funds from this deposit is significantly limited by regulatory and legislative provisions.

Since 2009, Ukrainian banks are required to deposit an amount equivalent to the amount equivalent to the impairment allowance (defined in accordance with UAR) created for loans granted in foreign currencies to borrowers with no foreign currency income, on a separate account with the NBU in the form of non-interest bearing cash deposit. As at 31 December 2012, the amount placed by the Bank on this account, was UAH 106,220 thousand (2011: UAH 5,076 thousand). The Bank's right to withdraw funds from this deposit is significantly limited by regulatory and legislative provisions.

As at 31 December 2012 and 2011 the Bank meets all the NBU's mandatory reserve requirements.

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

8. Amounts due from credit institutions

Amounts due from credit institutions comprise:

	2012	*2011 (reclassified)*	*2010 (reclassified)*
Loans and deposits	963,149	1,074,751	545,754
Current accounts with other credit institutions in precious metals	191,529	191,800	113,602
Other amounts due from credit institutions	3,637	6,136	10,760
	1,158,315	**1,272,687**	**670,116**
Less– Allowance for impairment	(17,028)	-	(17,842)
Due from credit institutions	**1,141,287**	**1,272,687**	**652,274**

As at 31 December 2012, loans and deposits due from credit institutions include UAH 51,708 thousand of security deposits, placed mainly in respect of customers' transactions, such as letters of credit, performance guarantees and transactions with travellers' cheques (2011: UAH 49,776 thousand, 2012: UAH 85,932 thousand).

The movements in allowance for impairment of amounts due from credit institutions is as follows:

	Amounts due from credit institutions
1 January 2011	17,842
Reversal	(17,868)
Translation differences	26
31 December 2011	**-**
Charge	16,954
Translation differences	74
31 December 2012	**17,028**

9. Loans to customers

Loans to customers comprise:

	2012	*2011*
Commercial loans	48,319,523	50,452,718
Overdrafts	120,940	99,435
Promissory notes	45,501	777,551
Financial lease receivables	12,543	11,852
	48,498,507	**51,341,556**
Less – Allowance for impairment	(9,132,744)	(9,486,089)
Loans to customers	**39,365,763**	**41,855,467**

Allowance for impairment of loans to customers

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

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

	Commercial loans	*Overdrafts*	*Financial lease receivables*	*Promissory notes*	*Total*
At 1 January 2012	9,412,914	26,018	4,949	42,208	9,486,089
Charge for the year	3,109,784	(24,858)	5,573	(36,583)	3,053,916
Recoveries	2	-	-	-	2
Amounts written-off	(3,447,997)	-	-	-	(3,447,997)
Translation differences	40,734	-	-	-	40,734
At 31 December 2012	**9,115,437**	**1,160**	**10,522**	**5,625**	**9,132,744**
Individual impairment	8,560,036	-	10,383	5,542	8,575,961
Collective impairment	555,401	1,160	139	83	556,783
	9,115,437	**1,160**	**10,522**	**5,625**	**9,132,744**
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	**11,428,591**	**-**	**10,385**	**32,449**	**11,471,425**

	Commercial loans	*Overdrafts*	*Financial lease receivables*	*Promissory notes*	*Total*
At 1 January 2011	7,206,377	24,389	24,249	56,375	7,311,390
Charge for the year	2,948,380	1,629	(19,843)	(14,167)	2,915,999
Recoveries	100,485	-	-	-	100,485
Amounts written-off	(809,452)	-	-	-	(809,452)
Translation differences	(32,876)	-	543	-	(32,333)
At 31 December 2011	**9,412,914**	**26,018**	**4,949**	**42,208**	**9,486,089**
Individual impairment	8,786,561	25,315	4,695	-	8,816,571
Collective impairment	626,353	703	254	42,208	669,518
	9,412,914	**26,018**	**4,949**	**42,208**	**9,486,089**
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	**14,379,248**	**30,584**	**9,385**	**-**	**14,419,217**

Individually impaired loans

Interest income on loans, for which individual impairment allowances have been recognised, as at 31 December 2012, amounts to UAH 856,410 thousand (2011: UAH 809,883 thousand).

In accordance with Ukrainian legislation, loans may only be written off with the approval of the Board of Directors and, in certain cases, with the respective decision of the Court.

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:

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

- For securities lending and reverse repurchase transactions - cash or securities,
- For commercial lending - charges over real estate properties, inventory and trade receivables,
- For retail lending - mortgages over residential properties and vehicles.

The Bank 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 to customers with a carrying value of UAH 5,474,344 thousand are pledged as collateral under loans received from the NBU (2011: UAH 4,990,483 thousand) (Note 17).

Concentration of loans to customers

As at 31 December 2012, the Bank has a concentration of loans represented by UAH 16,763,605 thousand due from the ten largest borrowers (34,57% of gross loan portfolio) (2011: UAH 16,124,950 thousand or 31,41%). An allowance of UAH 1,407,507 thousand has been recognised against these loans. (2011: UAH 1,176,472 thousand).

Loans and advances have been extended to the following types of customers:

	2012	*2011*
Private entities	35,803,405	39,078,637
State entities	11,309,974	10,103,353
Individuals	849,200	948,826
Municipal entities	535,928	1,210,740
	48,498,507	**51,341,556**

Loans are made principally within Ukraine to companies of the following industry sectors:

	2012	*%*	*2011*	*%*
Agriculture and food industry	9,051,771	18,7	8,330,014	16,2
Trade	6,991,497	14,4	9,004,829	17,5
Extractive industry	4,256,418	8,8	4,262,114	8,3
Construction	4,208,443	8,7	5,445,178	10,6
Mechanical engineering	4,063,681	8,4	3,716,769	7,2
Chemical industry	2,753,015	5,7	2,865,942	5,6
Real estate	2,381,754	4,9	3,075,624	6,0
Road construction	2,128,029	4,4	2,128,029	4,1
Transport and communications	1,975,136	4,1	1,626,800	3,2
Metallurgy	1,707,229	3,5	1,164,772	2,3
Production of construction materials	1,538,426	3,2	1,530,100	3,0
Production of rubber and plastic goods	1,470,869	3,0	1,739,790	3,4
Power engineering	1,130,453	2,3	2,065,529	4,0
Individuals	849,200	1,7	948,826	1,8
Individual services	709,793	1,5	43,147	0,1
Hotels and restaurants	708,463	1,5	53,065	0,1
Pulp and paper industry	694,586	1,4	676,935	1,4
Light industry	404,598	0,8	414,328	0,8
Metal processing	267,834	0,5	987,800	1,9
Culture and sport	225,290	0,5	366,085	0,7
Wood processing	208,713	0,4	218,262	0,4
Other	773,309	1,6	677,618	1,4
	48,498,507	**100**	**51,341,556**	**100**

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

Included in the corporate lending portfolio are finance lease receivables. They may be analysed as follows:

	2012	*2011*
Gross investment in finance leases, receivable:		
Less than 1 year	12,121	10,958
From 1 to 5 years	722	1,378
	12,843	12,336
Unearned future finance income on finance leases	(300)	(484)
Net investment in finance leases	**12,543**	**11,852**

	2012	*2011*
Net investment in finance leases, receivable:		
Less than 1 year	11,925	10,713
From 1 to 5 years	618	1,139
Net investment in finance leases	**12,543**	**11,852**

10. Investment securities

As at 31 December 2012, investment securities designated at fair value through profit and loss presented Ukrainian state bonds, principal of which will be indexed according to increases in the average interbank exchange rate of Hryvnia to United States dollar per month, prior to the month of issue, and the average exchange rate of Hryvnia to United States dollar per month, prior to maturity month. The Bank decided not to separate an embedded derivative instrument and to evaluate an instrumentr as a whole at its fair value, recognising revaluation as profit or loss.

As at 31 December 2012, investment securities designated at fair value through profit and loss, with a carrying value of UAH 1 636 033 thousand (2011: UAH 761,823 thousand) are pledged as collateral for loans received from the NBU (Note 17).

As at 31 December 2012, investment securities designated at fair value through profit and loss, with a carrying value of UAH 1,434,482 thousand are pledeged as collateral under repurchase agreements with the NBU (2011: nil) (Note 17).

Available-for-sale investment securities comprise:

	2012	*2011*
Corporate bonds	6,540,515	3,494,049
Ukrainian state bonds	5,220,455	6,344,771
Municipal enterprises	3,247,957	10,082
Corporate shares	17,268	6,365
Available-for-sale investments	**15,026,195**	**9,855,267**

As at 31 December 2012, Ukrainian state bonds with a carrying value of UAH 3 214 963 thousand (2011: UAH 265 809 thousand) are used by the Bank for the partial fulfilment of the requirements for the statutory provision of the NBU (Note 7).

As at 31 December 2012, available-for-sale investment securities with a carrying value of UAH 1 447 682 thousand are pledged as collateral under loans received from the NBU (2011: nil) (Note 17).

As at 31 December 2011, available-for-sale investment securities with a fair value of UAH 2,283,649 thousand are pledged as collateral under repurchase agreements with the NBU (Note 17).

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

Held-to-maturity investment securities comprise the following:

	2012		***2011***	
	Nominal value	***Carrying value***	***Nominal value***	***Carrying value***
Municipal bonds	90,000	91,219	90,000	91,317
Corporate bonds	1,244,943	1,299,270	1,244,943	1,299,295
		1,390,489		**1,390,612**
Less — Allowance for impairment (Note 15)		(18,252)		(18,270)
Held-to-maturity investments		**1,372,237**		**1,372,342**

As at 31 December 2012, held-to-maturity investment securities with a carrying value of UAH 1,299,270 thousand are pledged as collateral under loans received from the NBU (2011: nil) (Note 17).

11. Investment property

The movements of investment property are as follows:

	2012	***2011***
Investment property as at 1 January	3,088,254	2,380,711
Additions	628,346	695,613
Transfer from other assets	-	1,258
Transfer from property and equipment (Note 12)	-	11,042
Disposals	(8,837)	-
Net profit/(loss) from fair value adjustment	78	(370)
Investment property as at 31 December	**3,707,841**	**3,088,254**

In 2012 the Bank received real estate objects (property complex) as a part consideration for loan repayment. The Bank decided to hold the property for the purpose of long term capital appreciation and rental growth, rather than sell in the short-term and classified the assets as investment property.

In 2012 the Bank revalued its investment property. The valuation was performed by an independent appraiser, who holds a recognised and relevant professional qualification and who has recent experience in valuation of property of similar location and category. The fair value was determined by reference to market-based evidence.

In 2012 the Bank recognized the result from adjustments of investment property fair value in the amount of UAH 78 thousand in other income (2011: UAH 370 thousand in other operating expenses).

The Bank leased out a portion of its investment property under operating lease. Future minimum receivables under non-cancellable operating leases comprise the following:

	31 December 2012	***31 December 2011***
Less than 1 year	18,937	22,446
From 1 to 5 years	26,431	33,489
More than 5 years	4,113	12,428
Future minimum receivables under non-cancellable operating lease	**49,481**	**68,363**

During 2012 the Bank has recognised rental income of UAH 31,125 thousand (2011: UAH 25,860 thousand), included in other income in the consolidated income statement.

