

**PRIVATBANK 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 Board of PrivatBank:

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

### **Management's Responsibility for the Consolidated Financial Statements**

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

### **Auditor's Responsibility**

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

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

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

### **Opinion**

In our opinion, the 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)"*

30 April 2013

**PRIVATBANK GROUP**  
**Consolidated Statement of Financial Position**

<i>In millions of Ukrainian hryvnias</i>	Note	31 December 2012	31 December 2011
<b>ASSETS</b>			
Cash and cash equivalents and mandatory reserves	7	29,100	21,363
Due from other banks	8	8,545	4,648
Loans and advances to customers	9	119,417	107,430
Embedded derivatives	26	2,750	1,484
Investment securities available-for-sale	27	862	780
Investment securities held to maturity	27	192	24
Current income tax prepayment		7	6
Deferred income tax asset	21	36	32
Goodwill		48	47
Premises, leasehold improvements, equipment and intangible assets	10	3,806	3,318
Other financial assets	11	799	1,144
Other assets		675	655
<b>TOTAL ASSETS</b>		<b>166,237</b>	<b>140,931</b>
<b>LIABILITIES</b>			
Due to the NBU	12	4,630	5,825
Due to other banks and other financial institutions	12	3,693	2,453
Customer accounts	13	124,574	104,209
Debt securities in issue	14	8,156	5,600
Current income tax liability		65	60
Deferred income tax liability	21	1,042	1,181
Provisions for liabilities and charges, other financial and non-financial liabilities	15	1,245	1,000
Subordinated debt	16	1,427	1,418
<b>TOTAL LIABILITIES</b>		<b>144,832</b>	<b>121,746</b>
<b>EQUITY</b>			
Share capital	17	14,897	13,545
Share premium	17	20	20
Revaluation reserve for premises		562	571
Revaluation reserve of investment securities available-for-sale		242	-
Currency translation reserve		322	329
Retained earnings		4,939	4,570
<b>Net assets attributable to the Bank's owners</b>		<b>20,982</b>	<b>19,035</b>
<b>Non-controlling interest</b>		<b>423</b>	<b>150</b>
<b>TOTAL EQUITY</b>		<b>21,405</b>	<b>19,185</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>166,237</b>	<b>140,931</b>

Approved for issue and signed on behalf of the Management Board on 30 April 2013.

  
 Yuriy P. Pukush  
 General Deputy Chairman of the Board

  
 Lubov J. Korotina  
 Chief Accountant

**PRIVATBANK GROUP**  
**Consolidated Statement of Comprehensive Income**

<i>In millions of Ukrainian hryvnias</i>	<b>Note</b>	<b>2012</b>	<b>2011</b>
Interest income	18	19,718	19,408
Interest expense	18	(10,780)	(9,329)
<b>Net interest income</b>		<b>8,938</b>	<b>10,079</b>
Provision for impairment of loans and advances to customers	9	(5,452)	(5,627)
<b>Net interest income after provision for impairment of loans and advances to customers</b>		<b>3,486</b>	<b>4,452</b>
Fee and commission income	19	3,870	3,191
Fee and commission expense	19	(596)	(462)
Gains less losses from embedded derivatives	26	717	27
Gains less losses from trading in foreign currencies		850	563
Foreign exchange translation losses less gains		(190)	(152)
Release of impairment/(impairment) of investment securities available-for-sale		23	(14)
Other operating income		161	110
Other gains less losses		69	144
Administrative and other operating expenses	20	(6,858)	(6,320)
<b>Profit before tax</b>		<b>1,532</b>	<b>1,539</b>
Income tax expense	21	(93)	(46)
<b>Profit for the year</b>		<b>1,439</b>	<b>1,493</b>
<b>Other comprehensive income/(loss):</b>			
Revaluation reserve of investment securities available-for-sale		287	-
Income tax recorded directly in other comprehensive income		(45)	75
Exchange differences on translation to presentation currency	21	30	2
<b>Other comprehensive income for the year</b>		<b>272</b>	<b>77</b>
<b>Total comprehensive income for the year</b>		<b>1,711</b>	<b>1,570</b>
<b>Profit/(loss) is attributable to</b>			
Owners of the Bank		1,549	1,516
Non-controlling interest		(110)	(23)
<b>Profit for the year</b>		<b>1,439</b>	<b>1,493</b>
<b>Total comprehensive income/(loss) is attributed to:</b>			
Owners of the Bank		1,818	1,568
Non-controlling interest		(107)	2
<b>Total comprehensive income for the year</b>		<b>1,711</b>	<b>1,570</b>
<b>Earnings per share for profit attributable to the owners of the Bank, basic and diluted (expressed in UAH per share)</b>		<b>23.96</b>	<b>28.14</b>

**PRIVATBANK GROUP**  
**Consolidated Statement of Changes in Equity**

	Note	Attributable to owners of the Bank					Total	Non-controlling interest	Total equity
		Share capital	Share premium	Revaluation reserve for premises	Currency translation reserve	Retained earnings			
<i>In millions of Ukrainian hryvnias</i>									
<b>Balance at 1 January 2011</b>		<b>8,860</b>	-	<b>518</b>	<b>341</b>	<b>4,326</b>	<b>14,045</b>	<b>124</b>	<b>14,169</b>
Profit/(loss) for the year		-	-	-	-	1,516	1,516	(23)	1,493
Other comprehensive income/(loss)		-	-	55	(3)	-	52	25	77
Total comprehensive income/(loss) for the year		-	-	55	(3)	1,516	1,568	2	1,570
Paid-in share capital	17	3,385	20	-	-	-	3,405	-	3,405
Capitalisation of dividends	17	1,300	-	-	-	(1,300)	-	-	-
Other changes in interest attributable to owners of the Bank and non-controlling interest		-	-	(2)	(9)	28	17	24	41
<b>Balance at 31 December 2011</b>		<b>13,545</b>	<b>20</b>	<b>571</b>	<b>329</b>	<b>4,570</b>	<b>19,035</b>	<b>150</b>	<b>19,185</b>

**PRIVATBANK GROUP**  
**Consolidated Statement of Changes in Equity**

	Note	Attributable to owners of the Bank					Retained earnings	Total	Non-controlling interest	Total equity
		Share capital	Share premium	Revaluation reserve for premises	Revaluation reserve of investment securities available-for-sale	Currency translation reserve				
<i>In millions of Ukrainian hryvnias</i>										
<b>Balance at 31 December 2011</b>		<b>13,545</b>	<b>20</b>	<b>571</b>	<b>-</b>	<b>329</b>	<b>4,570</b>	<b>19,035</b>	<b>150</b>	<b>19,185</b>
Profit/(loss) for the year		-	-	-	-	-	1,549	1,549	(110)	1,439
Other comprehensive income/(loss)		-	-	-	242	27	-	269	3	272
Total other comprehensive (loss)/income for the year		-	-	-	242	27	1,549	1,818	(107)	1,711
Capitalisation of dividends		1,352	-	-	-	-	(1,352)	-	-	-
Other changes in interest attributable to owners of the Bank and non-controlling interest	1	-	-	(9)	-	(34)	172	129	380	509
<b>Balance at 31 December 2012</b>		<b>14,897</b>	<b>20</b>	<b>562</b>	<b>242</b>	<b>322</b>	<b>4,939</b>	<b>20,982</b>	<b>423</b>	<b>21,405</b>

**PRIVATBANK GROUP**  
**Consolidated Statement of Cash Flows**

<i>In millions of Ukrainian hryvnias</i>	<b>Note</b>	<b>2012</b>	<b>2011</b>
<b>Cash flows from operating activities</b>			
Interest received		18,709	18,590
Interest paid		(10,359)	(9,228)
Fees and commissions received		3,870	3,191
Fees and commissions paid		(596)	(462)
Income received from embedded and financial derivatives	27	226	747
Income received /(loss incurred) from derivatives arising from swap, forward and spot transactions		118	100
Incomes received from trading in foreign currencies		850	563
Other operating income received		161	117
Staff costs paid		(3,552)	(3,442)
Administrative and other operating expenses paid, except for staff costs paid		(2,823)	(2,639)
Income tax paid		(277)	(326)
<b>Cash flow from operating activities before changes in operating assets and liabilities</b>		<b>6,327</b>	<b>7,211</b>
<b>Changes in operating assets and liabilities</b>			
Net increase in mandatory reserve balances		(439)	(998)
Net (increase)/decrease in due from other banks		(3,885)	672
Net increase in loans and advances to customers		(16,812)	(24,068)
Net decrease in other financial assets		201	30
Net increase in other assets		(17)	(21)
Net decrease in due to the NBU		(1,195)	(1,487)
Net increase/(decrease) in due to other banks and other financing institutions		1,211	(1,408)
Net increase in customer accounts		19,189	18,759
Net increase in provisions for liabilities and charges, other financial and non-financial liabilities		216	43
<b>Net cash from/(used in) operating activities</b>		<b>4,796</b>	<b>(1,267)</b>
<b>Cash flows from investing activities</b>			
Acquisition of investment securities available-for-sale		(209)	(187)
Proceeds from investment securities available-for-sale		460	-
Acquisition of redemption of investment securities held to maturity		(167)	-
Proceeds from redemption of investment securities held to maturity		3	564
Acquisition of premises, leasehold improvements and equipment	10	(930)	(822)
Proceeds from disposal of premises, leasehold improvements and equipment	10	12	56
<b>Net cash used in investing activities</b>		<b>(831)</b>	<b>(389)</b>
<b>Cash flows from financing activities</b>			
Proceeds from subordinated debt		-	19
Repayment of subordinated debt		-	(28)
Issue of ordinary shares	17	-	3,405
Cash inflows on transactions with non-controlling interest	1	516	41
Proceeds from debt securities issued		6,330	-
Repayment and repurchase of debt securities issued		(3,809)	(497)
<b>Net cash from financing activities</b>		<b>3,037</b>	<b>2,940</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b>		<b>296</b>	<b>(185)</b>
<b>Net increase in cash and cash equivalents</b>		<b>7,298</b>	<b>1,099</b>
Cash and cash equivalents at the beginning of the year		18,590	17,491
<b>Cash and cash equivalents at the end of the year</b>	<b>7</b>	<b>25,888</b>	<b>18,590</b>

Financing transactions that did not require the use of cash and cash equivalents and were excluded from the consolidated statement of cash flows and are disclosed in Note 7.



## 1 Introduction

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2012 for PJSC Commercial Bank PrivatBank (the "Bank") and its subsidiaries (together referred to as the "Group" or "PrivatBank Group").

The Bank was initially registered as a commercial entity with limited liability, re-organised into a closed joint stock entity in 2000. In 2009 the Bank changed its legal form to a public joint stock company limited by shares in accordance with changes in Ukrainian legislation. As of 31 December 2012 and 2011 the ultimate major shareholders of the Bank were Mr I.V. Kolomoyskiy and Mr G.B. Bogolyubov who as of 31 December 2012 owned directly and indirectly respectively 46.27% (2011: 46.25%) and 46.27% (2011: 46.25%) of the outstanding shares and neither of which individually controlled the Bank. The major shareholders of the Bank do not have a contractual agreement on joint control of the Bank.

As of 31 December 2012 composition of the Supervisory Board was as follows:

Chairman of the Supervisory Board:	Mr. G.B. Bogolyubov
Members of the Supervisory Board:	Mr. I.V. Kolomoyskiy
	Mr. A.G. Martynov

As of the date of issuing of the consolidated financial statements composition of the Management Board was as follows:

Chairman of the Management Board:	Mr. A.V. Dubilet
Members of the Management Board:	
General Deputy Chairman of the Management Board:	Mr. Y.P. Pikush
First Deputy Chairman of the Management Board:	Mr. T.Y. Novikov
	Mr. N.A. Volkov
	Mr. V.A. Yatsenko
Deputy Chairman of the Management Board:	Mrs. L.I. Chmona
	Mr. D.A. Dubilet
	Mr. O.V. Gorohovskiy
	Mrs. T.M. Gurieva
	Mr. Y.V. Kandaurov
	Mr. S.V. Kryzhanovskiy
	Mrs. L.A. Shmalchenko
	Mr. A.P. Vitiaz
	Mr. V.G. Zavorotniy
Chief Accountant:	Mrs. L.I. Korotina
Head of Financial Monitoring Department:	Mr. I.L. Terekhin

**Principal activity.** The Bank's principal business activity is commercial and retail banking operations within Ukraine. The Bank has operated under a full banking licence issued by the National Bank of Ukraine (the "NBU") since March 1992. The Bank participates in the state deposit insurance scheme (registration #113 dated 2 September 1999), which operates according to the Law №2740-III "On Individuals Deposits Guarantee Fund" dated 20 September 2001 (as amended). As at 31 December 2012 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 of 31 December 2012 the Bank had 32 branches and 3,380 outlets within Ukraine and a branch in Cyprus (2011: 34 branches, 3,362 outlets in Ukraine and a branch in Cyprus). Additionally, as of 31 December 2012 and 2011 the Bank had subsidiary banks in the Russian Federation, Latvia, Georgia and representative offices in Kyiv (Ukraine), Moscow (Russia), Almaty (Kazakhstan), London (the United Kingdom) and Beijing (China) and three special purpose entities in the United Kingdom.

**1 Introduction (Continued)**

The principal subsidiaries included in the consolidated financial statements, were as follows:

Name	Nature of business	Country of registration	Percentage of ownership	
			31 December 2012	31 December 2011
Moscomprivatbank	Banking	Russian Federation	70.04%	92.34%
JSC PrivatBank	Banking	Georgia	50.30%	50.30%
AS PrivatBank	Banking	Latvia	50.02%	75.02%

As a result of additional capital increase in 2012, the share of the Group in Moscomprivatbank was decreased from 92.34% as of 31 December 2011 to 70.04% as of 31 December 2012.

As a result of an additional capital increase in 2012, the share of the Group in AS PrivatBank Latvia was decreased from 75.02% to 50.02%. However, the Group continues to have 73.70% of voting rights as of 31 December 2012 (2011: 98.70%).

As a result of additional capital increase in 2011, the share of the Group in JSC PrivatBank Georgia was decreased from 61.30% to 50.30%. However, the Group retained its 82.70% of the voting rights as of 31 December 2012 and 31 December 2011.

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

50, Naberezhna Peremohy Str.,  
49094, Dnipropetrovsk,  
Ukraine.

**Presentation currency.** These consolidated financial statements are presented in millions of Ukrainian hryvnias ("UAH million"), 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.

Borrowers of the Group were adversely affected by the financial and economic environment, which in turn impacted their ability to repay the amounts owed. Deteriorating economic conditions for borrowers were reflected in revised estimates of expected future cash flows in impairment assessments.

The amount of provision for impaired loans is based on management's appraisals of these assets at the end of the reporting period after taking into consideration the cash flows that may result from foreclosure less costs for obtaining and selling the collateral.

## **2 Operating Environment of the Group (Continued)**

The market in Ukraine for many types of collateral, especially real estate, has been severely affected by the volatile global financial markets, resulting in a low level of liquidity for certain types of assets. In some cases the Bank has also experienced unforeseeable delays in recovering collateral. 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 (Note 25). 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.

On 2 December 2010, the Ukrainian Parliament adopted the new Tax Code. The Tax Code became effective from 1 January 2011, with the Corporate Profits Tax section coming into effect from 1 April 2011. Among the main changes, the Tax Code provides for the significant reduction of the corporate tax rate: 23% for 1 April - 31 December 2011, 21% for 2012, 19% for 2013, and 16% from 2014 onwards. The Tax Code also introduced new approaches to the determination of revenue and costs, new tax depreciation rules for fixed assets and intangibles, new approach to recognition of foreign exchange differences, which now became more close to the financial accounting rules. Refer to Note 21.

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, derivatives, 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 consolidated 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 that control ceases.

The Group holds less than 50% of voting rights in four fully consolidated entities. The Group has the power to govern the financial and operating policies in these entities through contractual arrangements with other shareholders. The Group retains a significant beneficial interest in their activities which are predominantly financed by the Group, as, in substance, the Group has rights to obtain the majority of the benefits of the SPEs and therefore may be exposed to risks incident to the activities of these SPEs.

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.

### 3 Summary of Significant Accounting Policies (Continued)

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 incurred for issuing equity instruments are deducted from equity; transaction costs incurred for issuing debt are deducted from its carrying amount and all other transaction costs associated with the acquisition are expensed.

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 Bank 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 net assets of a subsidiary attributable to interests which are not owned, directly or indirectly, by the Bank. Non-controlling interest forms a separate component of the Group's equity.

**Purchases and sales of non-controlling interests.** The Group applies the economic entity model to account for transactions with owners of non-controlling interest. Any difference between the purchase consideration and the carrying amount of non-controlling interest acquired is recorded as a capital transaction directly in equity. The Group recognises the difference between sales consideration and carrying amount of non-controlling interest sold as a capital transaction in the statement of changes in equity.

**Financial instruments – key measurement terms.** Depending on their classification financial instruments are carried at fair value, cost, 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.

In other than active markets, the most recent arm's length transactions are the basis of current fair values. Recent transaction prices are appropriately adjusted if they do not reflect current fair values, for example because the transaction was a distress sale. Fair value is not the amount that an entity would receive or pay in a forced transaction, involuntary liquidation or distress sale.

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 consolidated financial statements if changing any such assumptions to a reasonably possible alternative would result in significantly different profit, income, total assets or total liabilities.

*Cost* is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition and includes transaction costs. Measurement at cost is only applicable to investments in equity instruments that do not have a quoted market price and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments.

### 3 Summary of Significant Accounting Policies (Continued)

*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 of 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.

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 settlement date, which is the date that the Group delivers 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 additional 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. All short term interbank placements, beyond overnight placements, are included in due from other banks. Amounts, which relate to funds that are of a restricted nature, are excluded from cash and cash equivalents. Cash and cash equivalents include cash on hand, unrestricted demand and overnight deposits with central and other banks. Cash and cash equivalents are carried at amortised cost.

**Mandatory cash balances with the Central Banks.** Mandatory cash balances with the Central Banks are carried at amortised cost and 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 consolidated statement of cash flow.

### 3 Summary of Significant Accounting Policies (Continued)

**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.

For the purposes of credit quality analysis the Group categories loans and advances to corporate clients, SME and private entrepreneurs into large, medium and small borrowers based on the size of the loan exposure:

Large borrowers	Above UAH 100 million
Loans to medium size borrowers	From UAH 1 million to UAH 100 million
Loans to small borrowers	Less than UAH 1 million

For the purposes of credit quality analysis the Group categories loans and advances to individuals based on the size of the loan exposure:

Loans between UAH 1-100 million  
Loans less than UAH 1 million

When financial assets are renegotiated and the renegotiated terms and conditions differ substantially from the previous terms, the new asset is initially recognised at its fair value.

**Impairment of financial assets carried at amortised cost.** Impairment losses are recognised in the consolidated statement of comprehensive income 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.

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; or
- the value of collateral significantly decreases as a result of deteriorating market conditions.

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.

### 3 Summary of Significant Accounting Policies (Continued)

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. Past experience is the basis for the estimation of the loss identification period, in particular the time lag between the actual loss event and identification of the loss event by the Group. This approach ensures that the impact of losses which have not yet been specifically identified is included in the estimation of loan loss impairment.

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.

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 the consolidated statement of comprehensive income.

**Credit related commitments.** The Group enters into credit related commitments, including commitments to extend credit, 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 the 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 the 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 statement of consolidated comprehensive income 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 removed from other comprehensive income to profit or loss for the year.

### **3 Summary of Significant Accounting Policies (Continued)**

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 removed 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.

**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. Management determines the classification of investment securities held to maturity at their initial recognition and reassesses the appropriateness of that classification at each balance sheet date. Investment securities held to maturity are carried at amortised cost.

