Kredobank Group

International Financial Reporting Standards Consolidated Financial Statements and Independent Auditor’s Report

31 December 2012

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders and Management of Kredobank Group:

1 We have audited the accompanying consolidated financial statements of Public Joint Stock Company "Kredobank" and its subsidiary (the "Group") which comprise the consolidated statement of financial position as at 31 December 2012 and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

LLC AF PricewaterhouseCoopers (Audit)

26 February 2013

Kyiv, Ukraine

LLC Audit Firm "PricewaterhouseCoopers (Audit)", 75 Zhylyanska Street, Kyiv 01032, Ukraine
T: +380 44 490 6777, F: +380 44 490 6738, www.pwc.com/ua

In thousands of Ukrainian hryvnias	Note	31 December 2012	31 December 2011
ASSETS			
Cash and cash equivalents and mandatory reserves	7	873,295	587,242
Securities at fair value through profit or loss	8	38,678	-
Due from other banks	9	5,736	44,225
Loans and advances to customers	10	2,233,497	1,825,160
Investment securities available for sale	11	536,121	590,991
Investment securities held to maturity	12	122,799	-
Current income tax prepayment		3,208	5,001
Deferred income tax asset	26	148,413	156,768
Intangible assets	13	60,745	44,165
Premises, leasehold improvements and equipment	13	474,589	332,052
Other financial assets	14	17,015	60,990
Other non-financial assets	15	39,728	43,379
TOTAL ASSETS		**4,553,824**	**3,689,973**
LIABILITIES			
Due to other banks	16	693,895	92,385
Customer accounts	17	2,845,029	2,629,837
Other financial liabilities	18	36,781	17,695
Other non-financial liabilities	19	18,839	22,242
Subordinated debt	20	283,746	277,870
TOTAL LIABILITIES		**3,878,290**	**3,040,029**
EQUITY			
Share capital	21	1,918,969	1,918,969
Accumulated deficit		(1,405,917)	(1,269,368)
Revaluation reserve for premises	22	171,663	-
Revaluation reserve for investment securities available for sale		(9,181)	343
TOTAL EQUITY		**675,534**	**649,944**
TOTAL LIABILITIES AND EQUITY		**4,553,824**	**3,689,973**

Approved for issue and signed on behalf of the Management Board on 26 February 2013.

Dmytro Krepak
Chairman of the Management Board

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Grzegorz Szatkowski
Vice-President of the Management Board
Chief Financial Officer

In thousands of Ukrainian hryvnias	Note	2012	2011
Interest income	23	386,843	360,040
Interest expense	23	(230,783)	(232,278)
Net interest income		**156,060**	**127,762**
Provision for loan impairment	10	(56,317)	(222,365)
Net interest income/(negative interest margin) after provision for loan impairment		**99,743**	**(94,603)**
Fee and commission income	24	147,267	108,618
Fee and commission expense	24	(2,131)	(4,346)
Gains less losses from trading in foreign currencies		3,336	7,548
Foreign exchange translation (losses less gains)/gains less losses		(1,196)	1,897
(Losses less gains)/gains less losses from securities at fair value through profit or loss		(479)	9,763
Reversal of impairment of investment securities available for sale		-	8,152
Losses less gains less from disposals of investment securities available for sale		(5,156)	-
Impairment of premises and equipment		(16,527)	(32,220)
Provision for other financial and non-financial assets		(23,740)	(239)
Reversal of provision for credit related commitments		393	481
Other operating income		3,641	8,288
Administrative and other operating expenses	25	(329,666)	(304,056)
Loss before tax		**(124,515)**	**(290,717)**
Income tax (expense)/credit	26	(12,034)	25,175
Loss for the year		**(136,549)**	**(265,542)**
Other comprehensive income			
Investment securities available for sale:			
- (Losses less gains)/gains less losses arising during the year	22	(11,338)	408
Revaluation of premises and equipment	13, 22	169,798	-
Income tax recorded directly in other comprehensive income	22, 26	3,679	(65)
Other comprehensive income for the year		**162,139**	**343**
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR		**25,590**	**(265,199)**
Loss per share for loss attributable to the owners of the Group, basic and diluted (expressed in UAH per share)		**(0.0007)**	**(0.0014)**

In thousands of Ukrainian hryvnias	Note	Share capital	Revaluation reserve for investment securities available for sale	Reva-luation reserve for premises	Accumu-lated deficit	Total equity
Balance at 1 January 2011		**1,918,969**	**-**	**-**	**(1,003,826)**	**915,143**
Loss for the year		-	-	-	(265,542)	(265,542)
Other comprehensive income		-	343	-	-	343
Total comprehensive loss for 2011		-	343	-	(265,542)	(265,199)
Balance at 31 December 2011		**1,918,969**	**343**	**-**	**(1,269,368)**	**649,944**
Loss for the year		-	-	-	(136,549)	(136,549)
Other comprehensive income	22	-	(9,524)	171,663	-	162,139
Total comprehensive loss for 2012		-	(9,524)	171,663	(136,549)	25,590
Balance at 31 December 2012		**1,918,969**	**(9,181)**	**171,663**	**(1,405,917)**	**675,534**

In thousands of Ukrainian hryvnias	Note	2012	2011
Cash flows from operating activities			
Interest received		349,099	619,635
Interest paid		(234,210)	(241,918)
Fees and commissions received		152,966	116,780
Fees and commissions paid		(11,095)	(12,508)
Income received from trading in foreign currencies		3,336	7,548
Other operating income received		3,641	7,379
Staff costs paid		(155,171)	(134,449)
Administrative and other operating expenses paid		(140,660)	(124,671)
Cash flows (used in)/from operating activities before changes in operating assets and liabilities		**(32,094)**	**237,796**
Net (increase)/decrease in securities at fair value through profit or loss		(39,157)	9,743
Net decrease/(increase) in due from other banks		37,524	(40,012)
Net decrease/(increase) in mandatory deposits with the NBU		7,600	(6,785)
Net (increase)/decrease in loans and advances to customers		(419,668)	771,815
Net decrease/(increase) in other financial and non-financial assets		27,152	(782)
Net increase/(decrease) in due to other banks		598,506	(419,973)
Net increase/(decrease) in customer accounts		217,456	(330,881)
Net increase/(decrease) in other financial and non-financial liabilities		20,695	(12,876)
Net cash from operating activities		**418,014**	**208,045**
Cash flows from investing activities			
Acquisition of investment securities available for sale		(557,128)	(1,014,257)
Proceeds from disposal and redemption of investment securities available for sale		594,710	840,057
Acquisition of investment securities held to maturity		(122,799)	-
Acquisition of premises and equipment	13	(20,545)	(32,258)
Proceeds from disposal of premises and equipment		250	2,611
Acquisition of intangible assets	13	(22,192)	(17,755)
Acquisition of subsidiaries, net of cash acquired	34	(778)	-
Net cash used in investing activities		**(128,482)**	**(221,602)**
Cash flows from financing activities			
Net cash from financing activities		**-**	**-**
Effect of exchange rate changes on cash and cash equivalents		**4,121**	**390**
Net increase/(decrease) in cash and cash equivalents		**293,653**	**(13,167)**
Cash and cash equivalents at the beginning of the year		579,642	592,809
Cash and cash equivalents at the end of the year	3, 7	**873,295**	**579,642**

1 Introduction

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2012 for Public Joint Stock Company "Kredobank" (the "Bank") and its subsidiary (the "Group").

The Bank was incorporated and is domiciled in Ukraine. The Bank is a public joint stock company limited by shares and was set up in accordance with Ukrainian regulations. As of 31 December 2012 and 2011 the Bank's immediate parent company was PKO BP S.A. (Poland). The Bank is a part of the PKO BP S.A. Group ("PKO BP S.A Group"). The Group is ultimately controlled by the State Treasury of Poland.

Principal activity. The Group's main principal business activity is commercial and retail banking operations within Ukraine. The Bank was founded in 1990 as a joint stock company. Initially registered by the USSR State Bank, the Bank was re-registered by the National Bank of Ukraine (the "NBU") on 14 October 1991 under the name of West-Ukrainian Commercial Bank. In 2002, the Bank was renamed as Kredyt Bank (Ukraina). In November 2005, the shareholders of the Bank made the decision to change the name to Kredobank. Under the decision of Extraordinary General Shareholders Meeting on 26 November 2009, the Bank changed its name to Public Joint Stock Company "KREDOBANK" in order to bring its activities into compliance with the requirements of the Law of Ukraine On Joint Stock Companies.

The Bank operates under general banking licence issued by the NBU on 27 January 2006. This licence provides the Bank with the right to conduct banking operations, including currency operations. The Bank also possesses licences for securities operations and custodial services from the State Commission for Securities and Stock Market issued on 19 October 2007 (due to change in the Bank's name the licences were re-issued on 25 January 2010). The Bank participates in the State deposit insurance scheme (registration # 51 dated 19 October 2012), which operates according to the Law №2740-III "On Individuals Deposits Guarantee Fund" dated 20 September 2001 (as amended). Individuals Deposits Guarantee Fund guarantees repayment of individual deposits up to UAH 200 thousand (2011: UAH 150 thousand) per individual in case bank liquidation procedure is started.

As at 31 December 2012 the Bank has 1 branch and 130 outlets (2011: 1 branch and 130 outlets) within Ukraine.

Registered address and place of business. The Bank's registered address and place of business is:

Saharova Str., 78
79026 Lviv,
Ukraine.

Presentation currency. These financial statements are presented in Ukrainian hryvnias ("UAH"), unless otherwise stated.

2 Operating Environment of the Group

Ukraine displays certain characteristics of an emerging market, including but not limited to, the existence of a currency that is not freely convertible outside of Ukraine, restrictive currency controls and high interest rates.

The latest global financial crisis has had a severe effect on the Ukrainian economy and the financial situation in the Ukrainian financial and corporate sectors significantly deteriorated since mid-2008. Money market liquidity levels were very volatile during 2010-2012, however measures undertaken by Government and the NBU ensured stable exchange rate of Ukrainian hryvnia against major foreign currencies.

The continuation of stagnation in the economy resulted in real GDP growth of 0.2% in 2012 (2011: 5.2%).

The ongoing international sovereign debt crisis, stock market volatility and other risks could have a negative effect on the Ukrainian financial and corporate sectors. Management determined loan impairment provisions by considering the economic situation and outlook at the end of the reporting period, and applied the 'incurred loss' model required by the applicable accounting standards. These standards require recognition of impairment losses that arose from past events and prohibit recognition of impairment losses that could arise from future events, no matter how likely those future events are. Thus final impairment losses from financial assets could differ significantly from the current level of provisions. Refer to Note 4.

2 Operating Environment of the Group (Continued)

Borrowers of the Group were adversely affected by the financial and economic environment, which in turn impacted their ability to repay the amounts owed. As a significant part of loans to customers was issued in foreign currencies, UAH depreciation against these currencies had a significant impact on borrowers' ability to service the loans. Deteriorating economic conditions for borrowers were reflected in revised estimates of expected future cash flows in impairment assessments.

The market in Ukraine for many types of collateral, especially real estate, has been severely affected by the overall situation in the Ukraine economy, resulting in a low level of liquidity for certain types of assets. As a result, the actual realisable value on future foreclosure may differ from the value ascribed in estimating allowances for impairment at the end of the reporting period.

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

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

3 Summary of Significant Accounting Policies

Basis of preparation. These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention, as modified by the initial recognition of financial instruments based on fair value, and by the revaluation of premises, available for sale financial assets, and financial instruments categorised as at fair value through profit or loss. The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated (refer to Note 5).

Consolidated financial statements. Subsidiaries are those companies and other entities (including special purpose entities) in which the Group, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies so as to obtain benefits. The existence and effect of potential voting rights that are presently exercisable or presently convertible are considered when assessing whether the Group controls another entity. Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are deconsolidated from the date on which control ceases.

The acquisition method of accounting is used to account for the acquisition of subsidiaries. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest.

The Group measures non-controlling interest that represents present ownership interest and entitles the holder to a proportionate share of net assets in the event of liquidation on a transaction by transaction basis, either at: (a) fair value, or (b) the non-controlling interest's proportionate share of net assets of the acquiree. Non-controlling interests that are not present ownership interests are measured at fair value.

Goodwill is measured by deducting the net assets of the acquiree from the aggregate of the consideration transferred for the acquiree, the amount of non-controlling interest in the acquiree and fair value of an interest in the acquiree held immediately before the acquisition date. Any negative amount ("negative goodwill") is recognised in profit or loss, after management reassesses whether it identified all the assets acquired and all liabilities and contingent liabilities assumed and reviews appropriateness of their measurement.

The consideration transferred for the acquiree is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed, including fair value of assets or liabilities from contingent consideration arrangements but excludes acquisition related costs such as advisory, legal, valuation and similar professional services. Transaction costs related to the acquisition and incurred for issuing equity instruments are deducted from equity; transaction costs incurred for issuing debt as part of the business combination are deducted from the carrying amount of the debt and all other transaction costs associated with the acquisition are expensed.

3 Summary of Significant Accounting Policies (Continued)

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. The Company and all of its subsidiaries use uniform accounting policies consistent with the Group's policies.

Non-controlling interest is that part of the net results and of the equity of a subsidiary attributable to interests which are not owned, directly or indirectly, by the Company. Non-controlling interest forms a separate component of the Group's equity.

Going concern. Management prepared these consolidated financial statements on a going concern basis. Refer to Note 4 for uncertainties related to events and conditions that may cast a significant doubt upon the Group's ability to continue as a going concern.

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

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

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

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

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

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

Initial recognition of financial instruments. Derivatives and other financial instruments at fair value through profit or loss are initially recorded at fair value. All other financial instruments are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

3 Summary of Significant Accounting Policies (Continued)

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date that the Group commits to deliver a financial asset. All other purchases are recognised when the entity becomes a party to the contractual provisions of the instrument.

Derecognition of financial assets. The Group derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired, or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all the risks and rewards of ownership of the assets, or (ii) neither transferring nor retaining substantially all risks and rewards of ownership but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose restrictions on the sale.

Cash and cash equivalents. Cash and cash equivalents are items which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents include unrestricted balances with the NBU and all interbank placements with original maturities of less than three months. Funds restricted for a period of more than three months on origination are excluded from cash and cash equivalents. Cash and cash equivalents are carried at amortised cost.

Mandatory cash balances with the NBU. Mandatory cash balances with the NBU are carried at amortised cost and represent mandatory reserve deposits placed on separate account with the NBU which are not available to finance the Group's day to day operations and hence are not considered as part of cash and cash equivalents for the purposes of the statement of cash flows.

Securities at fair value through profit or loss. Securities at fair value through profit or loss are financial assets designated irrevocably, at initial recognition, into this category. Management designates securities into this category only if (a) such classification eliminates or significantly reduces an accounting mismatch that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or (b) a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information on that basis is regularly provided to and reviewed by the Group's key management personnel.

Securities at fair value through profit or loss are carried at fair value. Interest earned on securities at fair value through profit or loss calculated using the effective interest method is presented in profit or loss for the year as interest income. Dividends are included in dividend income within other operating income when the Group's right to receive the dividend payment is established and it is probable that the dividends will be collected. All other elements of the changes in the fair value and gains or losses on derecognition are recorded in profit or loss for the year as gains less losses from securities at fair value through profit or loss in the period in which they arise.

Due from other banks. Amounts due from other banks are recorded when the Group advances money to counterparty banks with no intention of trading the resulting unquoted non-derivative receivable due on fixed or determinable dates. Amounts due from other banks are carried at amortised cost.

Loans and advances to customers. Loans and advances to customers are recorded when the Group advances money to purchase or originate an unquoted non-derivative receivable from a customer due on fixed or determinable dates and has no intention of trading the receivable. Loans and advances to customers are carried at amortised cost.

Impairment of financial assets carried at amortised cost. Impairment losses are recognised in profit or loss for the year when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If the Group determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. The primary factors that the Group considers in determining whether a financial asset is impaired are its overdue status and realisability of related collateral, if any.

3 Summary of Significant Accounting Policies (Continued)

The following other principal criteria are also used to determine whether there is objective evidence that an impairment loss has occurred:

- any instalment is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;
- the borrower experiences a significant financial difficulty as evidenced by the borrower's financial information that the Group obtains;
- the borrower considers bankruptcy or a financial reorganisation;
- there is an adverse change in the payment status of the borrower as a result of changes in the national or local economic conditions that impact the borrower;
- the value of collateral significantly decreases as a result of deteriorating market conditions;
- changes to contract with borrower in respect of extension of maturity, changes in payment schedule and other changes to initial contractual terms in order to avoid worsening of the borrower's solvency.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets and the experience of management in respect of the extent to which amounts will become overdue as a result of past loss events and the success of recovery of overdue amounts. Past experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods and to remove the effects of past conditions that do not exist currently.

If the terms of an impaired financial asset held at amortised cost are renegotiated or otherwise modified because of financial difficulties of the borrower or issuer, impairment is measured using the original effective interest rate before the modification of terms. The renegotiated asset is then derecognized and a new asset is recognized at its fair value only if the risks and rewards of the asset substantially changed.

This is normally evidenced by a substantial difference between the present values of the original cash flows and the new expected cash flows.

Impairment losses are always recognised through an allowance account to write down the asset's carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the original effective interest rate of the asset. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account through profit or loss for the year.

Uncollectible assets are written off against the related impairment loss provision after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to impairment loss account in profit or loss for the year.

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

3 Summary of Significant Accounting Policies (Continued)

Credit related commitments. The Group enters into credit related commitments, including commitments to extend loans, letters of credit and financial guarantees. Financial guarantees represent irrevocable assurances to make payments in the event that a customer cannot meet its obligations to third parties and carry the same credit risk as loans. Financial guarantees and commitments to provide a loan are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the commitment, except for commitments to originate loans if it is probable that the Group will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination. Such loan commitment fees are deferred and included in the carrying value of the loan on initial recognition. At the end of each reporting period, the commitments are measured at the higher of (i) the remaining unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the commitment at the end of each reporting period.

Investment securities available for sale. This classification includes investment securities which the Group intends to hold for an indefinite period of time and which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. The Group classifies investments as available for sale at the time of purchase.

Investment securities available for sale are carried at fair value. Interest income on available for sale debt securities is calculated using the effective interest method and recognised in profit or loss for the year. Dividends on available for sale equity instruments are recognised in profit or loss for the year when the Group's right to receive payment is established and it is probable that the dividends will be collected. All other elements of changes in the fair value are recognised in other comprehensive income until the investment is derecognised or impaired, at which time the cumulative gain or loss is reclassified from other comprehensive income to profit or loss for the year.