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

12. Property and equipment

The movements of property and equipment were as follows:

	Buildings	*Leasehold improvements*	*Computers and equipmen*	*Furniture and other assets*	*Motor vehicles*	*Construction in progress*	*Total*
Cost or revalued amount							
31 December 2011	**1,945,797**	**12,191**	**265,343**	**161,475**	**23,742**	**160,421**	**2,568,969**
Additions	-	-	77,307	17,622	4,518	9,405	108,852
Disposals	(82)	(447)	(8,022)	(3,916)	(1,395)	(7)	(13,869)
Transfers	30,697	132	-	-	-	(30,829)	-
Less accumulated historical depreciation on revaluation	(66,220)	-	-	-	-	-	(66,220)
Revaluation	20,823	-	-	-	-	-	20,823
31 December 2012	**1,931,015**	**11,876**	**334,628**	**175,181**	**26,865**	**138,990**	**2,618,555**
Accumulated depreciation							
31 December 2011	**(41,099)**	**(10,332)**	**(174,256)**	**(97,570)**	**(13,372)**		**(336,629)**
Charge for the year	(30,347)	(943)	(34,585)	(15,799)	(3,017)		(84,691)
Disposal	21	447	8,022	3,915	1,395		13,800
Write-off of accumulated depreciation at revaluation	66,220	-	-	-	-		66,220
31 December 2012	**(5,205)**	**(10,828)**	**(200,819)**	**(109,454)**	**(14,994)**		**(341,300)**
Residual value:							
31 December 2011	**1,904,698**	**1,859**	**91,087**	**63,905**	**10,370**	**160,421**	**2,232,340**
31 December 2012	**1,925,810**	**1,048**	**133,809**	**65,727**	**11,871**	**138,990**	**2,277,255**

	Buildings	*Leasehold improvements*	*Computers and equipment*	*Furniture and other assets*	*Motor vehicles*	*Construction in progress*	*Total*
Cost or revalued amount							
31 December 2010	**1,927,156**	**11,648**	**250,544**	**154,448**	**17,783**	**132,247**	**2,493,826**
Additions	19	-	22,331	15,328	7,206	62,328	107,212
Disposal	-	(41)	(7,532)	(8,301)	(1,247)	(373)	(17,494)
Transfers to investment property	(14,575)	-	-	-	-	-	(14,575)
Transfers	33,197	584	-	-	-	(33,781)	-
31 December 2011	**1,945,797**	**12,191**	**265,343**	**161,475**	**23,742**	**160,421**	**2,568,969**
Accumulated depreciation							
31 December 2010	**(14,921)**	**(9,044)**	**(163,148)**	**(89,616)**	**(12,532)**		**(289,261)**
Charge for the year	(29,711)	(1,329)	(18,636)	(16,251)	(2,087)		(68,014)
Transfers to investment property	3,533	-	-	-	-		3,533
Disposal	-	41	7,528	8,297	1,247		17,113
31 December 2011	**(41,099)**	**(10,332)**	**(174,256)**	**(97,570)**	**(13,372)**		**(336,629)**
Residual value:							
31 December 2010	**1,912,235**	**2,604**	**87,396**	**64,832**	**5,251**	**132,247**	**2,204,565**
31 December 2011	**1,904,698**	**1,859**	**91,087**	**63,905**	**10,370**	**160,421**	**2,232,340**

As at 31 December 2012 buildings, leasehold improvements and equipment include assets with a cost or revalued amount of UAH 184,154 thousand which are fully depreciated (2011: UAH 149,717 thousand). These assets are still used by the Bank.

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

As at 31 December 2012, the Bank had capital commitments for the acquisition of property, plant and equipment of UAH 87,540 thousand (2011: UAH 103,485 thousand).

In 2012 the Bank conducted a revaluation of the buildings. The evaluation was conducted by an independent evaluator as at 31 October 2012, and a fair value was determined by the comparative, discounted cash flow method and expendable method with regard to market information. If the buildings are reported at cost, the carrying value is as follows:

	31 December 2012 (revalued)	*31 December 2012 (at cost)*	*31 December 2011 (revalued)*	*31 December 2011 (at cost)*	*31 December 2010 (revalued)*	*31 December 2010 (at cost)*
Cost	1,931,015	1,022,898	1,945,797	992,252	1,927,156	960,290
Accumulated depreciation	(5,205)	(116,214)	(41,099)	(102,683)	(14,921)	(92,387)
Residual value	**1,925,810**	**906,684**	**1,904,698**	**889,569**	**1,912,235**	**867,903**

As at 31 October 2012 buildings revaluation in the amount of UAH 20,823 thousand includes the revaluated result in the amount of UAH 29 thousand (2011: nil), recognized within other operating expenses.

13. Intangible assets

The movements of intangible assets were as follows:

	Computer software and licenses
Cost	
31 December 2011	**45,714**
Additions	2,266
Disposals	(1,159)
31 December 2012	**46,821**
Accumulated amortization	
31 December 2011	**(32,664)**
Charge for the year	(4,546)
Disposal	1,159
31 December 2012	**(36,051)**
Residual value:	
31 December 2011	**13,050**
31 December 2012	**10,770**

	Computer software and licenses
Cost	
31 December 2010	**41,731**
Additions	4,413
Disposal	(430)
31 December 2011	**45,714**
Accumulated amortization	
31 December 2010	**(28,172)**
Charge for the year	(4,922)
Disposal	430
31 December 2011	**(32,664)**
Residual value:	
31 December 2010	**13,559**
31 December 2011	**13,050**

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

As at 31 December 2012, intangible assets include assets with a cost of UAH 23,833 thousand which have been fully amortised (2011: UAH 20,102 thousand). These assets are still used by the Bank.

14. Income tax

The corporate income tax charge comprises:

	2012	*2011*
Current tax charge	56,633	57,758
Deferred tax charge	67,342	703
Income tax expense	**123,975**	**58,461**

As at 31 December 2012, Ukrainian corporate income tax was calculated as taxable income less allowable expenses at the rate of 21% (31 December 2011: 23%).

In December 2010, the Ukrainian Parliament adopted the new Tax Code. According to the newly adopted provisions, the corporate income tax rate will be decreased to 19% from 1 January 2013 and to 16% from 1 January 2014. In December 2012 Tax Code of Ukraine a tax rate of 10% on corporate profits from transactions with securities and derivatives with effect from 1 January 2013 was introduced. Deferred tax balances are determined using the tax rates that will be applicable when temporary differences are expected to reverse.

Income tax assets and liabilities consist of the following:

	2012	*2011*
Current income tax assets	492,257	528,500
Deferred income tax asset	85,216	163,287
Income tax asset	**577,473**	**691,787**
Current income tax liabilities	13,243	2,673
Income tax liabilities	**13,243**	**2,673**

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

	2012	*2011*
Income before tax	261,290	189,484
Statutory tax rate	21%	23%
Income tax expense at the statutory rate	54,871	43,581
Effect of change in tax rates	611	3,993
Income recognised for tax purposes only	50,187	-
Non-deductible expenditures:		
- initial recognition of investment property	1,146	-
- salaries and bonuses	3,731	3,315
- consulting and marketing	1,029	681
- utilities	2,096	1,671
- repair and maintenance of property and equipment	1,758	1,160
- charity	404	269
- lease	340	818
- other banking operating services	1,530	1,308
- other expenses	6,272	1,665
Income tax expenses	**123,975**	**58,461**

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

Deferred tax assets and liabilities as at 31 December comprise:

		Origination and reversal of temporary differences			Origination and reversal of temporary differences		
	2010	*In the income statement*	*In comprehensive income*	*2011*	*In the income statement*	*In comprehensive income*	*2012*
Tax effect of deductible temporary differences:							
Allowance for loan impairment	261,897	(77,214)	-	184,683	(184,683)	-	-
Accruals	16,464	2,371	-	18,835	(3,418)	-	15,417
Valuation of financial instruments	-	17,713	-	17,713	212,247	(7,393)	222,567
Other asset/ liabilities	2,614	(2,614)	-	-	3,393	-	3,393
Deferred tax assets	**280,975**	**(59,744)**	**-**	**221,231**	**27,539**	**(7,393)**	**241,377**
Tax effect of taxable temporary differences:							
Allowance for loan impairment	-	-	-	-	(89,969)	-	(89,969)
Property, equipment and intangible assets	(212,723)	38,507	134,677	(39,539)	(4,109)	(3,336)	(46,984)
Investment property	(18,196)	275	-	(17,921)	(1,287)	-	(19,208)
Valuation of financial instruments	(38,285)	20,743	17,542	-	-	-	-
Other asset/ liabilities	-	(484)	-	(484)	484	-	-
Deferred tax liabilities	**(269,204)**	**59,041**	**152,219**	**(57,944)**	**(94,881)**	**(3,336)**	**(156,161)**
Net deferred tax assets / (liabilities)	**11,771**	**(703)**	**152,219**	**163,287**	**(67,342)**	**(10,729)**	**85,216**

15. Other impairment and provisions

The movements in other impairment and provisions are as follows:

	Investment securities held to maturity	*Other assets*	*Guarantees and commitments*	*Total*
31 December 2010	**40,655**	**16,138**	**181**	**56,974**
Translation differences	-	(90)	(695)	(785)
Charge/(reversal)	(22,385)	1,517	821	(20,047)
31 December 2011	**18,270**	**17,565**	**307**	**36,142**
Translation differences	-	79	486	565
Charge/(reversal)	(18)	20,583	(793)	19,772
Write-off	**-**	(632)	-	(632)
31 December 2012	**18,252**	**37,595**	**-**	**55,847**

Allowances for impairment of assets are deducted from the related assets. Provisions are recognised in liabilities.

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

16. Other assets and liabilities

Other assets comprise:

	2012	*2011*
- other financial assets:		
Transit accounts in respect of card operations	97,331	41,179
Other accrued income	10,290	9,734
Transit accounts on transactions with customers	9,762	7,968
Service fee on financial guarantees issued	4,114	10,558
Other	36	1,456
	121,533	70,895
Less — Allowance for impairment (Note 15)	(13,804)	(11,413)
Other financial assets	107,729	59,482
- other assets:		
Precious metals	41,583	22,449
Prepayments	37,658	43,754
Inventories	10,484	12,198
Other tax assets, except those related to income tax	285,287	159,021
Other	1,419	20
	376,431	237,442
Less – Allowance for impairment (Note 15)	(23,791)	(6,152)
Other assets	352,640	231,290
Total other assets	**460,369**	**290,772**

As at 31 December 2012 and 2011 other tax assets, except those related to income tax, mainly consist of a recognised VAT credit related to repossessed investment property (Note 11) which will be set-off against VAT liabilities recognised as a result of the future sale of the investment property.

As at 31 December 2012 , prepayments include balances of UAH 4,960 thousand (2011: UAH 1,085 thousand) in respect of the construction of a branch and part of the head office buildings.

Other liabilities comprise:

	2012	*2011*
- Other financial liabilities:		
Transit accounts in respect of card operations	102,964	54,011
Fair value of financial guarantees issued	5,826	10,499
Accrued expenses	4,576	11,357
Transit accounts in respect of operations with customers	2,741	5,743
Other financial liabilities	116,107	81,610
Other liabilities:		
Provision for unused vacation	51,805	42,242
Accrued salary payable	29,345	25,449
Payables to Guarantee Fund of Individuals' Deposits	26,861	16,805
Deferred income	19,260	7,757
Accrued pension contribution	716	691
Other	4,057	9,473
Other liabilities	132,044	102,417
Total other liabilities	**248,151**	**184,027**

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

17. Amounts due to the National Bank of Ukraine

Amounts due to the National Bank of Ukraine as at 31 December 2012 comprise:

	2012	*2011*
Loans due to the National Bank of Ukraine	6,408,540	3,993,091
Repurchase agreements	1,415,261	2,202,795
Correspondent account	1,113	1,188
Amounts due to the National Bank of Ukraine	**7,824,914**	**6,197,074**

As at 31 December 2012 the Bank entered into repurchase agreements with the NBU for the amount of UAH 1,415,261 thousand (2011: UAH 2,202,795 thousand). The subject of this agreement is Ukrainian state bonds with the fair value of UAH 1,434,482 thousand (2011: UAH 2,283,649 thousand). (Note 10).

