PUBLIC JOINT STOCK COMPANY
"BANK FOR INVESTMENTS AND SAVINGS"

Financial statements
As at 31 December 2012

Together with Independent Auditor's Report

BDO

TABLE OF CONTENTS **PAGE**

Statement of the responsibility for the preparation and approval of the financial reporting for the year ended December 31, 2012

The following statement, which should be read in conjunction with the independent auditors' responsibilities stated in the independent auditors' report, is made with a view to distinguishing the respective responsibilities of management and those of the independent auditors in relation to the financial statements of Public Joint Stock Company "Bank for investments and savings".

Management is responsible for the preparation of the financial statements that present fairly, in all material aspects the financial position of the Bank at 31 December 2012 and results of activities and cash flows year ended 31 December 2012, in accordance with International Financial Reporting Standards ("IFRS").

In preparing the financial statements, management is responsible for:
- Selecting suitable accounting principles and applying them consistently;
- Making reasonable assumptions and estimates;
- Compliance with relevant IFRS and disclosure of all material departures in the Notes to Financial statements;
- Preparing the financial statements on a going concern basis, unless it is inappropriate To presume that the Company will continue in business for the foreseeable future.

The Bank Management is responsible for:
- Designing, implementing and maintaining an effective and sound system of the Bank internal controls;
- Maintaining proper accounting records that disclose, with reasonable accuracy at any time, The financial position of the Bank, and which enable them to ensure that the financial statements of the Bank comply with IFRS;
- Guaranteeing compliance of financial accounting to the legislative regulations and accounting standards in force in Ukraine;
- Taking such steps as are reasonably available to them to safeguard the assets of the Bank; and
- Preventing and detecting fraud and other irregularities.

The financial statement for the year ended on December 31 2012 is approved and signed in the name of the Bank.

April 5 2013

Acting Chairman ____________ /V. Ye. Antonyuk/

Chief Accountant ____________ /T. O. Verba/

www.bdo.com.ua

Tel.: +38 044 393 26 87
Fax: +38 044 393 26 91
e-mail: bdo@bdo.kiev.ua

Tel.: +38 056 370 30 43
Fax: +38 056 370 30 45
e-mail: office@bdo.com.ua

Tel.: +38 062 206 52 89
Fax: +38 062 206 52 91
e-mail: office@bdo.com.ua

BDO LLC

201-203, Kharkivske Road, 10th floor
Kyiv
Ukraine, 02121

4, Serova Str.
Dnipropetrovsk
Ukraine, 49000

51A, Artyoma Str., office 703
Donetsk
Ukraine, 83001

Independent Auditor's Report

To the shareholders and management of PJS "Bank for Investments and Savings"

Report on the Financial Statements

We have audited the annual financial statements of Public Joint Stock Company "Bank for Investments and Savings", Kyiv, Ukraine (the "Bank") for the year ended 31 December 2012, comprising the statement of financial position as at 31 December 2012, the statement of income and comprehensive income for 2012, the statement of changes in equity for 2012, the statement of cash flows for 2012, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

Management of the Bank is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards ("IFRS") and for such internal control as the management deems necessary to ensure the preparation of the financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the requirements of the Law of Ukraine "On auditing", International Standards on Auditing, Assurance and Ethics of the International Federation of Accountants. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

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

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

Opinion

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

Kyiv, 5 April 2013

BDO LLC

Statement of Financial Position
as of December 31, 2012

(Thousands of UAH)

Item	Notes	Reporting period	Previous period
ASSETS			
Cash and cash equivalents	6	316 132	328 650
The assets of the Bank required reserves in the National Bank of Ukraine		14 248	20 223
Trading securities	7	15 540	-
Due from other banks	8	150 793	61 109
Loans to customers	9	1 604 085	1 453 962
Securities in the Bank portfolio before redemption	10	17 451	18 586
Deferred tax assets		419	451
Property and equipment and intangible assets	11	23 319	22 912
Other financial assets	12	3 504	3 936
Other assets	13	2 037	1 271
Assets Total		2 147 528	1 911 100
LIABILITIES			
Due to banks	14	255 042	94 201
Due to clients	15	1 599 458	1 523 162
Other borrowed funds	16	640	757
Liabilities on the current income tax		725	389
Liabilities reserves	17	321	12
Other financial liabilities	18	772	5 089
Other liabilities	19	2 888	2 130
Liabilities Total		1 859 846	1 625 740
EQUITY			
Statutory capital	20	250 000	250 000
Retained earnings (uncovered losses)		3 423	1 208
Bank reserves and other funds		34 259	34 152
Equity Total		287 682	285 360
Liabilities and Equity Total		2 147 528	1 911 100

