Public Joint Stock Company
"ProCredit Bank"
Financial Statements

Year ended 31 December 2012
Together with Independent Auditors' Report

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

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

Independent Auditors' Report (Audit Opinion)

To the Shareholders and Management Board of Public Joint Stock Company "ProCredit Bank"

Report on the Financial Statements

We have audited the accompanying financial statements on pages 1- 68 of Public Joint Stock Company "ProCredit Bank"("the Bank") (code ERDPU – 21677333, actual address –107-A Peremogy Avenue, Kyiv 03115, Ukraine date of state registration –28 December 2000), which comprise the statement of financial position as at 31 December 2012, income statement, statement of comprehensive income, statement of changes in equity, and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

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

Ernst & Young

Report on Other Legal and Regulatory Requirements

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

1) Section 3 of Article 155 of the Civil Code of Ukraine requires a joint stock company to announce denomination of the share capital and to register the respective changes in accordance with the effective legislation in case its net assets as at the end of the second annual reporting period (from the inception) and all subsequent reporting periods are lower than its statutory capital. A joint stock company should be liquidated in case its net assets are lower than the minimum share capital required by effective legislation. The Bank's net assets as at 31 December 2012 are UAH 266,493 thousand, which is less than its registered statutory capital as at the respective date, but higher than the minimum registered statutory capital established by the effective law.

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

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

4) The Law requires joint stock companies developing a code (principles) of corporate governance, and requires establishing a supervisory board and an audit committee. The Bank has established:
    a. Supervisory Board by Shareholder's decision dated 21 December 2000,
    b. Audit Committee by Shareholder's decision dated 21 December 2000
    c. Internal Audit Department by Shareholder's decision dated 21 December 2000

   The Bank has developed the code of corporate governance, which is approved by Shareholder's decision dated 18 November 2011.
   We could not assess the effectiveness of the Bank's corporate governance as to compliance with the Law, because no clear criteria for standards of corporate governance are established by the Law or other regulations. Accordingly, we do not express an opinion as to the effectiveness of the Bank's corporate governance.

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

Bank's internal control, including controls designed to prevent and detect fraud. Accordingly, we do not express such an opinion.

Other Matters – Contractual arrangements and timing of the audit

We have been engaged by the Bank and concluded an agreement No. GFS-2012-00192 dated 20 August 2012. Our audit of the financial statements of the Bank has been performed during the period from 22 October 2012 to 29 March 2013.

Alexander Svistich
General Director

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

29 March 2013
Kyiv, Ukraine

In thousands of UAH	**Note**	**2012**	**2011 (restated*)**
Interest income	28	367,177	392,571
Interest expense	28	(114,518)	(109,745)
Net interest income		**252,659**	**282,826**
Allowance for impairment of loans to customers	37	(48,857)	(101,464)
Net interest income after allowance for loan impairment		**203,802**	**181,362**
Fee and commission income	29	**82,976**	**76,482**
Fee and commission expense	29	**(10,661)**	**(11,322)**
Net fee and commission income		**72,315**	**65,160**
Foreign exchange translation gains less losses		(117)	(1,385)
Gains less losses from trading in foreign currencies		10,668	9,028
Gains less losses on investment securities available for sale		(186)	1,276
Trading result		**10,365**	**8,919**
Other operating income		3,249	3,000
Administrative and other operating expenses	30	(252,744)	(229,968)
Profit/(loss) before tax		**36,987**	**28,473**
Income tax credit/(expenses)	31	(11,409)	(5,522)
Profit/(loss) for the year		**25,578**	**22,951**

** All amounts presented in respect of prior years have been restated to reflect the change in presentation currency as detailed in Note B9)*

Approved for issue and signed on behalf of the Management Board on 29 March 2013.

Victor Ponomarenko
General Manager

Valerii Smolinskyi
Chief Accounting Officer

In thousands of UAH	**Note**	**2012**	**2011 (restated*)**
Profit/(Loss) for the year		**25,578**	**22,951**
Revaluation reserve of available-for-sale securities		(80)	(680)
Deferred tax on revaluation reserve of available-for-sale securities		17	170
Other comprehensive income/(loss) for the year		**(63)**	**(510)**
Total comprehensive income/(loss) for the year		**25,515**	**22,441**

**All amounts presented in respect of prior years have been restated to reflect the change in presentation currency as detailed in Note B9*

Victor Ponomarenko
General Manager

Valerii Smolinskyi
Chief Accounting Officer

ProCredit Bank
Statement of Financial position as at 31 December 2012

In thousands of UAH	**Note**	**31 December 2012**	**31 December 2011 (restated*)**	**31 December 2010 (restated*)**
ASSETS				
Cash and cash equivalents	32	300,363	223,566	202,550
Restricted balances with the National Bank of Ukraine (mandatory reserve deposit)	33	103,248	100,588	29,592
Financial assets available at fair value through profit or loss	34	45,135	-	-
Due from other banks	35	104,014	202,444	20,011
Loans and advances to customers	36,37	1,525,435	1,666,611	1,857,769
Investment securities available-for-sale	38	20,614	250	25,511
Current income tax asset		183	6,095	6,311
Deferred income tax asset	31	31,873	37,353	42,489
Premises and equipment	39	66,850	75,754	82,051
Intangible assets	40	9,771	5,092	5,614
Other financial assets	41	7,692	6,719	13,016
Other non-financial assets	41	45,082	26,193	7,291
Total assets		**2,260,260**	**2,350,665**	**2,292,205**
LIABILITIES				
Customer accounts	42	1,578,208	1,521,955	1,385,321
Debt securities in issue	43	102,099	102,751	-
Other borrowed funds	44	253,493	363,228	565,732
Other financial liabilities	45	10,559	8,691	9,656
Other non-financial liabilities	45	1,053	804	1,118
Subordinated debt	46	48,355	112,258	111,841
Total liabilities		**1,993,767**	**2,109,687**	**2,073,668**
EQUITY				
Share capital	47	298,333	298,333	298,333
Share premium		(223)	(223)	(223)
Accumulated deficit		(31,554)	(57,132)	(80,083)
Revaluation reserve of AFS securities		(63)	-	510
Total equity		**266,493**	**240,978**	**218,537**
Total liabilities and equity		**2,260,260**	**2,350,665**	**2,292,205**

**All amounts presented in respect of prior years have been restated to reflect the change in presentation currency as detailed in Note B9*

Victor Ponomarenko
General Manager

Valerii Smolinskyi
Chief Accounting Officer

In thousands of UAH	**Note**	**Share capital**	**Share premium**	**Accumulated deficit**	**Revaluation reserve of AFS securities**	**Total equity**
Balance at 1 January 2011 (restated*)		**298,333**	**(223)**	**(80,083)**	**510**	**218,537**
Total comprehensive income/(loss) for the year		-	-	22,951	**(510)**	**22,441**
Balance at 31 December 2011 (restated*)		**298,333**	**(223)**	**(57,132)**	**-**	**240,978**
Total comprehensive income/(loss) for the year		-	-	25,578	**(63)**	**25,515**
Balance at 31 December 2012		**298,333**	**(223)**	**(31,554)**	**(63)**	**266,493**

**All amounts presented in respect of prior years have been restated to reflect the change in presentation currency as detailed in Note B9*

Victor Ponomarenko
General Manager

Valerii Smolinskyi
Chief Accounting Officer

In thousands of UAH	**Note**	**2012**	**2011 (restated*)**
Cash flows from operating activities			
Interest received		365,456	404,641
Interest paid		(108,154)	(115,956)
Fees and commissions received		82,976	76,482
Fees and commissions paid		(10,661)	(11,322)
Income received from trading in foreign currencies		10,668	9,028
Other operating income received		949	1,768
Staff costs paid		(141,033)	(131,351)
Administrative and other operating expenses paid		(97,119)	(85,265)
Cash flows from operating activities before changes in operating assets and liabilities		**103,082**	**148,025**
Net changes in operating assets and liabilities			
Mandatory reserve balances		(2,660)	(70,996)
Due from other banks		98,258	(182,144)
Loans and advances to customers		105,237	63,240
Other assets		(1,085)	5,541
Customer accounts		17,935	143,230
Other liabilities		1,290	(365)
Net cash from operating activities		**322,057**	**106,531**
Cash flows from investing activities			
Acquisition of financial assets at fair value through profit or loss		(44,126)	-
Acquisition of investment securities available for sale		(41,964)	-
Proceeds of investment securities available for sale		20,389	23,904
Acquisition of premises and equipment	39	(8,169)	(9,586)
Proceeds from disposal of premises and equipment		6,606	2,737
Acquisition of intangible assets		(7,321)	(1,752)
Net cash from / (used in) investing activities		**(74,585)**	**15,303**
Cash flows from financing activities			
Proceeds from debt securities in issue		-	100,000
Proceeds from other borrowed funds		16,993	83,520
Repayment of other borrowed funds		(126,903)	(287,275)
Repayment of subordinated debt		(63,944)	-
Net cash used in financing activities		**(173,854)**	**(103,755)**

Effect of exchange rate changes on cash and cash equivalents		**3,179**	**2,937**
Net changes in cash and cash equivalents		**76,797**	**21,016**
Cash and cash equivalents at the beginning of the year		**223,566**	**202,550**
Cash and cash equivalents at the end of the year	32	**300,363**	**223,566**

**All amounts presented in respect of prior years have been restated to reflect the change in presentation currency as detailed in Note B9*

Victor Ponomarenko
General Manager

Valerii Smolinskyi
Chief Accounting Officer

A. Basis of Presentation

1) Compliance with International Financial Reporting Standards

ProCredit Bank ("the Bank") prepares its financial statements according to International Financial Reporting Standards ("IFRS"). The Bank's financial statements for the year ended 31 December 2012 are prepared in accordance with IFRS as issued by the IASB and its predecessor body. Additionally, the interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC") and its predecessor body have been applied.

International Financial Reporting Standards became single reporting standards for Ukrainian public joint stock companies, banks and insurance companies, starting from 1 January 2012 in accordance with the Law on accounting and reporting in Ukraine. Accordingly, the Bank suspended preparation of financial statements in accordance with normative requirements about accounting and reporting in Ukrainian banks issued by the National Bank of Ukraine ("NBU") starting from 1 January 2012.

There was no early adoption of any standard which is not yet effective.

2) Compliance with Local Law

The Bank is incorporated and domiciled in Ukraine. The Bank is a public joint stock company according to Ukrainian legislative requirements. The Bank was initially founded as a closed joint stock company called Microfinance Bank and was registered by the National Bank of Ukraine ("NBU") on 28 December 2000 under the registration number 276. On 16 September 2003, by the resolution of its shareholders, the Bank changed its name from Microfinance Bank to ProCredit Bank. This change was implemented in recognition of the full-service bank strategy and emphasises the fact that the Bank belongs to the network of ProCredit Banks in Eastern Europe, Latin America and Africa. In September 2009, following the requirements of the new Joint Stock Company Law of Ukraine and amendments to the Law on Banks and Banking providing that banks in Ukraine may only exist in the form of public joint stock companies or cooperative banks, the Bank changed its corporate form to a public joint stock company, retaining all rights and obligations of the former closed joint stock company without any limitation. The Bank's immediate parent and ultimate controlling party is ProCredit Holding AG&Co. KGaA (2011: ProCredit Holding AG&Co. KGaA).

Principal activity
The Bank's principal business activity is rendering a full range of commercial banking and corporate finance services with the focus being on the provision of financial services to very small, small and medium-sized economic entities in Ukraine for the purpose of making a profit and supporting the social and economic development of Ukraine. . The Bank is operating under a banking licence and a general licence to carry out foreign currency transactions No.195 issued by the National Bank of Ukraine on 13 October 2011.

The Bank has 33 branches throughout Ukraine.

Registered address and place of business
The Bank's registered address and place of business is:
107-A, Peremohy Avenue,
Kyiv, 03115,
Ukraine

3) Operating Environment of the Bank

Economic situation in Ukraine remains stable in 2012. NBU took course on guarantee the stable currency rate in circumstances of high devaluation expectations, the peak of which was observed during fourth quarter 2012. Actions, used, included restrictive monetary policy during second quarter 2012 and numerous changes in currency regulation (one of the most effective actions was a law about obligatory sale of part of foreign currency-denominated revenue).

Based on year final results currency steadiness was reached, but it resulted in significant increase in cost of funds denominated in national currency during late 2012, deceleration of economy (lack of real GDP growth: -1.0% in 2012) and decrease of banks profits due to increase of interest expenses.

From another side, economy of Ukraine remains vulnerable to fluctuations on global markets, where high volatility is preserved. Hence, there is uncertainty about renewal of economy growth during 2013 and cost of resources at capital markets. Regulatory instability (first of all related to anti-crisis legislation, which is currently being considered by Government and NBU) provides additional uncertainty.

Solvency of companies – the Bank's clients, was, in general at satisfactory level, which did not lead to deterioration of quality of loan portfolio in 2012. At the same time, crisis outcomes are appropriate to a number of borrowers, which have significant indebtedness in foreign currency.

The Bank takes all necessary actions to provide stable performance in current circumstances. But unfavourable macroeconomic changes could have negative impact of the Bank's financial position and results in future. The quantitative effect of such impact is difficult to measure.

4) Use of Assumptions and Estimates

The Bank's financial reporting and its financial result are influenced by accounting policies, assumptions, estimates, and management judgement, which necessarily have to be made in the course of preparation of the financial statements.

All estimates and assumptions required in conformity with IFRS are best estimates undertaken in accordance with the applicable standard. Estimates and judgements are evaluated on a continuous basis, and are based on past experience and other factors, including expectations with regard to future events and are considered appropriate under the given circumstances.

Accounting policies and management judgements on certain items are especially critical for the Bank's results and financial situation due to their materiality in amount. This applies to the following positions:

Allowances for impairment of loans

The Bank regularly reviews its loans and receivables to assess impairment. The Bank uses its judgement to estimate the amount of any impairment loss in cases where a borrower is in financial difficulties and there are few available sources of historical data relating to similar borrowers. The Bank estimates changes in future cash flows for an asset based on the observable data indicating that there has been an adverse change in the payment discipline of borrowers or in local economic conditions that could cause a possible default on the assets. Management uses estimates based on historical loss experience for assets with credit-risk characteristics and objective evidence of impairment similar to those in the group of loans and receivables. The Bank uses its experienced judgement to adjust observable data for a group of loans or receivables to reflect current circumstances.

Further information on the Bank's accounting policy on loan loss provisioning can be found in Note 13 and Note 37.

Tax legislation

Ukrainian tax, currency and customs legislation is subject to varying interpretations. The fiscal year of the Bank is the calendar year. Refer to Note 18.

Deferred tax assets

Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits, together with future tax planning strategies.

Initial recognition of related party transactions

In the normal course of business, the Bank enters into transactions with its related parties. IAS 39 requires initial recognition of financial instruments based on their fair values. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analysis. Particularly, the related parties of the Bank include such entities as international financial institutions. Facilities provided by these entities in developing countries are at rates lower than those provided by commercial organisations. On the other hand, lending by these entities can be considered as a specific market as such rates are applied to all entities receiving facilities from international financial institutions. Based on this no gain on initial recognition of such facilities was recognised. Terms and conditions of related party balances are disclosed in Note 55.

Going concern

The Bank's management has made an assessment of the Bank's ability to continue as a going concern and is satisfied that the Bank has the resources to continue in business for the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt upon the Bank's ability to continue as a going concern.

5) Accounting Developments

Standards, amendments and interpretations effective on or after 1 January 2012

The following amendments to standards or interpretations were issued by the IASB in 2010 or before and become effective for annual periods beginning on or after 1 January 2012:
Amendments to IFRS 7 "Financial Instruments: Disclosures"

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

Other amendments resulting from Improvements to the following standards did not have any impact on the accounting policies, financial position or performance of the Bank:

- IAS 12 Income Taxes (Amendment) – Deferred Taxes: Recovery of Underlying Assets
- IFRS 1 First-Time Adoption of International Financial Reporting Standards (Amendment) – Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopter

Standards and interpretations issued but not yet effective

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

IFRS 10 Consolidated Financial Statements
IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in IAS 27. In addition IFRS 10 introduces specific application guidance for agency relationships. IFRS 10 replaces the portion of IAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12 Consolidation — *Special Purpose Entities*. It is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted. Currently the Bank evaluates possible effect of the adoption of IFRS 10 on its financial position and performance.

IFRS 11 Joint Arrangements
IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. IFRS 11 supersedes IAS 31 Interests in Joint Ventures and SIC-13 Jointly Controlled Entities—Non-monetary Contributions by Venturers and is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted. Currently the Bank evaluates possible effect of the adoption of IFRS 11 on its financial position and performance.

IFRS 12 Disclosure of Interests in Other Entities
IFRS 12 is effective for annual periods beginning on or after 1 January 2013. IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. In particular, the Bank will need to disclose more information about the consolidated and unconsolidated structured entities with which it is involved or which it has sponsored. However, the standard will have no impact on Bank's financial position or performance.

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

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

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

Amendments to IAS 19 Employee Benefits

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

Amendments to IAS 1 Changes to the Presentation of Other Comprehensive Income
The amendments to IAS 1 change the grouping of items presented in other comprehensive income. Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, net losses or gains on available-for-sale financial assets) would be presented separately from items that will never be reclassified (for example, revaluation of buildings). The amendment affects presentation only and has no impact on the Bank's financial position or performance. The amendment becomes effective for annual periods beginning on or after 1 July 2012.