As at 31 December 2012 , loans due to the National Bank of Ukraine comprise:

Origination date	*Maturity date*	*Type of interest rate*	*Interest rate*	*Carrying value*
19 March 2009	12 November 2015	Floating (NBU rate +0,5%)	8,0%	1,496,188
19 March 2009	12 November 2015	Floating (NBU rate + 0,5%)	8,0%	1,908,352
3 February 2010	24 January 2016	Floating (NBU rate + 2%)	9,5%	624,000
3 September 2012	23 August 2013	Fixed rate	7,5%	1,500,000
13 December 2012	18 October 2013	Fixed rate	7,5%	160,000
26 December 2012	10 December 2013	Fixed rate	7,5%	720,000
Amounts due to the NBU				**6,408,540**

Loans due to the National Bank of Ukraine as at 31 December 2011 comprise:

Origination date	*Maturity date*	*Type of interest rate*	*Interest rate*	*Carrying value*
19 March 2009	12 November 2015	Floating (NBU rate + 0,5%)	8,25%	1,463,383
19 March 2009	12 November 2015	Floating (NBU rate + 0,5%)	8,25%	1,902,584
3 February 2010	24 January 2016	Floating (NBU rate + 2%)	9,75%	627,124
Amounts due to the NBU				**3,993,091**

Loans due to the NBU are secured with loans to customers (Note 9) and investment securities (Note 10).

18. Amounts due to credit institutions

Amounts due to credit institutions comprise:

	2012	*2011*
Loans and deposits due to other banks	3,008,711	4,726,935
Loans due to international financial organisations	2,844,221	2,061,471
Current accounts	1,391,355	874,010
Other amounts due to credit institutions	13	1,994
Amounts due to credit institutions	**7,244,300**	**7,664,410**
Held as security against guarantees (Note 23)	53,275	67,735

As at 31 December 2012, included in current accounts is UAH 929,285 thousand received from five Ukrainian and non-OECD banks (2011: UAH 586,043 thousand received from five Ukrainian banks). The amount was received under normal banking terms and conditions.

As at 31 December 2012, included in amounts due to credit institutions is UAH 1,213,375 thousand received from Ukrainian banks (2011: UAH 1,170,070 thousand).

As at 31 December 2012, loans and deposits due to other banks include UAH 112,343 thousand received from Kreditanstalt fur Wiederaufbau ("KfW") under loan agreements for financing small and medium sized enterprises in Ukraine (2011: UAH 166,894 thousand). The loans are denominated in US dollars have a current interest rate of LIBOR+2.75% and mature in 2014.

As at 31 December 2012, loans and deposits due to other banks and loans due to international financial organisations include UAH 1,055,608 thousand, UAH 383 302 thousand and 91 thousand received from OECD banks, international financial organizations and other foreign banks, respectively, under trade and export financing agreements (2011: UAH 1,413,673 thousand, UAH 204,066 thousand and UAH 181 thousand respectively). These loans are denominated in US dollars, euros, Swiss francs and Japanese yen and bear fixed and floating interest rates and are matched in maturity with loans to customers issued under the respective trade and export financing programmes.

International financial institutions loans include loans from the International Bank for Reconstruction and Development (IBRD) in the framework of the project development, totalling UAH 46,868 thousand(2011: UAH 93,372 thousand). Proceeds from these loans are used to finance Ukrainian borrowers that meet the criteria of the IBRD. These loans are denominated in US dollars or euros, issued under the interest rate LIBOR + spread IBRD, which is reviewed twice a year, and have a current rate interest rate: 0.81% for US dollars and 0.53% for euros, maturing in 2013. In this respect, there are limitations of the debt and financial conditions, as disclosed in Note 23.

International financial institutions loans include loans from the International Bank for Reconstruction and Development (IBRD) within the framework of the second project of export development totalling UAH 970,937 thousand (2011: UAH 812,530 thousand) (the total amount of these loans is USD 304,500 thousand). Proceeds from these loans are used for medium-and long-term financing Ukrainian borrowers that meet the criteria of the IBRD, and shall be distributed between the Ukrainian commercial banks that meet the criteria of the IBRD. These loans are denominated in US dollars received by the Bank with interest rate of LIBOR + spread IBRD, which is reviewed twice a year, and have a current interest rate: 0.86% and 0.99%, maturing in 2026 and 2041 respectively.

Loans from international financial institutions include loans from the International Bank for Reconstruction and Development ("IBRD") for the Project on Energy Efficiency in the amount of UAH 97,624 thousand. (2011: UAH 4,002 thousand.). Proceeds from this loan are used to finance Ukrainian borrowers who meet the criteria for the World Bank, and are distributed among the Ukrainian commercial banks that meet the criteria of the World Bank. The loan is denominated in US dollars received by the bank with interest rate of LIBOR + spread IBRD, which is reviewed twice a year, with the current interest rate: 1.07%, the loan matures in 2041.

International financial institutions loans include loans from the European Bank for Reconstruction and Development ("EBRD") within the framework of the energy efficiency programs totalling UAH 534,349 thousand (2011: UAH 618,354 thousand). These loans are denominated in US dollars and maturing in 2014, 2016 and 2017 respectively, have floating interest rates: LIBOR +2,5% and LIBOR +5,5%, which to date are 2.9684%, 6.9684% and 5.2192% respectively.

For the purposes of the cash flow statement presentation, the Bank allocates funds, attracted from credit institutions, the funds for the operating and financing activities. Funds raised from the Ukrainian banks are included in the category of funds for operational activities, and funds from other banks for financial activities.

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

19. Amounts due to customers

Amounts due to customers comprise:

	2012	*2011*
Current accounts		
- Legal entities	4,812,423	5,624,167
- Budget funds	3,631,474	3,213,330
- Individuals	1,371,260	1,284,816
- Due to funds under the Bank's management (see below)	7,516	12,674
	9,822,673	**10,134,987**
Time deposits		
- Legal entities	18,710,284	7,384,625
- Individuals	14,300,749	12,157,820
- Budget funds	579	579
	33,011,612	**19,543,024**
Due to customers	**42,834,285**	**29,678,011**
Held as security against loans to customers	614,737	726,569
Held as security against letters of credit (Note 23)	505,233	430,865
Held as security against guarantees and avals (Note 23)	155,161	286,726
Held as security against undrawn loan commitments (Note 23)	2,669	1,916

As at 31 December 2012, legal entities current accounts of UAH 993,376 thousand (20,6% of legal entities current accounts) (2011: UAH 1,504,329 thousand or 26,8%).

As at 31 December 2012, individuals' current accounts of UAH 14,194 thousand (1,0% of individuals' current accounts) (2011: UAH 12,955 thousand or 1,0%).

As at 31 December 2012, term deposits of legal entities included funds raised from five customers – legal entities, in the amount of UAH 13,511,754 thousand (72.2% of the amount of term deposits of legal entities (2011: UAH 2,640,846 thousand, or 35.8%).

As at 31 December 2012, term deposits of individuals included funds raised from ten individuals, in the amount of UAH 739,347 thousand (5.2% on the amount of term deposits of individuals) (2011: UAH 682,897 thousand, or 5.6%).

In accordance with Ukrainian legislation, the Bank is obliged to repay time 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.

Funds under the Bank's management

The Bank acts as a fund manager for construction-financing funds. Amounts due to funds under the Bank's management are summarised as follows:

	2012	*2011*
At 1 January	**12,674**	**12,357**
Funds attracted from individuals	103,647	100,884
Invested funds	(108,805)	(100,567)
At 31 December	**7,516**	**12,674**

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

An analysis of customer accounts by economic sector follows:

	2012	*%*	*2011*	*%*
Individuals	15,672,009	36,6	13,442,636	45,3
Agriculture and food industry	12,934,457	30,2	1,343,394	4,5
Budget organizations	3,632,053	8,5	3,213,909	10,8
Transport and communications	2,015,978	4,7	1,530,136	5,2
Trade	2,005,492	4,7	2,063,637	6,9
Finance	1,121,999	2,6	1,544,843	5,2
Real estate	903,468	2,1	1,327,831	4,5
Mechanical engineering	875,775	2,0	803,004	2,7
Construction	705,066	1,6	800,982	2,7
Power engineering	645,301	1,5	323,599	1,1
Chemical industry	333,710	0,8	482,303	1,6
Metal processing	171,244	0,4	76,781	0,3
Health protection	137,074	0,3	146,984	0,5
Personal services	134,179	0,3	136,021	0,5
Extractive industry	119,734	0,3	300,845	1,0
Production of construction materials	119,568	0,3	94,260	0,3
Education	82,638	0,2	77,671	0,3
Culture and sport	65,362	0,2	92,254	0,3
Metallurgy	49,825	0,1	138,725	0,5
Investment activity	-	-	1,100,000	3,7
Other	1,109,353	2,6	638,196	2,1
Amounts due to customers	**42,834,285**	**100**	**29,678,011**	**100**

20. Eurobonds issued

	At 31 December 2012		*At 31 December 2011*	
	Nominal value	*Carrying value*	*Nominal value*	*Carrying value*
October 2005 issue	-	-	1,880,240	1,909,038
April 2010 issue	3,996,500	4,042,389	3,994,900	4,034,914
October 2010 issue	1,998,250	2,021,195	1,997,450	2,017,457
February 2011 issue	2,385,050	2,490,479	2,385,050	2,477,117
Eurobonds issued		**8,554,063**		**10,438,526**

In April 2010, the Bank, through BIZ Finance PLC, issued Eurobonds in the form of loan participation notes with a par value of USD 100,000 (UAH 792,580 at the exchange rate at the date of issue). The bonds carry a fixed coupon rate of 8.375% p.a. and mature in April 2015.

In October 2010, the Bank, through BIZ Finance PLC, issued Eurobonds in the form of loan participation notes with a par value of USD 100,000 (UAH 791,160 at the exchange rate at the date of issue). The bonds carry a fixed coupon rate of 8.375% p.a. and mature in April 2015 and were consolidated and form a single series with the notes issued in April 2010.

In February 2011, the Bank, through BIZ Finance PLC, issued Eurobonds in the form of deposit linked notes with a par value of UAH 1,250 thousand with a total nominal value for the issue of UAH 2,385,050 thousand. The bonds carry a fixed coupon rate of 11% p.a. and mature in February 2014.

All Eurobonds issued are subject to various covenants and restrictions (Note 23).

21. Subordinated debt

In February 2006, the Bank obtained a loan of USD 95,000 thousand (UAH 759,335 thousand) from Credit Suisse International (carrying value of UAH 769,210 thousand as at 31 December 2012 (2011: UAH 766,689 thousand). This loan was funded by 8.4% loan participation notes issued by on a limited recourse basis to Credit Suisse International, for the sole purpose of funding a subordinated loan to the Bank. The interest rate was changed to 5.79% in February 2011 according to the terms of the loan. The loan matures in February 2016, interest payments are made semi-annually in arrears on 9 February and 9 August of each year, commencing on 9 August 2006.