**Goodwill.** Goodwill is carried at cost less accumulated impairment losses, if any. The Group tests goodwill for impairment at least annually and whenever there are indications that goodwill may be impaired. Goodwill is allocated to the cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the business combination. Such units or group of units represent the lowest level at which the Group monitors goodwill and are not larger than an operating segment. Gains or losses on disposal of an operation within a cash generating unit to which goodwill has been allocated include the carrying amount of goodwill associated with the operation disposed of, generally measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit which is retained.

**Premises, leasehold improvements and equipment.** Premises, leasehold improvements and equipment are stated at cost or revalued amounts, as described below, less accumulated depreciation and provision for impairment, where required. Cost of premises and equipment of acquired subsidiaries is the estimated fair value at the date of acquisition.

Premises 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 premises and equipment included in equity is transferred directly to retained earnings when the revaluation surplus is realised on the retirement or disposal of the asset. At the date of revaluation accumulated depreciation is eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

Management has updated the carrying value of premises carried on a revalued basis as of the reporting date using market based evidence and is satisfied that sufficient market based evidence of fair value is available to support the updated fair values.

Construction in progress is carried at cost less provision for impairment where required. Construction in progress is not depreciated until the asset is available for use.

All other items of premises, leasehold improvements and equipment are stated at cost less accumulated depreciation and impairment losses, if any.

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.



**3 Summary of Significant Accounting Policies (Continued)**

At each reporting date 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 to the extent it exceeds the previous revaluation surplus in equity. 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.

**Depreciation.** Land is not depreciated. Depreciation on other items of premises, leasehold improvements and equipment is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives as follows:

Premises	50 years
Computers	4-10 years
Furniture and equipment	4-10 years
Motor vehicles	10 years
Other	3-12 years

Leasehold improvements are depreciated 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 other than goodwill 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 5 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.

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.

**Finance lease liabilities.** Where the Group is a lessee in a lease which transferred substantially all the risks and rewards incidental to ownership to the Group, the assets leased are capitalised in premises, leasehold improvements and equipment at the commencement of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance lease balance outstanding. The corresponding rental obligations, net of future finance charges, are included in other financial liabilities. The interest cost is charged to profit or loss for the year over the lease period using the effective interest method. The assets acquired under finance leases are depreciated over their useful life or the shorter lease term if the Group is not reasonably certain that it will obtain ownership by the end of the lease term.

### 3 Summary of Significant Accounting Policies (Continued)

**Due to other banks and other financing institutions.** Amounts due to other banks and other financing institutions are recorded when money or other assets are advanced to the Group by counterparty banks or other financing institutions. 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.

**Debt securities in issue.** Debt securities in issue include Eurobonds and bonds issued by the Group. Debt securities are stated at amortised cost. If the Group purchases its own debt securities in issue, they are removed from the consolidated statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains arising from early retirement of debt.

**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 amortised cost.

**Derivative financial instruments.** Derivative financial instruments, including foreign exchange contracts, forward rate agreements, currency swaps and currency options 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 for the year. 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.

When the fair value of derivative does not change in response to the changes in the foreign exchange rates and other variables and future cash flows from the embedded derivative become certain the Group ceased to account for an embedded derivative and recognise a receivable within other financial assets.

**Derecognition of financial liabilities.** The Group derecognises financial liabilities when it is extinguished, ie when the obligation specified in the contract is discharged or cancelled or expires. An exchange between the Group and lender of debt instruments with substantially different terms is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, a substantial modification of the terms of an existing financial liability or a part of it (whether or not attributable to the financial difficulty) is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss. Terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10 percent different from the discounted present value of the remaining cash flows of the original financial liability. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

**Income taxes.** Income taxes have been provided for in the consolidated financial statements in accordance with legislation enacted or substantively enacted by the end of reporting period. The income tax charge comprises current tax and deferred tax and is recognised in 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 consolidated financial statements are authorised prior to filing relevant tax returns. Taxes other than on income are recorded within administrative and other operating expenses.

### 3 Summary of Significant Accounting Policies (Continued)

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 liabilities are not recorded for temporary differences on initial recognition of goodwill and subsequently for goodwill which is not deductible for tax purposes. Deferred tax balances are measured at tax rates enacted or substantively enacted at the end of the reporting period 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 and liabilities are netted only within the individual companies of the Group. 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 income tax is provided on post acquisition retained earnings and other post acquisition movements in reserves of subsidiaries, except 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.

**Provisions for liabilities and charges.** Provisions for liabilities and charges are non-financial liabilities of uncertain timing or amount. They are accrued when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

**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 and share premium.** 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.

**Dividends.** Dividends are recorded in equity in the period in which they are declared. Any dividends declared after the end of reporting period and before the consolidated financial statements are authorised for issue are disclosed in the subsequent events note. The statutory accounting reports of the Bank are the basis for profit distribution and other appropriations. Ukrainian legislation identifies the basis of distribution as the retained earnings.

**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.

### 3 Summary of Significant Accounting Policies (Continued)

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. Loan syndication fees are recognised as income when the syndication has been completed and the Group retains no part of the loan package for itself or retains a part at the same effective interest rate as for the other participants.

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. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-proportion basis. Asset management fees related to investment funds are recorded rateably over the period the service is provided. The same principle is applied for wealth management, financial planning and custody services that are continually provided over an extended period of time.

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

Monetary assets and liabilities are translated into each entity's functional currency at the official exchange rate of the NBU at 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 each entity's functional currency at year-end official exchange rates of the NBU are recognised in profit or loss for the year. Translation at year-end rates does not apply to non-monetary items that are measured at historical cost. Non-monetary items measured at fair value in a foreign currency, including equity instruments, are translated using the exchange rates at the date when the fair value was determined. Effects of exchange rate changes on the fair value of equity securities are recorded as part of the fair value gain or loss.

The results and financial position of each group entity are translated into the presentation currency as follows:

- (i) assets and liabilities for each statement of financial position presented are translated at the closing rate at the end of the respective reporting period;
- (ii) income and expenses are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions);
- (iii) components of equity are translated at the historic rate; and
- (iv) all resulting exchange differences are recognised in other comprehensive income.

When control over a foreign operation is lost, the previously recognised exchange differences on translation to a different presentation currency are reclassified from other comprehensive income to profit or loss for the year as part of the gain or loss on disposal. On partial disposal of a subsidiary without loss of control, the related portion of accumulated currency translation differences is reclassified to non-controlling interest within equity.

### 3 Summary of Significant Accounting Policies (Continued)

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

The principal rates 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 Ruble (RUB)	0.263160	0.249530
1 Latvian Lat (LVL)	15.100562	14.732551
1 Georgian Lari (GEL)	4.825234	4.818006

**Fiduciary assets.** Assets held by the Group in its own name, but on the account of third parties, are not reported in the consolidated statement of financial position. For the purposes of disclosure, fiduciary activities do not encompass safe custody functions. Commissions received from fiduciary activities are shown in fee and commission income.

**Offsetting.** Financial assets and liabilities are offset and the net amount reported in the consolidated 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 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 other than the payments to the statutory defined contribution scheme.

**Segment reporting.** Operating segments are reported in a manner consistent with the internal reporting provided to 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.

#### 4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies

The Group makes estimates and assumptions that affect the amounts recognised in the consolidated 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 consolidated financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

**Impairment losses on loans and 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. A 10% increase or decrease in actual loss experience compared to the loss estimates used would result in an increase or decrease in loan impairment losses of UAH 615 million or UAH 653 million (2011: increase or decrease in loan impairment losses of UAH 641 million or UAH 641 million), respectively. 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 988 million or UAH 1,330 million (2011: increase or decrease in loan impairment losses of UAH 758 million or UAH 885 million), respectively.

**Assessment of loans and advances issued to a group of borrowers-oil traders for impairment.** The Group regularly reviews its outstanding loans and advances issued to the oil traders who are engaged in wholesale and retail sale of petrol, oil and oil products. As of 31 December 2012 gross amount of such loans was UAH 37,035 million (2011: UAH 39,436 million). 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 issued to oil traders 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 an oil traders group, or regulatory, industry or national economic conditions that correlate with defaults on assets in the oil traders group. Management uses estimates based on historical loss experience for assets with credit risk flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. The fair value of collateral substantially contributes to the assessment of whether there is an impairment of loans issued to oil traders.

**Defining of related party and 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. Judgment 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 judgment is pricing for similar types of transactions with unrelated parties and effective interest rate analysis. Judgment is also applied to determine whether the counterparty is a related party or not including transactions with those entities where the major shareholders of the Bank individually directly or through intermediaries beneficiary owns a share in the share capital.

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

**Fair value of embedded derivatives.** The fair values of financial derivatives that are not quoted in active markets are determined by using valuation techniques. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. To the extent practical, models use only observable data, however areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair values.

As of 31 December 2012 the Bank had loans and advances to customers totalling UAH 82,276 million (2011: UAH 67,715 million) issued in UAH with the condition of compensation to be received by the Bank in the event that the official exchange rate of UAH depreciates against USD. The contract to receive compensation was accounted for by the Bank as an embedded derivative with the fair value of UAH 2,750 million as of 31 December 2012 (2011: UAH 1,484 million) estimated using a valuation technique. This valuation technique takes into account expected movements in exchange rates, discount factor and credit risk. Changing the assumptions about expected exchange rates may result in a different profit. The major part of loans agreements matures from 2013 to 2015, inclusive. If the expected UAH/USD exchange rate for these years would be higher/lower by 5%, the fair value of the derivative and the respective consolidated statement of comprehensive income amount would increase by UAH 7,398 million and decrease by UAH 556 million (2011 5%; increase by UAH 3,158 million and decrease by UAH 551 million). If the discount rate used for fair valuation of the derivatives as of 31 December 2012 would be higher/lower by 100 basis points, the fair value of the derivative and the respective consolidated statement of comprehensive income amount would decrease/increase by UAH 24 million (2011: UAH 17 million). If the credit risk of counterparties as of 31 December 2012 would be higher/lower by 10%, the fair value of the derivative and the respective consolidated statement of comprehensive income amount would decrease/increase by UAH 151 million (2011: UAH 45 million). Refer to Note 26. Analysis of deviation of sensitivity of fair value of a derivative is prepared for each estimate separately not taking into account changes in other estimates.

**Tax legislation.** Ukrainian and Russian tax, currency and customs legislation is subject to varying interpretations. Refer to Note 25.

#### 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. The amendments did not have any impact on this condensed consolidated interim financial information.

**Other revised standards and interpretations:** 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 a material impact on these 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.

**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. The Group does not expect amendment to have significant effect on its consolidated financial statements.

**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. The Group does not expect the amendment to have any effect on its consolidated financial statements.



## 6 New Accounting Pronouncements (Continued)

**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. The Group does not expect the amendment to have significant effect on its consolidated financial statements.

**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. The Group is currently assessing the impact of the new standard on its consolidated financial statements.

**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”. The amendments will not have a material impact on its 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. The Group does not expect the amendments to have any material effect on its consolidated financial statements.

**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. The Group expects the amended standard to change presentation of its consolidated financial statements, but have no impact on measurement of transactions and balances. The Group does not expect the amendments to have any material effect on its consolidated financial statements.

**“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. The Group expects the amended standard to change presentation of its consolidated financial statements, but have no impact on measurement of transactions and balances.

## 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. The Group is considering the implications of the amendment, the impact on the Group and the timing of its adoption by the Group.

**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. The Group does not expect the impact of the amendments to have any material effect on its 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. The Group does not expect the amendments to have any material effect on its consolidated financial statements.

**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. The amendments will not have an impact on its consolidated financial statements.

**Amendments to IFRS 10, IFRS 12 and IAS 27 - Investment entities (issued on 31 October 2012 and effective for annual periods beginning 1 January 2014).** The amendment introduced a definition of an investment entity as an entity that (i) obtains funds from investors for the purpose of providing them with investment management services, (ii) commits to its investors that its business purpose is to invest funds solely for capital appreciation or investment income and (iii) measures and evaluates its investments on a fair value basis. An investment entity will be required to account for its subsidiaries at fair value through profit or loss, and to consolidate only those subsidiaries that provide services that are related to the entity's investment activities. IFRS 12 was amended to introduce new disclosures, including any significant judgements made in determining whether an entity is an investment entity and information about financial or other support to an unconsolidated subsidiary, whether intended or already provided to the subsidiary.

**6 New Accounting Pronouncements (Continued)**

**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**

<i>In millions of Ukrainian hryvnias</i>	<b>2012</b>	<b>2011</b>
Cash on hand	7,309	3,749
Cash balances with the NBU	2,429	2,424
Cash balances with the Central Bank of Latvia	1,971	492
Cash balances with the Central Bank of the Russian Federation	1,008	1,507
Cash balances with the Central Bank of Georgia	235	248
Cash balances with the Central Bank of Cyprus	113	258
Correspondent accounts and overnight placements with other banks		
- Ukraine	872	191
- Other countries	15,163	12,494
<b>Total cash and cash equivalents and mandatory reserves</b>	<b>29,100</b>	<b>21,363</b>

As at 31 December 2012 mandatory reserve balance with the National Bank of Ukraine is calculated on the basis of a simple average over a monthly period (2011: simple average over a monthly period) and should be maintained at the level of 0 to 10 per cent (2011: 0 to 8 per cent) of certain obligations of the Bank depending on its maturity and currency. As such, mandatory reserve balance with the National Bank of Ukraine can vary from day-to-day. In December 2012 the Bank’s mandatory reserve average balance was UAH 2,450 million (December 2011: UAH 2,091 million).

As at 31 December 2012 in accordance with the NBU regulations the Bank was required to maintain the balance on accounts with the NBU at the level of 100% (31 December 2011: 95%) of the mandatory reserve balance for the preceding month. The Bank will not be subject to any sanctions if it fails to comply with the requirements less than 10 times within a 3 month period. As at 31 December 2012 it was also required to maintain the balance on the separate account with the NBU at the level not less than 50% of the mandatory reserves balance for the preceding month (31 December 2011: not less than 70% of the mandatory reserves balance for the preceding month), as a part of the total required level of mandatory reserves; the amount is subject to interest payments from the side of the NBU at a rate of 2.250% (30% of the NBU official interest rate), provided that the Bank is in compliance with the mandatory reserve requirements (31 December 2011: the interest was 2.325%, which was calculated as 30% of the NBU official interest rate).

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

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

As at 31 December 2012 this provision of UAH 9 million (31 December 2011: UAH 56 million) has been placed on a separate account.

As of 31 December 2012 the mandatory reserve balances of the Bank’s subsidiaries in Russia, Cyprus, Latvia and Georgia that should be kept with respective central banks were UAH 753 million (2011: UAH 731 million).

**7 Cash and Cash Equivalents and Mandatory Reserves (Continued)**

As the respective liquid assets are not freely available to finance the day-to-day operations of the Group, for the purposes of the consolidated cash flow statement, the mandatory reserve balance is excluded from cash and cash equivalents of UAH 3,212 million, that is 100% of the mandatory reserve balance with the NBU and 100% of the mandatory reserve balance with other Central Banks (31 December 2011: UAH 2,773 million, that is 95% of the mandatory reserve balance with the NBU and 100% of the mandatory reserve balance with other Central Banks).

<i>In millions of Ukrainian hryvnias</i>	<b>2012</b>	<b>2011</b>
Total cash and cash equivalents and mandatory reserves	29,100	21,363
Less mandatory reserves balances	(3,212)	(2,773)
<b>Cash and cash equivalents for the purposes of the consolidated statement of cash flows</b>	<b>25,888</b>	<b>18,590</b>

As of 31 December 2012 mandatory reserve balances with the NBU of UAH 1,294 million (2011: UAH 484 million) has been pledged as collateral for the refinancing loan received from the NBU. Refer to Notes 12 and 25.

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

<i>In millions of Ukrainian hryvnias</i>	<b>Cash on hand</b>	<b>Cash balances with the Central Banks, including mandatory reserves</b>	<b>Correspondent accounts and overnight placements with other banks</b>	<b>Total</b>
<i>Neither past due nor impaired</i>				
Cash on hand	7,309	-	-	7,309
Cash balances with the Central Banks	-	5,756	-	5,756
Aa1 to Aa3 rated	-	-	5,790	5,790
A1 to A3 rated	-	-	7,939	7,939
Baa1 to Baa3 rated	-	-	1,329	1,329
Ba1 to Ba3 rated	-	-	11	11
B1 to B3 rated	-	-	111	111
Caa1 to Caa2 rated	-	-	416	416
Unrated	-	-	439	439
<b>Total cash and cash equivalents and mandatory reserves</b>	<b>7,309</b>	<b>5,756</b>	<b>16,035</b>	<b>29,100</b>

**7 Cash and Cash Equivalents and Mandatory Reserves (Continued)**

Analysis by credit quality of cash and cash equivalents and mandatory reserve balances summarised based on Moody's ratings at 31 December 2011 is as follows:

<i>In millions of Ukrainian hryvnias</i>	<b>Cash on hand</b>	<b>Cash balances with the Central Banks, including mandatory reserves</b>	<b>Correspondent accounts and overnight placements with other banks</b>	<b>Total</b>
<i>Neither past due nor impaired</i>				
Cash on hand	3,749	-	-	3,749
Cash balances with the Central Banks	-	4,929	-	4,929
Aaa rated	-	-	2,417	2,417
Aa1 to Aa3 rated	-	-	4,874	4,874
A1 to A3 rated	-	-	449	449
Baa1 to Baa3 rated	-	-	4,393	4,393
Ba1 to Ba3 rated	-	-	26	26
B1 to B3 rated	-	-	20	20
Unrated	-	-	506	506
<b>Total cash and cash equivalents and mandatory reserves</b>	<b>3,749</b>	<b>4,929</b>	<b>12,685</b>	<b>21,363</b>

Investing and financing transactions that did not require the use of cash and cash equivalents and were excluded from the consolidated statement of cash flows are as follows:

<i>In millions of Ukrainian hryvnias</i>	<b>2012</b>	<b>2011</b>
<b>Non-cash financing activities</b>		
Dividends	(1,352)	(1,300)
Increase in share capital	1,352	1,300
<b>Non-cash financing activities</b>	<b>-</b>	<b>-</b>

Geographical, maturity and interest rate analysis of cash and cash equivalents and mandatory reserves is disclosed in Note 23.

**8 Due from Other Banks**

<i>In millions of Ukrainian hryvnias</i>	<b>2012</b>	<b>2011</b>
Guarantee deposits with other banks	7,187	499
Term placements with other banks	1,358	4,149
<b>Total due from other banks</b>	<b>8,545</b>	<b>4,648</b>

Refer to Note 25 for the information on pledged due from other banks balances.

**8 Due from Other Banks (Continued)**

Analysis by credit quality of amounts due from other banks outstanding at 31 December 2012 is as follows:

<i>In millions of Ukrainian hryvnias</i>	<b>Guarantee deposits with other banks</b>	<b>Term placements with other banks</b>	<b>Total</b>
<i>Neither past due nor impaired</i>			
- Aa1 rated	1	78	79
- Aa3 rated	144	-	144
- A1 rated	30	-	30
- A2 rated	153	-	153
- A3 rated	42	444	486
- Baa1 rated	-	160	160
- Baa2 rated	-	53	53
- B2 rated	-	207	207
- B3 rated	-	211	211
- Unrated	6,817	205	7,022
<b>Total due from other banks</b>	<b>7,187</b>	<b>1,358</b>	<b>8,545</b>

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

<i>In millions of Ukrainian hryvnias</i>	<b>Guarantee deposits with other banks</b>	<b>Term placements with other banks</b>	<b>Total</b>
<i>Neither past due nor impaired</i>			
- Aaa rated	7	79	86
- Aa2 rated	113	52	165
- Aa3 rated	209	52	261
- A1 rated	-	145	145
- A2 rated	170	155	325
- Baa1 rated	-	285	285
- B1 rated	-	41	41
- Unrated	-	3,340	3,340
<b>Total due from other banks</b>	<b>499</b>	<b>4,149</b>	<b>4,648</b>

Unrated amounts of due from other banks represent balances with Ukrainian banks and banks in OECD countries.