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

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

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

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

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

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

IFRS 1 First-time Adoption of International Financial Reporting Standards: This improvement clarifies that an entity that stopped applying IFRS in the past and chooses, or is required, to apply IFRS, has the option to re-apply IFRS 1. If IFRS 1 is not re-applied, an entity must retrospectively restate its financial statements as if it had never stopped applying IFRS.

IAS 1 Presentation of Financial Statements: This improvement clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative information is the previous period.

IAS 16 Property Plant and Equipment: This improvement clarifies that major spare parts and servicing equipment that meet the definition of property plant and equipment are not inventory.

IAS 32 Financial Instruments, Presentation: This improvement clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 Income Taxes.
IAS 34 Interim Financial Reporting: The amendment aligns the disclosure requirements for total segment assets with total segment liabilities in interim financial statements. This clarification also ensures that interim disclosures are aligned with annual disclosures.

These amendments and interpretations, certainly, will have no impact on the Bank.

6) Presentation Currency

These financial statements are presented in thousands of Ukrainian hryvnia (UAH thousands). For computational reasons, the figures in the tables may exhibit rounding differences of ± one unit.

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

B. Summary of Significant Accounting Policies

7) Measurement Basis

These financial statements have been prepared under the historical cost basis, unless IFRS requires recognition at fair value. Fair value is defined as the amount at which a transaction could be concluded between two knowledgeable, willing parties at arm's length. IFRS define a hierarchy of fair value determination which reflects the relative reliability of the various ways of obtaining a fair value:

(a) Active market: Quoted price (Level 1)
Use quoted prices for identical financial instruments in active markets.

(b) Valuation technique using observable inputs (Level 2)
Use quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets or use valuation models where all significant inputs are observable.

(c) Valuation technique with significant non-observable inputs (Level 3)
Use valuation models where one or more significant inputs are not observable.

Only if the first best way of determining the fair value is not available may the next best determination method be applied. If possible, the Bank obtains fair values from quoted market prices; otherwise, the next best available measurement technique is applied.

Financial instruments measured at fair value for accounting purposes on an ongoing basis include all instruments at fair value through profit or loss and financial instruments classified as available-for-sale. Details on the applied measurement techniques for the statement of financial position items are part of the accounting policies listed below. Reporting and valuation are conducted according to the going concern assumption.

8) Financial Assets

The Bank classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, and available-for-sale financial assets. There is no held-to-maturity category. Management determines the classification of financial assets at initial recognition.

(a) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading ("trading assets"), i.e. the derivatives held, and financial assets designated at fair value through profit or loss at inception. The Bank does not apply hedge accounting.

Financial assets are designated at fair value through profit or loss when they are:
- part of a separate portfolio that is managed and evaluated on a fair value basis in accordance with a documented risk management or investment strategy;
- contains derivative financial instrument, which could not be measures reliably as separate instrument.

Information about fair value of this portfolio delivers to Bank's management on monthly basis.

Financial assets at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement. Subsequently, they are carried at fair value. Gains and losses arising from changes in their fair value are immediately recognised in the income statement of the period as "net result from financial assets at fair value through profit or loss".

Purchases and sales of financial assets at fair value through profit or loss are recognised on the trade date – the date on which the Bank commits to purchase or sell the asset.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Bank provides money, goods or services directly to a debtor with no intention of trading the receivable.

Loans and receivables are initially recognised at fair value plus transaction costs; subsequently they are measured at amortised cost using the effective interest method. At each statement of financial position date and whenever there is evidence of potential impairment, the Bank assesses the value of its loans and receivables. Their carrying amount may be reduced, as a consequence, through the use of an allowance account (see Note 13 for the accounting policy for impairment of loans, and Note 37 for details on impairment of loans). If the amount of the impairment loss decreases, the impairment allowance is reduced accordingly, and the amount of the reduction is recognised in the income statement. The upper limit on the reduction of the impairment is equal to the amortised costs which would have been recognised as of the evaluation date if there had not been any impairment.

Loans are recognised when the principal is advanced to the borrowers. Loans and receivables are derecognised when the rights to receive cash flows from the financial assets have expired or where the Bank has transferred substantially all risks and rewards of ownership.

Loss on initial recognition

When the transaction price differs from the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets, the Bank immediately recognises the difference between the transaction price and fair value (a 'Day 1' profit or loss) in the income statement. The amount of difference is amortised over the life-time of the financial instrument using the effective interest method and profit or loss is recognised in the income statement.

(c) Available-for-sale financial investments

Available-for-sale investments are those intended to be held for an indefinite amount of time and which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

At initial recognition, available-for-sale financial investments are recorded at fair value plus transaction costs. Subsequently they are carried at fair value. The fair values reported are either observable market prices or values calculated with a valuation technique based on currently observable market data. For very short-term financial investments it is assumed that the fair value is best reflected by the transaction price itself. Gains and losses arising from changes in fair value of available-for-sale financial investments are recognised directly in other comprehensive income, until the financial investments is derecognised or impaired. At this time, the cumulative gain or loss previously recognised in other comprehensive income is reclassified to profit or loss as "gains and losses from available-for-sale financial investments". Interest calculated using the effective interest method and foreign currency gains and losses on investments classified as available-for-sale are recognised in the income statement. Dividends on available-for-sale equity instruments are recognised in the income statement when the Bank's right to receive the payment is established.

Purchases and sales of available-for-sale financial investments are recorded on their settlement date. The available-for-sale financial investments are derecognised when the rights to receive cash flows from the investments have expired or where the Bank has transferred substantially all risks and rewards of ownership.

9) Foreign Currency Translation

(a) Functional and presentation currency

The Bank's functional currency is the national currency of Ukraine, the Ukrainian hryvnia (UAH). Monetary assets and liabilities are translated into the functional currency at the NBU's official exchange rate at the respective statement of financial position dates. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement (trading result). Translation at year-end rates does not apply to non-monetary items, including equity investments. Effects of exchange rate changes on their fair value of equity securities are recorded as part of the fair value gain or loss.

The Bank uses the Ukrainian hryvnia (UAH) as the currency in which it presents its financial statements.

Change of presentation currency

The Bank's revenues, profits and cash flows are primarily generated in its functional currency - UAH, and are expected to remain principally denominated in UAH in the future. During the year, the Bank changed the currency in which it presents its financial statements from USD to UAH, in order to better reflect its underlying performance and to comply with new regulatory requirements. A change in presentation currency is treated as a change in accounting policy and accounted for retrospectively. Financial information included in the Bank's financial statements for the years ended 31 December 2011 and 31 December 2010 previously reported in USD (presented as comparative information in these financial statements) has been restated into UAH using the procedures outlined below:

- assets and liabilities previously presented in USD were translated back into UAH at the closing rates of exchange on the relevant reporting date;
- income and expenditure previously presented in USD were translated back into UAH at the rates at dates of transactions;
- the cumulative translation reserves were fully eliminated as result of retranslations above;
- share capital, share premium and the other reserves were translated back into UAH at the historic rates at the date of each transaction;
- all exchange rates were extracted from the Bank's underlying financial records.

The Bank always prepared for internal purposes reports in UAH, the functional currency, so the information for the restatement of comparatives was already available.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions.

Monetary items denominated in foreign currency are translated at the closing rate on the reporting date. In the case of changes in the fair value of monetary assets denominated in foreign currency classified as available-for-sale, a distinction is made between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortised cost are recognised in the income statement, while other changes in the carrying amount are recognised in other comprehensive income.

Non-monetary items measured at historical cost denominated in foreign currency are translated at the exchange rate as of the date of initial recognition.

The principal UAH rates of exchange used in the preparation of these financial statements are as follows:

Currency	**31 December 2012, UAH**	**31 December 2011, UAH**	**31 December 2010, UAH**
1 US dollar (USD)	7.993	7.9898	7.9617
1 euro (EUR)	10.537172	10.298053	10.573138
1 Russian ruble (RUB)	0.26316	0.24953	0.26124

10) Comparatives

In order to comply with the requirements of International financial reporting standards and to meet the objective of providing information that is useful in making economic decisions the Bank can adjust the corresponding figures to conform to the presentation of the current year amounts. There were no changes regarding the disclosure and presentation in the financial statements, except conversion due to change of presentation currency, as mentioned above.

11) Cash and Cash Equivalents

Cash and cash equivalents comprise cash on hand, cash balances with the National Bank of Ukraine (other than restricted balances – mandatory reserve deposits), correspondent accounts and overnight placements with other banks and other money market instruments that are highly liquid and readily convertible to known amounts of cash with insignificant risk of changes in value.

12) Loans and Receivables

The amounts reported under receivables from customers consist mainly of loans and advances issued.

In addition to overnight and term deposits, the amounts reported under receivables from banks include current account balances.

All loans and receivables due from banks as well as loans and advances to customers fall under the category "loans and receivables" and are carried at amortised cost, using the effective interest method. Amortised premiums and discounts are accounted for over the respective terms in the income statement under net interest income. Impairment of loans is recognised through separate allowance accounts (see Note 13).

13) Allowance for Impairment of Financial Assets

(a) Assets carried at amortised cost – loans and advances

Impairment of loans and advances

The Bank assesses at each statement of financial position date whether there is objective evidence that a financial asset or a group of financial assets is impaired. If there is objective evidence that impairment of a credit exposure or a portfolio of credit exposures has occurred which influences the future cash flow of the financial asset(s), the respective losses are immediately recognised. Depending on the size of the credit exposure, such losses are either calculated on an individual loan basis or are collectively assessed for a portfolio of credit exposures. The carrying amount of the loan is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. The Bank does not recognise losses from expected future events.

• Individually assessed loans and advances
Credit exposures are considered individually significant if they exceed USD 30 thousand (2011: USD 30 thousand). For such credit exposures, a determination is made as to whether objective evidence of impairment exists, i.e. any factors that might influence the customer's ability to fulfil his contractual payment obligations towards the Bank:
- delinquencies in contractual payments of interest or principal:
- breach of covenants or conditions
- initiation of bankruptcy proceedings
- any specific information on the customer's business (e.g. reflected by cash flow difficulties experienced by the client);
- changes in the customer's market environment;
- the general economic situation.

Additionally, the aggregate exposure to the client and the realisable value of collateral held are taken into account when deciding on the allowance for impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the carrying amount of asset and the present value of its estimated future cash flows discounted at the financial asset's original effective interest rate (specific impairment). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

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.

• Collectively assessed loans and advances
There are two cases in which credit exposures are collectively assessed for impairment:
- individually insignificant credit exposures that show objective evidence of impairment;
- a group of credit exposures which do not show signs of impairment, in order to cover all losses which have already been incurred but not detected on an individual credit exposure basis.

For the purposes of the evaluation of impairment of individually insignificant credit exposures, the credit exposures are grouped on the basis of similar credit risk characteristics, i.e. according to the number of days they are in arrears. Arrears of 30 or more days are considered to be a sign of impairment. This characteristic is relevant for the estimation of future cash flows for the defined groups of such assets, based on historical loss experiences with loans that showed similar characteristics.

The collective assessment of impairment for individually insignificant credit exposures (lump-sum impairment) and for unimpaired credit exposures (portfolio-based impairment) belonging to a group of financial assets is based on a quantitative analysis of historical default rates for loan portfolios with similar risk characteristics (migration analysis).

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 in the group and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience.

Reversal of impairment

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, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement.

Writing off loans and advances

When a loan is uncollectible, it is written off against the related allowance for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the allowance for loan impairment in the income statement.

Restructured credit exposures

Restructured credit exposures which are considered to be individually significant are impaired on an individual basis. The amount of the loss is measured as the difference between the restructured loan's carrying amount and the present value of its estimated future cash flows discounted at the loan's original effective interest rate (specific impairment). Restructured credit exposures which are individually insignificant are collectively assessed for impairment.

Assets acquired in exchange for loans (repossessed property)

Non-financial assets acquired in exchange for loans as part of an orderly realisation are reported in "other assets". The asset acquired is recorded at the lower of its fair value less costs to sell and the carrying amount of the loan at the date of exchange. No depreciation is charged for assets held for sale. Any subsequent write-down of the acquired asset to fair value less costs to sell is recognised in the income statement in "other operating income". Any subsequent increase in the fair value less costs to sell, to the extent this does not exceed the cumulative write-down, is also recognised in "other operating income", together with any realised gains or losses on disposal.

(b) Assets classified as available-for-sale

The Bank assesses at each statement of financial position date whether there is objective evidence that a financial asset or group of financial assets is impaired. In determining whether an available-for-sale financial asset is impaired the following criteria are considered:

- deterioration of the ability or willingness of the debtor to service the obligation;
- a political situation which may significantly impact the debtor's ability to repay;
- additional events that make it unlikely that the carrying amount may be recovered.

The Bank primarily invests in government securities with fixed or variable interest rates. Impairments on these investments are recognised when objective evidence exists that the government is unable or unwilling to service these obligations.

In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is reclassified from "Other comprehensive income" to the income statement.

Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement at any point thereafter. 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 the income statement, the impairment loss is reversed.

14) Derivative Financial Instruments

Derivatives are initially recognised at the fair value of the consideration given (when acquiring financial assets) or received (when undertaking financial liabilities). Subsequently, derivatives are measured at fair value. If possible, fair values are obtained from quoted markets or from recent market transactions. Otherwise, they are appraised via discounted cash flow models or option pricing models, as appropriate (see Note 7). Derivatives with a positive fair value are carried as financial assets and reported under "Financial assets at fair value through profit or loss". Derivatives with a negative fair value are carried as financial liabilities and are reported under "Financial liabilities at fair value through profit or loss".

The resulting fair value gain or loss is recognised immediately in the income statement.

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

15) Intangible Assets

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised on the basis of the expected useful lives. Software has a maximum expected useful life of 5 years.

16) Premises, Leasehold Improvements and Equipment

Premises, leasehold improvements and equipment are stated at cost, less accumulated depreciation and provision for impairment, where required.

Construction in progress is carried at cost, less provision for impairment where required. Upon completion, assets are transferred to premises and leasehold improvements at their carrying amount. Construction in progress is not depreciated until the asset is available for use.

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

At each reporting date, management assesses whether there is any indication of impairment of premises 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 the income statement. 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 the income statement.

Depreciation of premises, leasehold improvements and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives on the following basis (in years):

Premises	20
Computers and equipment	3-5
Furniture and fittings	5-7
Leasehold improvements	over the lower of: term of the underlying lease or term of useful life

Depreciation of premises, leasehold improvements and equipment starts when an asset is available for use.

The residual value of an asset is the estimated amount that the Bank 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 each statement of financial position date.

17) Leases

Finance leases – the Bank as lessor
When assets are held subject to a finance lease, the present value of the minimum lease payments is recognised as a receivable from customers under "loans and advances to customers" at the commencement date of the lease term. Initial direct costs are included in the initial measurement of the lease receivables. Payments received under leases are divided into an amortisation component which is not recognised in the income statement and an income component. The income component is recognised under "interest income". Premiums received are recognised over the term of the lease using the effective interest method under "interest income".

Operating lease – the Bank as lessee
Leases of assets under which the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. Lease payments under an operating lease are recognised in the income statement under administrative expenses on a straight-line basis over the lease term.

18) Income Tax

Income taxes have been provided for in the financial statements in accordance with Ukrainian legislation enacted or substantively enacted by the statement of financial position date. The income tax charge comprises current tax and deferred tax and is recognised in the income statement unless it is recognised directly in “other comprehensive income” because it relates to transactions that are also recognised, in the same or a different period, directly in “other comprehensive income”.

Current tax
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. Taxes, other than on income, are recorded within “administrative and other operating expenses”.

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

Uncertain tax positions
The Bank's uncertain tax positions are reassessed by the management at every reporting date. Liabilities are recorded for income tax positions that are determined by the 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 statement of financial position date and any known Court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognised based on the management’s best estimate of the expenditure required to settle the obligations at the statement of financial position date.

19) Borrowings

Borrowings which include liabilities to banks and customers, debt securities in issue, other borrowed funds from international financial institutions and subordinated debt are recognised initially at fair value net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between proceeds net of transaction costs and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

If the Bank purchases its own debt securities in issue, they are removed from the 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 consists mainly of liabilities to shareholders and other international financial institutions which in the event of insolvency or liquidation are not repaid until all non-subordinated creditors have been satisfied.

All financial liabilities are derecognised when they are extinguished – that is, when the obligation is discharged, cancelled or expires.

20) Provisions for Liabilities and Charges

Provisions for liabilities and charges are non-financial liabilities of uncertain timing or amount. They are accrued when the Bank 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.

21) Financial Guarantee Contracts

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss which he incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of customers to secure loans, overdrafts and other banking facilities.

Financial guarantees are initially recognised in the financial statements at fair value on the date the guarantee was given. Subsequent to initial recognition, the Bank’s liabilities under such guarantees are measured at the higher of the initial measurement, less amortisation calculated to recognise in the income statement the fee income earned on a straight-line basis over the life of the guarantee and the best estimate of the expenditure required to settle any financial obligation arising at the statement of financial position date. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgement of management.

22) Share Capital and Other Reserves

Ordinary shares and non-redeemable preference shares are both 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. Excess of fair value of consideration received on nominal value of issued shares is accounted as share premium.

Dividends on ordinary shares are recognised in equity in the period in which they are approved by the Bank's shareholders.

Revaluation reserve of AFS securities
This reserve records fair value changes on investment securities available-for-sale.

Basis for distribution of profit and other disbursements is financial statements of the Bank.

23) Interest Income and Expense

Interest income and expenses for all interest-bearing financial instruments, except for those classified as at fair value through profit or loss, are recognised within "interest income" and "interest expense" in the income statement using the effective interest method.

