Public Joint Stock Company "BTA Bank" (Ukraine)

IFRS Financial Statements

For the year ended 31 December 2012

Together with Independent auditors' report

CONTENTS

INDEPENDENT AUDITORS' REPORT

NOTES TO THE FINANCIAL STATEMENTS

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

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

Independent Auditors' Report (Audit Opinion)

To the shareholders of PUBLIC JOINT STOCK COMPANY "BTA BANK"

Report on the Financial Statements of PUBLIC JOINT STOCK COMPANY "BTA BANK"

We have audited the accompanying financial statements of PUBLIC JOINT STOCK COMPANY "BTA BANK" ("the Bank") (code ERDPU – 14359845; actual address – 01032, 75 Zhylianska Str., Kyiv, Ukraine; date of state registration – 10 December 1992), which comprise the statement of financial position as at 31 December 2012, and the income statement, statement of comprehensive income, statement of changes in equity, and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

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

Ernst & Young

Report on Other Legal and Regulatory Requirements

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

1) Section 3 of Article 155 of the Civil Code of Ukraine requires net assets of a joint stock company as at the end of the second annual reporting period from the inception and all subsequent reporting periods be in excess of its statutory capital. The Bank's net assets as at 31 December 2012 are UAH 1,340,570 thousand, which is less than its registered statutory capital as at the respective date, but higher than the minimum registered statutory capital established by the effective law.

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

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

4) The Law requires joint stock companies developing the principles (code) of corporate governance, and requires establishing a supervisory committee and an audit committee. The Bank has established the principles (code) of corporate governance approved by the General Shareholders' Meeting decision dated 7 July 2011, the Supervisory Board according to the General Shareholders' Meeting decision dated 24 September 1992, the Internal Audit Department according to the decision of the Bank's Board dated 15 June 2004. We could not assess the effectiveness of the Bank's corporate governance as to compliance with the Law, because no clear criteria for standards of corporate governance are established by the Law or other regulations. Accordingly, we do not express an opinion as to the effectiveness of the Bank's corporate governance.

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

ERNST & YOUNG

Other Matters – Contractual arrangements and timing of the audit

We have been engaged by the Bank and concluded an agreement No. GFS-2012-00240 dated 11 October 2012. Our audit of the financial statements of the Bank has been performed during the period from 12 November 2012 to 01 April 2013.

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

Alexander Svistich
General Director

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

1 April 2013
Kyiv, Ukraine

STATEMENT OF FINANCIAL POSITION
as at 31 December 2012

(Thousands of Ukrainian hryvnia)

	Notes	2012	2011 (restated)	2010 (restated)
Assets				
Cash and cash equivalents	6	542,922	584,212	379,986
Obligatory reserve deposit with the NBU	7	19,196	25,252	20,686
Amounts due from credit institutions	7	403,709	148,913	595,256
Derivative financial assets	8	216	12,060	2,550
Loans to customers	9	1,091,338	1,970,443	1,926,358
Financial assets available-for-sale	10	70,385	35,216	43,581
Investment property	11	435,440	405,732	27,385
Property and equipment	12	736,898	95,225	104,633
Intangible assets	12	596	1,362	2,428
Assets held-for-sale	13	25,374	42,794	26,380
Deferred income tax assets	14	8,266	12,266	9,012
Current income tax assets		29	711	417
Other financial assets	15	1,348	4,898	10,050
Other non-financial assets	15	188,632	63,263	7,831
Total assets		**3,524,349**	**3,402,347**	**3,156,553**
Liabilities				
Amounts due to credit institutions	17	757,355	269,240	832,540
Derivative financial liabilities	8	973	7,966	2,310
Amounts due to customers	18	1,401,915	1,542,411	826,939
Current income tax liabilities		332	-	-
Other financial liabilities	15	6,637	1,531	4,493
Other non-financial liabilities	15	16,567	7,308	5,930
Total liabilities		**2,183,779**	**1,828,456**	**1,672,212**
Equity				
Share capital		1,508,983	1,508,983	1,508,983
Additional paid-in capital		9,240	9,240	9,240
Retained earnings/(Accumulated losses)		(214,701)	23,343	(55,684)
Reserve and other funds		33,093	28,318	21,813
Other reserves	19	3,955	4,007	(11)
Total equity		**1,340,570**	**1,573,891**	**1,484,341**
Total liabilities and equity		**3,524,349**	**3,402,347**	**3,156,553**

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

N. V. Sergeeva — Chairlady of the Board

O. V. Latun — Chief Accountant

БТА БАНК
Ідентифікаційний код
14359845

1 April 2013

INCOME STATEMENT
for the year ended 31 December 2012

(Thousands of Ukrainian hryvnia)

	Notes	*2012*	*2011 (restated)*
Interest income			
Loans to customers		249,850	301,334
Amounts due from credit institutions		3,605	9,212
Financial assets available-for-sale		3,951	6,322
		257,406	**316,868**
Interest expense			
Amounts due to customers		(144,514)	(115,586)
Amounts due to credit institutions		(29,915)	(8,702)
		(174,429)	**(124,288)**
Net interest income		**82,977**	**192,580**
Charge for allowance for impairment of interest earning assets	7, 9	(368,441)	(107,701)
Net interest income after impairment of interest earning assets		**(285,464)**	**84,879**
Fee and commission income		16,509	14,322
Fee and commission expense		(4,112)	(3,901)
Net fee and commission income	21	**12,397**	**10,421**
Trading gains less losses from dealing with financial assets available-for-sale		(2,319)	275
Impairment of financial assets available-for-sale	10	(3,639)	(649)
Net gain from revaluation of investment property		-	57,610
Net gain/(loss) from foreign currencies:			
- dealing		17,867	43,261
- translation differences		(1,455)	5,579
Result from collateral repossession	22	149,552	40,363
Other income		85,251	15,692
Non-interest income		**245,257**	**162,131**
Personnel expenses	23	(70,168)	(77,593)
Depreciation and amortisation	12	(33,303)	(14,707)
Other operating expenses	23	(91,615)	(84,551)
Reversal of/(charge for) other allowances for impairment and provisions	16	(5,730)	3,705
Non-interest expense		**(200,816)**	**(173,146)**
(Loss)/Profit before income tax expense		(228,626)	84,285
Income tax (expense)/benefit	14	(4,984)	881
(Loss)/Profit for the year		**(233,610)**	**85,166**
(Loss)/Earnings for the year per ordinary share, basic (expressed in UAH per share)		**(11.68)**	**4.26**
(Loss)/ Earnings for the year per ordinary share, diluted (expressed in UAH per share)		**(11.68)**	**4.26**

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

N. V. Sergeeva Chairlady of the Board

O. V. Latun Chief Accountant

1 April 2013

The accompanying notes on pages 6 to 44 are the integral part of these financial statements

STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2012

(Thousands of Ukrainian hryvnia)

	Notes	*2012*	*2011 (restated)*
(Loss)/Profit for the year		**(233,610)**	**85,166**
Other comprehensive income/(loss):			
Net unrealised losses on financial assets available-for-sale	19	(5,601)	2,115
Losses on financial assets available-for-sale reclassified to the income statement on impairment	10	3,639	649
Realised gains/(losses) on financial assets available-for-sale reclassified to the income statement		2,319	(275)
Income tax relating to components of other comprehensive income		(68)	1,895
Other comprehensive income for the year, net of tax		**289**	**4,384**
Total comprehensive (loss)/income for the year		**(233,321)**	**89,550**

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

N. V. Sergeeva Chairlady of the Board

O. V. Latun Chief Accountant

1 April 2013

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

(Thousands of Ukrainian hryvnia)

	Share capital	*Additional paid-in capital*	*Other reserves (Note 19)*	*(Accumulated losses)/ retained earnings*	*Reserve and other funds*	*Total*
31 December 2010	**1,508,983**	**9,240**	**(11)**	**(55,684)**	**21,813**	**1,484,341**
Total comprehensive income for the year	-	-	4,384	85,166	-	89,550
Distribution to reserve and other funds	-	-	-	(6,505)	6,505	-
Depreciation of revaluation reserve, net of tax	-	-	(366)	366	-	-
31 December 2011 (restated)	**1,508,983**	**9,240**	**4,007**	**23,343**	**28,318**	**1,573,891**
Total comprehensive loss for the year	-	-	289	(233,610)	-	(233,321)
Distribution to reserve and other funds	-	-	-	(4,775)	4,775	-
Depreciation of revaluation reserve, net of tax	-	-	(341)	341	-	-
31 December 2012	**1,508,983**	**9,240**	**3,955**	**(214,701)**	**33,093**	**1,340,570**

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

N. V. Sergeeva Chairlady of the Board

O. V. Latun Chief Accountant

1 April 2013

CASH FLOW STATEMENT
for the year ended 31 December 2012

(Thousands of Ukrainian hryvnia)

	Notes	*2012*	*2011 (restated)*
Cash flows from operating activities			
Interest received		225,842	308,645
Interest paid		(148,624)	(115,529)
Fees and commissions received		16,509	11,119
Fees and commissions paid		(3,546)	(3,764)
Realised gains less losses from dealing in foreign currencies		26,190	51,121
Other operating income received		84,492	16,972
Personnel expenses paid		(70,413)	(77,334)
Other operating expenses paid		(89,739)	(92,558)
Income tax paid		(38)	(200)
Cash flows (used in) / from operating activities before changes in operating assets and liabilities		**40,673**	**98,472**
Net (increase)/decrease in operating assets			
Mandatory reserve balances with the National Bank of Ukraine		6,057	(4,566)
Amounts due from credit institutions		(238,285)	356,042
Loans to customers		238,250	(271,037)
Other assets		3,739	(31,958)
Net increase/(decrease) in operating liabilities			
Amounts due to credit institutions		224,743	(672,587)
Amounts due to customers		(144,962)	714,082
Other liabilities		12,328	10,676
Net cash (used in) / from operating activities		**142,543**	**199,124**
Cash flows from investing activities			
Purchase of financial assets available-for-sale		(141,713)	(669,172)
Proceeds from sale of financial assets available-for-sale		102,586	678,693
Purchase of investment property		(121)	-
Proceeds from sale of investment property		-	7,500
Purchase of intangible assets		(161)	-
Purchase of property and equipment		(3,710)	(4,280)
Proceeds from sale of property and equipment		133	97
Proceeds from sale of intangible assets		65	-
Proceeds from sale of assets held-for-sale		2,062	-
Payments for collateral repossession		(151,455)	-
Net cash from / (used in) investing activities		**(192,314)**	**12,838**
Effect of exchange rate changes on cash and cash equivalents		8,481	(7,736)
Net (decrease) / increase in cash and cash equivalents		**(41,290)**	**204,226**
Cash and cash equivalents, 1 January		**584,212**	**379,986**
Cash and cash equivalents, 31 December	6	**542,922**	**584,212**

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

N. V. Sergeeva — Chairlady of the Board

O. V. Latun — Chief Accountant

1 April 2013

1. Principal activities

PUBLIC JOINT STOCK COMPANY "BTA BANK" (the "Bank") was formed on 10 December 1992 as a Closed Joint Stock Company under the laws of Ukraine. The Bank was initially registered by the National Bank of Ukraine (the "NBU") under its previous name "Geosantris Bank". On 1 July 1993, the Bank changed its form of ownership to an Open Joint Stock Company. On 8 September 2000, the Bank changed its name to "Ukrainian Credit-Trade Bank" and on 15 September 2006 to "BTA Bank". The Bank operates under a general banking licence # 25 issued by the NBU on 14 October 2011, which provides the Bank with the right to conduct banking operations, including currency operations. The Bank also possesses a licence for securities operations and custodial services from the State Committee for the Securities and Stock Market dated 05 October 2009.