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

As an active participant in the banking markets, the Group has a significant concentration of credit risk with other financial institutions. In total, credit risk exposure to financial institutions is estimated to have amounted to gross amount of UAH 59,945 million (2011: UAH 37,136 million) comprising cash and cash equivalents, due from other banks and gross receivables on financial derivatives arising on swap, forward and spot transactions. Refer to Notes 7 and 25.

Refer to Note 27 for the estimated fair value of each class of amounts due from other banks. Geographical, maturity and interest rate analysis of due from other banks is disclosed in Note 23.

**9 Loans and Advances to Customers**

<i>In millions of Ukrainian hryvnias</i>	<b>2012</b>	<b>2011</b>
Corporate loans	110,559	96,825
Loans to individuals - cards	19,634	16,817
Loans to individuals - mortgage	4,446	4,997
Loans to individuals - consumer	1,184	966
Loans to individuals - auto	712	1,454
Loans to individuals - other	1,350	928
Loans to small and medium enterprises (SME)	1,297	1,393
Less: Provision for loan impairment	(19,765)	(15,950)
<b>Total loans and advances to customers</b>	<b>119,417</b>	<b>107,430</b>

As of 31 December 2012 interest income of UAH 1,425 million (2011: UAH 1,113 million) was accrued on loans and advances to customers impaired at the year end.

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

<i>In millions of Ukrainian hryvnias</i>	<b>Corporate loans</b>	<b>Loans to individuals</b>				<b>SME</b>	<b>Total</b>	
		<b>Cards</b>	<b>Mortgage</b>	<b>Auto</b>	<b>Consumer</b>	<b>Other</b>		
<b>Provision for loan impairment at 1 January 2012</b>	<b>13,740</b>	<b>618</b>	<b>1,061</b>	<b>254</b>	<b>12</b>	<b>21</b>	<b>244</b>	<b>15,950</b>
Provision/(reversal of provision) for impairment during the year	4,975	735	(42)	186	60	123	153	6,190
Amounts written off during the year as uncollectible	(1,081)	(626)	(85)	(292)	(53)	(44)	(205)	(2,386)
Currency translation differences	-	10	2	-	-	-	(1)	11
<b>Provision for loan impairment at 31 December 2012</b>	<b>17,634</b>	<b>737</b>	<b>936</b>	<b>148</b>	<b>19</b>	<b>100</b>	<b>191</b>	<b>19,765</b>

The provision for impairment during 2012 differs from the amount presented in profit or loss for the year due to UAH 738 million recovery of amounts previously written off as uncollectible, included UAH 509 million is related to recoveries of card loans. The amount of the recovery was credited directly to provisions in the statement of comprehensive income for the year.

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

<i>In millions of Ukrainian hryvnias</i>	<b>Corporate loans</b>	<b>Loans to individuals</b>				<b>SME</b>	<b>Total</b>	
		<b>Cards</b>	<b>Mortgage</b>	<b>Auto</b>	<b>Consumer</b>	<b>Other</b>		
<b>Provision for loan impairment at 1 January 2011</b>	<b>9,620</b>	<b>347</b>	<b>1,330</b>	<b>425</b>	<b>6</b>	<b>196</b>	<b>557</b>	<b>12,481</b>
Provision for impairment during the year	4,628	660	2	267	36	(71)	296	5,818
Amounts written off during the year as uncollectible	(488)	(383)	(268)	(437)	(30)	(103)	(607)	(2,316)
Currency translation differences	(20)	(6)	(3)	(1)	-	(1)	(2)	(33)
<b>Provision for loan impairment at 31 December 2011</b>	<b>13,740</b>	<b>618</b>	<b>1,061</b>	<b>254</b>	<b>12</b>	<b>21</b>	<b>244</b>	<b>15,950</b>

The provision for impairment during 2011 differs from the amount presented in profit or loss for the year due to UAH 191 million recovery of amounts previously written off as uncollectible, included UAH 149 million is related to recoveries of card loans. The amount of the recovery was credited directly to provisions in the statement of comprehensive income for the year.

## 9 Loans and Advances to Customers (Continued)

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

<i>In millions of Ukrainian hryvnias</i>	2012		2011	
	Amount	%	Amount	%
Oil trading	37,035	27	39,436	32
Loans to individuals	27,326	20	25,162	20
Ferroalloy trading and production	16,306	12	10,937	9
Manufacturing and chemicals	14,702	11	10,485	8
Agriculture, agriculture machinery and food industry	11,418	8	14,049	11
Commerce, finance and securities trading	8,872	6	8,756	7
Ski resort, tourism and football clubs	6,097	4	4,178	4
Air transportation	6,052	4	2,394	2
Real estate construction	5,365	4	4,791	4
Small and medium enterprises (SME)	1,297	1	1,393	2
Other	4,712	3	1,799	1
<b>Total loans and advances to customers (before impairment)</b>	<b>139,182</b>	<b>100</b>	<b>123,380</b>	<b>100</b>

Disclosed in oil trading industry are UAH 37,035 million or 27% of gross loans and advances (2011: UAH 39,436 million or 32%) issued to companies engaged in wholesale and retail sale of petrol, oil and oil products. These companies form an entire supply chain and due to it, based on the management estimation, the credit risk of these loans is lower. As at 31 December 2012 loans issued to these companies of UAH 36,016 million (2011: UAH 39,436 million) were collateralised with inventory of oil, gas and oil products, property rights for advances made by borrowers and corporate rights for shares in the share capital of borrowers and their guarantors with the collateral value of UAH 33,786 million (2011: UAH 31,499 million).

Mortgage loans are secured by underlying housing real estate. Auto loans are secured by the underlying cars. Loans to small and medium enterprises are secured by underlying commercial real estate, equipment or commercial cars. Credit cards and consumer loans are not secured.

As of 31 December 2012 the total aggregate amount of loans to the top 10 borrowers of the Group amounted to UAH 12,727 million (2011: UAH 14,774 million) or 9% of the gross loan portfolio (2011: 12%).

As of 31 December 2012 the Group had 1 borrower (2011: 1 borrowers) with aggregate loan balances in excess of 10% of the net assets or UAH 2,141 million (2011: UAH 1,919 million). The total aggregate amount of these loans was UAH 3,814 million (2011: UAH 2,843 million).

As of 31 December 2012 mortgage loans of UAH 240 million (2011: UAH 383 million) have been pledged as collateral with respect to the mortgage bonds issued. Please refer to Notes 14 and 25.

As of 31 December 2012 loans to two corporate borrowers (2011: two corporate borrowers) of UAH 669 million (2011: UAH 675 million) were pledged as collateral under the NBU refinancing. Please refer to Notes 12 and 25.



**9 Loans and Advances to Customers (Continued)**

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

<i>In millions of Ukrainian hryvnias</i>	Corporate	Loans to individuals				SME	Total	
	loans	Cards	Mortgage	Auto	Consumer			Other
<i>Neither past due nor impaired</i>								
- Large borrowers with credit history with the Group over two years	66,123	-	-	-	-	434	-	66,557
- Large new borrowers with credit history with the Group less than 2 years	5,607	-	-	-	-	-	-	5,607
- Loans to medium size borrowers	5,265	-	-	-	-	115	39	5,419
- Loans to small borrowers	391	-	-	-	-	-	587	978
- Loans between UAH 1-100 million	-	17	173	-	-	-	-	190
- Loans less than UAH 1 million	-	17,637	1,533	334	1,106	679	-	21,289
<b>Total neither past due nor impaired</b>	<b>77,386</b>	<b>17,654</b>	<b>1,706</b>	<b>334</b>	<b>1,106</b>	<b>1,228</b>	<b>626</b>	<b>100,040</b>
<i>Past due but not impaired</i>								
- less than 30 days overdue	310	885	149	45	36	48	29	1,502
- 30 to 90 days overdue	33	369	98	33	19	26	37	615
<b>Total past due but not impaired</b>	<b>343</b>	<b>1,254</b>	<b>247</b>	<b>78</b>	<b>55</b>	<b>74</b>	<b>66</b>	<b>2,117</b>
<i>Loans individually determined to be impaired (gross)</i>								
- Not overdue	28,154	-	-	-	-	-	-	28,154
- less than 30 days overdue	1	-	-	-	-	-	-	1
- 30 to 90 days overdue	346	-	-	-	-	-	-	346
- 90 to 180 days overdue	1,961	328	95	23	18	11	31	2,467
- 180 to 360 days overdue	1,857	312	119	32	5	3	41	2,369
- over 360 days overdue	511	86	2,279	245	-	34	533	3,688
<b>Total individually impaired loans (gross)</b>	<b>32,830</b>	<b>726</b>	<b>2,493</b>	<b>300</b>	<b>23</b>	<b>48</b>	<b>605</b>	<b>37,025</b>
Less impairment provisions	(17,634)	(737)	(936)	(148)	(19)	(100)	(191)	(19,765)
<b>Total loans and advances to customers</b>	<b>92,925</b>	<b>18,897</b>	<b>3,510</b>	<b>564</b>	<b>1,165</b>	<b>1,250</b>	<b>1,106</b>	<b>119,417</b>

**9 Loans and Advances to Customers (Continued)**

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

<i>In millions of Ukrainian hryvnias</i>	Corporate	Loans to individuals				SME	Total	
	loans	Cards	Mortgage	Auto	Consumer			Other
<i>Neither past due nor impaired</i>								
- Large borrowers with credit history with the Group over two years	22,685	-	-	-	-	370	-	23,055
- Large new borrowers with credit history with the Group less than 2 years	41,724	-	-	-	-	-	-	41,724
- Loans to medium size borrowers	7,079	-	-	-	-	149	71	7,299
- Loans to small borrowers	655	-	-	-	-	-	452	1,107
- Loans between UAH 1-100 million	-	5	239	25	-	-	-	269
- Loans less than UAH 1 million	-	14,988	1,898	701	911	301	-	18,799
<b>Total neither past due nor impaired</b>	<b>72,143</b>	<b>14,993</b>	<b>2,137</b>	<b>726</b>	<b>911</b>	<b>820</b>	<b>523</b>	<b>92,253</b>
<i>Past due but not impaired</i>								
- less than 30 days overdue	109	884	158	74	25	33	56	1,339
- 30 to 90 days overdue	114	340	139	58	13	10	45	719
<b>Total past due but not impaired</b>	<b>223</b>	<b>1,224</b>	<b>297</b>	<b>132</b>	<b>38</b>	<b>43</b>	<b>101</b>	<b>2,058</b>
<i>Loans individually determined to be impaired (gross)</i>								
- Not overdue	22,142	-	14	-	-	-	-	22,156
- less than 30 days overdue	1,096	-	10	-	-	-	-	1,106
- 30 to 90 days overdue	490	1	24	-	-	-	-	515
- 90 to 180 days overdue	53	249	87	55	12	10	37	503
- 180 to 360 days overdue	203	193	141	61	3	8	92	701
- over 360 days overdue	475	157	2,287	480	2	47	640	4,088
<b>Total individually impaired loans (gross)</b>	<b>24,459</b>	<b>600</b>	<b>2,563</b>	<b>596</b>	<b>17</b>	<b>65</b>	<b>769</b>	<b>29,069</b>
Less impairment provisions	(13,740)	(618)	(1,061)	(254)	(12)	(21)	(244)	(15,950)
<b>Total loans and advances to customers</b>	<b>83,085</b>	<b>16,199</b>	<b>3,936</b>	<b>1,200</b>	<b>954</b>	<b>907</b>	<b>1,149</b>	<b>107,430</b>

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 reporting period. The Group'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.

In 2012 the Group recognised a loss of UAH 4 million as a result of the renegotiation of loans and advances to customers that otherwise become past due or impaired and was directly debited to provisions in the statement of comprehensive income (2011: loss UAH 26 million).

The primary factors that the Group considers in determining whether a loan is impaired are its overdue status, a significant financial difficulty as evidenced by the borrower's financial information and realisability of related collateral, if any. As a result, the Group presents above an ageing analysis of loans that are individually determined to be impaired.

**9 Loans and Advances to Customers (Continued)**

Past due but not impaired loans, represent collateralised loans where the fair value of collateral covers the overdue interest and principal repayments, except for card loans and consumer loans for which impairment is recognised starting from 90 days past due. 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 Group believes that loan and advances to large and small size borrowers with longer credit history are of a higher credit quality than the rest of the loan portfolio.

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 tables below exclude cards loans, issue of which do not require any collateral).

The effect of collateral at 31 December 2012:

<i>In millions of Ukrainian hryvnias</i>	<b>Over-collateralised assets</b>		<b>Under-collateralised assets</b>	
	Carrying value of the assets	Fair value of collateral	Carrying value of the assets	Fair value of collateral
Corporate loans	65,927	82,316	26,998	9,887
Loans to individuals - mortgage	2,504	4,539	1,006	685
Loans to individuals - auto	173	325	391	202
Loans to individuals - other	639	1,820	611	49
Loans to small and medium enterprises (SME)	255	987	851	143

The effect of collateral at 31 December 2011:

<i>In millions of Ukrainian hryvnias</i>	<b>Over-collateralised assets</b>		<b>Under-collateralised assets</b>	
	Carrying value of the assets	Fair value of collateral	Carrying value of the assets	Fair value of collateral
Corporate loans	68,054	81,072	15,031	5,717
Loans to individuals - mortgage	2,128	4,505	1,808	1,738
Loans to individuals - auto	61	118	1,139	483
Loans to individuals - other	114	339	793	75
Loans to small and medium enterprises (SME)	316	1,016	833	298

As at 31 December 2012 loans issued to the borrowers other than those engaged in oil trading of UAH 46,378 million (2011: UAH 31,521 million) were collateralised with corporate rights for shares in the share capital of these borrowers and their guarantors with the collateral value of UAH 53,144 million (2011: UAH 46,818 million). In addition these loans are collateralised by inventory and other assets.

Refer to Note 27 for the estimated fair value of each class of loans and advances to customers. Geographical, maturity and interest rate analysis of loans and advances to customers is disclosed in Note 23. Information on related party balances is disclosed in Note 29.

**10 Premises, Leasehold Improvements and Equipment and Intangible Assets**

	Note	Premises	Leasehold improvements	Computers	Motor vehicles	Furniture, equipment, intangible assets and other	Total
<i>In millions of Ukrainian hryvnias</i>							
<b>Carrying amount at 1 January 2011</b>		<b>1,826</b>	<b>22</b>	<b>557</b>	<b>84</b>	<b>472</b>	<b>2,961</b>
Cost or valuation at 1 January 2011		1,910	141	1,322	132	863	4,368
Accumulated depreciation and amortisation at 1 January 2011		(84)	(119)	(765)	(48)	(391)	(1,407)
Additions		166	11	354	76	213	820
Disposals		(9)	(1)	(30)	(4)	(12)	(56)
Depreciation and amortisation charge	20	(47)	(23)	(170)	(11)	(152)	(403)
Effect of translation to presentation currency		(5)	2	-	-	(1)	(4)
<b>Carrying amount at 31 December 2011</b>		<b>1,931</b>	<b>11</b>	<b>711</b>	<b>145</b>	<b>520</b>	<b>3,318</b>
Cost or valuation at 31 December 2011		2,060	152	1,631	202	1,061	5,106
Accumulated depreciation and amortisation at 31 December 2011		(129)	(141)	(920)	(57)	(541)	(1,788)
Additions		82	63	472	75	254	946
Disposals		(41)	-	(9)	(42)	(8)	(100)
Depreciation and amortisation charge	20	(49)	(17)	(172)	(16)	(124)	(378)
Effect of translation to presentation currency		9	-	4	-	7	20
<b>Carrying amount at 31 December 2012</b>		<b>1,932</b>	<b>57</b>	<b>1,006</b>	<b>162</b>	<b>649</b>	<b>3,806</b>
Cost or valuation at 31 December 2012		2,043	136	1,844	176	1,150	5,349
Accumulated depreciation and amortisation at 31 December 2012		(111)	(79)	(838)	(14)	(501)	(1,543)
<b>Carrying amount at 31 December 2012</b>		<b>1,932</b>	<b>57</b>	<b>1,006</b>	<b>162</b>	<b>649</b>	<b>3,806</b>

Premises have been revalued at fair value at 31 December 2010. The valuation was carried out by a firm of valuers who hold a suitable professional qualification and who have recent experience in valuation of assets of similar location and category. The basis of valuation of premises was observable market prices in an active market and discounted cash flow techniques in the cases where there was no market-based evidence of fair value because of the specialised nature of the item of premises and the item is rarely sold. The main assumption used is the comparability of premises, for which selling prices were taken.

Included in the above carrying amount is UAH 721 million (2011: UAH 721 million) representing revaluation surplus relating to premises of the Group. As of 31 December 2012 a cumulative deferred tax liability of UAH 128 million (2011: UAH 128 million) was calculated with respect to this valuation adjustment and has been recorded directly to equity. At 31 December 2012 the carrying amount of premises would have been UAH 1,183 million (2011: UAH 1,128 million) had the assets been carried at cost less depreciation.

Included in the above category "Premises" are assets held under finance lease with the carrying amount of UAH 69 million (2011: UAH 67 million).

**10 Premises, Leasehold Improvements and Equipment and Intangible Assets (Continued)**

As of 31 December 2012 the gross carrying amount of fully depreciated premises, leasehold improvements and equipment that are still in use was UAH 342 million (2011: UAH 128 million).

As of 31 December 2012 premises carried at UAH 947 million (2011: UAH 954 million) have been pledged to the NBU as collateral with respect to the refinancing loan. Refer to Note 12 and 25.

**11 Other Financial Assets**

<i>In millions of Ukrainian hryvnias</i>	<b>2012</b>	<b>2011</b>
Finance lease receivables	320	214
Receivables from operations with customers	206	242
Embedded derivatives with expired underlying contracts	123	535
Plastic cards receivables	123	114
Financial derivatives arising from swap, forward and spot	18	65
Other	98	101
Less: Provision for impairment	(89)	(127)
<b>Total other financial assets</b>	<b>799</b>	<b>1,144</b>

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

	<b>Receivables arising from embedded derivative</b>	<b>Receivables from operations with customers</b>	<b>Finance lease receivables</b>	<b>Plastic cards receivables</b>	<b>Financial derivatives arising from swap, forward and spot</b>	<b>Other</b>	<b>Total</b>
<i>In millions of Ukrainian hryvnias</i>							
<i>Neither past due nor impaired</i>							
- Large customers with credit history over two years	123	-	-	-	-	18	141
- Medium borrowers	-	-	-	-	-	3	3
- Small borrowers	-	157	320	20	-	37	534
- Large OECD banks	-	-	-	-	11	1	12
- Non-OECD banks	-	-	-	103	7	39	149
<b>Total neither past due nor impaired</b>	<b>123</b>	<b>157</b>	<b>320</b>	<b>123</b>	<b>18</b>	<b>98</b>	<b>839</b>
<i>Receivables individually determined to be impaired (gross)</i>							
- Overdue	-	49	-	-	-	-	49
<b>Total receivables individually determined to be impaired</b>	<b>-</b>	<b>49</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>49</b>
Less impaired provision	-	(65)	-	-	-	(24)	(89)
<b>Total other financial assets</b>	<b>123</b>	<b>141</b>	<b>320</b>	<b>123</b>	<b>18</b>	<b>74</b>	<b>799</b>

**11 Other Financial Assets (Continued)**

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

	Receivables arising from embedded derivative	Receivables from operations with customers	Finance lease recei- vables	Plastic cards recei- vables	Financial derivatives arising from swap, forward and spot	Other	Total
<i>In millions of Ukrainian hryvnias</i>							
<i>Neither past due nor impaired</i>							
- Large customers with credit history over two years	535	-	-	-	-	4	539
- Medium borrowers	-	-	-	-	-	15	15
- Small borrowers	-	99	214	15	-	50	378
- Large OECD banks	-	-	-	-	20	10	30
- Non-OECD banks	-	-	-	96	45	22	163
<b>Total neither past due nor impaired</b>	<b>535</b>	<b>99</b>	<b>214</b>	<b>111</b>	<b>65</b>	<b>101</b>	<b>1,125</b>
<i>Receivables individually determined to be impaired (gross)</i>							
- Overdue	-	143	-	3	-	-	146
<b>Total receivables individually determined to be impaired</b>	<b>-</b>	<b>143</b>	<b>-</b>	<b>3</b>	<b>-</b>	<b>-</b>	<b>146</b>
Less impairment provision	-	(113)	-	(3)	-	(11)	(127)
<b>Total other financial assets</b>	<b>535</b>	<b>129</b>	<b>214</b>	<b>111</b>	<b>65</b>	<b>90</b>	<b>1,144</b>

The primary factors that the Group considers in determining whether a receivable is impaired are its overdue status, a significant financial difficulty as evidenced by the borrower's financial information 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. The rights to the leased assets revert to the Group in the event of default by the lessee.