Interest income and expense are recognised in the income statement in the period in which they arise.
Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the original effective interest rate applied to the new carrying amount. Payments received in respect of written-off loans are not recognised in net interest income and reduce the allowance for impairment of loans and advances accordingly.

24) Fee and Commission Income and Expenses

Fee and commission income and expenses are recognised on an accrual basis when the service has been provided.
Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate of the loan.

25) Dividend Income

Dividends are recognised in the income statement when the entity's right to receive payment is established.

26) Amendments of the Financial Statements after Issue

Any changes to these financial statements require the approval of the Bank's management who originally authorised these financial statements for issue.

27) Staff Costs and Related Contributions

Wages, salaries, contributions to Ukraine's state pension and social insurance funds, annual leave and sick leave, and non-monetary benefits are accrued in the year in which the associated services are rendered by the employees of the Bank.

C. Notes to the Income Statement

28) Interest Income and Expense

	2012	2011
Interest income		
Loans and advances to customers	361,461	389,192
Due from other banks	4,003	2,307
Investment securities available-for-sale	704	1,072
	366,168	**392,571**
Net result from financial assets at fair value through profit or loss	1,009	-
Total interest income	**367,177**	**392,571**
Interest expense		
Customer accounts	(74,563)	(60,705)
Other borrowed funds	(18,621)	(28,524)
Subordinated debt	(7,629)	(10,297)
Debt securities in issue	(12,812)	(8,281)
Due to other banks	(893)	(1,938)
Total interest expense	**(114,518)**	**(109,745)**
Net interest income	**252,659**	**282,826**

Interest income and expense arising from transactions with related parties are disclosed in Note 55.

29) Fee and Commission Income and Expense

	2012	2011
Fee and commission income		
- Settlement and cash transactions	35,343	33,008
- Debit cards	31,601	27,566
- Foreign exchange operations	13,980	13,159
- Other	2,052	2,749
Total fee and commission income	**82,976**	**76,482**
Fee and commission expense		
- Settlement and cash transactions	(3,563)	(3,283)
- Debit cards	(7,098)	(8,039)
Total fee and commission expense	**(10,661)**	**(11,322)**
Net fee and commission income	**72,315**	**65,160**

Fee and commission expense arising from transactions with related parties are disclosed in Note 55.

30) Administrative and Other Operating Expenses

	Note	2012	2011
Staff costs		(141,177)	(131,112)
Operating lease expense for premises		(22,232)	(20,363)
Business travel, training expenses		(12,352)	(9,198)
Depreciation of premises, leasehold improvements and equipment	39	(12,021)	(11,559)
Repair and maintenance		(11,775)	(10,368)
Management fee		(11,320)	(12,345)
Advertising, marketing and entertainment		(7,884)	(5,912)
Taxes other than on income		(7,032)	(5,927)
Office expenses		(6,615)	(6,332)
Professional services		(6,403)	(5,781)
Mail and telecommunications		(5,119)	(6,526)
Security services		(3,205)	(1,767)
Other		(3,124)	(504)
Amortisation of computer software licences	40	(2,485)	(2,274)
Total administrative and other operating expenses		**(252,744)**	**(229,968)**

Included in staff costs are statutory social security and pension contributions of UAH 35,749 thousand (2011: UAH 32,989 thousand). Information on administrative and other expenses from transactions with related parties is disclosed in Note 55.

31) Income Taxes

Income tax expense comprises the following:

	2012	2011
Current tax expenses	5,912	-
Adjustment in respect of current tax from prior years	-	216
Deferred tax expense/(credit)	5,497	5,306
Income tax expense/(credit) for the year	**11,409**	**5,522**

The income tax rate applicable to the Bank’s income is 21% (2011: 23%). Reconciliation between the expected and the actual taxation charge is provided below.

	2012	2011
Profit /(loss) before tax	**36,987**	**28,473**
Theoretical tax expenses/(credit) at the statutory rate (2012: 21%; 2011: 23%)	7,767	6,549
Tax effect of items which are not deductible or assessable for taxation purposes:		
Non-deductible expenses	1,787	3,920
Effect of tax rate change	12,999	10,712
Change in unrecognised deferred tax asset	(11,144)	11,144
Adjustment in respect of current tax of prior year	-	(26,803)
Income tax credit for the year	**11,409**	**5,522**

In calculating current taxes on income and earnings the currently valid local tax rate is applied. For calculating deferred taxes tax rates have been applied according to the period when the assets are expected to be realised or liabilities are expected to be settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

In accordance with the new Tax Code, which became effective on 1 January 2011, while corporate income tax provisions took effect from 1 April 2011, the tax rate was 21% as at 31 December 2012 and will gradually decrease further to 19% and 16% in 2013 and 2014, respectively.

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

	31 December 2011	**Income Statement**	**Comprehensive Income**	**31 December 2012**
Tax effect of deductible/(taxable) temporary differences:				
Loans and Advances to Customers	22,581	(12,654)	-	9,927
Premises, leasehold improvements and equipment	8,808	(628)	-	8,180
Other accrued income and other assets	82	57	-	139
Accrued interest expense	365	(21)	-	344
Other accrued expenses	1,304	(116)	-	1,188
Revaluation reserve of AFS securities	-	-	17	17
Tax loss carried forward	15,357	(3,279)	-	12,078
Unrecognized deferred tax assets	(11,144)	11,144	-	-
Net deferred tax asset	**37,353**	**(5,497)**	**17**	**31,873**

	31 December 2010	**Income statement**	**Comprehensive Income**	**31 December 2011**
Tax effect of deductible/(taxable) temporary differences:				
Loans and Advances to Customers	13,301	9,280	-	22,581
Premises, leasehold improvements and equipment	8,515	293	-	8,808
Other accrued income and other assets	157	(75)	-	82
Accrued interest expense	-	365	-	365
Other accrued expenses	1,854	(550)	-	1,304
Revaluation reserve of AFS securities	(170)	-	170	-
Tax loss carried forward	18,832	(3,475)	-	15,357
Unrecognized deferred tax assets	-	(11,144)	-	(11,144)
Net deferred tax asset	**42,489**	**(5,306)**	**170**	**37,353**

D. Notes to the Statement of Financial Position

32) Cash and Cash Equivalents

	2012	2011
Cash on hand	93,318	98,864
Cash balances with the National Bank of Ukraine (other than mandatory reserve deposit)	54,432	34,897
Correspondent accounts and overnight placements with other banks		
- Ukraine	11,839	3,107
- Other countries	140,774	86,698
Total cash and cash equivalents	**300,363**	**223,566**

The credit quality of cash and cash equivalents except cash on hand balances as at 31 December 2012 may be summarised based on the lowest of the ratings assigned to the counterparties by the international rating agencies (Fitch, IBCA and Moody's) as follows:

	Cash balances with the NBU, excluding mandatory reserves	Correspondent accounts and overnight placements with other banks	Total
Neither past due nor impaired			
National Bank of Ukraine	54,432		**54,432**
A+ rated	-	140,773	**140,773**
BB- rated	-	3,401	**3,401**
B- rated	-	8,439	**8,439**
Total cash and cash equivalents, excluding cash on hand	**54,432**	**152,613**	**207,045**

The credit quality of cash and cash equivalents, excluding cash on hand, balances as at 31 December 2011 may be summarised based on the lowest out of the ratings assigned to the counterparties by the international rating agencies (Fitch, IBCA and Moody's) as follows:

	Cash balances with the NBU, excluding mandatory reserves	Correspondent accounts and overnight placements with other banks	Total
Neither past due nor impaired			
National Bank of Ukraine	34,897	-	**34,897**
A+ rated	-	84,127	**84,127**
BB- rated	-	2,392	**2,392**
B- rated	-	3,107	**3,107**
Unrated	-	179	**179**
Total cash and cash equivalents, excluding cash on hand	**34,897**	**89,805**	**124,702**

Currency and maturity analyses of cash and cash equivalents are disclosed in Note 51. Refer to Note 53 for the estimated fair value of each class of cash and cash equivalents and mandatory reserves.

33) Mandatory reserves in National Bank of Ukraine

Restricted outstanding balances in NBU (deposits of mandatory reserves) consist of amounts reserved under certain liabilities of the Bank and amounts reserved according to certain assets of the Bank. As at 31 December 2012 the amount of mandatory reserves with NBU was UAH 103,248 thousand (2011: UAH 100,588 thousand).

As at 31 December 2012, in accordance with the NBU regulations the Bank is required to maintain not less than 100% (31 December 2011: 95%) of the mandatory reserve balance for the preceding month, observing the following order:
- 50% of the mandatory reserve balance for the preceding month in a separate restricted account with the NBU (31 December 2011: 70%)
- the remainder of the amount in a non-restricted account with the NBU (31 December 2011: 25%).

As at 31 December 2012, the mandatory reserve balance is calculated on the basis of a simple average over a monthly period (31 December 2011: monthly period) and should be maintained at the level of 0 to 10 per cent (31 December 2011: 0 to 8 per cent) of certain liabilities of the Bank. As such, the balance can vary from day-to-day. As at 31 December 2012 outstanding amount of mandatory reserves with NBU together with 10% cover from nominal value of state securities, denominated in foreign currency was UAH 62,088 thousand (2011: 52,547 thousand). As at 31 December 2012 state securities, denominated in US dollars, with nominal value UAH 19,983 thousand were used as mandatory reserves (Note 38). This outstanding of mandatory reserves has form of percentage deposit. Interest rate determines as 30% of discount rate, established by NBU (as at 31 December 2012: 2.250%; 31 December 2011: 2.330%).

In addition, the Bank is required to keep as a non-interest bearing deposits with the NBU reserve funds in respect of loans granted in foreign currency to borrowers, who have no foreign currency cash proceeds, and balances. The reserve funds are at a level of 20% of non-resident funds deposited in the Bank for a term of less than 183 days. The part of the mandatory reserve deposit with this respect is UAH 1,326 thousand (2011: UAH 914 thousand).

34) Financial assets designated at fair value through profit and loss

As at 31 December 2012, financial assets designated at fair value through profit and loss consists of indexed bonds issued by the Ministry of Finance of Ukraine with carrying value UAH 45,135 thousand. Bonds are indexed to US dollar. The Bank did not recognised embedded derivative separately, therefore financial instruments altogether were classified as financial assets designated at fair value through profit and loss.

Part of bonds, indexed to US dollar, is collateralised under loan attracted from German Ukrainian Fund (“GUF”) (Note 44). Carrying value of these bonds is UAH 9,255 thousand.

35) Due from Other Banks

Amounts due from other banks consist of short-term placements with other banks. As at 31 December 2012 amounts due from other banks were UAH 104,014 thousand (2011: UAH 202,444 thousand).

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

Neither past due nor impaired	
A+ rated	47,966
Below B-	40,054
Unrated	15,994
Total due from other banks	**104,014**

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

Neither past due nor impaired	
A+ rated	65,523
B- rated	80,004
Unrated	56,917
Total due from other banks	**202,444**

Amounts due from other banks as at 31 December 2011 are not secured (31 December 2011: are not secured).

Refer to Note 53 for the estimated fair value of each class of “due from other banks”.

Geographical, currency and maturity analyses of “due from other banks” are disclosed in Note 51.

36) Loans and Advances to Customers

The breakdown of loans and advances to customers is presented by categories representing the original loan amounts at the origination date. Loans and advances to customers as at 31 December 2012 are as follows:

	Gross amount	Allowance for impairment	Net amount	Share of total portfolio	Number of outstanding loans	Share of total number
Business loans	**1,270,369**	**101,082**	**1,169,287**	**76,65%**	**9,283**	**67,50%**
Loan size up to USD 10 thousand	97,040	4,304	92,736	6,08%	3,375	24,60%
Loan size from USD 10 to USD 30 thousand	272,247	12,099	260,148	17,05%	3,592	26,10%
Loan size from USD 30 to USD 150 thousand	577,616	46,744	530,872	34,80%	2,066	15,00%
Loan size more than USD 150 thousand	323,466	37,935	285,531	18,72%	250	1,80%
Agricultural loans	**311,646**	**20,755**	**290,891**	**19,07%**	**790**	**5,70%**
Loan size up to USD 10 thousand	1,409	43	1,366	0,09%	59	0,40%
Loan size from USD 10 to USD 30 thousand	23,690	1,140	22,550	1,48%	233	1,70%
Loan size from USD 30 to USD 150 thousand	150,943	5,998	144,945	9,50%	410	3,00%
Loan size more than USD 150 thousand	135,604	13,574	122,030	8,00%	88	0,60%
Housing improvement loans	**23,066**	**808**	**22,258**	**1,46%**	**2,087**	**15,20%**
Loan size up to USD 10 thousand	22,727	792	21,935	1,44%	2,082	15,10%
Loan size from USD 10 to USD 30 thousand	339	16	323	0,02%	5	0,10%
Finance leases	**12,219**	**1,289**	**10,930**	**0,72%**	**11**	**0,00%**
Loan size from USD 10 to USD 30 thousand	151	6	145	0,01%	1	0,00%
Loan size from USD 30 to USD 150 thousand	2,992	261	2,731	0,18%	5	0,00%
Loan size more than USD 150 thousand	9,076	1,022	8,054	0,53%	5	0,00%
Consumer loans*	**18,391**	**1,090**	**17,301**	**1,13%**	**1,242**	**9,10%**
Loan size up to USD 10 thousand	6,466	310	6,156	0,40%	1,176	8,60%
Loan size from USD 10 to USD 30 thousand	2,963	285	2,678	0,18%	44	0,30%

Loan size from USD 30 to USD 150 thousand	8,414	484	7,930	0,52%	21	0,20%
Loan size more than USD 150 thousand	548	11	537	0,04%	1	0,00%
Other loans	**15,922**	**1,154**	**14,768**	**0,97%**	**347**	**2,50%**
Loan size up to USD 10 thousand	1,768	74	1,694	0,11%	257	1,90%
Loan size from USD 10 to USD 30 thousand	4,122	417	3,705	0,24%	56	0,40%
Loan size from USD 30 to USD 150 thousand	10,032	663	9,369	0,61%	34	0,20%
Total	**1,651,613**	**126,178**	**1,525,435**	**100,00%**	**13,760**	**100,00%**

*Consumer loans also include overdrafts to private individuals.

Loans and advances to customers as at 31 December 2011 are as follows:

	Gross amount	Allowance for impairment	Net amount	Share of total portfolio	Number of outstanding loans	Share of total number
Business loans	**1,446,352**	**142,543**	**1,303,809**	**78,23%**	**9,717**	**67,10%**
Loan size up to USD 10 thousand	94,019	4,697	89,322	5,36%	3,759	26,00%
Loan size from USD 10 to USD 30 thousand	242,677	15,180	227,497	13,65%	3,396	23,40%
Loan size from USD 30 to USD 150 thousand	664,135	61,901	602,234	36,14%	2,266	15,70%
Loan size more than USD 150 thousand	445,521	60,765	384,756	23,09%	296	2,00%
Agricultural loans	**297,040**	**10,546**	**286,494**	**17,19%**	**755**	**5,20%**
Loan size up to USD 10 thousand	2,110	53	2,057	0,12%	83	0,60%
Loan size from USD 10 to USD 30 thousand	21,825	555	21,270	1,28%	236	1,60%
Loan size from USD 30 to USD 150 thousand	145,537	3,851	141,686	8,50%	368	2,50%
Loan size more than USD 150 thousand	127,568	6,087	121,481	7,29%	68	0,50%
Housing improvement loans	**26,014**	**942**	**25,072**	**1,50%**	**2,183**	**15,10%**
Loan size up to USD 10 thousand	25,609	917	24,692	1,48%	2,175	15,00%
Loan size from USD 10 to USD 30 thousand	405	25	380	0,02%	8	0,10%
Finance leases	**13,223**	**1,332**	**11,891**	**0,71%**	**11**	**0,00%**

Loan size from USD 30 to USD 150 thousand	3,245	271	2,974	0,18%	5	0,00%
Loan size more than USD 150 thousand	9,978	1,061	8,917	0,54%	6	0,00%
Consumer loans*	**18,564**	**1,162**	**17,402**	**1,04%**	**1,326**	**9,20%**
Loan size up to USD 10 thousand	6,433	232	6,201	0,37%	1,266	8,70%
Loan size from USD 10 to USD 30 thousand	3,282	348	2,934	0,18%	38	0,30%
Loan size from USD 30 to USD 150 thousand	8,849	582	8,267	0,50%	22	0,20%
Other loans	**23,343**	**1,400**	**21,943**	**1,32%**	**486**	**3,40%**
Loan size up to USD 10 thousand	2,465	125	2,340	0,14%	360	2,50%
Loan size from USD 10 to USD 30 thousand	6,844	641	6,203	0,37%	82	0,60%
Loan size from USD 30 to USD 150 thousand	13,457	623	12,834	0,77%	43	0,30%
Loan size more than USD 150 thousand	577	11	566	0,03%	1	0,00%
Total	**1,824,536**	**157,925**	**1,666,611**	**100,00%**	**14,478**	**100,00 %**

*Consumer loans also include overdrafts to private individuals.

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

	2012		2011	
	Amount	**%**	**Amount**	**%**
Trade	831,980	50	969,539	53
Agriculture and food industry	311,646	19	297,039	16
Manufacturing	158,482	10	178,178	10
Services	146,080	9	177,181	10
Transport and communication	129,828	8	113,720	6
Individuals	57,379	3	67,921	4
Other	16,218	1	20,958	1
Total loans and advances to customers (before impairment)	**1,651,613**	**100**	**1,824,536**	**100**

As at 31 December 2012, the Bank had 7 borrowers (2011: 18 borrowers) with aggregated loan amounts above USD 1,000 thousand. The total aggregate amount of these loans was UAH 73,515 thousand (2011: UAH 197,639 thousand) or 4.45% of the gross loan portfolio (2011: 10.8%).