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

In November 2006, the Bank obtained a further loan of USD 30,000 thousand (UAH 239,790 thousand) from Credit Suisse International (carrying value of UAH 242,908 thousand as at 31 December 2012 (2011: UAH 242,112 thousand). This loan was funded by 8.4% loan participation notes, which were consolidated and form a single series with the notes issued in February 2006. The interest rate was changed to 5.79% in February 2011 according to the terms of the loan.

In May 2009, the Bank obtained a loan amounting to USD 250,000 thousand (UAH 1,998,250 thousand) from the EBRD (carrying value of UAH 2,094,527thousand as at 31 December 2012 (2011: UAH 2,093,194 thousand)).. The loan matures in May 2019 with an interest rate change in 2014. Interest payments are made semi-annually in arrears on 28 July and 28 January of each year, commencing on 28 July 2009.

Subordinated debts are subject to various covenants and restrictions (Note 23).

22. Equity

As at 31 December 2012 the Bank's authorised issued share capital comprised 11,414,901 (2011: 11,414,901) ordinary shares, with a nominal value of UAH 1,440.82 per share (2011: 1,437.9 per share). All shares have equal voting rights. As at 31 December 2012, 11,414,901 shares were fully paid and registered (2011: shares were fully paid and registered).

These consolidated financial statements reflect the amount of paid-in share capital stated at cost, which is restated using the consumer price index for the contributions made before 31 December 2000. The share capital of the Bank was contributed in Ukrainian hryvnia.

The movements in share capital were as follows:

	Number of shares	*Nominal amount, UAH'000*	*Restated cost, UAH'000*
31 December 2010	**11,414,901**	**16,393,510**	**17,106,742**
Shares issued	-	19,976	19,976
31 December 2011	**11,414,901**	**16,413,486**	**17,126,718**
Shares issued	-	33,332	33,332
31 December 2012	**11,414,901**	**16,446,818**	**17,160,050**

In May 2012, according to the Resolution of the Cabinet of Ministers of Ukraine dated 21 March 2012 the Bank's share capital was increased by UAH 33,332 thousand through capitalisation of part of the profit for 2010 and retained earnings of previous years according to UAR.

In May 2012, in accordance with the legislation of Ukraine, the Bank made a profit distribution to shareholders in the amount of UAH 26,436 thousand.

The accumulated deficit shown in these consolidated annual financial statements arises as a result of capitalising profits from previous years (as shown in the financial statements prepared according to UAR) and profits for previous years according to IFRS which have been retained.

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

Movements in revaluation reserves

Movements in reserve were as follows:

	Property revaluation reserve	*Unrealised gains/ (losses) on investment securities*	*Revaluation reserve*
31 December 2010	**861,853**	**10,981**	**872,834**
Depreciation of revaluation reserve, net of tax	(15,156)	-	(15,156)
Revaluation reserve for fixed assets, reclassified to the category of investment property, net of tax	(9,552)	-	(9,552)
Realised gains on investment securities available-for-sale reclassified to the income statement	-	(107,738)	(107,738)
Net unrealised gains on available-for-sale investments		26,993	26,993
Reversal of deferred income tax relating to tangible fixed asset revaluations consequent to enactment of the new Tax Code	134,677	-	134,677
Tax effect of net losses on investment securities available-for-sale	-	17,542	17,542
31 December 2011	**971,822**	**(52,222)**	**919,600**
Revaluation of property, net of tax	20,852	-	20,852
Depreciation of revaluation reserve, net of tax	(16,290)	-	(16,290)
Realised revaluation reserve on property transferred to accumulated deficit	(18)	-	(18)
Realised losses on investment securities available-for-sale reclassified to the income statement	-	(270,243)	(270,243)
Net unrealised gains on available-for-sale investment	-	271,461	271,461
Tax effect of net losses on investment securities available-for-sale	(3,336)	(7,393)	(10,729)
31 December 2012	**973,030**	**(58,397)**	**914,633**

Nature and purpose of revaluation reserves

Property revaluation reserve

The revaluation reserve for property and equipment is used to record increases in the fair value of buildings and decreases to the extent that such decrease relates to an increase on the same asset previously recognised in equity.

Unrealised gains/ (losses) on investment securities available-for-sale

This reserve records changes in fair value of available-for-sale investments.

Reserves and other funds of the Bank

The reserve fund is created in accordance with the Charter to achieve 25 per cent of the size of the regulatory capital at the beginning of each year. The size of the allocations to the reserve fund is not less than 5 per cent of the amount of profit of the Bank's annual profit. The reserve fund is provides for incidental losses for all assets and off-balance sheet commitments.

The Bank's distributable reserves are determined by the amount of its reserves as disclosed in the accounts prepared in accordance with UAR. As at 31 December 2011, the Bank has distributable reserves amounting to UAH 232,809 thousand (31 December 2011: UAH 98,633 thousand., 1 January 2011: UAH 72,875 thousand.). The amount of non-distributable reserves was UAH 1,103,524 thousand (31 December 2011: UAH 1,187,842 thousand, 1 January 2011: UAH 1,087,097 thousand). Non-distributable reserves are represented by a statutory revaluation reserve and a general reserve fund, which is created to cover general banking risks, including future losses and other unforeseen risks or contingencies.

23. Commitments and contingencies

Operating environment

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

The Ukrainian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. The negative events in the world economy have resulted in a decline in the demand for production of traditional Ukrainian export that has influenced on decrease of gross domestic product significantly. Whilst the Ukrainian Government continues to introduce various stabilisation measures aimed at supporting the government finance, banking sector and providing liquidity to Ukrainian banks and companies, however some uncertainty persists regarding access to capital and its cost for the Bank and its counterparties, which could affect the financial position, results of operations and business prospects of the Bank.

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

Whilst Management believes it is acting appropriately to support the sustainability of the Bank business in the current circumstances, any unexpected further deterioration in the areas described above could negatively affect the Bank's results and financial position in a manner not currently determinable.

Legal aspects

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

Tax and other regulatory compliance risks

Ukrainian legislation and regulations regarding taxation and other operational matters, including currency exchange control and custom regulations, continue to evolve. 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. 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 it is a risk that transactions and interpretations that have not been challenged in the past may be challenged by the authorities in the future, although this risk significantly reduces with the 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.

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

Financial commitments and contingencies

The Bank's financial commitments and contingencies comprise the following:

	2012	*2011*
Letters of credit	723,645	613,034
Guarantees	2,664,776	2,932,580
Avals on promissory notes	32,046	143,501
Undrawn loan commitments	194,089	203,452
	3,614,556	**3,892,567**
Less – Provisions (Note 15)	-	(307)
Financial commitments and contingencies (before deducting collateral)	**3,614,556**	**3,892,260**
Less — cash held as security against letters of credit, avals and guarantees, and undrawn loan commitments (Note 18, Note 19)	(716,338)	(787,242)
Financial commitments and contingencies	**2,898,218**	**3,105,018**

As at 31 December 2012, the Bank issued letters of credit of UAH 508,346 thousand to four Ukrainian companies partially secured by cash deposits of UAH 432,412 thousand (2011: UAH 466,556 thousand to four Ukrainian companies partially secured by cash deposits). As at 31 December 2012, the Bank issued guarantees of UAH 2,139,749 thousand in favour of four Ukrainian companies that are partially secured by cash deposits of UAH 12,190 thousand (2011: UAH 2,274,222 thousand in favour of four Ukrainian companies that are partially secured by cash deposits of UAH 144,439 thousand).

Financial covenants

The Bank is a party to various arrangements with other credit institutions, which contain financial covenants relating to the financial performance and general risk profile of the Bank. Under such covenants, the Bank is required to maintain a minimum international risk based capital adequacy ratio of 10%, to limit credit exposure to a single borrower and to ensure a certain level of operating activity. These financial covenants may restrict the Bank's ability to execute certain business strategies and enter into other significant transactions in the future.

24. Commission income, net

Net commission income comprises:

	2012	*2011*
Commission income		
Cash and settlement service	313,758	294,562
Guarantees and letters of credit	104,646	123,361
Operations with banks	57,026	47,311
Credit servicing commission	9,290	13,141
Other	13,033	11,211
	497,753	**489,586**
Commission expenses		
Cash and settlement service	(90,084)	(82,351)
Guarantees and letters of credit	(21,030)	(37,020)
Currency conversion	(2,392)	(2,572)
Other	(53)	(273)
	(113,559)	**(122,216)**
Commission income, net	**384,194**	**367,370**

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

25. Personnel and other operating expenses

Personnel and other operating expenses comprise:

	2012	*2011*
Salaries and bonuses	646,310	542,739
Charges on payroll	166,233	133,644
Personnel expenses	**812,543**	**676,383**
Expenses related to Guarantee Fund of Individuals' Deposits	77,768	64,257
Repair and maintenance expenses	46,445	41,157
Occupancy and rent	39,207	32,957
Security	23,353	17,857
Expenses for cash collection	14,624	13,206
Marketing and advertising	14,043	16,869
Electronic and data processing costs	13,318	11,976
Sundry expenses	11,757	9,352
Operating taxes	10,202	6,696
Business travel and related expenses	7,405	5,851
Legal and advisory services	6,841	4,518
Communications	6,016	5,093
Expenses related to representative offices	5,691	4,351
Charity	1,546	1,229
Loss on fair value adjustment for investment property (Note 10)	-	370
Other	35,489	16,095
Other operating expenses	**313,705**	**251,834**

Expenses on payment to the non-state pension fund in 2012 comprised UAH 9,171 thousand (2011:UAH 7,612 thousand).

26. Risk management

Introduction

The Bank is exposed to risks i.e. credit risk, liquidity risk and market risk (which is subdivided into interest rate risk, currency risk and trading book risk), operational risk as well as strategic and reputation risk which are continuously identified, assessed and controlled within the Risk management process. The risk management process is decisive for ensuring the Bank's efficiency and profitability and each employee of the Bank is responsible for respecting the risk management rules and procedures in the course of fulfilling their tasks and duties.

The Bank adheres to the following key risk management principles:

- centralisation of liquidity, interest and currency risk management at the Head Office level;
- unification of analysis and monitoring procedures for credit projects, assessment of the creditworthiness of each borrower and establishment of credit rating and rules for creating allowance for loan impairment across all branches of the Bank;
- clear definition of the roles of all participants in the risk management process and the interrelations among those participants;
- definition of risk limits for transaction volumes: by Bank or Branch Officer, limits on exposures to single borrowers, limits on exposures to related parties, credit portfolio concentration limits (by industry, counterparty banks, separate transactions/ balance sheet items, etc.);
- ensuring continuous risk monitoring and control and compliance with all established limits;
- avoidance of conflicts of interest;
- ensuring internal control over compliance with policies and procedures.

The risk management process includes four stages: identification of risk, its sources and risk areas; estimation of the level of risk; minimisation of risk or limitation of risk at an acceptable levels; on-going monitoring of positions at risk.

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

Risk management structure

The Supervisory Board is generally responsible for establishment and approval of objectives in the sphere of risk management and management of capital. In addition, the Bank has separate independent bodies responsible for managing and monitoring risks. The following bodies are responsible for the risk management process at the Bank: Management Board, Assets and Liabilities Committee ("ALCO"), Credit Committee, Retail Business Committee, Securities Division, Treasury Division, Risk Management Division, Audit and Revision Division.