Finance lease receivables of UAH 313 million (2011: UAH 208 million) and UAH 7 million (2011: UAH 6 million) relate to lease agreements of auto and real estate, respectively. Other classes of receivables are not collateralised.

Refer to Note 27 for the disclosure of the fair value of each class of other financial assets. Geographical, maturity and interest rate analysis of other financial assets is disclosed in Note 23. Information on related party balances is disclosed in Note 29.

**12 Due to the NBU and Due to Other Banks and Other Financial Institutions**

Due to the NBU at 31 December 2012 and 31 December 2011:

<i>In millions of Ukrainian hryvnias</i>	<b>2012</b>	<b>2011</b>
Term borrowings from the NBU	4,630	5,825
<b>Total due to the NBU</b>	<b>4,630</b>	<b>5,825</b>

**12 Due to the NBU and Due to Other Banks and Other Financial Institutions (Continued)**

As a result of change of the NBU official discount rate from 7.75% to 7.5% in March 2012 the interest rate under the refinancing loan was decreased from 9.75% to 9.5%.

In November 2012 the NBU prolonged the refinancing loan of UAH 4,630 million from June 2015 till December 2016 without increasing of the interest rate.

Assets pledged under the NBU refinancing loan are as follows:

<i>In millions of Ukrainian hryvnias</i>	<b>Note</b>	<b>2012</b>	<b>2011</b>
Mandatory reserve balance with the NBU	7	1,294	484
Loans and advances to customers	9	669	675
Premises	10	947	954
Assets owned by related and third parties		4,910	5,734

Due to the other banks and other financial institutions at 31 December 2012 and 31 December 2011:

<i>In millions of Ukrainian hryvnias</i>	<b>2012</b>	<b>2011</b>
Term placements of other commercial banks	1,821	1,401
Long-term loans under the credit lines from other financial institutions	1,142	774
Correspondent accounts and overnight placements of other banks	725	268
Pledge deposits of other banks	5	10
<b>Total due to other banks and other financial institutions</b>	<b>3,693</b>	<b>2,453</b>

Term placements of other commercial banks represent placements of commercial banks in USD and EUR with maturities from January 2013 to September 2017 (2011: placements of commercial banks in USD and EUR with maturities from February 2012 to April 2017).

Refer to Note 27 for the disclosure of the fair value of each class of amounts due to the NBU and other banks and other financing institutions. Geographical, maturity and interest rate analysis of due to the NBU and other banks and other financial institutions is disclosed in Note 23.

**13 Customer Accounts**

<i>In millions of Ukrainian hryvnias</i>	<b>2012</b>	<b>2011</b>
<b>Individuals</b>		
- Term deposits	83,107	66,536
- Current/demand accounts	16,790	12,967
<b>Legal entities</b>		
- Term deposits	10,120	9,147
- Current/settlement accounts	14,557	15,559
<b>Total customer accounts</b>	<b>124,574</b>	<b>104,209</b>

**13 Customer Accounts (Continued)**

Economic sector concentrations within customer accounts are as follows:

<i>In millions of Ukrainian hryvnias</i>	2012		2011	
	Amount	%	Amount	%
Individuals	99,897	79	79,503	76
Trade	8,030	6	9,207	9
Manufacturing	4,405	4	4,764	5
Agriculture	4,371	4	2,618	3
Services	3,830	3	3,478	3
Transport and communication	1,988	2	1,458	1
Machinery	408	1	477	1
Other	1,645	1	2,704	2
<b>Total customer accounts</b>	<b>124,574</b>	<b>100</b>	<b>104,209</b>	<b>100</b>

At 31 December 2012 the aggregate balances of top 10 customers of the Group amount to UAH 7,075 million (2011: UAH 9,576 million) or 6% (2011: 9%) of total customer accounts.

At 31 December 2012 included in customer accounts are deposits of UAH 135 million (2011: UAH 30 million) held as collateral for irrevocable commitments under import letters of credit, guarantees issued by the Group. Refer to Note 25.

At 31 December 2012 included in customer accounts are deposits of UAH 1,515 million (2011: UAH 2,445 million) held as collateral for loans and advances to customers with cash covered exposure of UAH 1,508 million (2011: UAH 2,445 million), issued by the Group. Refer to Note 9.

Fair value of each class of customer accounts is disclosed in Note 27. Geographical, maturity and interest rate analysis of customer accounts is disclosed in Note 23. Information on related party balances is disclosed in Note 29.

**14 Debt Securities in Issue**

<i>In millions of Ukrainian hryvnias</i>	2012	2011
Private placements of bonds	6,355	560
Eurobonds	1,629	4,785
Mortgage bonds	172	254
Promissory notes	-	1
<b>Total debt securities in issue</b>	<b>8,156</b>	<b>5,600</b>

Information on private placements of bonds issued during 2012 is disclosed in Note 25.

In February 2007 the Group issued USD denominated Eurobonds with a par value of USD 500 million (UAH 2,525 million at the exchange rate at the date of the issue) which matured in February 2012. The bonds carried a coupon rate of 8% per annum. The Eurobonds were listed on the Swiss Stock Exchange. In February 2012 the Group redeemed the remaining part of Eurobonds with par value of USD 399 million.

In September 2010 the Group issued USD denominated Eurobonds with a par value of USD 200 million (UAH 1,583 million at exchange rate at the date of issue) maturing in September 2015. The bonds carry a coupon rate of 9.375%. The Eurobonds are listed on the London Stock Exchange.

In May 2012 the Group had redemption of UAH denominated bonds issued in November 2010 with a par value of UAH 300 million maturing in May 2012. The bonds were issued under the terms of a private placement.



**14 Debt Securities in Issue (Continued)**

In May 2012 the Group had redemption of UAH denominated bonds issued in December 2010 with a par value of UAH 250 million maturing in November 2013. The bonds were issued under the terms of a private placement.

The fair value of each class of debt securities in issue is disclosed in Note 27. Geographical, currency, maturity and interest rate analyses of debt securities in issue are disclosed in Note 23.

**15 Provisions for Liabilities and Charges, Other Financial and Non-financial Liabilities**

Provisions for liabilities and charges, other financial and non-financial liabilities comprise the following:

<i>In millions of Ukrainian hryvnias</i>	<b>Note</b>	<b>2012</b>	<b>2011</b>
<i>Other financial liabilities</i>			
Funds in the course of settlement		240	116
Liability for finance lease		108	107
Financial derivatives arising from swap transactions	26	98	103
Account payable		107	81
Other		251	94
<b>Total other financial liabilities</b>		<b>804</b>	<b>501</b>
<i>Provision for liabilities and charges and other liabilities</i>			
Unused vacation reserve		233	236
Accrued salaries and bonuses		143	184
Other		65	79
<b>Total provisions for liabilities and charges and other non-financial liabilities</b>		<b>441</b>	<b>499</b>
<b>Total provisions for liabilities and charges, other financial and non-financial liabilities</b>		<b>1,245</b>	<b>1,000</b>

Refer to Note 27 for the disclosure of the fair value of each class of other financial liabilities. Geographical, maturity and interest rate analyses of other financial liabilities are disclosed in Note 23. Information on related party balances is disclosed in Note 29.

**16 Subordinated Debt**

<i>In millions of Ukrainian hryvnias</i>	<b>2012</b>	<b>2011</b>
Subordinated debt provided by legal entities	1,403	1,405
Subordinated debt provided by individuals	24	13
<b>Total subordinated debt</b>	<b>1,427</b>	<b>1,418</b>

Subordinated debt represents long term borrowing agreements, which, in case of the Group's default, would be secondary to the Group's other obligations, including deposits and other debt instruments. In accordance with the Law of Ukraine on Banks and Banking Activities and the NBU regulations, subordinated debt cannot be withdrawn from the Bank for at least five years from the date of receipt.

The debts rank after all other creditors in case of liquidation.

**16 Subordinated Debt (Continued)**

Included in subordinated debt, provided by legal entities, are USD denominated subordinated debts issued in February 2006 with a par value of USD 150 million (UAH 758 million at par at the exchange rate at the date of issue) at 8.75% per annum payable every six months with contractual maturity in February 2016. Under subordinated debt issued in February 2006 the Group had a call option exercisable in February 2011 at par. The Group did not exercise this call option.

In February 2011 in accordance with the terms and conditions of USD denominated subordinated debt with a par value of USD 150 million the step-up interest rate was set at 5.799% per annum.

Refer to Note 27 for the disclosure of the fair value of each class of subordinated debt. Geographical, maturity and interest rate analysis of subordinated debt is disclosed in Note 23. Information on related party balances is disclosed in Note 29.

**17 Share Capital**

<i>In millions of UAH except for number of shares</i>	<b>Number of outstanding shares, in millions</b>	<b>Nominal amount</b>
<b>At 1 January 2011</b>	<b>48.49</b>	<b>8,860</b>
Increase in the nominal amount of the shares through capitalization of dividends	-	1,300
New shares issued	16.15	3,385
<b>At 31 December 2011</b>	<b>64.64</b>	<b>13,545</b>
Increase in the nominal amount of the shares through capitalization of dividends	-	1,352
<b>At 31 December 2012</b>	<b>64.64</b>	<b>14,897</b>

The nominal registered amount of the Bank's issued share capital at 31 December 2012 is UAH 14,897 million (2011: UAH 13,545 million). The total authorised number of ordinary shares 64.64 million shares (2011: 64.64 million shares) with a par value of UAH 230.45 per share (2011: UAH 209.53 per share). All issued ordinary shares are fully paid. Each ordinary share carries one vote.

In April 2012 the shareholders made a decision to increase the share capital of the Bank by UAH 1,352 million up to nominal value of UAH 14,897 million capitalising the dividends attributable to the shareholders of the Bank for the year ended 31 December 2011.

In September 2011, the Bank registered an additional 16,154,900 ordinary shares with nominal amount of UAH 209.53 per share totalling UAH 3,385 million which were purchased by a company owned equally by two major shareholders. This share issue was paid in full by this company by a contribution of USD 427 million which at the date of the transaction constituted UAH 3,405 million which exceeded the nominal amount of shares issued by UAH 20 million. The respective surplus was recognised as share premium.

In June 2011 the shareholders made a decision to increase the nominal amount of the Bank's issued shares from UAH 182.72 per share to UAH 209.53 per share. The increase was followed by the increase in the share capital by capitalisation of dividends of UAH 1,300 million.

**18 Interest Income and Expense**

<i>In millions of Ukrainian hryvnias</i>	<b>2012</b>	<b>2011</b>
<b>Interest income</b>		
Loans and advances to legal entities	11,638	12,006
Loans and advances to individuals	7,773	6,993
Due from other banks	156	177
Other	151	232
<b>Total interest income</b>	<b>19,718</b>	<b>19,408</b>
<b>Interest expense</b>		
Term deposits of individuals	7,670	6,181
Current/settlement accounts	1,077	875
Term deposits of legal entities	624	876
Debt securities in issue	613	420
Due to the NBU	493	643
Due to other banks and other financing institutions	198	195
Subordinated debt	81	121
Other	24	18
<b>Total interest expense</b>	<b>10,780</b>	<b>9,329</b>
<b>Net interest income</b>	<b>8,938</b>	<b>10,079</b>

Information on interest income and expense from transactions with related parties is disclosed in Note 29.

**19 Fee and Commission Income and Expense**

<i>In millions of Ukrainian hryvnias</i>	<b>2012</b>	<b>2011</b>
<b>Fee and commission income</b>		
Settlement transactions	2,454	2,045
Cash collection and cash transactions	1,232	1,018
Other	184	128
<b>Total fee and commission income</b>	<b>3,870</b>	<b>3,191</b>
<b>Fee and commission expense</b>		
Cash and settlement transactions	572	418
Other	24	44
<b>Total fee and commission expense</b>	<b>596</b>	<b>462</b>
<b>Net fee and commission income</b>	<b>3,274</b>	<b>2,729</b>

Information on fee and commission income from transactions with related parties is disclosed in Note 29.

**20 Administrative and Other Operating Expenses**

<i>In millions of Ukrainian hryvnias</i>	<b>Note</b>	<b>2012</b>	<b>2011</b>
Staff costs		3,508	3,540
Rent		627	530
Contributions to Individual Deposits Guarantee Fund		440	330
Depreciation and amortisation of premises, leasehold improvements and equipment and intangible assets	10	378	403
Mail and telecommunication		327	220
Utilities and household expenses		324	284
Maintenance of premises, leasehold improvements and equipment		308	269
Taxes other than on income		151	116
Security		141	126
Advertising and marketing		108	97
Other		546	405
<b>Total administrative and other operating expenses</b>		<b>6,858</b>	<b>6,320</b>

Included in staff costs is unified social contribution of UAH 849 million (31 December 2011: UAH 858 million). Social contributions are made into the State pension fund which is a defined contribution plan.

Information on administrative and other operating expenses from transactions with related parties is disclosed in Note 29.

**21 Income Taxes**

Income tax expense recorded in the profit or loss comprises the following:

<i>In millions of Ukrainian hryvnias</i>	<b>2012</b>	<b>2011</b>
Current tax	281	322
Deferred tax	(188)	(276)
<b>Income tax expense for the year</b>	<b>93</b>	<b>46</b>

In 2012 the income tax rate applicable to the majority of the Group's income was 21% (2011: 23%). The income tax rate applicable to the majority of income of subsidiaries ranges from 15% to 30% (2011: from 15% to 30%). Reconciliation between the expected and the actual taxation charge is provided below.

<i>In millions of Ukrainian hryvnias</i>	<b>2012</b>	<b>2011</b>
<b>Profit before tax</b>	<b>1,532</b>	<b>1,539</b>
Theoretical tax charge at statutory rate (2012: 21%; 2011: 23%)	321	354
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Effect from change of tax rate in Ukraine	(272)	(324)
- Income which is exempt from taxation	(13)	(60)
- Non-deductible expenses	25	30
- Unrecognised deferred tax assets	32	46
<b>Income tax expense for the year</b>	<b>93</b>	<b>46</b>

**21 Income Taxes (Continued)**

On 2 December 2010, the Ukrainian Parliament adopted the new Tax Code. The Tax Code became effective from 1 January 2011, with the Corporate Profits Tax section coming into effect from 1 April 2011. Among the main changes, the Tax Code provides for the significant reduction of the corporate tax rate: 23% for 1 April - 31 December 2011, 21% for 2012, 19% for 2013, and 16% from 2014 onwards. The impact of the change in tax rate presented above represents the effect of applying the reduced tax rates to deferred tax balances at 31 December 2012 and 31 December 2011.

In 2012 the Group reassessed the timing of reversal of some temporary differences recognized as of 31 December 2011 and their later than originally estimated timing of reversal implied that they would reverse at a lower tax rate than previously expected therefore resulting in the decrease of previously recognized deferred tax asset due to declining tax rates. In addition, differences originated in 2012 and taxed or deducted at 21% will be reversed in the future at lower tax rates. The corresponding effect was presented in line "Effect from change of tax rate in Ukraine" in the reconciliation above.

During the year ended 31 December 2012 a deferred tax liabilities of UAH 45 million has been recorded directly in other comprehensive income in respect of the revaluation of the Group's investment securities available-for-sale.

During the year ended 31 December 2011 a deferred tax asset of UAH 75 million has been recorded directly in other comprehensive income in respect of the revaluation of the Group's premises.

Differences between IFRS and statutory taxation regulations in Ukraine and other countries give rise to certain 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:

	31 December 2011	(Charged)/ credited to profit or loss	Credited directly to other compre- hensive income	31 December 2012
<i>In millions of Ukrainian hryvnias</i>				
<b>Tax effect of deductible temporary differences</b>				
Deferral of transaction costs at initial recognition	3	(3)	-	-
Accrued expenses and other liabilities	27	14	-	41
<b>Gross deferred tax asset</b>	<b>30</b>	<b>11</b>	<b>-</b>	<b>41</b>
Less offsetting with deferred tax liability	(44)	(39)	-	(83)
Recognition of deferred tax asset which was previously unrecognised	46	32	-	78
<b>Recognised deferred tax asset</b>	<b>32</b>	<b>4</b>	<b>-</b>	<b>36</b>
<b>Tax effect of taxable temporary differences</b>				
Prepaid expenses and other assets	(79)	(40)	-	(119)
Trading securities and investment securities available-for-sale	(38)	(8)	(45)	(91)
Accrued income	(222)	74	-	(148)
Loan impairment provision	(394)	241	-	(153)
Fair value of derivative financial instruments	(378)	(120)	-	(498)
Premises, leasehold improvements and equipment	(114)	(2)	-	(116)
<b>Gross deferred tax liability</b>	<b>(1,225)</b>	<b>145</b>	<b>(45)</b>	<b>(1,125)</b>
Less offsetting with deferred tax asset	44	39	-	83
<b>Recognised deferred tax liability</b>	<b>(1,181)</b>	<b>184</b>	<b>(45)</b>	<b>(1,042)</b>

**21 Income Taxes (Continued)**

In the context of the Group's current structure and Ukrainian tax legislation, tax losses and current tax assets of different group companies may not be offset against current tax liabilities and taxable profits of other group companies and, accordingly, taxes may accrue even where there is a consolidated tax loss. Therefore, deferred tax assets and liabilities are offset only when they relate to the same taxable entity and the same taxation authority.

	31 December 2010	(Charged)/ credited to profit or loss	Credited directly to other compre- hensive income	31 December 2011
<i>In millions of Ukrainian hryvnias</i>				
<b>Tax effect of deductible temporary differences</b>				
Accrued expenses and other liabilities	64	(37)	-	27
Deferral of transaction costs at initial recognition	10	(7)	-	3
<b>Gross deferred tax asset</b>	<b>74</b>	<b>(44)</b>	<b>-</b>	<b>30</b>
Recognition of deferred tax asset which was previously unrecognised	-	46	-	46
Less offsetting with deferred tax liability	(44)	-	-	(44)
<b>Recognised deferred tax asset</b>	<b>30</b>	<b>2</b>	<b>-</b>	<b>32</b>
<b>Tax effect of taxable temporary differences</b>				
Accrued income	(339)	117	-	(222)
Loan impairment provision	(397)	3	-	(394)
Fair value of derivative financial instruments	(417)	39	-	(378)
Prepaid expenses and other assets	(163)	84	-	(79)
Premises, leasehold improvements and equipment	(145)	(44)	75	(114)
Trading securities and investment securities available-for-sale	(113)	75	-	(38)
<b>Gross deferred tax liability</b>	<b>(1,574)</b>	<b>274</b>	<b>75</b>	<b>(1,225)</b>
Less offsetting with deferred tax asset	44	-	-	44
<b>Recognised deferred tax liability</b>	<b>(1,530)</b>	<b>274</b>	<b>75</b>	<b>(1,181)</b>

**22 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 the CODM are performed by Management Board of the Group.

**22 Segment Analysis (Continued)****(a) Description of products and services from which each reportable segment derives its revenue**

The Group is organised on the basis of four main business segments:

- Retail banking – representing private banking services, private customer current accounts, savings, deposits, investment savings products, custody, credit and debit cards, consumer loans and mortgages, derivative products.
- Corporate banking – representing direct debit facilities, current accounts, deposits, overdrafts, loan and other credit facilities, foreign currency and derivative products.
- Investment banking – representing financial instruments trading, structured financing, corporate leasing, merger and acquisitions advice.
- Treasury – representing interbank loans, deposits, foreign currency exchange operations, arrangement of funding in the international markets, asset and liabilities management, issue of senior bonds and assets backed securities, project financing, negotiation of limits for trade financing with financial institutions.