The Bank accepts deposits from the public, extends credit, transfers payments in Ukraine and abroad, exchanges currencies, and provides other banking services to its commercial and retail customers.

With effect from 2 September 1999, the Bank became a member of the deposit guarantee fund. The fund is a Government specialised institution, which accumulates insurance contributions of Ukrainian banks. Insurance covers the Bank's liabilities to individual depositors for the amount up to UAH 200 thousand for each individual in event of business failure and revocation of the banking license issued by the NBU.

The Bank's head office is in Kyiv and as at 31 December 2012, the Bank had 19 operational outlets (31 December 2011: 22). The Bank's registered legal address is 75 Zhylianska Str., Kyiv, Ukraine.

As at 31 December 2012, JSC BTA Bank (Kazakhstan) owned 49.9883% (2011: 49.9883%) of issued ordinary shares of the Bank. Members of the Supervisory Board and Management Board controlled 49.9923% (2011: 0.00003%) of the Bank.

2. Operating environment in Ukraine

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

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

In addition, factors including increased unemployment in Ukraine, reduced corporate liquidity and profitability, and increased corporate and personal insolvencies, have affected the ability of the Bank's borrowers to repay the amounts due to the Bank. 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 the 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.

3. Basis of preparation

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

IFRS became a primary set of accounting standards for Ukrainian public joint stock companies, banks and insurance companies starting from 1 January 2012 in accordance with the requirements of the Law of Ukraine "On accounting and financial reporting in Ukraine". Accordingly, the Bank ceased to prepare financial statements in accordance with

"Regulations on the Organisation of Reporting and Publication for Ukrainian Banking Institutions" issued by the National Bank of Ukraine since 1 January 2012.

The financial statements are prepared under the historical cost convention except as disclosed in the accounting policies below. For example, financial assets available-for-sale, derivative financial instruments, and investment property are carried at fair value and buildings are carried at revalued amount.

These financial statements are presented in thousands of Ukrainian hryvnia ("thousands of 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 relevant inflation indices to the historical cost, and that these restated values were used as a basis for accounting in subsequent periods.

Restatements
In the course of preparation of the financial statements for the year ended 31 December 2012 the Bank identified certain prior period errors. The Bank has corrected these errors by restating the information as at 31 December 2011 and for the year then ended. The following errors were identified:

A. In 2011 the Bank recognised a gain of UAH 40,363 thousand arisen at derecognition of a financial asset under additionally paid-in capital, whereas it should have been recognised in profit or loss. The corresponding adjustment affected the statement of financial position as at 31 December 2011 and the income statement, the statement of comprehensive income and the statement of changes in equity for the year ended 31 December 2011.
B. At 31 December 2011 and 2010 time deposits with credit institutions up to 90 days pledged under loans due to credit institutions were reported under cash and cash equivalents, whereas they should have been reported as amounts due from credit institutions. The corresponding adjustment affected the statement of financial position as at 31 December 2011 and 2010 and the cash flow statement for the year then ended.

The effect of the corrections described above is as follows:

	As previously reported	*A*	*B*	*As restated (before reclassification)*
Statement of financial position as at 31 December 2011				
Cash and cash equivalents	726,156	-	(141,944)	584,212
Amounts due from credit institutions	32,221	-	141,944	174,165
Additional paid-in capital	49,603	(40,363)	-	9,240
Retained earnings/(Accumulated losses)	11,298	40,363	-	23,343
Statement of financial position as at 31 December 2010				
Cash and cash equivalents	966,312	-	(586,326)	379,986
Amounts due from credit institutions	29,616	-	586,326	615,942
Income statement for the year ended 31 December 2011				
Gain on the repossession of collateral	-	40,363	-	40,363
Profit before income tax expense	43,992	40,363	-	84,285
Profit for the year	44,803	40,363	-	85,166
Statement of comprehensive income for the year ended 31 December 2011				
Profit for the year	44,803	40,363	-	85,166
Total comprehensive income for the year	49,188	40,363	-	89,550
Cash flow statement for the year ended 31 December 2011				
Net (increase)/decrease in operating assets				
Amounts due from credit institutions	(88,340)	-	444,382	356,042
Net cash (used in) / from operating activities before changes in operating assets and liabilities	(245,258)	-	444,382	199,124
Net (decrease) / increase in cash and cash equivalents	(240,156)	-	444,382	204,226
Cash and cash equivalents, 1 January	966,312	-	(586,326)	379,986
Cash and cash equivalents, 31 December	726,156	-	(141,944)	584,212

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

Reclassifications
In addition to the restatements above, the following reclassifications have been made to 2011 balances to conform to the 2012 presentation:

	As previously reported (after restatement)	***Reclassification***	***As reclassified (after restatement)***
Statement of financial position as at 31 December 2011			
Obligatory reserve deposit with the NBU	-	25,252	25,252
Amounts due from credit institutions	174,165	(25,252)	148,913
Retained earnings/(Accumulated losses)	51,661	(28,318)	23,343
Reserve and other funds	-	28,318	28,318
Other assets	68,161	(68,161)	-
Other financial assets	-	4,898	4,898
Other non-financial assets	-	63,263	63,263
Other liabilities	8,839	(8,839)	-
Other financial liabilities	-	1,531	1,531
Other non-financial liabilities	-	7,308	7,308
Statement of financial position as at 31 December 2010			
Obligatory reserve deposit with the NBU	-	20,686	20,686
Amounts due from credit institutions	615,942	(20,686)	595,256

4. Summary of significant accounting policies

Changes in accounting policies
During the year, the Bank has adopted the following amended IFRS:

Amendments to IFRS 7 "Financial Instruments: Disclosures"
The Amendments were issued in October 2010 and are effective for annual periods beginning on or after 1 July 2011. The amendment requires additional disclosure about financial assets that have been transferred to enable the users of the Bank's financial statements to evaluate the risk exposures relating to those assets. The amendment affects disclosure only and has no impact on the Bank's financial position or performance.

Other amendments resulting from Improvements to the following standards did not have any impact on the accounting policies, financial position or performance of the Bank:
IAS 12 Income Taxes (Amendment) – Deferred Taxes: Recovery of Underlying Assets
IFRS 1 First-Time Adoption of International Financial Reporting Standards (Amendment) – Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopter

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, and, 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 the Bank commits to purchase the 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 marketplace.

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

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

investments. After initial recognition, available-for sale financial assets are measured at fair value with gains or losses being recognised in other comprehensive income until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in other comprehensive income is included in the income statement. Interest calculated using the effective interest rate method is recognised in the income statement.

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

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

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

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 of the Bank has the intention and ability to hold it for the foreseeable future or until maturity.

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

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

Precious metals
Physical precious metals and deposits in precious metals are recorded at the NBU exchange rates set on the reporting date. Changes in the NBU exchange rates are recorded in the income statement as translation differences from precious metals in net translation differences from foreign currencies.

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

If economic characteristics and risks of embedded derivative are closely related to those of the host contract, then the derivative is not separated from the host contract and is accounted in the same line in the statement of financial position. Any changes in fair value of the embedded derivative that is not separated from the host contract are recognised in the income statement.

Borrowings

Issued financial instruments or their components are classified as liabilities, where the substance of the contractual arrangement results in the Bank having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity instruments. Such instruments include amounts due to credit institutions and amounts due to customers. Any gain or loss on initial recognition of loans received from shareholders is recognised as additional paid-in capital in equity. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in the 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 statement of financial position and the difference between the carrying amount of the liability and the consideration paid is recognised in the income statement.

Leases

Operating – Bank as 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.

Operating – Bank as lessor

The Bank presents assets subject to operating leases in the statement of financial position according to the nature of the asset. Lease income from operating leases is recognised in the income statement on a straight-line basis over the lease term as other income.

Impairment of financial assets

The Bank assesses at each reporting date whether there is any objective evidence that a financial asset or 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 indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Amounts due from credit institutions and loans to customers

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

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

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

Available-for-sale financial assets
For financial assets available-for-sale, 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 coast and the current fair value, less any impairment loss on that investment previously recognised in the income statement – is removed from other comprehensive income and recognised in the income statement. Impairment losses on equity investments are not reversed through the 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 financial assets carried at amortised cost. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded in the income statement. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed through the income statement.

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

The accounting treatment of such restructuring is as follows:

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

Financial guarantees

The Bank enters into credit related commitments, including letters of credit and financial guarantees. Financial guarantees represent irrevocable assurances to make payments in the event that a customer cannot meet its obligations to third parties and carry the same credit risk as loans. Financial guarantees, letters of credit and commitments to provide a loan are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the commitment, except for commitments to originate loans if it is probable that the Bank will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination; such loan commitment fees are deferred and included in the carrying value of the loan on initial recognition. At each reporting date, the commitments to provide a loan at a below-market interest rate are measured at the higher of (i) the amount determined in accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with IAS 18 "Revenue".

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.

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

Property and equipment
Following initial recognition at cost, buildings are carried at a 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 buildings does not differ materially from their carrying amount.

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

An annual transfer from the revaluation reserve for buildings 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 eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. The revaluation reserve for buildings included in equity is transferred directly to retained earnings on a straight-line basis as the Bank uses the assets. On the retirement or disposal of the assets, the remaining revaluation reserve is immediately transferred to the retained earnings.

Furniture and fixtures, equipment, motor vehicles and leasehold are carried at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and any accumulated impairment.

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	12 – 55
Furniture and fixtures	2
Computers and office equipment	4 – 7
Motor vehicles	2 – 4

Expenditures made for leasehold improvements are recognised as assets and charged to profit or loss on a straight-line basis over the shorter of the applicable lease term or the economic life of the leasehold improvement.

The asset’s residual values, useful lives and methods of depreciation are reviewed and adjusted, if appropriate, at each financial year-end.