Information about collateral that covers the risk relevant to the loan portfolio as at 31 December 2012 is as follows:

	Business loans	Agricul -tural loans	Housing improve-ment loans	Finance leases	Consumer loans	Other loans	Total
Unsecured loans	183,614	1,398	22,974	12,219	7,336	1,410	**228,951**
Loans collateralised by:							
- residential real estate	274,812	10,275	68	-	7,902	12,751	**305,808**
- other real estate	456,611	76,361	-	-	1,526	399	**534,897**
- cash deposits	9,690	659	-	-	1,188	11	**11,548**
- vehicles	284,336	186,836	24	-	435	1,341	**472,972**
- other assets	61,306	36,117	-	-	4	10	**97,437**
Total loans and advances to customers (before impairment)	**1,270,369**	**311,646**	**23,066**	**12,219**	**18,391**	**15,922**	**1,651,613**

Information about collateral that covers the risk relevant to the loan portfolio as at 31 December 2011 is as follows:

	Business loans	Agricul -tural loans	Housing improve-ment loans	Finance leases	Consume r loans	Other loans	Total
Unsecured loans	145,255	2,069	25,561	3,517	6,772	1,452	**184,626**
Loans collateralised by:							
- residential real estate	333,291	10,702	290	3,349	8,805	17,420	**373,857**
- other real estate	586,885	85,458	-	6,357	1,771	588	**681,059**
- cash deposits	11,106	1,206	-	-	220	1,050	**13,582**
- vehicles	259,933	164,131	163	-	988	2,814	**428,029**
- other assets	109,882	33,474	-	-	8	19	**143,383**
Total loans and advances to customers (before impairment)	**1,446,352**	**297,040**	**26,014**	**13,223**	**18,564**	**23,343**	**1,824,536**

Finance lease
Included in gross loan portfolio are finance lease receivables. The analysis of finance lease receivables as at 31 December 2012 is as follows:

	Not later than 1 year	Later than 1 year and not later than 5 years	Later than 5 years
Gross investment in finance leases	1,903	7,849	6,949
Unearned future finance income on finance leases	(944)	(2,618)	(920)
Net investment in finance leases	**959**	**5,231**	**6,029**

The analysis of finance lease receivables as at 31 December 2011 is as follows:

	Not later than 1 year	Later than 1 year and not later than 5 years	Later than 5 years
Gross investment in finance leases	1,698	8,346	8,410
Unearned future finance income on finance leases	(913)	(2,906)	(1,412)
Net investment in finance leases	**785**	**5,440**	**6,998**

Refer to Note 50 for the estimated fair value of the collateral as at 31 December 2012.

Refer to Note 53 for the estimated fair value of each class of “loans and advances to customers”.

Currency and maturity analyses of “loans and advances to customers” are disclosed in Note 51. The information on related party balances is disclosed in Note 55.

37) Allowance for Impairment on Loans and Advances to Customers

Allowances for impairment on loans and advances to customers as at 31 December 2012 are as follows:

	Gross outstanding amount	Allowance for impairment	Net outstanding amount
Individually significant impaired loans	**155,739**	**(67,701)**	**88,038**
Business	136,108	(55,995)	80,113
Agricultural	16,054	(11,107)	4,947
Consumer	1,565	(278)	1,287
Other	2,012	(321)	1,691
Individually insignificant impaired loans	**23,008**	**(11,414)**	**11,594**
Business	15,325	(9,191)	6,134
Agricultural	987	(768)	219
Housing improvement	518	(328)	190
Consumer	2,348	(514)	1,834
Other	3,830	(613)	3,217
Collectively assessed loans	**1,472,866**	**(47,063)**	**1,425,803**
Business	1,118,936	(35,896)	1,083,040
Agricultural	294,605	(8,880)	285,725
Housing improvement	22,548	(480)	22,068
Finance leases	12,219	(1,289)	10,930
Consumer	14,478	(298)	14,180
Other	10,080	(220)	9,860
Total	**1,651,613**	**(126,178)**	**1,525,435**

Allowance for impairment on loans and advances to customers as at 31 December 2011 were as follows:

	Gross outstanding amount	Allowance for impairment	Net outstanding amount
Individually significant impaired loans	**298,792**	**(95,400)**	**203,392**
Business	264,171	(90,293)	173,878
Agricultural	15,384	(4,494)	10,890
Consumer	6,584	(336)	6,248
Other	12,653	(277)	12,376
Individually insignificant impaired loans	**25,445**	**(8,919)**	**16,526**
Business	14,438	(6,821)	7,617
Agricultural	60	(10)	50
Housing improvement	653	(391)	262
Consumer	3,865	(664)	3,201
Other	6,429	(1,033)	5,396
Collectively assessed loans	**1,500,299**	**(53,606)**	**1,446,693**
Business	1,167,743	(45,429)	1,122,314
Agricultural	281,596	(6,042)	275,554
Housing improvement	25,361	(551)	24,810
Finance leases	13,223	(1,332)	11,891
Consumer	8,115	(162)	7,953
Other	4,261	(90)	4,171
Total	**1,824,536**	**(157,925)**	**1,666,611**

Movements in the allowance for impairment on loans and advances to customers during 2012 are as follows:

	Business loans	Agricul-tural loans	Housing improve-ment loans	Finance leases	Consu-mer loans	Other loans	Total
As at 1 January 2012	**142,543**	**10,546**	**942**	**1,332**	**1,162**	**1,400**	**157,925**
Allowances for impairment during the year	76,234	11,656	777	(44)	1,093	302	**90,018**
Sale of LP	(19,690)	-	-	-	-	-	**(19,690)**
Currency translation differences	88	6	1	1	1	1	**98**
Amounts written-off during the year as uncollectible	(91,220)	(16)	(912)	-	(1,166)	(549)	**(93,863)**
Unwinding cash flow calculation	(6,873)	(1,437)	-	-	-	-	**(8,310)**
Recovery of loans and advances to customers previously written off as uncollectible	32,130	193	1,041	-	480	27	**33,871**
As at 31 December 2012	**101,082**	**20,755**	**808**	**1,289**	**1,090**	**1,154**	**126,178**

During the year 2012 the Bank sold loans to customers with carrying value of UAH 26,145 thousand (before impairment) and impairment of UAH 19,690 thousand at the sale date. The Bank recognised net gain on sale of loan portfolio of UAH 7,291 thousand within impairment losses.

Movements in the allowance for impairment on loans and advances to customers during 2011 were as follows:

	Business loans	Agricul-tural loans	Housing improve-ment loans	Finance leases	Consu-mer loans	Other loans	Total
As at 1 January 2011	**162,537**	**3,737**	**755**	**936**	**932**	**1,002**	**169,899**
Allowances for impairment during the year	107,766	7,390	1,014	392	1,042	1,117	**118,721**
Currency translation differences	627	14	3	4	4	4	**656**
Amounts written off during the year as uncollectible	(110,764)	(297)	(830)	-	(777)	(165)	**(112,833)**
Interest accrued on impaired loans	(17,623)	(298)	-	-	(39)	(558)	**(18,518)**
Recovery of loans and advances to customers previously written off as uncollectible	16,176	36	837	-	192	17	**17,258**
As at 31 December 2011	**142,543**	**10,546**	**942**	**1,332**	**1,162**	**1,400**	**157,925**

38) Financial Investments Available for Sale

	2012	2011
Treasury bills of the Ministry of Finance	20,190	-
Investments available-for-sale	424	250
Total financial investments available-for-sale	**20,614**	**250**

As at 31 December 2012, financial investments available-for-sale were neither past due nor impaired.

Currency and maturity analyses of financial investments available-for-sale as at 31 December 2012 are disclosed in Note 51.

39) Premises, Leasehold Improvements and Equipment

The changes in premises, leasehold improvements and equipment are as follows:

	Note	Land & buildings	Leasehold improvements	Assets under construction	Furniture and fixtures	IT and other equipment	Total
Cost at 1 January 2011		68,838	11,859	10,205	44,223	38,578	**173,703**
Accumulated depreciation		(12,725)	(9,192)	-	(34,897)	(34,838)	**(91,652)**
Net book value as at 1 January 2011		**56,113**	**2,667**	**10,205**	**9,326**	**3,740**	**82,051**
Additions		208	-	651	996	7,731	**9,586**
Transfers		8,525	-	(8,525)	-	-	**-**
Disposals		(918)	-	-	(212)	(431)	**(1,561)**
Transfer to Assets held for sale		(1,002)	-	(1,761)	-	-	**(2,763)**
Depreciation and amortisation charge	30	(3,585)	(1,338)	-	(4,301)	(2,335)	**(11,559)**
Net book value as at 31 December 2011		**59,341**	**1,329**	**570**	**5,809**	**8,705**	**75,754**
Cost at 31 December 2011		74,915	11,493	570	43,675	43,743	**174,396**
Accumulated depreciation		(15,574)	(10,164)	-	(37,866)	(35,038)	**(98,642)**
Net book value as at 31 December 2011		**59,341**	**1,329**	**570**	**5,809**	**8,705**	**75,754**
Additions		-	358	2,071	3,979	1,761	**8,169**
Transfers		-	2,567	(2,567)	-	-	**-**
Disposals		(4,350)	(269)	(74)	(341)	(18)	**(5,052)**
Depreciation and amortisation charge	30	(3,477)	(1,361)	-	(3,319)	(3,864)	**(12,021)**
Net book value as at 31 December 2012		**51,514**	**2,624**	**-**	**6,128**	**6,584**	**66,850**
Cost at 31 December 2012		69,299	10,825	-	44,239	44,378	**168,741**
Accumulated depreciation		(17,785)	(8,201)	-	(38,111)	(37,794)	**(101,891)**
Net book value as at 31 December 2012		**51,514**	**2,624**	**-**	**6,128**	**6,584**	**66,850**

Assets under construction consist mainly of the construction and refurbishment of branch premises. Upon completion when assets are available for use they are transferred to “Land & buildings”.

The land and buildings have a fair value of UAH 100, 199 thousand (2011: UAH 112,539 thousand).

The gross carrying amount of fully amortised premises and equipment that is still in use equals to UAH 64,705 thousand (2011: UAH 51,401 thousand).

40) Intangible Assets

The changes in intangible assets are as follows:

Computer software licences

	Note	2012	2011
Cost as at 1 January		16,856	15,317
Accumulated amortisation		(11,764)	(9,703)
Net book value as at 1 January		**5,092**	**5,614**
Additions		7,321	1,752
Disposals		(157)	-
Amortisation charge	30	(2,485)	(2,274)
Net book value as at 31 December		**9,771**	**5,092**
Cost as at 31 December		24,012	16,856
Accumulated amortisation		(14,241)	(11,764)
Net book value as at 31 December		**9,771**	**5,092**

41) Other Financial and Non-financial Assets

	2012	2011
Other financial assets		
Guarantee deposits	7,692	6,719
Total other financial assets	**7,692**	**6,719**
Other non-financial assets		
Prepayments for tangible and intangible assets	2,585	1,491
Other prepaid expenses	3,009	2,537
Repossessed property	35,451	18,622
Assets held for sale	629	3,008
Other non-financial assets	3,408	535
Total other non-financial assets	**45,082**	**26,193**
Total other financial and non-financial assets	**52,774**	**32,912**

The carrying value of repossessed properties is either the written-off loan's previous carrying amount or the fair value less cost to sell, whichever is the lower. The following table shows a breakdown of repossessed property:

	2012	2011
- residential real estate	4,562	1,787
- other real estate	30,812	16,835
- transport	77	-
Total	**35,451**	**18,622**

The credit quality of other financial assets as at 31 December 2012, based on the lowest out of the ratings assigned to the counterparties by the international rating agencies (Fitch, IBCA and Moody's), may be summarised as follows:

Neither past due nor impaired	
below B- rated	7,692
Total other financial assets	**7,692**

The credit quality of other financial assets as at 31 December 2011, based on the lowest out of the ratings assigned to the counterparties by the international rating agencies (Fitch, IBCA and Moody's), may be summarised as follows:

	Guarantee deposits
Neither past due nor impaired	
A+ rated	292
B- rated	6,427
Total other financial assets	**6,719**

Currency and maturity analyses of other financial assets are disclosed in Note 51. Refer to Note 53 for the estimated fair value of each class of other financial assets. The information on related party balances is disclosed in Note 55.

42) Customer Accounts

Liabilities to customers consist of deposits due on demand, savings deposits and term deposits. The following table shows a breakdown by customer group:

	2012	2011
Current accounts	**544,213**	**508,145**
- private individuals	186,375	152,985
- legal entities	357,838	355,160
Savings accounts	**364,711**	**406,139**
- private individuals	306,510	368,446
- legal entities	58,201	37,693
Term deposit accounts	**668,384**	**605,019**
- private individuals	627,619	582,193
- legal entities	40,765	22,826
Other liabilities to customers	**900**	**2,652**
Total	**1,578,208**	**1,521,955**

Savings accounts are interest bearing accounts. Customers can deposit to and withdraw from such accounts at any time. Interest is accrued over daily outstanding balances on such accounts. The interest rate can be unilaterally changed by the Bank based on market interest rates once a year only. Transactions on these accounts are limited to cash depositing and withdrawals, as well as transfers to/from accounts belonging to the same holder.

Economic sector concentrations within customer accounts are as follows:

	2012		2011	
	Amount	%	Amount	Amount
Individuals	1,120,504	71	1,103,624	73
Services	161,491	10	126,094	8
Trade	146,632	9	116,350	8
Industry and other production	38,209	2	38,899	3
Agriculture and food processing	35,610	2	27,995	2
Activities of membership organisations	16,324	1	20,135	1
Transport and communication	24,691	2	20,054	1
Construction	18,457	1	14,769	1
Embassies and consulates	10,013	1	17,797	1
Other	6,277	1	36,238	2
Total customer accounts	**1,578,208**	**100**	**1,521,955**	**100**

As at 31 December 2012, the Bank had 16 customers (2011: 12 customers) with balances above USD 500 thousand (near UAH 4,000 thousand). The aggregate balance of these customers was UAH 94,924 thousand (2011: UAH 81,265 thousand) or 6% (2011: 5%) of total customer accounts.

As at 31 December 2011, included in customer accounts are deposits of UAH 1,218 thousand (2011: UAH 2,350 thousand) held as collateral for irrevocable commitments under guarantees issued, covered letters of credit and loans. Refer to Note 54.

Refer to Note 53 for the estimated fair value of each class of customer account. Currency and maturity analyses of customer accounts are disclosed in Note 51. The information on related party balances is disclosed in Note 55.

43) Debt Securities in Issue

As at 31 December 2012, the Bank has debt securities in issue with a total nominal value of UAH 100,000 thousand and carrying value of UAH 102,099 thousand (2011: UAH 102,751 thousand) denominated in Ukrainian hryvnia. These bonds mature in May 2015, have a coupon rate of interest of 13.5% and weighted average yield to maturity of 13.3%.

Holders of the bonds have the right to present the bonds for early redemption at nominal value in May 2013. Under the terms of issue of the bonds the Bank had the right to change the coupon rate on the bonds starting from May 2013, but the coupon rate should not be lower than 3% per annum.

44) Other Borrowed Funds

Liabilities to international financial institutions are an important source of financing for the Bank. Long-term loans from international financial institutions are reported under this item.

				Balance outstanding	
Counterparty	**Currency**	**Date of contract**	**Maturity date**	**2012**	**2011**
ProCredit Holding AG	UAH	30.11.2010	30.11.2012	-	21,924
ProCredit Holding AG (accrued interest on unused amount of credit line)	USD	12.04.2010	30.09.2011	83	10
International Finance Corporation (“IFC”)	USD	21.05.2008	15.05.2015	88,901	124,291
Kreditanstalt für Wiederaufbau (“KfW”)	USD	12.12.2007	30.12.2014	70,828	106,074
Kreditanstalt für Wiederaufbau (“KfW”)	USD	12.08.2008	30.12.2015	26,521	35,293
Kreditanstalt für Wiederaufbau (“KfW”)	USD	12.08.2008	30.12.2015	31,824	42,346
Kreditanstalt für Wiederaufbau (“KfW”)	USD	12.08.2008	30.12.2015	21,315	28,408
Kreditanstalt für Wiederaufbau (“KfW”)	USD	17.10.2009	06.10.2014	4,884	4,882
GUF	UAH	05.11.2012	02.10.2017	9,137	-
Total other borrowed funds				**253,493**	**363,228**

During 2012 the Bank repaid:
- four loans of UAH 62,166 thousand to Kreditanstalt für Wiederaufbau (“KfW”)
- a loan of UAH 35,518 thousand partially to International Finance Corporation (“IFC”)
- liabilities of UAH 21,227 thousand that were at the beginning 2012 and loan of UAH 7,993 thousand to ProCredit Holding (“PCH”) that was attracted during 2012.

Total amount repaid during the year 2012 was UAH 126,904 thousand (2011: UAH 287,549 thousand).

The following table gives a breakdown of liabilities to international financial institutions grouped by the type of interest rate under the respective loan agreements and by the term over which the relevant liabilities are due.

	Due	2012	2011
Liabilities with fixed interest rates		**106,247**	**161,298**
	up to 1 year	83	21,934
	up to 2 years	75,712	-
	up to 3 years	21,315	110,956
	up to 4 years	-	28,408
	more than 4 years	9,137	-
Liabilities with variable interest rates		**147,246**	**201,930**
	up to 3 years	147,246	-
	up to 4 years	-	201,930
Total		**253,493**	**363,228**

Refer to Note 54 for the information on the fulfilling of the commitments on covenants (if any) according to the respective loan agreements with international financial institutions.