Transactions between the business segments are on normal commercial terms and conditions. Funds are ordinarily reallocated between segments, resulting in funding cost transfers disclosed in operating income. Interest charged for these funds is based on the Group's cost of capital. There are no other material items of income or expense between the business segments. Segment assets and liabilities comprise operating assets and liabilities, being the majority of the balance sheet, but excluding taxation and head office overheads. Internal charges and transfer pricing adjustments have been reflected in the performance of each business segment.

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

The Group'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.

Segment financial information reviewed by the CODM does not include information of the Group's subsidiaries and head office functional departments. Regular review of these subsidiary banks is delegated to the local management teams. The CODM obtains consolidated financial statements of the Bank's subsidiaries. Management considered that information on subsidiary banks is available less frequently in concluding that segments exclude details of the subsidiaries. Head office functional departments do not earn revenues or earn revenues that are only incidental to the activities of the Group and is not considered by the CODM as an operating segment.

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

The CODM reviews financial information of the Bank prepared based on internal accounting rules adjusted to meet the requirements of NBU accounting rules and before consolidation of subsidiaries. Such financial information differs in certain aspects from International Financial Reporting Standards:

- 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;
- income taxes are not allocated to segments;
- loan loss provisions are recognised based on the statutory accounting rules;
- loans and advances to customers are written-off based on statutory requirements;
- fair value of derivatives are not recognised in statutory accounts;
- managing its open currency position the Group enters into swap transactions that are recognised at cost; and
- consolidation of subsidiaries.

For each business segment the CODM reviews interest income adjusted for intersegment result (net interest on transactions with other segments).

## 22 Segment Analysis (Continued)

**(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:

<i>In millions of Ukrainian hryvnias</i>	<b>Retail banking</b>	<b>Corporate banking</b>	<b>Investment banking</b>	<b>Treasury</b>	<b>Total reportable segments</b>
Cash and cash equivalents and mandatory reserves	5,049	-	-	21,564	26,613
Due from other banks	-	-	-	3,351	3,351
Loans and advances to customers	18,640	94,804	-	-	113,444
Investment securities available-for-sale	-	1	286	-	287
Investment securities held to maturity	-	-	-	240	240
Investment property	-	-	14	-	14
Investment in subsidiaries	-	-	1,179	-	1,179
Intangible assets	8	2	-	1	11
Premises, leasehold improvements and equipment	1,352	317	5	260	1,934
Other financial assets	430	25	10	23,735	24,200
Other assets	48	37	-	1	86
<b>Total reportable segment assets</b>	<b>25,527</b>	<b>95,186</b>	<b>1,494</b>	<b>49,152</b>	<b>171,359</b>
Due to the NBU	-	-	-	4,630	4,630
Due to other banks and other financing institutions	-	-	4	8,212	8,216
Customer accounts	83,882	22,744	301	-	106,927
Debt securities in issue	-	2	-	6,355	6,357
Other financial liabilities	1,936	680	-	23,145	25,761
Other non-financial liabilities	378	11	-	9	398
Subordinated debt	-	-	-	1,226	1,226
<b>Total reportable segment liabilities</b>	<b>86,196</b>	<b>23,437</b>	<b>305</b>	<b>43,577</b>	<b>153,515</b>



**22 Segment Analysis (Continued)**

<i>In millions of Ukrainian hryvnias</i>	<b>Retail banking</b>	<b>Corporate banking</b>	<b>Investment banking</b>	<b>Treasury</b>	<b>Total reportable segments</b>
<b>2012</b>					
External revenues	9,015	12,797	49	446	22,307
Revenues from / (expenses on) other segments	5,230	(7,391)	(172)	2,197	(136)
<b>Total revenues</b>	<b>14,245</b>	<b>5,406</b>	<b>(123)</b>	<b>2,643</b>	<b>22,171</b>
<b>Total revenues comprise:</b>					
- Interest income	9,773	4,635	(172)	2,384	16,620
- Fee and commission income	3,758	715	48	70	4,591
- Other operating income	714	56	1	189	960
<b>Total revenues</b>	<b>14,245</b>	<b>5,406</b>	<b>(123)</b>	<b>2,643</b>	<b>22,171</b>
Interest expense	(7,579)	(998)	(7)	(1,521)	(10,105)
Provision for loan impairment	(1,811)	(3,532)	-	445	(4,898)
Gains less losses/(losses less gains) on derecognition of available-for sale securities	-	-	2	-	2
Fee and commission expense	(338)	-	(16)	(153)	(507)
Gains less losses from trading in foreign currencies	383	167	-	43	593
Administrative and other operating expenses	(2,946)	(730)	(9)	(588)	(4,273)
Depreciation and amortization charge	(162)	(38)	(1)	(31)	(232)
<b>Segment result</b>	<b>1,792</b>	<b>275</b>	<b>(154)</b>	<b>838</b>	<b>2,751</b>

**22 Segment Analysis (Continued)**

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

<i>In millions of Ukrainian hryvnias</i>	<b>Retail banking</b>	<b>Corporate banking</b>	<b>Investment banking</b>	<b>Treasury</b>	<b>Total reportable segments</b>
Cash and cash equivalents and mandatory reserves	2,949	-	-	15,554	18,503
Trading securities	-	-	123	-	123
Due from other banks	-	-	-	4,202	4,202
Loans and advances to customers	17,869	82,952	-	-	100,821
Investment securities available-for-sale	-	-	82	-	82
Investment securities held to maturity	-	-	-	72	72
Investment property	-	-	2	-	2
Investment in subsidiaries	-	-	980	-	980
Intangible assets	6	1	-	1	8
Premises, leasehold improvements and equipment	1,094	248	4	209	1,555
Other financial assets	322	16	12	17,517	17,867
Other assets	64	29	-	2	95
<b>Total reportable segment assets</b>	<b>22,304</b>	<b>83,246</b>	<b>1,203</b>	<b>37,557</b>	<b>144,310</b>
Due to the NBU	-	-	-	5,825	5,825
Due to other banks and other financing institutions	-	-	6	10,095	10,101
Customer accounts	68,868	22,804	503	-	92,175
Debt securities in issue	-	1	-	560	561
Other financial liabilities	353	195	-	17,617	18,165
Other non-financial liabilities	15	7	14	3	39
Subordinated debt	-	-	-	1,226	1,226
<b>Total reportable segment liabilities</b>	<b>69,236</b>	<b>23,007</b>	<b>523</b>	<b>35,326</b>	<b>128,092</b>

**22 Segment Analysis (Continued)**

<i>In millions of Ukrainian hryvnias</i>	<b>Retail banking</b>	<b>Corporate banking</b>	<b>Investment banking</b>	<b>Treasury</b>	<b>Total reportable segments</b>
<b>2011</b>					
External revenues	8,495	13,015	60	398	21,968
Revenues from / (expenses on) other segments	4,443	(6,830)	(135)	2,707	185
<b>Total revenues</b>	<b>12,938</b>	<b>6,185</b>	<b>(75)</b>	<b>3,105</b>	<b>22,153</b>
<b>Total revenues comprise:</b>					
- Interest income	8,737	5,438	(135)	2,932	16,972
- Fee and commission income	3,619	663	59	172	4,513
- Other operating income	582	84	1	1	668
<b>Total revenues</b>	<b>12,938</b>	<b>6,185</b>	<b>(75)</b>	<b>3,105</b>	<b>22,153</b>
Interest expense	(6,263)	(976)	(7)	(1,601)	(8,847)
Provision for loan impairment	(2,080)	(4,200)	-	(29)	(6,309)
Reversal of impairment of securities available-for-sale	-	-	7	-	7
Gains less losses on derecognition of available-for-sale securities	-	-	1	(6)	(5)
Release of provision for credit related commitments	-	52	-	-	52
Fee and commission expense	(294)	-	(19)	(360)	(673)
Losses less gains from trading securities	-	-	38	-	38
Gains less losses from trading in foreign currencies	235	187	-	8	430
Administrative and other operating expenses	(2,669)	(604)	(9)	(526)	(3,808)
Depreciation and amortization charge	(164)	(37)	(1)	(32)	(234)
<b>Segment result</b>	<b>1,703</b>	<b>607</b>	<b>(65)</b>	<b>559</b>	<b>2,804</b>

**Reconciliation of reportable segment revenues, profit or loss, assets and liabilities**

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

<i>In millions of Ukrainian hryvnias</i>	<b>2012</b>	<b>2011</b>
<b>Total revenues for reportable segments</b>	<b>22,171</b>	<b>22,153</b>
(a), (c) Recognition of embedded derivatives and embedded derivatives with expired underlying contracts	225	(846)
(b) Consolidation adjustments	1,811	1,946
(d) Other adjustments	(594)	(358)
(e) Unallocated revenues/(expenses)	136	(186)
<b>Total consolidated revenues</b>	<b>23,749</b>	<b>22,709</b>

**22 Segment Analysis (Continued)**

Reconciliation of reportable profit or loss:

<i>In millions of Ukrainian hryvnias</i>	<b>2012</b>	<b>2011</b>
<b>Total reportable segment result</b>	<b>2,751</b>	<b>2,804</b>
(a), (c) Recognition of embedded derivatives and embedded derivatives with expired underlying contracts	945	(820)
(b) Consolidation adjustments	(924)	23
(d) Other adjustments	382	51
(e) Unallocated expenses less revenues	(956)	(1,236)
(f) (Provision)/release of provision for impairment of loans and advances to customers	(666)	717
<b>Profit before tax</b>	<b>1,532</b>	<b>1,539</b>

Reconciliation of reportable assets:

<i>In millions of Ukrainian hryvnias</i>	<b>2012</b>	<b>2011</b>
<b>Total reportable segment assets</b>	<b>171,359</b>	<b>144,310</b>
(a), (c) Recognition of embedded derivatives and embedded derivatives with expired underlying contracts	2,656	1,631
(b) Consolidation adjustments	16,642	10,582
(d) Other adjustments	(2,055)	(943)
(e) Unallocated assets	594	566
(f) Release of provision for impairment of loans and advances to customers	1,341	2,706
(g) Swap and spot operations at fair value	(24,300)	(17,921)
<b>Total consolidated assets</b>	<b>166,237</b>	<b>140,931</b>

Reconciliation of reportable liabilities:

<i>In millions of Ukrainian hryvnias</i>	<b>2012</b>	<b>2011</b>
<b>Total reportable segment liabilities</b>	<b>153,515</b>	<b>128,092</b>
(b) Consolidation adjustments	16,469	10,764
(d) Other adjustments	(2,163)	(400)
(e) Unallocated liabilities	137	40
(g) Swap and spot operations at fair value	(24,298)	(17,921)
(i) Deferred income tax liability	1,172	1,171
<b>Total consolidated liabilities</b>	<b>144,832</b>	<b>121,746</b>

**22 Segment Analysis (Continued)**

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

	Interest income	Fee and commission income	Gains less losses from embedded and financial derivatives
<i>In millions of Ukrainian hryvnias</i>			
<b>Total amount for all reportable segment</b>	<b>16,620</b>	<b>4,591</b>	<b>-</b>
(a), (c) Recognition of embedded derivatives and embedded derivatives with expired underlying contracts	225	-	717
(b) Consolidation adjustments	1,300	603	-
(d) Other adjustments	(136)	(615)	-
(e) Unallocated revenues	136	-	-
(h) Reclassifications	1,573	(709)	-
<b>As reported under IFRS</b>	<b>19,718</b>	<b>3,870</b>	<b>717</b>

Reconciliation of material items of expense for the year ended 31 December 2012 is as follows:

	Interest expense	Provision for Administrative and other impairment of loans and advances to customers	operating expenses
<i>In millions of Ukrainian hryvnias</i>			
<b>Total amount for all reportable segment</b>	<b>(10,105)</b>	<b>(4,898)</b>	<b>(4,505)</b>
(b) Consolidation adjustments	(721)	(895)	(1,267)
(d) Other adjustments	(16)	-	(23)
(e) Unallocated expenses	-	-	(1,091)
(f) (Provision)/release of provision for impairment	-	(582)	28
(h) Reclassifications	62	923	-
<b>As reported under IFRS</b>	<b>(10,780)</b>	<b>(5,452)</b>	<b>(6,858)</b>

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

	Interest income	Fee and commission income	Gains less losses from embedded derivatives
<i>In millions of Ukrainian hryvnias</i>			
<b>Total amount for all reportable segment</b>	<b>16,972</b>	<b>4,513</b>	<b>-</b>
(a), (c) Recognition of embedded derivatives and embedded derivatives with expired underlying contracts	(846)	-	27
(b) Consolidation adjustments	1,343	522	-
(d) Other adjustments	719	(945)	-
(e) Unallocated expenses	(186)	-	-
(h) Reclassifications	1,406	(899)	-
<b>As reported under IFRS</b>	<b>19,408</b>	<b>3,191</b>	<b>27</b>

**22 Segment Analysis (Continued)**

Reconciliation of material items of expense for the year ended 31 December 2011 is as follows:

<i>In millions of Ukrainian hryvnias</i>	Interest expense	Provision for impairment of loans and advances to customers	Administrative and other operating expenses
<b>Total amount for all reportable segment</b>	<b>(8,847)</b>	<b>(6,309)</b>	<b>(4,042)</b>
(b) Consolidation adjustments	(614)	(406)	(1,270)
(d) Other adjustments	132	106	(5)
(e) Unallocated expenses	-	-	(1,050)
(f) Release of provision for impairment	-	574	40
(h) Reclassifications	-	408	7
<b>As reported under IFRS</b>	<b>(9,329)</b>	<b>(5,627)</b>	<b>(6,320)</b>

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

<i>In millions of Ukrainian hryvnias</i>	Cash and cash equivalents and mandatory reserves	Due from other banks	Loans and advances to customers	Embedded derivatives	Other financial assets
<b>Total amount for all reportable segment</b>	<b>26,613</b>	<b>3,351</b>	<b>113,444</b>	<b>-</b>	<b>24,200</b>
(a) Recognition of embedded derivatives	-	-	(216)	2,750	-
(b) Consolidation adjustments	8,983	325	6,092	-	106
(d) Other adjustments	(843)	317	(479)	-	2
(f) Release of provision for impairment	50	64	1,210	-	13
(g) Swap and spot operations at fair value	-	(733)	-	-	(23,567)
(h) Reclassifications	(5,703)	5,221	(634)	-	(78)
(c) Recognition of embedded derivatives with expired underlying contracts	-	-	-	-	123
<b>As reported under IFRS</b>	<b>29,100</b>	<b>8,545</b>	<b>119,417</b>	<b>2,750</b>	<b>799</b>

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

<i>In millions of Ukrainian hryvnias</i>	Due to other banks and other financing institutions	Customer accounts	Debt securities in issue	Provisions for liabilities and charges, other financial and non-financial liabilities	Subordinated debt
<b>Total amount for all reportable segment</b>	<b>8,216</b>	<b>106,927</b>	<b>6,357</b>	<b>26,159</b>	<b>1,226</b>
(b) Consolidation adjustments	(2,132)	18,713	173	(360)	204
(d) Other adjustments	(14)	(138)	(13)	(731)	(3)
(g) Swap and spot operations at fair value	(738)	-	-	(23,560)	-
(h) Reclassifications	(1,639)	(928)	1,639	(263)	-
<b>As reported under IFRS</b>	<b>3,693</b>	<b>124,574</b>	<b>8,156</b>	<b>1,245</b>	<b>1,427</b>

**22 Segment Analysis (Continued)**

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

<i>In millions of Ukrainian hryvnias</i>	<b>Cash and cash equivalents and mandatory reserves</b>	<b>Due from other banks</b>	<b>Loans and advances to customers</b>	<b>Embedded derivatives</b>	<b>Other financial assets</b>
<b>Total amount for all reportable segment</b>	<b>18,503</b>	<b>4,202</b>	<b>100,821</b>	<b>-</b>	<b>17,867</b>
(a) Recognition of embedded derivatives	-	-	(387)	1,484	-
(b) Consolidation adjustments	4,076	772	4,285	-	122
(d) Other adjustments	(658)	-	(202)	-	(115)
(f) Release of provision for impairment	235	309	1,852	-	308
(g) Swap and spot operations at fair value	-	(521)	-	-	(17,400)
(h) Reclassifications	(793)	(114)	1,061	-	(173)
(c) Recognition of embedded derivatives with expired underlying contracts	-	-	-	-	535
<b>As reported under IFRS</b>	<b>21,363</b>	<b>4,648</b>	<b>107,430</b>	<b>1,484</b>	<b>1,144</b>

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

<i>In millions of Ukrainian hryvnias</i>	<b>Due to other banks and other financing institutions</b>	<b>Customer accounts</b>	<b>Debt securities in issue</b>	<b>Provisions for liabilities and charges, other financial and non-financial liabilities</b>	<b>Subordinated debt</b>
<b>Total amount for all reportable segment</b>	<b>10,101</b>	<b>92,175</b>	<b>561</b>	<b>18,204</b>	<b>1,226</b>
(b) Consolidation adjustments	(1,332)	12,233	(706)	343	197
(d) Other adjustments	(28)	(530)	(17)	179	(5)
(g) Swap and spot operations at fair value	(526)	-	-	(17,395)	-
(h) Reclassifications	(5,762)	331	5,762	(331)	-
<b>As reported under IFRS</b>	<b>2,453</b>	<b>104,209</b>	<b>5,600</b>	<b>1,000</b>	<b>1,418</b>

The reconciling items are attributable to the following:

(a), (c) – Embedded derivatives and embedded derivatives with expired underlying contract are accounted for at fair value for IFRS purposes. In statutory accounts results from operations with embedded derivatives and embedded derivatives with expired underlying contract are accounted for when cash is received within interest income.

(b) – Segment reporting is prepared before consolidation of subsidiaries.

(e) – Unallocated balances, revenues and results represent amounts which relate to activities of head office functional departments and are not included in the reportable segments.

(f) – Adjustments of provisions for impairment are related to the difference between the methodology applied to calculate provisions for loan impairment under the NBU accounting rules used for preparation of management reporting and the methodology used for IFRS reporting. The provision under the NBU accounting rules is calculated based mainly on formal criteria depending on the financial position of the borrower, quality of debt service and collateral, whereas the provision under IFRS requirement is calculated based on incurred loss model.

**22 Segment Analysis (Continued)**

(g) – The Bank presented swap and spot operations on gross basis in its segment reporting prepared in accordance with the NBU rules.

(h) – Reclassifications are done based on the economic substance of transactions. The Bank presented debt securities issued separately in IFRS financial statements.

(i) – In Segment reporting the CODM doesn't analyse taxation.

The Bank does not analyze the capital expenditure, current and deferred income tax in segment reporting.

**(e) Analysis of revenues by products and services**

The Group's revenues are analysed by products and services in Notes 18 (interest income), Note 19 (fee and commission income).

**(f) Geographical information**

Revenues for each individual country for which the revenues are material are reported separately as follows:

<i>In millions of Ukrainian hryvnias</i>	<b>2012</b>	<b>2011</b>
Ukraine	20,783	20,747
Other countries	2,966	1,962
<b>Total consolidated revenues</b>	<b>23,749</b>	<b>22,709</b>

The analysis is based on domicile of the customer. Revenues from off-shore companies of Ukrainian customers are reported as revenues from Ukraine. Revenues comprise interest income, fee and commission income and other operating income.

**(g) Major customers**

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

**23 Financial Risk Management**

The risk management function within the Group is carried out 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.