Impairment losses are recognised in profit or loss for the year when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of investment securities available for sale. A significant or prolonged decline in the fair value of an equity security below its cost is an indicator that it is impaired. The cumulative impairment loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised in profit or loss – is reclassified from other comprehensive income to profit or loss for the year. Impairment losses on equity instruments are not reversed and any subsequent gains are recognised in other comprehensive income. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss for the year.

Sale and repurchase agreements. Sale and repurchase agreements ("repo agreements") which effectively provide a lender's return to the counterparty are treated as secured financing transactions. Securities sold under such sale and repurchase agreements are not derecognised. The securities are not reclassified in the statement of financial position unless the transferee has the right by contract or custom to sell or repledge the securities, in which case they are reclassified as repurchase receivables. The corresponding liability is presented within amounts due to other banks.

Securities purchased under agreements to resell ("reverse repo agreements") which effectively provide a lender's return to the Group are recorded as due from other banks or loans and advances to customers, as appropriate. The difference between the sale and repurchase price is treated as interest income and accrued over the life of repo agreements using the effective interest method.

Investment securities held to maturity. This classification includes quoted non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has both the intention and ability to hold to maturity. An investment is not classified as a held-to-maturity investment if the Group has the right to require that the issuer repay or redeem the investment before its maturity, because paying for such a feature is inconsistent with expressing an intention to hold the asset until maturity. Management determines the classification of investment securities held to maturity at their initial recognition and reassesses the appropriateness of that classification at the end of each reporting period. Investment securities held to maturity are carried at amortised cost.

Premises, leasehold improvements and equipment. Premises, leasehold improvements and equipment are stated at cost, restated to the equivalent purchasing power of the Ukrainian hryvnia at 31 December 2000 for assets acquired prior to 1 January 2001, or revalued amounts, as described below, less accumulated depreciation and provision for impairment, where required.

3 Summary of Significant Accounting Policies (Continued)

During 2012 the Group changed its accounting policy in respect of measurement of the value of land and buildings, included in group “premises and leasehold improvements”, after recognition. Starting from 2012 land and buildigns are recorded under the revaluation model. At the date of revaluation accumulated depreciation of buildings was eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

Land and buildings of the Group are subject to revaluation with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Increases in the carrying amount arising on revaluation are credited to other comprehensive income and increase the revaluation surplus in equity. Decreases that offset previous increases of the same asset are recognised in other comprehensive income and decrease the previously recognised revaluation surplus in equity; all other decreases are charged to profit or loss for the year. The revaluation reserve for land and buildings included in equity is transferred directly to retained earnings when the revaluation surplus is realised on the retirement or disposal of the asset.

Land and buildings have been revalued to market value at 31 December 2012. The revaluation was performed based on the reports of independent appraisers, who hold a recognised and relevant professional qualification and who have recent experience in valuation of assets of similar location and category. The basis used for the appraisal was market value.

Costs of minor repairs and maintenance are expensed when incurred. Costs of replacing major parts or components of premises and equipment items are capitalised and the replaced part is retired.

At the end of each reporting period management assesses whether there is any indication of impairment of premises, leasehold improvements and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset’s fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in profit or loss for the year. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset’s value in use or fair value less costs to sell.

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

Depreciation. Land and construction in progress are not depreciated. Depreciation of premises, leasehold improvements and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives:

	Useful lives in years
Premises	60
Furniture and fixtures	5-15
Motor vehicles	5
Computers and equipment	5-15
Leasehold improvements	over the term of the underlying lease

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The assets’ residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Intangible assets. The Group’s intangible assets have definite useful life and primarily include capitalised computer software.

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring them to use.

Development costs that are directly associated with identifiable and unique software controlled by the Group are recorded as intangible assets if an inflow of incremental economic benefits exceeding costs is probable. Capitalised costs include staff costs of the software development team and an appropriate portion of relevant overheads. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred. Capitalised computer software is amortised on a straight line basis over expected useful lives of 15 years.

Operating leases. Where the Group is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Group, the total lease payments are charged to profit or loss on a straight-line basis over the period of the lease.

3 Summary of Significant Accounting Policies (Continued)

Leases embedded in other agreements are separated if (a) fulfilment of the arrangement is dependent on the use of a specific asset or assets and (b) the arrangement conveys a right to use the asset.

When assets are leased out under an operating lease, the lease payments receivable are recognised as rental income on a straight-line basis over the lease term.

Due to other banks. Amounts due to other banks are recorded when money or other assets are advanced to the Group by counterparty banks. The non-derivative liability is carried at amortised cost.

Customer accounts. Customer accounts are non-derivative liabilities to individuals, state or corporate customers and are carried at amortised cost.

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

Derivative financial instruments. Derivative financial instruments, including currency swaps are carried at their fair value.

All derivative instruments are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of derivative instruments are included in profit or loss. The Group does not apply hedge accounting.

Certain derivative instruments embedded in other financial instruments are treated as separate derivative instruments when their risks and characteristics are not closely related to those of the host contract. If the Group is unable to measure the embedded derivative separately either at acquisition or at the end of a subsequent financial reporting period, the entire hybrid contract is designated as at fair value through profit or loss.

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

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxable profits or losses are based on estimates if financial statements are authorised prior to filing relevant tax returns. Taxes other than on income are recorded within administrative and other operating expenses.

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

Deferred income tax is not recognised on post acquisition retained earnings and other post acquisition movements in reserves of subsidiaries where the Group controls the subsidiary's dividend policy, and it is probable that the difference will not reverse through dividends or otherwise in the foreseeable future.

Uncertain tax positions. The Group's uncertain tax positions are reassessed by management at the end of each reporting period. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the end of each reporting period and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognised based on management's best estimate of the expenditure required to settle the obligations at the end of the reporting period.

3 Summary of Significant Accounting Policies (Continued)

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

Share capital. Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is recorded as share premium in equity.

Income and expense recognition. Interest income and expense are recorded for all debt instruments on an accrual basis using the effective interest method. This method defers, as part of interest income or expense, all fees paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Fees integral to the effective interest rate include origination fees received or paid by the entity relating to the creation or acquisition of a financial asset or issuance of a financial liability, for example fees for evaluating creditworthiness, evaluating and recording guarantees or collateral, negotiating the terms of the instrument and for processing transaction documents. Commitment fees received by the Group to originate loans at market interest rates are integral to the effective interest rate if it is probable that the Group will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination. The Group does not designate loan commitments as financial liabilities at fair value through profit or loss.

When loans and other debt instruments become doubtful of collection, they are written down to the present value of expected cash inflows and interest income is thereafter recorded for the unwinding of the present value discount based on the asset's effective interest rate which was used to measure the impairment loss.

All other fees, commissions and other income and expense items are generally recorded on an accrual basis by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

Commissions and fees arising from negotiating, or participating in the negotiation of a transaction for a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses, and which are earned on execution of the underlying transaction, are recorded on its completion.

Foreign currency translation. The functional currency of the Group's consolidated entities is the currency of the primary economic environment in which the entity operates. The functional currency of the Group's companies and the Group's presentation currency, is the national currency of Ukraine, Ukrainian hryvnias ("UAH").

Monetary assets and liabilities are translated into the Group's functional currency at the official exchange rate of the NBU at the end of the respective reporting period. Foreign exchange gains and losses resulting from the settlement of transactions and from the translation of monetary assets and liabilities into functional currency at year-end official exchange rates of the NBU are recognised in profit or loss. Translation at year-end rates does not apply to non-monetary items, including equity investments. Effects of exchange rate changes on the fair value of equity securities are recorded as part of the fair value gain or loss.

At 31 December 2012 the principal rate of exchange used for translating foreign currency balances were as follows:

	31 December 2012, UAH	**31 December 2011, UAH**
1 US dollar (USD)	7.993000	7.989800
1 euro (EUR)	10.537172	10.298053
1 Russian Rouble (RUR)	0.263160	0.249530

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

Staff costs and related contributions. Wages, salaries, contributions to the Ukrainian state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits are accrued in the year in which the associated services are rendered by the employees of the Group. The Group has no legal or constructive obligation to make pension or similar benefit payments beyond the payments to the statutory defined contribution scheme.

3 Summary of Significant Accounting Policies (Continued)

Segment reporting. Operating segments are reported in a manner consistent with the internal reporting provided to the Board of the Bank being the Group's chief operating decision maker. Segments whose revenue, result or assets are ten percent or more of all the segments are reported separately. Geographical segments of the Group have been reported separately within these financial statements based on the ultimate domicile of the counterparty, e.g. based on economic risk rather than legal risk of the counterparty.

Changes in presentation. Where necessary, corresponding figures have been adjusted to conform to the presentation of the current year amounts.

Presentation of statement of financial position in order of liquidity. The Group does not have a clearly identifiable operating cycle and therefore does not present current and non-current assets and liabilities separately in the statement of financial position. Instead, assets and liabilities are presented in order of their liquidity. The following table provides information for each line item in the statement of financial position which combines amounts expected to be recovered or settled before and after twelve months after the reporting period.

	31 December 2012			31 December 2011		
	Amounts expected to be recovered or settled			Amounts expected to be recovered or settled		
In thousands of Ukrainian hryvnias	Within 12 months after the reporting period	After 12 months after the reporting period	Total	Within 12 months after the reporting period	After 12 months after the reporting period	Total
ASSETS						
Cash and cash equivalents and mandatory reserves	873,295	-	873,295	587,242	-	587,242
Securities at fair value through profit or loss	38,678	-	38,678	-	-	-
Due from other banks	5,736	-	5,736	44,225	-	44,225
Loans and advances to customers	583,230	1,650,267	2,233,497	487,977	1,337,183	1,825,160
Investment securities available for sale	407,544	128,577	536,121	342,763	248,228	590,991
Investment securities held to maturity	50,975	71,824	122,799	-	-	-
Current income tax prepayment	-	3,208	3,208	1,793	3,208	5,001
Deferred income tax asset	-	148,413	148,413	-	156,768	156,768
Intangible assets	-	60,745	60,745	-	44,165	44,165
Premises, leasehold improvements and equipment	-	474,589	474,589	-	332,052	332,052
Other financial assets	17,015	-	17,015	60,990	-	60,990
Other assets	20,155	19,573	39,728	43,379	-	43,379
TOTAL ASSETS	**1,996,628**	**2,557,196**	**4,553,824**	**1,568,369**	**2,121,604**	**3,689,973**
LIABILITIES						
Due to other banks	660,940	32,955	693,895	61,726	30,659	92,385
Customer accounts	2,593,716	251,313	2,845,029	2,440,023	189,814	2,629,837
Other financial liabilities	36,751	30	36,781	17,516	179	17,695
Other liabilities	18,790	49	18,839	22,173	69	22,242
Subordinated debt	-	283,746	283,746	968	276,902	277,870
TOTAL LIABILITIES	**3,310,197**	**568,093**	**3,878,290**	**2,542,406**	**497,623**	**3,040,029**

4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies

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

Going concern. Management prepared these financial statements on a going concern basis. In making this judgement management considered the Group's financial position, current intentions, continuing financial support from the parent company, budgeted profitability of future operations and access to financial resources and analysed the impact of the recent financial crisis on future operations of the Group.

Held-to-maturity financial assets. Management applies judgement in assessing whether financial assets can be categorised as held-to-maturity, in particular (a) its intention and ability to hold the assets to maturity and (b) whether the assets are quoted in an active market. If the Group fails to keep these investments to maturity other than in certain specific circumstances – for example, selling an insignificant amount close to maturity – it will be required to reclassify the entire class as available for sale. The investments would, therefore, be measured at fair value rather than amortised cost. If the entire class of held-to-maturity investments is tainted, the carrying amount would decrease by UAH 724 thousand, with a corresponding entry in other comprehensive income.

Impairment losses on loans and advances. The Group regularly reviews its loan portfolios to assess impairment. In determining whether an impairment loss should be recorded in profit or loss for the year, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. To the extent that the assessed delay in repayment of principal on 5% of the total loans and advances to customers differs by +/- one month, the provision would be approximately UAH 288 thousand (2011: UAH 100 thousand) higher or UAH 114 thousand (2011: UAH 100 thousand) lower.

Impairment losses for individually significant loans are based on estimates of discounted future cash flows of the individual loans, taking into account repayments and realisation of any assets held as collateral against the loans. A 10% increase or decrease in the actual loss experience compared to the estimated future discounted cash flows from individually significant loans, which could arise from differences in amounts and timing of the cash flows, would result in an increase or decrease in loan impairment losses of UAH 15,544 thousand (2011: UAH 13,735 thousand), respectively.

Tax legislation. Ukrainian tax, currency and customs legislation is subject to varying interpretations. Refer to Note 26.

Initial recognition of related party transactions. In the normal course of business the Group enters into transactions with its related parties. IAS 39 requires initial recognition of financial instruments based on their fair values. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analysis. Terms and conditions of related party balances are disclosed in Note 33.

4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies (Continued)

Classification of income and expense on transactions with the parent company. Management applies judgement to determine whether income and expenses arising from transactions with the parent company should be recognised in the statement of changes in equity as transactions with shareholders in respect of capital contributions and distributions or in the income statement as results from operations. The basis for judgement is requirements of applicable accounting standards and economic substance of transaction. During 2010 the Bank entered into two guarantee agreements with PKO BP SA whereby PKO BP SA guarantees repayment of loans totalling UAH 38,038 thousand and UAH 595,738 thousand respectively. In December 2011 the Bank sold the rights to 100% of the cash flows arising on a portfolio of fixed rate loans with gross book value of UAH 1,648,790 thousand, including loans covered by the guarantees received from the parent company as described above, to the entity under common control. Carrying value of loans sold as at the date of sale was UAH 1,083,381 thousand. The Bank received UAH 338,167 thousand from the parent company in settlement of the guarantees and UAH 562,456 thousand from the entity under common control as consideration for the loans sold. As a result of these transactions the Bank recognised loss in the amount of UAH 182,758 thousand which is the difference between the carrying value of loans sold and consideration received for the loan portfolios and in settlement of the guarantees.

Deferred income tax asset recognition. The recognised deferred tax asset represents income taxes recoverable through future deductions from taxable profits and is recorded in the statement of financial position. Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable. The future taxable profits and the amount of tax benefits that are probable in the future are based on a medium term business plan prepared by management and extrapolated results thereafter. The business plan is based on management's expectations that are believed to be reasonable under the circumstances. The Bank is expected to generate the sustainable profits in the future. Key assumptions in the business plan include expected stabilization in the economy of Ukraine, gradual decline in interest rates (on loans and funding), moderate growth in loan portfolio, reduced loan loss provisions due to the expected improvement in economy and further enhancement of cost-control. Taking into account planned future profits and the fact that current Ukrainian tax legislation does not place limits on the term of utilization of tax losses carried forward, management believes that it is appropriate to recognise the deferred tax asset.

***Valuation of own use premises**.* As stated in Note 3, land and buildings are subject to revaluation on a regular basis. Such revaluations are based on the results of work of independent valuers. The basis for their work is a sales comparison approach. When performing a revaluation, certain judgements and estimates are applied by the valuers in determination of the comparative premises to be used in a sales comparison approach. Changes in assumptions about these factors could affect reported fair values. The valuation was based on comparative sales of land and buildings with the price per square meter varying from UAH 4,324 to UAH 21,960 for premises depending upon the location of premises. To the extent that the price per square meter differs by +/-5 percent, the fair value would be UAH 17,156 thousand higher or UAH 17,156 thousand lower for land and buildings.

5 Adoption of New or Revised Standards and Interpretations

The following new standards and interpretations became effective for the Group from 1 January 2012:

"Disclosures—Transfers of Financial Assets" – Amendments to IFRS 7 (issued in October 2010 and effective for annual periods beginning on or after 1 July 2011). The amendment requires additional disclosures in respect of risk exposures arising from transferred financial assets. The amendment includes a requirement to disclose by class of asset the nature, carrying amount and a description of the risks and rewards of financial assets that have been transferred to another party, yet remain on the entity's balance sheet. Disclosures are also required to enable a user to understand the amount of any associated liabilities, and the relationship between the financial assets and associated liabilities. Where financial assets have been derecognised, but the entity is still exposed to certain risks and rewards associated with the transferred asset, additional disclosure is required to enable the effects of those risks to be understood. The standard requires these new disclosures to be presented in a separate note.

Other revised standards and interpretations: The amendments to IFRS 1 "First-time adoption of IFRS", relating to severe hyperinflation and eliminating references to fixed dates for certain exceptions and exemptions, did not have any impact on these consolidated financial statements. The amendment to IAS 12 "Income taxes", which introduced a rebuttable presumption that an investment property carried at fair value is recovered entirely through sale, did not have any impact on these consolidated financial statements.

6 New Accounting Pronouncements

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

IFRS 9 "Financial Instruments Part 1: Classification and Measurement". IFRS 9, issued in November 2009, replaces those parts of IAS 39 relating to the classification and measurement of financial assets. IFRS 9 was further amended in October 2010 to address the classification and measurement of financial liabilities and in December 2011 to (i) change its effective date to annual periods beginning on or after 1 January 2015 and (ii) add transition disclosures. Key features of the standard are as follows:

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.

- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent payments of principal and interest only (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.

- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.

- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.

While adoption of IFRS 9 is mandatory from 1 January 2015, earlier adoption is permitted. The Group is considering the implications of the standard, the impact on the Group and the timing of its adoption by the Group.

6 New Accounting Pronouncements (Continued)

IFRS 10 "Consolidated Financial Statements" (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013), replaces all of the guidance on control and consolidation in IAS 27 "Consolidated and separate financial statements" and SIC-12 "Consolidation - special purpose entities". IFRS 10 changes the definition of control so that the same criteria are applied to all entities to determine control. This definition is supported by extensive application guidance.

IFRS 11 "Joint Arrangements" (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013), replaces IAS 31 "Interests in Joint Ventures" and SIC-13 "Jointly Controlled Entities—Non-Monetary Contributions by Venturers". Changes in the definitions have reduced the number of types of joint arrangements to two: joint operations and joint ventures. The existing policy choice of proportionate consolidation for jointly controlled entities has been eliminated. Equity accounting is mandatory for participants in joint ventures.

IFRS 12 "Disclosure of Interests in Other Entities" (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013), applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. It replaces the disclosure requirements currently found in IAS 28 "Investments in associates". IFRS 12 requires entities to disclose information that helps financial statement readers to evaluate the nature, risks and financial effects associated with the entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities. To meet these objectives, the new standard requires disclosures in a number of areas, including significant judgements and assumptions made in determining whether an entity controls, jointly controls, or significantly influences its interests in other entities, extended disclosures on share of non-controlling interests in group activities and cash flows, summarised financial information of subsidiaries with material non-controlling interests, and detailed disclosures of interests in unconsolidated structured entities.

