PUBLIC JOINT-STOCK COMPANY
COMMERCIAL BANK

“PRAVEX-BANK”

Annual Financial Statements for 2012

Contents

Statement of financial position
as at 31 December 2012
PJSCCB "PRAVEX-BANK"

(UAH' 000)

	Note	2012	2011 Reclassified	2010 Reclassified
1	2	3	4	
ASSETS				
Cash and cash equivalents	6	601 053	478 685	631 526
Mandatory reserves with the National Bank of Ukraine		74 125	83 514	103 801
Other financial assets at fair value through profit or loss	7	3 006	-	-
Due from banks	8	200	138 460	-
Loans and advances to customers	9	3 215 645	4 631 555	4 241 478
Securities available-for-sale	10	127 220	1 114	39 621
Securities held-to-maturity		-	-	108 789
Investment property	11	10 822	-	-
Current income tax receivable		1 558	1 558	2 431
Deferred tax asset	30	36 725	127 554	189 183
Property, equipment and intangible assets	12	674 143	608 580	498 218
Other financial assets	13	47 670	49 532	7 099
Other assets	14	38 437	55 574	25 808
Non-current assets held-for-sale and disposal group assets	15	25 041	12 291	989
Total assets		4 855 645	6 188 417	5 848 943
LIABILITIES				
Due to banks	16	343 084	1 210 896	1 604 907
Due to customers	17	3 101 040	3 135 310	2 799 948
Debt securities issued by the Bank	18	99 180	1	-
Deferred tax liabilities	30	1 232	549	7 888
Provisions	19	4 406	4 676	1 017
Other financial liabilities	20	176 159	164 198	127 972
Other liabilities	21	75 952	71 852	71 752
Subordinated debt	22	119 466	123 718	116 721
Total liabilities		3 920 519	4 711 200	4 730 205
EQUITY				
Share capital	23	1 011 556	1 006 916	975 378
Share premium	23	787 112	295 702	977
Accumulated deficit		(1 069 644)	(38 714)	(72 097)
Reserves and other funds		1 332	1 332	1 332
Revaluation reserves		204 770	211 981	213 148
Total equity		935 126	1 477 217	1 118 738
Total liabilities and equity		4 855 645	6 188 417	5 848 943

Acting Chairman of the Board of PJSCCB "PRAVEX-BANK" **T.O. Kyrychenko**

Chief Accountant of PJSCCB "PRAVEX-BANK" **O.Yu. Kibets**

21.03.2013

The statement of financial position as at 31 December 2012 is to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 7 - 79.

Statement of comprehensive income
for the year ended 31 December 2012
PJSCCB "PRAVEX-BANK"

(UAH' 000)

	Notes	2012	2011 Reclassified
1	2	3	4
Interest income	26	686 070	681 272
Interest expenses	26	(327 604)	(265 483)
Net interest income		358 466	415 789
Commission income	27	208 076	257 966
Commission expense	27	(14 646)	(16 980)
Revaluation surplus on other financial instruments at fair value through profit or loss		746	-
Gains less losses from sale of securities available-for-sale		(1 102)	198
Gains less losses from dealing in foreign currencies		32 030	52 504
Gains less losses from foreign currency translation		(7 689)	1 032
Gains less losses from initial recognition of financial assets at interest rates higher or lower than market rates		(2 683)	(1 955)
Gains less losses from initial recognition of financial liabilities at interest rates higher or lower than market rates		317	(191)
Provision for impairment of loans and due from banks	9	(974 302)	(144 835)
Income from loans sold		-	78 748
Provision for impairment of accounts receivable and other financial assets	13, 14	(816)	(1 683)
Provisions	19	(626)	(3 086)
Other operating income	28	14 491	9 148
Administrative and other operating expenses	29	(550 694)	(559 729)
(Loss)/income before tax		(938 432)	86 926
Income tax expense	30	(92 908)	(53 543)
Loss/(income) for the year		(1 031 340)	33 383
OTHER COMPREHENSIVE INCOME:			
Revaluation of securities available-for-sale		324	53
Revaluation of property, equipment and intangible assets	24	(8 521)	-
Income tax related to other comprehensive income	24	1 396	(1 220)
Other comprehensive income after tax for the year		(6 801)	(1 167)
Total comprehensive income for the year		(1 038 141)	32 216
(Loss)/income attributable to:			
shareholders		(1 031 340)	33 383
Total comprehensive income attributable to:			
shareholders		(1 038 141)	32 216
(Loss)/earnings per share:	31		
basic (loss)/earnings per ordinary share		(0,64)	0,02
diluted (loss)/earnings per ordinary share		(0,64)	0,02
(Loss)/earnings per share attributable to shareholders:	31		
basic (loss)/earnings per ordinary share for the year		(0,64)	0,02
diluted (loss)/earnings per ordinary share for the year		(0,64)	0,02

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21.03.2013

The statement of comprehensive income for the year ended 31 December 2012 is to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 7 - 79.

Statement of cash flows
for the year ended 31 December 2012

(UAH' 000)

	Notes	2012	2011 reclassified
1	2	3	4
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest income received		512 022	531 540
Interest expense paid		(346 784)	(259 898)
Commission income received		208 113	258 182
Commission expense paid		(14 577)	(18 221)
Gains/losses from dealing in foreign currencies		32 030	52 504
Other operating income received		11 121	8 106
Proceeds from sale of loans		-	78 748
Administrative and other operating expenses paid		(487 367)	(501 623)
Cash received/ (paid) from operating activities before changes in operating assets and liabilities		(85 442)	149 338
Changes in operating assets and liabilities			
Net (increase)/decrease of mandatory reserves with the National Bank of Ukraine		9 389	(20 287)
Net (increase)/decrease of due from banks		137 787	(130 337)
Net (increase)/decrease of loans and advances to customers		568 302	(402 233)
Net (increase)/decrease of other assets and other financial assets		3 781	(34 350)
Net (decrease) of due to banks		(857 456)	(376 812)
Net increase/(decrease) of due to customers		(28 414)	341 445
Net increase of debt securities issued by the Bank		100 000	-
Net increase of other financial liabilities		27 262	15 639
Net cash (used) from operating activities		(124 791)	(457 597)
CASH FLOWS FROM INVESTMENT ACTIVITIES			
Purchase of securities available-for-sale		(639 575)	(681 947)
Proceeds from sale of securities available-for-sale		526 140	718 505
Purchase of securities held to maturity		(30 000)	(400 000)
Proceeds from repayment of securities held-to-maturity		30 000	510 000
Purchase of financial assets at fair value through profit or loss		(2 139)	-
Purchase of property and equipment		(19 272)	(23 301)
Proceeds from sale of property and equipment		2 858	310
Purchase of intangible assets		(114 657)	(140 051)
Net cash flows (used) from investment activity		(246 645)	(16 484)
CASH FLOWS FROM FINANCIAL ACTIVITIES			
Proceeds from issuance of shares	23	496 050	326 263
Net cash flows from financial activities	23	496 050	326 263
Effect of changes in NBU exchange rates on cash and cash equivalents		(2 246)	(5 018)
Net increase/(decrease) of cash and cash equivalents		122 368	(152 836)
Cash and cash equivalents as at the beginning of the year	6	478 685	631 521
Cash and cash equivalents as at the end of the year	6	601 053	478 685

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21.03.2013

The statement of cash flows for the year ended 31 December 2012 is to be read in conjunction with the notes to, and forming part of the financial statements set out on pages 7 - 79.

Statement of changes in equity
for the year ended 31 December 2012
PJSCCB "PRAVEX-BANK"

(UAH' 000)

	Note	Attributable to shareholders of the Bank						Total equity
		Share capital	Share premium	Reserves and other funds	Revaluation reserves	Accumulated deficit	Total	
1	2	3	4	5	6	7	8	9
Balance as at 1 January 2011		975 378	977	1 332	213 148	(72 097)	1 118 738	1 118 738
Total comprehensive income/(expenses)	24	-	-	-	(1 167)	33 383	32 216	32 216
Issue of shares:	23							
nominal value		31 538	-	-	-	-	31 538	31 538
share premium		-	294 725	-	-	-	294 725	294 725
Balance as at 31 December 2011 (balance as at 1 January 2012)		1 006 916	295 702	1 332	211 981	(38 714)	1 477 217	1 477 217
Total comprehensive (loss)		-	-	-	(6 801)	(1 031 340)	(1 038 141)	(1 038 141)
Realized revaluation surplus on property and equipment disposed	24	-	-	-	(410)	410	-	-
Issue of shares:	23							
nominal value		4 640	-	-	-	-	4 640	4 640
share premium		-	491 410	-	-	-	491 410	491 410
Balance as at 31 December 2012		1 011 556	787 112	1 332	204 770	(1 069 644)	935 126	935 126

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21.03.2013

The statement of changes in equity for the year ended 31 December 2012 is to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 7 - 79.

Notes to the Annual Financial Statements

Note 1. Background information

Full name of the Bank	Public Joint-Stock Company Commercial Bank “PRAVEX-BANK”
Short name of the Bank	PJSCCB “PRAVEX-BANK”
Location	9/2 Klovsky Uzviz, Kyiv 01021, Ukraine
Country of registration	Ukraine
Form of ownership	Public Joint-Stock Company
Name and location of the parent company	Intesa Sanpaolo S.p.A. Piazza San Carlo, 156, Torino, 10121 Italia.
Management shareholding	0%
Foreign investor shareholding	Intesa Sanpaolo S.p.A. (Italy) owns 100% of the Bank’s share capital
Reporting period	From 1 January to 31 December 2012
Reporting currency and measurement unit	Thousands of Ukrainian hryvnias

The strategic target of activity and development of PJSCCB “PRAVEX-BANK” (hereinafter – “the Bank”) is to create the universal bank providing a full range of bank services to legal entities and individuals.

During the very first months of 2012, the banking sector was affected by the turmoil on financial market and instability of liquidity situation in Ukraine. This uncertainty lasts since the middle of 2011. During this period the Bank concentrated its efforts on reducing the open currency position and increasing its liquidity (mostly in local currency); in particular the Bank aimed to:

- convert loans denominated in foreign currencies into local currency ones;
- increase the activity in collection of non-performing loans.

Since the above mentioned activities were not sufficient to reduce foreign currency position risks, given the high risk of devaluation of local currency, an agreement with National Bank of Ukraine was concluded in July 2012, that allowed the Bank to breach the regulatory limits of open currency position. The Bank should bring its open currency position in line with effective regulations within 13 months from the agreement date.

Within the frame of this agreement, the Bank increased its capital by UAH 496,050 thousand. The process was completed on 25 September 2012.

In spring 2012, the situation of liquidity started to improve; however, the Bank was not able to increase its lending activities.

The non-performing individually significant loan ratio, that was 37.5% at the end of 2011, reached 57.7% in December 2012. This resulted in a negative impact on the financial result of the Bank by recognition of additional provisions and reduction of net interest income.

At the beginning of autumn the banking system started lacking liquidity in local currency, and the Bank (similar to 2011) concentrated in efforts on avoiding the risks.

This result, however, was reached by strongly limiting the development of corporate loans, and therefore, not allowing the growth of profitability of the Bank.

Further in the Bank made changes to the organizational structure, performed cost cutting and acted to improve on assets quality including:

- the implementation of a new organizational structure (with the decrease of a number of divisions, from 8 to 4), in order to increase efficiency;
- the further rationalization of the network, with consequent reduction in staff (31 December 2011 - 369 outlets, 31 December 2012 - 286 outlets and 31 December 2011 – 4,521 headcount, 31 December 2012 – 3,662 headcount);
- strong control on costs.

During 2012 the Bank successfully completed the change of the Core Banking System.

The Bank is a member of the Individual's Deposits Guarantee Fund (hereinafter – IDGF), registration certificate number 115 of 8 December 2012 (registration certificate number 125 of 2 September 1999).

Note 2. Business environment

Business environment in Ukraine was difficult in 2012. Due to recession trends in the world economy, demand and prices for traditional Ukrainian exports declined, which, in turn, affected also Ukraine economic indicators.

In Q1 and Q2 2012, compared with growth in 2011, GDP continued to grow, but at slower pace (2% and 3%, respectively, compared to 5.4% and 3.9% in Q1 and Q2 2011). In the second half of 2012 the economy experienced the first signs of recession. In June, industry output started to decline. Given the negative dynamics of construction, agriculture and transport industries in Q3 2012, the GDP declined by -1.3%. Unfavorable external economic conditions and downturn in the economy had a negative impact on GDP growth in Q4 2012, which declined by -2.7%. This reduced the GDP growth in 2012 to 0.2% on annual basis.

Almost all industries in 2012 had a negative result, compared with the previous period (the following industries experienced the largest impact in terms of production volume reduction: construction -13.8%, transportation -4.9%, agriculture -4.5%).

At the beginning of the year, consumer prices increased at a slower pace (inflation in Q1 2012 is fixed at +0.7%). But since Q2 of the current year consumer prices reduction was registered, which continued until the end of the year and resulted in deflation for the year at -0.2%.

Increase of negative trends on global markets and declining economic growth led to increase of demand for foreign currency in the domestic market, especially in the second half of 2012. This caused devaluation pressure on the national currency and, as a result, in autumn 2012 the USD/UAH exchange rate increased in the cash market by 3%. In order to offset the devaluation pressure, the NBU was forced to carry out active interventions in the currency market. Because of the policy of the NBU, the official exchange rate for the year did not change significantly, and the UAH/USD market exchange rate fell by 2%, i.e. almost to the level as at the beginning of the reporting year. At the same time, the intervention held by the NBU in order to protect the national currency, led to decreasing of hryvnia liquidity in the market, which resulted in increasing the value of UAH resources in the interbank market in the second half of 2012. However, at the end of the reporting year there were signs of improvement in liquidity of the banking system.

The situation in the bank deposit market during the year was characterized by the confidence of depositors as a whole. This is evidenced by a steady increase in funds on bank deposit accounts, while lending activities are still limited, and the cost of funding has increased significantly.

The total deposit base growth in 2012 was +16% (UAH 77.19 billion). This positive trend was achieved by deposits from individuals, especially in the second half of 2012, when interest rates have increased significantly. Increase in deposits from individuals in 2012 was 19.1% (UAH 58.7 billion), while deposits from legal entities for the year increased by 10.2% (UAH 18.5 billion). In addition, in the first half of 2012, the deposit portfolio increased substantially by deposit in the national currency (increase in national currency +1.6%, in foreign currency +0.5%), however, because of devaluation expectations in the second half of 2012, the volumes of deposits in foreign currency increased (+8.4% in foreign currency, +6.9% in local currency).

In 2012 increase in the cost of funding, primarily, related to an increase of cost of resources in UAH in the second half of 2012, caused by decline of the hryvnia liquidity in the market during this period. According to the Ukrainian Index of Retail Deposit Rates, the average interest rate in national currency in 2012 increased by 3.5% to 19.2% and in foreign currency by 0.5% to 6.4%.

Although in March 2012 the National Bank of Ukraine reduced the discount rate by 0.25 percentage points to 7.5% per annum, the credit activity of banks during 2012 remained low, substantially due to the high cost of funding.

Thus, the total loan portfolio of banks increased in 2012 by 2.2% or UAH 17.4 billion (compared to +9.6% or UAH 69.2 billion in 2011).

Based on 2012 results, corporate loans increased by 5.1% (UAH 30.3 billion) showing growth both in local currency and in foreign currency +2.7%. During 2012 retail loan portfolio comprised loans extended in national currency (increase for the year was +19.3% or UAH 16.1 billion), however, it was offset by a decrease in foreign currency loans by -25.8% (-UAH 29 billion). A decrease in foreign currency loan balances was caused by a restriction on granting new loans and activities carried out during the year with overdue retail loans in foreign currency (restructuring, write off, collection companies activity). This led to a reduction of the total retail loan portfolio in 2012 by -6.6% (-UAH 12.9 billion).

In addition, in 2012 the adverse trends caused by the crisis of 2008-2009 continued to exist in the country. These trend in addition to recession trends during the reporting year may have negative consequences in the next year. The main potential risks may include:

- liquidity risk and devaluation trends in the forex market, along with a reduction of foreign exchange reserves;
- risks of low credit activity and, as consequence, shortage of working capital of entities
- risk of increasing inflationary pressures;
- decrease in the investment attractiveness of the country, cutting down and scaling down the investment projects by foreign companies and banks;
- open issues with regard to obtaining new IMF loan and reducing tariffs on Russian gas;
- deterioration of foreign market economic conditions: fall in prices on the world raw material markets, continuing Eurozone debt crisis;
- lack of external funding opportunities and narrowing access to international capital markets.

The main macroeconomic trends having a significant impact on the Bank’s activities in 2012 were as follows:

- devaluation expectations and the NBU policy aimed at protection of the national currency causing an increase in the cost of funding and, as a result of which the Bank’s interest margin and interest income was affected;
- decline of hryvnia liquidity in the interbank market, including its instability, led to more conservative liquidity management, in particular focusing on increase in retail and corporate deposits, keeping access liquidity, etc.;
- slowdown of economic growth in key industries of the country, along with the high cost of funding resulted in lending slowdown;

- existing credit risks on loans extended, especially those issued before the crisis of 2008, necessitated continuing active work aimed at improving the quality of assets through debt restructuring, repayment of overdue debt both using the internal resources and engaging highly reputed collection and law firms.

Ukraine is experiencing political and economic change that has affected, and may continue to affect, the activities of entities operating in this environment. Consequently, operations in Ukraine involve risks that do not typically exist in other markets. In addition, the recent contraction in the capital and credit markets has further increased the level of economic uncertainty in the environment. These financial statements reflect management’s assessment of the impact of the Ukrainian business environment on the operations and the financial position of the Bank. The future business environment may differ from management’s assessment.

Management is unable to reliably estimate the effects on the Bank's financial position of any further deterioration in the liquidity of the financial markets and the increased volatility in the currency and equity markets. Management believes it is taking all the necessary measures to support the sustainability and liquidity position of the Bank's business in the current circumstances.

The Ukrainian tax system can be characterized by numerous taxes and frequently changing legislation. Tax regulations are often unclear, open to wide interpretation, and in some instances are conflicting. Instances of inconsistent opinions between local, regional and national tax authorities and between the National Bank of Ukraine and the Ministry of Finance are not unusual. Tax declarations are subject to review and investigation by a number of authorities that are enabled by law to impose significant penalties and interest charges. These facts create tax risks in Ukraine substantially more significant than typically found in countries with more developed tax systems.

Management believes it has complied with all existing tax legislation. However, there can be no assurance that the tax authorities will not have a different interpretation of the Bank’s compliance with existing legislation and assess fines and penalties.

Note 3. Basis of presentation

The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS), requirements of the National Bank of Ukraine on financial reporting by Ukrainian banks, Ukrainian legislation, and effective regulations on submission of annual reports by issuers and professional participants in the stock market to the National Commission on Securities and Stock Market. During 2011 the Law of Ukraine “On Accounting and Reporting in Ukraine” was amended. The Law envisages that maintaining of accounting records and preparation of the financial statements by banks as established by the National Bank of Ukraine should be done in accordance with International Financial Reporting Standards.

Therefore, the National Bank of Ukraine published Instruction “On preparation and disclosure of financial statements by Ukrainian banks” approved by NBU Regulation No. 373 on 24 October 2011. In preparation of these financial statements the Bank followed the Instruction. Accordingly, certain items of the financial statements as at and for the year ended 31 December 2011 were reclassified.