Approved for the issue and signed

March 15 2013 Acting Chairman V. Y. Antonyuk

N. Yu. Dyadyura 207-70-35 Chief Accountant T. O. Verba

Statement of Income and Other Comprehensive Income of 2012

(Thousands of UAH)

Item	Notes	Reporting period	Previous period
Interest income	22	221 843	204 426
Interest expense	22	(160 947)	(137 184)
Net interest income/ (Net interest expense)		**60 896**	**67 242**
Commission income	23	15 608	13 407
Commission expense	23	(1 872)	(1 554)
Results of transactions with the securities of the Bank trading portfolio		3 340	-
Results of trading transactions with other financial instruments		(3 159)	-
Results of transactions with the foreign currency		4 631	5 071
Results of revaluation of the foreign currency		(463)	(2 394)
Contributions to the provision for loan impairment and due from other banks	8,9,12	(1 761)	(16 522)
Contributions to the provision for liabilities	17	(309)	600
Other operating income	24	2 803	491
Administrative and other operating expenses	25	(74 144)	(63 942)
Income/(loss) before tax		**5 570**	**2399**
Income tax expenses	26	(1 218)	(1 191)
Annual income / (loss)		**4 352**	**1208**
Other comprehensive income		-	-
Annual comprehensive income		**4 352**	**1208**
Income/(loss) per share from continuing operations:	27		
Net income / (loss) per one ordinary share		17,41	5,12
Diluted net income / (loss) per one ordinary share		17,41	5,12

Approved for the issue and signed

March 15 2013 Acting Chairman V. Y. Antonyuk

N. Yu. Dyadyura 207-70-35 Chief Accountant T. O. Verba

Statement of Changes in Equity for 2012

(Thousands of UAH)

Item	Notes	Attributable to the Bank owners			
		Statutory capital	Reserves and other funds and reserves of revaluation	Retained earnings	Total
Balance at the end of period preceding the previous period (December 31, 2010)		**195 000**	**34 016**	**2 709**	**231 725**
Allocation of annual profit			136	(136)	-
Total comprehensive income				1 208	1 208
Issue of shares	20	55 000			55 000
Par value		55 000			55 000
Dividends	28			(2 573)	(2 573)
Balance at the end of the previous period (December 31, 2011)		**250 000**	**34 152**	**1 208**	**285 360**
Allocation of annual profit			107	(107)	-
Total comprehensive income				4 352	4 352
Dividends	28			(2 030)	(2 030)
Balance at the end of the reporting period (December 31, 2012)		**250 000**	**34 259**	**3 423**	**287 682**

2011 - According to the General Meeting of Shareholders on April 29 2011, the Reserve fund was founded on the basis of 2010 income in amount of UAH 136 000 in order to cover contingent losses and expenses
2012 - According to the General Meeting of Shareholders on March 31 2011, the Reserve fund was founded on the basis of 2011 income in amount of UAH 107 000 in order to cover contingent losses and expenses

Approved for the issue and signed
March 15 2013 — Acting Chairman — V. Y. Antonyuk

N. Yu. Dyadyura 207-70-35 — Chief Accountant — T. O. Verba

Statement of Cash Flows under the indirect method for 2012

(Thousands of UAH)

Item	Notes	Reporting period	Previous period
1	2	3	4
CASH FROM OPERATING ACTIVITIES			
Income/(loss) before tax		3 541	2 400
Adjustment:			
Amortization and depreciation		5 117	4 837
Net increase / (decrease) of provision for assets impairment		3 082	15 922
Amortization of the discount/(premium)		(1 146)	-
(Accrued income)		(3 324)	(8 828)
Accrued expense		3 927	4 687
Other cash flow, rather than monetary		34	(977)
Net cash income / (loss) from operating activities before changes in operating assets and liabilities		11 231	18 041
Changes in operating assets and liabilities			
Net (increase)/decrease of mandatory reserves in the National Bank of Ukraine		5 975	95
Net (increase)/decrease of trading securities		(15 540)	-
Net (increase)/decrease of due from other banks		(89 738)	124 371
Net (increase)/decrease of loans to customers		(152 880)	(362 961)
Net (increase)/decrease of other financial assets		532	(1 792)
Net (increase)/decrease of other assets		(766)	(434)
Net increase/(decrease) of due to banks		160 880	(333 261)
Net increase/(decrease) of due to clients		80 283	632 717
Net increase/(decrease) of liabilities reserves		309	600
Net increase/(decrease) of other financial liabilities		(3 538)	(48 450)
Net cash received (used) from the operating activities before payment of the income tax		(3 252)	28 926