**Risk Management Bodies**

Risk management policy, monitoring and control are conducted by a number of bodies of the Group under the supervision of the credit committee (the "Credit Committee"). Other bodies responsible for risk management within the Group include the Treasury, Risk- Management Division, Internal Control and Fraud-Management Division, the Finance and Risk Division including the Financial Risks Department. The Group also has a system of internal controls which is supervised and monitored by its Internal Audit Department and Financial Monitoring Department.



**23 Financial Risk Management (Continued)*****Credit Committee***

The Credit Committee, which is composed of the Chairman of the Bank, its Deputies, the Head of the Dnipropetrovsk regional branch, the Head of the Finance and Risk Division, Head of Risk-Management Division, Head of Internal Control and Fraud-Management Division, meets bi-weekly and is responsible for setting credit policy, approving loans over the prescribed lending limits and the limits for counterparty banks, monitoring loan performance and the quality of the Group's loan portfolio and reviewing large loan projects and the lending policies of the Bank's branches. The Credit Committee also monitors the interest rates set for a range of currencies by the Group's main competitors and the overall market situation and determines the Group's pricing policy on the basis of the above. In addition, due to the importance of liquidity risk management, the Credit Committee is also responsible for preparing and formulating management decisions with regard to increasing the Group's funding base.

***Treasury***

Day-to-day asset and liability management is done by the Treasury. The Treasury is responsible for overseeing the Group's assets and liabilities and liquidity and interest rate sensitivity analysis based on instructions and guidelines from the Financial Risks Department and its own assessments. The Treasury is responsible for the operational aspects of asset and liability management.

***Financial Risks Department***

The Financial Risks Department calculates and monitors the Bank's compliance with the mandatory ratios set by the NBU, the requirement to maintain mandatory reserves on the Bank's correspondent account with the NBU and its internal liquidity ratios (in accordance with the Bank's internal Methodology for Liquidity Risk Assessment and Control). In carrying out these functions, the Financial Risks Department works with the Treasury, its back office, and depositary and credit service officers of the head office business divisions and the Credit Committee.

In order to monitor and control liquidity within the Bank and its branches and sub-branches, the Financial Risks Department prepares daily reports on the maximum liquidity gap by matching assets and liabilities with different maturities and currencies as well as providing daily forecasts of the Group's balances on its correspondent account with the NBU to ensure the Bank's compliance with the mandatory reserve requirement and with the instant, current and short-term liquidity ratios set by the NBU. The liquidity reports are maintained in an electronic database that is accessible by the Treasury and is used for purposes of liquidity management. In addition, the Financial Risks Department prepares guidelines for head office business divisions seeking to raise long-term funds and/or reviews decisions of the Credit Committee on the implementation of programmes to increase the Bank's funding base in order to ensure that the Group's short- and long-term liquidity requirements are met.

***Risk-Management Division***

The Risk-Management Division analyses the creditworthiness of counterparty banks, calculates provisions for the Group's active operations and limits for counterparty banks, monitors problem assets in the loan portfolio under credit programs, monitors compliance with interbank transaction limits, sets the lending authority limits of branch and sub-branch heads. It also determines the strategy and basic methodological approaches in the Group's risk management system and oversees its compliance with the requirements established by the NBU as well as the Group's internal guidelines.

**23 Financial Risk Management (Continued)*****Internal Control and Fraud-Management Division***

The Internal Control and Fraud-Management Division reviews and checks the results of work performed by the divisions of the Group and assists in formulating management decisions on enhancing transactional security and reducing risk based on data derived from this verification process. In particular, the Internal Control and Fraud-Management Division develops methodologies for detecting suspicious and fraudulent transactions and for reducing errors in statistical analysis of data from the Group's accounting software and other sources, and verifies risk assumptions based on the results of such analyses.

**Credit risk.** The Group 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 Group's lending and other transactions with counterparties giving rise to financial assets.

The Group's maximum exposure to credit risk is reflected in the carrying amounts of financial assets on the consolidated 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 25. The credit risk is mitigated by collateral and other credit enhancements.

The Group 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.

The general principles of the Group's credit policy are outlined in the formal Group's Credit Policy. The formal and unified Group's Credit Manual regulates every significant aspect of the lending operations of the Group and outlines procedures for analysing the financial position of borrowers and the valuation of any proposed collateral and specifies the requirements for loan documentation and the procedures for the monitoring of loans.

The Group has collateral policy based on a thorough review and assessment of the value of collateral. A substantial portion of the Group's loan portfolio generally includes acceleration clauses in case of deterioration of the financial position of the borrower. Credit products are, except in very unusual circumstances, only made available to customers that hold accounts with the Group. This policy provides the dual benefits of additional security for the credit products and additional business for the Group in other areas of corporate banking services.

The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to a single borrower, or groups of affiliated borrowers. Such risks are monitored on a revolving basis and subject to an annual or more frequent review. Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and principal payment obligations and by changing the lending limits where appropriate. Exposure to credit risk is also managed, in part, by obtaining collateral and corporate and personal guarantees.

Basic information on the level of credit risk, including reports on the loan portfolio and the volume of problem assets broken down by credit programme and manager, is posted on the Group's internal website. This information is updated weekly and can be viewed both as of the current date and over a period of time. There are specific sections of the Group's website dedicated to problem assets for both corporate and retail clients and the portfolio of corporate loans.

Credit Committee on a monthly basis reviews the effectiveness of the credit policies for each business division and analysis information on the levels of non-performing loans.

***Loan Approval Procedure***

The lending policies and credit approval procedures of the Group are based on strict guidelines in accordance with the NBU regulations. The Group also has detailed regulations for collateral assessment, which is conducted by Group's trained specialists on collateral.

## **23 Financial Risk Management (Continued)**

The Bank sets lending authority limits to limit risks to the Group arising from lending activities. Lending authority limits for senior managers of branches (comprising heads of branches, general and first deputy heads) are set twice per year by Risk-Management Division in the head office and approved by an order of the Bank together with proxies authorizing the relevant heads to make lending decisions. The lending authority limit of a branch or sub-branch head depends on the amount of own funds of a branch or subbranch, overall rating of a branch or sub-branch and its integrated lending activity efficiency rating.

Lending authority limits for junior managers (heads of departments and divisions) are set by the head of the relevant branch or sub-branch and apply to a particular individual.

If the amount of a proposed loan does not exceed the lending authority limit of a head of a branch or subbranch, the decision on granting the loan is taken by the credit committee of a branch. If the amount exceeds this limit, lending authority is granted from the head office in accordance with the Bank's credit procedures.

### *Off-Balance Sheet Policy*

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 Group uses the same credit policies in respect of conditional obligations as it does for financial instruments accounted for in the consolidated statement of financial position, which include credit approval procedures, risk control limits and monitoring procedures.

### *Loan Monitoring*

The Group's IT systems allow the Management monitoring of loans' performance on-line.

The Group reassesses the credit risk on each loan on an ongoing basis by (i) monitoring the financial and market position of the borrower and (ii) assessing the sufficiency of collateral for the loan. The financial and market position of the borrower is regularly reviewed and, on the basis of such review, the internal credit rating of the borrower may be revised. The review is based on the flow of funds into the customer's accounts, its most recent consolidated financial statements and other business and financial information submitted by the borrower or otherwise obtained by the Group.

The current market value of collateral is monitored regularly to assess its sufficiency with respect to the loan in question. The review of collateral is performed by independent appraisal companies. The frequency of such reviews depends on the security provided and the degree of volatility of the asset's market price.

Problem loans are identified on a daily basis based on signs of debt servicing deterioration. The Group carries out analyses of problem loans by collecting information about such loans, investigating the causes of problems and working out measures for their early redemption. On the basis of the findings of such analyses, a report is submitted to the Bank's Board regarding the problem loans in the Group's loan portfolio and the level of acceptable credit risk. To improve the quality of the loan portfolio, the Group applies a policy of on-line blocking the ability of a sub-branch or manager responsible for a particular lending programme to grant further loans if the percentage of non-performing loans issued by a particular sub-branch or manager exceeds the maximum permitted level of problem assets until this level decreases.

Management maintains individual records of significant number of Ukrainian retail customers, which constitutes the largest credit history bureau in Ukraine, allowing the Group to mitigate credit risks by targeting borrowers, who have a good credit history.

### *Problem Loan Recovery*

The Credit Committee has developed a systematic approach involving a comprehensive set of procedures intended to enable the Group to realise high possible level of repayment on nonperforming loans.

**23 Financial Risk Management (Continued)**

If a borrower does not perform its obligations under a loan agreement, it is the responsibility of the relevant credit officer to take initial actions to determine whether the cause of late payments is administrative or credit-related in nature. At this stage, the officers loan inspectors contact the borrower, request repayment and check the availability of any collateral. The loan inspector calls borrowers to remind them of their repayment obligation several days before the scheduled repayment date, and after such date to demand repayment (during day-time and night-time). If such measures do not result in the repayment of the loan and the non-performance exceeds 90 days, the loan is classified as a "problem loan". The Risk-Management Division, which is able to identify all problem loans in the Group, issues a banking order each month to transfer problem loans from the relevant credit unit's books to a specialised unit within Security Division (the "Security Service").

The Security Service is responsible for all loans issued by the Group classified as "problem loans", excluding loans where the total debt amounts to less than UAH 1,000 (which continue to be processed by the monitoring unit). The Security Service obtains and reviews all documentation relating to the borrower, performs an official internal investigation to identify the reasons for the problem, draws up a plan of action for the repayment of the debt and reviews the collateral (which may entail organising protection). In a number of enforcement actions the Group initiates court proceedings. The Security Service will often engage in negotiations with the borrower over a problem loan either concurrently with, or prior to, initiating court proceedings the collateral for sale at auction, to attach the borrower's account(s) with another bank or to take possession of property under a mortgage or transport facilities. If collateral is available, and upon satisfactory results of an analysis of whether the borrower is undergoing purely temporary business difficulties and of that borrower's willingness and capacity to repay its debt, negotiations usually aim at debt restructuring and include requirements to obtain additional collateral, personal guarantees by shareholders and management, increased interest rates and revised repayment schedules.

Other legal actions available to the Group include executive proceedings for the enforcement of debt and bankruptcy proceedings. In the event of any criminal action on the part of the borrower, irrespective of the borrower's readiness to repay its debt, the Group involves the relevant state authorities. The Credit Committee meets monthly to review the status of non-performing loans.

The Group maintains a policy that problem loans are not refinanced without convincing evidence that they will be repaid or reliably secured.

*Related Party Lending*

The Group conducts its business with related parties on a commercial basis. Each loan request from a related party is subject to the same credit approval procedures as are applied to any other loan applicant.

**Market risk.** The Group 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.** Currency risk is the risk that the value of financial instruments owned by the Group will fluctuate due to changes in foreign exchange rates. The Group's major currency positions are in Ukrainian hryvnia, U.S. dollars and Euros. 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.

The Group's policy in respect of open currency positions is restricted under Ukrainian law to certain thresholds and strictly monitored by the NBU on a daily basis. In order to hedge its currency risk, the Group enters into arrangements with other banks pursuant to which the Group makes term deposits with other banks and accepts term deposits for the same term from the same counterparty banks in a different currency.

The Group also enters into currency options in the Group's loan agreements with some customers requiring the customers to pay compensation in case of depreciation of the Ukrainian hryvnia relative to the U.S. dollar. Refer to Note 26.

**23 Financial Risk Management (Continued)**

The table below summarises the Group's exposure to foreign currency exchange rate risk at the end of the reporting period and position in Ukrainian hryvnias:

<i>In millions of Ukrainian hryvnias</i>	<b>At 31 December 2012</b>				<b>At 31 December 2011</b>			
	<b>Monetary financial assets</b>	<b>Monetary financial liabilities</b>	<b>Swaps, spots and forwards</b>	<b>Net balance sheet position</b>	<b>Monetary financial assets</b>	<b>Monetary financial liabilities</b>	<b>Swaps, spots and forwards</b>	<b>Net balance sheet position</b>
Ukrainian hryvnias	100,105	61,050	(3,044)	36,011	81,625	52,837	180	28,968
US Dollars	45,444	56,174	(7,189)	(17,919)	44,586	45,735	(11,541)	(12,690)
Euros	7,947	15,994	7,406	(641)	3,932	14,955	10,517	(506)
Other	7,853	9,968	2,747	632	6,658	6,376	806	1,088
<b>Total</b>	<b>161,349</b>	<b>143,186</b>	<b>(80)</b>	<b>18,083</b>	<b>136,801</b>	<b>119,903</b>	<b>(38)</b>	<b>16,860</b>

Fair value of option derivative embedded in loans and advances to customers (refer to Note 26) was included in the table above together with host instruments into UAH denominated financial assets. 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.

Derivatives presented above are monetary financial assets or monetary financial liabilities, but are presented separately in order to show the Group's gross exposure.

Amounts disclosed in respect of derivatives represent the fair value, at the end of the reporting period, of the respective currency that the Group agreed to buy (positive amount) or sell (negative amount) before netting of positions and payments with the counterparty. The amounts by currency are presented gross as stated in Note 26. The net total represents the fair value of the currency derivatives.

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

<i>In millions of Ukrainian hryvnias</i>	<b>At 31 December 2012</b>		<b>At 31 December 2011</b>	
	<b>Impact on profit or loss</b>	<b>Impact on equity</b>	<b>Impact on profit or loss</b>	<b>Impact on equity</b>
US Dollar strengthening by 5% (2011: strengthening by 5%)	249	249	326	326
US Dollar weakening by 5% (2011: weakening by 5%)	787	787	1,046	1,046
Euro strengthening by 5% (2011: strengthening by 5%)	(32)	(32)	(25)	(25)
Euro weakening by 5% (2011: weakening by 5%)	32	32	25	25
Other strengthening by 5% (2011: strengthening by 5%)	32	32	54	54
Other weakening by 5% (2011: weakening by 5%)	(32)	(32)	(54)	(54)

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

**Interest rate risk.** The Group 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.

### 23 Financial Risk Management (Continued)

The Group is exposed to interest rate risk, principally as a result of lending at fixed interest rates, in amounts and for periods, which differ from those of term borrowings at fixed interest rates. In practice, interest rates are generally fixed on a short-term basis. Also, interest rates that are contractually fixed on both assets and liabilities could be revised to reflect current market conditions.

The Board sets limits on the level of mismatch of interest rates on assets and liabilities sensitive to interest rates, which is monitored regularly. In the absence of any available hedging instruments, the Group normally seeks to match its interest rate positions.

The Finance and Risk Division and the Credit Committee are both responsible for interest rate risk management. The Finance and Risk Division establishes the principal policies and approaches to interest rate risk management and the Credit Committee conducts weekly monitoring and revision of interest rates for various currencies within certain time limits and product categories. The Group regularly monitors interest rate risk by means of interest rate gap analysis, which is based on ordering assets and liabilities sensitive to interest rates into a number of time bands. Fixed interest rate assets and liabilities are arranged by the time remaining until maturity, while assets and liabilities with a variable interest rate are arranged by the nearest possible term of repricing. The net sensitivity gap between assets and liabilities in a given time band represents the volume sensitive to changes of market interest rates. The product of this difference and the presumed change of interest rates represents the approximate changes of net interest income. A negative net sensitivity gap in a given time band, which means that interest-bearing liabilities exceed interest-earning assets in that time band, represents a risk of a decline in net interest income in the event of increases in market interest rates. A positive net sensitivity gap in a given time band, which means that interest-bearing assets exceed interest-earning liabilities in that time band, represent a risk of a decline in net interest income in the event of a decline in market interest rates.

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

<i>In millions of Ukrainian hryvnias</i>	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	More than 1 year	Non- monetary	Total
<b>31 December 2012</b>						
Total financial assets	40,935	13,713	73,213	33,506	298	161,665
Total financial liabilities	48,732	22,298	53,114	19,140	-	143,284
<b>Net interest sensitivity gap at 31 December 2012</b>	<b>(7,797)</b>	<b>(8,585)</b>	<b>20,099</b>	<b>14,366</b>	<b>298</b>	<b>18,381</b>
<b>31 December 2011</b>						
Total financial assets	31,994	18,532	63,998	22,342	7	136,873
Total financial liabilities	27,992	28,490	47,853	15,671	-	120,006
<b>Net interest sensitivity gap at 31 December 2011</b>	<b>4,002</b>	<b>(9,958)</b>	<b>16,145</b>	<b>6,671</b>	<b>7</b>	<b>16,867</b>

All of the Group's debt instruments reprice within 5 years.

At 31 December 2012, if interest rates at that date had been 200 basis points lower (2011: 200 basis points lower) with all other variables held constant, profit for the year would have been UAH 137 million (2011: UAH 137 million) higher, mainly as a result of lower interest expense on variable interest liabilities.

If interest rates had been 200 basis points higher (2011: 200 basis points higher), with all other variables held constant, profit would have been UAH 137 million (2011: UAH 137 million) lower, mainly as a result of higher interest expense on variable interest liabilities.

**23 Financial Risk Management (Continued)**

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

<i>In % p.a.</i>	2012				2011			
	USD	UAH	Euro	Other	USD	UAH	Euro	Other
<b>Assets</b>								
Correspondent accounts and overnight deposits with other banks	0	0	-	-	0	0	0	1
Correspondent accounts with NBU, Central Bank of Russian Federation and Central Bank of Latvia, Central Bank of Cyprus and Central Bank of Georgia	-	1	1	0	-	2	1	-
Due from other banks	6	0	7	0	4	0	3	1
Loans and advances to legal entities	11	11	9	4	11	12	11	5
Loans and advances to individuals	15	28	7	31	15	28	9	32
Debt investment securities held to maturity	9	-	-	7	8	-	-	2
<b>Liabilities</b>								
Due to the NBU	-	10	-	-	-	10	-	-
Correspondent accounts and overnight deposits of other banks	4	4	3	0	4	7	0	0
Term placements of other banks	3	17	2	6	9	-	8	10
Long-term loans under the credit lines from international financial institutions	7	-	-	-	-	-	4	-
Customer accounts								
- current accounts of customers	4	4	2	0	4	5	2	0
- term deposits of legal entities	9	8	6	6	7	4	7	5
- term deposits of individuals	9	17	7	9	8	14	7	8
Debt securities in issue	9	13	-	-	8	13	3	-
Subordinated debt	6	-	6	1	6	-	-	1
Other financial liabilities	9	-	-	-	11	-	-	-

The sign “-” in the table above means that the Group does not have the respective assets or liabilities in the corresponding currency.

The Group is exposed to prepayment risk through providing fixed or variable rate loans, including mortgages, which give the borrower the right to early repay the loans. The Group’s current year profit and equity at the end of the 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.

**23 Financial Risk Management (Continued)**

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

<i>In millions of Ukrainian hryvnias</i>	<b>Ukraine</b>	<b>OECD</b>	<b>Non OECD</b>	<b>Total</b>
<b>Assets</b>				
Cash and cash equivalents and mandatory reserves	8,529	15,052	5,519	29,100
Due from other banks	638	7,676	231	8,545
Loans and advances to customers	105,117	1,002	13,298	119,417
Embedded derivatives	2,750	-	-	2,750
Investment securities available-for-sale	7	352	503	862
Investment securities held to maturity	167	-	25	192
Other financial assets	499	56	244	799
<b>Total financial assets</b>	<b>117,707</b>	<b>24,138</b>	<b>19,820</b>	<b>161,665</b>
<b>Non-financial assets</b>	<b>3,520</b>	<b>6</b>	<b>1,046</b>	<b>4,572</b>
<b>Total assets</b>	<b>121,227</b>	<b>24,144</b>	<b>20,866</b>	<b>166,237</b>
<b>Liabilities</b>				
Due to the NBU	4,630	-	-	4,630
Due to other banks and other financing institutions	1,170	1,915	608	3,693
Customer accounts	97,509	5,760	21,305	124,574
Debt securities in issue	2	1,799	6,355	8,156
Other financial liabilities	371	66	367	804
Subordinated debt	34	1,222	171	1,427
<b>Total financial liabilities</b>	<b>103,716</b>	<b>10,762</b>	<b>28,806</b>	<b>143,284</b>
<b>Non-financial liabilities</b>	<b>1,438</b>	<b>2</b>	<b>108</b>	<b>1,548</b>
<b>Total liabilities</b>	<b>105,154</b>	<b>10,764</b>	<b>28,914</b>	<b>144,832</b>
<b>Net balance sheet position</b>	<b>16,073</b>	<b>13,380</b>	<b>(8,048)</b>	<b>21,405</b>
<b>Credit related commitments (Note 25)</b>	<b>684</b>	<b>61</b>	<b>845</b>	<b>1,590</b>

Assets, liabilities and credit related commitments have been 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, precious metals and premises and equipment have been allocated based on the country in which they are physically held.