During the year and in preparation of these financial statements, the Bank consistently applied significant accounting policies set out below.

Transactions are recorded in the underlying transaction currency. Assets and liabilities, income and expenses from transactions with foreign currencies are reflected in UAH equivalent at the official NBU exchange rate for foreign currencies at the date of recognition. The functional currency of these financial statements is the Ukrainian hryvnia (UAH). The financial statements are presented in thousands of Ukrainian hryvnias, unless otherwise indicated.

Reclassifications

To align these financial statements with the format of the financial statements as required by Instruction “On preparation and disclosure of financial statements of Ukrainian banks” approved by the NBU Regulation No. 373 of 24 October 2011, the Bank reclassifies certain items. These reclassifications had an impact on the presentation of assets, liabilities and equity and on income and expenses, with further reclassifications required relating to certain operations reflected in the statement of financial position and statement of comprehensive income. However, there was no impact on the results of operations of the Bank for 2011.

The impact of these reclassifications as at and for the years ended 31 December 2011 and 2010 is as follows:

(UAH' 000)

Reclassification	Amount of reclassification 2011	Amount of reclassification 2010	Line in the statement of financial position or statement of comprehensive income (currently presented)	Line in the statement of financial position or statement of comprehensive income (as originally reported)
1	2		3	4
Mandatory reserves with the National Bank of Ukraine are presented as a separate line item in the statement of financial position	83 514	103 801	Mandatory reserves with the National Bank of Ukraine	Due from banks
Accumulating account with the National Bank of Ukraine restricted for use is included into Other financial assets	25 048	-	Other financial assets	Due from banks
Correspondent accounts with other banks are included to Cash and cash equivalents	104 448	228 089	Cash and cash equivalents	Due from banks
Transit accounts for credit and debit cards operations reclassified to Other financial assets	17 384	363	Other financial assets	Other assets
Accounts receivable on operations with bank's customers and other accounts receivable are included to Other financial assets	5 861	1 834	Other financial assets	Other assets
Provision for impairment of other financial assets is included to Other financial assets	1 465	2 978	Other financial assets	Other assets
Provisions for credit related commitments are included to Provisions for liabilities	(3 584)	(2 145)	Provisions for liabilities	Other liabilities
Clearing accounts of other banks are included into Other financial liabilities	62 046	54 271	Other financial liabilities	Due to banks
Subordinated debt is presented as a separate line item in the statement of financial position	123 718	116 721	Subordinated debt	Due to customers
Payables and balances on foreign exchange transactions are reclassified to Other financial liabilities	100 622	71 556	Other financial liabilities	Other liabilities
Reserves and other funds are presented as a separate line item in the statement of financial position	1 332	1 332	Reserves and other funds of the bank	Accumulated deficit

Reclassification	Amount of reclassification 2011	Amount of reclassification 2010	Line in the statement of financial position or statement of comprehensive income (currently presented)	Line in the statement of financial position or statement of comprehensive income (as originally reported)
Losses on initial recognition of financial assets at interest rates higher or lower than market rates are presented as a separate line item in the statement of comprehensive income	(1 955)	-	Losses from initial recognition of financial assets at interest rates higher or lower than market rates	Net interest income
Provisions for credit related commitments were reclassified to Provisions	(2 808)	-	Provisions for liabilities	Provisions for loan loss, other financial assets and guarantees
Provisions for impairment of accounts receivable are presented as a separate line item in the statement of comprehensive income	(1 683)	-	Provisions for impairment of accounts receivable and other financial assets	Provisions for loan loss, other financial assets and guarantees
Gains less losses from dealing in foreign currencies are presented as a separate line item in the statement of comprehensive income	52 504	-	Gains less losses from dealing in foreign currencies	Gains less losses from trading operations and forex differences
Gains less losses from foreign currency translation are presented as a separate line item in the statement of comprehensive income	1 032	-	Gains less losses from foreign currency translation	Gains less losses from trading operations and forex differences
Personnel expenses are included into Administrative and other operating expenses in the statement of comprehensive income	(292 350)	-	Administrative and other operating expenses	Personnel expenses
Other administration expenses are included into Administrative and other operating expenses in the statement of comprehensive income	(194 977)	-	Administrative and other operating expenses	Other administrative expenses
Depreciation and amortization expense is included into Administrative and other operating expenses in the statement of comprehensive income	(50 859)	-	Administrative and other operating expenses	Depreciation expense
Other operating expenses are included into Administrative and other operating expenses in the statement of comprehensive income	(14 210)	-	Administrative and other operating expenses	Other operating expenses, net

Accordingly, in the statement of cash flows for 2011, personnel expenses paid in the amount of UAH 304,693 thousand, other administrative expenses in the amount of UAH 193,153 thousand and other operating expenses in the amount of UAH 3,777 thousand were combined into "Administrative and other operating expenses". Other operating income received in the amount of UAH 8,106 thousand was presented as a separate line item.

Note 4. Accounting policies of PJSCCB “PRAVEX-BANK” for 2012

4.1. Basis of measurement

The Bank’s accounting policies are based on the underlying accounting principles under which the financial statements are prepared: completeness, substance over form, standalone basis, prudence, going concern, accrual and matching of income and expenses, consistency (consistent application by the bank of selected accounting policies) and the single monetary unit.

Information on criteria for the recognition and measurement of assets and liabilities and income and expenses is set out in the following sections of this note.

The financial statements have been prepared on the historical cost basis except for:

- securities available-for-sale and financial assets at fair value through profit or loss that are measured at fair value;
- non-current assets held-for-sale that are measured at lower of carrying amount and fair value;
- buildings and investment property that are measured at fair value.

Use of accounting estimates and judgments

The preparation of financial statements requires management to make judgments, estimates and assumptions that may significantly affect the amounts in the statement of financial position and in the statement of comprehensive income as well as the amounts of assets, liabilities, income and expense in the financial statements. The estimates are based on the available information and subjective judgments that are often based on historical experience which are used to formulate reasonable assumptions when assessing results of operations. Taking into account their nature, estimates and assumptions used, can be changed from year to year, and, therefore, the amounts presented in the financial statements may significantly differ in the future financial years as a result of change in the subjective estimates.

Management should make its subjective estimates regarding the following:

- assessment of impairment losses on loans and, generally, other financial assets;
- estimates and assumptions with regard to realization of deferred tax assets.

In particular, information about significant areas of estimation uncertainty in applying accounting policies is as follows:

Impairment of loans and advances. Management estimates impairment by assessing the likelihood of repayment of loans and advances based on analysis of individual accounts for individually significant loans, and collectively for loans with similar terms and risk characteristics. Factors taken into consideration when assessing individual loans include collection history, current financial condition of the borrower, timeliness of repayments and collateral, if any. To determine the amount of impairment, management estimates the amounts and timing of future payments of principal and interest and proceeds from the disposal of collateral, if any. These cash flows are then discounted using the loan’s original interest rate. Actual principal and interest payments depend on the borrowers’ ability to generate cash flows from operations or obtain alternative financing, and could differ from management’s estimates.

Factors taken in consideration when estimating impairment on loans assessed collectively include historical loss experience, portfolio delinquency rates and overall economic conditions.

Note 9 contains a description of the sensitivity of the carrying amount of loans and advances to changes in estimates. Should actual repayments be less than management estimates, the Bank would be required to record additional impairment expense.

4.2. Initial recognition of financial instruments

A financial instrument represents any contract causing origination (increase) of a financial asset for one counterparty and financial liability or equity instrument for the other counterparty.

The Bank recognizes financial assets and liabilities in accounting records, when the Bank becomes a party to the contractual provisions of the instrument.

A financial instrument (financial asset or liability) is initially measured by the Bank at its fair value.

Transaction costs that are directly attributable to the recognition of a financial instrument, including commissions paid to agents, advisors, brokers, dealers, duties to regulators, stock exchanges, etc., are added to the amount of the discount (premium) for underlying financial instrument. The Bank amortizes the amount of the discount/premium during the period of life of a financial instrument (excluding financial instruments held for trading) using the effective interest method on at least monthly basis. The amount of the discount/premium must be fully amortized by the financial instrument maturity date.

Bank classifies its financial instruments as follows: cash and cash equivalents, financial assets at fair value through profit or loss, loans and accounts receivable, financial assets available-for-sale and financial liabilities.

4.3. Impairment of assets

Financial assets

The Bank assesses at each reporting date whether objective evidence of impairment exists for financial assets that are individually significant, or for group of financial assets that are not individually significant. 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 and that 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.

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 (significant), 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, recognized 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. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in statement of comprehensive income. Interest income continues to be accrued on the reduced carrying amount based on the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans are written off when there is no realistic prospect of future recovery and all collateral has been realized 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 recognized, the previously recognized 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 statement of comprehensive income.

In particular, the Bank determines the allowances appropriate for each individually significant loan on an individual basis. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and the expected dividend payout should bankruptcy ensue, the availability of other financial support and the realizable value of collateral, and the timing of the expected cash flows. The impairment losses are evaluated at each reporting date.

Allowances are assessed collectively for losses on loans to customers that are not individually significant (including credit cards, mortgage loans, car loans and consumer loans) and for individually significant loans where there is not yet objective evidence of individual impairment. Allowances are evaluated by the Bank at each reporting date with each portfolio receiving a separate review.

Non financial assets

Other non financial assets, other than deferred taxes, are assessed at each reporting date for any indications of impairment. The recoverable amount of non financial assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognized when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

All impairment losses in respect of non financial assets are recognized in profit or loss and reversed only if there has been a change in the estimates used to determine the recoverable amount. Any impairment loss reversed is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognized.

Renegotiated loans

If the currency of the loan has been changed the old loan is derecognized and the new loan is recognized.

If the loan restructuring is caused by the financial difficulties of the borrower and the loan is considered to be impaired after restructuring, the Bank recognizes the difference between the present value of future cash flows under new terms discounted using original effective interest rate and the carrying amount before restructuring as impairment loss in the reporting period.

Loans subject to collective impairment assessment whose terms have been renegotiated are no longer considered to be past due, but are treated as current loans once a number of payments required under a new arrangements have been received. Loans subject to individual impairment, whose terms have been renegotiated, are subject to ongoing review to determine whether they remain impaired.

4.4. Derecognition of financial instruments

Financial assets are derecognized only when as a result of sale all the risks and rewards related to assets are transferred. On the contrary, if a significant portion of risks and rewards related to sold financial assets are retained, they continue to be recognized as assets even if the ownership for these assets was transferred. Unless the identification of transfer of risks and rewards is practicable, financial assets are derecognized when control over assets is lost. In other case, when control is retained at least partially, the Bank continues to recognize assets within its interest therein, which is measured based on the degree of participation in changes in the value of sold assets and underlying cash flows. Finally, sold financial assets are derecognized, if the entity retains contractual obligations for receiving cash flows from an asset, but simultaneously undertakes to transfer respective cash flows to third parties. The Bank derecognises a financial liability or its part when its contractual obligations are discharged or cancelled or expire.

4.5. Cash and cash equivalents

Under "Cash and cash equivalents" caption, the Bank recognizes cash (on hand), funds on accounts in the National Bank of Ukraine (except mandatory reserves restricted for use), correspondent accounts, and overnight deposits in other banks. Due to existence of certain restrictions on their use, the Bank did not recognize the mandatory reserves held on special account with the NBU under "Cash and cash equivalents" captions of the statement of financial position and statement of cash flows.

4.6. Loans to and advances to customers

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that the Bank:

- intends to sell immediately or in the near term
- upon initial recognition designates as at fair value through profit or loss
- upon initial recognition designates as financial instruments available-for-sale or,
- may not recover substantially all of its initial investment, other than because of credit deterioration.

Loans are initially recognized on the date on which a contract is entered into and which is usually the date when a loan is granted based on the fair value of the financial instrument that equals to an amount given, including expenses/income, which directly attributable to a single loan and can be determined when originated even if paid at a later date.

Expenses reimbursed by a borrower are either classified as usual administrative expenses, even if they have the above characteristics, or are eliminated.

Subsequent to initial recognition loans are carried at amortized cost, which equals to the original cost increased/decreased by principal repayments and by amounts of adjustments/repayments and amortization calculated using the effective interest method of any difference between the initial amount and the amount expected in maturity that, usually, relates to expense/income which directly attributable to the loan. The effective interest rate is the rate that exactly discounts the estimated future cash flows on a loan, i.e. principal amount and interest, to the amount of the cash disbursed, including expenses/income which relate to the loan. This measurement method is based on the financial approach and allows allocating the economic effect of expenses/income over the remaining period until maturity.

4.7. Securities available-for-sale

Securities available-for-sale include financial assets that are not classified to other categories such as loans, financial assets held for trading, investments held to maturity.

Debt securities and shares available-for-sale are initially recognized at the settlement date. Assets are initially recognized at fair value taking into account transaction costs and income directly attributable to the instrument.

After initial recognition financial assets available-for-sale are carried at fair value. Income and loss from change of fair value are recognized in other comprehensive income up to the moment the financial asset is derecognized or objective indications of impairment are identified. When a financial asset is sold or loss is recognized, accumulated gain or loss is reversed through the statement of comprehensive income. For determination of the fair value of financial instruments quoted on active markets, market quotations are used. If the market for a financial instrument is not active, pricing models are applied that take into account the current market and contractual prices of the underlying instruments and other factors Equity instruments included to this category and derivative financial instruments originated based on equity instruments whose fair value may not be determined reliably are recognized at cost. Financial assets available-for-sale are reviewed to determine whether there is any indication of impairment. If any such indication exists, loss is determined as a difference between the carrying amount of the asset and its fair value. If indications of impairment no longer exist after the event that occurred after recognition of impairment, loans and debt securities are reversed through the statement of comprehensive income and equity instruments are reversed through other comprehensive income. The reversal shall be recognized only to the extent that the carrying amount of the financial asset does not exceed its amortized cost had no impairment losses been recognized in the prior periods.

4.8. Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets and liabilities that are:

- acquired or incurred principally for the purpose of selling or repurchasing in the near term
- part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking
- derivative financial instruments (except for derivative financial instruments that are designated and effective hedging instruments) or,
- upon initial recognition, designated as at fair value through profit or loss.

Management may designate financial assets and liabilities at fair value through profit or loss where either:

- the assets or liabilities are managed, evaluated and reported internally on a fair value basis
- the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise or,
- the asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

All trading derivatives in a net receivable position (positive fair value), as well as options purchased, are reported as assets. All trading derivatives in a net payable position (negative fair value), as well as options written, are reported as liabilities.

Management determines the appropriate classification of financial instruments in this category at the time of the initial recognition. Derivative financial instruments and financial instruments designated as at fair value through profit or loss upon initial recognition are not reclassified out of at fair value through profit or loss category. Financial assets that would have met the definition of loan and receivables may be reclassified out of the fair value through profit or loss or available-for-sale category if the Bank has an intention and ability to hold it for the foreseeble future or until maturity. Other financial instruments may be reclassified out of at fair value through profit or loss category only in rare circumstances. Rare circumstances arise from a single event that is unusual and highly unlikely to recur in the near term.

4.9. Property and equipment

Property and equipment represents tangible assets held by the Bank in its ordinary activity, to deliver services, to lease to other persons or to perform administrative function, to the extent that the useful lives of such assets exceed one year.

Property and equipment are initially recognized at cost including any costs directly attributable to acquisition and bringing the assets to the working condition for their intended use.

Subsequent to initial recognition, the Bank measures the property and equipment items, other than properties of the Bank using *historical cost method.*

The assets that after initial recognition are measured at historical cost are not subject to any subsequent revaluations.

The Bank measures its properties applying the *revalued cost method.* The Bank remeasures any properties carried at revalued cost to the extent that the residual value of such properties differs significantly from its fair value at the balance sheet date. In case any properties are revaluated, the Bank performs revaluation of all other properties as of the same date.

To determine fair values of its properties, the Bank orders their independent expert appraisal as at the balance sheet date. Independent expert appraisal must be carried out by in independent appraiser as at the reporting year end.

Subsequent revaluations of a group of property and equipment revalued in previous periods must be carried out with a sufficient frequency to ensure their residual value as at the balance sheet date does not significantly differs from their fair value.

As at 31 December 2012, the Bank’s properties revaluation was carried out by independent certified appraiser, LLC IK “VERITEKS”. To determine fair value of property and equipment, the appraiser applied comparison approach and income approach.

A revaluation increase on buildings is recognised directly in other comprehensive income, except to the extent that it reverses a previous revaluation decrease recognised in profit or loss, in which case it is recognised in profit or loss. A revaluation decrease on buildings is recognised in profit or loss, except to the extent that it reverses a previous revaluation increase recognised as other comprehensive income directly in equity.

In recognizing revaluation surplus, historical (revalued) amount of property and equipment is decreased by accumulated depreciation, and carrying amount calculated on a net basis is revalued to fair value. Based on this method, revalued amount is equal to fair value and accumulated depreciation amounts to nil.

The costs of improvement of property and equipment are recognized on capital investments accounts.

The below table presents useful lives of certain categories of property and equipment and respective depreciation rates:

Description	Useful lives, years
Buildings and construction	66
Machinery and equipment	5-10

Transport vehicles	10-20
Fixtures and fittings (furniture)	3-10
Other property and equipment	2-10

Depreciation is charged on a straight-line basis over the estimated useful lives of individual assets. In 2012, there were no changes in depreciation method or useful life of property and equipment.

All non-current assets (except for land and uncompleted capital investments) are subject to depreciation.

Expenditures made for operating leasehold improvements are charged over the period starting from the month following the month of completion of improvements and ending in the last month of the lease term, or, if the economic life of leasehold improvements is shorter than the applicable lease, depreciation is charged over the economic life of the leasehold improvement.

Depreciation is discontinued on the earlier of:

– the date of transfer of underlying asset to the category non-current assets held-for-sale;

– the date of derecognition of underlying asset.

Useful lives and applicable depreciation rates are reviewed at each year end. During 2012, the Bank reviewed and made no changes in useful lives of its property and equipment.

Items of property and equipment are derecognized in case of their disposal as a result of sale transaction, free transfer, liquidation, etc.

4.10. Intangible assets

The Bank classified within intangible assets licenses to use computer software, acquired computer software.

Acquired intangible assets are measured at cost (historical/actual cost) including the costs incurred to acquire and bring specific items to intended use.

Subsequently, the Bank measures intangible assets at historical cost (cost), less accumulated amortization and accumulated impairment losses.

Amortization is charged on a straight-line basis. During 2012, there were no changes in amortization method or useful life of intangible assets.

Useful lives and amortization rates of intangible assets are revised at each year end and when such revisions are supported by relevant reasonable feasibility studies.

Useful lives of intangible assets and the monthly rates of amortization of main categories of the intangible assets are specified below:

Items of intangible assets	**Useful lives (months)**
Software solutions and hardware	1 - 7
Licenses to use computer programs	1 - 7

Amortization is charged on a monthly basis applying the rates calculated referring to useful life of each individual intangible asset.

4.11. Operating leases

Operating leases are the lease contracts, under which the Bank does not assume substantially all the risks and rewards of ownership to the leased assets. Operating lease agreements entitle the lessee to make use of the non-current assets during the period not exceeding their useful lives subject to their mandatory return to the lessor as provided in the underlying agreement.

Property and equipment are transferred for operating leasing at carrying amounts.