Expenditures incurred after the property and equipment has been put into operation, such as repairs and maintenance and overhaul costs, are normally charged to the expenses in the period the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property beyond its originally assessed standard of performance, the expenditures are capitalised as an additional cost of properties.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year the item is derecognised.

Intangible assets
Intangible assets include computer software and licences. Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic lives of 3 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 indefinite useful lives are reviewed at least at each financial year-end.

Costs associated with maintaining computer software programs are recorded as an expense as incurred. Software development costs (relating to the design and testing of new or substantially improved software) are recognised as intangible assets only when the Bank can demonstrate the technical feasibility of completing the software so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete and the ability to measure reliably the expenditure during the development. Other software development costs are recognised as an expense as incurred.

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

Investment property is initially recognised at cost, including transaction costs, and subsequently re-measured at fair value based on its market value. The 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 valuation of property of similar location and category.

Assets classified as 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 its sale must be highly probable.

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

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

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

Retirement and other benefit obligations
The Bank does not have any pension arrangements 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. In addition, the Bank has no post-retirement benefits or significant other compensated benefits requiring accrual.

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

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

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

Recognition of income and 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 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

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

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 a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

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

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

- *Fee income from providing transaction services*

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

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

Differences between the contractual exchange rate of a transaction in a foreign currency and the NBU exchange rate on the date of the transaction are included in net gain/(losses) from dealing in foreign currencies. UAH exchange rates established by the NBU and used in the preparation of the financial statements are as follows:

	31 December 2012	*31 December 2011*
US dollar	7.993	7.9898
Euro	10.537172	10.2981
Russian ruble	0.26316	0.2495

The average exchange rate of the Ukrainian hryvnia for 2012 was UAH 7.991040 to 1 US dollar (2011: UAH 7.9676) and UAH 10.269211 to 1 euro (2011: UAH 11.0918).

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

Future changes in accounting policies
Standards and interpretations issued but not yet effective

IFRS 9 "Financial Instruments"
IFRS 9, as issued, reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard was initially effective for annual periods beginning on or after 1 January 2013, but Amendments to IFRS 9 mandatory Effective Date of IFRS 9 and Transition Disclosures, issued in December 2011, moved the mandatory effective date to 1 January 2015. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets.

The Bank will quantify the effect of the adoption of the first phase of IFRS 9 in conjunction with the other phases, when issued, to present a comprehensive picture.

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 adoption of IFRS 10 will have no effect on the Bank's financial position and performance.

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

IFRS 12 "Disclosure of Interests in Other Entities"
IFRS 12 is effective for annual periods beginning on or after 1 January 2013. 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. In particular, the Bank will need to disclose more information about the consolidated and unconsolidated structured entities with which it is involved or which it has sponsored. However, the standard will have no impact on Bank's financial position or performance.

IFRS 13 "Fair Value Measurement"
IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. IFRS 13 is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted. The adoption of the IFRS 13 may have effect 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. The adoption of IAS 10 will have no effect on the Bank's financial position and performance.

IAS 28 "Investments in Associates and Joint Ventures" (as revised in 2011)
As a consequence of the new IFRS 11 and IFRS 12. IAS 28 has been renamed IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates. The amendment becomes effective for annual periods beginning on or after 1 January 2013. The adoption of IAS 28 will have no effect on the Bank's financial position and performance.

Amendments to IAS 19 "Employee Benefits"
The IASB has published amendments to IAS 19 Employee Benefits, effective for annual periods beginning on or after 1 January 2013, which involve 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 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, net losses or gains on available-for-sale financial assets) would be presented separately from items that will never be reclassified (for example,

revaluation of buildings). The amendment affects presentation only and has no impact on the Bank's financial position or performance. The amendment becomes effective for annual periods beginning on or after 1 July 2012.

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

Amendments to IAS 32 – Offsetting Financial Assets and Financial Liabilities
These amendments clarify the meaning of "currently has a legally enforceable right to set-off". It will be necessary to assess the impact to the Bank by reviewing settlement procedures and legal documentation to ensure that offsetting is still possible in cases where it has been achieved in the past. In certain cases, offsetting may no longer be achieved. In other cases, contracts may have to be renegotiated. The requirement that the right of set-off be available for all counterparties to the netting agreement may prove to be a challenge for contracts where only one party has the right ot offset in the event of default.

The amendments also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. While many settlement systems are expected to meet the new criteria, some may not. As the impact of the adoption depends on the Bank's examination of the operational procedures applied by the central clearing houses and settlement systems it deals with to determine if they meet the new criteria, it is not practical to quantify the effects.

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

Amendment to IFRS 1 – Government loans
These amendments require first-time adopters to apply the requirements of IAS 20 Accounting for Government Grants and Disclosure of Government Assistance, prospectively to government loans existing at the date of transition to IFRS. The amendment will have no impact on the Bank.

Improvements to IFRS
The amendments are effective for annual periods beginning on or after 1 January 2013. They will not have an impact on the Bank.

- IFRS 1 First-time Adoption of International Financial Reporting Standards: This improvement clarifies that an entity that stopped applying IFRS in the past and chooses, or is required, to apply IFRS, has the option to re-apply IFRS 1. If IFRS 1 is not re-applied, an entity must retrospectively restate its financial statements as if it had never stopped applying IFRS.
- IAS 1 Presentation of Financial Statements: This improvement clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative information is the previous period.
- IAS 16 Property Plant and Equipment: This improvement clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventory.
- IAS 32 Financial Instruments, Presentation: This improvement clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 Income Taxes.
- IAS 34 Interim Financial Reporting: The amendment aligns the disclosure requirements for total segment assets with total segment liabilities in interim financial statements. This clarification also ensures that interim disclosures are aligned with annual disclosures.

5. Significant accounting judgements and estimates

In the process of applying the Bank's accounting policies, management has made the following judgements, apart from those involving estimates, which have the most significant effect on the amounts recognised in the financial statements:

Fair value of financial instruments
Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values.

Identification of inter-bank swap deals
In 2012, the Bank entered into number of interbank mutual placements with other Ukrainian banks. The purpose of the majority of these deals was to provide short-term financing to other banks secured with a cash deposit received in return. The principal amounts of such placements and attractions and related interest rates on such deals can differ significantly. The Bank considers all the mutual placements to be swaps and netted all respective balances and income/expenses. These transactions have been netted and treated as derivative swap transactions (see Note 8).

Allowance for impairment of loans and receivables
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 are few available sources of historical data relating to similar borrowers. Similarly, the Bank estimates changes in future cash flows based on the observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of loans and receivables. The Bank uses its judgement to adjust observable data for a group of loans or receivables to reflect current circumstances. The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Fair value of property and equipment
As stated in Note 4, buildings of the Bank are subject to revaluation on a regular basis. Such revaluations are based on the results of the work of independent appraisers. The basis for their work is the sales comparison approach, which is further confirmed by the income capitalisation approach. When performing the revaluation, certain judgements and estimates are applied by the appraisers in determination of the comparison of property and equipment to be used in the sales comparison approach, the useful life of the assets revalued, the capitalisation rate to be applied for the income capitalisation approach.

Deferred tax asset recognition
As at 31 December 2012, the Bank has recognised a deferred tax asset of UAH 8,266 thousand (2011: UAH 12,266 thousand). The Bank's management believes that, within a reasonable period, the Bank will have sufficient taxable profit that will enable it to utilise its deferred tax assets.

6. Cash and cash equivalents

Cash and cash equivalents comprise the following:

	2012	*2011 (restated)*	*2010 (restated)*
Cash on hand	63,350	91,231	65,924
Current accounts with the NBU (other than obligatory reserve)	56,173	152,485	5,668
Current accounts with credit institutions	423,399	340,496	173,394
Time deposits with credit institutions up to 90 days	-	-	135,000
Cash and cash equivalents	**542,922**	**584,212**	**379,986**

The current account with the NBU represents amounts deposited with the NBU relating to daily settlements and other activities. There are no restrictions on the withdrawal of funds from the current account with the NBU.

As at 31 December 2012, included in current accounts with credit institutions is UAH 419,796 thousand placed on current accounts with five OECD and CIS banks (2011: UAH 336,494 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.

As at 31 December 2012 and 31 December 2011, all cash and cash equivalents are neither past due nor impaired.

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

7. Amounts due from credit institutions

Amounts due from credit institutions comprise the following:

	2012	*2011 (restated)*	*2010 (restated)*
Time deposits with credit institutions	394,504	141,944	586,326
Guarantee deposits	9,205	6,969	8,930
Restricted cash	-	90,331	-
Less – Allowance for impairment	-	(90,331)	-
Amounts due from credit institutions	**403,709**	**148,913**	**595,256**

	2012	*2011 (restated)*	*2010 (restated)*
Obligatory reserve deposit with the NBU	19,196	25,252	20,686

With effect from June 2012, Ukrainian banks are required to keep 50% (2011: 70%) of the obligatory reserve for the previous month on a separate account with the NBU bearing interest at 2.25% p.a. (2011: 2.85% p.a.). The withdrawal of these funds is restricted by legislation.

The Bank meets the NBU obligatory reserve requirements as at 31 December 2012 and 2011.

As at 31 December 2012, guarantee deposits represent security deposits with one Ukrainian bank (2011: one Ukrainian bank) providing cover for plastic card transactions.

Time deposits with credit institutions comprise balances receivable under mutual placements concluded with other Ukrainian banks with a carrying value of UAH 394,504 thousand (2011: UAH 141,938 thousand). These transactions are not treated by the Bank as swaps. These time deposits are pledged as collateral under amounts due to credit institutions.

Allowance for impairment of amounts due from credit institutions

A reconciliation of the allowance for impairment of amounts due from credit institutions is as follows:

	2012	*2011*
As at 1 January	**90,331**	**-**
Charge for the year	-	96,552
Amounts written off	(87,706)	-
Translation differences	(2,625)	(6,221)
At 31 December	**-**	**90,331**

8. Derivative financial instruments

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

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

	2012			*2011*		
	Notional principal	*Fair values*		*Notional principal*	*Fair value*	
		Asset	*Liability*		*Asset*	*Liability*
Foreign exchange contracts:						
Swaps	252,347	216	(973)	1,542,228	12,060	(7,966)
Total derivative assets/(liabilities)		**216**	**(973)**		**12,060**	**(7,966)**

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

9. Loans to customers

Loans to customers comprise:

	2012	*2011*
Corporate loans	1,292,464	1,823,148
Loans to individuals	73,901	351,403
Gross loans to customers	1,366,365	2,174,551
Less - allowance for impairment	(275,027)	(204,108)
Loans to customers	**1,091,338**	**1,970,443**

As at 31 December 2012, corporate loans include embedded derivatives on foreign currency indexed loans with a fair value of UAH 15,911 thousand (2011: UAH 24,086 thousand). The change in the fair value for the year of UAH 8,175 thousand (2011: UAH 7,825 thousand) is recognised in net gain/ (loss) from foreign currencies. The carrying value of the loans is UAH 351,128 thousand as at 31 December 2012 (2011: UAH 733,306 thousand).