IFRS 13 "Fair Value Measurement" (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013), aims to improve consistency and reduce complexity by providing a revised definition of fair value, and a single source of fair value measurement and disclosure requirements for use across IFRSs.

IAS 27 "Separate Financial Statements" (revised in May 2011 and effective for annual periods beginning on or after 1 January 2013), was changed and its objective is now to prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. The guidance on control and consolidated financial statements was replaced by IFRS 10 "Consolidated Financial Statements".

IAS 28 "Investments in Associates and Joint Ventures" (revised in May 2011 and effective for annual periods beginning on or after 1 January 2013). The amendment of IAS 28 resulted from the Board's project on joint ventures. When discussing that project, the Board decided to incorporate the accounting for joint ventures using the equity method into IAS 28 because this method is applicable to both joint ventures and associates. With this exception, other guidance remained unchanged.

Amendments to IAS 1 "Presentation of Financial Statements" (issued in June 2011, effective for annual periods beginning on or after 1 July 2012), changes the disclosure of items presented in other comprehensive income. The amendments require entities to separate items presented in other comprehensive income into two groups, based on whether or not they may be reclassified to profit or loss in the future. The suggested title used by IAS 1 has changed to 'statement of profit or loss and other comprehensive income'. The Group expects the amended standard to change presentation of its consolidated financial statements, but have no impact on measurement of transactions and balances.

Amended IAS 19 "Employee Benefits" (issued in June 2011, effective for periods beginning on or after 1 January 2013), makes significant changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits. The standard requires recognition of all changes in the net defined benefit liability (asset) when they occur, as follows: (i) service cost and net interest in profit or loss; and (ii) remeasurements in other comprehensive income.

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

6 New Accounting Pronouncements (Continued)

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

Improvements to International Financial Reporting Standards (issued in May 2012 and effective for annual periods beginning 1 January 2013). The improvements consist of changes to five standards. IFRS 1 was amended to (i) clarify that an entity that resumes preparing its IFRS financial statements may either repeatedly apply IFRS 1 or apply all IFRSs retrospectively as if it had never stopped applying them, and (ii) to add an exemption from applying IAS 23 "Borrowing costs", retrospectively by first-time adopters. IAS 1 was amended to clarify that explanatory notes are not required to support the third balance sheet presented at the beginning of the preceding period when it is provided because it was materially impacted by a retrospective restatement, changes in accounting policies or reclassifications for presentation purposes, while explanatory notes will be required when an entity voluntarily decides to provide additional comparative statements. IAS 16 was amended to clarify that servicing equipment that is used for more than one period is classified as property, plant and equipment rather than inventory. IAS 32 was amended to clarify that certain tax consequences of distributions to owners should be accounted for in the income statement as was always required by IAS 12. IAS 34 was amended to bring its requirements in line with IFRS 8. IAS 34 will require disclosure of a measure of total assets and liabilities for an operating segment only if such information is regularly provided to chief operating decision maker and there has been a material change in those measures since the last annual consolidated financial statements.

Transition Guidance Amendments to IFRS 10, IFRS 11 and IFRS 12 (issued in June 2012 and effective for annual periods beginning 1 January 2013). The amendments clarify the transition guidance in IFRS 10 "Consolidated Financial Statements". Entities adopting IFRS 10 should assess control at the first day of the annual period in which IFRS 10 is adopted, and if the consolidation conclusion under IFRS 10 differs from IAS 27 and SIC 12, the immediately preceding comparative period (that is, year 2012 for a calendar year-end entity that adopts IFRS 10 in 2013) is restated, unless impracticable. The amendments also provide additional transition relief in IFRS 10, IFRS 11 "Joint Arrangements" and IFRS 12 "Disclosure of Interests in Other Entities", by limiting the requirement to provide adjusted comparative information only for the immediately preceding comparative period. Further, the amendments will remove the requirement to present comparative information for disclosures related to unconsolidated structured entities for periods before IFRS 12 is first applied.

Amendments to IFRS 1 "First-time adoption of International Financial Reporting Standards - Government Loans" (issued in March 2012 and effective for annual periods beginning 1 January 2013). The amendments, dealing with loans received from governments at a below market rate of interest, give first-time adopters of IFRSs relief from full retrospective application of IFRSs when accounting for these loans on transition. This will give first-time adopters the same relief as existing preparers.

Other revised standards and interpretations: IFRIC 20 "Stripping Costs in the Production Phase of a Surface Mine", considers when and how to account for the benefits arising from the stripping activity in mining industry. The interpretation will not have an impact on the Group's consolidated financial statements.

Unless otherwise described above, the new standards and interpretations are not expected to affect significantly the Group's consolidated financial statements.

7 Cash and Cash Equivalents and Mandatory Reserves

In thousands of Ukrainian hryvnias	**2012**	**2011**
Cash on hand	157,375	160,191
Cash balances with the NBU (other than mandatory reserve deposits)	104,660	43,107
Mandatory cash balances with the NBU	-	7,600
Correspondent accounts with other banks	611,260	252,530
Placements with other banks with original maturities of less than three months	-	67,164
Reverse sale and repurchase agreements with other banks with original maturities of less than three months	-	56,650
Total cash and cash equivalents and mandatory reserves	**873,295**	**587,242**

As at 31 December 2012 mandatory reserve balance with the NBU is calculated on the basis of a simple average over a monthly period (2011: simple average over a monthly period) and is required to be maintained at the level of 0 to 10 per cent (31 December 2011: 0 to 8 per cent) of certain obligations of the Bank in a hryvnia equivalent. As such, the balance can vary from day-to-day. The Group's mandatory reserve balance with the NBU as at 31 December 2012 was UAH 68,926 thousand (31 December 2011: UAH 60,512 thousand). The Group may satisfy its mandatory reserve requirement with Treasury bills (EURO 2012) in the amount of 50% of their nominal value and a balance on a separate account with the NBU (2011: Treasury bills (EURO 2012) in the amount of 50% of their nominal value and a deposit placed on a separate account with the NBU).

As at 31 December 2012 the Group had to deposit on separate account with the NBU the amount of 50% of mandatory reserve balance for the preceding month (2011: 70% of mandatory reserve balance for the preceding month) excluding amount covered by the Treasury bills (EURO 2012). As at 31 December 2012 no deposit was placed on a separate account with the NBU as the Treasury bills (EURO 2012) held by the Group amount to UAH 70,000 thousand (31 December 2011: UAH 70,000 thousand) and the average mandatory reserve balance for November 2012 is UAH 34,463 thousand (2011: the mandatory reserve amounted to UAH 7,600 thousand). This deposit is subject to interest payments from the NBU at the rate of 30% of the discount rate set by the NBU (2.250% p.a. as at 31 December 2012 and 2.325% p.a. as at 31 December 2011), provided that the Group is in compliance with the mandatory reserve requirements. As the respective liquid assets are not available to finance the Group's day-to-day operations, for the purposes of the cash flow statement the mandatory reserve balance kept on a separate account with the NBU is excluded from cash and cash equivalents. As at 31 December 2012 cash and cash equivalents for the purposes of the statement of cash flows were UAH 873,295 thousand (31 December 2011: UAH 579,642 thousand).

During 2012 the Group was in compliance with the mandatory reserve requirements.

Interest rate analysis of cash and cash equivalents is disclosed in Note 28. Information on related party balances is disclosed in Note 33.

The credit quality of cash and cash equivalents and mandatory reserve balances may be summarised based on Moody's ratings as follows at 31 December 2012:

In thousands of Ukrainian hryvnias	**Cash balances with the NBU, including mandatory reserves**	**Correspondent accounts with other banks**	**Total**
Neither past due nor impaired			
- National Bank of Ukraine	104,660	-	104,660
- Aaa – Aa3 rated	-	367,658	367,658
- A1 - A3 rated	-	222,560	222,560
- Baa1 - Baa3 rated	-	99	99
- Ba1 - Ba3 rated	-	204	204
- B1 – B3 rated	-	5,620	5,620
- Lower than Caa1 rated	-	1,093	1,093
- Unrated	-	14,026	14,026
Total cash and cash equivalents and mandatory reserves, excluding cash on hand	**104,660**	**611,260**	**715,920**

7 Cash and Cash Equivalents and Mandatory Reserves (Continued)

The credit quality of cash and cash equivalents and mandatory reserve balances may be summarised based on Moody's ratings as follows at 31 December 2011:

In thousands of Ukrainian hryvnias	**Cash balances with the NBU, including mandatory reserves**	**Correspo-ndent accounts with other banks**	**Placements with other banks with original maturities of less than three months**	**Reverse sale and repurchase agreements**	**Total**
Neither past due nor impaired					
- National Bank of Ukraine	50,707	-	-	-	50,707
- Aaa – Aa3 rated	-	118,873	-	-	118,873
- A1 - A3 rated	-	130,027	-	-	130,027
- Ba1 - Ba3 rated	-	255	-	-	255
- B1 – B3 rated	-	3,140	-	-	3,140
- Unrated	-	235	67,164	56,650	124,049
Total cash and cash equivalents and mandatory reserves, excluding cash on hand	**50,707**	**252,530**	**67,164**	**56,650**	**427,051**

8 Securities at Fair Value Through Profit or Loss

In thousands of Ukrainian hryvnias	**2012**	**2011**
Ukrainian government bonds	38,678	-
Total debt securities	38,678	-
Total securities at fair value through profit or loss	**38,678**	**-**

Debt securities, designated into this category are represented by indexed Treasury bills. The redemption value of these bonds depends on changes in weighted average UAH/USD exchange rate on interbank foreign exchange market between the month preceeding the issue date and the month preceeding the redemption date. This feature represents an embedded derivative which was not separated from the host contract as the financial instrument as a whole is accounted for at fair value through profit or loss.

The Group irrevocably designated the above securities, which are not part of its trading book, as at fair value through profit or loss. The securities meet the criteria for classification at fair value through profit or loss because the Group's management assesses performance of the investments based on their fair values in accordance with a documented investment strategy.

Securities designated at fair value through profit or loss are carried at fair value, which also reflects any credit risk related write-downs. As the securities are carried at their fair values based on observable market data, the Group does not analyse or monitor impairment indicators. Analysis by credit quality of debt securities designated at fair value through profit or loss outstanding at 31 December 2012, is as follows:

In thousands of Ukrainian hryvnias	**Ukrainian government bonds**	**Total**
Neither past due nor impaired (at fair value)		
- B3 rated	38,678	38,678
Total debt securities at fair value through profit or loss	**38,678**	**38,678**

The credit ratings are based on Ukraine's sovereign rating assigned by Moody's.

The debt securities are not collateralised.

Interest rate analysis of securities at fair value through profit or loss are disclosed in Note 28.

9 Due from Other Banks

In thousands of Ukrainian hryvnias	**2012**	**2011**
Guarantee deposits	5,736	6,018
Placements with other banks with original maturities of more than three months	-	38,207
Total due from other banks	**5,736**	**44,225**

As at 31 December 2012 guarantee deposits include UAH 5,736 thousand (2011: UAH 6,018 thousand) due from two Ukrainian banks and one Russian bank placed as guarantee deposits for card settlements and transfers. Such placements are normally non-interest bearing.

Amounts due from other banks are not collateralised. Analysis by credit quality of amounts due from other banks outstanding at 31 December 2012 is presented in the table below.

The credit quality of due from other banks outstanding at 31 December 2012 may be summarised based on Moody's ratings as follows:

In thousands of Ukrainian hryvnias	**Guarantee deposits**	**Total**
Neither past due nor impaired		
- Caa1 rated	5,693	5,693
- Unrated	43	43
Total due from other banks	**5,736**	**5,736**

The credit quality of due from other banks outstanding at 31 December 2011 may be summarised based on Moody's ratings as follows:

In thousands of Ukrainian hryvnias	**Guarantee deposits**	**Placements with other banks with original maturities of more than three months**	**Total**
Neither past due nor impaired			
- B3 rated	6,008	-	6,008
- Unrated	10	38,207	38,217
Total due from other banks	**6,018**	**38,207**	**44,225**

Refer to Note 31 for the estimated fair value of each class of amounts due from other banks. Interest rate analysis of due from other banks is disclosed in Note 28.

10 Loans and Advances to Customers

In thousands of Ukrainian hryvnias	**2012**	**2011**
Corporate loans	1,626,934	1,418,613
Loans to individuals - consumer loans	422,695	190,366
Loans to individuals - mortgage loans	400,449	441,216
Reverse sale and repurchase agreements	-	34,525
Less: Provision for loan impairment	(216,581)	(259,560)
Total loans and advances to customers	**2,233,497**	**1,825,160**

At 31 December 2011 loans and advances to customers in the amount of UAH 34,525 thousand were effectively collateralised by securities purchased under reverse sale and repurchase agreements at a fair value of zero, which the Group has a right to sell or repledge.

As at 31 December 2012 loans and advances to customers in the amount of UAH 20,380 thousand (31 December 2011: UAH 23,542 thousand) were collateralised by customer deposits in the amount of UAH 39,096 thousand (31 December 2011: UAH 39,147 thousand). Refer to Note 17.

10 Loans and Advances to Customers (Continued)

During 2012 the Group sold to unrelated parties the rights to 100% of the cash flows arising on a portfolio of fixed rate loans with gross book value of UAH 39,579 thousand (2011: UAH 385,716 thousand) and net book value of UAH 9,474 thousand (2011: UAH 156,012 thousand). As a result of this transaction the Group recognized loss of UAH 1,343 thousand (2011: profit of UAH 8,966 thousand).

As at 31 December 2012 amount of guarantee deposits received from PKO BP SA amounts to UAH 10,819 thousand (2011: UAH 13,541 thousand) and amount of loans and advances to customers which are collaterized by these deposits equal to UAH 9,511 thousand (2011: UAH 12,179 thousand).

Movements in the provision for loan impairment during 2012 are as follows:

In thousands of Ukrainian hryvnias	**Corporate loans**	**Consumer loans**	**Mortgage loans**	**Reverse sale and repurchase agreements**	**Total**
Provision for loan impairment at 1 January 2012	**140,346**	**19,626**	**65,063**	**34,525**	**259,560**
Provision for impairment during the year	44,463	7,273	4,581	-	56,317
Loans sold during the year	(27,823)	(214)	(3,411)	-	(31,448)
Amounts written off during the year as uncollectible	(26,546)	(1,047)	(6,445)	(34,525)	(68,563)
Translation differences	442	70	203	-	715
Provision for loan impairment at 31 December 2012	**130,882**	**25,708**	**59,991**	**-**	**216,581**

In 2010 the Group received two packages of unconditional irrevocable guarantees from PKO BP SA which were accepted as collateral for lending transactions in the total amount of UAH 595,738 thousand. In December 2011 the Group sold the rights to 100% of the cash flows arising on a portfolio of fixed rate loans with gross book value of UAH 1,648,790 thousand, including loans covered by the guarantees received from the parent company as described above, to the entity under common control. Carrying value of loans sold as at the date of sale was UAH 1,083,381 thousand. The Group received UAH 338,167 thousand from the parent company in settlement of the guarantees and UAH 562,456 thousand from the entity under common control as consideration for the loans sold. As a result of these transactions the Group recognised loss in the amount of UAH 182,758 thousand which is the difference between the carrying value of loans sold and consideration received for the loan portfolios and in settlement of the guarantees.

The amount of movement in provision shown in the table below in respect of loans, sold during the year, includes the amount of provision reversed and loss incurred as a result of the sale.

Movements in the provision for loan impairment during 2011 are as follows:

In thousands of Ukrainian hryvnias	**Corporate loans**	**Consumer loans**	**Mortgage loans**	**Reverse sale and repurchase agreements**	**Total**
Provision for loan impairment at 1 January 2011	**776,411**	**38,459**	**184,044**	**30,022**	**1,028,936**
Provision/(reversal of provision) for impairment during the year	166,593	(3,702)	55,139	4,503	222,533
Loans sold during the year	(781,501)	(14,573)	(172,831)	-	(968,905)
Amounts written off during the year as uncollectible	(19,514)	(373)	(679)	-	(20,566)
Translation differences	(1,643)	(185)	(610)	-	(2,438)
Provision for loan impairment at 31 December 2011	**140,346**	**19,626**	**65,063**	**34,525**	**259,560**

The provision for loan impairment for the year ended 31 December 2011 differs from the amount recognised in income and expenses for the year due to the repayment of loans of UAH 168 thousand which were previously written off as uncollectible. These amounts were recorded as the decrease of provision for loan impairment in profit or loss for the year.

10 Loans and Advances to Customers (Continued)

Economic sector risk concentrations within the customer loan portfolio are as follows:

	2012		2011	
In thousands of Ukrainian hryvnias	**Amount**	**%**	**Amount**	**%**
Individuals	823,144	34	631,582	30
Trade	487,749	20	441,442	21
Manufacturing	413,648	17	367,471	18
Agriculture and food processing	258,256	11	183,576	9
Health resorts	106,020	4	101,521	5
Sports and recreation services	103,113	4	99,407	5
Real estate and construction	85,379	3	93,016	5
Transportation	73,188	3	59,954	3
Other services	68,531	3	69,334	3
Mining	24,352	1	27,711	1
Hotels	1,360	-	684	-
Financial services	809	-	3,582	-
Other	4,529	-	5,440	-
Total loans and advances to customers (before impairment)	**2,450,078**	**100**	**2,084,720**	**100**

At 31 December 2012 total aggregate amount of loans of top 10 borrowers of the Group was UAH 491,200 thousand (2011: UAH 505,537 thousand), or 20 % of the gross loan portfolio (2011: 24.2% of the gross loan portfolio).

Information about collateral at 31 December 2012 is as follows:

In thousands of Ukrainian hryvnias	**Corporate loans**	**Consumer loans**	**Mortgage loans**	**Reverse sale and repurchase agreements**	**Total**
Unsecured loans	93,355	63,573	34,856	-	191,784
Loans collateralised by:					
- cash deposits	28,786	592	514	-	29,892
- residential real estate	56,458	633	272,324	-	329,415
- other real estate	1,018,510	1,247	80,911	-	1,100,668
- other assets	429,825	356,650	11,844	-	798,319
Total loans and advances to customers (before impairment)	**1,626,934**	**422,695**	**400,449**	**-**	**2,450,078**

Information about collateral at 31 December 2011 is as follows:

In thousands of Ukrainian hryvnias	**Corporate loans**	**Consumer loans**	**Mortgage loans**	**Reverse sale and repurchase agreements**	**Total**
Unsecured loans	95,751	27,370	24,236	34,525	181,882
Loans collateralised by:					
- cash deposits	32,471	2,695	555	-	35,721
- residential real estate	39,812	829	300,689	-	341,330
- other real estate	919,562	1,602	99,681	-	1,020,845
- other assets	331,017	157,870	16,055	-	504,942
Total loans and advances to customers (before impairment)	**1,418,613**	**190,366**	**441,216**	**34,525**	**2,084,720**

The amount of cash deposits in the table above includes UAH 10,819 thousand (2011: 13,541 thousand) pledged as collateral for a number of lending transactions by the Group's parent company, PKO BP SA.