Property and equipment transferred to the Bank for operating leasing are carried on the Bank's balance sheet applying the same criteria as those applied to any other property and equipment belonging to the Bank.

The items leased by the Bank represent the property and equipment used to support the Bank's operations and activity.

4.12. Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale of in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Investment property is measured at fair value, with changes recognized in profit or loss.

If the use of investment property changes and it is reclassified to property and equipment, fair value of investment property as at the date of reclassification becomes its cost for the purpose of its subsequent accounting.

4.13. Non-current assets held-for-sale

The Bank recognizes non-current assets as held-for-sale, where their carrying value is recoverable via their sale, rather than as a result of on-going use.

Non-current assets are designated as held-for-sale subject to their compliance with the following conditions as of the date of their designation: their current condition allows their immediate sale and it is highly probable that they may be sold within 12 months following the date of their designation as held-for-sale.

Non-current assets held-for-sale are measured and accounted for at the lower of carrying amount and fair value.

Non-current assets held-for-sale are not subject to depreciation.

Real estate designated as non-current assets held-for-sale were subject to independent revaluation as at 31 December 2012 by LLC "VERITEKS", an independent qualified appraiser engaged by the Bank.

4.14. Derivative financial instruments

A derivative is a financial instrument meeting the following three criteria:

a) its value fluctuates in line with changes in effective interest rate, price of financial instrument, consumer goods price, foreign exchange rate, prices or interest rates index, credit or solvency rating or any other similar variable indicator; and

b) it does not require initial net investments or requires initial net investments that are lower than those that would be required by other types of contracts similarly responding to changes in market condition; and

c) it is subject to repayment on a future date.

All derivative financial instruments are initially measured and recognized at fair value. Transaction costs are recognized in expenses during their initial recognition. Transaction costs do not include any premiums or discounts stipulated under forward contracts or options.

On each balance sheet date following their initial recognition, derivative financial instruments are measured at fair value net of any transaction costs.

Financial instruments traded on stock exchanges are remeasured by the Bank based on results of each trading day (trading session) to the values equal to their quoted (settlement) prices.

Where the quotations of derivative financial instruments on active market are not available, the Bank determines their fair values using the following methods:

- by reference to a market price of another similar instrument;

- discounted cash flows analysis;

- other methods that ensure reliable measurement of fair values of derivative financial instruments.

4.15. Borrowed funds

The Bank mostly designates its own bonds to the borrowed funds category. The Bank may realize the bonds at nominal value at a discount or premium.

The Bank accrues interest and carries out amortization of discounts (premiums) on own bonds subject to the terms and conditions of their issue at least once a month during the period from the date of placement through the date of redemption of underlying securities.

The amount of amortization of discount (premium) for the reporting period is assessed using the effective interest method. The amount of amortization of discount/premium on transactions with own debt securities results in higher/lower interest expenses.

The Bank can redeem own bonds both on and in advance of their maturities (if such option is stipulated by the terms and conditions of the issue). The Bank derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

In case of early redemption of a security, the Bank amortizes respective part of the discount (premium) through the date of redemption.

4.16. Provisions

The Bank records provisions for liabilities, as well as provisions for contingent liabilities.

Provisions for contingent liabilities are established to cover probable risks arising as the result of suits claiming reimbursement of losses in favor of third parties. The Bank establishes the provision in the amount required to reimburse all reasonable contingent expenses the Bank may incur under third parties' law suits.

The Bank recognizes provision for liabilities only to the extent all three following conditions are met:

- The Bank has a present (legal or constructive) debt as a result of past events.
- It is probable, that an outflow of economic benefits will be required to settle the debt.
- The amount of the debt can be estimated reliably.

4.17 Employee benefits

Under Ukrainian legislation, the Bank withholds amounts payable by the employees to the statutory pension plan based on the earnings of the employees and transfers mandatory contributions to the Pension Fund of Ukraine. Furthermore, under the current statutory pension system requirements, employers are obliged to assess current payments as a percentage of the total current employees remuneration. The cost for these contributions is recognized in the period when contributions are due and is included in salaries and employee benefits. Upon their retirement, employees receive retirement benefits from the State Pension Fund of Ukraine. The Bank is not a party to any other non-state retirement benefit plans or other material employee benefits plans that would require additional accruals.

The Bank records provisions for unused vacations.

4.18. Income tax

The Bank recognizes its current income tax payable as a liability equal to the amount calculated for the reporting period in accordance with the tax laws of Ukraine. According to clause 10 of subclause 4 of Section XX of the Tax Code of Ukraine, in 2012 (as at reporting date, i.e. as at 31 December 2012), the corporate income tax rate was 21% (31 December 2011 – 23%). From 1 January 2013 to 31 December 2013, the corporate income tax rate will be equal to 19%, and since 01.01.2014 – 16%.

Income tax on the profit or loss comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the statement of financial position date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

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

Deferred tax assets and tax liabilities attributable to the same tax and payable within the same period are offset. In years when the amount of respective deductible temporary differences exceeds the amount of taxable temporary differences, respective deferred tax assets are recognized within assets in the statement of financial position under “deferred tax assets” caption. Otherwise, in years when the amount of taxable temporary differences exceeds the amount of deductible temporary differences, resulting deferred taxes are recognized in the statement of financial position under “deferred tax liabilities” caption.

When assessing the portion of the unused deferred tax assets and that of outstanding deferred tax liabilities that are believed to be realized in the years after the balance sheet date, the Bank analyzes the degree of probability of such realization. In case the expected taxable profit does not fully offset respective taxable temporary differences, realization of which was expected in the period, the Bank recognizes impairment of the deferred tax asset.

The recognized impairment loss is recognized in the statement of comprehensive income under “Income tax” caption.

Taxable profit expected in the future period is assessed referring to the business plan prepared by management and considering available feasible tax planning options.

4.19. Share capital and share premium

Share capital is the value of the shares/interests in the Bank contributed in cash by the Bank’s shareholders in the amount prescribed by the Charter.

Share premium represents the surplus of the funds received from initial offering or sale of the Bank’s own shares (other corporate rights) over their nominal value, or the surplus of the nominal value of the shares (other corporate rights) over their redemption value.

4.20. Recognition of income and expenses

Income and expenses are accounted for on an accrual basis, that is, they are recognized in the period to which they are attributable.

Revenue from services rendered is recognized in proportion to the stage of completion of the transaction at the reporting date to the extent that the transaction result can be estimated reliably.

Interest income and expenses are recognized using the effective interest rates pro rata the time lapsed and the amount of the underlying asset (liability).

Any differences, arising between the interest income (expenses) recognized using the effective interest rate and the income (expenses) accrued applying the nominal interest rate on the financial instruments acquired or issued at nominal value (i.e., without any discount or premium), are recognized on the accounts of non-amortized discounts or premiums in correspondence with underlying interest income and expenses.

Commissions, not included in a loan cost (e.g. commissions for cash payments and withdrawals, etc.), are recognized within commission income.

Interest income on debt securities available-for-sale, including any discounts and premiums, are recognized using the effective interest rate.

Dividends on variable-yield securities available-for-sale are recognized as income for the period during their holding.

4.21. Foreign currencies

Items of assets and liabilities, income and expenses arising from dealing in foreign currencies and precious metals are recognized in UAH equivalent at the official NBU foreign currencies and banking metals exchange rates ruling at the transaction dates.

Income and expenses on items denominated in foreign currencies are translated into Ukrainian hryvnias at the NBU exchange rate ruling as at the transaction date. Foreign currency accruals are translated into UAH at the exchange rate ruling at the transaction date.

Assets and liabilities denominated in foreign currencies are recognized at the official NBU exchange rate ruling at the reporting date. As at 31 December, the exchange rates of UAH established by NBU were as follows:

Currency	31 December 2012	31 December 2011
US Dollar	**7.99**	7.99
Euro	**10.53**	10.30

All monetary items carried on the balance sheet are revaluated each time when the NBU exchange rate is revised and results are recognized within gains less losses from foreign currency translation in the statement of comprehensive income.

The Bank recognizes gains and losses from dealing in foreign currencies as gains/losses from foreign currency purchase, sale and exchange transactions.

4.22 Offsetting

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

4.23 Determination of amortized cost

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

Effective interest rate represents the interest rate that exactly discounts the previously estimated ingoing and outgoing cash flows that will be generated during the expected period of life of the financial instrument or the during period to the future date of revaluation of the instrument price to the net book value of the financial asset or liability. When assessing the present value, the effective interest rate is applied to the future ingoing and outgoing cash flows that will be generated during the whole period of life of the financial asset or liability or a shorter period in case of recurrence of certain conditions or circumstances (e.g. revision of market interest rates).

After initial recognition, amortized cost makes it possible to allocate the revenues and expenses directly by the instrument cost reduction or increase on the dates of its amortization during the whole expected period of life of the instrument. Amortized cost determined will fluctuate depending on whether the financial assets/liabilities bear fixed or floating rates and, in case of a floating rate, subject to availability of the observable date on the interest rate volatility range. As regards instruments bearing fixed or floating rates, the future cash flows are determined for certain time horizons based on the interest (fixed or floating) rates observable during the whole period of financing. As regards financial assets/liabilities bearing floating rates whose volatility indexes are unobservable, i.e. unknown in advance (e.g. when the interest rate is linked to an index), the cash flows are determined referring to the latest observable interest rate. During the whole period of life of an investment, i.e. up to its maturity date, on each date of revision of the effective interest rate, the Bank revised the applicable amortization rate and effective interest rate. Any effects of such changes are recognized in the income statement through profit or loss.

Loans, held to maturity investments and accounts payable and securities issued are recognized at amortized cost.

4.24 Segment reporting

An operating segment is a component of a 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 Bank); whose operating results are regularly reviewed by the chief operating decision maker to make decisions about resources to be allocated to the segments and assess their performance, and for which discrete financial information is available.

The Bank represents one reportable segment that has central management and follows common lending policy and marketing strategy.

The Bank has no customers generating individually revenues in excess of 10% of its total external revenues.

Substantially all revenues from external customers are generated from services to customers that are Ukrainian residents. Substantially all assets of the Bank are located in Ukraine.

Note 5. New and revised standards

A number of new standards, amendments to standards and interpretations are not yet effective and have not been applied in preparing these financial statements. Of these pronouncements, the following will potentially have an impact on the financial statements of the Bank:

- Amendments to IFRS 7 *Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities* contain new disclosure requirements for financial assets and liabilities that are offset in the statement of financial position or are subjects of master netting arrangements or similar agreements. The amendments are effective for annual periods beginning on or after 1 January 2013, and are to be applied retrospectively.

- IFRS 9 *Financial Instruments* will be effective for annual periods beginning on or after 1 January 2015. The new standard is to be issued in phases and is intended ultimately to replace International Financial Reporting Standard IAS 39 *Financial Instruments: Recognition and Measurement*. The first phase of IFRS 9 was issued in November 2009 and relates to the classification and measurement of financial assets. The second phase regarding classification and measurement of financial liabilities was published in October 2010. The remaining parts of the standard are expected to be issued during 2013. The Bank recognizes that the new standard introduces many changes to the accounting for financial instruments and is likely to have a significant impact on the financial statements. The impact of these changes will be analyzed during the course of the project as further phases of the standard are issued. The Bank does not intend to adopt this standard early.

- IFRS 13 *Fair Value Measurement* will be effective for annual periods beginning on or after 1 January 2013. The new standard replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It provides a revised definition of fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. The new standard does not introduce new requirements to measure assets or liabilities at fair value, nor does it eliminate the practicability exceptions to fair value measurement that currently exist in certain standards. The standard is applied prospectively with early adoption permitted. Comparative disclosure information is not required for periods before the date of initial application.

- Amendments to IAS 32 *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities* specify that an entity currently has a legally enforceable right to set-off if that right is not contingent on a future event; and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties. The amendments are effective for annual periods beginning on or after 1 January 2014, and are to be applied retrospectively.

- Various *Improvements to IFRSs* have been dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purposes, will come into effect not earlier than 1 January 2013. The Bank has not yet analyzed the likely impact of the improvements on its financial position or performance.

Note 6. Cash and cash equivalents
Table 6.1. Cash and cash equivalents

(UAH'000)

Line	Description	31 December 2012	31 December 2011 reclassified	31 December 2010 reclassified
1	2	3	4	5
1	Cash	281 362	332 368	331 399
2	Balances with the National Bank of Ukraine (less obligatory reserve)	131 996	41 869	72 038
3	Correspondent accounts with:	187 695	104 448	228 089
3.1.	domestic banks	1 462	1 073	462
3.2.	foreign banks	186 233	103 375	227 627
4	Total cash and cash equivalents	601 053	478 685	631 526

As at 31 December 2012, Bank's placement on the correspondent account with Commerzbank (Frankfurt) amounts to UAH 73,055 thousand (31 December 2011: UAH 1,982 thousand) that represents significant concentration.

As at 31 December 2011, placement in the correspondent account with Intesa Sanpaolo SpA amounted to UAH 64,471 thousand (2012: UAH 2,515 thousand), that represents significant concentration.

As at 31 December 2012 and 2011, balances in correspondent accounts are neither overdue, nor impaired.

Note 7. Other financial assets at fair value through profit or loss
Table 7.1. Other financial assets at fair value through profit or loss

(UAH'000)

Line	Description	2012	2011
1	2	3	4
1	Corporate shares	3 006	-
2	Total other financial assets at fair value through profit or loss	3 006	-

Fair value of shares determined using observable stock market data.

Note 8. Due from banks
Table 8.1. Due from banks

(UAH'000)

Line	Description	31 December 2012	31 December 2011 reclassified	31 December 2010 reclassified
1	2	3	4	5
1	Deposits due from banks:	200	-	-
1.1	Short-term deposits	200	-	-
2	Loans to banks:	-	138 460	-
2.1	Short-term loans	-	138 460	-
3	Provision for impairment	-	-	-
4	Total due from banks less provision	**200**	**138 460**	**-**

The Bank believes that potential concentration risk may arise when at least 10% of due from banks are placed with a limited number of debtors. As at 31 December 2012 and 2011, loans were granted to 1 and 5 banks, respectively, that represents significant concentration.

Table 8.2. Due from banks: credit quality analysis for 2012

(UAH'000)

Line	Description	Deposits	Total
1	2	3	4
1	Not overdue and not impaired:	**200**	**200**
1.1	Other Ukrainian banks	200	200
2	Provision for impairment	-	-
3	Total due from banks less provision	**200**	**200**

Table 8.3. Due from banks: credit quality analysis for 2011

(UAH'000)

Line	Description	Loans	Total
1	2	3	4
1	Not overdue and not impaired:	**138 460**	**138 460**
1.1	20 largest Ukrainian banks	81 385	81 385
1.2	Other Ukrainian banks	57 075	57 075
2	Provision for impairment	-	-
3	Total due from banks less provision	**138 460**	**138 460**

Note 9. Loans and advances to customers
Table 9.1. Loans and advances to customers

(UAH'000)

Line	Description	31 December 2012	31 December 2011
1	2	3	4
1	Loans to corporate customers	1 357 733	1 695 140
2	Loans to entrepreneurs	4 680	6 303
3	Retail mortgage loans	754 543	860 471
4	Retail consumer loans	2 744 048	2 919 291
5	Other retail loans	26 412	27 856
6	Provision for impairment	(1 671 771)	(877 506)
7	Total outstanding loans less provisions	3 215 645	4 631 556

No securities were pledged as collateral or for repo transactions as at 31 December 2012. Changes in collection estimates can affect the impairment losses recognized. For example, to the extent that the net present value of the estimated cash flows differs by plus/minus one percent, the loan impairment as at 31 December 2012 would be approximately UAH 32,156 thousand lower/higher (31 December 2011: UAH 46,315 thousand).

Concentration of loans to customers

The Bank believes that potential concentration risk may arise when at least 10% of net loan portfolio is attributable to limited number of customers. As at 31 December 2012 and 2011, loans were granted to 4 and 4 customers that represents 11% and 12%, respectively.

Loans to customers are not exposed to concentration risk by geographic location or industry.

Table 9.2. Movements in provisions for impairment for 2012

(UAH'000)

Line	Description	Loans to corporate customers	Loans to entrepreneurs	Retail mortgage loans	Retail consumer loans	Other retail loans	Total
1	2	3	4	5	6	7	8
1	Balance as at 1 January 2012	(42 400)	(1 113)	(96 776)	(714 879)	(22 338)	(877 506)
2	(Increase)/decrease in provision for the year	(157 905)	(348)	(110 134)	(707 390)	1 475	(974 302)
3	Bad debt written off against provision	10 528	-	728	1 367	-	12 623
4	Interest accrued on impaired loans	18 700	-	6 719	145 019	-	170 438
5	Effect of foreign currency retranslation	6	-	(550)	(2 477)	(3)	(3 024)
6	Balance as at 31 December 2012	(171 071)	(1 461)	(200 013)	(1 278 360)	(20 866)	(1 671 771)

Table 9.3. Movements in provisions for impairment for 2011

(UAH'000)

Line	Description	Loans to corporate customers	Loans to entrepreneurs	Retail mortgage loans	Retail consumer loans	Other retail loans	Total
1	2	3	4	5	6	7	8
1	Balance as at 1 January 2011	(30 678)	(36)	(94 958)	(888 597)	(275 133)	(1 289 402)
2	Increase in provision for the year	(13 417)	(1 077)	(1 528)	(109 734)	(19 079)	(144 835)
3	Disposal of loans	-	-	-	248 227	271 874	520 101
4	Interest accrued on impaired loans	1 770	-	-	33 636	-	35 406
5	Foreign exchange differences	(75)	-	(290)	1 589	-	1 224
6	Balance as at 31 December 2011	(42 400)	(1 113)	(96 776)	(714 879)	(22 338)	(877 506)

As at 31 December 2012, accrued interest income on impaired loans and advances amounted to UAH 270,814 thousand (31 December 2011: UAH 227,942 thousand).

During the year ended 31 December 2011, gross restructured loans that would be overdue or impaired otherwise, amounted to UAH 331,709 thousand (31 December 2012: nil).
Interest income on non-performing loans and advances for the year ended 31 December 2012 amounts to UAH 170,438 thousand (2011: UAH 35,406 thousand).

Table 9.4. Loans and advances by economy sector

(UAH'000)

Line	Sector	31 December 2012		31 December 2011	
		amount	%	amount	%
1	2	3	4	5	6
1	Production and distribution of electricity, gas, and water	13 546	0,28	13 534	0,24
2	Real estate, lease, engineering and services	49 386	1,01	64 336	1,17
3	Trade, repair of vehicles, household equipment and items of personal use	527 592	10,79	648 560	11,77
4	Agriculture, hunting and forestry	226 523	4,64	198 725	3,61
5	Processing industry	541 696	11,08	772 889	14,03
6	Individuals	3 525 003	72,12	3 807 618	69,12
7	Other	3 670	0,08	3 399	0,06
8	Total loans and advances to customers less provisions	4 887 416	100,00	5 509 061	100,00

Table 9.5. Loans and advances by type of collateral for 2012
Amounts shown in the table below represent loans secured with collateral, rather than fair value of collateral.