As at 31 December 2012, included in loans to individuals are embedded derivatives on foreign currency indexed loans with a fair value of UAH 770 thousand (2011: UAH 918 thousand). The change in the fair value for the year of UAH 148 thousand (2011: UAH 7 thousand) is recognised in net gain/ (loss) from foreign currencies. The carrying value of the loans is UAH 2,787 thousand as at 31 December 2012 (2011: UAH 4,436 thousand).

Allowance for impairment of loans to customers

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

	Corporate loans	*Loans to individuals*	*Total*
At 31 December 2011	**32,990**	**171,118**	**204,108**
Charge for the year	254,839	113,602	368,441
Amounts written off	(32,306)	(257,785)	(290,091)
Sale of loan portfolio	-	(6,033)	(6,033)
Translation differences	(1,643)	245	(1,398)
At 31 December 2012	**253,880**	**21,147**	**275,027**
Individual impairment	251,868	13,340	265,208
Collective impairment	2,012	7,807	9,819
	253,880	**21,147**	**275,027**
The gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	1,191,583	44,474	1,236,057

	Corporate loans	*Loans to individuals*	*Total*
At 31 December 2010	**55,208**	**165,653**	**220,861**
Charge/(reversal) for the year	(4,390)	15,539	11,149
Amounts written off	(16,209)	(5,917)	(22,126)
Sale of loan portfolio	(17)	(8,751)	(8,768)
Translation differences	(1,602)	4,594	2,992
At 31 December 2011	**32,990**	**171,118**	**204,108**
Individual impairment	23,932	89,835	113,767
Collective impairment	9,058	81,283	90,341
	32,990	**171,118**	**204,108**
The gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	1,634,875	168,073	1,802,948

Interest income accrued on loans, for which individual impairment allowances have been recognised as at 31 December 2012, comprised UAH 158,556 thousand (2011: UAH 26,786 thousand).

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

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

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

- For securities lending and reverse repurchase transactions: cash or securities;
- For corporate lending: mortgages over real estate properties, equipment and other facilities, inventory, trade receivables and cash;
- For loans to individuals: mortgages, vehicles and cash.

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

Derecognition of loan portfolio
During 2012, the Bank sold the rights to 100% of the cash flows arising on a portfolio of fixed rate loans, with a carrying amount of UAH 6,737 thousand (loan loss allowance was UAH 6,033 thousand) (2011: carrying amount of UAH 20,697 thousand, loan loss allowance UAH 8,768 thousand), to a third party for UAH 703 thousand.

Concentration of loans to customers
As at 31 December 2012, the Bank has a concentration of loans represented by UAH 1,065,632 thousand due from the ten largest third party borrowers (78.01% of the gross loan portfolio) (2011: UAH 1,464,160 thousand or 80.31%). An allowance of UAH 106,479 thousand (2011: UAH 11,430 thousand) was provided for impairment of these loans.

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

	2012	*2011*
Services	415,408	768,844
Trading enterprises	463,596	536,252
Manufacturing	327,530	485,812
Individuals	73,801	351,403
Real estate construction	19,284	17,899
Agriculture and food processing	44,440	14,136
Other	22,306	205
	1,366,365	**2,174,551**

10. Financial assets available-for-sale

Financial assets available-for-sale comprise the following:

	2012	*2011*
Government bonds of the Ministry of Finance	65,831	30,875
Corporate shares	4,554	4,341
	70,385	**35,216**

Government bonds issued by the Ministry of Finance of Ukraine are interest-bearing securities denominated in US dollar. These bonds mature from 29 May 2013 through to 24 June 2013 (2011: 20 June 2012 through to 24 August 2015), bearing 9.3% p.a. (2011: from 5.5% to 9% depending on the series of the bond issued).

11. Investment property

The movements of investment property are as follows:

	2012	*2011*
As at 1 January	**405,732**	**27,385**
Additions	121	328,804
Disposals	-	(8,067)
Transferred from assets held for sale (Note 13)	29,587	-
Revaluation	-	57,610
As at 31 December	**435,440**	**405,732**

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

Investment property comprises a land, residential and non-residential property claimed as collateral for loans to customers. Investment property is held to earn rentals or for capital appreciation or both, rather than for: use in the production or supply of goods or services or for administrative purposes; or sale in the ordinary course of business.

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

	2012	*2011*
Up to 1 year	57,312	15,408
From 1 to 5 years	57,579	-
Over 5 years	338	-
Total	**115,229**	**15,408**

During the year 2012, the Bank has recognised rental income of UAH 61,613 thousand (2011: UAH 7,549 thousand) included in other income in the income statement.

12. Property and equipment and intangible assets

The movements of property, equipment and intangible assets during 2012 were as follows:

	Buildings	*Leasehold improve-ments*	*Computers and office equipment*	*Furnitu-re and fixtures*	*Motor vehicles*	*Assets under construction*	*Intangible assets*	*Total*
Cost								
1 January 2012	**55,296**	**31,618**	**32,678**	**13,273**	**4,608**	**12,191**	**6,529**	**156,193**
Additions	667,576	799	2,456	2,311	1,033	356	161	**674,692**
Disposals	(83)	(22,154)	(4,667)	(2,349)	-	-	(65)	**(29,318)**
Transfers	-	289	213	90	-	(691)	99	**-**
31 December 2012	**722,789**	**10,552**	**30,680**	**13,325**	**5,641**	**11,856**	**6,724**	**801,567**
Accumulated depreciation								
1 January 2012	**(1,941)**	**(11,563)**	**(27,752)**	**(9,974)**	**(3,209)**		**(5,167)**	**(59,606)**
Charge for the year	(8,085)	(17,571)	(3,023)	(2,306)	(1,357)		(961)	**(33,303)**
Disposals	83	22,154	4,250	2,349			-	**28,836**
31 December 2012	**(9,943)**	**(6,980)**	**(26,525)**	**(9,931)**	**(4,566)**		**(6,128)**	**(64,073)**
Net book value:								
1 January 2012	**53,355**	**20,055**	**4,926**	**3,299**	**1,399**	**12,191**	**1,362**	**96,587**
31 December 2012	**712,846**	**3,572**	**4,155**	**3,394**	**1,075**	**11,856**	**596**	**737,494**

The amount of UAH 667,165 thousand included into additions represents non-cash repossession of the building in the course of the overdue loan settlement.

The movements of property, equipment and intangible assets during 2011 were as follows:

	Buildings	*Leasehold improve-ments*	*Computers and office equipment*	*Furnitu-re and fixtures*	*Motor vehicles*	*Assets under construction*	*Intangible assets*	*Total*
Cost								
1 January 2011	**49,798**	**30,793**	**30,852**	**13,551**	**4,153**	**17,978**	**6,236**	**153,361**
Additions	592	1,225	1,209	202	177	681	281	**4,367**
Disposals	-	(400)	(247)	(796)	-	(92)	-	**(1,535)**
Transfers	4,906	-	864	316	278	(6,376)	12	**-**
31 December 2011	**55,296**	**31,618**	**32,678**	**13,273**	**4,608**	**12,191**	**6,529**	**156,193**
Accumulated depreciation								
1 January 2011	**(902)**	**(7,735)**	**(24,313)**	**(7,139)**	**(2,403)**		**(3,808)**	**(46,300)**
Charge for the year	(1,039)	(4,228)	(3,644)	(3,631)	(806)		(1,359)	**(14,707)**
Disposals	-	400	205	796	-		-	**1,401**
31 December 2011	**(1,941)**	**(11,563)**	**(27,752)**	**(9,974)**	**(3,209)**		**(5,167)**	**(59,606)**
Net book value:								
1 January 2011	**48,896**	**23,058**	**6,539**	**6,412**	**1,750**	**17,978**	**2,428**	**107,061**
31 December 2011	**53,355**	**20,055**	**4,926**	**3,299**	**1,399**	**12,191**	**1,362**	**96,587**

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

A valuation of the Bank's buildings was performed by an independent appraiser as at December 2012 and the fair value was determined by reference to market-based evidence. Since the difference between the fair value of buildings and its carrying value is insignificant (less than 10%) no revaluation was recognised.

As at 31 December 2012, the carrying value of buildings would have been UAH 709,180 thousand (2011: UAH 37,151 thousand) had the buildings been carried at cost less accumulated depreciation.

As at 31 December 2012, the cost of fully depreciated items was as follows: computers and office equipment – UAH 19,944 thousand (2011: UAH 16,745 thousand), furniture and fixtures – UAH 3,394 thousand (2011: UAH 2,604 thousand), motor vehicles – UAH 2,571 thousand (2011: UAH 495 thousand), intangible assets – UAH 4,251 thousand (2011: UAH 3,940 thousand). The Bank had no idle fixed assets either as at 31 December 2012 or as at 31 December 2011.

13. Assets held-for-sale

The movements in assets held-for-sale are as follows:

	2012	*2011*
As at 1 January	**42,794**	**26,380**
Additions	14,269	20,648
Transfers to investment property (Note 11)	(29,587)	-
Disposals	(2,102)	(4,234)
As at 31 December	**25,374**	**42,794**

Assets held-for-sale comprise property that was either constructed or purchased by the Bank or collateral claimed in recovery of past due loans to customers. As at 31 December 2012, none of the items was impaired.

During 2012, assets held for sale with a carrying value of UAH 29,587 thousand were transferred to investment property (Note 11) as a consequence of changes in the Bank's intentions regarding these assets. The Bank decided to hold the property for the purpose of long term capital appreciation and rental growth, rather than sell the property in the short-term.

14. Taxation

The corporate income tax expense comprises:

	2012	*2011*
Current tax charge	1,052	478
Deferred tax charge/ (credit) – origination and reversal of temporary differences	4,000	(3,254)
Less – deferred tax recognised in other comprehensive income	(68)	1,895
Income tax expense	**4,984**	**(881)**

On 13 December 2010, the Parliament of Ukraine adopted a new Tax Code. Under the newly adopted provisions, the corporate income tax rate was decreased to 23% with effect from 1 April 2011, to 21% from 1 January 2012, to 19% from 1 January 2013 and to 16% from 1 January 2014. Deferred tax balances are measured using the tax rates that will be applicable when temporary differences are expected to reverse.