Other assets mainly include equipment, other movable property and property rights for future real estate. The disclosure above represents the lower of the carrying value of the loan or collateral taken; the remaining part is disclosed within the unsecured exposures. The carrying value of loans was allocated based on liquidity of the assets taken as collateral.

10 Loans and Advances to Customers (Continued)

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

In thousands of Ukrainian hryvnias	**Corporate loans**	**Consumer loans**	**Mortgage loans**	**Total**
Neither past due nor impaired				
- High grade	667,232	363,314	188,963	1,219,509
- Standard grade	85,240	11,080	12,231	108,551
- Sub-standard grade	16,721	5,291	28,441	50,453
Total neither past due nor impaired	**769,193**	**379,685**	**229,635**	**1,378,513**
Past due but not impaired				
- less than 30 days overdue	46,883	851	411	48,145
- 30 to 90 days overdue	14,385	5,097	8,530	28,012
- 91 to 180 days overdue	2,586	408	1,360	4,354
- 181 to 360 days overdue	119,185	61	100	119,346
- over 360 days overdue	1,262	16	4,010	5,288
Total past due but not impaired	**184,301**	**6,433**	**14,411**	**205,145**
Loans individually and collectively determined to be impaired (gross)				
- not yet past due	442,295	159	33,539	475,993
- less than 30 days overdue	15,199	440	-	15,639
- 30 to 90 days overdue	108,219	233	2,964	111,416
- 91 to 180 days overdue	33,752	3,746	15,931	53,429
- 181 to 360 days overdue	10,483	2,978	17,077	30,538
- over 360 days overdue	63,492	29,021	86,892	179,405
Total individually and collectively impaired loans (gross)	**673,440**	**36,577**	**156,403**	**866,420**
Less impairment provisions	**(130,882)**	**(25,708)**	**(59,991)**	**(216,581)**
Total loans and advances to customers	**1,496,052**	**396,987**	**340,458**	**2,233,497**

The Bank classifies loans and advances to customers by credit quality in accordance with classification prescribed by the NBU regulations. Current and not impaired loans are split by the Bank into the following credit risk categories:

High grade. This category represents loans classified under NBU regulations as standard grade. This category includes exposures with insignificant credit risk which is characterised by strong financial position of the borrower and good loan servicing.

Standard grade. This category represents loans classified under NBU regulations as loans under control. This category includes exposures with insignificant credit risk which however may increase as a result of unfavourable conditions; these are exposures to borrowers with good financial standing and good repayment history or borrowers with strong financial position and payment history with delays not exceeding 90 days.

Sub-standard loans. This category includes exposures with significant credit risk which is characterised by weak or unsatisfactory financial position of the borrower and good loan servicing or good financial position of the borrower and poor loan servicing.

10 Loans and Advances to Customers (Continued)

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

In thousands of Ukrainian hryvnias	Corporate loans	Consumer loans	Mortgage loans	Reverse sale and repurchase agreements	Total
Neither past due nor impaired					
- High grade	492,998	123,601	186,699	-	803,298
- Standard grade	65,765	11,911	31,204	-	108,880
- Sub-standard grade	21,717	8,646	38,823	-	69,186
Total neither past due nor impaired	**580,480**	**144,158**	**256,726**	**-**	**981,364**
Past due but not impaired					
- less than 30 days overdue	3,308	876	2,281	-	6,465
- 30 to 90 days overdue	6 895	6 605	15 858	-	29 358
- 91 to 180 days overdue	4 941	94	6 599	-	11 634
- 181 to 360 days overdue	2 324	51	1 777	-	4 152
- over 360 days overdue	666	29	479	-	1 174
Total past due but not impaired	**18,134**	**7,655**	**26,994**	**-**	**52,783**
Loans individually and collectively determined to be impaired (gross)					
- not yet past due	624,297	808	46,693	-	671,798
- less than 30 days overdue	20,399	512	1,735	-	22,646
- 30 to 90 days overdue	43,020	-	9,889	-	52,909
- 91 to 180 days overdue	36,476	5,420	15,828	-	57,724
- 181 to 360 days overdue	12,249	5,862	22,875	3,529	44,515
- over 360 days overdue	83,558	25,951	60,476	30,996	200,981
Total individually and collectively impaired loans (gross)	**819,999**	**38,553**	**157,496**	**34,525**	**1,050,573**
Less impairment provisions	**(140,346)**	**(19,626)**	**(65,063)**	**(34,525)**	**(259,560)**
Total loans and advances to customers	**1,278,267**	**170,740**	**376,153**	**-**	**1,825,160**

The Group applied the portfolio provisioning methodology prescribed by IAS 39, *Financial Instruments: Recognition and Measurement*, and created portfolio provisions for impairment losses that were incurred but have not been specifically identified with any individual loan by the end of the reporting period. The Bank's policy is to classify each loan as 'neither past due nor impaired' until specific objective evidence of impairment of the loan is identified. The impairment provisions may exceed the total gross amount of individually impaired loans as a result of this policy and the portfolio impairment methodology.

Past due but not impaired loans primarily include collateralised loans where the fair value of collateral covers the overdue interest and principal repayments. The amount reported as past due but not impaired is the whole balance of such loans, not only the individual instalments that are past due.

The financial effect of collateral is presented by disclosing collateral values separately for (i) those assets where collateral and other credit enhancements are equal to or exceed carrying value of the asset ("over-collateralised assets") and (ii) those assets where collateral and other credit enhancements are less than the carrying value of the asset ("under-collateralised assets").

The effect of collateral at 31 December 2012:

	Over-collateralised assets		Under-collateralised assets	
In thousands of Ukrainian hryvnias	Carrying value of the assets	Fair value of collateral	Carrying value of the assets	Fair value of collateral
Corporate loans	1,277,665	2,696,026	218,387	152,495
Mortgage loans	294,000	741,845	46,458	34,432
Consumer loans	227,384	352,300	169,603	120,575
Total	**1,799,049**	**3,790,171**	**434,448**	**307,502**

10 Loans and Advances to Customers (Continued)

The effect of collateral at 31 December 2011:

In thousands of Ukrainian hryvnias	**Over-collateralised assets**		**Under-collateralised assets**	
	Carrying value of the assets	**Fair value of collateral**	**Carrying value of the assets**	**Fair value of collateral**
Corporate loans	1,138,033	2,007,470	140,234	95,124
Mortgage loans	289,519	666,642	86,634	66,685
Consumer loans	101,748	182,189	68,992	44,503
Total	**1,529,300**	**2,856,301**	**295,860**	**206,312**

The fair value of collateral is the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction. This amount does not include possible costs of debt recovery through the foreclosure. Net collateral value after court expenses, disposal costs and other costs related to debt recovery through the foreclosure may differ from its fair value.

The fair value of residential real estate collateral at the end of the reporting period was estimated by indexing the values determined by the Bank's internal credit department staff at the time of loan inception for the average changes in residential real estate prices by city and region. The fair value of other real estate and other assets was determined by the Bank's credit department by considering the condition and location of the assets accepted as collateral.

Refer to Note 31 for the estimated fair value of each class of loans and advances to customers. Interest rate analysis of loans and advances to customers is disclosed in Note 28. Information on related party balances is disclosed in Note 33.

11 Investment Securities Available for Sale

In thousands of Ukrainian hryvnias	**2012**	**2011**
Ukrainian government bonds	536,091	590,961
Total debt securities	536,091	590,961
Corporate shares	30	30
Total investment securities available for sale	**536,121**	**590,991**

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

In thousands of Ukrainian hryvnias	**Ukrainian government bonds**	**Total**
Neither past due nor impaired		
- Ukrainian government	536,091	536,091
Total neither past due nor impaired	**536,091**	**536,091**
Total debt securities available for sale	**536,091**	**536,091**

As at 31 December 2012, refinancing loan received from NBU in the amount of UAH 3,509 thousand (2011: nil), is collateralized by investment securities available for sale in the amount of UAH 3,549 thousand (2011: nil).

11 Investment Securities Available for sale (Continued)

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

In thousands of Ukrainian hryvnias	**Ukrainian government bonds**	**Corporate bonds**	**Total**
Neither past due nor impaired			
- Ukrainian government	590,961	-	590,961
Total neither past due nor impaired	**590,961**	**-**	**590,961**
Debt securities individually determined to be impaired (gross)			
- overdue over 360 days	-	11,623	11,623
Total individually impaired debt securities (gross)	**-**	**11,623**	**11,623**
Less impairment provision	**-**	**(11,623)**	**(11,623)**
Total debt securities available for sale	**590,961**	**-**	**590,961**

The primary factor that the Bank considers in determining whether a debt security is impaired is its overdue status. As a result, the Bank presents above an ageing analysis of debt securities that are individually determined to be impaired. The debt securities are not collateralised.

Interest rate analysis of investment securities available for sale is disclosed in Note 28.

12 Investment Securities Held to Maturity

In thousands of Ukrainian hryvnias	**2012**	**2011**
Ukrainian government bonds	72,792	-
Securities issued by the National Bank of Ukraine	50,007	-
Total investment securities held to maturity	**122,799**	**-**

Analysis by credit quality of investment securities classified as held to maturity at 31 December 2012 is as follows:

In thousands of Ukrainian hryvnias	**Government securities**	**Total**
Neither past due nor impaired		
- Ukrainian government	72,792	72,792
- National Bank of Ukraine	50,007	50,007
Total neither past due nor impaired	**122,799**	**122,799**
Total investment securities held to maturity	**122,799**	**122,799**

The primary factor that the Group considers in determining whether a debt security is impaired is its overdue status.

The debt securities are not collateralised.

Refer to Note 31 for the disclosure of the fair value of each class of investment securities held to maturity. Interest rate analysis of investment securities held to maturity is disclosed in Note 28.

13 Premises, Leasehold Improvements, Equipment and Intangible Assets

In thousands of Ukrainian hryvnias	Note	Premises and leasehold improvements	Computer and other equipment	Furniture and fixtures	Motor vehicles	Construction in progress	Total premises, leasehold improvements and equipment	Computer software licences	Total
Cost at 1 January 2011		237,402	165,797	73,911	11,817	50,370	539,297	60,637	**599,934**
Accumulated depreciation		(38,989)	(90,076)	(36,486)	(8,208)	-	(173,759)	(31,252)	**(205,011)**
Carrying amount at 1 January 2011		**198,413**	**75,721**	**37,425**	**3,609**	**50,370**	**365,538**	**29,385**	**394,923**
Additions		-	20,833	5,116	2,174	4,135	32,258	17,755	50,013
Transfers		30,288	-	-	-	(30,288)	-	-	-
Disposals		(598)	(340)	(736)	(26)	-	(1,700)	(3)	(1,703)
Depreciation charge	25	(7,659)	(15,196)	(6,994)	(1,976)	-	(31,825)	(2,972)	(34,797)
Impairment charge to profit or loss		(20,001)	-	-	-	(12,218)	(32,219)	-	(32,219)
Carrying amount at 31 December 2011		**200,443**	**81,018**	**34,811**	**3,781**	**11,999**	**332,052**	**44,165**	**376,217**
Cost at 31 December 2011		244,394	184,285	75,995	13,097	11,999	529,770	78,361	608,131
Accumulated depreciation		(43,951)	(103,267)	(41,184)	(9,316)	-	(197,718)	(34,196)	(231,914)
Carrying amount at 31 December 2011		**200,443**	**81,018**	**34,811**	**3,781**	**11,999**	**332,052**	**44,165**	**376,217**
Additions		-	12,921	2,915	2,670	2,039	20,545	22,192	42,737
Transfers		8,261	(6,451)	-	-	(1,810)	-	-	-
Disposals		(56)	(158)	(775)	(215)	-	(1,204)	-	(1,204)
Depreciation charge	25	(6,429)	(15,731)	(6,014)	(1,901)	-	(30,075)	(5,612)	(35,687)
Revaluation	22	169,798	-	-	-	-	169,798	-	169,798
Impairment charge to profit or loss		(16,527)	-	-	-	-	(16,527)	-	(16,527)
Carrying amount at 31 December 2012		**355,490**	**71,599**	**30,937**	**4,335**	**12,228**	**474,589**	**60,745**	**535,334**
Cost at 31 December 2012		377,712	177,341	78,091	14,479	12,228	659,851	100,541	760,392
Accumulated depreciation		(22,222)	(105,742)	(47,154)	(10,144)	-	(185,262)	(39,796)	(225,058)
Carrying amount at 31 December 2012		**355,490**	**71,599**	**30,937**	**4,335**	**12,228**	**474,589**	**60,745**	**535,334**

Construction in progress consists mainly of construction and refurbishment of branch premises. Upon completion, assets are transferred to premises.

As at 31 December 2012 the gross carrying amount of fully depreciated equipment that are still in use was UAH 54,308 thousand (2011: UAH 63,535 thousand) and the gross carrying value of fully amortised intangible assets that are still in use was UAH 6,793 thousand (2011: UAH 9,299 thousand). During 2012 management reviewed useful lives of premises, leasehold improvements, equipment and intangible assets and adjusted them where appropriate.

As stated in Note 3, during 2012 the Group changed its accounting policy in respect of measurement of the value of land and buildings, included in group “premises and leasehold improvements”, after recognition. Starting from 2012 land and buildigns are recorded under the revaluation model.

Land and buildings have been revalued at fair value at 31 December 2012. The valuation was carried out by independent valuers, who hold a recognised and relevant professional qualification and who have recent experience in the valuation of assets in similar locations and in a similar category. The basis used for the appraisal was market value.

At 31 December 2012, the carrying amount of premises and leashold improvements would have been UAH 187,556 thousand had the assets been carried at cost less depreciation.

14 Other Financial Assets

In thousands of Ukrainian hryvnias	2012	2011
Receivables from operations with customers and banks	15,282	60,370
Accrued income receivable	6,503	2,742
Receivables from operations with plastic cards	472	121
Receivables from operations with securities	-	8,688
Less: Provision for other financial assets	(5,242)	(10,931)
Total other financial assets	**17,015**	**60,990**

As at 31 December 2011 receivables from operations with customers and banks included recevables from a related party in the amount of UAH 58,546 thousand relating to the sale of the rights to 100% of the cash flows arising on a portfolio of fixed rate loans. This receivable was settled during 2012.

Movements in the provision for impairment of other financial assets during 2012 are as follows:

In thousands of Ukrainian hryvnias	Receivables from operations with securities	Accrued income receivable	Receivables from operations with customers and banks	Total
Provision for impairment at 1 January 2012	**8,688**	**1,235**	**1,008**	**10,931**
Provision for impairment during the year	-	523	19,278	**19,801**
Amounts written off during the year as uncollectible	(8,688)	(48)	(16,754)	**(25,490)**
Provision for impairment at 31 December 2012	**-**	**1,710**	**3,532**	**5,242**

Movements in the provision for impairment of other financial assets during 2011 are as follows:

In thousands of Ukrainian hryvnias	Receivables from operations with securities	Accrued income receivable	Receivables from operations with customers and banks	Total
Provision for impairment at 1 January 2011	**8,688**	**3,494**	**1,004**	**13,186**
Provision for impairment during the year	-	440	4	444
Amounts written off during the year as uncollectible	-	(2,699)	-	(2,699)
Provision for impairment at 31 December 2011	**8,688**	**1,235**	**1,008**	**10,931**

Analysis by credit quality of other financial assets at 31 December 2012 is as follows:

In thousands of Ukrainian hryvnias	Accrued income receivable	Receivables from operations with customers and banks	Receivables from operations with plastic cards	Total
Neither past due nor impaired				
- Collected or settled after the end of the reporting period	4,727	7,275	472	12,474
- Not due at the date of authorisation of the financial statements for issue	-	8,000	-	8,000
Total neither past due nor impaired	**4,727**	**15,275**	**472**	**20,474**
Receivables individually determined to be impaired (gross)				
- less than 30 days overdue	129	-	-	129
- 31 to 90 days overdue	57	-	-	57
- over 360 days overdue	1,590	7	-	1,597
Total individually impaired (gross)	**1,776**	**7**	**-**	**1,783**
Less impairment provision	**(1,710)**	**(3,532)**	**-**	**(5,242)**
Total other financial assets	**4,793**	**11,750**	**472**	**17,015**

14 Other Financial Assets (Continued)

Analysis by credit quality of other financial assets at 31 December 2011 is as follows:

In thousands of Ukrainian hryvnias	**Receivables from operations with securities**	**Accrued income receivable**	**Receivables from operations with customers and banks**	**Receivables from operations with plastic cards**	**Total**
Neither past due nor impaired					
- Collected or settled after the end of the reporting period	-	1,302	816	121	2,239
- Not due at the date of authorisation of the financial statements for issue	-	-	58,546	-	58,546
Total neither past due nor impaired	**-**	**1,302**	**59,362**	**121**	**60,785**
Receivables individually determined to be impaired (gross)					
- less than 30 days overdue	-	228	-	-	228
- 31 to 90 days overdue	-	38	-	-	38
- over 360 days overdue	8,688	1,174	1,008	-	10,870
Total individually impaired (gross)	**8,688**	**1,440**	**1,008**	**-**	**11,136**
Less impairment provision	**(8,688)**	**(1,235)**	**(1,008)**	**-**	**(10,931)**
Total other financial assets	**-**	**1,507**	**59,362**	**121**	**60,990**

The primary factors that the Group considers in determining whether a receivable is impaired are its overdue status and realisability of related collateral, if any. As a result, the Group presents above an ageing analysis of receivables that are individually determined to be impaired. Other receivables generally are not collateralised.

Information on related party balances is disclosed in Note 33.

15 Other Non-financial Assets

In thousands of Ukrainian hryvnias	**2012**	**2011**
Repossessed collateral	12,821	18,501
Prepayments for goods and construction in progress	12,222	6,970
Prepaid taxes other than income tax	7,777	4,050
Prepaid expenses	4,682	5,290
Prepayment for services	4,326	6,706
Inventory	1,398	989
Receivables from settlements with employees and other	1,316	4,787
Provision for impairment of other non-financial assets	(4,814)	(3,914)
Total other non-financial assets	**39,728**	**43,379**

Repossessed collateral represents real estate assets acquired by the Group in settlement of overdue loans. The Group expects to dispose of the assets in the foreseeable future. The assets were initially recognised at fair value when acquired.