Supervisory Board

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

Management Board

The Management Board has the overall responsibility for the development of the risk strategy and implementing of principles, frameworks, policies and limits within the Bank. Fundamental risk issues are managed and monitored by relevant risk decisions based on quarterly reports of the Risk Management Division, ALCO, Credit Committee and Retail Business Committee. The Management Board approves the Bank's risk management.

Assets and Liabilities Committee ("ALCO")

The ALCO has the overall responsibility for the implementing of principles, frameworks, policies and limits regarding liquidity and market risks within the Bank and ensuring that liquidity and market risks are within the specified ranges approved by the Management Board. The ALCO reports to the Management Board.

Credit Committee and Retail Business Committee

The Credit Committee and Retail Business Committee have the overall responsibility for implementing principles, frameworks, policies and limits regarding credit risk within the Bank and ensuring that credit risk indicators are within the specified ranges approved by the Management Board. These committees report to the Management Board.

Risk Management Division

Risk Management Division is responsible for control, monitoring, analysis and reporting of key risk indicators connected with the Bank's activities. In addition, Risk Management Division elaborates and supervises implementation of risk management methodologies, norms and procedures, estimates the risk of all banking products and structured transactions. The Risk Management Division reports to the Management Board.

Treasury and Securities Divisions

Treasury is responsible for the management of the Bank's liquidity position via money market operations, while Securities Division is responsible for management of the Bank's liquidity position via capital market operations. The Treasury Division and Securities Division report to the Management Board.

Audit and Inspection Division

The risk management processes are audited on a regular basis by Audit and Inspection Division, which examines both the adequacy of procedures and the Bank's compliance with those procedures. Audit findings, conclusions and recommendations are submitted to the Management Board and the Supervisory Board.

Risk measurement and risk reporting systems

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

Risks are monitored and controlled primarily based on limits established by the Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept, with additional emphasis on selected industries. In addition, the Bank monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risks types and activities.

Information regarding the balance-sheet structure, capital adequacy, compliance with limits and indicators established by the ALCO, and covenants under contractual obligations of the Bank is submitted to the ALCO on a monthly basis. The Management Board receives a comprehensive risk report once a quarter which is designed to provide all the necessary information to assess and conclude on the risks of the Bank.

For all levels of the Bank's management, various risk reports are prepared in order to provide comprehensive, relevant and up-to-date information to all of the Bank's units.

Risk Mitigation

The Bank does not use derivatives to manage risks arising from changes in interest rates, foreign exchange rates, credit risk and liquidity risk since a market for such financial instruments does not yet exist in Ukraine.

The Bank extensively uses collateral to minimise credit risk (see below for more detail).

Excessive risks concentration

Concentration arises when a number of counterparts are engaged in similar business activities, or activities in the same geographic region, or have similar economic characteristics, which determine their ability to meet contractual obligations that are equally affected by the changes in economic, political or other environment. Concentration indicates the relative sensitivity of the Bank's performance to the developments affecting a particular industry or geographical area.

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

Credit risk

The Banks considers credit risk as the probability of non-timely and/or insufficient receipt of funds from customers (counterparties) under their commitments.

Credit risk management is primarily aimed at ensuring fulfilment of commitments by the Bank's customers (counterparties) in form, volume and time periods adequate for maintaining liquidity, yield and capital adequacy ratios within the limits acceptable for the Bank.

In managing credit risk, the Bank considers the following:

- structural (strategic) management — acceptable level of loan portfolio structure and volume (on balance sheet and off balance sheet) in short, medium and long term horizon taking into consideration estimated and unpredictable changes in the financial and economic environment;
- ongoing (operational) management - acceptable quality and volume of individual loans and commitments taking into consideration estimated and unpredictable changes in the financial and economic environment;
- structural (strategic) and ongoing (operational) management of the allowance for impairment effect on the

Bank's capital adequacy ratio in short, medium and long term horizon taking into consideration estimated and unpredictable changes in quality of the individual loans, credit portfolios and total credit portfolio.

The Bank manages and controls credit risk based on the following principles:

- setting targets (optimal and acceptable for the Bank), critical (undesirable, but manageable) and threshold (requiring urgent measures) values of the key credit risk exposures;
- providing loans or loan related commitments solely in accordance with the approved Credit policy and the Bank's internal regulations;
- creation and maintaining allowances and provisions for loan related operations in volumes, which are not lower than the Bank's best estimates;
- constant monitoring of the actual values of the key credit risk exposures at the level of individual loans/commitments, credit portfolios and total credit portfolio;
- taking efficient measures if the actual values of credit risk exposures approach their critical and/or threshold values.

Key credit risk exposures, their target, critical and threshold values are updated at least annually and approved by the Management Board of the Bank.

Individual credit risk

Individual credit risk is a risk which can be attributed to a particular transaction or counterparty.

Individual credit risk is managed through: loan and customer (or counterparty) classification via the system of internal credit ratings determined on the basis of the customer's (counterparties') creditworthiness and an evaluation of their loan repayment quality; evaluation and monitoring of collateral value and liquidity; setting credit risk limits and monitoring compliance with the limits; creation of adequate allowance for asset's impairment.

The Bank's lending policy determines the type of collateral required for a particular transaction, industry or customer. The primary types of collateral include: guarantees of primary banks, deposits with the Bank, real estate property and pledges of equipment or vehicles. The Bank requires obligatory insurance of collateral to be provided by the customer.

In order to limit individual credit risk, the Bank sets the following limits: maximum volume of credit transactions (loans, securities, receivables) per single counterparty (or Bank of related counterparties), including financial commitments and contingencies; maximum volume of credit transactions (loans, securities, receivables) for one insider, including financial commitments and contingencies.

Portfolio credit risk

Portfolio credit risk is the risk typical for a group of credit transactions (loans, securities, receivables) and group of counterparties with similar credit characteristics.

Portfolio credit risk management is exercised through: industry classification on the basis of an internal system of industry ratings, which characterises the systematic risk of the industry; monitoring of the credit portfolio structure (by category of customers, industries and credit ratings of customers and loans); establishment of concentration limits and appropriate monitoring and control thereof; diversification of credit portfolio (both by industry and customer category).

Diversification of credit portfolio (both by industry and customer category) is provided through establishment of the following limits: by industry; by maximum total volume of "large" loans (which constitute 10% or more of the regulatory capital of the Bank as to each counterparty or Bank of related counterparties); by maximum total volume of loans to insiders; by credit portfolio concentration per category of customers; by total indebtedness of 5 largest customers; by total indebtedness of 10 largest customers; by total indebtedness of 20 largest customers.

Credit-related commitment risks

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

The Bank issues guarantees to its customers, under which the Bank may be required to make payments on behalf of the relevant customers. These guarantees expose the Bank to risks similar to credit risks, and are mitigated by similar control procedures and principles.

The Bank undertakes to effect payment against presentation of complying documents under letters of credit. If the letters of credit are opened on uncovered basis the Bank has risks similar to credit risks, and are mitigated by similar control procedures and principles.

The maximum exposure to credit risk for the components of the consolidated statement of financial position before the effect of mitigation through the use of collateral agreements, is best represented by their carrying amounts.

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

For more detail on the maximum exposure to credit risk for each class of financial instrument, references shall be made to the specific notes.

Credit quality according by the class of financial assets

In the table below loans to banks and customers of high grade are those having a minimal level of credit risk or very well collateralised. Other borrowers with good financial position and good debt service are included in the standard grade. Sub-standard grade comprises loans below standard grade but not individually impaired. The rating below standard provides lower, compared to the standard, rated credit quality, but credits included to this category, are not individually impaired. For amounts due from foreign credit institutions high grade is equivalent to Fitch BBB- rating and above, sub-standard — below BBB- but above CCC+, standard — CCC+ and below.

31 December 2012	*Notes*	*Not past due and not impaired*			*Past due or individually impaired*	*Total*
		High grade	*Standard grade*	*Sub-standard grade*		
Mandatory reserves with the National Bank of Ukraine	7	531,152	-	-	-	531,152
Amounts due from foreign credit institutions	8	245,822	-	-	-	245,822
Amounts due from Ukrainian credit institutions	8	-	178,846	733,647	-	912,493
Investment securities:	10					
- designated at fair value through profit or loss		3,538,447	-	-	-	3,538,447
- Available-for-sale		6,261,666	5,466,557	3,280,704	-	15,008,927
- Held-to-maturity		197,556	-	1,101,713	91,220	1,390,489
Loans to corporate customers:	9					
Commercial loans		2,935,214	22,758,500	10,296,041	11,480,572	47,470,327
Overdrafts		14,692	95,655	10,589	-	120,936
Finance lease receivables		-	-	2,158	10,385	12,543
Promissory notes		3,678	9,374	-	32,449	45,501
		2,953,584	22,863,529	10,308,788	11,523,406	47,649,307
Loans to individuals	9	202,594	264,910	29,467	352,229	849,200
Total		**13,930,821**	**28,773,842**	**15,454,319**	**11,966,855**	**70,125,837**

	Not past due and not impaired	*Past due or*

31 December 2011	*Notes*	*High grade*	*Standard grade*	*Notes*	*individually impaired High grade*	*Standard grade*
Mandatory reserves with the National Bank of Ukraine	7	580,176	-	-	-	580,176
Amounts due from foreign credit institutions	8	241,576	-	5,289	-	246,865
Amounts due from Ukrainian credit institutions	8	-	744,162	281,660	-	1,025,822
Investment securities:	10					
- designated at fair value through profit or loss		3,221,305	-	-	-	3,221,305
- Available-for-sale		6,344,771	203,636	3,300,495	-	9,848,902
- Held-to-maturity		197,709	-	1,101,586	91,317	1,390,612
Loans to corporate customers:	9					
Commercial loans		3,040,379	17,509,752	13,784,984	15,168,786	49,503,901
Overdrafts		6,821	57,426	4,595	30,584	99,426
Finance lease receivables		-	-	2,467	9,385	11,852
Promissory notes		1,020	9,647	766,884	-	777,551
		3,048,220	17,576,825	14,558,930	15,208,755	50,392,730
Loans to individuals	9	183,819	312,961	137,424	314,622	948,826
Total		**13,817,576**	**18,837,584**	**19,385,384**	**15,614,694**	**67,655,238**

It is the Bank's policy to maintain accurate and consistent risk ratings across the credit portfolio. 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 ageing analysis of past due but not impaired loans is provided below:

31 December 2012	*Less than 30 days*	*31 to 60 days*	*61 to 90 days*	*More than 90 days*	*Total*
Loans to customers:					
Loans to corporate customers	191,802	24,397	128,459	14,362	359,020
Loans to individuals	8,423	4,538	31,864	365	45,190
Total	**200,225**	**28,935**	**160,323**	**14,727**	**404,210**

31 December 2011	*Less than 30 days*	*31 to 60 days*	*61 to 90 days*	*More than 90 days*	*Total*
Loans to customers:					
Loans to corporate customers	988,020	64,560	294	15,784	1,068,658
Loans to individuals	23,066	3,019	7,484	1,933	35,502
Total	**1,011,086**	**67,579**	**7,778**	**17,717**	**1,104,160**

Of the total aggregate amount of gross past due but not individually impaired loans to customers, the fair value of collateral that the Bank held as at 31 December 2012 is UAH 306,891 thousand (2011: UAH 362,631 thousand).

Impairment assessment

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue by more than 90 days or there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the respective contract. The Bank addresses impairment assessment in two areas: individually assessed allowances and collectively assessed allowances (on a portfolio basis).