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

	2012	*2011*
Profit/(loss) before income tax expense	(228,626)	43,922
Statutory tax rate	21%	23%
Theoretical income tax (benefit)/expense at the statutory rate	(48,011)	10,102
Non-deductible expenditures	21,910	2,272
Non-deductible income	(7,519)	(13,250)
Effect of change in tax rates	16,054	4,747
Change in unrecognised deferred tax assets	22,550	6,189
Effect of change in tax bases	-	(2,061)
Reassessment of temporary differences	-	(8,880)
Income tax expense	**4,984**	**(881)**

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

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

		Origination and reversal of temporary differences			***Origination and reversal of temporary differences***		
	2010	***in the income statement***	***in other compre-hensive income***	***2011***	***in the income statement***	***in other compre-hensive income***	***2012***
Tax effect of deductible temporary differences:							
Allowances for impairment and provisions for other losses	28,626	(8,423)	-	20,203	5,519	-	25,722
Accrued expenses and income	324	(324)	-	-	-	-	-
Tax losses carried forward	-	6,189	-	6,189	(1,564)	-	4,625
Fair value of financial assets available-for-sale	2,384	7,951	-	10,335	(503)	(68)	9,764
Property and equipment	-	-	1,245	1,245	(1,224)		21
Gross deferred tax asset	**31,334**	**5,393**	**1,245**	**37,972**	**2,228**	**(68)**	**40,132**
Unrecognised deferred tax asset	-	(6,189)	-	(6,189)	(22,550)	-	(28,739)
Deferred tax asset	**31,334**	**(796)**	**1,245**	**31,783**	**(20,322)**	**(68)**	**11,393**
Tax effect of taxable temporary differences:							
Property and equipment	(650)	-	650	-	-	-	-
Accrued expenses and income	(21,672)	2,155	-	(19,517)	16,390	-	(3,127)
Deferred tax liability	**(22,322)**	**2,155**	**650**	**(19,517)**	**16,390**	**-**	**(3,127)**
Net deferred tax (liability)/asset	**9,012**	**1,359**	**1,895**	**12,266**	**(3,932)**	**(68)**	**8,266**

15. Other assets and liabilities

Other financial assets comprise the following:

	2012	***2011***
Transit accounts on transactions with customers	3,894	-
Accrued income	1,923	2,994
Rent receivables	649	-
Receivables on foreign exchange settlements	-	2,197
	6,466	**5,191**
Less – allowance for impairment (Note 16)	(5,118)	(293)
Total other financial assets	**1,348**	**4,898**

Other non-financial assets comprise the following:

	2012	***2011***
Other prepaid taxes	183,200	49,421
Prepayments for rent, utilities and other services	5,584	12,705
Due from ex-employees	3,345	3,334
Materials	881	815
Prepayments for property and equipment	406	758
Other	84	-
	193,500	**67,033**
Less – allowance for impairment (Note 16)	(4,868)	(3,770)
Total other non-financial assets	**188,632**	**63,263**

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

As at 31 December 2012 and 2011, other prepaid taxes mainly consist of value added tax (VAT) credit related to repossessed investment property and buildings in the amount of UAH 182,716 thousand (2011: UAH 49,283 thousand) which will be set-off against VAT liabilities recognised as a result of the future sale of the property.

Other financial liabilities comprise the following:

	2012	*2011*
Transit accounts on transactions with customers	4,220	-
Transit accounts for card operations	751	829
Provisions for irrevocable guarantees and undrawn loan commitments (Note 16)	635	127
Payables on foreign exchange settlements	601	-
Payables for service	430	575
Total other financial liabilities	**6,637**	**1,531**

Other non-financial liabilities comprise the following:

	2012	*2011*
Deferred income	7,423	261
Unused vacation accrual and other salary related accruals	4,820	5,065
Payables to individuals' deposit guarantee fund	2,247	1,158
Taxes payable, other than income tax	1,502	672
Other	575	152
Total other non-financial liabilities	**16,567**	**7,308**

16. Other impairment allowance and provisions

The movements in allowances for other assets and provisions were as follows:

	Other financial and non-financial assets	*Provisions*	*Total*
31 December 2010	**5,846**	**2,298**	**8,144**
Charge	(1,534)	(2,171)	(3,705)
Translation differences	(249)	-	(249)
31 December 2011	**4,063**	**127**	**4,190**
Reversal	5,222	508	5,730
Translation differences	701	-	701
31 December 2012	**9,986**	**635**	**10,621**

Allowances for impairment of other assets are deducted from the carrying amounts of the related assets. Provisions are recorded in other liabilities.

17. Amounts due to credit institutions

Amounts due to credit institutions comprise the following:

	2012	*2011*
Loans from other Banks	363,731	230,123
Deposits from other banks	393,591	38,796
Current accounts	33	321
Amounts due to credit institutions	**757,355**	**269,240**

As at 31 December 2012, loans from other Banks include UAH 363,731 thousand granted by BTA Bank Kazakhstan. This amount consists of payables for two repossessed buildings. The difference between the fair value of claimed property and the outstanding amount of bad loan is expected to be paid to BTA Bank Kazakhstan which also granted loans to the same customers and was in the second order in rights for this collateral.

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

18. Amounts due to customers

The amounts due to customers comprise the following:

	2012	*2011*
Current accounts		
- Legal entities	78,432	246,087
- Individuals	66,256	69,002
- Due to funds under the Bank's management	77	273
Time deposits		
- Legal entities	124,853	181,732
- Individuals	1,132,297	1,045,317
Amounts due to customers	**1,401,915**	**1,542,411**

At 31 December 2012, amounts due to customers of UAH 254,380 thousand (18%) were due to the ten largest third party customers (2011: UAH 435,903 thousand or 28%).

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.

An analysis of customer accounts by economic sector follows:

	2012	*2011*
Individuals	1,198,553	1,114,319
Trade	61,391	263,658
Manufacturing	16,842	16,303
Insurance	9,241	16,561
Real estate constructions	5,323	41,966
Agriculture	2,785	3,292
Transport and communication	882	-
Machine building	154	4,814
Other	106,744	81,498
Amounts due to customers	**1,401,915**	**1,542,411**

Funds under the Bank's management

The Bank acts as a fund manager for construction-financing funds. The movements of amounts on the funds' accounts were as follows:

	Funds under the Bank's management
31 December 2010	**594**
Funds attracted from individuals	23,556
Invested funds	(23,877)
31 December 2011	**273**
Funds attracted from individuals	7,280
Invested funds	(7,476)
31 December 2012	**77**

19. Equity

In 2012 and 2011, there were no movements in the Bank's outstanding, issued and fully paid shares.

As at 31 December 2012, the number of authorised ordinary shares is 20,000,000 (2011: 20,000,000) with a nominal value per share of UAH 75. All authorised shares have been issued and fully paid. All common shares have equal voting, dividend and capital repayment rights.

The share capital of the Bank was contributed by the shareholders in Ukrainian hryvnia and the shareholders are entitled to dividends and any capital distributions in Ukrainian hryvnia. There were no dividends or other capital distributions declared in 2012.

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

Share capital was restated in prior periods based on the inflation adjustment that was made to account for the hyperinflation effect in accordance with IAS 29 "Financial Reporting in Hyperinflationary Economies".

Movements in other reserves
The movements in other reserves were as follows:

	Revaluation reserve for property and equipment	***Fair value reserve for financial assets available-for-sale***	***Other reserves***
31 December 2010	**2,479**	**(2,490)**	**(11)**
Effect of changes in tax bases	1,895	-	1,895
Depreciation of revaluation reserve, net of tax	(367)	-	(367)
Gains less losses from revaluation of financial assets available-for-sale	-	10,107	10,107
Impairment of financial assets available-for-sale transferred to Income statement	-	(7,342)	(7,342)
Realised losses on financial assets available-for-sale reclassified to the income statement	-	(275)	(275)
31 December 2011	**4,007**	**-**	**4,007**
Depreciation of revaluation reserve, net of tax	(341)		(341)
Net unrealised losses on financial assets available-for-sale	-	(5,601)	(5,601)
Impairment losses on financial assets available-for-sale reclassified to the income statement	-	3,639	3,639
Realised losses on financial assets available-for-sale reclassified to the income statement	-	2,319	2,319
Income tax relating to components of other comprehensive income	-	(68)	(68)
31 December 2012	**3,666**	**289**	**3,955**

Nature and purpose of other reserves

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

Fair value reserve for financial assets available-for-sale
This reserve records fair value changes on financial assets available-for-sale.

Reserve and other funds
Reserve and other funds are created in accordance with Ukrainian legislation to cover unforeseeable losses of the Bank. Reserve and other funds are created by distribution of the Bank's net profit for the year (not less than 5%) until the Reserve and other funds equals 25% of the regulatory capital of the Bank.

20. Commitments and contingencies

Legal
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.

Taxation
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, there 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 diminishes 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)

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

Financial commitments and contingencies
As at 31 December 2012, the Bank's financial commitments and contingencies comprised the following:

	2012	*2011*
Irrevocable undrawn loan commitments	7,208	15,538
Guarantees	673	2,043
	7,881	**17,581**
Less – provisions (Note 16)	(635)	(127)
Financial commitments and contingencies	**7,246**	**17,454**

Future minimal lease payments
As at 31 December, future minimal lease payments under non-cancellable leases commitments were as follows:

	2012	*2011*
Up to 1 year	3,302	19,410
From 1 to 5 years	1,955	58,906
Over 5 years	-	34,022
Total	**5,257**	**112,338**

21. Net fee and commission income

Net fee and commission income comprises the following:

	2012	*2011*
Cash and settlements operations	15,200	13,874
Loan services	950	-
Securities operations	126	104
Guarantees and letters of credit	47	86
Other	186	258
Fee and commission income	**16,509**	**14,322**
Cash and settlement operations	(4,112)	(3,628)
Other	-	(273)
Fee and commission expense	**(4,112)**	**(3,901)**
Net fee and commission income	**12,397**	**10,421**

22. Result from collateral repossession

In 2012-2011, the Bank repossessed buildings in the course of overdue loans settlement. The result from collateral repossession consists of the difference between the fair values of received assets (building and related VAT credit) in the amount of UAH 800,598 thousand (2011: UAH 295,698 thousand), the fair value of the derecognised loan to customers in the amount of UAH 284,166 thousand (2011: UAH 134,030 thousand), legal fees in the amount of UAH 95,526 thousand (2011:nil) and fair value of liability due to BTA Bank Kazakhstan in the amount of UAH 215,424 thousand (2011: UAH 121,305 thousand). Result from collateral repossession also includes amounts paid in 2012 to BTA Bank Kazakhstan based on the court decision related to repossession of assets in previous periods in the amount of UAH 55,930 thousand.