16 Due to Other Banks

In thousands of Ukrainian hryvnias	2012	2011
Correspondent accounts and overnight placements of other banks	36,763	7,102
Term placements and loans from other banks	657,132	85,283
Total due to other banks	**693,895**	**92,385**

As at 31 December 2012, term placements and loans include UAH 621,218 thousand (2011: UAH 24,955 thousand) received from PKO BP S.A (Poland) and correspondent accounts and overnight placements of other banks include UAH 18,508 thousand (2011: UAH 3,366 thousand) of balances on accounts of PKO BP S.A (Poland).

As at 31 December 2012, term placements and loans include loans of UAH 28,803 thousand (2011: UAH 44,726 thousand) received from the EBRD for financing loan facilities to customers.

As at 31 December 2012, term placements and loans include UAH 3,509 thousand (2011: nil), received from NBU that is collateralized by investment securities available for sale in the amount of UAH 3,549 thousand (2011: nil).

Refer to Note 31 for the disclosure of the fair value of each class of amounts due to other banks. Interest rate analysis of due to other banks is disclosed in Note 28. Information on related party balances is disclosed in Note 33.

17 Customer Accounts

In thousands of Ukrainian hryvnias	2012	2011
Legal entities		
- Current/settlement accounts	486,767	645,241
- Term deposits	435,329	200,910
Individuals		
- Current/demand accounts	297,903	311,132
- Term deposits	1,625,030	1,472,554
Total customer accounts	**2,845,029**	**2,629,837**

Economic sector concentrations within customer accounts are as follows:

	2012		2011	
In thousands of Ukrainian hryvnias	Amount	%	Amount	%
Individuals	1,922,933	68	1,783,686	68
Manufacturing	218,060	8	189,691	7
Trade	172,085	6	197,675	8
Financial services	154,407	5	106,145	4
Other services	124,219	4	114,474	5
Transport and communication	68,117	2	25,898	1
Agriculture	42,174	2	34,681	1
Real estate	36,676	1	61,800	2
Other	106,358	4	115,787	4
Total customer accounts	**2,845,029**	**100**	**2,629,837**	**100**

At 31 December 2012 the Bank had 19 customers (2011: 15 customers) with balances above UAH 10,000 thousand. The aggregate balance on accounts of these customers was UAH 334,698 thousand (2011: UAH 227,577 thousand) or 12% (2011: 9%) of total customer accounts.

At 31 December 2012 included in customer accounts are deposits of UAH 3,216 thousand (2011: UAH 3,498 thousand) held as collateral for guarantee issued (2011: for irrevocable commitments under import letters of credit). Refer to Note 30.

As at 31 December 2012 included in customer accounts are deposits totalling UAH 39,096 thousand (2011: UAH 39,147 thousand) held as collateral for loans granted to customers totalling UAH 20,380 thousand (2011: UAH 23,542 thousand). Refer to Note 10.Refer to Note 31 for the disclosure of the fair value of each class of customer accounts. Interest rate analysis of customer accounts is disclosed in Note 28. Information on related party balances is disclosed in Note 33.

18 Other Financial Liabilities

Other financial liabilities comprise of the following:

In thousands of Ukrainian hryvnias	Note	2012	2011
Funds in settlements		25,968	4,895
Other accrued liabilities		10,050	11,651
Provision for credit related commitments	30	81	472
Other		682	677
Total other financial liabilities		**36,781**	**17,695**

Provision for credit related commitments represents specific provisions created for losses incurred on financial guarantees and letters of credit provided to borrowers whose financial conditions deteriorated.

Refer to Note 31 for disclosure of the fair value of each class of other financial liabilities.

19 Other Non-financial Liabilities

Other non-financial liabilities comprise of the following:

In thousands of Ukrainian hryvnias	2012	2011
Accrued employee benefit costs	13,714	16,852
Amounts payable to Individuals' Deposits Guarantee Fund	2,754	2,580
Taxes payable other than on income	22	147
Other	2,349	2,663
Total other non-financial liabilities	**18,839**	**22,242**

20 Subordinated Debt

In thousands of Ukrainian hryvnias	Effective interest rate 2012	Carrying value 2012	Carrying value 2011
USD 20,000 floating rate due 2017	3.15%	162,049	157,899
USD 15,000 floating rate due 2018	3.19%	121,697	119,971
Total subordinated debt		**283,746**	**277,870**

During 2009 the Bank received from PKO BP S.A (Poland) subordinated debt in the amount of USD 20,000 thousand (UAH 159,806 thousand at the exchange rate at the date of receipt) at 1-month LIBOR+6.5% per annum. The agreement was registered by the National Bank of Ukraine on 9 November 2009. The debt matures on 6 November 2017.

During 2010 the Bank received from PKO BP S.A (Poland) subordinated debt in the amount of USD 15,000 thousand (UAH 120,140 thousand at the exchange rate at the date of receipt) at 1-month LIBOR+6.5% per annum. The agreement was registered by the National Bank of Ukraine on 9 February 2010. The debt matures on 5 February 2018.

On 18 May 2010 interest rate on both loans was changed to 1-month LIBOR + 3.75%. This represented substantial change in terms of the original financial liability and was accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability at fair value. The Bank considered that revised terms of subordinated debt are consistent with the market rates and therefore no gain or loss was recorded on initial recognition of the liability.

On 8 August 2012 року interest rate on both loans was changed to 1.07% per annum (that equal to USD 12-month LIBOR on July 1, 2012), this rate will be in force until the Bank becomes profitable and other conditions stated in agreement will be met by the Bank. During this period, interest payment is suspended. The Group estimated future cash flows arising on this instrument, taking into account business plan assumptions and expectations of renewed profitability starting from 2014. The change in the agreement's terms did not result in derecognition of liabilities as the difference between the present value of future cash flows, discounted by using the original effective interest rate, and the book value of borrowings as at the date of amendments represented 4.93%. The result from restructuring is recognised by the Group over the remaining term of the financial liability through application of revised effective interest rate.

20 Subordinated Debt (Continued)

The debt ranks after all other creditors in case of liquidation.

Refer to Note 31 for the disclosure of the fair value of subordinated debt. Interest rate analysis of subordinated debt is disclosed in Note 28. Information on related party balances is disclosed in Note 33.

21 Share Capital

In thousands of Ukrainian hryvnias except for number of shares	Number of outstanding shares	Nominal amount	Total
At 31 December 2010	**191,896,946,916**	**1,918,969**	**1,918,969**
At 31 December 2011	**191,896,946,916**	**1,918,969**	**1,918,969**
At 31 December 2012	**191,896,946,916**	**1,918,969**	**1,918,969**

The nominal registered amount of the Bank's issued share capital is UAH 1,918,969 thousand (2010: UAH 1,918,969 thousand).

At 31 December 2012, the Bank's authorised share capital comprised 191,896,946,916 (2011: 191,896,946,916) ordinary shares, with a nominal value UAH 0.01 per share. All ordinary shares have equal voting rights. As at 31 December 2012 all ordinary shares issued were fully paid and registered.

The Bank's shareholders structure is presented as follows:

Shareholder	2012	2011
PKO BP S.A	99.57%	99.57%
Other (resident and non-resident shareholders)	0.43%	0.43%
Total	**100.00%**	**100.00%**

22 Other Comprehensive Income Recognised in Each Component of Equity

An analysis of other comprehensive income by item for each component of equity is as follows:

In thousands of Ukrainian hryvnias	Note	Revaluation reserve for available for sale securities	Revaluation reserve for premises	Total
Year ended 31 December 2011				
Available for sale investments:				
- Losses less gains arising during the year		408	-	408
Income tax recorded directly in other comprehensive income		(65)	-	(65)
Total other comprehensive income		**343**	**-**	**343**
Year ended 31 December 2012				
Available for sale investments:				
- Gains less losses arising during the year		(11,338)	-	(11,338)
Revaluation of premises and equipment		-	169,798	169,798
Income tax recorded directly in other comprehensive income	26	1,814	1,865	3,679
Total other comprehensive income		**(9,524)**	**171,663**	**162,139**

As stated in Notes 3 and 13, during 2012 the Group changed its accounting policy and starting from 2012 land and buildigns are recorded under the revaluation model. As a result of this change difference between carrying amount of land and buildings for tax purposes and carrying amount in accordance with IFRS recognized in 2010 as a result of changes in Ukrainian tax regulations, reduced significantly. Reversal of deferred tax asset arising previously on this difference, was charged to profit or loss for the year as it reversed deferred tax credit recognized in profit or loss in respect of this difference in 2010. Deferred tax asset of UAH 1,865 thousand relating to decreases in the fair value offsetting previous increases of the fair value of the same asset, has been recognized in other comprehensive income. Deferred tax assets relating to all other decreases, were credited to profit or loss for the year.

23 Interest Income and Expense

In thousands of Ukrainian hryvnias	2012	2011
Interest income		
Loans and advances to legal entities	130,440	132,136
Interest income on impaired financial assets	99,924	109,677
Loans and advances to individuals	81,362	71,024
Debt securities available for sale	67,768	43,522
Due from other banks	3,802	3,681
Securities at fair value through profit or loss	3,222	-
Investment securities held to maturity	325	-
Total interest income	**386,843**	**360,040**
Interest expense		
Term deposits of individuals	150,264	162,908
Term deposits of legal entities	58,308	45,393
Subordinated debt	12,394	11,489
Term placements of other banks	9,207	12,369
Amounts due to the National Bank of Ukraine	610	119
Total interest expense	**230,783**	**232,278**
Net interest income	**156,060**	**127,762**

Information on interest income and expense from transactions with related parties is disclosed in Note 33.

24 Fee and Commission Income and Expense

In thousands of Ukrainian hryvnias	2012	2011
Fee and commission income		
Cash and settlement transactions	103,520	91,060
Purchase and sale of foreign currency	15,690	14,449
Agency fee from insurance companies	13,956	-
Agency fee from other financial institutions for credit products sold	11,824	-
Guarantees issued	1,204	913
Other	1,073	2,196
Total fee and commission income	**147,267**	**108,618**
Fee and commission expense		
Cash and settlement transactions	1,690	1,559
Guarantees received	248	1,014
Transactions with securities	179	304
Other	14	1,469
Total fee and commission expense	**2,131**	**4,346**
Net fee and commission income	**145,136**	**104,272**

Information on fee and commission expense from transactions with related parties is disclosed in Note 33.

25 Administrative and Other Operating Expenses

In thousands of Ukrainian hryvnias	Note	2012	2011
Staff costs		151,979	144,009
Depreciation and amortisation of premises, leasehold improvements, equipment and intangible assets	13	35,687	34,797
Operating lease expense for premises		26,814	27,250
Utilities		19,143	17,383
Repairs and maintenance		15,083	10,674
Communication		11,898	10,280
Professional services		10,095	2,931
Contributions to Individuals Deposit Guarantee Fund		9,387	10,285
Security services		9,342	9,579
Advertising and marketing services		5,343	1,347
Business trips		2,249	2,047
Taxes other than on income		2,174	4,364
Charity		333	30
Other		30,139	29,080
Total administrative and other operating expenses		**329,666**	**304,056**

Included in staff costs is the unified social tax in the amount of UAH 37,529 thousand (2011: UAH 34,278 thousand). Contribution to the state pension fund comprises 90% of the unified social tax, amounting to UAH 33,776 thousand (2011: UAH 31,028 thousand). No discretionary pensions and other post-employment benefits are provided by the Group.

26 Income Taxes

(a) Components of income tax expense / (benefit)

Income tax expense /(benefit) recorded in profit or loss for the year comprises the following:

In thousands of Ukrainian hryvnias	2012	2011
Deferred tax	12,034	(25,175)
Income tax expense/(credit) for the year	**12,034**	**(25,175)**

(b) Reconciliation between the tax expense and profit or loss multiplied by applicable tax rate

The income tax rate applicable to the majority of the Bank's income is 21% (2011: 23%). A reconciliation between the expected and the actual taxation charge is provided below.

In thousands of Ukrainian hryvnias	2012	2011
Loss before tax	**(124,515)**	**(290,717)**
Theoretical tax credit at statutory rate (2012: 21%; 2011: 23%)	(26,148)	(66,865)
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Income recognised for tax purposes only	25	60
- Non-deductible loan loss provisioning expense	-	15,741
- Debt forgiveness expenses not deductible for taxation purposes	8,380	6,568
- Other non-deductible expenses	7,620	4,770
Effect of change in expected term of utilization of tax losses carried forward	(3,761)	56,211
Non-taxable income	-	(58,194)
Tax losses correction as a result of State Tax Administration inspection	-	4,771
Fixed assets revaluation	38,668	-
Effect of other changes in tax legislation	(12,750)	11,763
Income tax (credit)/expense for the year	**12,034**	**(25,175)**

During 2012 the Bank updated its medium-term business plan and as a result revised expectations in respect of utilisation of tax losses carried forward. As a result the amount of deferred tax asset was changed. The impact of the change in expected term of utilization of tax losses carried forward presented above represents the respective reduction in carrying value of deferred tax balances as at 31 December 2012.

26 Income Taxes (Continued)

(c) Deferred taxes analysed by type of temporary difference

Differences between IFRS and statutory taxation regulations in Ukraine give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below.

In thousands of Ukrainian hryvnias	**31 December 2011**	**Credited/ (charged) to profit or loss**	**Credited to other comprehensive income**	**31 December 2012**
Tax effect of deductible/(taxable) temporary differences				
Premises and equipment	36,470	(25,797)	1,865	12,538
Loan impairment provision	(9,443)	5,201	-	(4,242)
Unamortised origination fees	911	(911)	-	-
Fair valuation of securities	(13,601)	13,406	1,814	1,619
Accrued expenses and other liabilities	3,595	(198)	-	3,397
Tax losses carried forward	136,648	(1,547)	-	135,101
Other	2,188	(2,188)	-	-
Net deferred tax asset	**156,768**	**(12,034)**	**3,679**	**148,413**
Recognised deferred tax asset	179,812	-	-	152,655
Recognised deferred tax liability	(23,044)	-	-	(4,242)
Net deferred tax asset	**156,768**	**-**	**-**	**148,413**

As disclosed in Note 13 and 22, the Group changed its accounting policy and starting from 2012 land and buildigns are recorded under the revaluation model. As a result of this change difference between carrying amount of land and buildings for tax purposes and carrying amount in accordance with IFRS recognized in 2010 as a result of changes in Ukrainian tax regulations, reduced significantly. Reversal of deferred tax asset arising previously on this difference, was charged to profit or loss for the year as it reversed deferred tax credit recognized in respect of this difference in 2010. Additional deferred tax asset of UAH 1,865 thousand arising in subsequent periods, has been recorded directly in equity.

In thousands of Ukrainian hryvnias	**31 December 2010**	**Credited/ (charged) to profit or loss**	**Credited/ (charged) to other comprehensive income**	**31 December 2011**
Tax effect of deductible/(taxable) temporary differences				
Premises and equipment	40,938	(4,468)	-	36,470
Loan impairment provision	(85,119)	75,676	-	(9,443)
Unamortised origination fees	2,794	(1,883)	-	911
Fair valuation of securities	(2,445)	(11,091)	(65)	(13,601)
Accrued expenses and other liabilities	2,727	868	-	3,595
Tax losses carried forward	170,141	(33,493)	-	136,648
Other	2,622	(434)	-	2,188
Net deferred tax asset	**131,658**	**25,175**	**(65)**	**156,768**
Recognised deferred tax asset	219,222	-	-	179,812
Recognised deferred tax liability	(87,564)	-	-	(23,044)
Net deferred tax asset	**131,658**	**-**	**-**	**156,768**

27 Segment Analysis

Operating segments are components that engage in business activities that may earn revenues or incur expenses, whose operating results are regularly reviewed by the chief operating decision maker (CODM) and for which discrete financial information is available. The CODM is the person or group of persons who allocates resources and assesses the performance for the entity. The functions of CODM are performed by the Management Board of the Bank.

(a) Description of products and services from which each reportable segment derives its revenue

The Bank is organised on the basis of three main business segments:

- Retail banking – representing private banking services, private customer current accounts, savings, deposits, investment savings products, credit and debit cards, consumer loans and mortgages.
- Corporate banking – representing direct debit facilities, current accounts, deposits, overdrafts, loan and other credit facilities and foreign currency operations.
- Treasury and investment banking – representing financial instruments trading, structured financing, operations with foreign currency and banknotes.

(b) Factors that management used to identify the reportable segments

The Bank's segments are strategic business units that focus on different customers. They are managed separately because each business unit requires different marketing strategies and service level.

(c) Measurement of operating segment profit or loss, assets and liabilities

The Management Board reviews financial information prepared based on Ukrainian accounting standards before year-end closing adjustments with corrections to meet the requirements of internal reporting. Such financial information differs in certain aspects from International Financial Reporting Standards:

(i) funds are generally reallocated between segments at internal interest rates set by the treasury department, which are determined by reference to market interest rate benchmarks, contractual maturities for loans and observed actual maturities of customer accounts balances;

(ii) income taxes are not allocated to segments;

(iii) loan provisions are recognized based on the NBU requirements rather than based on the incurred loss model prescribed in IAS 39; and

(iv) commission income related to lending is partially recognized immediately rather than deferred using the effective interest method.

The CODM evaluates performance of each segment based on profit before tax.

Reports include information on transfer (internal) results of reportable segments. Transfer result is calculated as difference between transfer income and transfer expense of each segment calculated at transfer prices set by major currencies and maturities. For corporate and retail segment transfer income is formed as estimated income from sale of attracted resources to Treasury and investment segment at transfer prices for such resources; transfer expenses are formed as estimated expenditure for purchase of resources from Treasury and investment segment at transfer prices for resources placed.

Calculation of transfer prices and transfer income/expense is performed in accordance with "Methodology for defining and applying transfer prices of resources in KREDOBANK system" approved by the decision of the Management Board (№ 41/2008 dated 18 December 2008).

(d) Information about reportable segment profit or loss, assets and liabilities

Segment information for the reportable segments for the year ended 31 December 2012 is set out below:

In thousands of Ukrainian hryvnias	**Retail banking**	**Corporate banking**	**Treasury and Investment banking**	**Unallocated**	**Total**
Reportable segment assets	732,512	1,511,835	1,601,301	658,345	**4,503,993**
Reportable segment liabilities	1,949,079	919,349	974,571	65,130	**3,908,129**
Capital expenditure	-	-	-	24,254	**24,254**

27 Segment Analysis (Continued)

Capital expenditure represents additions to non-current assets other than financial instruments and deferred tax assets.