**23 Financial Risk Management (Continued)**

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

<i>In millions of Ukrainian hryvnias</i>	<b>Ukraine</b>	<b>OECD</b>	<b>Non OECD</b>	<b>Total</b>
<b>Assets</b>				
Cash and cash equivalents and mandatory reserves	5,406	12,113	3,844	21,363
Due from other banks	304	4,104	240	4,648
Loans and advances to customers	93,121	1,251	13,058	107,430
Embedded derivatives	1,484	-	-	1,484
Investment securities available-for-sale	7	73	700	780
Investment securities held to maturity	-	-	24	24
Other financial assets	928	57	159	1,144
<b>Total financial assets</b>	<b>101,250</b>	<b>17,598</b>	<b>18,025</b>	<b>136,873</b>
<b>Non-financial assets</b>	<b>3,147</b>	<b>25</b>	<b>886</b>	<b>4,058</b>
<b>Total assets</b>	<b>104,397</b>	<b>17,623</b>	<b>18,911</b>	<b>140,931</b>
<b>Liabilities</b>				
Due to the NBU	5,825	-	-	5,825
Due to other banks and other financing institutions	316	1,725	412	2,453
Customer accounts	82,080	1,326	20,803	104,209
Debt securities in issue	73	5,527	-	5,600
Other financial liabilities	178	39	284	501
Subordinated debt	17	1,221	180	1,418
<b>Total financial liabilities</b>	<b>88,489</b>	<b>9,838</b>	<b>21,679</b>	<b>120,006</b>
<b>Non-financial liabilities</b>	<b>1,619</b>	<b>1</b>	<b>120</b>	<b>1,740</b>
<b>Total liabilities</b>	<b>90,108</b>	<b>9,839</b>	<b>21,799</b>	<b>121,746</b>
<b>Net balance sheet position</b>	<b>14,289</b>	<b>7,784</b>	<b>(2,888)</b>	<b>19,185</b>
<b>Credit related commitments (Note 25)</b>	<b>1,028</b>	<b>15</b>	<b>735</b>	<b>1,778</b>

**Other risk concentrations.** Management monitors and discloses concentrations of credit risk by obtaining reports listing exposures to borrowers with aggregated loan balances in excess of 10% of net assets. Refer to Notes 8 and 9.

**Liquidity risk.** Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Group 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 Group 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 Treasury Department of the Group.

**23 Financial Risk Management (Continued)**

The Group has developed specific approaches to liquidity issues based on medium-term (i.e., three to twelve months), short-term (i.e., two to fifteen weeks) and current (i.e., up to fourteen days) time periods. With respect to medium-term liquidity, the Treasury, in co-ordination with the Financial Risks Department, performs an analysis of the Group's payments calendar over this period and considers contingency options available to the Group in the event that unfavourable developments or crisis situations occur.

Decisions on short-term liquidity management are taken by the Treasury. These decisions are based on an analysis of the volatility of various assets and liabilities. Estimates are made after application of internally developed models as to the volume and likelihood of unexpected withdrawals of funds and the probability that additional funding might be required. In order to minimise unanticipated changes in funding, the Group separately analyses the possible consequences of the withdrawal of a large amount of funds by major customers. Client managers and senior Group management work closely with major customers to coordinate plans with regard to movement of funds.

Decisions with respect to current liquidity management are taken by the head of Treasury. Reports on actions taken are made to the Credit Committee. The Group's payments calendar for each upcoming 14-day period is analysed, and decisions taken on the attraction of short-term interbank deposits, the immediate sale of securities from the Treasury portfolio, and other facilities available to the Group. The Treasury implements decisions on a real-time basis.

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

The liquidity management of the Group 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 92% at 31 December 2012 (2011: 63%) with the minimum required limit of 20% (2011: 20%).
- Current liquidity ratio (N5), which is calculated as the ratio of liquid assets to liabilities maturing within 31 calendar days. The ratio was 85% at 31 December 2012 (2011: 77%) with the minimum required limit of 40% (2011: 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 122% at 31 December 2012 (2011: 124%) with the minimum required limit of 60% (2011: 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 short-term liquid trading securities, deposits with banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Group as a whole.

The daily liquidity position is monitored and regular liquidity stress testing under a variety of scenarios covering both normal and more severe market conditions is performed by the Treasury Department.

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 finance lease obligations (before deducting future finance charges), prices specified in deliverable forward agreements to purchase financial assets for cash, contractual amounts to be exchanged under gross settled currency swaps, and gross loan commitments. Such undiscounted cash flows differ from the amount included in the statement of financial position because amounts disclosed in consolidated statement of financial position are based on discounted cash flows.

**23 Financial Risk Management (Continued)**

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

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

<i>In millions of Ukrainian hryvnias</i>	<b>Demand and less than 1 month</b>	<b>From 1 to 3 months</b>	<b>From 3 to 12 months</b>	<b>From 12 months to 5 years</b>	<b>Over 5 years</b>	<b>Total</b>
<b>Liabilities</b>						
Due to the NBU	137	262	1,157	3,988	-	5,544
Due to other banks and other financing institutions	1,701	496	584	1,247	133	4,161
Customer accounts	46,777	22,136	52,376	8,484	111	129,884
Debt securities in issue	94	178	691	9,435	50	10,448
Subordinated debt	5	40	55	1,262	439	1,801
Other financial liabilities	668	2	8	43	339	1,060
Gross settled swaps, spots and forwards	35,445	-	-	-	-	35,445
<b>Total contractual future payments for financial obligations</b>	<b>84,827</b>	<b>23,114</b>	<b>54,871</b>	<b>24,459</b>	<b>1,072</b>	<b>188,343</b>
<b>Credit related commitments, gross (Note 25)</b>	<b>1,815</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,815</b>

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

<i>In millions of Ukrainian hryvnias</i>	<b>Demand and less than 1 month</b>	<b>From 1 to 3 months</b>	<b>From 3 to 12 months</b>	<b>From 12 months to 5 years</b>	<b>Over 5 years</b>	<b>Total</b>
<b>Liabilities</b>						
Due to the NBU	172	338	1,468	4,957	-	6,935
Due to other banks and other financing institutions	951	126	958	986	152	3,173
Customer accounts	27,469	25,065	46,660	8,953	124	108,271
Debt securities in issue	-	3,833	381	1,928	50	6,192
Subordinated debt	9	46	81	1,680	-	1,816
Other financial liabilities	300	6	23	43	360	732
Gross settled swaps, spots and forwards	19,861	-	-	-	-	19,861
<b>Total contractual future payments for financial obligations</b>	<b>48,762</b>	<b>29,414</b>	<b>49,571</b>	<b>18,547</b>	<b>686</b>	<b>146,980</b>
<b>Credit related commitments, gross (Note 25)</b>	<b>1,810</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,810</b>

Payments in respect of gross settled swaps and forwards will be accompanied by related cash inflows which are disclosed at their present values in Note 26. 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.

**23 Financial Risk Management (Continued)**

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

<i>In millions of Ukrainian hryvnias</i>	<b>Demand and less than 1 month</b>	<b>From 1 to 3 months</b>	<b>From 3 to 12 months</b>	<b>Over 1 year</b>	<b>No stated maturity</b>	<b>Total</b>
<b>Assets</b>						
Cash and cash equivalents and mandatory reserves	29,100	-	-	-	-	29,100
Due from other banks	434	185	613	7,313	-	8,545
Loans and advances to customers	11,179	18,196	66,074	23,968	-	119,417
Embedded derivatives	36	22	2,531	161	-	2,750
Investment securities available-for-sale	100	40	27	401	294	862
Investment securities held to maturity	167	-	11	14	-	192
Other financial assets	444	1	38	314	2	799
<b>Total financial assets</b>	<b>41,460</b>	<b>18,444</b>	<b>69,294</b>	<b>32,171</b>	<b>296</b>	<b>161,665</b>
<b>Liabilities</b>						
Due to the NBU	96	193	868	3,473	-	4,630
Due to other banks and other financing institutions	1,751	475	536	931	-	3,693
Customer accounts	34,788	26,556	57,436	5,794	-	124,574
Debt securities in issue	27	46	23	8,060	-	8,156
Other financial liabilities	668	1	1	107	27	804
Subordinated debt	3	28	-	1,396	-	1,427
<b>Total financial liabilities</b>	<b>37,333</b>	<b>27,299</b>	<b>58,864</b>	<b>19,761</b>	<b>27</b>	<b>143,284</b>
<b>Net liquidity gap at 31 December 2012</b>	<b>4,127</b>	<b>(8,855)</b>	<b>10,430</b>	<b>12,410</b>	<b>269</b>	<b>18,381</b>
<b>Cumulative liquidity gap at 31 December 2012</b>	<b>4,127</b>	<b>(4,728)</b>	<b>5,702</b>	<b>18,112</b>	<b>18,381</b>	
<b>Credit related commitments (Note 25)</b>	<b>1,590</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,590</b>

## 23 Financial Risk Management (Continued)

The analysis by expected maturities may be summarised as follows at 31 December 2011:

<i>In millions of Ukrainian hryvnias</i>	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	Over 1 year	No stated maturity	Total
<b>Assets</b>						
Cash and cash equivalents and mandatory reserves	21,363	-	-	-	-	21,363
Due from other banks	343	621	3,155	529	-	4,648
Loans and advances to customers	9,608	17,521	59,331	20,970	-	107,430
Embedded derivatives	50	63	915	456	-	1,484
Investment securities available-for-sale	72	-	92	609	7	780
Investment securities held to maturity	-	-	-	24	-	24
Other financial assets	524	174	368	78	-	1,144
<b>Total financial assets</b>	<b>31,960</b>	<b>18,379</b>	<b>63,861</b>	<b>22,666</b>	<b>7</b>	<b>136,873</b>
<b>Liabilities</b>						
Due to the NBU	124	248	1,115	4,338	-	5,825
Due to other banks and other financing institutions	415	97	969	972	-	2,453
Customer accounts	26,966	24,028	45,040	8,175	-	104,209
Debt securities in issue	-	3,767	305	1,528	-	5,600
Other financial liabilities	367	5	16	113	-	501
Subordinated debt	1	27	-	1,390	-	1,418
<b>Total financial liabilities</b>	<b>27,873</b>	<b>28,172</b>	<b>47,445</b>	<b>16,516</b>	<b>-</b>	<b>120,006</b>
<b>Net liquidity gap at 31 December 2011</b>	<b>4,087</b>	<b>(9,793)</b>	<b>16,416</b>	<b>6,150</b>	<b>7</b>	<b>16,867</b>
<b>Cumulative liquidity gap at 31 December 2011</b>	<b>4,087</b>	<b>(5,706)</b>	<b>10,710</b>	<b>16,860</b>	<b>16,867</b>	
<b>Credit related commitments (Note 25)</b>	<b>1,778</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,778</b>

The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Group. 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 Group 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 Group would indicate that these customer accounts provide a long-term and stable source of funding for the Group.

Liquidity requirements to support calls under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Group does not generally expect the third party to draw funds under the agreement. The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

**24 Management of Capital**

The Group's objectives when managing capital are (i) to comply with the capital requirements set by the National Bank of Ukraine, (ii) to safeguard the Group'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 Group considers total capital under management to be equity as shown in the consolidated statement of financial position. The amount of capital that the Group managed as of 31 December 2012 was UAH 21,405 million (2011: UAH 19,185 million). 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 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:

<i>In millions of Ukrainian hryvnias</i>	<b>2012</b>	<b>2011</b>
Net assets unadjusted for accruals, provisions and taxes	16,623	15,402
Plus subordinated debt	959	1,198
Less investments into subsidiaries	(1,179)	(980)
Other	(2)	(2)
<b>Total regulatory capital</b>	<b>16,401</b>	<b>15,618</b>

The Group and the Bank are 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 Group's capital calculated in accordance with Basel Accord is as follows:

<i>In millions of Ukrainian hryvnias</i>	<b>2012</b>	<b>2011</b>
<b>Tier 1 capital</b>		
Share capital and share premium	14,917	13,565
Disclosed reserves	5,362	4,720
Cumulative translation reserve	322	329
Less: goodwill and intangible assets	(48)	(50)
<b>Total tier 1 capital</b>	<b>20,553</b>	<b>18,564</b>
<b>Tier 2 capital</b>		
Asset revaluation reserves	804	571
Subordinated debt	959	1,198
<b>Total tier 2 capital</b>	<b>1,763</b>	<b>1,769</b>
<b>Total capital</b>	<b>22,316</b>	<b>20,333</b>
<b>Capital adequacy ratio (%)</b>	<b>14.98%</b>	<b>16.08%</b>

The Group and the Bank have complied with all externally imposed capital requirements as of 31 December 2012 and 31 December 2011 and during respective years.

## 25 Contingencies and Commitments

**Legal proceedings.** From time to time and in the normal course of business, claims against the Group are received. As at 31 December 2012 provision of UAH 11 million has been recorded for potential legal liabilities (2011: UAH 11 million).

**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 Group may be challenged by the relevant authorities.

The Ukrainian tax authorities may be taking a more assertive and sophisticated approach in their interpretation of the legislation and tax examinations. Combined with a possible increase in tax collection efforts to respond to budget pressures, the above may lead to an increase in the level and frequency of scrutiny by the tax authorities 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.

Ukrainian transfer pricing legislation provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of all controllable transactions, provided that the transaction price differs from market price.

Controllable transactions include transactions with related parties, as determined under the Corporate Profit Tax (CPT) Law, whose definition is significantly different from IFRS, all transactions with non-residents (irrespective whether performed between related or unrelated parties) and transactions with non-standard CPT payers.

There is no formal guidance as to how these rules should be applied in practice. The procedure for assessing additional tax liabilities using transfer pricing rules requires the tax authorities to obtain a court decision approving the tax amount. It is not clear at the moment when (or if) new or more detailed transfer pricing regulations will be introduced. It is possible with the evolution of the interpretation of the transfer pricing rules in Ukraine and the changes in the approach of the Ukrainian tax authorities, that transfer prices could potentially be challenged. The impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the entity.

The Group includes companies incorporated outside of Ukraine. Tax liabilities of the Group are determined on the assumption that these companies are not subject to Ukrainian profits tax because they do not have a permanent establishment in Ukraine. Ukrainian tax laws do not provide detailed rules on taxation of foreign companies within a Ukrainian group. It is possible that with the evolution of the interpretation of these rules and the changes in the approach of the Ukrainian tax authorities, the non-taxable status of some or all of the foreign companies of the Group in Ukraine may be challenged. The impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the entity.

Ukrainian tax legislation does not provide definitive guidance in certain areas. From time to time, the Group adopts interpretations of such uncertain areas that reduce the overall tax rate of the Group. As noted above, such tax positions may come under heightened scrutiny. The impact of any challenge by the tax authorities cannot be reliably estimated; however, it may be significant to the financial condition and/or the overall operations of the entity.

**Capital expenditure commitments.** At 31 December 2012 the Group has contractual capital expenditure commitments in respect of construction of premises and acquisition of computers and furniture and equipment totalling UAH 57 million (2011: UAH 78 million). The Group believes that future net income and funding will be sufficient to cover this and any similar such commitments.

**Operating lease commitments.** As of 31 December 2012 and 2011 the Group had no commitments under non-cancellable operating leases.

**25 Contingencies and Commitments (Continued)**

**Compliance with covenants.** The Group is subject to certain covenants related primarily to its foreign borrowings. In particular, the Bank is required to maintain a certain level of share capital, a certain capital adequacy ratio, and a certain level of regulatory ratios. Non-compliance with such covenants may result in negative consequences for the Group including growth in the cost of borrowings and declaration of default. The Group was in compliance with covenants during 2012 and 2011 and as of 31 December 2012 and 31 December 2011.

**Compliance with NBU regulations.** The Bank contractually agreed with the NBU the individual ratios of the general open short currency position to be followed till 2014. The Bank adheres to these ratios in its activity.

**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 Group will make payments in the event that a customer cannot 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 Group on behalf of a customer authorising a third party to draw drafts on the Group 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 Group 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 Group 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:

<i>In millions of Ukrainian hryvnias</i>	<b>Note</b>	<b>2012</b>	<b>2011</b>
Guarantees issued		868	1,167
Import letters of credit		861	559
Irrevocable commitments to extend credit		86	84
Less: Cash covered letters of credit		(135)	(30)
Less: Provision for credit related commitments	15	(90)	(2)
<b>Total credit related commitments</b>		<b>1,590</b>	<b>1,778</b>

The total outstanding contractual amount of undrawn credit lines, 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 as of 31 December 2012 and 31 December 2011 was insignificant.

As of 31 December 2012 irrevocable commitments under letters of credit and guarantees issued by the Group of gross amount UAH 135 million (2011: UAH 30 million) are secured by customer accounts of UAH 135 million (2011: UAH 30 million). Refer to note 13.



## 25 Contingencies and Commitments (Continued)

Credit related commitments are denominated in currencies as follows:

<i>In millions of Ukrainian hryvnias</i>	2012	2011
Ukrainian Hryvnias	466	442
US Dollars	955	900
Euro	91	380
Other currencies	78	56
<b>Total</b>	<b>1,590</b>	<b>1,778</b>

As of 31 December 2012 the Group had undrawn credit limits on credit cards of UAH 28,110 million (2011: UAH 13,834 million) that are available to credit cardholders. These credit limits are revocable. The Group on a regular basis monitors activity on the cards and based on the frequency and pattern of withdrawals and repayments done by borrowers is able to reduce limits on credit cards unilaterally. Provision for undrawn credit limits on credit cards was not significant as of 31 December 2012 and 31 December 2011.

**Fiduciary assets.** These assets are not included in the Group's consolidated statement of financial position as they are not assets of the Group. Nominal values disclosed below are normally different from the fair values of respective securities. The fiduciary assets held by the Group on behalf of its customers fall into the following categories:

<i>In millions of Ukrainian hryvnias</i>	2012 Nominal value	2011 Nominal value
Shares of Ukrainian companies	6,095	5,886
Domestic corporate bonds	1,630	2,541
Investment certificates	1,382	1,671

**Funds under trust management.** Funds under trust management represent assets managed and held by the Group on behalf of customers. The Group earns commission income for holding such assets. The Group is not subject to interest, credit, liquidity and currency risk with respect of these assets in accordance with the agreements concluded with the customers. Loans are granted on behalf of customers who have remitted a deposit as collateral for the loans. As of 31 December 2012 assets under trust management amounted to UAH 191 million (2011: UAH 437 million).

**Assets pledged and restricted.** The Group had assets pledged as collateral with the following carrying value:

<i>In millions of Ukrainian hryvnias</i>	Note	2012		2011	
		Asset pledged and restricted	Related liability/commitment	Asset pledged and restricted	Related liability/commitment
Gross receivables under swap, forward and spot agreements	26	35,365	35,445	19,803	19,841
Loans and advances to customers	9, 14	291	172	383	254
Mandatory reserve balances with the NBU, premises, loans and advances to customers	7, 9, 10, 12	2,910	4,630	2,113	5,825
<b>Total</b>		<b>38,566</b>	<b>40,247</b>	<b>22,299</b>	<b>25,920</b>

Gross receivables under swap, forward and spot agreements presented above are recognised on a net basis in the statement of financial position, giving rise to a derivative financial asset or liability within other financial assets or other financial liabilities, respectively.