Refer to Note 53 for the estimated fair value of other borrowed funds.

Currency and maturity analyses of other borrowed funds are disclosed in Note 51. The information on related party balances is disclosed in Note 55.

45) Other Financial and Non-financial Liabilities

	2012	2011
Other financial liabilities		
Amount payable and other accruals	5,566	3,825
Accrual for unused vacation	4,993	4,866
Total other financial liabilities	**10,559**	**8,691**
Other non-financial liabilities		
Provisions for off-balance sheet credit risk	29	59
Other	1,024	745
Total other non-financial liabilities	**1,053**	**804**
Total other financial and non-financial liabilities	**11,612**	**9,495**

Currency and maturity analyses of other financial liabilities are disclosed in Note 51. The information on related party balances is disclosed in Note 55.

46) Subordinated Debt

Subordinated debt represents a long-term borrowing agreement, which, in the case of the Bank's default, would be secondary to the Bank'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 subordinated debt can be broken down as follows:

Counterparty	Cur-rency	Date of contract	Maturity date	Balance outstanding 2012	2011
ProCredit Holding	USD	23.05.2005	22.05.2015	-	63,935
ProCredit Holding	USD	28.09.2006	03.10.2016	22,404	22,383
ProCredit Holding	USD	17.12.2008	21.12.2018	25,951	25,940
Total Subordinated Debt				**48,355**	**112,258**

Refer to Note 53 for the estimated fair value of subordinated debt.

The currency and maturity analyses of subordinated debt are disclosed in Note 51. The information on related party balances is disclosed in Note 55.

47) Share Capital

As at 31 December 2012 and 31 December 2011 ordinary share capital consists of 625,712 shares with nominal value of UAH 476.79 per share and total nominal value of UAH 298,333 thousand.

As at 31 December 2011, all of the Bank's outstanding shares were authorised, issued and fully paid up.

All shares are divided into ordinary and preference shares. Each ordinary share carries one vote. The preference shares carry no voting rights except for the cases explicitly provided by Ukrainian laws, but are granted a preferred right to receive dividends as well as a priority participation in the distribution of assets in the event of liquidation.

The shareholding structure of the Bank as at 31 December 2012, based on share types, was as follows:

Shareholder	Number of shares owned	% in share capital	Nominal value
Voting shares			
European Bank for Reconstruction and Development	95,214	20	45,400
ProCredit Holding AG	285,667	60	136,200
Kreditanstalt für Wiederaufbau (KfW)	95,220	20	45,400
Total voting capital	**476,101**	**100**	**227,000**
Non-voting preference shares			
Kreditanstalt für Wiederaufbau (KfW)	149,611	100	**71,333**
Total non-voting capital	**149,611**	**100**	**71,333**
Total capital	**625,712**		**298,333**

E. Risk Management

48) Management of the Overall Bank Risk Profile – Capital Management

Capital management – objectives

The Bank is not allowed to take on more risk than it is capable of bearing. This rule is put into operation using a system of different indicators for which target and limit ratios have been established. The indicators for the Bank include, in addition to regulatory standards, a Basel II capital adequacy calculation, a Tier I leverage ratio and a risk-bearing capacity model.

The capital management of the Bank has the following objectives:

- Ensuring that the Bank is equipped with a sufficient volume and quality of capital at all times to cope with (potential) losses arising from different risks even under extreme circumstances.
- Full compliance with external capital requirements set by the regulator.
- Meeting the internally defined minimum capital adequacy requirements.
- Enabling the Bank to implement its plans for continued growth while following its business strategy.

Capital management – processes and procedures

The capital management of the Bank is governed by the Group Policy on Capital Management and the Group Policy on Risk Bearing Capacity. Regulatory and Basel II capital ratios, the Tier I leverage ratio and the risk bearing capacity are monitored on a monthly basis by the Bank through the Assets and Liabilities Committee (ALCO), the Market Risk Management Committee and the ProCredit Group Risk Management Committee.

Capital management – compliance with external and internal capital requirements

External minimum capital requirements are imposed and monitored by the National Bank of Ukraine. Capital adequacy is calculated and reported to the respective risk committee at the Bank on a monthly basis. These reports include rolling forecasts to ensure not only current but also future compliance.

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 in 2012 at a level of at least 10%. During the reporting period, all regulatory capital requirements were met at all times. Regulatory capital is based on the Bank’s reports prepared under Ukrainian accounting standards and comprises:

	2012	**2011**
Statutory capital ratio (N2)	15,60%	17,20%

Additionally, capital adequacy is monitored by using a uniform capital adequacy calculation method across the ProCredit group in accordance with the guidelines of the Basel Committee (Basel II). The calculation of the capital adequacy ratio is based on the Bank’s IFRS financial statements and as at the reporting dates comprises:

	2012	**2011**
Tier 1 capital	240,932	240,932
Tier 2 capital	39,325	82,135
Total regulatory capital	**280,257**	**323,067**
Risk weighted assets	2,009,023	2,198,462
Tier I capital ratio	**11,99%**	**10,96%**
Total capital ratio	**13,95%**	**14,70%**

Some reduction of the capital adequacy ratio in 2012 compared to 2011 year was the result of prematurely partial repayment of subordinated debt. This repayment was made primarily to cut interest expenses of the Bank.

The Tier I leverage ratio (defined as a proportion of the sum of on- and off-balance sheet assets plus exposures from derivatives), is monitored on a monthly basis. It should not fall below a minimum of 5%. The Bank has been in compliance with this limit since the indicator was introduced and stayed well above this level at all times, at the end of 2012 the ratio stood at 9.0%.

Risk bearing capacity

In addition to regulatory capital ratios the Bank assesses its capital adequacy by using the concept of risk bearing capacity to reflect the specific risk profile of the Bank, i.e. comparing the potential losses arising from its operations with the Bank's capacity to bear such losses.

The risk bearing capacity of the Bank is defined as the Bank's equity (net of intangibles) plus subordinated debt. The Resources Available to Cover Risk (RAtCR) was set at 60% of the risk-taking potential. For calculating potential losses in the different risk categories the following concepts were used:

- Credit risk (clients):
  The historical loss rates and their statistical distribution are calculated based on a regularly updated migration analysis of the loan portfolio. The historical loss rates for different arrears categories (at a 99.75% confidence level) are applied to the current loan portfolio to calculate potential loan losses.
- Counterparty risk:
  The calculation of potential losses due to counterparty risk is based on the probability of default arising from the respective international rating of the counterparty or its respective country of operation.
- Market risks:
  Whereas historical currency fluctuations are statistically analysed and the highest variances (99% confidence level) are applied to current currency positions, the interest rate risk is calculated by determining the economic value impact of standard interest rate shocks for EUR/USD (2 percentage points, Basel interest rate shock) and higher (historical) shock level for UAH.
- Operational risk:
  The Basel II standard approach is used to calculate the respective value. It is based on a maximal volume of potential losses arising from operations with retail and corporate clients.

Other risks have been assessed as not sufficiently relevant for the Bank or as relevant, but not quantifiable, e.g. liquidity risk.

The Bank's utilisation of its RAtCRs was moderate up to 31 December 2012.

The table below shows the distribution of the RAtCRs among the different risk categories as determined by the Market Risk Committee and the level of utilisation as at 31 December 2012.

Risk Factor	**Risk Detail**	**Target (in %)**	**Target**	**Actual**	**Target used (in % of target)**
Credit Risk		33,00%	90,417	2,065	2,28%
Counterparty Risk	Commercial Banks	1,00%	2,740	109	3,96%
	Central Banks	4,00%	10,960	12,343	112,62%
Market Risk	Currency Risk	2,00%	5,480	1,563	28,53%
	Interest Rate Risk	10,00%	27,399	25,504	93,08%
Operational Risk		10,00%	27,399	40,958	149,49%
Total		**60,00%**	**164,395**	**82,542**	**50,21%**

The table below shows the distribution of the Resources Available to Cover Risk (or RAtCRs) among the different risk categories as determined by the Market Risk Committee and the level of utilisation as at 31 December 2011.

Risk Factor	Risk Detail	Limit (in %)	Limit	Actual	Limit used (in % of limit)
Credit Risk		25,00%	87,051	75,676	87,00%
Counterparty Risk	Commercial Banks	1,00%	3,485	419	12,00%
	Central Banks	9,00%	31,341	10,186	32,50%
Market Risk	Currency Risk	10,00%	34,818	12,480	35,90%
	Interest Rate Risk	2,50%	8,704	19,617	225,40%
Operational Risk		12,50%	43,522	35,794	82,30%
Total		**60,00%**	**208,921**	**154,172**	**73,90%**

During 2012 in the model "ability to utilise risks" were made minor changes. In particular, the concept of limits for individual risk types has been replaced with target value, and the redistribution of target values between different types of risk took place in comparison with year 2011.

49) Management of Individual Risks

In 2012, the procedures for the management and reporting of individual risks in the Bank were further developed and refined in line with corresponding improvements at group level in order to further enhance the group's risk management to comply with the German Minimum Requirements for Risk Management (MaRisk) regulations and Basel II requirements. In particular, additional processes were introduced for the management of:

- credit risk
- counterparty risk
- interest rate risk
- foreign currency risk
- liquidity risk
- operational risk and fraud risk
- anti-money laundering activities.

The Bank places special emphasis on a general understanding of the factors driving risk and an ongoing analysis and company-wide discussion of possible developments/scenarios and their potential adverse impacts. The objectives of risk management include ensuring that all material risks are recognised in a timely manner, understood completely, and described appropriately. This includes, for example, ensuring that no products or services are offered unless they are thoroughly understood by all parties and can be handled.

All limits for individual risks within which the Bank positions its own risk strategy are consistent and monitored at group level. Limited deviations are only allowed for stricter limits (i.e. in cases where such limits are stipulated by local law, e.g. for currency risk) or if approved by the Group Risk Management Committee.

50) Credit Risk

Credit risk is defined as the danger that the party to a credit transaction will not be able or will only partially be able to meet its contractually agreed obligations towards the Bank. Credit risk arises from customer credit exposures (classic credit risk), credit exposure from interbank placements and issuer risk. It is further divided into credit default risk and credit portfolio risk in order to facilitate focused risk management. Credit risk is the single largest risk faced by the Bank.

Credit default risk from customer credit exposures
Credit default risk from customer credit exposures is defined as the risk of losses due to a potential non-fulfilment of the contractual payment obligations associated with a customer credit exposure.

The management of credit default risk from customer credit exposures is based on a thorough implementation of the Bank's lending principles:

- intensive analysis of the debt capacity of the Banks' clients
- careful documentation of the credit risk assessments, assuring that the analysis performed can be understood by knowledgeable third parties
- rigorous avoidance of over indebting the Bank's clients
- building a personal and long-term relationship with the client and maintaining regular contact

- strict monitoring of loan repayment
- practising tight arrears management
- exercising strict collateral collection in the event of default
- investing in well-trained and highly motivated staff
- implementing carefully designed and well-documented processes
- rigorous application of the “four-eyes principle”

The differentiation between individually significant and insignificant credit exposures leads to distinct processes in lending for the different types of credit exposures – processes that have been demonstrated in the past to ensure an effective management of credit default risk. The processes are distinguished mainly in terms of segregation of duties which is fully implemented for individually significant credit exposures that are risk-relevant. The information collected from the clients range from audited financial statements to self-declarations. The key criteria for credit exposure decision are based on the financial situation of the client in particular for individually insignificant credit exposures - the liquid funds and creditworthiness of the client and the collateral requirements.

As a general rule, the lower the amount of the credit exposure, the stronger the documentation provided by the client, the shorter the term of the credit exposure, the longer the client’s history with the Bank and the higher the turnover of the client with the Bank, the lower will be the collateral requirements.

The decision-making process ensures that all credit decisions on individually significant exposures, and all decisions on individually insignificant exposures, are taken by a credit committee. As a general principle, the Bank considers it very important to ensure that its lending business is conducted on the basis of organisational guidelines that provide for appropriate rules governing organisational structures and operating procedures; job descriptions that define the respective tasks; a clear allocation of decision-making authority; and a clear definition of responsibilities.

Credit exposures in arrears are defined as credit exposures for which contractual interest and/or principal payments are overdue. The higher quality of the loan portfolio than an average one in a banking sector reflects the application of the above lending principles and the results of the application of early warning indicators and appropriate monitoring, in particular of the individually significant credit exposures. This is a crucial element of the Bank’s strategy for managing arrears in the current economic crisis that is affecting a large number of its clients. Once arrears occur, the Bank rigorously follows up on the non-repayment of the credit exposures, and by so doing typically identifies any potential for default on a credit exposure. Strict rules are applied regarding credit exposures for which, in the Bank’s view, there is no realistic prospect that the credit exposure will be repaid and where typically the realisation of collateral has either been completed or the outcome of the realisation process is uncertain. The Bank’s recovery and collection efforts are performed by specialised employees, typically with either a lending or legal background.

The effectiveness of this tight credit risk management is reflected in the comparably low arrears rate exhibited by the loan portfolio.

The quality of the loan portfolio is monitored on an ongoing basis. The measure for loan portfolio quality is the portfolio at risk (PAR), which the Bank defines as all credit exposures outstanding with one or more payments of interest and/or principal in arrears by more than 30 days. This measure was chosen because the vast majority of all credit exposures have fixed instalments with monthly payment of principal and interest. Exceptions are seasonal agricultural loans and investment loans, which typically have a grace period of up to six months. No collateral is deducted and no other exposure-reducing measures are applied when determining PAR.

Additionally, the quality of credit operations is assured by the credit controlling department which is responsible for monitoring the Bank’s credit operations and compliance with its procedures. This unit, made up of experienced lending staff, ensures compliance in form and substance, with the lending policy and procedures through on-site checks and system screening.

Credit portfolio risk from customer lending
The granularity of the credit exposure portfolio is a highly effective credit risk mitigating factor. The core business of the Bank, lending to very small and small enterprises, necessitates a high degree of standardisation in lending processes and ultimately leads to a high degree of diversification of these exposures in terms of geographic distribution and economic sectors. Nevertheless, lending to medium-sized enterprises, i.e. larger credit exposures exceeding the threshold of EUR 150 thousand (UAH 1.6 million) constitutes a supplementary area of the Bank’s business in terms of its overall strategic focus. Most of these clients are dynamically growing enterprises that have been working with the Bank for many years. Nonetheless, the higher complexity of these businesses requires an appropriate analysis of the business, the project that is to be financed and any connected entities. A strict division of front and back office functions is applied and requirements for both documentation and collateral are typically more stringent.

The structure of the loan portfolio is regularly reviewed by the Credit Portfolio Risk Committee in order to identify potential events which could have an impact on large areas of the loan portfolio (common risk factors) and, if necessary, limit the exposure towards certain sectors of the economy.

The Bank follows a guideline that limits concentration of risk in its loan portfolio by ensuring that large credit exposures (those exceeding 10% of regulatory capital) require an approval by the Group Risk Management Committee. No single large credit exposure may exceed 25% of the Bank’s regulatory capital.

Individually significant credit exposures are closely monitored by the Credit Risk Management Committee and the Monitoring and Provisioning Committee. For such credit exposures, the committee assesses whether any objective evidence of impairment exists, i.e.:

- more than 30 days in arrears
- delinquencies in contractual payments of interest or principal
- breach of covenants or conditions
- initiation of bankruptcy proceedings
- any specific information on the customer’s business (e.g. reflected by cash flow difficulties experienced by the client)
- changes in the customer’s market environment
- the general economic situation

Additionally, the realisable net value of collateral held is taken into account when deciding on the allowance for impairment. For the calculation of individual impairment, a discounted cash flow approach is applied. Refer to Note 35 for the amount of individual impairment of credit exposures to customers.

Individually significant credit exposures for which there is no need for an individual impairment allowance are covered by portfolio-based impairment allowances. For individually insignificant credit exposures which show objective evidence of impairment, i.e. which are in arrears for more than 30 days, a lump-sum approach is applied; the impairment is determined according to the number of days in arrears. In addition, individual credit exposures which are regarded as insignificant, or groups of individually insignificant credit exposures, may be classified as impaired if events, such as political unrest, a significant economic downturn, a natural disaster or other external events occur in the country. For all unimpaired credit exposures a portfolio-based impairment is calculated.