In thousands of Ukrainian hryvnias	**Retail banking**	**Corporate banking**	**Treasury and Investment banking**	**Unallo-cated**	**Elimina-tions**	**Total**
2012						
External revenues:						
- Interest income	95,821	214,381	73,181	-	-	**383,383**
- Fee and commission income	70,856	70,394	1,025	-	-	**142,275**
- Other operating income	14,218	16,196	-	46,563	-	**76,977**
Revenues from other segments						
- Interest income	194,156	80,178	264,983	-	(539,317)	**-**
Total revenues	**375,051**	**381,149**	**339,189**	**46,563**	**(539,317)**	**602,635**
Interest expense	(229,097)	(242,986)	(295,836)	-	539,317	**(228,602)**
Reversal of provision/(provision) for loan impairment	47,248	(72,114)	6,536	-	-	**(18,330)**
Reversal of impairment of investment securities available for sale	-	-	24,052	-	-	**24,052**
Provision for credit related commitments	(578)	896	(408)	-	-	**(90)**
Depreciation and amortisation	-	-	-	(35,601)	-	**(35,601)**
Fee and commission expense	(7,559)	(1,667)	(1,869)	-	-	**(11,095)**
Gains less losses from trading in foreign currencies	7,833	-	-	(534)	-	**7,299**
Foreign exchange translation gains less losses	-	-	-	(1,209)	-	**(1,209)**
Gains less losses from disposals of investment securities available for sale	-	-	(4,533)	-	-	**(4,533)**
Administrative and other operating expenses	(3,831)	(37,002)	(23,898)	(331,500)	-	**(396,231)**
Segment result	**189,067**	**28,276**	**43,233**	**(322,281)**	**-**	**(61,705)**

Segment information for the reportable segments for the year ended 31 December 2011 is set out below:

In thousands of Ukrainian hryvnias	**Retail banking**	**Corporate banking**	**Treasury and Investment banking**	**Unallocated**	**Total**
Reportable segment assets	489,371	1,372,983	1,240,753	691,010	**3,794,117**
Reportable segment liabilities	1,804,823	844,711	373,663	50,172	**3,073,369**
Capital expenditure	-	-	-	(24,218)	**(24,218)**

Capital expenditure represents additions to non-current assets other than financial instruments and deferred tax assets.

27 Segment Analysis (Continued)

In thousands of Ukrainian hryvnias	Retail banking	Corporate banking	Treasury and Investment banking	Unallo-cated	Elimina-tions	Total
2011						
External revenues:						
- Interest income	85,187	219,861	48,244	-	-	353,292
- Fee and commission income	47,980	69,323	699	-	-	118,002
- Other operating income	4,749	9,309	-	339,089	-	353,147
Revenues from other segments						
- Interest income	206,332	63,660	262,151	-	(532,143)	-
Total revenues	**344,248**	**362,153**	**311,094**	**339,089**	**(532,143)**	**824,441**
Interest expense	(227,753)	(241,517)	(295,919)	-	532,143	(233,046)
Reversal of provision/(provision) for loan impairment	246,601	862,045	(5,245)	-	-	1,103,401
Reversal of impairment of investment securities available for sale	-	-	26,072	-	-	26,072
Provision for credit related commitments	(1)	(1,388)	(74)	-	-	(1,463)
Depreciation and amortisation	-	-	-	(36,189)	-	(36,189)
Fee and commission expense	(6,839)	(2,941)	(1,860)	-	-	(11,640)
Gains less losses from trading in foreign currencies	6,492	-	-	1,818	-	8,310
Foreign exchange translation gains less losses	-	-	-	1,912	-	1,912
Gains less losses from disposals of investment securities available for sale	-	-	79	-	-	79
Administrative and other operating expenses	(207,605)	(1,102,547)	(14,912)	(264,658)		(1,589,722)
Segment result	**155,143**	**(124,195)**	**19,235**	**41,972**	-	**92,155**

(e) Reconciliation of reportable segment revenues, profit or loss, assets and liabilities

In thousands of Ukrainian hryvnias	2012	2011
Total revenues for reportable segments	**602,635**	**824,441**
Reclassification of compensation for guarantee agreements cancelation to provision for loan impairment	-	(338,167)
Netting off similar operations	(66,753)	(8,162)
Other	1,869	(1,166)
Total revenues	**537,751**	**476,946**

Total revenues comprise interest income, fee and commission income and other operating income.

27 Segment Analysis (Continued)

In thousands of Ukrainian hryvnias	2012	2011
Total reportable segment result	**(61,705)**	**92,155**
Differences in depreciation rates and impairment of fixed assets for IFRS purposes	(19,273)	(30,045)
Adjustment for fair value of other assets	(10,715)	(7,430)
Adjustment of provision for loan impairment	(31,109)	(350,115)
Other	(1,713)	4,718
Loss before tax	**(124,515)**	**(290,717)**

In thousands of Ukrainian hryvnias	2012	2011
Total reportable segment assets	**4,503,993**	**3,794,117**
Adjustment of provision for loan impairment	24,376	55,484
Adjustment for deferred tax assets	88,684	107,869
Differences in depreciation rates	(17,539)	13,650
Impairment of fixed assets	(12,218)	(32,220)
Adjustment for revaluation of premises	(5,327)	(206,419)
Adjustment for fair value of other assets	(10,715)	(13,676)
Accounting for operations on a net basis and reclassification	(14,050)	(31,372)
Other	(3,380)	2,540
Total assets	**4,553,824**	**3,689,973**

In thousands of Ukrainian hryvnias	2012	2011
Total reportable segment liabilities	**3,908,129**	**3,073,369**
Adjustment for balances on clients' accounts	(10,170)	(21,170)
Netting operations with similar substance	(14,050)	(7,341)
Other	(5,619)	(4,829)
Total liabilities	**3,878,290**	**3,040,029**

27 Segment Analysis (Continued)

Reconciliation of material items of income or expenses for the year ended 31 December 2012 is as follows:

In thousands of Ukrainian hryvnias	Total amount for all reportable segments	Adjustment of provision for loan impairment	Impairment of fixed assets	Reclassification of income/expenses in accordance with their substance	Netting operations with similar substance	Other	As reported under IFRS
Material income or expenses for year ended 31 December 2011							
External revenues:							
- Interest income	**383,383**	-	-	-	-	3,460	**386,843**
- Fee and commission income	**142,275**	-	-	13,956	(8,964)	-	**147,267**
- Other operating income	**76,977**	-	-	(13,956)	(57,789)	(1,591)	**3,641**
Interest expense	**(228,602)**	-	-		-	(2,181)	**(230,783)**
Provision for loan impairment	**(18,330)**	(31,122)	-	(7,396)	-	531	**(56,317)**
Reversal of impairment of investment securities available for sale	**24,052**	-	-	(24,052)	-	-	**-**
(Provision)/reversal of provision for credit related commitments	**(90)**	-	-	-	-	483	**393**
Depreciation and amortisation	**(35,601)**	-	-	-	-	(86)	**(35,687)**
Fee and commission expense	**(11,095)**	-	-	-	8,964	-	**(2,131)**
Losses less gains from securities at fair value through profit or loss	**-**	-	-	-	-	(479)	**(479)**
Gains less losses from trading in foreign currencies	**7,299**	-	-	-	-	(3,963)	**3,336**
Foreign exchange translation gains less losses	**(1,209)**	13	-	-	-	-	**(1,196)**
Losses less gains from disposals of investment securities available for sale	**(4,533)**	-	-	-	-	(623)	**(5,156)**
Administrative and other operating expenses	**(396,231)**	-	(19,273)	31,448	57,789	(7,979)	**(334,246)**

The reconciling items are attributable to the following:

(i) the Bank analyses in Segment reporting provision for impairment created in accordance with the NBU requirements;

(ii) impairment of fixed assets was recognized for IFRS reporting purposes;

(iii) agency fee from insurance companies was recorded as fee and commission income for IFRS reporting purposes; reversal of provision for impairment of reverse sale and repurchase agreements was transferred from reversal of provision for investment securities available for sale to provision for loan impairment for IFRS reporting purposes; results from sale of loans and securities were recorded on a net basis for IFRS reporting purposes;

(iv) movement in provision for other assets was presented on a net basis for IFRS reporting purposes; offsetting of fee and commission income from transactions with customers' credit cards against the similar expense.

27 Segment Analysis (Continued)

Reconciliation of material items of income or expenses for the year ended 31 December 2011 is as follows:

In thousands of Ukrainian hryvnias	Total amount for all reportable segments	Adjustment of provision for loan impairment	Adjustment for fair value of securities	Impairment of fixed assets	Reclassification of result from assets selling to provision for impairment	Other	As reported under IFRS
Material income or expenses for year ended 31 December 2011							
External revenues:							
- Interest income	**353,292**	-	-	-	-	6,748	**360,040**
- Fee and commission income	**118,002**	-	-	-	-	(9,384)	**108,618**
- Other operating income	**353,147**	-	-	-	(338,167)	(6,692)	**8,288**
Interest expense	**(233,046)**	-	-	-	-	768	**(232,278)**
Provision for loan impairment	**1,103,401**	(350,115)	(4,503)	-	(970,901)	(247)	**(222,365)**
Reversal of impairment of investment securities available for sale	**26,072**	-	(16,298)	-	(1,689)	67	**8,152**
(Provision)/reversal of provision for credit related commitments	**(1,463)**	-	-	-	-	1,944	**481**
Depreciation and amortisation	**(36,189)**	-	-	-	-	1,392	**(34,797)**
Fee and commission expense	**(11,640)**	-	-	-	-	7,294	**(4,346)**
Gains less losses from securities at fair value through profit or loss	**-**	-	21,730	-	(12,000)	33	**9,763**
Gains less losses from trading in foreign currencies	**8,310**	-	-	-	-	(762)	**7,548**
Foreign exchange translation gains less losses	**1,912**	-	-	-	-	(15)	**1,897**
Gains less losses from disposals of investment securities available for sale	**79**	-	-	-	-	(79)	**-**
Administrative and other operating expenses	**(1,589,722)**	-	-	(32,220)	1,322,756	(2,532)	**(301,718)**

The reconciling items are attributable to the following:

(i) the Bank analyses in Segment reporting provision for impairment created in accordance with the NBU requirements;

(ii) provision for impairment of investment securities available for sale was split between loans to customers, investment securities available for sale and securities at fair value through profit or loss for IFRS reporting purposes;

(iii) impairment of fixed assets was recognized for IFRS reporting purposes;

(iv) results from sale of loans and securities were recorded on a net basis for IFRS reporting purposes.

27 Segment Analysis (Continued)

Reconciliation of material assets and liabilities at 31 December 2012 is as follows:

In thousands of Ukrainian hryvnias	**Total amount for all reportable segments**	**Adjustment of provision for loan impairment**	**Adjustment for deferred taxes**	**Adjustment for revaluation and impairment of premises**	**Accounting for operations on a net basis and reclassification**	**Cut-off adjustment for cash**	**Other**	**As reported under IFRS**
Assets at 31 December 2012	**4,503,993**	**24,376**	**88,684**	**(35,084)**	**(14,050)**	**(10,170)**	**(3,925)**	**4,553,824**
Cash and cash equivalents and mandatory reserves	**887,276**	154	-	-	-	(10,170)	(3,965)	**873,295**
Loans and advances to customers	**2,204,680**	23,948	-	-	-	-	4,869	**2,233,497**
Premises, leasehold improvements, equipment and intangible assets	**560,913**	-	-	(35,084)	-	-	9,505	**535,334**
Other reportable segment assets	**851,124**	274	88,684	-	(14,050)	-	(14,334)	**911,698**
Liabilities at 31 December 2012	**3,908,129**	**-**	**(2,600)**	**-**	**(14,050)**	**(10,170)**	**(3,019)**	**3,878,290**
Due to other banks	**683,550**	-	-	-	-	-	10,345	**693,895**
Customer accounts	**2,864,681**	-	-	-	-	(10,170)	(9,482)	**2,845,029**
Subordinated debt	**278,959**	-	-	-	-	-	4,787	**283,746**
Other reportable segment liabilities	**80,939**	-	(2,600)	-	(14,050)	-	(8,669)	**55,620**
Capital expenditure for 2012	**(24,254)**	**-**	**-**	**12,026**	**-**	**-**	**-**	**(12,228)**

The reconciling items are attributable to the following:

(i) the Bank analyses in Segment reporting provision for impairment created in accordance with the NBU requirements;

(ii) certain deferred tax assets were not recognized for the purposes of Segment reporting;

(iii) impairment of fixed assets was recognized for IFRS reporting purposes;

(iv) netting of other assets and other liabilities with the same substance for IFRS reporting purposes;

(v) actual cash and cash equivalents balance as at balance sheet date is recognised for IFRS reporting purposes.

27 Segment Analysis (Continued)

Reconciliation of material assets and liabilities at 31 December 2011 is as follows:

In thousands of Ukrainian hryvnias	Total amount for all reportable segments	Adjustment of provision for loan impairment	Adjustment for deferred taxes	Adjustment for revaluation and impairment of premises	Cut-off adjustment for cash	Reclassification of placements with other banks with original maturity less than 3 months	Other	As reported under IFRS
Assets at 31 December 2011	**3,794,117**	**55,484**	**107,869**	**(238,639)**	**(17,247)**	**-**	**(11,611)**	**3,689,973**
Cash and cash equivalents and mandatory reserves	**480,491**	184	-	-	(17,247)	123,814	-	**587,242**
Loans and advances to customers	**1,776,625**	48,535	-	-	-	-	-	**1,825,160**
Premises, leasehold improvements, equipment and intangible assets	**601,205**	-	-	(238,639)	-	-	13,651	**376,217**
Other reportable segment assets	**935,796**	6,765	107,869	-	-	(123,814)	(25,262)	**901,354**
Liabilities at 31 December 2011	**3,073,369**	**-**	**-**	**-**	**(17,247)**	**-**	**(16,093)**	**3,040,029**
Due to other banks	**92,385**	-	-	-	-	-	**-**	**92,385**
Customer accounts	**2,645,469**	-	-	-	(17,247)	-	1,615	**2,629,837**
Subordinated debt	**277,870**	-	-	-	-	-	-	**277,870**
Other reportable segment liabilities	**57,645**	-	-	-	-	-	(17,708)	**39,937**
Capital expenditure for 2011	**(24,218)**	**-**	**-**	**12,218**	**-**	**-**	**-**	**(12,000)**

The reconciling items are attributable to the following:

(i) the Bank analyses in Segment reporting provision for impairment created in accordance with the NBU requirements;

(ii) certain deferred tax assets were not recognized for the purposes of Segment reporting;

(iii) for the purposes of Segment reporting premises are measured at revalued amounts and impairment of premises was recognised under IFRS;

(iv) actual cash and cash equivalents balance as at balance sheet date is recognised for IFRS reporting purposes;

(v) placements with other banks with original maturities less than three months reclassified to cash and cash equivalents under IFRS.

(f) Analysis of revenues by products and services

The Bank's revenues are analysed by products and services in Note 23 (interest income) and Note 24 (fee and commission income).

(g) Geographical information

Ukraine represents the only geographical segment, as majority of revenues and assets are attributable to Ukraine. The Bank has no material revenues from outside Ukraine and all its non-current assets other than financial instruments are attributable to Ukraine. Please refer also to Note 28 for geographical analysis of the Bank's assets and liabilities.

(h) Major customers

The Bank does not have customers with the revenues exceeding 10 % of the total revenue of the Bank.

28 Financial Risk Management

The risk management function within the Group is carried out by the Bank in respect of financial risks, operational risks and legal risks. Financial risk comprises market risk (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The primary objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risks stays within these limits. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures to minimise operational and legal risks.

Credit risk. The Bank takes on exposure to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Exposure to credit risk arises as a result of the Bank's lending and other transactions with counterparties giving rise to financial assets.

The Bank's maximum exposure to credit risk is reflected in the carrying amounts of financial assets on the statement of financial position. For guarantees and commitments to extend credit, the maximum exposure to credit risk is the amount of the commitment. Refer to Note 30. The credit risk is mitigated by collateral and other credit enhancements as disclosed in Note 10.

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers. Limits on the level of credit risk by product and industry sector are approved regularly by management. Such risks are monitored on a revolving basis and subject to an annual or more frequent review.

The Bank established authorized corporate bodies which are responsible for approving credit limits for individual borrowers:

- Supervisory Board reviews and approves credit applications above USD 2.5 million and loans restructuring above USD 5 million.
- Management Board reviews and approves credit applications up to USD 2.5 million and loans restructuring up to USD 5 million.
- Credit Committee of the Bank and Small Credit Committee of the Bank review and approve credit applications up to UAH 10 million, and the Credit committee on restructuring – up to USD 5 million. Credit Committee and Small Credit Committee of the Bank meet usually two times per week, and the Credit committee on restructuring meets usually once a week.
- The individual right to approve new credit decisions with the limits below UAH 1.5 million is granted separately to the Deputies of the Chairman of the Board, the directors of departments of the Head Office and the directors of independent branches.

Loan applications originated by the relevant client relationship managers are passed on to the relevant credit committee for approval of credit limit. Exposure to credit risk is also managed, in part, by obtaining collateral and corporate and personal guarantees.

In order to monitor credit risk exposures, regular reports are produced by the credit department's officers based on a structured analysis focusing on the customer's business and financial performance. Any significant exposures against customers with deteriorating creditworthiness are reported to and reviewed by the Management Board.

The Bank's credit monitoring department reviews ageing analysis of outstanding loans and follows up on past due balances. Management therefore considers it appropriate to provide ageing and other information about credit risk as disclosed in Notes 9, 10, 11, 12 and 14.

Credit risk for off-balance sheet financial instruments is defined as the possibility of sustaining a loss as a result of another party to a financial instrument failing to perform in accordance with the terms of the contract. The Bank uses the same credit policies in assuming conditional obligations as it does for on-balance sheet financial instruments, through established credit approvals, risk control limits and monitoring procedures.

The report on the analysis of the credit profile of the Bank, and also the detailed analysis of the level of credit risk per the credit profile in general and per branches of crediting is presented to management bodies of the Bank on a monthly basis.

28 Financial Risk Management (Continued)

Market risk. The Bank takes on exposure to market risks. Market risks arise from open positions in: (a) currency, (b) interest rate and (c) equity products, all of which are exposed to general and specific market movements. Management sets limits on the value of risk that may be accepted, which is monitored on a daily basis. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

Currency risk. In respect of currency risk, management sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily. Currency risk results from the Bank having open positions in different currencies. Such positions are calculated as differences between assets and liabilities in the same currency as of the reporting date. The Bank evaluates, monitors and sets limits for long and short foreign exchange open positions by currency using hryvnia as its base currency. Open position limits are set at the level established by the NBU regulations calculated as a percentage of open currency position of regulatory capital of the Bank. Compliance with these limits is monitored by Market and Liquidity Risk Department on a daily basis. The Market and Liquidity Risk Department reports on a weekly basis to Asset, Liability and Tariffs Management Committee (ALTCO).