Geographical concentration

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

	2012			
	Ukraine	*OECD countries*	*CIS and other non-OECD countries*	*Total*
Assets::				
Cash and cash equivalents	3,521,642	15,382,175	293,479	19,197,296
Mandatory reserves with the National Bank of Ukraine	531,152	-	-	531,152
Amounts due form credit institutions	895,465	241,470	4,352	1,141,287
Loans to customers	39,365,647	116	-	39,365,763
Investment securities:				
- designated at fair value through profit or loss	3,538,447	-	-	3,538,447
- available-for-sale	15,026,195	-	-	15,026,195
- held-to-maturity	1,372,237	-	-	1,372,237
Other assets (monetary)	107,652	19	58	107,729
	64,358,437	**15,623,780**	**297,889**	**80,280,106**
Liabilities:				
Amounts due to the NBU	7,824,914	-	-	7,824,914
Amounts due to credit institutions	1,197,784	5,349,669	696,847	7,244,300
Amounts due to customers	42,320,982	176,552	336,751	42,834,285
Eurobonds issued	-	8,554,063	-	8,554,063
Subordinated debt	-	3,106,645	-	3,106,645
Other liabilities (monetary)	220,251	2,153	658	223,062
	51,563,931	**17,189,082**	**1,034,256**	**69,787,269**
Net position	**12,794,506**	**(1,565,302)**	**(736,367)**	**10,492,837**
Commitments and contingencies (Note 22)	**2,896,214**	**2,004**	**-**	**2,898,218**

	2011			
	Ukraine	*OECD countries*	*CIS and other non-OECD countries*	*Total*
Assets::				
Cash and cash equivalents	3,065,987	6,807,391	178,462	10,051,840
Mandatory reserves with the National Bank of Ukraine	580,176	-	-	580,176
Amounts due from credit institutions	1,025,822	241,576	5,289	1,272,687
Loans to customers	41,855,191	228	48	41,855,467
Investment securities:				
- designated at fair value through profit or loss	3,221,305	-	-	3,221,305
- available-for-sale	9,855,267	-	-	9,855,267
- held-to-maturity	1,372,342	-	-	1,372,342
Other assets (monetary)	59,481	-	1	59,482
	61,035,571	**7,049,195**	**183,800**	**68,268,566**
Liabilities:				
Amounts due to the National Bank of Ukraine	6,197,074	-	-	6,197,074
Amounts due to credit institutions	1,170,070	5,835,864	658,476	7,664,410
Amounts due to customers	28,128,543	1,292,886	256,582	29,678,011

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

	2011			
	Ukraine	*OECD countries*	*CIS and other non-OECD countries*	*Total*
Eurobonds issued	-	10,438,526	-	10,438,526
Subordinated debt	-	3,101,995	-	3,101,995
Other liabilities (monetary)	162,630	3,138	-	165,768
	35,658,317	**20,672,409**	**915,058**	**57,245,784**
Net position	**25,377,254**	**(13,623,214)**	**(731,258)**	**11,022,782**
Commitments and contingencies (Note 23)	**3,101,617**	**2,003**	**1,398**	**3,105,018**

Liquidity risk

The Bank considers liquidity risk as the risk of an inability to finance growth of the Bank's assets and to fulfil its own obligations when they fall due.

The main purpose of liquidity risk management is to ensure the ability of the Bank to fulfil its obligations when they fall due by maintaining acceptable (manageable) liquidity gaps.

While managing liquidity risk, the Bank is considering a combination of the following:

- structural (short and long-term) assets and liabilities management focused on ensuring appropriate liquidity levels in the short and long-term time horizon;
- current (short-term) assets and liabilities management focused on ensuring appropriate level of instant and current liquidity taking into consideration estimated and unpredictable cash flow changes.

Liquidity risk management is based on acceptable levels of maturity gaps (by currency) and on the following principles:
- setting target (optimal and acceptable to the Bank), critical (undesirable but manageable) and threshold (requiring urgent measures) levels of key liquidity risk indicators;
- permanent monitoring of actual key liquidity risk indicators;
- use of adequate corrective actions if actual key liquidity risk indicators approach their critical and/or threshold levels.

Key liquidity risk indicators, their respective targets, critical and threshold levels are updated at least annually and approved by the Management Board of the Bank.

Assessment of the liquidity position

The adherence to the internal limits set by the Bank is in line with the liquidity risk standards established by the National Bank of Ukraine. The liquidity position is assessed and managed by the Bank, based on certain liquidity ratios established by the NBU as described in the Short-Term Liquidity Risk Management section.

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

As at 31 December, the liquidity position, assessed by respective liquidity ratios established by the NBU, was as follows:

	2012, %	*2011, %*
N4 "Instant Liquidity Ratio" (vault cash and balances on nostro accounts with banks / balances on customers' current accounts) (minimum required by the NBU — 20%)	77.87	70.51
N5 "Current Liquidity Ratio" (vault cash, balances on nostro accounts with banks, banking metals, claims on banks maturing within with residual maturity of up to 31 days and unpledged Ukrainian state bonds / balances on customers' current accounts, term deposits, debt obligations and commitments with residual maturity of up to 31 days) (minimum required by the NBU — 40%)	90.68	49.00
N6 "Short-Term Liquidity Ratio" (vault cash, balances on nostro accounts with banks, banking metals, claims on banks with residual maturity of up to 1 year and unpledged Ukrainian state bonds / balances on customers' current accounts, term deposits, debt obligations and commitments with residual maturity of up to 1 year) (minimum required by the NBU — 60%)	95.61	86.62

Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Bank's financial liabilities at 31 December based on contractual undiscounted repayment obligations. Less than 3 month liabilities are those that are due on the earliest date. However, the Bank expects that many customers will not demand repayment on the earliest date when the Bank could be required to make a respective repayment and the table does not reflect the expected cash flows calculated by the Bank on the basis of information on deposit repayment in previous periods.

Financial liabilities 31 December 2012	*Less than 3 months*	*3 to 12 months*	*1 to 5 years*	*More than 5 years*	*Total*
Amounts due to the National Bank of Ukraine	1,514,843	2,759,749	5,190,353	-	9,464,945
Amounts due to credit institutions	2,463,129	1,038,934	2,974,630	2,274,065	8,750,758
Amounts due to customers	33,683,057	8,578,896	1,411,062	21,511	43,694,526
Eurobonds issued	131,437	633,557	9,264,707	-	10,029,701
Subordinated debt	160,561	160,561	2,201,492	2,483,171	5,005,785
Other liabilities	116,107	-	-	-	116,107
Total undiscounted financial liabilities	**38,069,134**	**13,171,697**	**21,042,244**	**4,778,747**	**77,061,822**

Financial liabilities 31 December 2011	*Less than 3 months*	*3 to 12 months*	*1 to 5 years*	*More than 5 years*	*Total*
Amounts due to the National Bank of Ukraine	2,276,526	288,777	5,673,528	-	8,238,831
Amounts due to credit institutions	1,751,658	1,293,253	3,344,156	2,784,246	9,173,313
Amounts due to customers	19,079,097	8,755,727	2,691,510	41,086	30,567,420
Eurobonds issued	131,178	2,641,452	10,026,220	-	12,798,850
Subordinated debt	163,389	160,497	2,257,143	2,746,639	5,327,668
Other liabilities	81,610	-	-	-	81,610
Total undiscounted financial liabilities	**23,483,458**	**13,139,706**	**23,992,557**	**5,571,971**	**66,187,692**

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

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

	Less than 3 months	*3 to 12 months*	*1 to 5 years*	*More than 5 years*	*Total*
2012	782,915	1,646,130	1,146,296	39,215	3,614,556
2011	496,028	1,576,933	1,757,317	61,982	3,892,260

The Bank expects that not all of the contingent liabilities or commitments will be drawn before their expiry. In order to limit liquidity risk arising from asymmetric prepayment and early repayment prospective of the term assets and liabilities, the Bank incorporates in standard client agreements conditions that motivate customers not to use the options of prepayment and early repayment.

Market risk

The Bank considers market risk as the aggregate of interest rate risk and currency risk, i.e. inability to secure excess of income (including interest income) over expenses (including interest expenses) by currency in volumes required to fulfil the Bank's obligations and to maintain liquidity and capital adequacy risks within the range acceptable to the Bank.

Market risk management is performed by systematic combination of:

- interest risk management;
- foreign currency risk management.

Market risk management is aimed at securing the excess of income (including interest income) over expenses (including interest expenses) by currency in volumes required to fulfil the Bank's obligations and to maintain liquidity risk and capital adequacy risk within the range acceptable to the Bank and is carried out by:

- setting target (optimal and acceptable to the Bank), critical (undesirable but manageable) and threshold (requiring urgent measures) levels of key market risk indicators;
- permanent monitoring of actual values of key market risk indicators;
- taking efficient measures if the actual values of key market risk indicators approach their critical and/or threshold levels.

Key market risk indicators, their targets, critical and threshold levels are updated at least annually and approved by the Management Board of the Bank.

Interest rate risk

Interest rate risk is considered by the Bank as the inability to secure excess of interest income over interest expenses in volumes required to fulfil the Bank's interest payment obligations and to maintain liquidity and capital adequacy risks within the range acceptable to the Bank. The Bank considers the mismatch of interest receipts and interest payments by volumes or dates to be the main source of interest rate risk.

The Bank considers interest rate risk management as an integral part of the Bank's operations including the effect of negative impact by internal and external factors.

Interest rate risk management is performed through a combination of:

- structural (strategic) and current (operational) management of interest-bearing assets aimed at achieving acceptable structure and volume of interest income in short, middle and long-term time horizon taking into consideration estimated and unpredictable changes in interest rates;
- structural (strategic) and current (operational) management of interest-bearing liabilities aimed at achieving acceptable structure and volume of interest expenses in short, middle and long-term time horizon taking into consideration estimated and unpredictable changes in interest rates.

Interest rate risk management is aimed at securing the excess of interest income over interest expenses in volumes sufficient to fulfil the Bank's interest payment obligations and to maintain liquidity and capital adequacy risks within the range acceptable to the Bank. Interest rate risk management is performed via:

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

- setting target (optimal and acceptable to the Bank), critical (undesirable but manageable) and threshold (requiring urgent measures) levels of key interest rate risk indicators;
- permanent monitoring of actual values of key interest rate risk indicators;
- taking efficient measures if the actual values of key interest rate risk indicators approach their critical and/or threshold levels.

Key interest rate risk indicators, their respective targets, critical and threshold levels are updated at least annually and approved by the Management Board of the Bank.

The table below demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Bank's consolidated income statement.

The sensitivity of the consolidated income statement to the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities held at reporting date.