(UAH'000)

Line	Description	Loans to corporate customers	Loans to entrepreneurs	Retail mortgage loans	Retail consumer loans	Other retail loans	Total
1	2	3	4	5	6	7	8
1	Unsecured loans	36 677	4	10 558	274 110	26 412	347 761
2	Loans secured by:	1 321 056	4 676	743 985	2 469 938	-	4 539 655
2.1	cash	56 065	1 205	-	900	-	58 170
2.2	real estate	866 647	2 778	741 537	1 776 702	-	3 387 664
2.2.1	non-residential mortgage property	787 429	206	32 266	1 011 990	-	1 831 891
2.2.2	land	67 324	-	11 842	259 288	-	338 454
2.2.3	incl. residential plots	11 894	2 572	697 429	505 424	-	1 217 319
2.3	Guarantees and sureties	2 057	-	-	-	-	2 057
2.4	Other assets	396 287	693	2 448	692 336	-	1 091 764
2.4.1	movable property (equipment, etc.)	93 459	-	-	996	-	94 455
2.4.2	goods in turnover	299 913	-	-	-	-	299 913
2.4.3	vehicles	2 915	693	2 448	691 340	-	697 396
3	Total loans and advances to customers less provisions	1 357 733	4 680	754 543	2 744 048	26 412	4 887 416

Table 9.6. Loans by type of collateral for 2011

Amounts shown in the table below represent loans secured with collateral, rather than fair value of collateral.

(UAH'000)

Line	Description	Loans to corporate customers	Loans to entrepreneurs	Retail mortgage loans	Retail consumer loans	Other retail loans	Total
1	2	3	4	5	6	7	8
1	Unsecured loans	56 194	116	6 416	65 746	27 856	156 328
2	Loans secured by:	1 638 946	6 187	854 055	2 853 545	-	5 352 733
2.1	cash	37 492	332	-	374	-	38 198
2.2	securities	8 526	-	-	-	-	8 526
2.3	real estate	1 144 029	4 533	852 350	2 003 864	-	4 004 776
2.3.1	non-residential mortgage property	1 127 065	663	31 095	968 584	-	2 127 407
2.3.2	land	5 119	-	6 616	359 548	-	371 283
2.3.3	incl. residential plots	11 845	3 870	814 639	675 732	-	1 506 086
2.4	Guarantees and sureties	29 825	-	-	-	-	29 825
2.5	Other assets	419 074	1 322	1 705	849 307	-	1 271 408
2.5.1	movable property (equipment, etc.)	168 556	-	-	324	-	168 880
2.5.2	goods in turnover	248 900	78	-	-	-	248 978
2.5.3	vehicles	1 618	1 244	54	848 616	-	851 532
2.5.4	ownership rights on real estate	-	-	1 651	367	-	2 018
3	Total loans and advances to customers less provisions	1 695 140	6 303	860 471	2 919 291	27 856	5 509 061

Table 9.7. Loan portfolio quality analysis for 2012

(UAH'000)

Line	Description	Loans to corporate customers	Loans to entrepreneurs	Retail mortgage loans	Retail consumer loans	Other retail loans	Total
1	2	3	4	5	6	7	8
1	Current unimpaired loans:	1 051 406	2 116	387 284	536 076	5 266	1 982 148
1.1	Significant borrowers with credit history over 2 years	698 454	-	-	-	-	698 454
1.2	New significant borrowers	60 714	-	-	-	-	60 714
1.3	Medium-size businesses	284 787	-	-	-	-	284 787
1.4	Small businesses	7 451	2 116	-	-	-	9 567
1.5	Other retail loans	-	-	387 284	536 076	5 266	928 626

Line	Description	Loans to corporate customers	Loans to entrepreneurs	Retail mortgage loans	Retail consumer loans	Other retail loans	Total
2	Overdue, but unimpaired:	-	7	30 299	52 974	114	83 394
2.1.	Overdue less than 30 days	-	7	16 560	32 186	48	48 801
2.2.	Overdue from 31 to 90 days	-	-	13 599	20 767	66	34 432
2.3.	Overdue from 91 to 180 days	-	-	89	15	-	104
2.4.	Overdue from 181 to 360 days	-	-	51	6	-	57
3	Loans individually assessed for impairment	306 327	2 557	336 960	2 154 998	21 032	2 821 874
3.1.	Overdue less than 30 days	35 608	2 345	20 755	144 617	-	203 325
3.2.	Overdue from 31 to 90 days	41 987	-	10 588	42 098	-	94 673
3.3.	Overdue from 91 to 180 days	32 350	-	12 291	625 068	230	669 939
3.4.	Overdue from 181 to 360 days	144 029	36	25 586	295 448	515	465 614
3.5.	Overdue over 361 days	52 353	176	267 740	1 047 767	20 287	1 388 323
4	Outstanding loans, gross	1 357 733	4 680	754 543	2 744 048	26 412	4 887 416
5	Provision for impairment of loans	171 071	1 461	200 013	1 278 360	20 866	1 671 771
6	Total outstanding loans less provisions	1 186 662	3 219	554 530	1 465 688	5 546	3 215 645

Table 9.8. Loan portfolio quality analysis for 2011

(UAH'000)

Line	Description	Loans to corporate customers	Loans to entrepreneurs	Retail mortgage loans	Retail consumer loans	Other retail loans	Total
1	2	3	4	5	6	7	8
1	Current unimpaired loans:	1 619 427	3 418	545 547	1 025 174	5 420	3 198 986
1.1.	Significant borrowers with credit history over 2 years	816 271	-	-	-	-	816 271
1.2.	New significant borrowers	271 825	-	-	-	-	271 825
1.3.	Medium-size businesses	523 325	-	-	-	-	523 325
1.4.	Small businesses	8 006	3 418	-	-	-	11 424
1.5.	Other retail loans	-	-	545 547	1 025 174	5 420	1 576 141
2	Overdue, but unimpaired:	51 423	47	22 622	171 070	125	245 287
2.1.	Overdue less than 30 days	41 538	-	9 790	152 238	37	203 603
2.2.	Overdue from 31 to 90 days	9 885	47	12 832	18 832	88	41 684
3	Loans individually assessed for impairment	24 290	2 838	292 302	1 723 047	22 311	2 064 788
3.1.	Overdue less than 30 days	-	-	-	361 213	-	361 213
3.2.	Overdue from 31 to 90 days	-	-	-	275 957	-	275 957
3.3.	Overdue from 91 to 180 days	-	65	7 607	52 967	166	60 805
3.4.	Overdue from 181 to 360 days	1 351	-	27 856	166 946	229	196 382
3.5.	Overdue over 361 days	22 939	2 773	256 839	865 964	21 916	1 170 431
4	Outstanding loans, gross	1 695 140	6 303	860 471	2 919 291	27 856	5 509 061
5	Provision for impairment of loans	42 400	1 114	96 775	714 877	22 340	877 506
6	Total outstanding loans less provisions	1 652 740	5 189	763 696	2 204 414	5 516	4 631 555

Table 9.9. Collateral value as at 31 December 2012 and 2011

As at 31 December 2012, loans to customers are secured with deposits amounting to UAH 237,781 thousand, guarantees issued by financial institutions amounting to UAH 2,055 thousand, real estate and land plots with fair value of UAH 3,859,735 thousand, and vehicles with fair value of UAH 832,014 thousand.

As at 31 December 2011, loans to customers are secured with deposits amounting to UAH 38,645 thousand, guarantees issued by financial institutions amounting to UAH 38,224 thousand, real estate and land plots with fair value of UAH 3,157,188 thousand, and vehicles with fair value of UAH 783,859 thousand.

During the year ended 31 December 2012 the Bank foreclosed residential and non-residential real estate amounting to UAH 28,813 thousand (2011: UAH 7,495 thousand).

Note 10. Securities available-for-sale

Table 10.1 Securities available-for-sale

(UAH'000)

Line	Description	31 December 2012	31 December 2011
1	2	3	4
1	Debt securities:	127 186	1 080
1.1	government bonds	127 186	1 080
2	Corporate shares and other securities:	34	34
2.1	measured at cost (fair value cannot be reliably measured)	34	34
3	Total securities available-for-sale less provisions	127 220	1 114

Table 10.2. Credit quality analysis of securities available-for-sale for 2012

(UAH'000)

Line	Description	Treasury bonds	Total
1	2	3	4
1	Not overdue and unimpaired:	127 186	127 186
1.1	State institutions and enterprises	127 186	127 186
2	Total securities available-for-sale less provisions	127 186	127 186

Table 10.3. Credit quality analysis of securities available-for-sale for 2011

(UAH'000)

Line	Description	Treasury bonds	Total
1	2	3	4
1	Not overdue and unimpaired:	1 080	1 080
1.1	State institutions and enterprises	1 080	1 080
2	Total securities available-for-sale less provisions	1 080	1 080

As at 31 December 2012 and 2011, the Bank has no securities involved in repurchase agreements.

Note 11. Investment property
Table 11.1. Investment property at fair value

(UAH'000)

Line	Description	31 December 2012	31 December 2011
1	**2**	**3**	**4**
1	Fair value of investment property at the beginning of the year	-	-
2	Transfer from non-current assets held-for-sale and disposal group assets	7 997	-
3	Transfer from buildings	4 670	-
4	Impairment	(1 723)	-
5	Investment property revaluation	(122)	-
6	Fair value of investment property as at 31 December	10 822	-

Fair value of investment property as at 31 December 2012 was determined by independent appraiser, LLC IK "Veritex".

Fair value of investment property was determined using the following methods: comparison approach (comparison with similar asset value) and income approach (based on direct capitalization).

Note 12. Property, equipment and intangible assets as at 31 December 2012

(UAH'000)

Line	Description	Land plots	Buildings, constructions and transmission equipment	Machines and equipment	Vehicles	Fixtures and fittings (furniture)	Other property and equipment	Other non-current tangible assets	Uncompleted capital investments in property, equipment and intangible assets	Intangible assets	Total
1	2	3	4	5	6	7	8	9	10	11	12
1	Carrying value as at 31 December 2010 (as at 1 January 2011)	183	332 688	92 661	7 010	5 670	2 625	5 932	39 593	11 856	498 218
1.1.	Historical cost (revalued amount)	183	336 922	203 804	10 349	12 283	7 661	39 662	39 593	34 561	685 018
1.2.	Depreciation as at 31 December 2010 (as at 1 January 2011)	-	(4 234)	(111 143)	(3 339)	(6 613)	(5 036)	(33 730)	-	(22 705)	(186 800)
2	Additions	-	-	-	-	-	-	-	169 759	-	169 759
3	Property, equipment and intangible assets put into operation	-	13	19 625	902	679	22	36	(35 160)	13 883	-
4	Improvements of property, equipment and intangible assets	-	226	2 705	80	2	10	86	(13 085)	9 976	-
5	Transfer to non-current assets held-for-sale and disposal group assets	-	(3 807)	-	-	-	-	-	-	-	(3 807)
6	Disposals Historical cost (revalued amount)	-	(177)	(8 342)	(130)	(1 046)	(743)	(2 871)	(75)	(9 412)	(22 796)
7	Disposals (accumulated depreciation)	-	161	7 411	85	790	703	2 564	-	9 412	21 126
8	Depreciation charge	-	(5 611)	(22 495)	(1 022)	(1 141)	(945)	(3 781)	-	(18 925)	(53 920)
9	Carrying value as at 31 December 2011	183	323 493	91 565	6 925	4 954	1 672	1 966	161 032	16 790	608 580
9.1	Historical cost (revalued amount)	183	333 177	217 792	11 200	11 918	6 950	36 913	161 032	49 008	828 173
9.2	Depreciation as at 31 December 2011 (as at 1 January 2012)	-	(9 684)	(126 227)	(4 275)	(6 964)	(5 278)	(34 947)	-	(32 218)	(219 593)
10	Additions	-	-	-	-	-	-	-	142 763	-	142 763
11	Property, equipment and intangible assets put into operation	-	4 268	20 931	-	250	34	51	(266 689)	241 155	-
12	Improvements of property, equipment and intangible assets	-	93	773	-	1	-	114	(1 994)	1 013	-
13	Transfer to non-current assets held-for-sale and to disposal group assets	-	(1 412)	-	-	-	-	-	-	-	(1 412)
14	Other transfers	-	(5 253)	5 253	-	-	-	-	-	-	-
15	Disposals Historical cost (revalued amount)	-	(1 697)	(8 514)	-	(1 250)	(517)	(3 364)	(148)	(1 463)	(16 953)
16	Disposals (accumulated depreciation)	-	425	6 457	-	882	475	3 043	-	1 376	12 658
17	Depreciation charge	-	(5 307)	(22 552)	(1 046)	(986)	(753)	(1 181)	-	(27 020)	(58 845)
18	Revaluation	-	-	-	-	-	-	-	-	-	-

Line	Description	Land plots	Buildings, constructions and transmis-sion equip-ment	Machines and equipment	Vehicles	Fixtures and fittings (furniture)	Other property and equip-ment	Other non-current tangible assets	Uncompleted capital investments in property, equipment and intangible assets	Intangible assets	Total
1	2	3	4	5	6	7	8	9	10	11	12
18.1	Revaluation of historical cost	(58)	(22 427)	-	-	-	-	-	148	-	(22 337)
18.2	Revaluation of depreciation	-	9 689	-	-	-	-	-	-	-	9 689
19	Carrying value as at 31 December 2012	125	301 872	93 913	5 879	3 851	911	629	35 112	231 851	674 143
19.1	Historical cost (revalued amount)	125	306 749	236 236	11 201	10 919	6 467	33 714	35 112	289 713	930 236
19.2	Depreciation as at 31 December 2012 (as at 1 January 2013)	-	(4 877)	(142 323)	(5 322)	(7 068)	(5 556)	(33 085)	-	(57 862)	(256 093)

As at 31 December 2012 and 2011, there are no

- property and equipment legally restricted for ownership, use, and вшізщіфд
  pledged property and equipment
  property and equipment not in use (conservation, reconstruction, etc)
  property and equipment withdrawn from use
  property and equipment restricted for ownership
  intangible assets generated internally.

As at 31 December 2012, historical (revalued) cost of fully depreciated property and equipment amount to UAH 79,098 thousand (31 December 2011: UAH 36,914 thousand).

As at 31 December 2012, impairment losses on revaluation are as follows:

- recognized directly in equity - UAH 8,399 thousand
- recognized in administrative and other operating expenses – UAH 4,249 thousand

If buildings had been recognized at historical cost, less accumulated depreciation and impairment losses, their carrying amount would have amounted to UAH 86,862 thousand and UAH 95,916 thousand as at 31 December 2012 and 2011, respectively.
.

Note 13. Other financial assets

Table 13.1. Other financial assets

(UAH'000)

Line	Description	31 December 2012	31 December 2011
1	2	3	4
1	Accounts receivable from customers	2 310	4 740
2	Accounts receivable for accrued income from cash and settlement services and other accrued income	3 110	2 704
3	Accounts receivable on credit and debit cards operations	25 306	17 384
4	Cash restricted for use	17 517	25 048
5	Other financial assets	1 027	1 121
6	Impairment provision	(1 600)	(1 465)
7	Total other financial assets less provisions	47 670	49 532

As at 31 December 2012, "Cash restricted for use" comprises cumulative account with the National Bank of Ukraine amounting to UAH 17,497 thousand (2011: UAH 25,048 thousand) and due from banks amounting to UAH 20 thousand (2011: nil).

Table 13.2. Movement of in provision for impairment of other financial assets during 2012

(UAH'000)

Line	Movement in provisions	Accounts receivable from customers	Accounts receivable for accrued income from cash and settlement services and other accrued income	Other	Total
1	2	3	4	5	6
1	Balance as at 1 January 2012	(112)	(465)	(888)	(1 465)
2	(Increase)/decrease of provision for impairment during the year	(368)	(296)	60	(604)
3	Amounts written off	115	298	58	471
4	Foreign exchange differences	(1)	(1)	-	(2)
5	Closing balance as at 31 December 2012	(366)	(464)	(770)	(1 600)

Table 13.3. Movement of in provision for impairment of other financial assets during 2011

(UAH'000)

Line	Movement in provisions	Accounts receivable from customers	Accounts receivable for accrued income from cash and settlement services and other accrued income	Other	Total
1	2	3	4	5	6
1	Balance as at 1 January 2011	(1 532)	(452)	(1 520)	(3 504)
2	Increase of provision for impairment during the year	(1 200)	(53)	(499)	(1 752)
3	Bad debts written off	2 488	40	1 131	3 659
4	Foreign exchange differences	132	-	-	132
5	Closing balance as at 31 December 2011	(112)	(465)	(888)	(1 465)

Table 13.4. Credit quality of other financial assets for the year 2012

(UAH'000)

Line	Description	Accounts receivable from customers	Accounts receivable for accrued income from cash and settlement services and other accrued income	Accounts receivable on credit and debit cards operations	Cash restricted for use	Other	Total
1	2	3	4	5	6	7	8
1	Not overdue and not impaired accounts receivable:	1 636	2 023	25 306	17 517	206	46 688
1.1	Legal entities		1 881	-	-	-	1 881
1.2	Individuals	1 636	142	25 306		206	27 290
1.3	Accumulative account with the NBU	-	-	-	17 517	-	17 517
2	Overdue, but not impaired accounts receivable:	-	297	-	-	-	297
2.1	Overdue up to 31 days	-	297	-	-	-	297
3	Accounts receivable with specific impairment:	674	790	-	-	821	2 285
3.1	Overdue up to 31 days	-	24	-	-	3	27
3.2	Overdue 32 to 92 days	615	572	-	-	98	1 285
3.3	Overdue 93 to 183 days	1	107	-	-	1	109
3.4	Overdue 184 to 365 (366) days	14	70	-	-	7	91

Line	Description	Accounts receivable from customers	Accounts receivable for accrued income from cash and settlement services and other accrued income	Accounts receivable on credit and debit cards operations	Cash restricted for use	Other	Total
3.5	Overdue more than 366 (367) days	44	17	-	-	712	773
4	Other financial assets, gross	2 310	3 110	25 306	17 517	1 027	49 270
5	Provision for impairment	(366)	(464)	-	-	(770)	(1 600)
6	Total other financial assets less provision	1 944	2 646	25 306	17 517	257	47 670

Table 13.5. Credit quality of other financial assets for the year 2011

(UAH'000)

Line	Description	Accounts receivable from customers	Accounts receivable for accrued income from cash and settlement services and other accrued income	Accounts receivable on credit and debit cards operations	Cash restricted for use	Other	Total
1	2	3	4	5	6	7	8
1	Not overdue and not impaired accounts receivable:	4 586	1 647	17 384	25 048	199	48 864
1.1	Legal entities	652	1 532	-	-	-	2 184
1.2	Individuals	3 934	115	17 384		199	21 632
1.3	Accumulative account with the NBU	-	-	-	25 048	-	25 048
2	Overdue, but not impaired accounts receivable:	-	592	-	-	-	592
2.1	Overdue up to 31 days	-	592	-	-	-	592
3	Accounts receivable with specific impairment:	154	465	-	-	922	1 541
3.1	Overdue 32 to 92 days	-	53	-	-	-	53
3.2	Overdue 93 to 183 days	6	412	-	-	42	460
3.3	Overdue 184 to 365 (366) days	75	-	-	-	1	76
3.4	Overdue more than 366 (367) days	73	-	-	-	879	952
4	Other financial assets, gross	4 740	2 704	17 384	25 048	1 121	50 997
5	Provision for impairment	(112)	(465)	-	-	(888)	(1 465)

Line	Description	Accounts receivable from customers	Accounts receivable for accrued income from cash and settlement services and other accrued income	Accounts receivable on credit and debit cards operations	Cash restricted for use	Other	Total
1	2	3	4	5	6	7	8
6	Total other financial assets less provision	4 628	2 239	17 384	25 048	233	49 532

Note 14. Other assets

Table 14.1. Other assets

(UAH'000)

Line	Description	2012	2011
1	2	3	4
1	Accounts receivable on assets acquisition	800	14 942
2	Prepaid services	10 593	7 074
3	Precious metals	24 738	30 968
4	Other	2 820	2 892
5	Provision for other assets	(514)	(302)
6	Total other assets less provisions	38 437	55 574

Table 14.2. Movement in provision for impairment of other assets during 2012

(UAH'000)

Line	Movement in provisions	Accounts receivable on purchase of assets	Prepaid services	Total
1	2	3	4	5
1	Balance as at 1 January 2012	(278)	(24)	(302)
2	Increase of impairment provision during the year	(210)	(2)	(212)
3	Closing balance as at 31 December 2012	(488)	(26)	(514)

Table 14.3. Movement in provision for impairment of other assets during 2011

(UAH'000)

Line	Movement in provisions	Accounts receivable on purchase of assets	Prepaid services	Total
1	2	3	4	5
1	Balance as at 1 January 2011	(977)	(28)	(1 005)
2	Decrease of impairment provision during the year	65	4	69
3	Amounts written off	634	-	634
4	Closing balance as at 31 December 2011	(278)	(24)	(302)

Note 15. Non-current assets held-for-sale and disposal group assets

Table 15.1. Non-current assets held-for-sale

(UAH'000)

Line	Description	31 December 2012	31 December 2011
1	2	3	4
1	Non-current assets held-for-sale:	25 041	12 291
1.1	Other assets	25 041	12 291
2	Total non-current assets held-for-sale	25 041	12 291

Non-current assets held-for-sale include collaterals (land plots, non-residential premises) foreclosed by the Bank in accordance with Ukrainian legislation.
These assets are expected to be sold during the year from the date they were recognized as 'held-for-sale'.
During 2012, impairment losses on revaluation recognized in 'Administrative and other operating expenses' amount to UAH 4,040 thousand (2011: nil).
Fair value of non-current assets held-for-sale as at 31 December 2012 was determined by independent appraiser LLC IK Veriteks.