The table below summarises the Bank's exposure to foreign currency exchange rate risk at the end of the reporting period:

	At 31 December 2012			At 31 December 2011		
In thousands of Ukrainian hryvnias	**Monetary financial assets**	**Monetary financial liabilities**	**Net position**	**Monetary financial assets**	**Monetary financial liabilities**	**Net position**
Ukrainian hryvnias	2,088,955	2,059,325	29,630	1,912,244	1,748,003	164,241
US Dollars	1,218,416	1,284,833	(66,417)	862,599	918,037	(55,438)
Euros	502,559	501,949	610	320,664	338,140	(17,476)
British pounds	1,027	919	108	993	929	64
Russian Roubles	6,752	5,504	1,248	3,590	3,532	58
Other	9,402	6,921	2,481	8,488	9,146	(658)
Total	**3,827,111**	**3,859,451**	**(32,340)**	**3,108,578**	**3,017,787**	**90,791**

The above analysis includes only monetary assets and liabilities. Investments in equities and non-monetary assets are not considered to give rise to any material currency risk

The following table presents sensitivities of profit or loss and equity to reasonably possible changes in exchange rates applied at the end of the reporting period relative to the Bank's functional currency, with all other variables held constant:

	At 31 December 2012		At 31 December 2011	
In thousands of Ukrainian hryvnias	**Impact on profit or loss**	**Impact on equity**	**Impact on profit or loss**	**Impact on equity**
US Dollar strengthening by 15% (2011: strengthening by 15%)	(9,963)	(9,963)	(8,316)	(8,316)
US Dollar weakening by 15% (2011: weakening by 15%)	9,963	9,963	8,316	8,316
Euro strengthening by 15% (2011: strengthening by 15%)	92	92	(2,621)	(2,621)
Euro weakening by 15% (2011: weakening by 15%)	(92)	(92)	2,621	2,621
Russian Rouble strengthening by 15% (2011: strengthening by 15%)	187	187	9	9
Russian Rouble weakening by 15% (2011: weakening by 15%)	(187)	(187)	(9)	(9)
Other currencies strengthening by 15% (2011: strengthening by 15%)	389	389	(89)	(89)
Other currencies weakening by 15% (2011: weakening by 15%)	(389)	(389)	89	89
Total	**-**	**-**	**-**	**-**

The exposure was calculated only for monetary balances denominated in currencies other than the functional currency of the Bank.

28 Financial Risk Management (Continued)

Interest rate risk. The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. Management monitors on a daily basis and sets limits on the level of mismatch of interest rate repricing that may be undertaken.

The table below summarises the Bank's exposure to interest rate risks. The table presents the aggregated amounts of the Bank's financial assets and liabilities at carrying amounts, categorised by the earlier of contractual interest repricing or maturity dates.

In thousands of Ukrainian hryvnias	**Demand and less than 1 month**	**From 1 to 3 months**	**From 3 to 12 months**	**Over 1 year**	**Non-monetary**	**Total**
31 December 2012						
Total financial assets	1,044,870	374,552	781,962	1,625,727	30	3,827,141
Total financial liabilities	(2,522,418)	(562,941)	(476,088)	(298,004)	-	(3,859,451)
Net interest sensitivity gap at 31 December 2012	**(1,477,548)**	**(188,389)**	**305,874**	**1,327,723**	**30**	**(32,310)**
31 December 2011						
Total financial assets	827,973	335,367	571,154	1,374,084	30	3,108,608
Total financial liabilities	(1,679,504)	(797,599)	(476,095)	(64,589)	-	(3,017,787)
Net interest sensitivity gap at 31 December 2011	**(851,531)**	**(462,232)**	**95,059**	**1,309,495**	**30**	**90,821**

At 31 December 2012, if interest rates on financial instruments denominated in USD at that date had been 200 basis points higher/lower with all other variables held constant, loss for the year would have been UAH 6,291 thousand higher/lower (2011: UAH 4,238 thousand higher/lower if interest rates had been 200 basis points higher/lower), mainly as a result of higher/lower interest expense on variable interest liabilities. Other components of equity would have been UAH 6,506 thousand lower/higher (2011: UAH 1,438 thousand lower/higher if interest rates had been 200 basis points higher/lower), mainly as a result of decrease/increase in the fair value of investment securities available for sale.

At 31 December 2012, if interest rates on financial instruments denominated in EUR at that date had been 200 basis points higher/lower with all other variables held constant, loss for the year would have been UAH 4,256 thousand higher/lower (2011: UAH 109 thousand higher/lower if interest rates had been 200 basis points higher/lower), mainly as a result of higher/lower interest expense on variable interest liabilities.

At 31 December 2012, if interest rates on financial instruments nominated in UAH at that date had been 200 basis points higher/lower with all other variables held constant, loss for the year would have been UAH 1,934 thousand lower/higher (2011: no impact as no UAH denominated floating rate loans existed in 2011), mainly as a result of higher/lower interest income on variable interest assets. Other components of equity would have been UAH 4,272 thousand lower/higher (2011: UAH 10,133 thousand lower/higher if interest rates had been 200 basis points higher/lower), mainly as a result of decrease/increase in the fair value of investment securities available for sale.

28 Financial Risk Management (Continued)

The Bank monitors interest rates for its financial instruments. The table below summarises interest rates based on reports reviewed by key management personnel:

	2012				2011			
% per annum	**UAH**	**USD**	**Euro**	**Other**	**UAH**	**USD**	**Euro**	**Other**
Assets								
Cash and cash equivalents	0%	0%	0%	0%	0%	0%	0%	0%
Securities at fair value through profit or loss	7%	-	-	-	-	-	-	-
Due from other banks	0%	0%	0%	-	18%	1%	0%	-
Loans and advances to customers	20%	10%	8%	-	14%	10%	9%	-
Debt investment securities available for sale	16%	8%	-	-	14%	9%	-	-
Investment securities held to maturity	3%	9%	-	-	-	-	-	-
Liabilities								
Due to other banks	8%	4%	0%	-	16%	3%	3%	-
Customer accounts								
- current and settlement accounts	2%	0%	0%	0%	3%	0%	0%	-
- term deposits	20%	4%	2%	-	14%	3%	2%	-
Subordinated debt	-	1%	-	-	-	4%	-	-

The sign "-" in the table above means that the Bank does not have the respective assets or liabilities in the corresponding currency.

Other price risk. The Bank is exposed to prepayment risk through providing fixed rate loans, including mortgages, which give the borrower the right to early repay the loans. The Bank's current year loss and equity at the end of the current reporting period would not have been significantly impacted by changes in prepayment rates because such loans are carried at amortised cost and the prepayment right is at or close to the amortised cost of the loans and advances to customers.

Geographical risk concentrations. The geographical concentration of the Bank's assets and liabilities at 31 December 2012 is set out below:

In thousands of Ukrainian hryvnias	**Ukraine**	**OECD**	**Non-OECD**	**Total**
Assets				
Cash and cash equivalents and mandatory reserves	277,127	590,323	5,845	873,295
Securities at fair value through profit or loss	38,678	-	-	38,678
Due from other banks	5,703	-	33	5,736
Loans and advances to customers	2,233,446	-	51	2,233,497
Investment securities available for sale	536,121	-	-	536,121
Investment securities held to maturity	122,799	-	-	122,799
Other financial assets	17,002	8	5	17,015
Total financial assets	**3,230,876**	**590,331**	**5,934**	**3,827,141**
Non-financial assets	**726,455**	**228**	**-**	**726,683**
Total assets	**3,957,331**	**590,559**	**5,934**	**4,553,824**
Liabilities				
Due to other banks	21,764	672,131	-	693,895
Customer accounts	2,770,166	70,878	3,985	2,845,029
Other financial liabilities	36,781	-	-	36,781
Subordinated debt	-	283,746	-	283,746
Total financial liabilities	**2,828,711**	**1,026,755**	**3,985**	**3,859,451**
Non-financial liabilities	**18,836**	**1**	**2**	**18,839**
Total liabilities	**2,847,547**	**1,026,756**	**3,987**	**3,878,290**
Net position	**1,109,784**	**(436,197)**	**1,947**	**675,534**
Credit related commitments	**17,749**	**-**	**-**	**17,749**

28 Financial Risk Management (Continued)

Assets, liabilities and credit related commitments have been classified based on the country in which the counterparty is located. Balances with Ukrainian counterparties actually outstanding to/from offshore companies of these Ukrainian counterparties are allocated to the caption “Ukraine”. Cash on hand, premises, leasehold improvements and equipment have been allocated based on the country in which they are physically held.

The geographical concentration of the Bank’s assets and liabilities at 31 December 2011 is set out below:

In thousands of Ukrainian hryvnias	Ukraine	OECD	Non-OECD	Total
Assets				
Cash and cash equivalents and mandatory reserves	335,628	248,906	2,708	587,242
Due from other banks	44,225	-	-	44,225
Loans and advances to customers	1,825,128	-	32	1,825,160
Investment securities available for sale	590,991	-	-	590,991
Other financial assets	60,987	1	2	60,990
Total financial assets	**2,856,959**	**248,907**	**2,742**	**3,108,608**
Non-financial assets	**580,917**	**448**	**-**	**581,365**
Total assets	**3,437,876**	**249,355**	**2,742**	**3,689,973**
Liabilities				
Due to other banks	8,742	83,643	-	92,385
Customer accounts	2,556,635	60,821	12,381	2,629,837
Other financial liabilities	17,695	-	-	17,695
Subordinated debt	-	277,870	-	277,870
Total financial liabilities	**2,583,072**	**422,334**	**12,381**	**3,017,787**
Non-financial liabilities	**22,240**	**-**	**2**	**22,242**
Total liabilities	**2,605,312**	**422,334**	**12,383**	**3,040,029**
Net position	**832,564**	**(172,979)**	**(9,641)**	**649,944**
Credit related commitments	**21,569**	**-**	**-**	**21,569**

Liquidity risk. Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Bank is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan drawdowns, guarantees and from margin and other calls on cash-settled derivative instruments. The Bank does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. Liquidity risk is managed by the Asset/Liability Committee of the Bank.

The Bank seeks to maintain a stable funding base primarily consisting of amounts due to other banks, corporate and retail customer deposits, debt securities and subordinated debt. The Bank invests the funds in portfolios of liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

28 Financial Risk Management (Continued)

The liquidity management of the Bank requires considering the level of liquid assets necessary to settle obligations as they fall due; maintaining access to a range of funding sources; maintaining funding contingency plans; and monitoring balance sheet liquidity ratios against regulatory requirements. The Bank calculates liquidity ratios on a daily basis in accordance with the requirement of the National Bank of Ukraine. These ratios are:

- Instant liquidity ratio (N4), which is calculated as the ratio of highly-liquid assets to liabilities payable on demand. The ratio was 101% at 31 December 2012, with the required ratio being not less than 20% (the ratio was 48% at 31 December 2011, with the required ratio being not less than 20%).
- Current liquidity ratio (N5), which is calculated as the ratio of liquid assets to liabilities maturing within 31 calendar days. The ratio was 101% at 31 December 2012, with the required ratio being not less than 40% (the ratio was 54% at 31 December 2011, with the required ratio being not less than 40%).
- Short-term liquidity ratio (N6), which is calculated as the ratio of liquid assets to liabilities with original maturity of up to one year. The ratio was 83% at 31 December 2012, with the required ratio being not less than 60% (the ratio was 65% at 31 December 2011, with the required ratio being not less than 60%).

The Treasury Department receives information about the liquidity profile of the financial assets and liabilities. The Treasury Department then provides for an adequate portfolio of short-term liquid assets, largely made up of liquid securities, deposits with banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Bank as a whole.

The table below shows liabilities at 31 December 2012 by their remaining contractual maturity. The amounts disclosed in the maturity table are the contractual undiscounted cash flows, including gross loan commitments and financial guarantees. Such undiscounted cash flows differ from the amount included in the statement of financial position because the amount in the statement of financial position is based on discounted cash flows.

The table below shows maturity analysis of non-derivative financial assets at their carrying amounts and based on their contractual maturities except for assets that are readily saleable in case it would be necessary to meet cash outflows on financial liabilities. Such financial assets are included in the maturity analysis based on their expected date of disposal. Impaired loans are included at their carrying amounts net of impairment provisions and based on the expected timing of cash inflows.

When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the end of the reporting period. Foreign currency payments are translated using the spot exchange rate at the end of the reporting period.

28 Financial Risk Management (Continued)

The maturity analysis of financial instruments at 31 December 2012 is as follows:

In thousands of Ukrainian hryvnias	**Demand and less than 1 month**	**From 1 to 3 months**	**From 3 to 12 months**	**From 12 months to 5 years**	**Over 5 years**	**Total**
Assets						
Cash and cash equivalents and mandatory reserves	873,295	-	-	-	-	873,295
Securities at fair value through profit or loss	19,734	-	18,944	-	-	38,678
Due from other banks	5,736	-	-	-	-	5,736
Loans and advances to customers	66,537	45,964	497,201	1,057,399	566,396	2,233,497
Investment securities available for sale	1,460	152,705	253,379	128,547	30	536,121
Investment securities held to maturity	50,007	-	968	71,824	-	122,799
Other financial assets	12,539	-	4,476	-	-	17,015
Total	**1,029,308**	**198,669**	**774,968**	**1,257,770**	**566,426**	**3,827,141**
Liabilities						
Due to other banks	280,399	3,906	7,246	407,228	-	698,779
Customer accounts	1,374,594	404,959	941,563	212,675	75,244	3,009,035
Subordinated debt	-	-	-	219,851	119,645	339,496
Other financial liabilities	36,701	5	45	22	8	36,781
Credit related commitments	-	61	16,603	1,085	-	17,749
Total potential future payments for financial obligations	**1,691,694**	**408,931**	**965,457**	**840,861**	**194,897**	**4,101,840**
Liquidity gap arising from financial instruments	**(662,386)**	**(210,262)**	**(190,489)**	**416,909**	**371,529**	**(274,699)**

Liquidity requirements to support calls under guarantees and standby letters of credit are considerably less than the amount of the commitment disclosed in the above maturity analysis because the Bank does not generally expect the third party to draw funds under the agreement.

28 Financial Risk Management (Continued)

The maturity analysis of financial instruments at 31 December 2011 is as follows:

In thousands of Ukrainian hryvnias	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 12 months to 5 years	Over 5 years	Total
Assets						
Cash and cash equivalents and mandatory reserves	587,242	-	-	-	-	587,242
Due from other banks	6,018	-	38,207	-	-	44,225
Loans and advances to customers	42,506	38,588	406,883	850,141	487,042	1,825,160
Investment securities available for sale	449	200,337	141,977	248,198	30	590,991
Other financial assets	2,444	58,546	-	-	-	60,990
Total	**638,659**	**297,471**	**587,067**	**1,098,339**	**487,072**	**3,108,608**
Liabilities						
Due to other banks	59,096	1,959	1,672	31,302	-	94,029
Customer accounts	1,303,507	484,901	709,225	117,714	141,726	2,757,073
Subordinated debt	1,892	1,910	8,409	45,091	287,590	344,892
Other financial liabilities	17,261	42	213	179	-	17,695
Credit related commitments	327	311	18,985	1,946	-	21,569
Total potential future payments for financial obligations	**1,382,083**	**489,123**	**738,504**	**196,232**	**429,316**	**3,235,258**
Liquidity gap arising from financial instruments	**(743,424)**	**(191,652)**	**(151,437)**	**902,107**	**57,756**	**(126,650)**

As disclosed in Note 30, as at 31 December 2012 and 31 December 2011 the Bank breached certain financial covenants set by loan agreements with EBRD, therefore all loans from EBRD were classified on demand in the above analysis.

Customer accounts are classified in the above analysis based on contractual maturities. However, in accordance with Ukrainian Civil Code, individuals have a right to withdraw their deposits prior to maturity if they forfeit their right to accrued interest.

The Bank does not use the above undiscounted maturity analysis to manage liquidity. Instead, the Bank monitors expected maturities, which may be summarised as follows at 31 December 2012:

In thousands of Ukrainian hryvnias	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 12 months to 5 years	Over 5 years	Total
At 31 December 2012						
Financial,assets,	1,002,836	198,669	774,968	1,284,242	566,426	3,827,141
Financial,liabilities	2,039,412	373,111	878,884	390,426	177,618	3,859,451
Net liquidity gap based on expected maturities	**(1,036,576)**	**(174,442)**	**(103,916)**	**893,816**	**388,808**	**(32,310)**
At 31 December 2011						
Financial assets	618,763	297,471	587,067	1,118,235	487,072	3,108,608
Financial liabilities	1,324,034	479,046	688,821	153,265	372,621	3,017,787
Net liquidity gap based on expected maturities	**(705,271)**	**(181,575)**	**(101,754)**	**964,970**	**114,451**	**90,821**

28 Financial Risk Management (Continued)

As disclosed in Note 30, as at 31 December 2012 and 31 December 2011 the Bank breached certain financial covenants set by loan agreements with EBRD. Although the lender has the right to require early repayment of these loans, the Bank does not expect that such a request would be received. Therefore these loans were classified in the table above according to their expected maturity.

The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Bank. It is unusual for banks ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Bank and its exposure to changes in interest and exchange rates.

Management believes that in spite of a substantial portion of customer accounts being on demand, diversification of these deposits by number and type of depositors, and the past experience of the Bank would indicate that these customer accounts provide a long-term and stable source of funding for the Bank.

29 Management of Capital

The Bank's objectives when managing capital are: (i) to comply with the capital requirements set by the National Bank of Ukraine, (ii) to safeguard the Bank's ability to continue as a going concern, and (iii) to maintain a sufficient capital base to achieve a capital adequacy ratio based on the Basel Accord of at least 8%. The Bank considers total capital under management to be equity as shown in the statement of financial position. The amount of capital that the Bank managed as of 31 December 2012 was UAH 675,534 thousand (2011: UAH 649,944 thousand). Compliance with capital adequacy ratios set by the National Bank of Ukraine is monitored monthly with reports outlining their calculation reviewed and signed by the Bank's Chairman of the Board and Chief Accountant. Other objectives of capital management are evaluated annually

Under the current capital requirements set by the National Bank of Ukraine banks have to maintain a ratio of regulatory capital to risk weighted assets ("statutory capital ratio") above a prescribed minimum level. Regulatory capital is based on the Bank's reports prepared under Ukrainian accounting standards and comprises:

In thousands of Ukrainian hryvnias	**2012**	**2011**
Primary capital	276,470	368,257
Additional capital	276,470	368,257
Diversion	(4,348)	(248)
Total regulatory capital	**548,592**	**736,266**

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

In thousands of Ukrainian hryvnias	**2011**	**2011**
Tier 1 capital		
Share capital	1,918,969	1,918,969
Accumulated deficit	(1,405,917)	(1,269,368)
Total tier 1 capital	**513,052**	**649,601**
Tier 2 capital		
Subordinated debt	283,746	277,870
Revaluation reserve	162,482	343
Total tier 2 capital	**446,228**	**278,213**
Total capital	**959,280**	**927,814**

The Bank has complied with all externally imposed capital requirements as at 31 December 2012. Refer also to Note 30.