			2012		
Currency	***Base for interest rate***	***Increase in basis points***	***Effect on profit before income tax expense***	***Decrease in basis points***	***Effect on profit before income tax expense***
UAH	NBU	+100	2,677	-100	(2,299)
USD	LIBOR	+75	(6,989)	-75	1,515
USD	NBU	+100	153	-100	(151)
EUR	LIBOR	+75	833	-75	(833)
EUR	Euribor	+75	3,751	-75	(4,374)
EUR	NBU	+100	339	-100	(339)
Other	LIBOR	+75	728	-75	(757)
Other	Euribor	+75	1	-75	(1)
Currency			**1,493**		**(7,239)**

			2011		
Currency	***Base for interest rate***	***Increase in basis points***	***Effect on profit before income tax expense***	***Decrease in basis points***	***Effect on profit before income tax expense***
UAH	NBU	+100	10,056	-100	(9,579)
USD	LIBOR	+75	(4,149)	-75	1,099
USD	NBU	+100	193	-100	(189)
EUR	LIBOR	+75	1,944	-75	(1,944)
EUR	Euribor	+75	4,154	-75	(4,097)
EUR	NBU	+100	286	-100	(286)
Other	LIBOR	+75	1,105	-75	(1,156)
Other	Euribor	+75	5	-75	(1)
Currency			**13,594**		**(16,153)**

The equity sensitivity is calculated by the revaluation of available-for-sale financial assets with fixed rate as at 31 December to assess the possible effects of the assumed changes in interest rates. For securities classified as of the 1 and 2 levels of the fair value hierarchy of the asset, the method of modified duration is used, for securities classified as of the 3 level of the hierarchy - a method of yield curve, with the following assumptions: + / - 300 b.p. for corporate bonds, + / - 200 b.p. for Ukrainian state bonds denominated in local currency, + / - 100 b.p. for Ukrainian state bonds in USD, + / - 20% interest rate change for corporate bonds of the 3 level of hierarchy. As at December 31, the total effect of the changes on the Bank's equity is: (UAH 471,512) thousand / UAH 581,763 thousand (2011: (UAH 413,271) thousand / UAH 395,923 thousand).
Sensitivity of net profit / (loss) on investment securities valued designated at fair value through profit or loss is calculated by the revaluation of financial instruments with fixed interest rate, and are revalued through profit / (loss) as of 31 December in terms of effects of the assumed changes in interest rates using the method of modified duration. The effect of changes in interest rate + / - 100 b.p. for Ukrainian state bonds on Bank’s income is (UAH 172,795) thousand / UAH 172,795 thousand (2011: (UAH 141,242) thousand / UAH 141,242 thousand).

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

Currency risk

The Bank considers currency risk as the inability to secure excess of foreign currency cash inflow over foreign currency cash outflow (by currency) in amounts required to maintain liquidity and capital adequacy risks within the range acceptable to the Bank. The Bank considers the inconsistency of fluctuations in foreign currency exchange rates to be the main source of currency risk.

Currency risk management is performed through a combination of:

- structure (strategic) and current (operational) management of assets by currency aimed at achieving an acceptable structure and amount of foreign currency cash inflow in short, medium and long term time horizon taking into consideration estimated and unpredictable changes in foreign currency exchange rates;
- structure (strategic) and current (operational) liabilities management aimed at achieving an acceptable structure and amount of foreign currency cash outflow in short, medium and long term time horizon taking into consideration estimated and unpredictable changes in foreign currency exchange rates.

Currency risk management is aimed at securing the excess of foreign currency cash inflow over foreign currency cash outflow at the level acceptable for the Bank and necessary for maintaining liquidity and capital adequacy risks within the range acceptable to the Bank, and is performed via:

- setting targets (optimal and acceptable to the Bank), critical (undesired but manageable) and threshold (urgent measures) values of key currency risk indicators;
- continuous monitoring of actual values of key currency risk indicators;
- taking efficient measures if the actual values of key currency risk indicators approach their critical and/or threshold values.

Key currency risk indicators, their targets critical and threshold values are updated at least annually and approved by the Management Board of the Bank.

The tables below indicate the currencies to which the Bank has significant exposure at 31 December 2012 on its non-trading monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against hryvnia, with all other variables held constant on the consolidated income statement (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 consolidated income statement. A negative amount in the table reflects a potential net reduction in consolidated income statement or equity, while a positive amount reflects a net potential increase.

	2012		***2011***	
Currency	***Change in currency rate, %***	***Effect on profit before income tax expense***	***Change in currency rate, %***	***Effect on profit before income tax expense***
	+40,00%	(640,499)	+40,00%	(1,183,815)
USD/UAH	+40,00%	(379,632)	+40,00%	(267,163)
EUR/UAH		**(1,020,131)**		**(1,450,978)**
Total				
	-30,00%	1,515,374	-30,00%	1,831,857
USD/UAH	-30,00%	284,724	-30,00%	200,372
EUR/UAH		**1,800,098**		**2,032,229**

Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. In the event that the internal control system fails to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Bank cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Bank is able to manage the risks. Controls system includes efficient segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

27. Fair values of financial instruments

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

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

	2012			*2011*		
	Carrying value	*Fair value*	*Unrecognised gain / (loss)*	*Carrying value*	*Fair value*	*Unrecognised gain / (loss)*
Assets						
Cash and cash equivalents	19,197,296	19,197,296	-	10,051,840	10,051,840	-
Mandatory reserves with the National Bank of Ukraine	531,152	531,152	-	580,176	580,176	-
Amounts due from credit institutions	1,141,287	1,141,287		1,272,687	1,272,687	-
Loans to customers	39,365,763	36,852,559	(2,513,204)	41,855,467	39,158,476	(2,696,991)
Securities held to maturity	1,372,237	1,372,237	-	1,372,342	1,372,342	-
Other assets	107,729	107,729	-	59,482	59,482	-
Liabilities						
Amounts due to the National Bank of Ukraine	7,824,914	7,824,914	-	6,197,074	6,197,074	-
Amounts due to credit institutions	7,244,300	7,244,300	-	7,664,410	7,664,410	-
Amounts due to customers	42,834,285	42,668,476	165,809	29,678,011	29,612,523	65,488
Eurobonds issued	8,554,063	8,241,719	312,344	10,438,526	9,370,403	1,068,123
Subordinated debt	3,106,645	2,967,862	138,783	3,101,995	2,850,706	251,289
Other liabilities	116,107	116,107	-	81,610	81,610	-
Total unrecognized change in unrealized fair value			**(1,896,268)**			**(1,312,091)**

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

Assets for which fair value approximates carrying value

For financial assets and financial liabilities that are liquid or having a short term maturity (less than three months) it is assumed that the carrying amounts approximate to their fair value. 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 are estimated by comparing market interest rates when they were first recognised with current market rates offered for similar financial instruments. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and 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 reported at fair value

The Bank applies the following hierarchal structure of evaluation methods for measurement of and disclosure of information about fair value of financial assets that includes variations of fair value due to certain alternative assumptions used in the evaluation model:

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

- Level 1: fair value is measured directly on the basis of financial instrument market quotations in the active markets.
- Level 2: in respect of financial instruments for which market quotations are not available, their fair value is measured through evaluation models based on assumptions confirmed by observed market prices and rates effective on the reporting date, i.e. directly or indirectly based on market observations;
- Level 3: for financial instruments, which fair value cannot be measured on the basis of market quotations and evaluation models based on market observations, the Bank uses evaluation models with initial data that have considerable effect on the reported fair value of financial instruments that are not based on market observations. Such approach is adequate for investments in non-listed equity and debt securities.

The following table presents evaluation methods used for measurement of fair value of financial instruments at fair value through profit or loss or other comprehensive income:

31 December 2012	***Level 1***	***Level 2***	***Level 3***	***Total***
Investment securities designed at fair value through profit or loss	3,538,447	-	-	**3,538,447**
Available-for-sale investment securities	14,141,686	-	884,509	**15,026,195**
Total assets	**17,680,133**	**-**	**884,509**	**18,564,642**

31 December 2011	***Level 1***	***Level 2***	***Level 3***	***Total***
Investment securities designed at fair value through profit or loss	3,221,305	-	-	**3,221,305**
Available-for-sale investment securities	2,588,086	6,399,275	867,906	**9,855,267**
Total assets	**5,809,391**	**6,399,275**	**867,906**	**13,076,572**

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

Investment securities designated at fair value through profit or loss and available-for-sale investment securities

Securities designated at fair value through profit or loss and investment securities available-for-sale valued using a valuation technique or pricing models primarily consist of unquoted equity and debt securities. These securities are valued using models which incorporate only data, which is not based on the market observations. The non-observable inputs to the models include assumptions regarding the future financial performance of the investee, its risk profile, and economic assumptions regarding the industry and geographical jurisdiction in which the investee operates, level of enterprise good-will, its management and founders/ shareholders.

Movements in level 3 financial instruments measured at fair value

The following table shows a reconciliation of the opening and closing amount of Level 3 financial assets and liabilities which are recorded at fair value:

		Total gain / (loss) recorded in					
	At 1 January 2012	***statement of profit or loss***	***other comprehensive income***	***Purchases***	***Settlements***	***Transfers to Level 1***	***At 31 December 2012***
Investment securities designed at fair value through profit or loss	-	- [(a)]	-	-	-	-	-
Available-for-sale investment securities	867,906	(943)[(b)]	47	886,474	(7,397)[(d)]	(861,578)	884,509
Total assets	**867,906**	**(943)**	**47**	**886,474**	**(7,397)**	**(861,578)**	**884,509**

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

	At 1 January 2011	Total gain / (loss) recorded in: statement of profit or loss	Total gain / (loss) recorded in: other comprehensive income	Purchases	Settlements	Transfers to Level 1 and Level 2	At 31 December 2011
Investment securities designed at fair value through profit or loss	107,796	5,157[(a)]	-	-	(112,953)[(c)]	-	-
Available-for-sale investment securities	8,720,998	122,275[(b)]	(89,021)	6,389,071	(3,931,674) [(d)]	(10,343,743)	867,906
Investment securities pledged under repurchase agreements	94,640	(6,398)	-	-	(88,242)[(e)]	-	-
Total assets	**8,923,434**	**121,034**	**(89,021)**	**6,389,071**	**(4,132,869)**	**(10,343,743)**	**867,906**

[(a)] UAH 2 030 thousand of gain is included within interest income from investment securities designated at fair value through profit or loss and UAH 2,030 thousand of loss is included in net gains/ (losses) from change in fair value of investment securities designated at fair value through profit or loss (2011: UAH 9,608 thousand of gain is included within interest income from investment securities designated at fair value through profit or loss and UAH 4,451 thousand of loss is included in net gains/ (losses) from change in fair value of investment securities designated at fair value through profit or loss).

[(b)] UAH 2,470 thousand of gain is included within interest income from investment securities other than designated at fair value through profit or loss and UAH 3,413 thousand of loss is included in net gains/ (losses) available-for-sale investment securities (2011: UAH 92,049 thousand of gain is included within interest income from investment securities other than designated at fair value through profit or loss and UAH 30,229 thousand of gains is included in net gains/ (losses) available-for-sale investment securities.

[(c)] UAH 112,953 thousand of settlements comprise: UAH 112,953 thousand of sales.

[(d)] UAH 7,397 thousand of settlements comprise: UAH 7,397 thousand of sales (2011: UAH 3,931,674 thousand comprise: 3,712,698 thousand of sales and 218,976 thousand).

[(e)] UAH 88,242 thousand is represented by redemption of securities at maturity.

During 2012 the Bank transferred certain financial instruments available-for-sale from level 3 to level 1 of the fair value hierarchy. The carrying amount of the total assets transferred was UAH 861,578 thousand. The reason for the transfers from level 3 to level 1 is that the market for some securities has become active, and since the transfer these instruments have been valued using quoted prices in an active market for similar assets.