Note 16. Due to banks

(UAH'000)

Line	Description	31 December 2012	31 December 2011
1	2	3	4
1	Correspondent accounts and overnight deposits	1 736	2 681
2	Loans obtained:	341 348	1 208 215
2.1	Short-term loans	83 694	95 346
2.2	Long-term loans	257 654	1 112 869
3	Total due to banks	343 084	1 210 896

Line 2 "Loans obtained" includes accrued expenses amounting to UAH 1,431 thousand (2011: UAH 5,100 thousand).

As at 31 December 2012 and 2011, due to banks amounting to UAH 337,841 thousand and UAH 1,236,143 thousand, respectively, comprise amounts due to parent company Intesa Sanpaolo S.p.A. that represent significant concentration.

Note 17. Due to customers

Table 17.1. Due to customers *(UAH'000)*

Line	Description	31 December 2012	31 December 2011
1	2	3	4
1	State and public organizations:	7 229	8 278
1.1	Current accounts	5 853	6 600
1.2	Term deposits	1 376	1 678
2	Other legal entities:	680 196	677 079
2.1	Current accounts	489 981	436 133
2.2	Term deposits	190 215	240 946
3	Individuals:	2 413 615	2 449 953
3.1	Current accounts	667 541	671 890
3.2	Term deposits	1 746 074	1 778 063
4	Total due to customers	3 101 040	3 135 310

Line 1 "State and public organizations" and Line 2 "Other legal entities" include accrued interest amounting to UAH 2,916 thousand (2011: UAH 3,882 thousand).
Line 3 "Individuals" includes accrued interest on call deposits of individuals amounting to UAH 43 thousand (2011: UAH 324 thousand) and term deposits of individuals amounting to UAH 68,215 thousand (2011: UAH 66,749 thousand).
The Bank believes that potential concentration risk may arise when at least 10% of deposits of customers (net of subordinated debt and loans from international financial institutions) are attracted from a limited number of creditors. As at 31 December 2012 and 2011, deposits of 19 Bank's customers and 8 Bank's customers represented 10% and 10% of the total amount of due to customers, respectively.

Table 17.2. Due to customers by type of activity

(UAH'000)

Line	Type of activity	31 December 2012		31 December 2011	
		Amount	%	Amount	%
1	2	3	4	5	6
1	State authorities	46	0,01	59	0,01
2	Production and distribution of electricity, gas, and water	4 816	0,16	5 040	0,16
3	Real estate, lease, engineering and services	99 218	3,20	116 903	3,73
4	Trade, repair of vehicles, household equipment and items of personal use	229 799	7,40	165 007	5,25
5	Agriculture, hunting and forestry	29 641	0,95	16 778	0,54

Line	Type of activity	31 December 2012		31 December 2011	
		Amount	%	Amount	%
1	2	3	4	5	6
6	Individuals	2 413 615	77,83	2 449 953	78,14
7	Processing industry	81 889	2,65	71 649	2,29
8	Other	242 016	7,80	309 921	9,88
9	Total due to customers	3 101 040	100,00	3 135 310	100,00

As at 31 December 2012, deposits amounting to UAH 245,564 thousand are pledged to secure:
–corporate and retail loans – UAH 232,024 thousand;
– guarantees issued – UAH 13,540 thousand
As at 31 December 2011, deposits amounting to UAH 50,878 thousand are pledged to secure:
–corporate and retail loans – UAH 50,700 thousand;
–guarantees issued – UAH 178 thousand.

Note 18. Debt securities issued by the Bank
Table 18.1. Debt securities issued by the Bank

(UAH'000)

Line	Description	31 December 2012	31 December 2011
1	2	3	4
1	Domestic bonds	99 179	-
2	Certificates of deposit	1	1
3	Total	99 180	1

Registered interest bearing bonds of E series, ISIN UA4000118772, were issued in a non-documentary form (not secured). Certificate of issue registration No.68/2/11 dated 29 April 2011. Date of issue: 11 April 2012.
Bonds bear interest at rate of 12.5% for all periods.
Interest period is 91 days. The first period begins on 25 May 2011, the last period ends on 21 May 2013.
As at 1 January 2013, the Bank has no convertible debt instruments.

Note 19. Provisions for liabilities
Table 19.1. Movement in provisions for liabilities during 2012

(UAH'000)

Line	Movement in provisions	Credit related commitments	Tax risks	Litigation contingencies	Other	Total
1	2	3	4	5	6	7
1	Balance as at 1 January 2012	3 584	216	874	2	4 676
2	(Increase)/decrease in provision during the year	(588)	(51)	1 267	(2)	626
3	Amounts recovered	-	-	(896)	-	(896)
4	Balance as at 31 December 2012	2 996	165	1 245	-	4 406

a) Litigations
As at 31 December 2012, the Bank's potential contingencies arising from disputes on employment and business contracts processed in administrative courts and courts of general jurisdiction total UAH 1,245 thousand.
b) Tax contingencies
As at 31 December 2012, the Bank has a risk of income tax assessments that may arise from disputes with tax authorities brought to court totalling UAH 165 thousand:

Table 19.2. Movement in provisions for liabilities during 2011

(UAH'000)

Line	Movement in provisions	Credit related commitments	Tax risks	Litigation contingencies	Other	Total
1	2	3	4	5	6	7
1	Balance as at 1 January 2011	1 128	638	379	-	2 145
2	Increase in provision during the year	2 456	-	628	2	3 086
3	Amounts recovered	-	(422)	(133)	-	(555)
4	Balance as at 31 December 2011	3 584	216	874	2	4 676

a) Litigations
As at 31 December 2011, the Bank's potential contingencies arising from disputes on employment contracts processed in administrative courts and courts of general jurisdiction total UAH 874 thousand;

b) Tax contingencies
As at 31 December 2011, the Bank has a risk of tax assessments that may arise from disputes with tax authorities brought to court totalling UAH 606 thousand:
– income tax – UAH 203 thousand, penalty – UAH 160 thousand;
– individual income tax – UAH 81 thousand, penalty – UAH 162 thousand.
Penalty assessed by local Pension Fund in Zarichny district of Sumy – UAH 51 thousand.

Note 20. Other financial liabilities
Table 20.1. Other financial liabilities

(UAH'000)

Line	Description	31 December 2012	31 December 2011
1	2	3	4
1	Accounts payable	99 206	99 344
2	Accounts payable for debit and credit cards	11 535	1 573
3	Foreign exchange transactions	63 328	62 864
4	Accounts payable for other financial instruments	7	73
5	Other accrued liabilities	2 083	344
6	Total other financial liabilities	176 159	164 198

Note 21. Other liabilities

(UAH'000)

Line	Description	31 December 2012	31 December 2011
1	2	3	4
1	Taxes payable, other than income tax	10 588	11 897
2	Salary payable	18 927	19 378
3	Accounts payable for assets purchased	26 486	31 125
4	Deferred income	2 331	3 643
5	Accounts payable for recruitment services	2 256	2 325
6	Accounts payable for software maintenance	8 085	850
7	Other	7 279	2 634
8	Total	75 952	71 852

Note 22. Subordinated debt

(UAH'000)

Line	Description	31 December 2012	31 December 2011	Nominal interest rate %	Effective interest rate as at 31 December 2012 %	Effective interest rate as at 31 December 2011 %	Maturity
1	2	3	4	5	6	7	8
1	Principal amount, including:	**119 466**	**123 718**				
		25 418	26 323	12 m LIBOR+5%	5,8435	6,125	21.09.2015
		33 891	35 097	12 m LIBOR+5%	5,8435	6,125	01.11.2015
		38 128	39 484	12 m LIBOR+5%	5,8435	6,125	01.06.2016
		22 029	22 814	12 m LIBOR+5%	5,8435	6,125	31.07.2016

Note 23. Share capital and share premium

(UAH'000)

Line	Description	Outstanding shares (thousand)	Ordinary shares	Share premium	Preference shares	Total
1	2	3	4	5	6	7
1	Balance as at 1 January 2011	1 561 623	974 508	977	870	976 355
2	Contributions to new share issue	54 377	31 538	294 725	-	326 263
3	Closing balance as at 31 December 2011 (balance as at 1 January 2012)	1 616 000	1 006 046	295 702	870	1 302 618
4	Contributions to new share issue	8 000	4 640	491 410	-	496 050
5	Closing balance as at 31 December 2012	1 624 000	1 010 686	787 112	870	1 798 668

As at 31 December 2012 and 2011, preference shares outstanding amount to 1,500 shares.

As at 31 December 2012 and 2011, par value of shares is UAH 0.58 per share.
In accordance with Resolution No. 1/2011 dated 16 March 2011 of the General meeting of the shareholders, during 2011 share capital of the Bank was increased through increase in ordinary registered shares with the same par value by 54,377 shares due to additional contributions. Changes in Bank's foundation documents were registered with the state authorities on 26 June 2011, registration number 10701050045003106.

In accordance with Resolution No. 2/2012 dated 25 June 2012 of the General meeting of the shareholders, during 2012 share capital of the Bank was increased through increase in ordinary registered shares with the same par value by 8,000 shares due to additional contributions. Changes in Bank's foundation documents were registered with the state authorities on 25 September 2012, registration number 10701050049003106

Holders of preference shares have the following rights:
–the right to participate in profit distribution and receive dividends in the amount stipulated by their preference shares, notwithstanding the amount of Bank's net profit for the respective year;

Preferences stipulated by preference share issue terms are as follows: holders of registered preference shares are entitled to dividends at 18% per annum, notwithstanding the amount of Bank's net profit for the year.

In accordance with Ukrainian legislation, distributable reserves are restricted by retained earnings reported in the statutory financial statements.

Note 24. Revaluation reserves

Note 24.1 Revaluation reserve on property and equipment

(UAH'000)

Line	Description	31 December 2012	31 December 2011
1	**2**	**3**	**4**
1	Balance as at 1 January	211 982	213 190
2	Revaluation of property and equipment	(8 931)	-
2.1	change in revaluation to fair value	(8 521)	-
2.1	realized gain/loss on revaluation recognized in retained earnings	(410)	-
3	Income tax related to:	1 458	(1 208)
3.1	change in revaluation reserve on property and equipment	1 458	(1 208)
4	Total revaluation reserves (other comprehensive income) less income tax	204 509	211 982

Note 24.2 Revaluation reserve on securities available-for-sale

(UAH'000)

Line	Description	31 December 2012	31 December 2011
1	**2**	**3**	**4**
1	Balance as at 1 January	(1)	(42)
2	Revaluation of securities available for sale:	324	53
2.1	change in revaluation to fair value	324	53
3	Income tax related to:	(62)	(12)
3.1	change in revaluation reserve on securities available for sale	(62)	(12)
4	Total revaluation reserves (other comprehensive income) less income tax	261	(1)

Note 25. Maturity analysis of assets and liabilities

(UAH'000)

Line	Description	Note	31 December 2012			31 December 2011		
			Less than 12 months	Over 12 months	Total	Less than 12 months	Over 12 months	Total
1	2	3	4	5	6	7	8	9
	ASSETS							
1	Cash and cash equivalents	6	601 053	-	601 053	478 685	-	478 685
2	Mandatory reserves in the National Bank of Ukraine		74 125	-	74 125	83 514	-	83 514
3	Other financial assets at fair value through profit or loss	7	3 006	-	3 006	-	-	-
4	Due from banks	8	200	-	200	138 460	-	138 460
5	Loans and advances to customers	9	2 175 972	1 039 673	3 215 645	1 912 530	2 719 025	4 631 555
6	Securities available-for-sale	10	127 220	-	127 220	76	1 038	1 114
7	Investment property	11	-	10 822	10 822	-	-	-
8	Current income tax receivable		1 558	-	1 558	1 558	-	1 558
9	Deferred tax asset		8 066	28 659	36 725	-	127 554	127 554
10	Property, equipment and intangible assets	12	-	674 143	674 143	-	608 580	608 580
11	Other financial assets	13	47 670	-	47 670	49 532	-	49 532
12	Other assets	14	38 437	-	38 437	55 574	-	55 574
13	Non-current assets held-for-sale and disposal group assets	15	25 041	-	25 041	12 291	-	12 291
14	Total assets		3 102 348	1 753 297	4 855 645	2 732 220	3 456 197	6 188 417
	LIABILITIES							
15	Due to banks	16	343 084	-	343 084	98 001	1 112 895	1 210 896
16	Due to customers	17	3 056 973	44 067	3 101 040	3 008 834	126 476	3 135 310
17	Debt securities issued	18	99 180	-	99 180	1	-	1
18	Deferred tax liabilities		1 232	-	1 232	549	-	549
19	Provisions for liabilities	19	4 406	-	4 406	4 676	-	4 676
20	Other financial liabilities	20	176 012	147	176 159	164 058	140	164 198
21	Other liabilities	21	75 952	-	75 952	71 852	-	71 852
22	Subordinated debt	22	6 764	112 702	119 466	11 062	112 656	123 718
23	Total liabilities		3 763 603	156 916	3 920 519	3 359 033	1 352 167	4 711 200

In accordance with Ukrainian legislation, as at 31 December 2012, individual depositors may withdraw their funds from deposit accounts before maturity subject to 2 day notification of the Bank before the transaction. Management believes that the majority of these deposits will not be withdrawn before maturity.

Note 26. Interest income and expense

(UAH'000)

Line	Description	31 December 2012	31 December 2011
1	2	3	4
	Interest income:		
1	Loans and advances to customers	666 434	666 811
2	Debt securities available-for-sale	13 295	6 632
3	Securities held to maturity	12	2 069
4	Due from banks	5 486	3 572
5	Cash and cash equivalents	843	2 188
6	Total interest income	686 070	681 272
	Interest expense:		
7	Term deposits from legal entities	(21 736)	(17 373)
8	Debt securities issued	(10 819)	-
9	Term deposits from individuals	(184 759)	(152 863)
10	Term deposits due to banks	(57 193)	(59 404)
11	Overnight deposits due to banks	(24)	(14)
12	Current accounts	(46 310)	(29 262)
13	Other	(6 763)	(6 567)
14	Total interest expense	(327 604)	(265 483)
15	Net interest income	358 466	415 789

Note 27. Commission income and expense

(UAH'000)

Line	Description	31 December 2012	31 December 2011
1	2	3	4
	COMMISSION INCOME:		
1	Cash payments and withdrawals	184 163	233 365
2	Dealing in securities	96	47
3	Other	11 241	11 100
4	Interbank operations with plastic cards	11 975	12 214
5	Guarantees issued	601	1 240
6	Total commission income	208 076	257 966
	COMMISSION EXPENSE:		
7	Cash payments and withdrawals	(5 764)	(3 986)
8	Other	(185)	(154)
9	Services provided by payment systems and operations with plastic cards	(8 697)	(12 840)
10	Total commission expense	(14 646)	(16 980)

Note 28. Other operating income

(UAH'000)

Line	Description	31 December 2012	31 December 2011
1	2	3	4
1	Operating lease	151	96
2	Transactions with derivative financial instruments (spot foreign exchange transactions)	2 631	(33)
3	Penalties and fines received	6 943	3 491
4	Undrawn funds after limitation period	1 970	3 165
5	Cash collection services	733	926
6	Other	2 063	1 503
7	Total operating income	14 491	9 148

Note 29. Administrative and other operating expenses

(UAH'000)

Line	Description	31 December 2012	31 December 2011
1	2	3	4
1	Personnel costs	275 660	292 350
2	Recruitment services	4 747	12 432
3	Depreciation of property and equipment	31 825	34 995
4	Impairment loss on property and equipment due to revaluation	10 012	-
5	Amortization of software and other intangible assets	27 020	18 925
6	Maintenance of property, equipment and intangible assets, telecommunication and other operational services	88 297	81 442
7	Operating lease	31 845	42 846
8	Disposal of intangible assets and property and equipment	1 407	980
9	Cash collection and transportation	3 680	2 148
10	Services provided by payment systems on payment cards	3 247	2 899
11	Services on recovery of doubtful debts	6 615	3 189
12	Professional services	23 758	26 197
13	Marketing and advertising	2 310	4 827
14	Security	14 127	15 157
15	Taxes, other than income tax	22 700	18 329
16	Other	3 444	3 013
17	Total administrative and other operating expenses	550 694	559 729

Note 30. Income tax expense

Table 30.1. Income tax expense

(UAH'000)

Line	Description	2012	2011
1	2	3	4
1	Current income tax	-	473
2	Change of deferred income tax resulting from	92 908	53 070
2.1.	origination or reversal of temporary differences	61 229	36 249
2.2.	increase or decrease in tax rate	31 679	16 821
3	Total income tax expense	92 908	53 543

Table 30.2. Reconciliation of accounting loss and taxable loss

(UAH'000)

Line	Description	2012	2011
1	2	3	4
1	(Loss)/ profit before tax	(938 432)	86 926
2	Income tax calculated applying current tax rate	(197 071)	19 993
3	Non-deductible tax expenses	11 660	6 384
4	Effect of change in tax rates	31 679	16 821
5	Changes in unrecognized deferred tax assets (DTA)	246 640	10 345
6	Income tax expense	92 908	53 543

Table 30.3. Tax effects related to recognized deferred tax assets and liabilities for the year 2012