30 Contingencies and Commitments

Legal proceedings. From time to time and in the normal course of business, claims against the Bank may be received. On the basis of its own estimates and both internal and external professional advice management is of the opinion that no material losses will be incurred in respect of claims and accordingly no provision has been made in these financial statements.

Tax legislation. Ukrainian tax and customs legislation is subject to varying interpretations and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Bank may be challenged by the relevant authorities.

The Ukrainian tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged. As a result, significant additional taxes, penalties and interest may be assessed.

Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

The State Tax Inspection of Lviv City challenged inclusion in the Bank's tax return of tax losses totalling UAH 771,437 thousand carried forward from 2010 and prior years. The Bank appealed against this decision to the State Tax Administration of Lviv oblast and the State Tax Administration of Ukraine. Both appeals have been rejected and the Bank filed a claim to Lviv District Administrative Court. The Bank won the cases in the court of first instance and the court of appeal. Although the Tax Authorities still may file a cassation to the Higher Administrative Court the Group's management believes that the risk of unfavourable decision of the court on this case is remote.

The State Tax Inspection of Lviv tried to limit the Bank's expenses from factoring arrangements with the related party to the amount of income received under the respective agreement. The Bank filed a claim to Lviv District Administrative Court and won it. The tax authorities appealed against such decision to the court of appeal. The Group's management believes that the risk of unfavourable decision of the court on this case is remote.

As a result of the most recent tax inspection, the State Tax Inspection of Lviv presented report, dated 6 February 2013, that includes a number of issues resulting in additional tax obligations and penalties to be paid. The Group's management believes that the probability of successful objection of this act by the Group is high and the risk of significant loss for the Group is remote.

Capital expenditure commitments. At 31 December 2012 the Bank has contractual capital expenditure commitments in respect of premises and equipment totalling UAH 4,670 thousand (2011: UAH 252 thousand) and in respect of intangible assets in the amount of UAH 8,136 thousand (2011: UAH 12,562 thousand).

The Bank has already allocated the necessary resources in respect of these commitments. The Bank believes that future net income and funding will be sufficient to cover this and any similar such commitments.

Operating lease commitments. The Group does not have non-cancellable operating leases.

Compliance with covenants. The Bank is subject to certain covenants related primarily to loans from other banks. Non-compliance with such covenants may result in negative consequences for the Bank including growth in the cost of borrowings and declaration of default.

There are certain financial covenants under agreements with European Bank for Reconstruction and Development. In particular, the Bank is required to maintain a certain level of capital to risk weighted assets ratio, highly liquid assets to demand deposits ratio, liquid assets to short-term liabilities ratio, open credit exposure ratio, maximum exposure to related parties to capital ratio, aggregate related party exposure ratio, share of problem loans to gross loans and to be in compliance with the NBU prudential requirements.

As at 31 December 2012 the Bank increased ratio of loans past due over 30 days to gross loans to 20.02% (2011: this ratio was 16.24%) which is higher than required ratio under agreements with EBRD.

This non-compliance with loan covenants gives the EBRD legal right to demand early repayment of the loans. As at the date of issue of these financial statements the Bank had not received from EBRD neither requirement to early repay the loans nor a waiver from this requirement.

30 Contingencies and Commitments (Continued)

Credit related commitments. The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer can not meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate or cash deposits and therefore carry less risk than a direct borrowing.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments, if the unused amounts were to be drawn down. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Bank monitors the term to maturity of credit related commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments. Outstanding credit related commitments are as follows:

In thousands of Ukrainian hryvnias	**Note**	**2012**	**2011**
Guarantees issued		21,046	20,854
Import letters of credit		-	4,685
Less: Provision for credit related commitments	18	(81)	(472)
Less: Cash covered credit related commitments	17	(3,216)	(3,498)
Total credit related commitments		**17,749**	**21,569**

Credit related commitments are denominated in currencies as follows:

In thousands of Ukrainian hryvnias	**2012**	**2011**
Ukrainian hryvnias	2,512	3,957
Euros	15,237	17,612
Total	**17,749**	**21,569**

As at 31 December 2012 all commitments to extend credit are revocable and amounted to UAH 180,037 thousand (2011: UAH 155,832 thousand).

The total outstanding contractual amount of commitments to extend credit, import letters of credit, and guarantees does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded. The fair value of credit related commitments was UAH 81 thousand at 31 December 2012 (2011: UAH 472 thousand).

31 Fair Value of Financial Instruments

(a) Fair values of financial instruments carried at amortised cost.

Fair values of financial instruments carried at amortised cost are as follows:

In thousands of Ukrainian hryvnias	2012 Carrying amount	2012 Fair value	2011 Carrying amount	2011 Fair value
Financial assets				
Cash and cash equivalents and mandatory reserves	***873,295***	***873,295***	***587,242***	***587,242***
- Cash on hand	157,375	157,375	160,191	160,191
- Balances with the NBU	104,660	104,660	43,107	43,107
- Mandatory reserves with the NBU	-	-	7,600	7,600
- Correspondent accounts and overnight deposits with other banks	611,260	611,260	252,530	252,530
- Placements with other banks with original maturities of less than three months	-	-	67,164	67,164
- Reverse sale and repurchase agreements with other banks with original maturities of less than three months	-	-	56,650	56,650
Due from other banks	***5,736***	***5,736***	***44,225***	***44,225***
- Guarantee deposits	*5,736*	*5,736*	6,018	6,018
- Placements with other banks with original maturities of more than three months	-	-	38,207	38,207
Loans and advances to customers	**2,233,497**	**1,899,133**	***1,825,160***	***1,559,069***
- Corporate loans	1,496,052	1,320,708	1,278,267	1,145,223
- Loans to individuals - consumer loans	396,987	344,822	170,740	150,262
- Loans to individuals – mortgage loans	340,458	233,603	376,153	263,584
Investment securities held to maturity	***122,799***	***122,057***	**-**	**-**
Other financial assets	***17,015***	***17,015***	***60,990***	***60,990***
Receivables from operations with clients and banks	11,750	11,750	59,362	59,362
Accrued income	4,793	4,793	1,507	1,507
Receivables from operations with plastic cards	472	472	121	121
TOTAL FINANCIAL ASSETS CARRIED AT AMORTISED COST	***3,252,342***	***2,917,236***	***2,517,617***	***2,251,526***

In thousands of Ukrainian hryvnias	2012 Carrying amount	2012 Fair value	2011 Carrying amount	2011 Fair value
Due to other banks	***693,895***	***693,895***	***92,385***	***91,893***
- Correspondent accounts of other banks	36,763	36,763	7,102	7,102
- Term placements and loans of other banks	657,132	657,132	85,283	84,791
Customer accounts	***2,845,029***	***2,804,725***	***2,629,837***	***2,563,451***
- Current/settlement accounts of legal entities	486,767	486,834	645,241	645,241
- Term deposits of legal entities	435,329	435,243	200,910	200,820
- Current/demand accounts of individuals	297,903	297,903	311,132	311,132
- Term deposits of individuals	1,625,030	1,584,745	1,472,554	1,406,258
Other financial liabilities	***36,781***	***36,781***	***17,695***	***17,695***
Other accrued liabilities	10,050	10,050	11,651	11,651
Transit accounts	25,968	25,968	4,895	4,895
Provision for credit related commitments	81	81	472	472
Other	682	682	677	677
Subordinated debt	***283,746***	***202,238***	***277,870***	***277,870***
TOTAL FINANCIAL LIABILITIES CARRIED AT AMORTISED COST	**3,859,451**	**3,737,639**	**3,017,787**	**2,950,909**

31 Fair Value of Financial Instruments (Continued)

(b) Analysis by fair value hierarchy of financial instruments carried at fair value.

For financial instruments carried at fair value, the level in the fair value hierarchy into which the fair values are categorised are as follows:

In thousands of Ukrainian hryvnias	2012 Quoted price in an active market (Level 1)	2012 Valuation technique with inputs observable in markets (Level 2)	2012 Valuation technique with significant non-observable inputs (Level 3)	2011 Quoted price in an active market (Level 1)	2011 Valuation technique with inputs observable in markets (Level 2)	2011 Valuation technique with significant non-observable inputs (Level 3)
FINANCIAL ASSETS						
Securities at fair value through profit or loss						
- Ukrainian Government bonds	-	38,678	-	-	-	-
Investment securities available for sale						
- Ukrainian Government bonds	-	590,961	-	-	590,961	-
- Corporate shares	-	-	30	-	-	30
TOTAL FINANCIAL ASSETS CARRIED AT FAIR VALUE	**-**	**629,639**	**30**	**-**	**590,961**	**30**

(c) The methods and assumptions applied in determining fair values.

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by an active quoted market price. Where quoted market prices are not available, the Bank used valuation techniques. Certain valuation techniques required assumptions that were not supported by observable market data. Changing any such used assumptions to a reasonably possible alternative would not result in significantly different profit, income, total assets or total liabilities.

The fair value of floating rate instruments that are not quoted in an active market was estimated to be equal to their carrying amount. The fair value of unquoted fixed interest rate instruments was estimated based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Discount rates used depend on currency, maturity of the instrument and credit risk of the counterparty and were as follows:

	2012	2011
Loans and advances to customers		
Corporate loans	8.00% - 24.30% p. a.	8.27% - 19.06% p. a.
Loans to individuals – consumer loans	19.15% - 27.58% p. a.	9.88% - 27.58% p. a.
Loans to individuals – mortgage loans	9.88% - 21.57% p. a.	9.88% - 17.07% p. a.
Investment securities held to maturity		-
Due to other banks		
- Correspondent accounts and overnight placements of other banks	0 % p. a.	0 % p. a.
- Term placements and loans of other banks	1.57%-7.5% p. a.	2.87%-16% p. a.
Customer accounts		
- Term deposits of legal entities	5.3%-17.2% p. a.	7.12%-15.83% p. a.
- Term deposits of individuals	7.6%-19.3% p. a.	7.12%-17.39% p. a.
Subordinated debt	10.88% p. a.	5%

32 Presentation of Financial Instruments by Measurement Categories

For the purposes of measurement, IAS 39, *Financial Instruments: Recognition and Measurement*, classifies financial assets into the following categories: (a) loans and receivables; (b) available for sale financial assets; (c) financial assets held to maturity and (d) financial assets at fair value through profit or loss ("FVTPL"). Financial assets at fair value through profit or loss have two subcategories: (i) assets designated as such upon initial recognition, and (ii) those classified as held for trading. The following table provides a reconciliation of financial assets with these measurement categories as of 31 December 2012:

In thousands of Ukrainian hryvnias	**Loans and Recei-vables**	**Available for sale assets**	**Assets desig-nated at FVTPL**	**Held to maturity**	**Total**
ASSETS					
Cash and cash equivalents and mandatory reserves	873,295	-	-	-	873,295
Securities at fair value through profit or loss	-	-	38,678	-	38,678
Due from other banks					
- Guarantee deposits	5,736	-	-	-	5,736
Loans and advances to customers					
- Corporate loans	1,496,052	-	-	-	1,496,052
- Loans to individuals - consumer loans	396,987	-	-	-	396,987
- Loans to individuals – mortgage loans	340,458	-	-	-	340,458
Investment securities available for sale	-	536,121	-	-	536,121
Investment securities held to maturity	-	-	-	122,799	122,799
Other financial assets	17,015	-	-	-	17,015
TOTAL FINANCIAL ASSETS	**3,129,543**	**536,121**	**38,678**	**122,799**	**3,827,141**

The following table provides a reconciliation of financial assets with these measurement categories as of 31 December 2011:

In thousands of Ukrainian hryvnias	**Loans and receivables**	**Available for sale assets**	**Total**
ASSETS			
Cash and cash equivalents and mandatory reserves	587,242	-	587,242
Due from other banks			
- Guarantee deposits	6,018	-	6,018
- Placements with other banks	38,207	-	38,207
Loans and advances to customers			
- Corporate loans	1,278,267	-	1,278,267
- Loans to individuals - consumer loans	170,740	-	170,740
- Loans to individuals – mortgage loans	376,153	-	376,153
Investment securities available for sale	-	590,991	590,991
Other financial assets	60,990	-	60,990
TOTAL FINANCIAL ASSETS	**2,517,617**	**590,991**	**3,108,608**

As of 31 December 2012 and 31 December 2011 all of the Bank's financial liabilities were carried at amortised cost.

33 Related Party Transactions

Parties are generally considered to be related if the parties are under common control or one party has the ability to control the other party or can exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

At 31 December 2012, the outstanding balances with related parties were as follows:

In thousands of Ukrainian hryvnias	**Parent company**	**Entities under common control**	**Key management personnel**
Correspondent accounts with other banks	4,936	-	-
Gross amount of loans and advances to customers (contractual interest rate: in UAH – 20.5%; in USD – 2.8%)	-	3,991	204
Impairment provisions for loans and advances to customers at 31 December	-	-	(27)
Other assets	248	3	-
Correspondent accounts and overnight placements of other banks	18,508	-	-
Term placements and loans from other banks (contractual interest rate: in USD – 3.21 - 3.71%, in PLN – 0.25%)	621,219	-	-
Customer accounts (contractual interest rate: in UAH – 0.1 – 27.0%; in EUR – 0.5%; in USD – 0.1 – 3.25%; in PLN – 0.1 – 0.5%)	-	26,083	755
Subordinated debt (contractual interest rate: in USD – 1.0695%)	283,746	-	-
Other liabilities	-	583	1,603

The income and expense items with related parties for 2012 were as follows:

In thousands of Ukrainian hryvnias	**Parent company**	**Entities under common control**	**Key management personnel**
Interest income	-	772	11
Interest expense	(10,196)	(2,628)	(19)
Other operating income	-	25	-
Reversal of provision for loan impairment	-	(23,753)	11
Fee and commission income	1	169	18
Fee and commission expense	(457)	(3,736)	-

At 31 December 2012, other rights and obligations with related parties were as follows:

In thousands of Ukrainian hryvnias	**Parent company**	**Entities under common control**	**Key management personnel**
Cash deposits received as collateral	10,819	-	-
Loan commitments received	2,582	-	-
Loan commitments granted	-	3,900	-

Aggregate amounts lent to and repaid by related parties during 2012 were:

In thousands of Ukrainian hryvnias	**Parent company**	**Entities under common control**	**Key management personnel**
Amounts lent to related parties during the year	-	18,564	-
Amounts repaid by related parties during the period	-	(14,564)	(164)

33 Related Party Transactions (Continued)

At 31 December 2011, the outstanding balances with related parties were as follows:

In thousands of Ukrainian hryvnias	**Parent company**	**Entities under common control**	**Key management personnel**
Correspondent accounts with other banks	1,930	-	-
Gross amount of loans and advances to customers (contractual interest rate: in UAH – 9.0 – 17.2%; in USD – 2.8%)	-	-	366
Impairment provisions for loans and advances to customers at 31 December	-	-	(38)
Other assets	448	58,546	-
Correspondent accounts and overnight placements of other banks	3,366	-	-
Term placements and loans from other banks (contractual interest rate: in USD – 3.27%, in PLN – 4.35%)	24,955	-	-
Customer accounts (contractual interest rate: in UAH – 0.01 – 13.5%; in EUR – 0.1%; in USD – 0.1 – 5.0%; in PLN – 0.1 – 0.5%)	-	5,007	966
Subordinated debt (contractual interest rate: in USD – 4.0202%)	277,870	-	-

The income and expense items with related parties for 2011 were as follows:

In thousands of Ukrainian hryvnias	**Parent company**	**Entities under common control**	**Key management personnel**
Interest income	-	3 069	6
Interest expense	(20,225)	(18)	(158)
Reversal of provision for loan impairment	-	4,995	(24)
Fee and commission income	1	103	19
Fee and commission expense	(1,795)	(1,629)	-

In addition, as described in Notes 4 and 10, in December 2011 the Bank sold the rights to 100% of the cash flows arising on a portfolio of fixed rate loans with gross book value of UAH 1,648,790 thousand, including loans covered by the guarantees received from the parent company, to the entity under common control. Carrying value of loans sold as at the date of sale was UAH 1,083,381 thousand. The Bank received UAH 338,167 thousand from the parent company in settlement of the guarantees and UAH 562,456 thousand from the entity under common control as consideration for the loans sold. As a result of these transactions the Bank recognised loss in the amount of UAH 182,758 thousand which is the difference between the carrying value of loans sold and consideration received for the loan portfolios and in settlement of the guarantees.

At 31 December 2011, other rights and obligations with related parties were as follows:

In thousands of Ukrainian hryvnias	**Parent company**	**Entities under common control**	**Key management personnel**
Cash deposits received as collateral	13,541	-	415
Loan commitments received	401,809	-	-
Loan commitments granted	-	-	41

Aggregate amounts lent to and repaid by related parties during 2011 were:

In thousands of Ukrainian hryvnias	**Parent company**	**Entities under common control**	**Key management personnel**
Amounts repaid by related parties during the period	-	-	102

33 Related Party Transactions (Continued)

Key management compensation is presented below:

In thousands of Ukrainian hryvnias	2012 Expense	2012 Accrued liability	2011 Expense	2011 Accrued liability
Short-term benefits:				
- Salaries	11,341	1,214	13,688	2,502
- State pension and social security costs	601	152	463	176
Total	**11,942**	**1,366**	**14,151**	**2,678**

Short-term benefits fall due wholly within twelve months after the end of the period in which management rendered the related services.

34 Business Combinations

In March 2012, the Group obtained control through acquisition of 100% of interest in Finance Company “Idea Capital” LLC for total consideration in the amount of UAH 4,100 thousand. The acquired subsidiary will increase the Group’s penetration of its chosen retail and corporate markets and is expected to improve profitability.

In accordance with IFRS 3 “Business Combinations”, the Group accounted for this acquisition based on fair values of the identifiable assets acquired, and liabilities and contingent liabilities assumed.

Details of the assets and liabilities acquired and goodwill arising are as follows:

In thousands of Ukrainian hryvnias	Attributed fair value
Cash and cash equivalents	3,322
Other assets	18
Other liabilities	(6)
Fair value of identifiable net assets of subsidiary	**3,334**
Goodwill arising from the acquisition	766
Total cash consideration	**4,100**
Less: Cash and cash equivalents of subsidiary acquired	(3,322)
Outflow of cash and cash equivalents on acquisition	**778**

The Group analysed goodwill arising from the acquisition and recognized its impairment during 2012.

The acquired subsidiary did not generate significant revenue and expenses in 2012.