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

	Business loans	Agricul-tural loans	Housing improve-ment loans	Finance leases	Consumer loans	Other loans	Total
Neither past due nor impaired loans	**1,088,386**	**290,175**	**22,198**	**11,053**	**14,364**	**10,067**	**1,436,243**
Past due but not impaired loans	**30,550**	**4,430**	**350**	**1,166**	**114**	**13**	**36,623**
1 to 7 days	19,628	2,897	147	1,166	48	-	23,886
8 to 30 days	8,499	1,533	203	-	66	13	10,314
91 to 180 days	573	-	-	-	-	-	573
> 180 days	1,850	-	-	-	-	-	1,850
Collectively impaired loans	**29,081**	**987**	**518**	**-**	**3,848**	**5,842**	**40,276**
0 days	16,958	30	78	-	3,598	5,842	26,506
1 to 7 days	302	-	-	-	-	-	302
8 to 30 days	1,739	-	-	-	2	-	1,741
31 to 60 days	1,495	146	185	-	155	-	1,981
61 to 90 days	1,197	198	67	-	14	-	1,476
91 to 180 days	3,835	294	146	-	44	-	4,319
> 180 days	3,555	319	42	-	35	-	3,951
Individually impaired loans	**122,352**	**16,054**	**-**	**-**	**65**	**-**	**138,471**
0 days	37,371	466	-	-	-	-	37,837
1 to 7 days	1,632	-	-	-	-	-	1,632
8 to 30 days	6,898	854	-	-	-	-	7,752
31 to 60 days	2,913	3,357	-	-	-	-	6,270
61 to 90 days	1,500	1,479	-	-	-	-	2,979
91 to 180 days	14,797	1,171	-	-	-	-	15,968
> 180 days	57,241	8,727	-	-	65	-	66,033
Total	**1,270,369**	**311,646**	**23,066**	**12,219**	**18,391**	**15,922**	**1,651,613**

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

	Business loans	Agricul-tural loans	Housing improve-ment loans	Finance leases	Consumer loans	Other loans	Total
Neither past due nor impaired loans	**1,131,072**	**277,252**	**25,135**	**13,223**	**8,038**	**4,254**	**1,458,974**
Past due but not impaired loans	**36,671**	**4,344**	**226**	**-**	**77**	**7**	**41,325**
1 to7 days	18,465	890	119	-	24	-	19,498
8 to 30 days	18,206	3,454	107	-	53	7	21,827

Collectively impaired loans	**14,438**	**60**	**653**	**-**	**3,865**	**6,429**	**25,445**
0 days	5,529	60	121	-	3,774	6,419	15,903
1 to7 days	433	-	-	-	-	-	433
8 to 30 days	172	-	-	-	-	-	172
31 to 60 days	2,878	-	110	-	27	-	3,015
61 to 90 days	1,603	-	169	-	52	10	1,834
91 to 180 days	3,823	-	253	-	12	-	4,088
Individually impaired loans	**264,171**	**15,384**	**-**	**-**	**6,584**	**12,653**	**298,792**
0 days	68,319	4,312	-	-	6,530	12,653	91,814
1 to7 days	1,554	-	-	-	-	-	1,554
8 to 30 days	3,891	623	-	-	-	-	4,514
31 to 60 days	9,366	1,186	-	-	-	-	10,552
61 to 90 days	12,046	-	-	-	53	-	12,099
91 to 180 days	18,121	977	-	-	-	-	19,098
> 180 days	150,874	8,286	-	-	1	-	159,161
Total	**1,446,352**	**297,040**	**26,014**	**13,223**	**18,564**	**23,343**	**1,824,536**

Restructuring of a credit exposure is generally necessitated by economic problems encountered by the client that adversely affect the payment capacity, mostly caused by the significantly changed macro-economic environment in which the Bank's clients currently operate. Restructuring follows a thorough, careful and individual analysis of the client's changed payment capacity. The decision to restructure a credit exposure is always taken by a credit committee and aims at full recovery of the credit exposure. If a credit exposure is restructured, amendments are made to the parameters of the loan. Otherwise, these credit exposures for which the terms have been renegotiated would be past due or impaired.

The level of credit exposure defaults to be expected within a given year is analysed regularly, based on past experience in this area. Incurred losses are fully covered with loan loss provisions. Individually significant and some individually insignificant credit exposures are reviewed for impairment on an individual basis (= specific impairment). Impairment for individually insignificant credit exposures in arrears is calculated on a portfolio basis at historical default rates (see Note 13 for further explanation); 30 or more days in arrears is considered as objective evidence of impairment. For all unimpaired credit exposures, portfolio-based allowances for impairment are made, again based on historical loss experience.

The table below presents the customer loan exposures which were restructured as at 31 December 2012:

Loans to customers	**Loan portfolio**	**Watch restructured**		**Impaired restructured**		**Total restructured**	
		Restruc-tured loans	**Restructured loans in % of loan portfolio**	**Restruc-tured loans**	**Restructured loans in % of loan portfolio**	**Restruc-tured loans**	**Restructured loans in % of loan portfolio**
Business	1,270,369	107,652	8,48%	64,689	5,09%	172,341	13,57%
Agricultural	311,646	25,177	8,08%	1,350	0,43%	26,527	8,51%
Housing improvement	23,066	185	0,80%	78	0,34%	263	1,14%
Finance leases	12,219	9,462	77,44%	-	-	9,462	77,44%
Consumer	18,391	23	0,12%	3,599	19,57%	3,622	19,69%
Other	15,922	-	-	5,843	36,70%	5,843	36,70%
Total	**1,651,613**	**142,499**	**8,63%**	**75,559**	**4,57%**	**218,058**	**13,20%**

The table below presents the customer loan exposures which were restructured as at 31 December 2011:

Loans to customers	**Loan portfolio**	**Watch restructured**		**Impaired restructured**		**Total restructured**	
		Restructured loans	**Restructured loans in % of loan portfolio**	**Restructured loans**	**Restructured loans in % of loan portfolio**	**Restructured loans**	**Restructured loans in % of loan portfolio**
Business	1,446,352	176,702	12,22%	79,899	5,52%	256,601	17,74%
Agricultural	297,040	3,327	1,12%	4,994	1,68%	8,321	2,80%
Housing improvement	26,014	299	1,15%	121	0,46%	420	1,61%
Finance leases	13,223	9,706	73,40%	-	-	9,706	73,40%
Consumer	18,564	53	0,29%	10,305	55,51%	10,358	55,80%
Other	23,343	-	-	19,073	81,71%	19,073	81,71%
Total	**1,824,536**	**190,087**	**10,42%**	**114,392**	**6,27%**	**304,479**	**16,69%**

According to group policy, only very small credit exposures and/or short-term credit exposures may be issued without being fully collateralised. Credit exposures with a higher risk profile are always covered with solid collateral, typically through mortgages.

The fair value of collateral is taken into consideration and the significant amount of collateral gives the Bank confidence that sufficient credit risk coverage is being taken into account when determining the allowance for impairment on loans.

The fair value of collateral covering the total loan portfolio at 31 December 2012 is set out below:

	Business Loans	**Agricultural loans**	**Housing improvement loans**	**Finance leases**	**Consumer loans**	**Other loans**	**Total**
Fair value of collateral							
- residential real estate	662,606	27,943	451	-	10,021	20,984	**722,005**
- other real estate	1,149,995	220,287	-	-	2,149	1,086	**1,373,517**
- cash deposits	16,343	655	-	-	1,973	78	**19,049**
- vehicles	601,792	433,965	36	-	900	3,643	**1,040,336**
- other assets	73,281	86,656	-	-	-	-	**159,937**
Total	**2,504,017**	**769,506**	**487**	**-**	**15,043**	**25,791**	**3,314,844**

The fair value of collateral covering the total loan portfolio at 31 December 2011 is set out below:

	Business Loans	Agricultural loans	Housing improve - ment loans	Finance leases	Consumer loans	Other loans	Total
Fair value of collateral							
- residential real estate	773,513	24,602	2,397	1,763	10,496	27,125	**839,896**
- other real estate	1,353,130	213,764	-	3,720	2,246	1,086	**1,573,946**
- cash deposits	15,037	1,200	-	-	883	633	**17,753**
- vehicles	574,529	413,453	987	-	1,209	5,537	**995,715**
- other assets	92,403	79,704	-	-	-	-	**172,107**
Total	**2,808,612**	**732,723**	**3,384**	**5,483**	**14,834**	**34,381**	**3,599,417**

The group policy on the treatment of repossessed property requires that all goods obtained due to customer defaults be sold to third parties in order to avoid any conflict of interest arising from the below-market valuation of collateral. In addition, repossessed property is sold at the highest possible price, typically via public auction, and any remaining balance after the payment of principal, interest and penalty is credited to the customer's account. Most repossessed property consists of land and buildings (Refer to Note 41).

51) Financial Risks

Counterparty and issuer risk

The objective of counterparty and issuer risk management is to prevent the Bank from incurring losses caused by the unwillingness or inability of a financial counterparty (e.g. a commercial bank) or issuer to fulfil its obligations towards the Bank. This type of risk is further divided into:

- principal risk: the risk of losing the amount invested due to the counterparty's failure to repay the principal in full on time
- replacement risk: the risk of losing an amount equal to the incurred cost of replacing an outstanding deal with an equivalent one on the market
- settlement risk: the risk of loss due to the failure of a counterparty to honour its obligation to deliver assets as contractually agreed
- issuer risk: the probability of loss resulting from the default and insolvency of the issuer of a security

Counterparty and issuer risks evolve especially from the Bank's need to invest its liquidity reserve, to conclude foreign exchange transactions, or to buy protection on specific risk positions. The liquidity is placed in the interbank market with short maturities, typically up to one month. Foreign exchange transactions are also concluded with short maturities, generally within one day.

Furthermore, the Bank also has an exposure towards the National Bank of Ukraine. There are two reasons for this. Firstly, the NBU maintains the correspondent accounts of local banks in UAH. Secondly, the NBU requires financial institutions to hold a mandatory reserve in special accounts, the size of which depends on:

(a) the amount of deposits taken from customers,
(b) the amount of short-term funds in foreign currency (shorter than 6 months, excluding borrowings from supranational institutions) borrowed from abroad,
(c) the volume of loans in foreign currency disbursed to clients with no regular income in foreign currency. (Refer to Note 32).

The Bank cannot avoid this risk, but monitors its level on the ongoing basis.

The counterparty and issuer risks are managed according to the ProCredit Group Counterparty Risk Management Policy (incl. Issuer Risk), which describes the counterparty/issuer selection and the limit setting process, as well as by the ProCredit Group Treasury Policy, which specifies the set of permissible transactions and rules for their processing. As a matter of principle, only large international banks of systemic importance and local banks (mainly the biggest state-owned banks) with a good reputation and financial standing are eligible counterparties. As a general rule, the Bank applies limits of up to 10% of its regulatory capital on exposures to banking groups in non-OECD countries and up to 25% on those in OECD countries. Higher limits are subject to approval by the Group Assets and Liabilities Committee (Group ALCO).

The Bank ensures through its Assets and Liabilities Committee and Market Risk Management Committee that each counterparty is approved, including a limit for the maximum exposure, based on a thorough analysis, performed by the risk management department in collaboration with the treasury department.

Group policy forbids the Bank to conduct any speculative trading activities. However, for the purpose of investing its liquidity reserve, the Bank is allowed to buy and hold securities (including T-bonds issued by the government and Deposit Certificates issued by the National Bank of Ukraine). The inherent issuer risk is managed by the provisions of the Bank's conservative Treasury Policy, which is compliant with the ProCredit Group Treasury Policy. During 2012, the Bank did not invest in any securities other than ones issued by the government or the central bank.

The following table provides an overview of the types of counterparties and issuers with whom the Bank concludes transactions:

	Note	**2012**	**in % to Regulatory Capital**	**2011**	**in % to Regulatory Capital**
Banking groups		256,626	91,5	292,248	90,5
Ukraine	32,35	*64,486*	*23,0*	*140,028*	*43,4*
OECD banks	32,35	*188,739*	*67,3*	*149,649*	*46,3*
Non-OECD banks	32	*3,401*	*1,2*	*2,571*	*0,8*
National Bank of Ukraine		157,681	56,3	135,485	41,9
Mandatory reserves	33	*103,248*	*36,8*	*100,588*	*31,1*
Other exposures	32	*54,432*	*19,5*	*34,897*	*10,8*
Government	34, 38	65,325	23,3	0	0,0
Total		**479,632**	**171,1**	**427,733**	**132,4**

Interbank placements, interbank loans, foreign exchange transactions and derivative transactions are transactions with banks which are subdivided into those based in OECD countries and those in non-OECD countries. The exposure is distributed across three OECD, one non-OECD banking groups and four Ukrainian banks, mainly members of leading OECD-based banking groups.

The distribution of the central bank and government exposures across currencies is shown in the following table:

	UAH	**USD**	**EUR**	**Total**
National Bank of Ukraine	116,520	24,891	16,270	157,681
Mandatory reserves	62,088	24,891	16,270	103,249
Other exposures	54,432	-	-	54,432
Government	45,135	20,190	-	65,325
Total	**161,655**	**45,081**	**16,270**	**223,006**

The following table provides an overview of how the Bank's counterparty and issuer risk is broken down by product.

	2012	**in %**	**2011**	**in %**
Nostro accounts	152,613	36%	89,804	23%
Interbank placements	104,014	25%	202,444	51%
Securities	65,325	15%	0	0%
Mandatory reserves	103,248	24%	100,588	26%
Total	**425,200**	**100%**	**392,836**	**100%**

The longest interbank placement has maturity of 1 month as at 31 December 2012.

Foreign currency risk

The assets and liabilities of the Bank are denominated in more than one currency. If the assets and liabilities in one currency do not match, the Bank has an open currency position (OCP) and is exposed to potentially unfavourable changes in exchange rates.

Despite the efforts of the National Bank of Ukraine and the government to reduce the level of dollarization of the economy and boost operations in rate, foreign currency is still widely used. On the one hand, much of the savings kept in the hard currency that is the result of devaluation expectations in the medium and long term time horizon. On the other hand, the domestic economy is largely open, and foreign currency loans widely available (for example, to finance import operations), although it is prohibited for certain categories of customers. As a result, foreign currencies still play a major role for the Bank.

Currency risk management is guided by the Group Foreign Currency Risk Management Policy. Adherence to this policy is constantly monitored by a market risk unit at group level; amendments and exceptions to this policy are decided by the Group Risk Management Committee and by the Group Assets and Liabilities Committee.

The Bank’s treasury department is responsible for the continuous monitoring of developments in exchange rates and foreign currency markets. The treasury department also manages the currency positions of the Bank on a daily basis. As a general principle, all currency positions should be closed at the end of the day; long or short positions for speculative purposes are not permitted. In line with group-wide policy, derivatives may only be used for hedging purposes to close positions of the Bank or for liquidity purposes: they are, however, provided as a service to customers. Permissible foreign exchange derivatives are currency forwards (including non-deliverable forwards) and currency swaps. The Bank’s foreign currency exposures are monitored and controlled on a daily basis by the Bank’s risk management department.

Developments in the foreign exchange markets and the currency positions are regularly reported to the Bank’s ALCO, which is authorised to take strategic decisions with regard to treasury activities. In cases where exceptions to group policy may be needed or violations to group limits may have occurred, the Bank’s risk management department reports to the Group ALCO or Group Risk Management Committee and proposes appropriate measures.

The Bank aims to close currency positions and ensures that an open currency position remains within the limits at all times. For the purpose of currency risk management the Bank has established two levels of control: early warning indicators and limits. This mechanism helps to ensure that the bank’s total OCP does not exceed 10% of regulatory capital. The early warning indicators (5% of regulatory capital for the open currency position in any single currency and 7.5% for the aggregate open currency position) help to detect situations when actions should be taken in order to correct developments in the open currency position and prevent a possible breach of the limit.

The Bank’s open currency position is influenced by the specific NBU requirements. The central bank has set special regulations for the calculation of OCPs for local banks, which force those with high foreign currency loan-loss provision volumes to maintain short OCPs (in line with IFRS) in corresponding volumes. In spite of this requirement, the Bank managed to close its short OCP for USD and even enter limited long OCP in late 2012. This was mainly achieved by purchasing of state bonds, indexed to US dollar, and (partly) by performing loan write-offs in accordance with local accounting standards.

The following table shows the distribution of the Bank's statement of financial position items across its material operating foreign currencies (USD and EUR) as of 31 December 2012:

	EUR	**USD**	**Other currencies**
Assets			
Cash and cash equivalents and mandatory reserves	44,598	170,634	5,475
Financial assets available at fair value through profit or loss	-	44,000	-
Due from other banks	-	71,704	-
Loans and advances to customers	133,579	505,330	-
Investment securities avaliable-for-sale	174	20,190	-
Total assets	**178,351**	**811,858**	**5,475**
Liabilities			
Customer accounts	174,209	498,184	3,627
Other borrowed funds	-	253,489	-
Other financial liabilities	1,300	403	27
Subordinated debt	-	48,351	-
Total liabilities	**175,509**	**800,427**	**3,654**
Net position	**2,842**	**11,431**	**1,820**
Credit commitments	**10,443**	**4,090**	**-**

The following table shows the distribution of the Bank's statement of financial position items across its material operating foreign currencies (USD and EUR) as at 31 December 2011:

	EUR	USD	Other currencies
Assets			
Cash and cash equivalents and mandatory reserves	55,736	111,618	4,320
Due from other banks	30,896	167,940	-
Loans and advances to customers	89,966	733,777	-
Other financial assets	325	-	-
Total assets	**176,923**	**1,013,335**	**4,320**
Liabilities			
Customer accounts	173,528	586,216	2598
Other borrowed funds	-	341,304	-
Other financial liabilities	222	256	6
Subordinated debt	-	112,258	-
Total liabilities	**173,750**	**1,040,034**	**2,604**
Net position	**3,173**	**(26,699)**	**1,716**
Credit commitments	**10,470**	**6,006**	**250**

To assess the Bank's currency risk for risk-bearing capacity, a Value at Risk (VaR) analysis is performed on a monthly basis. The holding period is determined to be one year and the look-back period is five years. Correlation effects are included in the analysis by taking into account the historical parallel movements of each currency in which the bank has significant currency positions (i.e. USD and EUR). The results are shown in the following table:

	2012	2011
Maximum loss (VaR), 99% confidence	(1,563)	(19,617)
Average loss in case confidence interval is exceeded	(1,750)	(20,231)

Overall, in 2012 the foreign currency risk was kept as low as possible, despite restrictions caused by the regulatory requirements for calculating open currency positions.

Interest rate risk

Interest rate risk arises from structural differences between the maturities of assets and those of liabilities, e.g. if a four-year fixed interest rate loan is funded with a six-month term deposit. This would expose the Bank to the risk that the funding costs will increase before the maturity date of the loan, thus reducing the Bank's margin on the loan.