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

23. Salaries and other operating expenses

Salaries and benefits, and other operating expenses comprise the following:

	2012	*2011*
Salaries and bonuses	54,478	60,703
Social security costs	15,690	16,890
Personnel expenses	**70,168**	**77,593**
Occupancy and rent	17,448	24,411
Legal and consultancy	21,883	15,914
Repair and maintenance of property and equipment	11,383	7,234
Utility for own property	7,242	985
Payments to Individuals' Deposit Guarantee Fund	6,553	4,058
Security	5,196	4,516
Marketing and advertising	4,717	6,774
EDP cost	3,632	3,299
Office supplies	2,713	3,804
Operating taxes	2,436	1,360
Communications	1,057	1,243
Business travel and related expenses	801	859
Representation expenses	312	1,303
Loss on disposal of property and equipment	281	36
Cash collection expenses	215	150
Loss on disposal of assets held-for-sale	40	1,729
Impairment of assets held-for-sale	-	2,068
Loss on disposal of investment property	-	484
Other	5,706	4,324
Other operating expenses	**91,615**	**84,551**

24. Financial risk management

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

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

Risk management structure

Supervisory Board
The Supervisory Board of the Bank determines and consolidates the Bank's risk management strategy.

Management Board
The Management Board of the Bank is responsible for the implementation of the risk management strategy. The Board develops internal regulations that deal with risk management policies, the methods and procedures by which risk is evaluated and the process by which risk management is monitored. The Board reports to the Supervisory Board regarding the realisation of the Bank's strategy and the management of considerable risks.

Credit Committee
The Credit Committee meets on a daily basis and is responsible for implementing the internal regulations set by the Board, including setting credit policy in line with these regulations, approving credit limits, including limits for financial counterparties, monitoring credit performance and the quality of the Bank's loan portfolio and reviewing large projects and the credit policies of regional branches of the Bank.

Each regional branch of the Bank and each branch has its own Credit Committee that ultimately reports to the Head Office Credit Committee.

Asset and Liability Committee ("ALCO")
The ALCO is responsible for overseeing the Bank's assets and liabilities and liquidity and interest rate sensitivity analysis based on instructions and guidelines from the Board and its own assessments, and matches assets and liabilities with different maturities, develops various scenarios of the Bank's statement of financial position structure relating to liquidity and interest rate risks. It also periodically reviews the Bank's asset and liability position and determines the strategy of the Bank's asset and liability management. The ALCO also monitors and reviews interest rates in respect of the assets and liabilities of the Bank.

Risk Management Department
The Risk Management Department is responsible for implementing and execution of risk management procedures to ensure an independent control process.

Bank Treasury
The Bank's Treasury department is responsible for managing the Bank's assets and liabilities and ensures the Bank's current liquidity.

Internal Audit
The Internal Audit Department is responsible for determining, reviewing and improving the Bank's system of internal controls. The Internal Audit Department monitors the conformity of the Bank's policies with current legislation and regulation, professional norms and ethics. It also ensures the conformity of the Bank's accounting practices to Ukrainian accounting rules, and confirms the conformity of aggregate accounting statistics with primary document data.

Risk measurement and reporting systems
During the risk management process, the Bank determines three categories of losses: expected losses, unexpected losses and extraordinary losses. Expected losses are measured as an average amount of losses on active transactions. Unexpected losses are possible adverse deviations of the amount of expected losses due to unexpected but possible events (are calculated based on mathematical models). Extraordinary losses related to the crises events (both at the level of the Bank and at the macroeconomic level).

During the risk analysis process, the Bank considers the exposure of extreme circumstances (stress scenarios) on the basis of which the extraordinary emergency measures are determined in the form of a contingency plan.

The risk control process comprises risk planning and the setting of limits. The Bank determines the level of risk which it is willing to accept for achieving its business goal and performing strategic tasks.

To control the current level of the liquidity risk, the Bank uses external and internal limits which are communicated to other Bank's units in the form of ALCO decisions.

Limits set by the Bank for lending are approved by the Credit Committee and subdivided into individual credit risk limits, portfolio and specific transactions credit risk limits, limits of authorities in respect of making credit decisions. The Bank monitors risks, examines the trends and analysis reasons for changes in the risk level. It regularly compares the projected and actual risk indicators, as well as determines correlation of different types of risks in order to develop and undertake the appropriate measures.

Information received from the result of the analysis is regularly presented in the form of a report for examination by the Management Board, the Asset and Liability Committee and Credit Committee.

The Bank's Supervisory Board is informed about risk levels on a quarterly basis.

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

The Bank actively uses collateral to reduce its credit risks.

Excessive risk concentration
The Bank executes a credit risk management function during the process of selection of potential borrowers taking into account concentration risk of related parties, industries, maturity, currency and other parameters which defined in internal regulations.

To maintain a reasonable level of concentration, the Bank sets structural limits which are within prudential requirements.

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

Credit risk

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

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

Credit-related commitments risks

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

The maximum exposure to credit risk for the components of the statement of financial position, including derivatives before the effect of mitigation through the use of master netting and collateral agreements and after deducting any allowance for impairment 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.

Credit quality per class of financial assets

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

31 December 2012	*Neither past due nor individually impaired*				*Past due or individually impaired*	
	Notes	*High grade*	*Standard grade*	*Sub-standard grade*		*Total*
Current accounts with the NBU	6	56,173	-	-	-	**56,173**
Current accounts with credit institutions	6	420,918	2,481	-	-	**423,399**
Time deposits with credit institutions up to 90 days	6	394,504	-	-	-	**394,504**
Amounts due from credit institutions	7	9,205	-	-	-	**9,205**
Obligatory reserve deposit with the NBU	7	19,196	-	-	-	**19,196**
Derivative financial assets	8	216	-	-	-	**216**
Corporate loans	9	59,953	30,566	4,569	1,197,376	**1,292,464**
Loans to individuals	9	5,811	7,615	398	60,077	**73,901**
Financial assets available-for-sale	10	65,831	-	-	4,554	**70,385**
Total		**1,031,807**	**40,662**	**4,967**	**1,262,007**	**2,339,443**

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

31 December 2011		Neither past due nor individually impaired			Past due or individually impaired	
	Notes	**High grade**	**Standard grade**	**Sub-standard grade**		**Total**
Current accounts with the NBU	6	152,485	-	-	-	**152,485**
Current accounts with credit institutions	6	331,376	9,120	-	-	**340,496**
Time deposits with credit institutions up to 90 days	6	113,062	28,882	-	-	**141,944**
Amounts due from credit institutions	7	6,969	-	-	90,331	**97,300**
Obligatory reserve deposit with the NBU	7	25,252	-	-	-	**25,252**
Derivative financial assets	8	12,060				**12,060**
Corporate loans	9	102,121	56,466	14,053	1,650,508	**1,823,148**
Loans to individuals	9	29,941	16,188	71	305,203	**351,403**
Financial assets available-for-sale	10	30,875	-	-	4,341	**35,216**
Total		**804,141**	**110,656**	**14,124**	**2,050,383**	**2,979,304**

It is the Bank's credit risk management policy to maintain accurate and consistent risk ratings across the credit portfolio. This facilitates focused management of the applicable risks and the comparison of credit exposures across all lines of business, geographic regions and products. The rating system is supported by a variety of financial analytics, combined with processed market information.

Neither past due nor impaired loans are split by the Bank into the following credit risk categories:

High grade. This category includes exposures with insignificant credit risk which is characterized by strong financial position of the borrower and good loan servicing.

Standard grade. This category includes exposures with insignificant credit risk which however may increase as a result of unfavourable conditions; there are exposures to borrowers with good financial standing and good payment history or borrowers with strong financial position and payment history with delays not exceeding 90 days;

Sub-standard grade. This category includes exposures with significant credit risk which is characterized by weak/poor financial position of the borrower and good/poor loan servicing.

The following table shows the principle according to which the credit quality grades were assigned to financial assets in the table above.

		Rating values		
	Rating system	**High grade**	**Standard grade**	**Sub-standard grade**
Corporate loans	The NBU's classification system for corporate customers	1	2	3,4,5
Loans to individuals	The NBU's classification system for individual customers	1	2	3,4,5

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

31 December 2012	**Less than 30 days**	**31 to 60 days**	**61 to 90 days**	**More than 90 days**	**Total**
Loans to customers					
- Corporate loans	-	-	-	5,793	**5,793**
- Loans to individuals	1,974	584	97	12,948	**15,603**
Total	**1,974**	**584**	**97**	**18,741**	**21,396**

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

31 December 2011	***Less than 30 days***	***31 to 60 days***	***61 to 90 days***	***More than 90 days***	***Total***
Loans to customers					
- Corporate loans	-	-	-	15,633	**15,633**
- Loans to individuals	64,981	77	2,263	69,809	**137,130**
Total	**64,981**	**77**	**2,263**	**85,442**	**152,763**

Geographical concentration

The geographical concentration of the Bank's monetary assets and liabilities based on the information provided internally to key management and based on the accounting books and records maintained in accordance with UAS, is set out below:

	2012			
	Ukraine	***OECD***	***CIS and other countries***	***Total***
Assets:				
Cash and cash equivalents	123,126	417,315	2,481	542,922
Obligatory reserve deposit with the NBU	19,196	-	-	19,196
Due from credit institutions	403,709	-	-	403,709
Loans to customers	1,091,338	-	-	1,091,338
Financial assets available-for-sale	70,385	-	-	70,385
Derivative financial asset	216	-	-	216
Other financial assets	1,348	-	-	1,348
	1,709,318	**417,315**	**2,481**	**2,129,114**
Liabilities:				
Due to credit institutions	393,624	-	363,731	757,355
Derivative financial liability	973	-	-	973
Due to customers	1,326,942	2,365	72,608	1,401,915
Current income tax liabilities	332	-	-	332
Other financial liabilities	6,637	-	-	6,637
	1,728,508	**2,365**	**436,339**	**2,167,212**
Net position	**(19,190)**	**414,950**	**(433,858)**	**(38,098)**
Net commitments and contingencies	**7,246**	**-**	**-**	**7,246**

	2011			
	Ukraine	***OECD***	***CIS and other countries***	***Total***
Assets:				
Cash and cash equivalents	247,718	327,376	9,118	**584,212**
Obligatory reserve deposit with the NBU	25,252	-	-	**25,252**
Due from credit institutions	148,913	-	-	**148,913**
Loans to customers	1,962,771	-	7,672	**1,970,443**
Financial assets available-for-sale	35,216	-	-	**35,216**
Derivative financial asset	12,060	-	-	**12,060**
Other assets	4,898	-	-	**4,898**
	2,436,828	**327,376**	**16,790**	**2,780,994**
Liabilities:				
Due to credit institutions	145,409	-	123,831	**269,240**
Derivative financial liability	7,966	-	-	**7,966**
Due to customers	1,484,929	2,803	54,679	**1,542,411**
Current income tax liabilities				
Other liabilities	1,531	-	-	1,531
	1,639,835	**2,803**	**178,510**	**1,821,148**
Net position	**796,993**	**324,573**	**(161,720)**	**959,846**
Net commitments and contingencies	17,454	-	-	**17,454**

Liquidity risk and funding management
Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations associated with its financial liabilities. To limit this risk, management has arranged diversified funding sources in addition to its core deposit base, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of high-grade collateral, which could be used to secure additional funding if required.