(UAH'000)

Line	Description	Balance as at 31 December 2011	Recognized in profit/loss during the year	Recognized in other comprehensive income during the year	Balance as at 31 December 2012
1	2	3	4	5	6
1	Tax effect of temporary differences:				
1.1.	Tax loss carried forward	179 789	(27 900)	-	151 889
1.2.	Due from banks and loans to customers	(48 147)	188 358	-	140 211
1.3.	Due to banks	9 420	(2 541)	-	6 879
1.4.	Provisions for liabilities	8 041	(2 601)	-	5 440
1.5.	Securities available-for-sale	(191)	1 560	(62)	1 307
1.6.	Securities issued	-	415	-	415
1.7.	Other assets	370	32	-	402
1.8.	Due to customers	(48)	230	-	182
1.9.	Property, equipment, intangible assets, and investment property	(3 576)	(3 821)	1 458	(5 939)
1.10.	Provision for impairment of DTA	(18 653)	(246 640)	-	(265 293)
2	Deferred tax asset (liability), including:	127 005	(92 908)	1 396	35 493
3	Recognized deferred tax asset	127 554	-	-	36 725
4	Recognized deferred tax liability	(549)	-	-	(1 232)

Table 30.4. Tax effects related to recognized deferred tax assets and liabilities for the year 2011

(UAH'000)

Line	Description	Balance as at 31 December 2010	Recognized in profit/loss during the year	Recognized in other comprehensive income during the year	Balance as at 31 December 2011
1	2	3	4	5	6
1	Tax effect of temporary differences:				
1.1.	Tax loss carried forward	188 393	(8 604)	-	179 789
1.2.	Due from banks and loans to customers	(2 940)	(45 207)	-	(48 147)
1.3.	Due to banks	-	9 420	-	9 420
1.4.	Provisions for liabilities	9 911	(1 870)	-	8 041
1.5.	Securities available-for-sale	(1 333)	1 154	(12)	(191)
1.6.	Other assets	1 083	(713)	-	370
1.7.	Due to customers	(71)	23	-	(48)
1.8.	Other liabilities	14	(14)	-	-
1.9.	Property, equipment, intangible assets, and investment property	(5 454)	3 086	(1 208)	(3 576)
1.10.	Provision for impairment of DTA	(8 308)	(10 345)	-	(18 653)
2	Deferred tax asset (liability), including:	181 295	(53 070)	(1 220)	127 005
3	Recognized deferred tax asset	189 183	-	-	127 554
4	Recognized deferred tax liability	(7 888)	-	-	(549)

Note 31. Earnings/(loss) per ordinary share and preference share

Table 31.1. Basic and diluted earnings/(loss) per ordinary share and preference share

(UAH'000)

Line	Description	2012	2011
1	2	3	4
1	(Loss)/profit attributable to the holders of ordinary shares	(1 031 340)	33 383
2	Profit attributable to the holders of preference shares	157	157
3	(Loss)/profit for the year	(1 031 340)	33 383
4	Average number of ordinary shares outstanding (in thousands of shares)	1 616 620	1 598 410
5	Average number of preference shares outstanding (in thousands of shares)	1 500	1 500
6	Basic and diluted loss per ordinary share акцію	(0,64)	0,02
7	Basic and diluted earnings per preference share	0,10	0,10

Note 32. Dividends

(UAH'000)

Line	Description	31 December 2012		31 December 2011	
		Ordinary shares	Preference shares	Ordinary shares	Preference shares
1	2	3	4	5	6
1	Balance as at 1 January	-	-	-	-
2	Dividends declared for payment during the year	-	157	-	157
3	Dividends paid during the year	-	(157)	-	(157)
4	Balance as at 31 December	-	-	-	-

Note 33. Financial risks management

Substantially all lines of Bank's operations are exposed to risks. To minimize these risks, the Bank has risk measurement and control system in place operating in accordance with Bank's internal regulations, recommendations and requirements of the NBU. Policy of management of Bank's financial portfolio sets the framework of management system through determination of processes, limits, functions, and responsibilities. The policy also determines risk limits and principles of risk undertaking by line of business, as well as required actions in case of limit exceeding.

Subsequent to Bank's reorganization, segregation of duties and responsibilities between business units and risk management subdivisions was implemented by the Bank in line with Intesa Sanpaolo Group practice. In addition, independent Head Risk Management Division was established in the Bank.

The Head Risk Management Division is responsible for:
- development and implementation of methodology and processes for determination of credit risk limits (in accordance with parent company's requirements and management regulations);
- efficient assessment of risks and monitoring of loan portfolio quality;
- minimization of losses for the Bank through appropriate measures, on a case-by-case basis, aimed at debt collection;
- identification of market and operational risks, implementation of proper procedures to ensure adequate risk minimization.

The above functions are performed by the following subdivisions:

- Department of methodology, market and operational risks monitors credit, market, and operational risks and reports to management of the Bank and parent company, as well as determines loan terms and assesses risks inherent in any new product;
- Department of retail risks ensures proper process of authorization of retail loans for the Bank as a whole, of monitoring and pre-trial collection of debts under retail loans, and supports Department of methodology, market and operational risks in development retail loan products;
- Department of corporate risks ensures proper process of authorization of corporate loans for the Bank as a whole.

Main principle of Head Risk Management Division's operations is ensuring full segregation of duties between business units and risk management subdivisions where business units receive loan applications/products with credit risk, and the Division performs independent review and 1) makes decisions in accordance with its authorities, and 2) submits the preliminary assessment report to the respective body, if the amount on loan application exceeds its authority limits.

Apart from Head Risk Management Division, monitoring and management of Bank's risks are performed by the following Committees.

To ensure adequate risk management while maintaining proper profitability, the Bank has the Assets and Liabilities Management Committee (ALCO) and the Credit Committee (supported by meetings on asset quality).

The main objective of ALCO is to safeguard Bank's capital, maintain proper liquidity level, with due consideration of cost and maturities of assets and liabilities, in compliance with legislation, internal regulations, and Parent Company's guidelines.

ALCO responsibilities include:

- regular monitoring and assessment of the balance sheet structure;
- expected profitability from existing lines of business;
- overall assessment of market, competitive benchmarking of the Bank;
- approval of terms and conditions of new financial products or changes in terms and conditions of existing financial products;
- in line with Group regulations, establishment of risk management policy and risk limits in respect of market, interest rate, liquidity, foreign exchange, and operational risks;
- monitoring of adherence to limits in compliance with internal regulations and external requirements.

The Credit Committee is the superior body dealing with credit issues within authorities established by the Supervisory Board. Its responsibilities and functions include at least the following:

- development and periodic review of credit policy;
- review of risk management documents on a quarterly basis;
- regular review of credit procedures manual, including its principles and segregation of duties, recommendations, as appropriate, to the Supervisory Board on any changes;
- determination of maximum risks in the area of market segment, products, terms, currencies;
- decisions of the Credit Committee are binding and are documented in the Minutes of the Credit Committee meetings. Offers are effective from the date of the Credit Committee meeting where they were approved;
- Minutes of the Credit Committee meetings are filed with the Head Department of Foreign Subsidiary Banks – Credit Department.

Asset Quality assessment meetings are extended meetings of the Credit Committee intended to take necessary steps to prevent and reduce credit losses. Asset Quality assessment meetings analyze the loan portfolio and its quality, prepare recommendations on borrower classification methodology, and develop the rating system of the Bank.

Asset Quality assessment meetings fulfills the following tasks:

- approve/decline loan applications and change risk classification of a borrower;
- takes necessary measures related to overdue loans, including provision, write-off, and sales of assets;
- assess regular actions aimed at overdue loan management;
- recommend to the Supervisory Board on the loan provisioning policy;
- Decisions of the Asset Quality assessment meetings are submitted to the Supervisory Board at least on a quarterly basis;
- Minutes of the Asset Quality assessment meetings include Minutes of the Credit Committee and is sent to the Head Department of Foreign Subsidiary Banks – Credit Department – of the Parent Company, Intesa Sanpaolo SpA.

Risk management is an essential element of the Bank's operations. Therefore, before any major transaction is performed, it is analysed not only for risks arising from such transaction, but also for its impact on all areas of Bank's operations, specifically on the structure of assets and liabilities, financial performance, profitability, asset quality, compliance with the NBU's requirements.

Due to the fact that the Bank's operations are concentrated in retail segment, major risks inherent to Bank's operations are credit, liquidity, interest rate, and foreign exchange risks.

Credit risk

Credit risk is the risk of non-repayment or failure to repay the principal amount and the accrued interest when due. Credit risk management comprises taking management decisions aimed at maximum possible income with minimum risk of loss based on quantitative and qualitative analysis of loan portfolio by line of business. Ongoing monitoring of the loan portfolio is supported with proper control over timeliness of payments of the principal amount and interest, evaluation of borrower' financial position and analysis of target use of loans.

Within credit risk management framework, the Bank develops the methodology of client tailored lending activity that contributes to high quality of the loan portfolio.

Credit risk management of the Bank includes the following activities:

- improvement of existing lending standards;

- monitoring and control over credit risk for potential non-recovery of loans and taking adequate decisions;

- solvency evaluation by counterparty, industry, competitor, etc.;

- segregation of duties in approving loan applications depending on the loan amount and potential risk;

- ensuring risk management function, non-performing loan function, and security function in place;

- diversification of the loan portfolio, i.e. placements with numerous counterparties operating in different industries in order to avoid simultaneous default by a significant number of counterparties, investing in different assets rather than concentrating funds in one or some instruments;

- establishment of placement limits per counterparty (concentration limits) based on counterparty's financial position and scope of operations in order to minimize losses in case of default of a specific counterparty;

- obtaining negotiable collateral for loans to reduce credit risk, involvement of an independent appraiser to evaluate collateral, monitoring and revaluation of collateral, check of collateral for registration in the State Register of Pledged Property.

In order to reduce credit risk, the Bank employs different types and conditions for lending operations in terms of maturity, borrowers, security, interest rates, principles of interest accrual, limits, diversification of the loan portfolio, provisioning, monitoring and control over risks.

Assessment of individual credit risk by corporate borrower envisages preliminary solvency assessment, analysis of its financial position, of internal and external environment, assessment of market position, projection of cash flows, assessment of reliability, credit history, and collateral salability. The Bank evaluates all factors that influence risks based on qualitative and quantitative indicators using internally developed methodologies of credit risk assessment on short-term and long-term loans. Such analysis and evaluation allow classifying lending operation, identifying and summarizing credit risks related to a borrower that helps assess the probability of default by the borrower and the level of risk inherent in the lending operation.

Assessment of credit risk by individual borrower considers solvency assessment, analysis of his financial position, evaluation of quality and adequacy of collateral using the methodology of evaluation of individual borrowers and entrepreneurs. Based on such evaluation, Bank's specialists prepare the summary of borrower's financial position and classify the lending operation.

Assessment of credit risk by borrower in order to set lending limits is performed in accordance with relevant regulations on setting limits on lending and interbank placements. Based on this assessment, the Bank determines whether the lending operation is acceptable and the terms of the operation, i.e. maturity, amount, interest rate.

To ensure diversification of the loan portfolio, the Bank sets flexible limits for different lending activities.

Market risk

The Bank is exposed to market risks arising from changes in interest rates, foreign exchange rates, and other market prices that are mostly dependent on general and specific market conditions.

ALCO sets limits of risks acceptable for the Bank. In managing its market risks, the Bank applies recommendations of its Parent Company, Intesa Sanpaolo SpA, which are based on Group instructions.

Parent Company continuously monitors market risk faced by the Bank in compliance with the policy and procedures adopted by Intesa Sanpaolo SpA.

Currency risk

Currency risk is the risk of negative changes in currency positions due to fluctuations of currency rates. This risk has a potential impact at the Bank's revenues and capital.

Currency risk has a direct impact at the Statement on financial position and the Statement of comprehensive income, as assets and liabilities denominated in foreign currencies should be translated into the functional currency as at each reporting date.

The Bank uses limits as the key instrument for currency risk management. The Bank applies this instrument by establishing the limits: on the general open currency position in the light of the Bank; limits of currency position by currencies and sublimits. The internal limits system allows integrated and adequate currency risk management applying the risk management principles established by the Bank.

In compliance with the NBU requirements, the Bank established limits and sublimits for its subdivisions for the risk management purposes. Such limits are required to avoid unpredictable losses from significant fluctuations of currency rates.

The Bank has set the following limits:

1. Internal position limits:
- Limits in respect of all currencies
- Limits in respect of US dollars
- Limits in respect of of Euro
2. Internal position sublimits:
- Sublilimits in respect of non-trade transactions (cash)
3. VaR limit
4. The NBU limits in respect of currency position:
- Limit for long currency position
- Limit for short currency position

The currency risk control envisages day-to-day monitoring over open currency position and other macroeconomic indices.

The operational and market risk management department exercises control and calculations over limits.

The operational and market risk management department provides the updated information to other subdivisions regarding the Bank's tendency to currency risk. In case of the significant deterioration of market situation the operational and market risk management department should immediately inform the risk management department of Intesa Sanpaolo, which will take the required actions and immediately inform the Board of the Group of Intesa Sanpaolo S.p.A.

The Department of management of operational and market risks:

- daily analyses open currency position of the Bank;
- sets the acceptable level of risk for the open currency position and establishes limits of the open currency position;
- initiates review of the Bank's policy regarding change of the limits in case of deterioration of market situation;
- monitors adherence of the established limits by the Bank's authorized subdivisions.

The ALCO:

- approves the established limits;
- takes the relevant decisions, when the established limits exceed the maximum acceptable ones.

Subdivisions involved in foreign currency transactions should adhere to established limits.

Table 33.1 Analysis of currency risk *(UAH'000)*

Line	Currency	As at 31 December 2012			As at 31 December 2011		
		Monetary assets	Monetary liabilities	Net position	Monetary assets	Monetary liabilities	Net position
1	2	3	4	5	6	7	8
1	USD	1 315 893	1 320 158	(4 265)	2 024 014	2 212 415	(188 401)
2	EUR	238 793	230 983	7 810	232 926	359 833	(126 907)
3	GBP	1 167	1 100	67	2 506	699	1 807
4	Other	54 898	49 537	5 361	70 620	62 140	8 480
5	Total	1 610 751	1 601 778	8 973	2 330 066	2 635 087	(305 021)

Table 33.2 Sensitivity of profit or loss and equity to potential changes in official foreign exchange rates of hryvnia as at the reporting date, assuming that all other variables remain constant

(UAH'000)

Line	Currency	As at 31 December 2012		As at 31 December 2011	
		Impact on profit/(loss)	Impact on equity	Impact on profit/ (loss)	Impact on equity
1	**2**	**3**	**4**	**5**	**6**
1	5% strengthening of USD	(213)	(213)	(9 420)	(9 420)
2	5% weakening of USD	213	213	9 420	9 420
3	5% strengthening of EUR	391	391	(6 345)	(6 345)
4	5% weakening of EUR	(391)	(391)	6 345	6 345
5	5% strengthening of GBP	3	3	90	90
6	5% weakening of GBP	(3)	(3)	(90)	(90)
7	Strengthening of other currencies	268	268	424	424
8	Weakening of other currencies	(268)	(268)	(424)	(424)

Table 33.3 Sensitivity of profit or loss and equity to potential changes in weighted average official foreign exchange rate of hryvnia as at the reporting date, assuming that all other variables remain constant

(UAH'000)

Line	Currency	As at 31 December 2012		As at 31 December 2011	
		Impact on profit/(loss)	Impact on equity	Impact on profit/ (loss)	Impact on equity
1	**2**	**3**	**4**	**5**	**6**
1	5% strengthening of USD	(212)	(212)	(8 880)	(8 880)
2	5% weakening of USD	214	214	9 908	9 908
3	5% strengthening of EUR	184	184	(16 498)	(16 498)
4	5% weakening of EUR	(577)	(577)	(2 841)	(2 841)
5	5% strengthening of GBP	2	2	160	160
6	5% weakening of GBP	(4)	(4)	(27)	(27)
7	Strengthening of other currencies and precious metals	268	268	1 229	1 229
8	Weakening of other currencies and precious metals	(268)	(268)	295	295

Interest rate risk

To measure and manage its interest rate risk, the Bank uses the following method for estimation of interest rate risk: expected future cash flows are recorded in different periods applying the changes in interest rate in basic points to assets and liabilities sensitive to the interest rate change.

The financial risk management committee of Intesa Sanpaolo S.p.A. Group has set the sensitivity limit of net interest income (+ 100 bp) in the amount of +/- 10,0 million euro. The limit was adopted by the Bank and included to the process of interest rate management applied to the banking portfolio.

Flexibility of interest rate management has been limited by several key factors:
- liquidity – necessity to support and have available the liquidity assets;
- price competition on the part of other banks regarding loan and deposit transactions;
- difficulties in projection of interest rates change at the financial market of Ukraine.

To mitigate the interest rate risk impact the Bank takes the following actions:
- trend projection of interest rates;
- daily analyses of assets and liabilities structure;
- monthly calculation and analysis of net interest margin;
- calculation and monitoring of gaps between the assets and liabilities sensitive to fluctuations in interest rates;
- monthly monitoring of market interest rates on financial instruments and comparison with position of the competitors.

Based on the procedures approved by the Parent company the Bank provides the relevant reports to the ALCO and to the Board meetings.

The operational and market risk management department and the risk management department of Intesa Sanpaolo S.p.A. constantly monitors deterioration of market situation and the Bank's exposure to interest rate risk.

Table 33.4 Overall analysis of interest rate risk

In the calculation of interest rate risk as at 31 December 2012 and 2011, the following financial assets and liabilities are not accounted for due to its insensitivity to the interest rate fluctuations: mandatory reserves with the NBU, other financial assets and other financial liabilities.

(UAH'000)

Line	Description	On demand and less than 1 month	From 1 month to 6 months	From 6 months to 12 months	More than 1 year	Total
1	2	3	4	5	6	7
	2012					
1	Total financial assets	767 721	824 350	581 415	1 770 599	3 944 085
2	Total financial liabilities	1 549 054	1 839 869	230 405	43 443	3 662 771
3	Net interest rates gap as at the end of the previous period	(781 333)	(1 015 519)	351 010	1 727 156	281 314
	2011					
4	Total financial assets	414 310	925 106	719 237	2 720 105	4 778 758
5	Total financial liabilities	1 652 646	2 173 612	524 241	118 249	4 468 748
6	Net interest rates gap as at the end of the previous	(1 238 336)	(1 248 506)	194 996	2 601 856	310 010

Table 33.4.1 Analysis of interest rate risk for liabilities with floating interest rates

(*UAH'000)*

Line	Description	For the year ended 31.12.2012		For the year ended 31.12.2011	
		Increase of interest rate by 1%	Decrease of interest rate by 1%	Increase of interest rate by 1%	Decrease of interest rate by 1%
1	2	3	4	5	6
2	Interbank loan from Intesa Sanpaolo SpA	(6 787)	6 787	(10 039)	10 039
3	Subordinated debt	(1 127)	1 127	(1 123)	1 123
4	**Net effect on profit or loss and equity**	(7 914)	7 914	(11 162)	11 162

Table 33.5 Monitoring of interest rates on financial instruments

(%)

Line	Description	2012				2011			
		UAH	USD	EUR	Other	UAH	USD	EUR	Other
1	2	3	4	5	6	7	8	9	10
	Assets								
1	Cash and cash equivalents	-	-	-	0,20	-	-	-	-
2	Due from banks	-	-	-	-	19,48	2,50	-	-
3	Loans and advances to customers	16,33	10,73	9,60	-	15,57	11,13	10,28	-
4	Debt securities available-for-sale	15,00	9,24	-	-	11,73	-	-	-
	Liabilities								
5	Due to banks	-	6,69	-	-	13,41	7,42	1,62	-
6	Due to customers:				-				-
6.1	Current accounts	1,16	0,83	1,13	-	3,05	1,32	1,66	-
6.2	Term deposits	18,93	6,80	4,39	4,05	14,83	6,94	4,86	-
7	Debt securities issued by the Bank	12,50	-	-	-	-	-	-	-
8	Subordinated debt	-	5,84	-	-	-	6,13	-	-

Other market price risk

Other market price risk arises in connection with the Bank's investments in securities. Investments in securities are made within the prescribed limits. Limits on transactions with securities are set by the relevant committee of the Parent company. Limits are established in the light of issuers and specific issues of securities. Limits are established with the limited term of effect and after that they are being reviewed.