Most of the Bank's outstanding loans have fixed interest rates. The average maturity of these loans exceeds that of customer deposits, thus exposing the Bank to interest rate risks as described above. Given that financial instruments to mitigate interest rate risks (hedges) were not available on the Ukrainian market - the Bank was obliged to monitor interest rate risks closely.

The Bank's approach to measuring and managing interest rate risk is guided by the Group Interest Rate Risk Policy.

The main indicator for managing interest rate risk measures the potential impact on the economic value of all assets and liabilities. The indicator analyses the potential loss that the Bank would incur in the event of very unfavourable movements (shocks) in interest rates on assets and liabilities. For EUR or USD, a parallel shift in the interest rate curve of +/- 200 bps is assumed. For the local currency, the definition of a shock is derived from historic interest rate volatilities over the last five years. The potential economic impact on the Bank's statement of financial position must not exceed 10% of its regulatory capital for all currencies. A reporting trigger has been set at 5% per currency to provide an early warning signal.

Also regularly analysed is the potential impact of interest rate risk on the Bank's expected earnings over the next three months. This measure indicates how the income statement may be influenced by interest rate risk under a short-term perspective.

Deviations from the Group Interest Rate Risk Policy and violations of interest rate limits are subject to approval by the Group Risk Management Committee.

Interest rate risk is regularly discussed by the Bank's Market Risk Management Committee. The indicators are also reported to the Group Risk Management Committee.

In order to limit the interest rate risk, the Bank aims to align the maturities of those balance sheet items which generate interest earnings and interest expenses. Accordingly, the Bank continued increase share of loans with variable interest rates in total loan portfolio.

ProCredit Bank's main interest rate risk indicator is the economic value impact indicator. It measures the impact of interest rate changes on all interest rate-sensitive on- and off-balance sheet items and quantifies the loss in value to the bank in the event of changes in interest rates. As described above, the calculation of the economic value impact indicator is based on various parallel shifts in the interest rate curves. For USD and EUR a shift of + 200 bps is applied; for UAH the shift is defined in historical worst-case terms (+1000 bps and +1534 bps for interest rates related to client and the capital market respectively).

The Bank finished the year 2012 with a figure of 8.8% (2011: 3.9%) for the economic value impact to capital ratio, compared to the 10.0% limit. Taking into account this figure as well as other currently monitored indicators and trends in development of interest-bearing balance-sheet items, the Bank's interest rate risk is assessed as medium.

Liquidity risk

Liquidity risk in the narrowest sense (risk of insolvency) is the danger that the Bank will no longer be able to meet its current and future payment obligations in full, or in a timely manner. Liquidity risk in a broader sense (funding risk) is the danger that additional funding can no longer be obtained, or can only be obtained at increased market interest rates.

Liquidity risk management system tailored to the circumstances of the business model of the Bank.

Thus, the Bank's business model is based on lending large number of small and medium enterprises (meaning high diversification of the loan portfolio). This approach ensures a constant source of liquid resources for the repayment of the loan portfolio, especially given the absence of significant concentrations of liquidity (mainly as a result of annuity form of loan repayment and relatively low debt problem).

On the other hand, the loan portfolio is funded from two main sources: mainly customer funds are used to obtain funds in local currency, while customer funds and loans from international financial organizations are used to obtain funds in foreign currency.

Given the tendency to reduce the amount of funds raised in foreign currency, Bank's dependency on the capital market can be assessed as low.

The Bank's ALCO determines the liquidity strategy of the Bank and sets the liquidity risk limits. The treasury department manages the Bank's liquidity on a daily basis and is responsible for the execution of the ALCO's decisions. Compliance with strategies, policies and limits are constantly monitored by the risk management department.

The standards applied by the Bank in the management of liquidity are based on regulatory requirements, Group liquidity risk management policy and the Group treasury policy. Any violation of limits and all exceptions to these policies are approved by the Group Risk Management Committee.

Treasury manages liquidity on a daily level using an approach based on cash flow analysis. This method was designed to provide a realistic picture of the future liquidity situation. It includes assumptions about deposit and loan developments and helps to forecast liquidity risk indicators.

The key tools for measuring liquidity risks is a forward-looking liquidity gap analysis, which shows the contractual maturity structure of the assets and liabilities and estimates future funding needs based on certain assumptions. Starting with the estimation of the future liquidity in a normal financial environment, the assumptions are increasingly tightened in order to analyse the Bank's liquidity situation in a worst-case scenario (stress test).

To analyze the liquidity risk the Bank on a regular basis uses the following ratios and indicators:
a) regulatory ratios relating to liquidity;
b) analysis of liquidity gaps by maturity;
c) the amount of highly liquid resources for each of the major currencies;
d) sufficient liquidity indicator (main figure to estimate a short-term liquidity level. It compares the amount of available liquid assets and liabilities expected to mature within the next 30 days. Bank supports this ratio at no less than 1.0, which means that the Bank always has sufficient funds to made all the repayments which are expected within the next 30 days);;
e) ratio of borrowing from interbank market;
e) ratio of interbank overnight loans.

This is complemented by early warning indicators, the foremost being the highly liquid assets indicator, which relates highly liquid assets to customer deposits.

The Bank also analyses its liquidity situation from a more structural perspective, taking into account the liquidity gaps of the later time buckets and additional sources of potential liquidity. The liquidity position also takes into account credit lines which can be drawn by the Bank with some time delay and other assets which take some time to liquidate.

The Group Liquidity Risk Management Policy prescribe the close monitoring of early warning indicators. If the highly liquid asset indicator drops below 20%, if the short-term liquidity position becomes negative, or if the depositor concentration (10 largest client's deposits) rises above 20%, the Bank's ALCO and the Group ALCO or Group Risk Management Committee must be involved in decisions on appropriate measures.

In order to protect the liquidity of the Bank even in stress situations, the potential liquidity needs in different scenarios are determined. The result is analysed and the target volume of Bank's liquidity reserve is determined by the ALCO. The main liquidity reserve of the Bank is a standby line provided by the ProCredit Holding. During 2012, the Bank had standby line of USD 11.0 million to use under stress conditions to cover possible liquidity gaps.

The bank also aims to diversify its funding sources. Depositor concentrations are monitored in order to avoid dependency on a few large depositors. According to the Bank's internal guidelines a significant depositor concentration exists if the 10 largest depositors exceed 20% of total customer deposits. This serves as an early warning signal and requires that the reasons and the mitigating measures undertaken must be reported to the bank's ALCO and the Group Risk Management Committee.

The Bank is also minimising its dependency on the interbank market. The ProCredit group's policies stipulate that the total amount of interbank liabilities may not exceed 40% of total available lines and overnight funding may not exceed 4% of total liabilities.

During 2012, the liquidity level remains very strong due to the following factors:

- In foreign currency amount of loan repayments was stable (while the loan portfolio continued to decline), while reinvestment opportunities for foreign currency funds remained limited. The list of possible investment alternatives includes loans to legal entities, placements on the local money market, and investment in government bonds denominated in U.S. dollars. Given these limitations, the Bank took measures to reduce the amount of funds raised in foreign currency (due to tariff policy). However, the level of liquidity in U.S. dollars still remained very high throughout 2012.

In hryvnia: since November 2012, significant inflow of customer deposits was observed, caused primarily by reducing devaluation expectations in the society as a result of the measures used by the National Bank of Ukraine to support stable exchange rate.The Bank remained within all liquidity limits over the year - internal and external one - including the regulatory liquidity limits set by the NBU. The table below shows the list of main liquidity indicators.

Liquidity indicator	Limit	2012	2011
Regulatory liquidity ratios			
Instant liquidity ratio (H4)	Not less than 20,0%	36,29%	26,90%
Current liquidity ratio (H5)	Not less than 40,0%	66,88%	62,20%
Short-term liquidity ratio (H6)	Not less than 60,0%	80,60%	82,90%
Internal liquidity ratios			
Sufficient liquidity indicator	Not less than 1,0	2,4	2,6
Interbank market indicator	Not higher than 40,0%	0,00%	0,00%
Overnight funding indicator	Not higher than 4,0%	0,00%	0,00%

Based on the current very strong liquidity level and favourable deposit-base developments, the liquidity risk is assessed as low.

The following table shows the undiscounted future cash flows of the financial liabilities of the Bank according to their remaining contractual maturities at 31 December 2012. The remaining contractual maturity is defined as the period between the reporting date and the contractually agreed due date of the liability, or the due date of a partial payment under the contract for liability.

	Up to 1 month	1 - 3 months	3 - 12 months	1 - 2 years	2 - 5 years	More than 5 years	Total
Liabilities							
Customer accounts	1,037,329	189,853	368,337	10,998	2,742	7,301	1,616,560
Debt securities in issue	-	3,366	1,009	13,464	106,733	-	133,661
Other borrowed funds	140	-	73,915	105,402	89,318	-	268,775
Subordinated debt	-	-	3,003	9,012	33,113	27,762	72,890
Other financial liabilities	5,518	-	-	-	-	-	5,518
Total potential future payments for financial obligations	**1,042,987**	**193,219**	**455,353**	**138,876**	**231,905**	**35,063**	**2,097,404**
Off Balance	6,305	-	-	-	-	-	6,305

The following table shows the undiscounted future cash flows of the financial liabilities of the Bank according to their remaining contractual maturities at 31 December 2011.

	Up to 1 month	**1 - 3 months**	**3 - 12 months**	**1 - 2 years**	**2 - 5 years**	**More than 5 years**	**Total**
Liabilities							
Customer accounts	982,972	121,111	436,469	12,833	2,860	7,975	1,564,220
Debt securities in issue	-	3,366	10,098	13,464	120,196	-	147,124
Other borrowed funds	-	-	76,036	142,990	148,324	-	367,350
Subordinated debt	4,266	-	6,079	10,327	115,889	29,613	166,174
Other financial liabilities	4,155	-	-	-	-	-	4,155
Total potential future payments for financial obligations	**991,393**	**124,477**	**528,682**	**179,614**	**387,269**	**37,588**	**2,249,023**
Off Balance	**11,099**	**-**	**-**	**-**	**-**	**-**	**11,099**

Since not all cash flows will occur in the future as specified by contract terms (for example, despite the opportunity to withdraw all funds from current accounts within one day, usually in general they maintained a relatively stable balance), the Bank applies assumptions, especially regarding deposit withdrawals.

The core assumptions used for the purposes of calculating the internal liquidity indicators are as follows:

- 50% of interbank liabilities contractually due at sight will be withdrawn in the next month: another 50% will be withdrawn within the following three months.
- 20% of customer deposits contractually due at sight will be withdrawn within the next month, 80% will be withdrawn later.
- 5% of exposures guaranteed by the bank will require a payment within the next month.
- 20% of credit lines which the bank has committed to its customers, but which are currently undrawn, will be drawn within the next month.

The goal is always to have sufficient liquidity in order to serve all expected liabilities within the next month. From a technical point of view this implies that the Bank's available assets should always exceed the expected liabilities, as calculated by applying the above assumptions.

The following table summarises the results of this approach to measuring liquidity risk and shows the distribution of liquidity-relevant positions across certain time buckets as at 31 December 2012. The distribution is based on an internal model of liquidity management of the Bank, which takes into account the main expected cash flows of the principal debt of financial instruments (i.e. excluding future accrued interest).

	Up to 1 month	1 - 3 months	3 - 6 months	7 - 12 months	More than 1 year	Total
Assets						
Cash on hand	105,379	-	-	-	-	105,379
Restricted balances with the National Bank of Ukraine (mandatory reserve deposit)	103,191	-	-	-	-	103,191
Cash balances with the National Bank of Ukraine (other than mandatory reserve deposit)	54,432	-	-	-	-	54,432
Correspondent accounts and overnight placements with other banks	145,772	-	-	-	-	145,772
T-bills & marketable securities	45,135	-	-	-	20,190	65,325
Short-term placements with other banks	103,944	-	-	-	-	103,944
Loans and advances to customers	78,031	173,524	203,713	410,632	682,272	1,548,172
Total Assets	**635,884**	**173,524**	**203,713**	**410,632**	**702,462**	**2,126,215**
Unused irrevocable and unconditional credit commitments	87,923	-	-	-	-	87,923
Total	**723,807**	**173,524**	**203,713**	**410,632**	**702,462**	**2,214,138**
Liabilities						
Customer Accounts (other than TDAs)	182,565	36,513	54,770	109,539	529,439	912,826
Other Borrowed Funds (Liabilities to PCH)	46	-	-	-	-	46
Other Borrowed Funds (other than liabilities to PCH)	-	-	48,846	17,762	182,182	248,790
Customer Accounts (TDAs)	112,725	181,985	138,577	196,101	19,144	648,532
Debt securities (bonds)	-	-	100,000	-	-	100,000
Subordinated debt	-	-	-	-	48,278	48,278
Total Liabilities	**295,336**	**218,498**	**342,193**	**323,402**	**779,043**	**1,958,472**
Undrawn loan commitments	6,305	-	-	-	-	6,305
Total	**301,641**	**218,498**	**342,193**	**323,402**	**779,043**	**1,964,777**
Expected liquidity gap	422,166	377,192	238,712	325,942	249,361	
Sufficient Liquidity Indicator	**2,4**					

The following table summarises the results of this approach to measuring liquidity risk and shows the distribution of liquidity-relevant positions across certain time buckets as at 31 December 2011.

	Up to 1 month	1 - 3 months	3 - 6 months	7 - 12 months	More than 1 year	Total
Assets						
Cash on hand	98,866	-	-	-	-	98,866
Restricted balances with the National Bank of Ukraine (mandatory reserve deposit)	100,512	-	-	-	-	100,512
Cash balances with the National Bank of Ukraine (other than mandatory reserve deposit)	34,899	-	-	-	-	34,899
Correspondent accounts and overnight placements with other banks	90,165	-	-	-	-	90,165
Short-term placements with other banks	186,306	15,980	-	-	-	202,286
Loans and advances to customers	77,837	178,476	212,257	397,660	759,758	1,625,988
Total Assets	**588,585**	**194,456**	**212,257**	**397,660**	**759,758**	**2,152,716**
Unused irrevocable and unconditional credit commitments	87,888	-	-	-	-	87,888
Total	**676,473**	**194,456**	**212,257**	**397,660**	**759,758**	**2,240,604**
Liabilities						
Customer Accounts (other than TDAs)	180,274	45,070	45,070	45,070	585,900	901,384
Other Borrowed Funds (Liabilities to PCH)	136	-	-	21,229	-	21,365
Other Borrowed Funds (other than liabilities to PCH)	-	-	17,753	48,826	170,766	237,345
Customer Accounts (TDAs)	67,634	118,489	154,179	227,829	22,747	590,878
Debt securities (bonds)	-	-	-	-	100,000	100,000
Subordinated debt	-	-	-	-	112,177	112,177
Total Liabilities	**248,044**	**163,559**	**217,002**	**342,954**	**991,590**	**1,963,149**
Undrawn loan commitments	11,099	-	-	-	-	11,099
Total	**259,143**	**163,559**	**217,002**	**342,954**	**991,590**	**1,974,248**
Expected liquidity gap	417,330	448,227	443,482	498,188	266,356	
Sufficient Liquidity Indicator	**2,6**					

The expected liquidity gap quantifies the potential liquidity needs within a time bucket if it has a negative value, and it shows a potential liquidity excess if it has a positive one. This calculation includes positive excess values from previous time buckets. On an operational level, the gap report is broken down into the most important currencies (UAH, USD and EUR).

Overall, the Bank considers its funding sources to be sufficiently diversified, especially given that the bulk of the Bank's funds are provided by a large number of customer deposits. On the other hand, the resources raised from international financial institutions declined in 2012; Bank's dependency on the capital market situation decreased correspondingly.

52) Operational Risk

Operational risk is recognised as an important risk factor for the Bank, given that it relies on decentralised processing and decision-making. In line with Basel II, the Bank defines operational risks as the risk of loss resulting from inadequate or failed internal processes, people and systems and/or external events. A dedicated Operational Risk Management Policy was implemented in 2009 and has been developed and updated annually since then. The principles outlined in this document are designed to manage the Bank's operational risk exposure effectively. They are in compliance with Basel II requirements for the "standard approach" (as outlined in Section 276 of the German Ordinance on Solvency (*SolvV*)).

The overall framework for managing operational risks is best described as a complementary and balanced system comprising the following key components: Corporate Culture, Governance Framework, Policies and Procedures, Risk Assessments, New Risk Approvals (NRAs), Key Risk Indicators and the Risk Event Database. While the Corporate Culture, the Governance Framework, and Policies and Procedures define the basic cultural and organisational parameters, Risk Assessments, New Risk Approvals (NRAs), Key Risk Indicators and the Risk Event Database form the key instruments with which the risk management process is executed.

The overall objectives of this approach to the management of operational risks are
- understanding of key factors of operational risks of the Bank
- to be able to identify critical issues as early as possible
- to avoid losses caused by operational risks; and
- to ensure efficient use of the Bank's capital.

To achieve these goals the following tools and processes have been implemented within the framework outlined above. They are presented in the sequence in which they are used within the operational risk management process. This process is subdivided into the following phases: identification, evaluation, treatment, monitoring, documentation and communication, and follow up.