The main liquidity risk factor is represented by the maturity gap in the assets and liabilities of the Bank.

The main principles of liquidity risk management are as follows:
- centralisation of liquidity risk management at the Head Office level;
- separate management of short-term and structural liquidity;
- diversification of funding sources;
- limitation of liquidity risk through establishment of limits;
- matching of assets and liabilities in terms of maturity;
- maintenance of an adequate liquidity buffer in the event of a liquidity deficit;
- adequate monitoring and control system.

In order to evaluate liquidity risk, the Bank uses gap analysis, ratio analysis, scenario analysis (including stress testing) and borrowed funds structure analysis. Liquidity risk is evaluated with respect to each currency.

The Assets and Liabilities Committee is generally responsible for development of the liquidity risk management strategy. Operational short-term liquidity (up to 90 days) risk management is exercised by the Treasury Division and Securities Division, ensuring compliance with short-term liquidity risk limits. The structural liquidity management decisions are taken by ALCO on the basis of the information prepared by the Risk Management Division.

Short-term liquidity risk management
In order to evaluate short-term liquidity risk, a gap analysis is prepared on a daily basis with respect to contractual maturity and currency. For maturities up to 14 days – a detailed daily payment schedule is used to determine a daily demand for additional financing; maturities greater than 14 days up to 90 days are grouped into several time categories (time buckets) for liquidity management purposes.

The Bank maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. The Bank considers the following assets to be liquid: cash on hand, correspondent accounts with the NBU and other banks and securities refinanced by the NBU. An adequate volume of liquid assets is determined based on stress testing. Furthermore, the Bank has entered into facility agreements with several banks, which it may use in order to satisfy an unexpected demand for funds. In addition, the Bank maintains a cash deposit (obligatory reserve) with the NBU, the amount of which depends on the level of customer funds attracted.

In order to restrict short-term liquidity risk, the following ratios have been established for the Bank on a stand-alone basis:
- instant liquidity ratio, which is computed under the algorithm established by the NBU for the H4 ratio (cash on hand and balances on nostro accounts with banks/ balances on customers' current accounts);
- current liquidity ratio, which is computed under the algorithm established by the NBU for the H5 ratio (cash on hand, balances on nostro accounts with banks, banking metals, claims on banks maturing within with residual maturity of up to 31 days, bills and bonds with residual maturity of up to 31 days / balances on customers' current accounts, term deposits, debt obligations and commitments with residual maturity of up to 31 days);
- short-term liquidity ratio limit which is computed under the algorithm established by the NBU for the H6 ratio (vault cash, balances on nostro accounts with banks, banking metals, claims on banks with residual maturity of up to 1 year, bills and bonds with residual maturity of up to 1 year / balances on customers' current accounts, term deposits, debt obligations and commitments with residual maturity of up to 1 year).

Structural liquidity risk management
In order to evaluate structural liquidity risk, a gap analysis of assets and liabilities is prepared on a daily basis with respect to contractual maturity (greater than 91 days) and currency.

The Bank has set the following ratios in order to measure and limit its structural liquidity risk:
- ratio of term liabilities to total liabilities;
- ratio of amounts due to other credit institutions to total liabilities;
- ratio of the cumulative gap between monetary assets and liabilities to monetary assets.

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

Scenario analysis in liquidity risk management
The Bank regularly monitors the liquidity of the money market. 3 scenarios are analysed: usual market conditions; liquidity crisis of the Bank; liquidity crisis in the market. In the latter case, the Bank implements a preliminary developed action plan for maintaining liquidity under crisis conditions.

Additionally, the Bank develops stress-testing scenarios, which reflect unlikely but material adverse changes of factors affecting the business of the Bank.

The diversified structure of the Bank's obligations is achieved through permanent monitoring of the liabilities portfolio concentration by category of customers with the largest amounts of funds with the Bank (the total amount of funds due to the 5, 10 and 20 largest customers).

Assessment of the liquidity position
The adherence to 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 primarily on a standalone basis, based on certain liquidity ratios established by the NBU as described in the short-term liquidity risk management section above.

As at 31 December 2012, the liquidity position, assessed by certain liquidity ratios established by the NBU, was as follows:

	Required level	2012, %	2011, %
N4 "Instant Liquidity Ratio" (assets receivable or realisable within one day / liabilities repayable on demand)	not less than 20%	307%	185%
N5 "Current Liquidity Ratio" (assets receivable or realisable within 30 days / liabilities repayable within 30 days)	not less than 40%	169%	144%
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, bills and bonds with residual maturity of up to 1 year / balances on customers' current accounts, term deposits, debt obligations and commitments with residual maturity of up to 1 year)	not less than 60%	82%	76%

Analysis of financial liabilities by remaining contractual maturities
The table below summarises the maturity profile of the Bank's financial liabilities at 31 December 2012 based on contractual undiscounted repayment obligations. Less than 3 months liabilities are those that 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 period.

31 December 2012	***Less than 3 months***	***3 to 12 months***	***1 to 5 years***	***Over 5 years***	***Total***
Due to credit institutions	393,935	-	423,496	-	**817,431**
Derivative financial liabilities					**-**
- Contractual amounts payable	252,871	-	-	-	**252,871**
- Contractual amounts receivable	(252,458)	-	-	-	**(252,458)**
Due to customers	382,146	967,460	63,540	29,336	**1,442,482**
Other financial liabilities	6,637	-	-	-	6,637
Total undiscounted financial liabilities	**783,131**	**967,460**	**487,036**	**29,336**	**2,266,963**

31 December 2011	***Less than 3 months***	***3 to 12 months***	***1 to 5 years***	***Over 5 years***	***Total***
Due to credit institutions	135,781	46,238	128,972	-	**310,991**
Derivative financial liabilities					
- Contractual amounts payable	1,542,004	-	-	-	**1,542,004**
- Contractual amounts receivable	(1,545,551)	-	-	-	**(1,545,551)**
Due to customers	634,182	893,187	100,196	50,262	**1,677,827**
Other financial liabilities	1,531	-	-	-	1,531
Total undiscounted financial liabilities	**767,947**	**939,425**	**229,168**	**50,262**	**1,986,802**

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

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

	Less than 3 months	***3 to 12 months***	***1 to 5 years***	***Over 5 years***	***Total***
2012	749	6,426	-	71	**7,246**
2011	2,662	14,233	241	318	**17,454**

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

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

The maturity analysis does not reflect the historical stability of current accounts. Their liquidation has historically taken place over a longer period than indicated in the tables above. These balances are included in amounts due in less than three months in the tables above.

Market risk
Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchanges, and equity prices. The Bank classifies exposures to market risk into either trading or non-trading portfolios. Non-trading positions are managed and monitored using other sensitivity analysis.

Market risk – Non - trading

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

The sensitivity of the income statement is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities held at 31 December 2012. The sensitivity of equity is calculated by revaluing fixed rate available-for-sale financial assets at 31 December for the effects of the assumed changes in interest rates based on the assumption that there are parallel shifts in the yield curve.

	Increase in basis points 2012	***Sensitivity of net interest income 2012***	***Sensitivity of equity 2012***	***Increase in basis points 2011***	***Sensitivity of net interest income 2011***	***Sensitivity of equity 2011***
USD	+5	(100)	(18)	+15	376	-
UAH	+5	(9)	-	+15	(814)	(12)
EUR	+5	24	-	+15	(122)	-

	Decrease in basis points 2012	***Sensitivity of net interest income 2012***	***Sensitivity of equity 2012***	***Decrease in basis points 2011***	***Sensitivity of net interest income 2011***	***Sensitivity of equity 2011***
USD	-5	100	18	-15	(376)	-
UAH	-5	9	-	-15	814	12
EUR	-5	(24)	-	-15	122	-

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

The Bank has established the following limits to minimise its exposure to currency risk:
- total open currency position;
- total long open currency position;
- total short open currency position.

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

Compliance with the internal limits of the Bank is in line with the currency risk management requirements established by the NBU.

The tables below indicate the currencies to which the Bank had 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 the hryvnia, with all other variables held constant on the income statement. The effect on equity does not differ from the effect on the income statement. A negative amount in the table reflects a potential net reduction in income statement or equity, while a positive amount reflects a net potential increase.

Currency	***Increase in currency rate 2012***	***Effect on profit before income tax 2012***	***Increase in currency rate 2011***	***Effect on profit before income tax 2011***
US dollar	7.10%	9,601	23.22%	153,453
Euro	12.67%	8,011	27.20%	12,623
Russian ruble	13.60%	162	27.06%	30,703

Currency	***Decrease in currency rate 2012***	***Effect on profit before income tax 2012***	***Decrease in currency rate 2011***	***Effect on profit before income tax 2011***
US dollar	-7.10%	(9,601)	-23.22%	(153,453)
Euro	-12.67%	(8,011)	-27.20%	(12,623)
Russian ruble	-13.60%	(162)	-27.06%	(30,703)

Operational risk

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

25. Fair values of financial instruments

Set out below is a comparison by class of the carrying amounts and fair values of the Bank's financial instruments that are carried in the financial statements not at fair value. 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)***
Financial assets						
Cash and cash equivalents	542,922	542,922	-	584,212	584,212	-
Obligatory reserve deposit with the NBU	19,196	19,196	-	25,252	25,252	-
Amounts due from credit institutions	403,709	403,709	-	48,913	48,913	-
Loans to customers	1,091,338	963,527	(127,811)	1,970,443	1,514,701	(455,762)
Financial liabilities						
Amounts due to credit institutions	796,281	796,281	-	269,240	269,240	-
Amounts due to customers	1,401,915	1,380,111	21,804	1,542,411	1,557,582	(15,171)
Total unrecognised change in unrealised fair value			**(106,007)**			**(470,933)**

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

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

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

Fixed and variable 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 and loans is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and maturity. For quoted debt instruments, the fair values are determined based on quoted market prices. The fair values of unquoted debt instruments are estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

Financial instruments reported at fair value
The Bank applies the following hierarchal structure of valuation 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:

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

The following table 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***
Financial assets				
Financial assets available-for-sale	65,831	-	4,554	70,385
Derivative financial assets	-	216	-	216
Financial liabilities				
Derivative financial liabilities	-	973	-	973

31 December 2011	***Level 1***	***Level 2***	***Level 3***	***Total***
Financial assets				
Financial assets available-for-sale	30,875	-	4,341	35,216
Derivative financial assets	-	12,060	-	12,060
Financial liabilities				
Derivative financial liabilities	-	7,966	-	7,966

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.