**25 Contingencies and Commitments (Continued)**

As disclosed in Note 8, balances due from other banks totalling UAH 371 million (2011: UAH 499 million) have been pledged as cover for letters of credit and international payments.

In addition, mandatory reserve balances in the amount of UAH 3,174 million (2011: UAH 2,773 million) represent mandatory reserve deposits which are not available to finance the Group's day to day operations as disclosed in Note 7.

As of 31 December 2012 for the purposes of UAH liquidity management the Group made USD denominated placement with OECD banks in the amount of UAH 6,755 million that are pledged under loans, issued by those banks to certain corporate companies. These funds were then used for the purchase of bonds in the amount of UAH 6,355 and placement on the current account with the Group of UAH 400 mln.

As of 31 December 2011 the Group pledged its USD denominated deposit with an international private bank of UAH 2,892 million under USD denominated loan issued by this bank to a customer of the Group which placed UAH denominated deposit of UAH 2,892 million with the Group.

As of 31 December 2012 the Group had outstanding loans issued to corporate clients in the amount of UAH 2,170 million that placed these funds on the current and term accounts of UAH 2,029 million with the Group.

**26 Derivative Financial Instruments**

Foreign exchange and other derivative financial instruments entered into by the Group are generally traded in an over-the-counter market with professional market counterparties on standardised contractual terms and conditions. Derivatives have potentially favourable (assets) or unfavourable (liabilities) conditions as a result of fluctuations in market interest rates, foreign exchange rates or other variables relative to their terms. The aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

The table below sets out fair values, at the end of the reporting period, of currencies receivable or payable under foreign exchange forward contracts entered into by the Group and presented within other financial assets and other financial liabilities. The table reflects gross positions before the netting of any counterparty positions (and payments) and covers the contracts with settlement dates after the respective end of the reporting period. The contracts are short term in nature.

	2012		2011	
	Contracts with positive fair value	Contracts with negative fair value	Contracts with positive fair value	Contracts with negative fair value
<i>In millions of Ukrainian hryvnias</i>				
<b>Foreign exchange swaps and spots: fair values, at the end of the reporting period date, of</b>				
- USD receivable on settlement (+)	9,592	4,526	4,129	2
- USD payable on settlement (-)	(977)	(20,330)	(201)	(15,471)
- Euros receivable on settlement (+)	843	14,392	128	14,056
- Euros payable on settlement (-)	(5,696)	(2,133)	(3,634)	(33)
- UAH receivable on settlement (+)	86	-	120	60
- UAH payable on settlement (-)	(791)	(2,339)	-	-
- RUB receivable on settlement (+)	-	5,875	-	1,307
- RUB payable on settlement (-)	(2,934)	-	-	-
- Other currencies receivable on settlement (+)	51	-	-	1
- Other currencies payable on settlement (-)	(156)	(89)	(477)	(25)
<b>Net fair value of foreign exchange swaps, forwards and spots</b>	<b>18</b>	<b>(98)</b>	<b>65</b>	<b>(103)</b>

**26 Derivative Financial Instruments (Continued)**

At 31 December 2012, the Group had outstanding obligations from unsettled spot transactions with foreign currencies of UAH 31,676 million (2011: UAH 18,805 million). The net fair value of unsettled spot transactions is insignificant.

During the year ended 31 December 2012 the Group incurred a gain of UAH 118 million (2011: a gain UAH 100 million) resulting from foreign exchange spots, forwards and swaps that is accounted for in other gains less losses of the consolidated statement of comprehensive income.

In addition, as disclosed in Note 4, as of 31 December 2012 the Group had outstanding derivatives embedded in loans issued to customers which were separated from the host instrument and carried at fair value of UAH 2,750 million (2011: UAH 1,484 million). This embedded derivative is represented by a currency option maturing in up to 3 years. The strike price was from UAH 7.98 to UAH 7.99 per USD 1 (2011: UAH 7.93 to UAH 7.99 per USD 1). In addition, the Group accounted for embedded derivatives with expired underlying contracts within other financial assets and carried at fair value of UAH 123 million (2011: UAH 535 million). Refer to Notes 11 and 27.

**27 Fair Value of Financial Instruments**

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

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

	2012		2011	
	Fair value	Carrying value	Fair value	Carrying value
<i>In millions of Ukrainian hryvnias</i>				
<b>FINANCIAL ASSETS</b>				
<b>Cash and cash equivalents and mandatory reserves</b>				
Cash on hand	7,309	7,309	3,749	3,749
Cash balances with Central Banks	5,756	5,756	4,929	4,929
Correspondent accounts and overnight placements with other banks	16,035	16,035	12,685	12,685
<b>Due from other banks</b>				
Term placements with other banks	1,358	1,358	4,149	4,149
Guarantee deposits with other banks	7,187	7,187	499	499
<b>Loans and advances to customers</b>				
Corporate loans	92,644	92,925	82,184	83,085
Loans to individuals - cards	18,818	18,897	16,158	16,199
Loans to individuals - mortgage	3,406	3,510	4,113	3,936
Loans to individuals - auto	567	564	1,378	1,200
Loans to individuals - consumer	1,089	1,165	1,039	954
Loans to individuals - other	1,306	1,250	1,015	907
Loans to small and medium enterprises (SME)	939	1,106	1,000	1,149
<b>Investment securities available-for-sale</b>				
Unquoted shares	-	-	7	7
<b>Investment securities held to maturity</b>				
Government bonds	167	167	-	-
Corporate bonds	25	25	24	24
<b>Other financial assets</b>				
Finance lease receivables	320	320	214	214
Receivables from operations with customers	141	141	129	129
Plastic cards receivables	123	123	111	111
Other	74	74	90	90
<b>TOTAL FINANCIAL ASSETS, CARRIED AT COST OR AMORTISED COST</b>	<b>157,264</b>	<b>157,912</b>	<b>133,473</b>	<b>134,016</b>

**27 Fair Value of Financial Instruments (Continued)**

<i>In millions of Ukrainian hryvnias</i>	<b>2012</b>		<b>2011</b>	
	<b>Fair value</b>	<b>Carrying value</b>	<b>Fair value</b>	<b>Carrying value</b>
<b>FINANCIAL LIABILITIES</b>				
<b><i>Due to the NBU</i></b>				
Due to the NBU	4,630	4,630	5,825	5,825
<b><i>Due to other banks and other financing institutions</i></b>				
Term placements of other banks	1,821	1,821	774	774
Long-term loans under the credit lines from other financing institutions	1,142	1,142	268	268
Correspondent accounts and overnight placements of other banks	725	725	1,401	1,401
Pledge deposits of other banks	5	5	10	10
<b><i>Customer accounts</i></b>				
Term deposits of individuals	83,424	83,107	66,793	66,536
Current/demand accounts of individuals	16,791	16,790	15,559	15,559
Current/settlement accounts of legal entities	14,558	14,557	9,116	9,147
Term deposits of legal entities	10,232	10,120	12,967	12,967
<b><i>Debt securities in issue</i></b>				
Private placements of bonds	6,355	6,355	560	560
Eurobonds	1,540	1,629	4,425	4,785
Mortgage bonds	172	172	254	254
Promissory notes	-	-	1	1
<b><i>Other financial liabilities</i></b>				
Funds in the course of settlement	240	240	116	116
Liability for finance lease	108	108	107	107
Accounts payable	107	107	81	81
Other	252	251	94	94
<b><i>Subordinated debt</i></b>				
Subordinated debt	1,129	1,427	1,404	1,418
<b>TOTAL FINANCIAL LIABILITIES, CARRIED AT COST OR AMORTISED COST</b>	<b>143,231</b>	<b>143,186</b>	<b>119,755</b>	<b>119,903</b>

## 27 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:

	2012			2011		
	Quoted price in an active market (Level 1)	Valuation technique with inputs observable in markets (Level 2)	Valuation technique with significant non-observable inputs (Level 3)	Quoted price in an active market (Level 1)	Valuation technique with inputs observable in markets (Level 2)	Valuation technique with significant non-observable inputs (Level 3)
In millions of Ukrainian hryvnias						
<b>FINANCIAL ASSETS</b>						
<b>Investment securities available-for-sale</b>						
Government bonds	539	-	-	746	-	-
Corporate bonds	-	14	-	-	14	-
Banking bonds	-	13	-	-	13	-
Unquoted shares	-	296	-	-	-	-
<b>Embedded derivatives</b>	-	-	2,750	-	-	1,484
<b>Other financial assets</b>						
Embedded derivatives with expired underlying contracts	-	-	123	-	-	535
Financial derivatives arising from swap, forward and spot transactions	-	-	18	-	-	65
<b>TOTAL FINANCIAL LIABILITIES AT FAIR VALUE</b>	<b>539</b>	<b>323</b>	<b>2,891</b>	<b>746</b>	<b>27</b>	<b>2,084</b>
<b>FINANCIAL LIABILITIES</b>						
<b>Other financial liabilities</b>						
Financial derivatives arising from swap, forward and spot transactions	-	-	98	-	-	103
<b>TOTAL FINANCIAL LIABILITIES AT FAIR VALUE</b>	<b>-</b>	<b>-</b>	<b>98</b>	<b>-</b>	<b>-</b>	<b>103</b>

## 27 Fair Value of Financial Instruments (Continued)

**(c) Reconciliation of movements in instruments belonging to the level 3 of the fair value hierarchy.**

A reconciliation of movements in Level 3 of the fair value hierarchy of the embedded derivatives for the year ended 31 December 2012 and 31 December 2011 is as follows:

<i>In millions of Ukrainian hryvnias</i>	<b>Embedded derivatives</b>
<b>Fair value at 1 January 2011</b>	<b>1,678</b>
Initial recognition of derivative	387
Cash received	(747)
Reclassification to embedded derivative with expired underlying contract	(96)
Gains less losses from embedded derivatives	262
<b>Fair value at 31 December 2011</b>	<b>1,484</b>
Initial recognition of derivative	360
Cash received	(165)
Reclassification to embedded derivative with expired underlying contract	(2)
Gains less losses from embedded derivatives	1,073
<b>Fair value at 31 December 2012</b>	<b>2,750</b>

Embedded derivatives are classified into level 3 instruments because these instruments require management to make assumptions about credit risk of the counterparty which are not supportable by observable market data.

The sensitivity to valuation assumptions is disclosed in the Note 4.

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 Group used valuation techniques. Certain valuation techniques required assumptions that were not supported by observable market data. The total net fair value gain estimated using valuation techniques that was recognised in profit or loss amounts to UAH 1,073 million (2011: gain of UAH 262 million). In addition, the Group recognised a loss on embedded derivative with expired underlying contracts of UAH 356 million (2011: loss of UAH 235 million).

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.

**27 Fair Value of Financial Instruments (Continued)**

Discount rates used depend on currency, maturity of the instrument and credit risk of the counterparty and were as follows:

	<b>2012</b>	<b>2011</b>
<b>Loans and advances to customers</b>		
Corporate loans	10% to 14% p.a.	10% to 16% p.a.
Loans to individuals - mortgage	11% to 15% p.a.	11% to 15% p.a.
Loans to individuals - auto	10% to 27% p.a.	10% to 27% p.a.
Loans to individuals - consumer	12% to 44% p.a.	12% to 44% p.a.
Loans to individuals - cards	23% to 36% p.a.	23% to 36% p.a.
Loans to individuals - other	12% to 20% p.a.	12% to 14% p.a.
Loans to small and medium enterprises (SME)	14% to 32% p.a.	14% to 32% p.a.
<b>Customer accounts</b>		
Term deposits of individuals	8% to 18% p.a.	4% to 17% p.a.
Term deposits of legal entities	5% to 14% p.a.	4% to 15% p.a.

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**28 Presentation of Financial Instruments by Measurement Category**

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:

	Loans and receiva- bles	Available- for-sale assets	Assets at FVTPL held for trading	Held to maturity	Total
<i>In millions of Ukrainian hryvnias</i>					
<b>ASSETS</b>					
<b>Cash and cash equivalents and mandatory reserves</b>	29,100	-	-	-	29,100
<b>Due from other banks</b>					
Term placements with other banks	1,358	-	-	-	1,358
Guarantee deposits with other banks	7,187	-	-	-	7,187
<b>Loans and advances to customers</b>					
Corporate loans	92,925	-	-	-	92,925
Loans to individuals - cards	18,897	-	-	-	18,897
Loans to individuals - mortgage	3,510	-	-	-	3,510
Loans to individuals - auto	564	-	-	-	564
Loans to individuals - consumer	1,165	-	-	-	1,165
Loans to individuals - other	1,250	-	-	-	1,250
Loans to small and medium enterprises (SME)	1,106	-	-	-	1,106
<b>Embedded derivatives</b>	-	-	2,750	-	2,750
<b>Investment securities available-for-sale</b>					
Government bonds	-	540	-	-	540
Corporate bonds	-	14	-	-	14
Banking bonds	-	13	-	-	13
Unquoted shares	-	295	-	-	295
<b>Investment securities held-to-maturity</b>					
<b>Government bonds</b>	-	-	-	167	167
Banking bonds	-	-	-	25	25
<b>Other financial assets</b>					
Receivables arising from embedded derivative	-	-	123	-	123
Finance lease receivables	320	-	-	-	320
Receivables from operations with customers	141	-	-	-	141
Plastic cards receivables	123	-	-	-	123
Trading securities and other financial assets at fair value through profit or loss	-	-	2	-	2
Financial derivatives arising from swap, forward and spot	-	-	18	-	18
Other	72	-	-	-	72
<b>TOTAL FINANCIAL ASSETS</b>	<b>157,718</b>	<b>862</b>	<b>2,893</b>	<b>192</b>	<b>161,665</b>
<b>NON-FINANCIAL ASSETS</b>					<b>4,572</b>
<b>TOTAL ASSETS</b>					<b>166,237</b>

As of 31 December 2012 and 31 December 2011 all of the Group's financial liabilities except for derivatives were carried at amortised cost. Derivatives belong to the fair value through profit or loss measurement category.



**28 Presentation of Financial Instruments by Measurement Category (Continued)**

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

	Loans and receiva- bles	Available- for-sale assets	Assets at FVTPL held for trading	Held to maturity	Total
<i>In millions of Ukrainian hryvnias</i>					
<b>ASSETS</b>					
<b>Cash and cash equivalents and mandatory reserves</b>	21,363	-	-	-	21,363
<b>Due from other banks</b>					
Term placements with other banks	4,149	-	-	-	4,149
Guarantee deposits with other banks	499	-	-	-	499
<b>Loans and advances to customers</b>					
Corporate loans	83,085	-	-	-	83,085
Loans to individuals - cards	16,199	-	-	-	16,199
Loans to individuals - mortgage	3,936	-	-	-	3,936
Loans to individuals - auto	1,200	-	-	-	1,200
Loans to individuals - consumer	954	-	-	-	954
Loans to individuals - other	907	-	-	-	907
Loans to small and medium enterprises (SME)	1,149	-	-	-	1,149
<b>Embedded derivatives</b>	-	-	1,484	-	1,484
<b>Investment securities available-for-sale</b>					
Government bonds	-	746	-	-	746
Corporate bonds	-	14	-	-	14
Banking bonds	-	13	-	-	13
Unquoted shares	-	7	-	-	7
<b>Investment securities held-to-maturity</b>					
Banking bonds	-	-	-	24	24
<b>Other financial assets</b>					
Receivables arising from embedded derivative	-	-	535	-	535
Finance lease receivables	214	-	-	-	214
Receivables from operations with customers	129	-	-	-	129
Plastic cards receivables	111	-	-	-	111
Financial derivatives arising from swap, forward and spot	-	-	65	-	65
Other	90	-	-	-	90
<b>TOTAL FINANCIAL ASSETS</b>	<b>133,985</b>	<b>780</b>	<b>2,084</b>	<b>24</b>	<b>136,873</b>
<b>NON-FINANCIAL ASSETS</b>					<b>4,058</b>
<b>TOTAL ASSETS</b>					<b>140,931</b>

**29 Related Party Transactions**

Parties are generally considered to be related if the parties are under common control, joint 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.

**29 Related Party Transactions (Continued)**

At 31 December 2012 and 31 December 2011, the outstanding balances with related parties were as follows:

<i>In millions of Ukrainian hryvnias</i>	2012			2011		
	Major share - holders	Management	Companies under control of major shareholders	Major share - holders	Management	Companies under control of major shareholders
Gross amount of loans and advances to customers (contractual interest rate: 2012: UAH - 12%, USD - 11%, EUR - 11%; 2011: UAH - 14%, USD - 14%, EUR - 13%)	-	10	12,843	-	4	8,462
Impairment provisions for loans and advances to customers at 31 December	-	-	(4,677)	-	-	(3,693)
Loans and advances to customers written off as uncollectable	-	-	(848)	-	-	(17)
Embedded derivatives	-	-	79	-	-	60
Other financial assets	-	-	46	-	-	46
Other assets	-	-	142	-	-	217
Customer accounts (contractual interest rate: 2012: UAH - 6%, USD - 6%, EUR - 11%; 2011: UAH - 8%, USD - 1%, EUR - 13%)	570	83	3,214	283	69	3,614
Other financial liabilities	-	-	-	-	-	-
Subordinated debt (contractual interest rate: 2012: UAH - 6%, RUB - 1%; 2011: UAH - 6%, RUB - 1%)	-	-	156	-	-	156

The income and expense items with related parties for 2012 and 2011 were as follows:

<i>In millions of Ukrainian hryvnias</i>	2012			2011		
	Major share - holders	Management	Companies under control of major shareholders	Major share - holders	Management	Companies under control of major shareholders
Interest income	11	-	1,149	12	-	1,299
Interest expense	(54)	(8)	(265)	(113)	(4)	(259)
Provision for loan impairment	-	-	(1,832)	-	-	(1,099)
Fee and commission income	-	-	69	2	-	52
Losses less gains from embedded derivatives	-	-	61	-	-	(171)
Other operating income	-	-	7	-	-	10
Administrative and other operating expenses, excluding management remuneration	-	-	(50)	-	-	(33)

At 31 December 2012 and 31 December 2011, other rights and obligations with related parties were as follows:

<i>In millions of Ukrainian hryvnias</i>	2012	2011
	Companies under control of major shareholders	Companies under control of major shareholders
Guarantees issued	38	15
<b>Total credit related commitments</b>	<b>38</b>	<b>15</b>

**29 Related Party Transactions (Continued)**

Aggregate amounts lent to and repaid by related parties during 2012 and 2011 were:

<i>In millions of Ukrainian hryvnias</i>	2012			2011		
	Major share-holders	Management	Companies under control of major shareholders	Major share-holders	Management	Companies under control of major shareholders
Amounts lent to related parties during the period	1,595	25	13,155	1,529	51	10,932
Amounts repaid by related parties during the period	1,606	19	8,141	1,529	50	15,664

In 2012, the remuneration of the members of the Management Board comprised salaries, discretionary bonuses, pension contributions and other short-term benefits totalling UAH 31 million (2011: UAH 31 million), including contributions into the State pension fund of UAH 1 million (2011: UAH 1 million)

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

**30 Events After the End of the Reporting Period**

In February 2013 the Group issued USD denominated Eurobonds with a par value of USD 175 million (UAH 1,400 million at exchange rate at the date of issue) maturing in February 2018. The bonds carry a coupon rate of 10.875% per annum. The Eurobonds are listed on the Irish Stock Exchange.

In March 2013, Republic of Cyprus experienced financial and economic crisis. The Central Bank of Cyprus mandated additional bank holidays and the government and the parliament of Cyprus undertake measures, including certain capital transfer restrictions and restructure of certain largest Cypriot banks, aimed at averting the default of the country. Although currently it is not possible to fully predict further developments in Cyprus and potential economic, tax and banking regulatory measures and restrictions. The Group, including its Cyprus branch does not have material balances with Laiki Bank and Bank of Cyprus, as well as any other Cyprus banks.