The Treasury and Investment Banking Department initiates the necessity to establish the limits. The Department for methodology, market and operational risks prepares conclusions on the possibility to establish such limits. After that the relevant materials are submitted to the relevant committee of the Parent company.

The Department of Methodology, Market and Operational Risks monitors the compliance with the established limits on the permanent basis.

Geographic risk

Geographic risk is determined by specifics of the certain administrative and geographical region with conditions other than the average conditions in the country in general. The differences may refer to climate, national, political, legislative and other characteristics of the region which influence on the borrower's position and, therefore, become a component of credit risk.

Concentration of assets and liabilities by region is shown in tables 33.6, 33.7.

Table 33.6 Analysis of geographic concentration of financial assets and financial liabilities for 2012

(UAH'000)

Line	Description	Ukraine	OECD	Other countries	Total
1	2	3	4	5	6
	Assets				
1	Cash and cash equivalents	414 820	178 897	7 336	601 053
2	Mandatory reserves with the National Bank of Ukraine	74 125	-	-	74 125
3	Other financial assets at fair value through profit or loss	3 006	-	-	3 006
4	Due from banks	200	-	-	200
5	Loans and advances to customers	3 157 981	56 783	881	3 215 645
6	Securities available-for-sale	127 220	-	-	127 220
7	Other financial assets	47 668	2	-	47 670
8	Total financial assets	3 825 020	235 682	8 217	4 068 919
	Liabilities				
9	Due to banks	5 242	257 654	80 188	343 084
10	Due to customers	3 050 000	19 830	31 210	3 101 040
11	Debt securities issued by the Bank	99 180	-	-	99 180
12	Other financial liabilities	111 595	63 044	1 520	176 159
13	Subordinated debt	-	-	119 466	119 466
14	Total financial liabilities	3 266 017	340 528	232 384	3 838 929

Table 33.7 Analysis of geographic concentration of financial assets and financial liabilities for 2011

(UAH'000)

Line	Description	Ukraine	OECD	Other countries	Total
1	2	3	4	5	6
	Assets				
1	Cash and cash equivalents	375 310	96 985	6 390	478 685
2	Mandatory reserves with the National Bank of Ukraine	83 514	-	-	83 514
3	Due from banks	138 460	-	-	138 460
4	Loans and advances to customers	4 578 175	52 321	1 059	4 631 555
5	Securities available-for-sale	1 114	-	-	1 114
6	Other financial assets	49 532	-	-	49 532
7	Total financial assets	5 226 105	149 306	7 449	5 382 860
	Liabilities				
8	Due to banks	36 796	1 174 097	3	1 210 896
9	Due to customers	3 106 385	19 782	9 143	3 135 310
10	Debt securities issued by the Bank	1	-	-	1
11	Other financial liabilities	102 093	62 046	59	164 198
12	Subordinated debt	-	-	123 718	123 718
13	Total financial liabilities	3 245 275	1 255 925	132 923	4 634 123

Liquidity risk

Liquidity risk is managed in compliance with the Bank's policy on liquidity risk management.

Liquidity risk is the risk that the Bank shall be unable to exercise its obligations within the established term due to lack of possibility to attract assets at the market or sell its liquidity assets. The Bank is able to cover cash outflow on account of funds, marketable assets and its own ability to receive loans. In particular, under the market crisis it becomes rather difficult (or practically impossible) to sell such marketable assets or use them in security for cash. From this point of view the liquidity risk is closely connected with the liquidity terms at the market.

To manage the liquidity risk the Bank constantly monitors future expected cash flows at operations with customers and intra-banking transactions, which is a part of the assets/liabilities management process. The Bank determines the liquidity risk and manages it based on the internal liquidity ratios and based on liquidity ratios established by the NBU.

Liquidity risk management covers current and term liquidity management, as well as liquidity management under the extraordinary conditions.

The process of liquidity risk management of the Bank is divided into three macro zones: (I) short-term, (II) structural and (III) extraordinary plan.

Short-term liquidity comprises the system of indices, limits and threshold limits of liquidity, which the Bank is exposed within the short-term period, used for establishing of the maximum risk which the Bank is ready to challenge and ensure the best approach to its management. The short-term period is accepted as the most important period considering that in case of problems with liquidity the Bank's solvency during the first several days is the critical factor for further development of any crisis situation.

Structural liquidity involves the system of actions and limits aimed at control and management of risks, arising due to inconsistency between the maturities of medium-term/long-term assets and liabilities, which are critically important for strategic planning of liquidity management and for avoidance of further deficit of short-term liquidity.

The issues of liquidity management under the crisis situations due to deterioration of the Bank's financial position have been specified in the Contingency Plan.

The Contingency Plan determines the system of indices for identification of the unforeseen conditions which may lead to deterioration of the Bank's liquidity position. Such plan comprises the list of authorities and procedures to be implemented under the extreme conditions.

The extraordinary situation in the light of liquidity may be related to market situation or the specific banking situation, whereas in view of its duration such situation may be classified as a temporary (several days) or a long one.

The Contingency Plan provides:

- detection of the initial indices of liquidity lack, their permanent control and determination of procedures to be implemented when the lack of liquidity becomes evident;
- legitimating of the actions of management responsible for administration of the extraordinary liquidity who should be able to the quick change of assets and liabilities structure;
- a range of instruments for immediate actions and intermediation to resolve the extraordinary situation.

Table 33.8 Analysis of financial liabilities by maturities for 2012

Contractual maturities of undiscounted cash flows (including interest payments) on financial liabilities as at 31 December 2012 are as follows:

(UAH'000)

Line	Description	On demand and up to 1 month	1 to 3 months	3 to 12 months	12 months to 5 years	More than 5 years	Total
1	2	3	4	5	6	7	8
1	Due to banks	5 245	-	351 057	-	-	356 302
2	Due to customers:	1 549 874	759 272	814 041	53 757	-	3 176 944
2.1	Due to individuals	956 658	737 875	729 834	53 503	-	2 477 870
2.2	Other	593 216	21 397	84 207	254	-	699 074
3	Debt securities, issued by the Bank	-	-	104 043	-	-	104 043
4	Subordinated debt	559	1 101	4 926	133 526	-	140 112
5	Other financial liabilities	162 303	664	13 045	142	6	176 160
6	Financial guarantees	28 069	2 055	-	-	-	30 124
7	Other credit-related obligations	31 948	-	-	-	-	31 948
8	Total potential future payments per financial obligations	1 777 998	763 092	1 287 112	187 425	6	4 015 633

Table 33.9 Analysis of financial liabilities by maturities for 2011

Contractual maturities of undiscounted cash flows (including interest payments) on financial liabilities as at 31 December 2011 are as follows:

(UAH'000)

Line	Description	On demand and up to 1 month	1 to 3 months	3 to 12 months	12 months to 5 years	Total
1	2	3	4	5	6	7
1	Due to banks	100 532	13 837	57 743	1 156 626	1 328 738
2	Due to customers:	1 568 751	594 855	925 579	128 223	3 217 408
2.1	Due to individuals	1 060 245	507 290	868 854	128 223	2 564 612
2.2	Other	508 506	87 565	56 725	-	652 796
3	Subordinated debt	11 657	1 151	5 274	134 604	152 686
4	Other financial liabilities	105 337	12 212	46 649	-	164 198
5	Financial guarantees	199 063	-	-	-	199 063
6	Other credit related commitments	36 304	-	-	-	36 304
7	Total potential future payments per financial obligations	2 021 644	622 055	1 035 245	1 419 453	5 098 397

Table 33.10 Analysis of financial assets and liabilities based on contractual maturities for 2012

(UAH'000)

Line	Description	On demand and up to 1 month	1 to 3 months	3 - 12 months	12 months to 5 years	More than 5 years	Total
1	2	3	4	5	6	7	8
	Assets						
1	Cash and cash equivalents	601 053	-	-	-	-	601 053
2	Other financial assets at fair value through profit or loss	3 006	-	-	-	-	3 006
3	Due from banks	200	-	-	-	-	200
4	Loans and advances to customers	166 469	264 290	1 014 288	1 086 965	683 633	3 215 645
5	Securities available-for-sale	34	127 186	-	-	-	127 220
7	Other financial assets	22 175	191	25 304	-	-	47 670
8	Total financial assets	792 937	391 667	1 039 592	1 086 965	683 633	3 994 794
	Liabilities						
9	Due to banks	5 245	-	337 839	-	-	343 084
10	Due to customers	1 543 808	739 379	774 410	43 443		3 101 040
11	Debt securities issued by the Bank	1	-	99 179	-	-	99 180
12	Other financial liabilities	162 302	664	13 045	142	6	176 159
13	Subordinated debt	-	-	-	119 466	-	119 466
14	Total financial liabilities	1 711 356	740 043	1 224 473	163 051	6	3 838 929
15	Net liquidity gap as at 31 December 2012	(918 419)	(348 376)	(184 881)	923 914	683 627	155 865
16	Cumulative liquidity gap as at 31 December 2012	(918 419)	(1 266 795)	(1 451 676)	(527 762)	155 865	-

Table 33.11 Analysis of financial assets and liabilities based on contractual maturities for 2011

(UAH'000)

Line	Description	On demand and up to 1 month	1 to 3 months	3 - 12 months	12 months to 5 years	More than 5 years	Total
1	2	3	4	5	6	7	8
	Assets						
1	Cash and cash equivalents	478 685	-	-	-	-	478 685
2	Due from banks	146 123	-	-	-	-	146 123
3	Loans and advances to customers	268 186	242 295	1 402 049	1 647 869	1 071 156	4 631 555
4	Securities available-for-sale	34	-	-	1 080	-	1 114
5	Other financial assets	49 532	-	-	-	-	49 532
6	Total financial assets	942 560	242 295	1 402 049	1 648 949	1 071 156	5 307 009
	Liabilities						
7	Due to banks	98 001			1 112 895		1 210 896
8	Due to customers	1 562 424	579 623	876 544	118 249		3 136 840
9	Debt securities issued by the Bank	1	-	-	-	-	1
10	Other financial liabilities	105 336	12 212	46 650	-	-	164 198
11	Subordinated debt	11 062	-	-	112 656	-	123 718
12	Total financial liabilities	1 776 824	591 835	923 194	1 343 800	-	4 635 653
13	Net liquidity gap as at 31 December 2011	(834 264)	(349 540)	478 855	305 149	1 071 156	671 356
14	Cumulative liquidity gap as at 31 December 2011	(834 264)	(1 183 804)	(704 949)	(399 800)	671 356	-

Note 34. Capital management

The Bank's shareholders give sufficient deal of interest to capital increase, specifically, to increase of the share capital as the key component of capital.

The Bank's capital is formed for the purpose of:

– highly profitable use of own assets;

– covering of all risks accepted by the Bank;

– optimization of assets and liabilities structure by ageing and investment of funds.

Table 34.1 Regulatory capital structure

The NBU sets and monitors capital requirements for the Bank as a whole. The Bank is directly supervised by their local regulators.

Under the current capital requirements set by the NBU, banks have to maintain a ratio of capital to risk weighted assets (regulatory capital ratio) above the prescribed minimum level. If the Bank does not maintain or sufficiently increase its capital base in line with the increase in its risk weighted assets, it may be non-compliant with the NBU capital adequacy regulations, which could lead to the imposition of sanctions by the NBU. This could have a material adverse effect on results of operations and financial position. As at 31 December 2012, the minimum level required by the NBU is 10.0% (31 December 2011: 10.0%).As at 31 December 2012 the Bank performed calculations of the regulatory capital, considering all adjusting entries made in the balance sheet for the regulatory capital purposes only (the adjusting entries relating to balances as at 31 December 2012 were processed by the Bank on 14 March 2013), including adjustments in respect of loan losses in accordance with NBU’s Regulations “On calculation of the provision” No. 23 of 25 January 2012. Based on this calculation as at 31 December 2012, which included adjusting entries, the Bank determined that it was in deficit of the regulatory capital requirements compared to the minimum required level as determined by the Natioanal Bank of Ukraine.

In order to strengthen the regulatory capital the following measures were taken:

On 5 March 2013 the sole shareholder, being the parent company, Intesa Sanpaolo S.p.A. made a decision to increase capital of PJSCCB “PRAVEX-BANK by EUR 70 million, which will be converted to Ukrainian hryvnias as at the date of purchase of shares.

Additionally, in March 2013, parent company Intesa Sanpaolo S.p.A. provided a guarantee amounting to USD 108,793 thousand for doubtful loans. This resulted in a decrease by UAH 676,003 thousand of the adjustment for loan losses used in the calculation of the regulatory capital requirements as at 14 March 2013. Adjustment for loan losses was determined in accordance with the Regulation of the National Bank of Ukraine # 23 “On calculation of the provision” dated 25 January 2012. Such decrease had a positive impact on certain economic ratios, specifically the regulatory capital amount calculated in accordance with the regulatory requirements. The guarantee had no impact on the level of the loan loss impairment provisions under IFRS recognized in these financial statements.

Table 34.2. The composition of capital calculated in accordance with the requirements of the Basel Accord II

As at 31 December 2012 and 2011, Bank’s capital adequacy ratio calculated in accordance with Basel Accord II, is as follows:

(UAH’000)

Line	Description	2012	2011
1	2	3	4
1	Tier I capital	469 907	1 088 453
2	Tier II capital	162 202	192 681
3	Total	632 109	1 281 134
4	Risk-weighted assets	3 151 235	4 649 615
5	Market risk	13 435	558 563
6	Tier I capital adequacy ratio	14,85%	20,90%
7	Capital adequacy ratio	19.97%	24,60%

Note 35. Contingent liabilities

Capital investments commitments.
As at 31 December 2012, PJSCCB "PRAVEX-BANK" had contractual obligations on purchase of property and equipment, and intangible assets amounting to UAH 2,840 thousand.

Insurance

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

Table 35.1 Structure of credit related commitments

The Bank has outstanding commitments to extend loans. These commitments take the form of approved loans and credit card limits and overdraft facilities. Total outstanding contractual commitments do not necessarily represent future cash requirements, as these commitments may expire or terminate without being funded.

(UAH'000)

Line	Description	2012	2011
1	2	3	4
1	Outstanding credit related commitments	5 735	3 836
2	Undrawn revocable credit lines	387 721	281 327
3	Export letters of credit	11 866	4 224
4	Import letters of credit	6 192	28 824
5	Other letters of credit	-	70
6	Guarantees issued	23 342	197 841
7	Provision for credit related commitments	(794)	(1 053)
8	Total credit related commitments less provision	434 062	515 069

Table 35.2 Credit related commitments by currency

(UAH'000)

Line	Description	2012	2011
1	**2**	**3**	**4**
1	UAH	194 824	193 906
2	USD	186 744	250 701
3	Euro	50 126	68 216
4	Other	2 368	2 246
5	Total	434 062	515 069

Table 35.3 Assets pledged, but not derecognised

(UAH'000)

Line	Description	2012		2011	
		Pledged assets	Secured liability	Pledged assets	Secured liability
1	**2**	**4**	**5**	**6**	**7**
1	Securities available-for-sale	3 709	-	-	-
2	Total	3 709	-	-	-

Note 36. Fair value of financial instruments

Fair value of a financial instrument is defined as the amount for which an asset could be exchanged, or a liability settled, between the knowledgeable, willing and independent parties. Fair value estimates are based on the assumption that the Bank will continue its activities in future without any liquidation or essential reduction of transactions or carrying on transactions on unfavorable conditions. Fair value represents credit quality of financial instrument, as it includes the risk of counterparty's default.

Fair value estimates are based on prices received at financial markets in case of financial instruments quoted in an active market or using internal estimation methods in case of other financial instruments. Market is considered to be active when prices are easily quoted and available on the regular basis (by means of stock exchange, dealer, broker, industrial group, price informational service or regulating authority) and represent actual regular arm's length transactions between independent parties.

When market does not operate on the regular basis and it is no sufficient volatility and constant number of transactions, as well as the difference between purchase price and selling price is inadequate, fair value estimates are mainly based on estimation methods aimed at establishing of the price of hypothetic commercial transaction between independent parties as at the estimation date.

Table 36.1 Analysis of fair value of financial instruments

(UAH'000)

Line	Description	2012		2011	
		Fair value	Book value	Fair value	Book value
1	2	3	4	5	6
	FINANCIAL ASSETS				
1	Cash and cash equivalents	601 053	601 053	478 685	478 685
1.1	Cash	281 362	281 362	332 368	332 368
1.2	Balances with the NBU (other than mandatory reserves)	131 996	131 996	41 869	41 869
1.3	Corresponding accounts due from banks	187 695	187 695	104 448	104 448
2	Obligatory reserves with the NBU	74 125	74 125	83 514	83 514
3	Other financial assets at fair value, through profit or loss	3 006	3 006	-	-
4	Due from banks	200	200	138 460	138 460
4.1	Deposits due from banks:	200	200	-	-
4.2	Loans, issued to other banks:	-	-	138 460	138 460
5	Loans and advances to customers	3 202 856	3 215 645	4 624 352	4 631 555
	FINANCIAL LIABILITIES				
6	Due to banks	343 084	343 084	1 210 896	1 210 896

Line	Description	2012		2011	
		Fair value	Book value	Fair value	Book value
1	2	3	4	5	6
6.1	correspondent accounts, deposits, and overnight loans due to banks	1 736	1 736	2 681	2 681
6.2	Loans received	341 348	341 348	1 208 215	1 208 215
7	Due to customers	3 089 976	3 101 040	3 119 991	3 135 310
8	Debt securities issued by the Bank	99 180	99 180	1	1
8.1	Domestic bonds	99 179	99 179	-	-
8.2	Deposit certificate	1	1	1	1
9	Subordinated debt	119 466	119 466	123 718	123 718

Table 36.2 Analysis of financial instruments at fair value by hierarchy level

(UAH'000)

Line	Description	Fairvalue by measurement method as at 31 December 2012			Total fair value	Total carrying value
		Quoted market price (level I)	Valuation technique using observable inputs (level II)	Valuation technique with significant unobservable inputs (level III)		
1	2	3	4	5	6	7
	FINANCIAL ASSETS					
1	Securities available-for-sale	127 220	-	-	127 220	127 220
1.1	treasury bonds	127 186	-	-	127 186	127 186
1.2	Corporate shares and other securities without fixed income	34	-	-	34	34

The Bank uses the following hierarchy for estimation of fair value of financial instruments and relevant disclosures by measurement method:
Level 1: quoted market price: financial instruments with quoted prices for identical instruments in active markets;
Level 2: valuation technique using observable inputs*:* financial instruments with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial instruments valued using models where all significant inputs are observable.
Level 3: valuation technique with significant unobservable inputs*:* financial instruments valued using valuation techniques where one or more significant inputs are unobservable.