- **Identification**
  - Annual operational and fraud risk assessments
  - New risk approval (NRA) process
  - Risk identification and documentation in the Risk Event Database (RED)
  - Ad hoc identification of potential risks
- **Evaluation / quantification**
  - Agreed standards to quantify risks
- **Mitigation and treatment**
  - Implementation of measures to avoid, reduce or mitigate the risks depending on priorities, efficiency considerations and regulations
  - Transfer of risk to an insurer or other party
- **Monitoring and control**
  - Process owners' responsibility to monitor risks
  - Key risk indicators (KRIs) and operational risk reports, risk bearing capacity calculation and monitoring
- **Communication, escalation, documentation**
  - Escalation levels to management bodies, regular reporting, risk committees
  - RED, management summary documents for risk events
- **Issue tracking / follow-up tables for material action plans**
  - Follow-up tools used in the Bank

To constantly enhance the professional standards of the Bank, in 2012 the Bank continued to make use of local training facilities, and also regional academies and the international ProCredit Academy in Fürth, Germany. Training programmes for candidates for management positions include various modules focusing explicitly on operational risk management. Annual risk awareness training is provided to all existing staff as well as to all newly hired employees.

Organisation of the risk management function

Responsibility for risk management at the Bank lies with the Management Board.

The risk management function comprises various organisational units, including the credit risk department and the risk management department, which include the market risk unit, operational risk unit and credit portfolio risk unit. Responsibility for capital management and for controlling risk bearing capacity lies with the risk management department as well. These four organisational units report to the Bank's Management Board and to the Bank's Market

Risk Management and Credit Portfolio Risk Committees, which meet monthly, and to Operational Risk Management Committee, which meets quarterly. These units also report to the ALCO, which meets weekly. Committees are specialised with the aim to consider individual risks carefully such as market risks (ALCO, Market Risk Management Committee), credit risks (Credit Portfolio Risk Committee) and operational risks (Operational Risk Committee).

At the Bank, risk management is implemented and developed, in operational terms, by a risk management department which is an autonomous department within the Bank's organisation and which is not involved in any way with the Bank's customer service operations (credit or deposit business) or trading operations. The risk departments report regularly to the corresponding risk departments at ProCredit Holding.

The Bank's risk policies address all risk categories and set standards that enable risks to be identified early and to be managed appropriately. The risk management department carries out regular monitoring to ensure that the total volume of all risks incurred does not exceed the limits agreed, i.e., that the risk bearing capacity of the Bank is not exceeded, so that sufficient capital is available to cover even unlikely potential losses.

The respective risk positions of the individual banks are described in a standard General Risk Report which is generated at least quarterly. This risk report is provided to the local risk committees and to the Group Risk management function at ProCredit Holding.

F. Additional Notes

53) Fair Value of Financial Instruments

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique (Refer to Note 7):

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

The table below shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy as at 31 December 2012:

	Level 1	*Level 2*	*Level 3*	*Total*
Financial assets				
Investment securities available-for-sale	424	20,190	-	20,614
Financial assets available at fair value through profit or loss	-	45,135	-	45,135
Total financial assets	**424**	**65,325**	**-**	**65,749**

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy as of 31 December 2011:

	Level 1	*Level 2*	*Level 3*	*Total*
Financial assets				
Investment securities available-for-sale	250	-	-	250
Total financial assets	**250**	**-**	**-**	**250**

Bank increased the volume of its portfolio of investments available for sale, which carried at cost in the statement of financial position. It was purchased bonds denominated in US dollars amounted UAH 20,190 thousand and shares of

"SWIFT" amounted UAH 174 thousand. As result, amount of portfolio at year end 2012 was UAH 20,614 thousand, compared to UAH 250 thousand at year end 2011.

Additionally, state bonds indexed to US dollar were purchased in amount of UAH 45,135 thousand.

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

	2012		2011	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
Financial assets				
Cash and cash equivalents	**300,363**	**300,363**	**223,566**	**223,566**
Due from other banks	**207,262**	**207,262**	**303,032**	**303,032**
Loans and advances to customers	**1,525,435**	**1,531,239**	**1,666,611**	**1,662,884**
Business loans	1,169,287	1,179,546	1,303,809	1,306,585
Agricultural loans	290,891	291,199	286,494	286,372
Housing improvement loans	22,258	22,182	25,072	25,998
Finance leases	10,930	6,304	11,891	5,034
Consumer loans	17,301	17,240	17,402	17,491
Other loans	14,768	14,768	21,943	21,404
Other financial assets	**7,692**	**7,692**	**6,719**	**6,719**
Total financial assets	**2,040,752**	**2,046,556**	**2,199,928**	**2,196,201**
Financial liabilities				
Customer accounts	**1,578,208**	**1,573,465**	**1,521,955**	**1,523,114**
Current accounts of individuals	186,375	186,375	152,985	152,985
Current accounts of legal entities	357,838	357,838	355,160	355,160
Savings accounts of individuals	306,510	306,510	368,446	368,446
Savings accounts of legal entities	58,201	58,201	37,693	37,693
Term deposits of individuals	627,619	622,876	582,193	583,320
Term deposits of legal entities	40,765	40,765	22,826	22,858
Other liabilities to customers	900	900	2,652	2,652
Other borrowed funds	**253,493**	**258,034**	**363,228**	**356,334**
Debt securities in issue	**102,099**	**89,657**	**102,751**	**94,641**
Subordinated debt	**48,355**	**57,888**	**112,258**	**138,337**
Other financial liabilities	**10,559**	**10,559**	**8,691**	**8,691**
Total financial liabilities	**1,992,714**	**1,989,603**	**2,108,883**	**2,121,116**

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by an active quoted market price. Where quoted market prices are not available, the Bank used valuation techniques. As disclosed in Note 7, generally valuation techniques used by the Bank do not require significant assumptions that would not be supported by observable market data.

The fair value of floating rate instruments that are not quoted in an active market was estimated to be equal to their carrying amount. The fair value of unquoted fixed interest rate instruments was estimated based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity.

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

	2012	2011
Due from other banks	0.01% to 13.5% p.a.	0.01% to 15% p.a.
Loans and advances to customers		
Business loans	0.5% to 27% p.a.	0.5% to 33% p.a.
Agricultural loans	8% to 26% p.a.	7% to 24% p.a.
Housing improvement loans	16% to 36% p.a.	16% to 30% p.a.
Finance leases	26% p.a.	24% p.a.
Consumer loans	0.5% to 50% p.a.	8% to 50% p.a.
Other loans	4% to 27% p.a.	10% to 50% p.a.
Investment securities available-for-sale	n/a	n/a
Other financial assets	n/a	n/a
Customer accounts		
Current accounts of private individuals	n/a	n/a
Current accounts of legal entities	n/a	n/a
Savings accounts of private individuals	n/a	n/a
Savings accounts of legal entities	n/a	n/a
Term deposits of private individuals	1.0% to 19.73% p.a.	1.0% to 17% p.a.
Term deposits of legal entities	0.001% to 28.5% p.a.	0.1% to 14% p.a.
Other liabilities to customers	n/a	n/a
Other borrowed funds	3.75% to 9.5% p.a.	5.0% to 5.25% p.a.
Debt securities in issue	20% p.a.	21% p.a.
Subordinated debt	3.75% p.a.	3.25% p.a.
Other financial liabilities	n/a	n/a

54) *Contingencies and Commitments*

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

Tax legislation
Ukrainian legislation and regulations regarding taxation and other operational matters, including currency exchange control and custom regulations, continue to evolve. Legislation and regulations are not always clearly written and are subject to varying interpretations by local, regional and national authorities, and other Governmental bodies. Instances of inconsistent interpretations are not unusual. Management believes that its interpretation of the relevant legislation is appropriate and that the Bank has complied with all regulations, and paid or accrued all taxes and withholdings that are applicable.

The uncertainty of inconsistent enforcement and application of Ukrainian tax laws creates a risk of substantial additional tax liabilities, inability to recover recognised deferred tax assets and penalties being claimed by the tax authorities. Such claims, if sustained, could have a material effect on the Bank's financial position, results of operations and cash flows.

Operating lease commitments
The future minimum lease payments under non-cancellable operating leases according to the agreements for renting the buildings and spaces for ATMs location are as follows:

	2012	2011
Not later than 1 year	22,075	16,459
Later than 1 year and not later than 5 years	32,770	21,069
Later than 5 years	9,445	7,782
Total	**64,291**	**45,310**

Compliance with covenants

The Bank is subject to certain covenants relating primarily to its other borrowed funds. Non-compliance with such covenants may result in negative consequences for the Bank including an increase in the cost of borrowing and a declaration of default.

There are financial covenants under agreements with the International Financial Corporation (IFC) and Kreditanstalt für Wiederaufbau (KfW). In particular, the Bank is required to maintain a certain level of:
- risk weighted capital adequacy ratio
- liquid assets to short-term liabilities ratio
- fixed assets to capital ratio
- maximum exposure to a single party to capital ratio
- open credit exposure ratio
- portfolio at risk
- related party exposure ratio
- maturity gap to capital ratio
- maturity gap ratio
- group exposure ratio
- interest rate risk ratio
- open foreign currency position.

As at 31 December 2012, the Bank was not in breach of any financial covenants on the borrowings.

For all cases of breach of the financial covenants with IFC and KfW, during the year 2012, giving them the right to demand premature repayment of credit facilities booked as other borrowed funds, the Bank has received waivers of rights to declare events of default under the respective loan agreements from IFC and signed the Amendment to the Loan Agreement with KfW before 31 December 2012.

All of the other borrowed funds are expected to be repaid according to their contractually agreed schedules. Refer to Note 44.

Credit-related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer 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 Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate or cash deposits and therefore carry less risk than a direct borrowing.

Outstanding credit-related commitments are as follows:

	2012	**2011**
Import letters of credit	-	943
Guarantees issued	4,211	10,156
Performance bonds	2,094	-
Total credit-related commitments	**6,305**	**11,099**

The total outstanding contractual amount of guarantees does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded. In addition, as at 31 December 2012, cash deposits of UAH 1,218 thousand (2011: UAH 2,350 thousand) were held as collateral for irrevocable commitments under guarantees issued. For the amount of provisions for credit related commitments credit risk refer to Note 45.

Credit related commitments are denominated in currencies as follows:

	2012	2011
Ukrainian hryvnia	2,298	3,355
US dollars	24	2,325
Euros	3,983	5,170
Others	-	249
Total	**6,305**	**11,099**

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

As at 31 December 2012, all commitments to extend credit are revocable and amounted to UAH 112,917 thousand (31 December 2011: all revocable and amounted to UAH 95,310 thousand).

Assets pledged and restricted

As at 31 December 2012 the Bank had pledged debt securities indexed to the US dollar with carrying value of UAH 9,255 thousand (Note 34) under loan received from German-Ukrainian Fund (Note 44) with carrying value of UAH 9,137 thousand.

At 31 December 2011, the Bank has no assets pledged as collateral.

55) Related Party Transactions

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

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

	Parent company	Other significant share-holders	Entities under common control	Key manage-ment personnel	Other related parties
Gross amount of loans and advances to customers (contractual interest rate: 10-16.5%)	-	-	-	146	-
Other assets	68	-	78	-	-
Customer accounts (contractual interest rate: 0%-0.2%)	-	-	42	10	-
Other borrowed funds (contractual interest rate: USD:2.5%- 5.96%; UAH - 14.43%)	83	155,372	-	-	-
Other liabilities	369	-	87	-	-
Subordinated debt (contractual interest rate: 7.1% - 13.0%)	48,355	-	-	-	-

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

	Parent company	Other significant share-holders	Entities under common control	Key manage-ment personnel	Other related parties
Interest income	-	-	-	23	-
Interest expense	(11,351)	(10,641)	-	-	-
Other operating income	64	-	8	-	-
Administrative and other operating expenses other than key management remuneration	(12,078)	(15)	(7,191)	-	-
- including management services	(11,321)	-	-	-	-

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

	Parent company	Other significant share-holders	Entities under common control	Key manage-ment personnel	Other related parties
Amounts repaid by related parties during the period	-	-	-	152	-

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

	Parent company	Other significant share-holders	Entities under common control	Key manage-ment personnel	Other related parties
Gross amount of loans and advances to customers (contractual interest rate: 10-16.5%)	-	-	-	889	-
Other assets	75	-	23	-	-
Customer accounts (contractual interest rate: 0%-0.2%)	-	-	137	8	-
Other borrowed funds (contractual interest rate: USD:2.5%- 5.96%; UAH - 14.43%)	21,933	217,160	-	-	-
Other liabilities	295	-	34	-	-
Subordinated debt (contractual interest rate: 7.1% - 13.0%)	112,258	-	-	-	-

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

	Parent company	Other significant share-holders	Entities under common control	Key manage-ment personnel	Other related parties
Interest income	-	-	-	166	-
Interest expense	(18,954)	(14,798)	-	(13)	-
Other operating income	145	-	-	-	-
Administrative and other operating expenses other than key management remuneration	(12,885)	(24)	(5,397)	-	-
- including management services	(12,342)	-	-	-	-

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

	Parent company	Other significant share-holders	Entities under common control	Key manage-ment personnel	Other related parties
Amounts repaid by related parties during the period	-	-	-	185	-

In 2012, the remuneration of key management personnel comprised salaries totalling UAH 4,032 thousand (2011: UAH 2,970 thousand), including social insurance and pension contributions of UAH 386 thousand (2011: UAH 338 thousand).

The vacation accrual related to key management personnel as at 31 December 2012 was UAH 408 thousand (2011: UAH 180 thousand).

56) Analysis of assets and liabilities by maturity

The following table shows an analysis of assets and liabilities according to their payments or withdrawals. Information about contractual obligations of the Bank under borrowed funds disclosed in Note 51 "Financial Risks".

	2012			2011		
	Not later than 1 year	Later than 1 year	Total	Not later than 1 year	Later than 1 year	Total
ASSETS						
Cash and cash equivalents	300,363	-	300,363	223,566	-	223,566
Restricted balances with the National Bank of Ukraine (mandatory reserve deposit)	103,248	-	103,248	100,588	-	100,588
Financial assets available at fair value through profit or loss	-	45,135	45,135	-	-	-
Due from other banks	104,014	-	104,014	202,444	-	202,444
Loans and advances to customers	898,153	627,282	1,525,435	912,468	754,143	1,666,611
Investment securities available-for-sale	-	20,614	20,614	-	250	250
Current income tax asset	183	-	183	6,095	-	6,095
Deferred income tax asset	-	31,873	31,873	-	37,353	37,353
Premises and equipment	-	66,850	66,850	-	75,754	75,754
Intangible assets	-	9,771	9,771	-	5,092	5,092
Other financial assets	-	7,692	7,692	-	6,719	6,719
Other non-financial assets	45,082	-	45,082	-	26,193	26,193
Total assets	**1,451,043**	**809,217**	**2,260,260**	**1,445,161**	**905,504**	**2,350,665**
LIABILITIES						
Customer accounts	1,566,415	11,793	1,578,208	1,512,325	9,630	1,521,955
Debt securities in issue	-	102,099	102,099	-	102,751	102,751
Other borrowed funds	68,957	184,536	253,493	68,884	294,344	363,228
Other financial liabilities	10,559	-	10,559	-	8,691	8,691
Other non-financial liabilities	1,053	-	1,053	-	804	804
Subordinated debt	81	48,274	48,355	86	112,172	112,258
Total liabilities	**1,647,065**	**346,702**	**1,993,767**	**1,581,295**	**528,392**	**2,109,687**
Net position	**(196,022)**	**462,515**	**266,493**	**(136,134)**	**377,112**	**240,978**

57) 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 classes of financial assets with these measurement categories as of 31 December 2012:

	Loans and receivables	Available-for-sale assets	Assets at FVTPL	Total
ASSETS				
Cash and cash equivalents	300,363	-	-	**300,363**
Restricted balances with the National Bank of Ukraine (mandatory reserve deposit)	103,248	-	-	**103,248**
Financial assets available at fair value through profit or loss	-	-	45,135	**45,135**
Due from other banks	104,014	-	-	**104,014**
Loans and advances to customers	**1,525,435**	**-**	**-**	**1,525,435**
Business loans	1,169,287	-	-	1,169,287
Agricultural loans	290,891	-	-	290,891
Housing improvement loans	22,258	-	-	22,258
Finance leases	10,930	-	-	10,930
Consumer loans	17,301	-	-	17,301
Other loans	14,768	-	-	14,768
Investment securities available-for-sale	-	20,614	-	**20,614**
Other financial assets	7,692	-	-	**7,692**
TOTAL FINANCIAL ASSETS	**2,040,752**	**20,614**	**45,135**	**2,106,501**
NON-FINANCIAL ASSETS				**153,759**
TOTAL ASSETS				**2,260,260**

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

	Loans and receivables	Available-for-sale assets	Assets at FVTPL	Total
ASSETS				
Cash and cash equivalents	223,566	-	-	**223,566**
Restricted balances with the National Bank of Ukraine (mandatory reserve deposit)	100,588	-	-	**100,588**
Due from other banks	202,444	-	-	**202,444**
Loans and advances to customers	**1,666,611**	**-**	**-**	**1,666,611**
Business loans	1,303,809	-	-	1,303,809
Agricultural loans	286,494	-	-	286,494
Housing improvement loans	25,072	-	-	25,072
Finance leases	11,891	-	-	11,891
Consumer loans	17,402	-	-	17,402
Other loans	21,943	-	-	21,943
Investment securities available-for-sale	-	250	-	**250**
Other financial assets	6,719	-	-	**6,719**
TOTAL FINANCIAL ASSETS	**2,199,928**	**250**	**-**	**2,200,178**
NON-FINANCIAL ASSETS				**150,487**
TOTAL ASSETS				**2,350,665**

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

Victor Ponomarenko
General Manager

Valerii Smolinskyi
Chief Accounting Officer