Gains or losses on level 3 financial instruments included in the profit or loss for the period comprise:

	2012 Realised gains	2012 Unrealised losses	2012 Total
Total gains and losses included in the profit or loss for the year	1,087	(2,030)	(943)

	2011 Realised gains	2011 Unrealised losses	2011 Total
Total gains and losses included in the profit or loss for the year	125,485	(4,451)	121,034

Impact on fair value of level 3 financial instruments measured at fair value of changes to key assumptions

The following table shows the impact on the fair value of level 3 instruments of using reasonably possible alternative assumptions:

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

	At 31 December 2012	
	Carrying value	*Influence of possible alternative assumptions*
Available-for-sale investment securities	884,509	(24,252)

	At 31 December 2011	
	Carrying value	*Influence of possible alternative assumptions*
Available-for-sale investment securities	867,906	(84,876)

In order to determine reasonably possible alternative assumptions the Bank adjusted key unobservable model inputs as follows:

- For equities, the Bank adjusted the assumptions as to the possibility of bankruptcy or losses that were used to determine the credit component in fair value. The adjustment made was to increase the assumption up to 100% subject to individual characteristics of the investee;
- For debt securities, the Bank adjusted the probability of changes in interest rate assumption applied for discounting cash flows from debt securities within the range of +/- 30% (2011: +/- 20%) of the level as at the end of the reporting period.

28. Maturity analysis of assets and liabilities

The table below shows an analysis of assets and liabilities according to when they are expected to be recovered or settled. See Note 26 "Risk management" for the Bank's contractual undiscounted repayment obligations.

	2012			*2011*		
	Within one year	*More than one year*	*Total*	*Within one year*	*More than one year*	*Total*
Assets						
Cash and cash equivalents	19,197,296	-	19,197,296	10,051,840	-	10,051,840
Mandatory reserves with the National Bank of Ukraine	531,152	-	531,152	580,176	-	580,176
Amounts due from credit institutions	331,448	809,839	1,141,287	325,566	947,121	1,272,687
Loans to customers	15,781,729	23,584,034	39,365,763	12,676,059	29,179,408	41,855,467
Investment securities:						
- designated at fair value through profit or loss	80,134	3,458,313	3,538,447	71,305	3,150,000	3,221,305
- available-for-sale	6,049,514	8,976,681	15,026,195	2,106,820	7,748,447	9,855,267
- held-to-maturity	55,546	1,316,691	1,372,237	55,669	1,316,673	1,372,342
Current tax assets	492,257	-	492,257	528,500	-	528,500
Investment property	-	3,707,841	3,707,841	-	3,088,254	3,088,254
Property and equipment	-	2,277,255	2,277,255	-	2,232,340	2,232,340
Intangible assets	-	10,770	10,770	-	13,050	13,050
Deferred tax assets	-	85,216	85,216	-	163,287	163,287
Other assets	460,369	-	460,369	290,772	-	290,772
Total	**42,979,445**	**44,226,640**	**87,206,085**	**26,686,707**	**47,838,580**	**74,525,287**
Liabilities						
Amounts due to the National Bank of Ukraine	3,796,373	4,028,541	7,824,914	2,203,983	3,993,091	6,197,074
Amounts due to credit institutions	3,242,884	4,001,416	7,244,300	2,792,756	4,871,654	7,664,410
Amounts due to customers	41,582,991	1,251,294	42,834,285	27,243,816	2,434,195	29,678,011
Eurobonds issued	198,327	8,355,736	8,554,063	2,108,389	8,330,137	10,438,526
Subordinated debt	135,002	2,971,643	3,106,645	136,393	2,965,602	3,101,995
Current income tax liabilities	13,243	-	13,243	2,673	-	2,673
Provision	-	-	-	307	-	307
Other liabilities	248,151	-	248,151	184,027	-	184,027

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

	49,216,971	**20,608,630**	**69,825,601**	**34,672,344**	**22,594,679**	**57,267,023**
Total	**(6,237,526)**	**23,618,010**	**17,380,484**	**(7,985,637)**	**25,243,901**	**17,258,264**

The maturity analysis does not reflect the historical stability of current accounts. The liquidation of such accounts has historically taken place over a longer period than indicated in the tables above. These balances are included in amounts due within one year in the tables above. Also included in due to customers are term deposits of individuals. In accordance with Ukrainian legislation, the Bank is obliged to repay such deposits within five days upon the demand of a depositor. However, the Bank does not expect that a significant amount of customers will request repayment at dates earlier than their maturity and forecasts that a substantial portion of deposits will be rolled over. These balances are included above in accordance with their contractual maturity.

29. Related party disclosures

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

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

Transactions and balances with related parties comprise transactions with Ukrainian government-related entities (both directly and indirectly controlled by and under significant influence of the Government) and key management personnel.

The outstanding balances of key management personnel as at 31 December 2012 and 2011, and related income and expense for the years ended 31 December 2012 and 2011, are as follows:

	31 December 2012	***31 December 2011***
	Key management personnel	***Key management personnel***
Loans to customers, gross	458	236
Less: allowance for impairment	-	-
Loans to customers, net	**458**	**236**
Current accounts	3,959	3,580
Time deposits	24,945	19,701
Amounts due to customers	**28,904**	**23,281**

	2012	***2011***
	Key management personnel	***Key management personnel***
Interest income on loans	38	195
Interest expense on customers' deposits	(3,101)	(871)
Commission income	2	51
Translation differences	140	78

The aggregate remuneration and other benefits paid to key management personnel for the twelve-month period ended 31 December 2012 is UAH 38,232 thousand (UAH 507 thousand payment to non-state pension fund) (for the year ended 31 December 2011: UAH 27,034 thousand (UAH 378 thousand payment to non-state pension fund)).

In the normal course of business, the Bank enters into contractual agreements with the Government of the Ukraine and entities controlled or significantly influenced by it. The Bank provides the government-related entities with a full range of banking service including, but not limited to, lending, deposit-taking, issue of guarantees, operation with securities, cash and settlement transaction.

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

Balances of government-related entities which are significant in terms of the carrying amount as at 31 December 2012 are disclosed below:

Client	*Sector*	*Cash and cash equivalents*	*Amounts due from credit institutions*	*Loans to customers*	*Amounts due to customers*	*Amounts due to NBU*	*Guarantees issued*
Client 1	State entities	-	-	-	3,313,916	-	-
Client 2	Agriculture and food industry	-	-	-	11,989,746	-	-
Client 3	Finance	1,629,018	531,152	-	-	7,824,914	-
Client 4	Finance	520,540	-	-	-	-	-
Client 5	Extractive industry	-	-	4,217,039	-	-	-
Client 6	Trade	-	-	978,490	-	-	-
Client 7	Trade	-	-	-	-	-	467,273
Client 8	Trade	-	-	-	-	-	1,215,755
Client 9	Road construction	-	-	2,109,805	-	-	-
Client 10	Transport and communications	-	-	558,002	867,968	-	-
Client 11	Transport and communications	-	-	455,781	-	-	-
Client 12	Mechanical engineering	-	-	594,421	-	-	-
Client 13	Mechanical engineering	-	-	432,207	-	-	283,968
Client 14	Power engineering	-	-	1,037,531	-	-	-

Balances of government-related entities which are significant in terms of the carrying amount at 31 December 2011 are disclosed below:

Client	*Sector*	*Cash and cash equivalents*	*Amounts due from credit institutions*	*Loans to customers*	*Amounts due to customers*	*Amounts due to NBU*	*Guarantees issued*
Client 1	State entities	-	-	-	2,935,037	-	-
Client 3	Finance	1,219,699	580,176	-	-	6,197,074	-
Client 4	Finance	1,001,126	-	-	-	-	-
Client 15	Finance	-	-	-	572,880	-	-
Client 16	Finance	-	77,853	-	-	-	-
Client 5	Extractive industry	-	-	4,199,855	-	-	-
Client 17	Extractive industry	-	-	-	-	-	45,542
Client 8	Trade	-	-	-	484,418	-	1,070,119
Client 6	Trade	-	-	849,999	-	-	-
Client 7	Trade	-	-	-	-	-	577,729
Client 18	Trade	-	-	-	169,295	-	-
Client 9	Road construction	-	-	2,081,968	-	-	-
Client 14	Power engineering	-	-	1,159,425	279,613	-	-
Client 13	Mechanical engineering	-	-	438,953	-	-	359,180
Client 19	Transport and communications	-	-	-	493,998	-	-

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

Client	Sector	Cash and cash equivalents	Amounts due from credit institutions	Loans to customers	Amounts due to customers	Amounts due to NBU	Guarantees issued
Client 20	Transport and communications	-	-	-	192,818	-	-
Client 21	Chemical industry	-	-	-	327,758	-	-

As at 31 December 2012 and 2011, the Bank's investments in debt securities issued by the government or the government-related corporate entities were as follows:

	2012	2011
Investment securities held-to-maturity	1,299,270	1,372,342
Investment securities as available-for-sale	8,447,202	6,474,197
Investment securities designated at fair value through profit or loss	3,538,447	3,221,305

30. Capital

The Bank maintains an actively managed adequate capital level to cover external risks inherent in the business. The adequacy of the Bank's capital is monitored using the ratios established by the NBU and Basel Capital Accord 1988.

During 2012 and 2011, the Bank had complied in full with all its externally imposed capital requirements.

The primary objectives of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains strong credit ratings and proper capital ratios in order to support its business and to maximise shareholders' value.
The Bank manages its capital structure and makes adjustments to it in line with observed and expected changes in business environment and the risk characteristics of its activities.

NBU capital adequacy ratio

The NBU requires banks to maintain a capital adequacy ratio of 10% of the amount of risk-weighted assets, computed in accordance with the NBU regulations.

As at 31 December the Bank's regulatory capital adequacy ratio on this basis was as follows:

	2012	2011
Main capital	16,215,227	15,654,654
Additional capital	3,774,770	3,974,333
Less: deductions from capital	-	-
Total capital	**19,989,997**	**19,628,987**
Risk weighted assets	**69,387,486**	**64,517,183**
Capital adequacy ratio	28.81%	30.42%

Regulatory capital comprises Tier 1 capital (Main capital) consisting of paid-in registered share capital plus reserves less expected losses and Tier 2 capital (Additional capital), consisting of credit risk provisions, asset revaluation reserve, current profit, subordinated debt and retained earnings. For Regulatory capital calculation purposes the qualifying Tier 2 capital amount is limited to 100% of Tier 1 capital.

Capital adequacy ratio under Basel Capital Accord 1988

As at December, the Bank's Regulatory capital and capital adequacy ratio, computed in accordance with the Basel Capital Accord 1988 were as follows:

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

	2012	*2011*
Tier 1 capital	16,465,851	16,338,664
Tier 2 capital	3,512,358	3,716,030
Total capital	**19,978,209**	**20,054,694**
Risk weighted assets	**71,448,759**	**64,761,242**
Tier 1 capital ratio	23.05%	25.23%
Total capital ratio	27.96%	30.97%

31. Subsequent events

In January 2013, the Bank, through the Biz Finance PLC, issued Eurobonds in the form of loan participation notes with a par value of USD 100,000 with the total nominal value of the issue of USD 500,000 thousand (UAH 3,996,500 thousand at the exchange rate at the date of issue). The bonds carry a fixed coupon rate of 8.75% p. a. and mature in January 2018.

In April 2013, the Bank, through the Biz Finance PLC, made a tap issue of Eurobonds in the form of loan participation notes with a par value of USD 100,000 with total nominal value of the issue of USD 100,000 thousand (UAH 799,300 thousand at the exchange rate at the date of issue). The bonds carry a fixed coupon rate of 8.75% p. a. and mature in January 2018 and will be consolidated and constitute a single series with bonds issued in January 2013.