Note 37. Presentation of financial instruments by measurement category

Table 37.1 Financial assets by measurement category for 2012

(UAH'000)

Line	Description	Loans and receivables	Assets available-for-sale	Financial assets at fair value through profit or loss (assets held for trading)	Total
1	2	3	4	5	6
1	Cash and cash equivalents	601 053	-	-	601 053
2	Mandatory reserves with the National Bank of Ukraine	74 125	-	-	74 125
3	Other financial assets at fair value through profit or loss	-	-	3 006	3 006
4	Due from banks:	200	-	-	200
4.1	Deposits due from banks	200	-	-	200
5	Loans and advances to customers:	3 215 645	-	-	3 215 645
5.1	corporate loans	1 357 733	-	-	1 357 733
5.2	loans to individual entrepreneurs	4 680	-	-	4 680
5.3	mortgage loans to individuals	754 543	-	-	754 543
5.4	consumer loans to individuals	2 744 048	-	-	2 744 048
5.5	other retail loans	26 412	-	-	26 412
5.6	loan impairment provision	(1 671 771)	-	-	(1 671 771)
6	Securities available-for-sale	-	127 220	-	127 220
7	Other financial assets:	47 670	-	-	47 670
7.1	Receivables on transactions with customers	2 310	-	-	2 310
7.2	receivables on payment card transactions	25 306	-	-	25 306
7.3	Receivables on accrued income on cash payments and other accrued income	3 110	-	-	3 110
7.4	Cash restricted for use	17 517	-	-	17 517
7.5	Other financial assets	1 027	-	-	1 027
7.6	Impairment loss provision	(1 600)	-	-	(1 600)
8	Total financial assets	3 938 693	127 220	3 006	4 068 919

Table 37.2 Financial assets by measurement category for 2011

(UAH'000)

Line	Description	Loans and receivables	Assets available-for-sale	Financial assets at fair value through profit or loss (assets held for trading)	Total
1	2	3	4	5	6
1	Cash and cash equivalents	478 685	-	-	478 685
2	Mandatory reserves with the National Bank of Ukraine	83 514	-	-	83 514
3	Due from banks:	138 460	-	-	138 460
3.1	Deposits due from banks	138 460	-	-	138 460
4	Loans and advances to customers:	4 631 555	-	-	4 631 555
4.1	corporate loans	1 695 140	-	-	1 695 140
4.2	loans to individual entrepreneurs	6 303	-	-	6 303
4.3	mortgage loans to individuals	860 471	-	-	860 471
4.4	consumer loans to individuals	2 919 291	-	-	2 919 291
4.5	other retail loans	27 856	-	-	27 856
4.6	loan impairment provision	(877 506)	-	-	(877 506)
5	securities available-for-sale	-	1 114	-	1 114
6	Other financial assets:	49 532	-	-	49 532
6.1	Receivables on transactions with customers	4 740	-	-	4 740
6.2	receivables on payment card transactions	17 384	-	-	17 384
6.3	Receivables on accrued income on cash payments and other accrued income	2 704	-	-	2 704
6.4	Cash restricted for use	25 048	-	-	25 048
6.5	Other financial assets	1 121	-	-	1 121
6.6	Impairment loss provision	(1 465)	-	-	(1 465)
7	Total financial assets	5 381 746	1 114	-	5 382 860

Note 38. Transactions with related parties

Table 38.1 Balances with related parties as at 31 December 2012

(UAH'000)

Line	Description	UAH	Interest rate	Maturity	USD	Interest rate	Maturity	EUR	Interest rate	Maturity	Other	Interest rate	Maturity
1	2	3	4	5	6	7	8	9	10	11	12	13	14
	Major shareholders												
	Cash and cash equivalents	-	-	-	416	-	on demand	678	-	on demand	361	-	on demand
	Other financial assets at fair value through profit or loss	-	-	-	-	-		3 006	0,00134%	on demand	-	-	
	Due to banks	-	-	-	257 654	4,14-7.16722%-	from 3 to 12 months		-		-	-	
	Other financial liabilities	-	-	-	-	-		63 042	-	on demand	-	-	
	Other liabilities	-						3 104		on demand			
	Key management personnel												
	Due to customers	770	6-18%	from 1 to 3 months	991	0-8%	from 3 to 12 months	-	-		-	-	
	Other liabilities	155		on demand									
	Other related parties				-								
	Cash and cash equivalents	-	-	-	133	-	on demand	-	-		1 613	-	on demand
	Loans and advances	2	27%	on demand	-	-		-	-		-	-	
	Due to banks	-	-	-	80 185	4,14%	from 3 to 12 months	-	-		-	-	
	Due to customers	102	13-17,5%	Up to one month	537	3%	on demand	-	-		-	-	
	Other liabilities	65		-									

Related parties comprise entities under common control, members of the supervisory board, key management personal and their immediate family members, companies that are controlled or significantly influenced by shareholders, by key management personal or by their close family members.

Table 38.2 Transactions with related parties for 2012

(UAH'000)

Line	Description	Major shareholders	Key management personnel	Other related parties
1	**2**	**3**	**4**	**5**
1	Interest income	12	-	45
2	Interest expense	(51 350)	(142)	(283)
3	Revaluation surplus on other financial assets at fair value through profit or loss	746	-	-
4	Gains less losses from dealing in foreign currency	633	-	-
5	Gains less losses from foreign currency translation	(3 248)	(5)	8
6	Commission income	1 000	29	6
7	Commission expense	(374)	-	(11)
8	Administrative and other operating expenses	(5 934)	(20 553)	(2 712)

Table 38.3 Other rights and liabilities on transactions with related parties as at 31 December 2012

(UAH'000)

Line	Description	Major shareholders
1	**2**	**3**
1	Guarantees received	2 107

Table 38.4 Loans granted to and repaid by related parties during 2012

(UAH'000)

Line	Description	Other related parties
1	**2**	**3**
1	Loans repaid by related parties during the year	50

Table 38.5 Balances with related parties as at 31 December 2011

(UAH'000)

Line	Description	UAH	Interest rate	Maturity	USD	Interest rate	Maturity	EUR	Interest rate	Maturity
1	2	3	4	5	6	7	8	9	10	11
	Major shareholders									
	Cash and cash equivalents	-	-	-	64 002	1%	on demand	424	1%	on demand
	Due to banks	-	-	-	1 117 969	1%	-	56 128	1%	
	Other financial liabilities	7	-	on demand	-	-	-	62 039	-	on demand
	Other liabilities	-	-	-	-	-	-	2 684	-	from 1 to 3 months
	Key management personnel									
	Due to customers	2 100	10%	1 672 (on demand); 428 (over 12 months)	667	-	from 3 to 12 months	-	-	-
	Other liabilities	371	-	on demand	-	-	-	-	-	-
	Other related parties									
	Cash and cash equivalents	45	-	on demand	-	-	-	-	-	-
	Loans and advances	344	12%	over 12 months	194	10%	over 12 months	-	-	-
	Due to customers	110	11%	from 3 to 12 months	724	3%	on demand	-	-	-
	Other liabilities	86	-	-	-	-	-	-	-	-

Table 38.6. Results of transactions with related parties for 2011

(UAH'000)

Line	Description	Major shareholders	Key management personnel	Other related parties
1	2	3	4	5
1	Interest income	26	-	26
2	Interest expense	(60 548)	(123)	(43)
3	Gains less losses from foreign currency translation	1 825	7	(8)
4	Commission income	873	12	8
5	Commission expense	(139)	-	(1)
6	Other operating income	5 144	-	-
7	Administrative and other operating expenses	(15 540)	(24 823)	(6 258)

Table 38.7 Other rights and liabilities on transactions with related parties as at 31 December 2011

(UAH'000)

Line	Description	Major shareholders
1	2	3
1	Guarantees received	56 377
2	Import letters of credit	25 024

Table 38.8 Loans granted to and repaid by related parties during 2011

(UAH'000)

Line	Description	Other related parties
1	2	3
1	Loans repaid by related parties during the year	33

Table 38.9 Remuneration to key management personnel

(UAH'000)

Line	Description	2012		2011	
		Costs	Accrued liabilities	Costs	Accrued liabilities
1	2	3	4	5	6
1	Short-term employee benefits	14 734	155	22 841	8 371
2	Dissmisal costs	4 656	-	246	-

The Bank's shareholder with 100% ownership is Intesa Sanpaolo S.p.A. incorporated in Intesa Sanpaolo Group.

Note 39. Subsequent events

On 5 March 2013 the sole shareholder, being the parent company, Intesa Sanpaolo S.p.A. made a decision to increase capital of PJSCCB “PRAVEX-BANK by EUR 70 million, which will be converted to Ukrainian hryvnias as at the date of purchase of shares.

Additionally, in March 2013, parent company Intesa Sanpaolo S.p.A. provided a guarantee amounting to USD 108,793 thousand for doubtful loans. This resulted in a decrease by UAH 676,003 thousand of the adjustment for loan losses used in the calculation of the regulatory capital requirements as at 14 March 2013. Adjustment for loan losses was determined in accordance with the Regulation of the National Bank of Ukraine # 23 “On calculation of the provision” dated 25 January 2012. Such decrease had a positive impact on certain economic ratios, specifically the regulatory capital amount calculated in accordance with the regulatory requirements. The guarantee had no impact on the level of the loan loss impairment provisions under IFRS recognized in these financial statements.

Note 40. Other information in accordance with the requirements of the Ukrainian legislation

Pursuant to the requirements of the Resolution No. 1528 dated 19 December 2006 and Resolution No. 1360 dated 29 September 2011 of the National Commission on Securities and Stock Market the Bank discloses the following information as at 31 December 2012 and 2011:

- The Bank’s assets and liabilities are presented in the statement of financial position as at 31 December 2012 in these financial statements, in particular in the statement of financial position;
- The Bank’s elements of equity are presented in the statement of changes in equity for the year ended 31 December 2012 in these financial statements, information about the Bank’s capital is presented in note 23;
- Net assets amount is lower than the amount of statutory capital (share capital) of the Bank (note 23);
- Statutory capital of the Bank is fully paid;
- The Bank did not manage non-state pension funds;
- The Bank did not have mortgage securities issued.

During 2012 there were no events as defined under the part 1 of Article 41 of the Law of Ukraine “On securities and stock market” that could have had significant impact on the financial position of the Bank or led to significant change of the value of its securties issued, including the following:

- No decisions on issuance of securities for the amount exceeding 25% of statutory capital of the Bank were approved;
- No decision on buy back of the Bank’s own shares were approved;
- No facts of listing/de-listing of own Bank’s securities issued at stock-exchange took place;
- No loans were received the amount of which exceeds 25% of statutory capital of the Bank;
- No significant changes in the structure of Bank’s management took place. At the same time during September 2012, Mr. Sergey Naumov resigned from a position of the Head of Management Board; Mr. T. Kyrychenko was appointed Acting Chairman of the Board

- No changes in shareholders owing 10% and more of the voting shares of the Bank took place;
- No decisions were approved to open an affiliate and/or representative office. The Bank approved the decision to close 83 branches;
- No decisions were approved to decrease the Bank's statutory capital;
- No court decisions on the Bank bankruptcy or reorganization of potential bankrupt were taken;
- No decisions of Bank's supreme governing body or court were taken in relation to filing for bankruptcy or suspension of bankruptcy proceedings.

The Bank's corporate governance status, including its internal audit function

The Bank's supreme governing body is general meeting of shareholders which assigns Supervisory Board that is responsible for defining the Bank's strategy, appoinment of members of the Management Board, approvals of the Bank's structure and business-plans.

The Management Board (the Board) is executive body responsible for governing daily banking operations and reportable to the Supervisory Board. The Board is responsible for establishing controls and monitoring of risks. The Bank also established management committees primarily responsible for risk management (note 33), credit approvals, tariffs and assets and liabilities management.

The Bank established Internal Audit Department responsible for independent assessment of organizational structure and checking the control implementation. The Internal Audit Department reports directly to the Supervisory Board.

Acting Chairman of the Board
of PJSCCB "PRAVEX-BANK" **T.O. Kyrychenko**

Chief Accountant
of PJSCCB "PRAVEX-BANK" **O.Yu. Kibets**

21.03.2013

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Independent Auditors' Report

To the Board of Directors
Public Joint-Stock Company Commercial Bank "PRAVEX-BANK"

Report on the financial statements

We have audited the accompanying financial statements of Public Joint-Stock Company Commercial Bank "PRAVEX-BANK" (the Bank) (EDRPOU Code 14360920, located Klovskiy Uzviz 9/2, registered in Kyiv on 29 December 1992), which comprise the statement of financial position as at 31 December 2012, and the statements of comprehensive income, cash flows and changes in equity, for the year then ended, and a summary of significant accounting policies and other explanatory notes, which includes general information on the Bank's activities.

Management's Responsibility

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, requirements of the National Bank of Ukraine on financial reporting by Ukrainian banks, Ukrainian legislation, the effective regulations on submission of annual reports by issuers and professional participants in the stock market to the National Commission on Securities and Stock Market 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 adopted as Ukraine's National Standards on Auditing pursuant to Resolution of the Audit Chamber of Ukraine # 229/7 dated 31 March 2011 and in accordance with the requirements adopted pursuant to Resolution # 1528 dated 19 December 2006 and Resolution # 1360 dated 29 September 2011 of the National Commission on Securities and Stock Market. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of 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, requirements of the National Bank of Ukraine on financial reporting by Ukrainian banks, and Ukrainian legislation.

Other Matter

The supplementary information on pages S1-S3 accompanying the financial statements, which is presented solely for the convenience of users, does not form part of the financial statements and is unaudited.

Report on Other Legal and Regulatory Requirements

Report on requirements of the National Commission on Securities and Stock Market

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. In conformity with Resolutions of the State Commission on Securities and Stock Market # 1528 dated 19 December 2006 and # 1360 dated 29 September 2011, our audit procedures addressed the disclosure of information in the financial statements as required by International Financial Reporting Standards, requirements of the National Bank of Ukraine on financial reporting by Ukrainian banks, Ukrainian legislation and the effective regulations on submission of annual reports by issuers and professional participants in the stock market to the National Commission on Securities and Stock Market. We conducted our audit in accordance with the engagement contract # 7-SA/2012 dated 19 January 2012. Our audit was conducted between 19 January 2012 and 21 March 2013.

In our opinion, the disclosed information in the financial statements has been prepared, in all material respects, in accordance with International Financial Reporting Standards, requirements of the National Bank of Ukraine on financial reporting by Ukrainian banks, Ukrainian legislation and the effective regulations on submission of annual reports by issuers and professional participants in the stock market to the National Commission on Securities and Stock Market.

The supplementary information on pages S1-S3 accompanying the financial statements, which is presented solely for the convenience of users, does not form part of the financial statements and is unaudited.

In addition, based on Resolution of the National Commission on Securities and Stock Market # 1360 dated 29 September 2011, we inform you of the following:

- As at 31 December 2012, the Bank does not comply with the requirements of Part Three, Article 155 of the Civil Code of Ukraine in respect of net asset value;
- There are no significant discrepancies between the financial statements and other information prepared by the Bank and submitted to the National Commission on Securities and Stock Market together with the financial statements;

- During the year ended 31 December 2012, the Bank complied with the requirements on execution of any significant legal transactions in excess of 10 per cent of the total assets' value in accordance with Article 70 of the Law of Ukraine "On Joint-Stock Companies";
- The information disclosed in the financial statements properly presents the Bank's corporate governance status, including its internal audit function;
- In the course of our audit, we determined and performed assessment of risks of material misstatement due to fraud in accordance with ISA 240, The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements.

JSC KPMG Audit

JSC "KPMG Audit"
Certificate # 2397 of 26 January 2001
issued by the Audit Chamber of Ukraine
EDRPOU Code: 31032100
NBU Banking Auditor's Registration Certificate # 0000012 of 17 September 2012, Resolution # 39
21 March 2013

Ania Parkhomenko
Certified Auditor

ACU Certificate: # 0085 dated 29 October 2009
NBU Certificate: # 0000044 dated 20 September 2007

PUBLIC JOINT-STOCK COMPANY
COMMERCIAL BANK
"PRAVEX-BANK"

Unaudited supplementary Information to the Financial Statements as at 31 December 2012

Unaudited supplementary information to the Financial Statements as at 31 December 2012

The Bank performs a strict control of the established regulatory normatives on a daily basis in accordance with requirements of "Instruction on procedure of Ukrainian banks activity regulation", approved by NBU Resolution No.368 dd. August 28th, 2001.

The regulatory capital (N1) and the regulatory capital adequacy ratio (N2) that were calculated on the basis of the daily statistical reporting (file # 1) for a period from 29.12.2012 to 19.03.2013 are presented below, that show that the Bank has been in compliance with the capital limits set by the NBU.

Date	Regulatory capital (N1), UAH ths	Regulatory capital adequacy (N2), %
29.12.2012	1 009 926	
02.01.2013	1 006 628	22,01%
03.01.2013	1 006 628	
04.01.2013	1 006 040	
08.01.2013	1 004 335	
09.01.2013	1 003 961	
10.01.2013	1 001 989	
11.01.2013	1 001 981	19,24%
14.01.2013	985 320	
15.01.2013	981 674	
16.01.2013	980 425	
17.01.2013	980 313	
18.01.2013	981 213	
21.01.2013	981 213	21,25%
22.01.2013	867 284	
23.01.2013	867 568	
24.01.2013	868 923	
25.01.2013	869 549	
28.01.2013	867 995	
29.01.2013	869 569	
30.01.2013	866 287	
31.01.2013	864 049	
01.02.2013	842 167	19,30%
04.02.2013	841 661	
05.02.2013	832 988	
06.02.2013	821 818	
07.02.2013	831 993	
08.02.2013	830 014	
11.02.2013	831 496	18,90%

Date	Regulatory capital (N1), UAH ths	Regulatory capital adequacy (N2), %
12.02.2013	836 534	
13.02.2013	828 824	
14.02.2013	829 432	
15.02.2013	833 539	
18.02.2013	833 254	
19.02.2013	836 144	
20.02.2013	836 707	
21.02.2013	837 320	18,70%
22.02.2013	837 754	
25.02.2013	837 607	
26.02.2013	840 707	
27.02.2013	843 179	
28.02.2013	839 967	
01.03.2013	819 867	18,31%
04.03.2013	819 876	
05.03.2013	819 874	
06.03.2013	816 807	
07.03.2013	816 807	
11.03.2013	829 071	17,85%
12.03.2013	829 071	
13.03.2013	822 881	
14.03.2013	823 770	
15.03.2013	761 809	
18.03.2013	760 413	
19.03.2013	770 820	

Based on the daily statistical reports submitted to the NBU during 2012 the Bank has been in compliance with the capital adequacy ratios set by NBU.

Acting Chairman of the Board
of PJSCCB "PRAVEX-BANK" **T.O. Kyrychenko**

Chief Accountant
of PJSCCB "PRAVEX-BANK" **O.Yu. Kibets**
21.03.2013