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

Derivatives valued using a valuation technique with significant non-market observable inputs are primarily long-term embedded derivates on indexed loans. These derivatives are valued using the mathematical model of financial market. The model incorporates various non-observable assumptions, which include currency exchange rates volatilities.

Financial assets available-for-sale
Financial assets 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

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

geographical jurisdiction in which the investee operates, level of enterprise goodwill, 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	Profit or loss	Other comprehensive income	Purchases	Sales	At 31 December 2012
Financial assets available-for-sale	4,341	-	-	213	-	4,554

		Total gain/ (loss) recorded in				
	At 1 January 2011	Profit or loss	Other comprehensive income	Purchases	Sales	At 31 December 2011
Financial assets available-for-sale	4,341	-	-	-	-	4,341

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:

	31 December 2012		31 December 2011	
	Carrying value	Influence of possible alternative assumptions	Carrying value	Influence of possible alternative assumptions
Financial assets available-for-sale	4,554	(4,554)	4,341	(4,341)

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

26. 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 24 "Financial 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	542,922	-	**542,922**	584,212	-	**584,212**
Amounts due from credit institutions	403,709	-	**403,709**	148,913		**148,913**
Obligatory reserve deposit with the NBU	19,196		**19,196**	25,252		**25,252**
Loans to customers	607,061	484,277	**1,091,338**	1,050,495	919,948	**1,970,443**
Financial assets available-for-sale	65,831	4,554	**70,385**	17,401	17,815	**35,216**
Investment property	-	435,440	**435,440**	-	405,732	**405,732**
Property and equipment	-	736,898	**736,898**	-	95,225	**95,225**
Derivative financial asset	216	-	**216**	12,060	-	**12,060**
Intangible assets	-	596	**596**		1,362	**1,362**
Current income tax assets	29	-	**29**	711		**711**
Deferred income tax assets	-	8,266	**8,266**		12,266	**12,266**
Assets held for sale	25,374	-	**25,374**		42,794	**42,794**
Other financial assets	1,348		**1,348**	4,898		**4,898**
Other non-financial assets	5,432	183,200	**188,632**	13,842	49,421	**63,263**
Total	**1,671,118**	**1,853,231**	**3,524,349**	**1,857,784**	**1,544,563**	**3,402,347**
Liabilities						
Amounts due to credit institutions	458,159	299,196	**757,355**	170,432	98,808	**269,240**
Derivative financial liabilities	973	-	**973**	7,966	-	**7,966**
Amounts due to customers	1,320,865	81,050	**1,401,915**	1,436,171	106,240	**1,542,411**
Current income tax liabilities	332	-	**332**		-	**-**
Other financial liabilities	6,637	-	**6,637**	1,531	-	**1,531**
Other non-financial liabilities	16,567	-	**16,567**	7,308	-	**7,308**
Total	**1,803,533**	**380,246**	**2,183,779**	**1,623,408**	**205,048**	**1,828,456**
Net	**(132,415)**	**1,472,985**	**1,340,570**	**234,376**	**1,339,515**	**1,573,891**

The tables above do not reflect the expected cash flows estimated by the Bank based on information relating to deposit repayment history in previous periods. The table shows repayments based on contractual settlement dates. 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. The maturity analysis therefore does not reflect the historical stability of current accounts; their liquidation has historically taken place over a longer period than indicated in the tables above.

27. Related party transactions

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.

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

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

	2012			*2011*		
	Shareholders and entities with significant influence	***Entities under common control***	***Key management personnel***	***Shareholders and entities with significant influence***	***Entities under common control***	***Key management personnel***
Loans outstanding at 1 January	-	-	54	-	76,723	320
Net increase (decrease) of loans during the year	-	-	(12)	-	(76,723)	(266)
Loans outstanding at 31 December	**-**	**-**	**42**	**-**	**-**	**54**
Interest income on loans	-	-	7	-	4,341	28
Amounts due from credit institutions as at 1 January	-	90,331	-	-	-	-
Net increase (decrease) of amounts due from credit institutions during the year	-	(90,331)	-	-	90,331	-
Amounts due from credit institutions as at 31 December	**-**	**-**	**-**	**-**	**90,331**	**-**
Allowance for impairment of amounts due from credit institutions as at 1 January	-	(90,331)	-	-	-	-
Net (increase) decrease of allowance for impairment of amounts due from credit institutions during the year	-	90,331	-	-	(90,331)	-
Allowance for impairment of amounts due from credit institutions as at 31 December	**-**	**-**	**-**	**-**	**(90,331)**	**-**
Amounts due to credit institutions as at 1 January	123,797	-	-	1	-	-
Net increase/(decrease) of amounts due to credit institution during the year	239,934	34	-	123,796	-	-
Amounts due to credit institutions as at 31 December	**363,731**	**34**	**-**	**123,797**	**-**	**-**
Amounts due to customers as at 1 January	-	1,312	3,217	-	5,464	23,578
Net (decrease)/ increase of amounts due to customers during the year	-	128	18,870	-	(4,152)	(20,361)
Amounts due to customers as at 31 December	**-**	**1,440**	**22,087**	**-**	**1,312**	**3,217**
Interest expense	27,403	-	1,090	-	76	1,591
Fee and commission income	-	63	11	-		8

Compensation of key management personnel was comprised of the following:

	2012	*2011*
Salaries and other short-term benefits	9,282	9,072
Social security costs	682	808
Total key management compensation	**9,964**	**9,880**

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

28. Segment reporting

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

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

Corporate banking. Principally handling loans and other credit facilities and deposit and current accounts of legal entities and institutional customers.

Investment banking. Includes products for securities transactions or for rendering services to financial and investments market participants.

Interbank. Principally placing and attracting loans and deposits with/from other banks and the NBU.

The following table presents information on revenue and profit as well as assets and liabilities of the Bank's operating segments as at 31 December 2012:

	Corporate banking	***Retail banking***	***Investment banking***	***Interbank***	***Unallocated***	***Total***
Revenue						
Interest income	216,026	32,317	3,951	5,112	-	**257,406**
Fee and commission income	8,282	7,681	126	420	-	**16,509**
Net gain/(loss) from foreign currencies:	(14,395)	8,214	-	23,804	(8,594)	**9,029**
Result from collateral repossession	-	-	-	149,552	-	**149,552**
Other income	1,068	1,167	-	-	83,016	**85,251**
Total revenue	**210,981**	**49,379**	**4,077**	**178,888**	**74,422**	**517,747**
Interest expense	(13,815)	(130,699)	-	(29,915)	-	**(174,429)**
Release/(charge) to allowance for impairment of interest earning assets	(254,839)	(113,602)	-	7,383	-	**(361,058)**
Fee and commission expense	-	(1,582)	-	(2,530)	-	**(4,112)**
Trading gains less losses from dealing with financial assets available-for-sale	-	-	(2,319)	-	-	**(2,319)**
Impairment of financial assets available-for-sale	-	-	(3,639)	-	-	**(3,639)**
Personnel expenses	-	-	-	-	(70,168)	**(70,168)**
Depreciation and amortisation	-	-	-	-	(33,303)	**(33,303)**
Other operating expenses	(95)	(33)	(1)	-	(91,486)	**(91,615)**
Charge for other allowances for impairment and provisions	(284)	(224)	-	-	(5,222)	**(5,730)**
Segment results	**(58,052)**	**(196,761)**	**(1,882)**	**153,826**	**(125,757)**	**(228,626)**
Income tax expense					(4,984)	**(4,984)**
Loss for the year						**(233,610)**

Unallocated net gains from foreign currencies are revaluation of currency items of the statement of financial position, as well as other income not related to principal operating activities of the Bank. Other unallocated expenses are overall administrative expenses of the Bank.

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

The management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. The measurement of segment results is not the same as in the financial statements. Income taxes are managed on an overall basis and are not allocated to operating segments.

In 2012 and 2011, the Bank did not have revenue from one third party customer or counterparty, which would comprise 10% or more of the total revenue. The Bank is located in Ukraine and 96% of the revenue is from Ukraine.

The following table presents information on revenue and profit as well as assets and liabilities of the Bank's operating segments as at 31 December 2011:

	Corporate banking	*Retail banking*	*Investment banking*	*Interbank*	*Unallocated*	*Total*
Revenue						
Interest income	267,733	33,602	6,322	9,211	-	**316,868**
Fee and commission income	7,551	3,221	104	3,446	-	**14,322**
Trading gains less losses from dealing with financial assets available-for-sale	-	-	275	-	-	**275**
Net gain from revaluation of investment property	-	-	-	-	57,610	**57,610**
Net gains from foreign currencies	30,478	6,210	-	4,342	7,810	**48,840**
Result from collateral repossession	-	-	-	40,363	-	**40,363**
Other income	1,864	1,353	8,675	-	3,800	**15,692**
Reversal of other allowances for impairment and provisions	1,535	635	-	-	1,535	**3,705**
Total revenue	**309,161**	**45,021**	**15,376**	**57,362**	**70,755**	**497,675**
Interest expense	(13,818)	(101,768)	-	(8,702)	-	**(124,288)**
Release/(charge) to allowance for impairment of interest earning assets	4,390	(15,539)	-	(96,552)	-	**(107,701)**
Fee and commission expense	(2)	(163)	-	(3,736)	-	**(3,901)**
Impairment of financial assets available-for-sale	-	-	(649)	-	-	**(649)**
Personnel expenses	-	-	-	-	(77,593)	**(77,593)**
Depreciation and amortisation	-	-	-	-	(14,707)	**(14,707)**
Other operating expenses	-	-	(2,515)	-	(82,036)	**(84,551)**
Segment results	**299,731**	**(72,449)**	**12,212**	**(51,628)**	**(103,581)**	84,285
Income tax benefit					881	**881**
Profit for the year						85,166

29. Capital adequacy

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

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

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

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

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

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

	2012	*2011*
Main capital	1,500,884	1,521,730
Additional capital	9,473	14,252
Total capital	**1,510,357**	**1,535,982**
Risk weighted assets	**4,204,780**	**3,427,001**
Capital adequacy ratio	35.92%	44.82%

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

	2012	*2011*
Tier 1 capital	1,336,615	1,569,884
Tier 2 capital	3,955	4,007
Total capital	**1,340,570**	**1,573,891**
Risk weighted assets	**2,904,466**	**3,268,512**
Tier 1 capital adequacy ratio	46.02%	48.03%
Total capital adequacy ratio	46.16%	48.15%

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

N. V. Sergeeva Chairlady of the Board

O. V. Latun Chief Accountant

1 April 2013

УКРАЇНА
М. КИЇВ
ПУБЛІЧНЕ АКЦІОНЕРНЕ ТОВАРИСТВО
БТА БАНК
Ідентифікаційний код
14359845