(UAH thousands)

Paid income tax		(118)	(1 415)
Net cash received (used) from the operating activities		(3 370)	27 511
CASH FROM INVESTMENT ACTIVITIES			
Purchase of securities in the Bank portfolio to maturity	10	-	(17 954)
Purchase of the property and equipment	11	(5 840)	(2 364)
Inflows from sale of P&E	11	-	-
Purchase of intangible assets	11	(1 160)	(131)
Net cash received (used) from the investment activities		(7 000)	(20 449)
CASH FROM FINANCING ACTIVITIES			
Issue of ordinary shares	20	-	55 000
Return of other borrowed funds	16	(117)	(100)
Dividends paid	28	(2 030)	(2 573)
Net cash received (used) from financing activities		(2 147)	52 327
Net increase / (decrease) of cash and cash equivalents		(12 517)	59 388
Cash and cash equivalents as of the beginning of period	6	328 650	269 261
Cash and cash equivalents as of the end of period	6	316 132	328 650

Approved for the issue and signed

March 15 2013 Acting Chairman V.Y.Antonyuk

N. Yu. Dyadyura 207-70-35 Chief Accountant T. O. Verba

Note 1. General information about the Bank activity

Public Joint Stock Company "Bank for Investments and Savings" (hereinafter – the Bank) is registered by the National Bank of Ukraine on August 9, 2005.

The registered address of the Bank is 83-D Mel'nykova Street, Kyiv-04119, Ukraine.

The Bank Internet-webpage is www.bisbank.com.ua.

The reporting period presented in this Report is year 2012.

The report has been prepared as of December 31 2012 and represented in Thousands of hryvnias.

The Bank is included in the bank system of Ukraine (as of the end of 2012 there are 176 operating banks in Ukraine), which is regulated by the National Bank of Ukraine.

The Bank is an independent financial institution and is not a part of consolidated groups or subsidiary structure of any other companies. The supreme body of Management is the General Shareholders Meeting of The Bank for Investments and Savings JSC.

The Bank is an active member of the Deposit Guarantee Fund.

By the end of 2012 the number of the Bank employees was 206 people (by the end of 2011 the number of the employees was 184 people).

The strategic goal of the Bank is to create a new standard of service, which is client-oriented, the strengthening of the Bank reputation as a stable and reliable bank of Ukraine, keeping the tendency of the dynamic increase of the main financial rates and providing the high level of liquidity and solvency.

The Bank provides the bank services according to the licence #221 dated October 24 2011 received from the National Bank of Ukraine, and the General licence to perform exchange transactions #221-2 dated August 30 2012. According to these licences the Bank is allowed to perform the following transactions:

1. Involvement into deposits the assets and bank metals from the unlimited number of legal entities and individuals.
2. Opening and maintenance of current (correspondent) accounts of clients, bank metals included.
3. Placement, including to current accounts, of deposit involved assets and bank metals on behalf of the Bank on its own conditions and at its peril.
4. Exchange transactions:

- Non-trading transactions with currency values;
- Transactions with foreign currency cash and cheques (purchase, selling, exchange, acceptance to collection of payments), which are performed at cash desks and exchange offices of the banks;
- Transactions with foreign currency cash and cheques (purchase, selling, exchange), which are performed at exchange offices that operate according to the agent agreements between the banks and resident legal bodies;
- Maintenance of accounts of clients (residents and non-residents) in the foreign currency, and maintenance of Ukraine non-resident clients' accounts in the cash unit of Ukraine;
- Maintenance of correspondent accounts of the banks (resident and non-resident) in the foreign currency;
- Maintenance of correspondent accounts of the banks (non-resident) in the cash unit of Ukraine;
- Opening of correspondent accounts in the authorized banks of Ukraine in the foreign currency and performing transactions with them;
- Opening of correspondent accounts in the banks (non-resident) in the foreign currency and performing transactions with them;
- Involvement and placing the foreign currency on the currency market of Ukraine;
- Involvement and placing the foreign currency on international currency markets;
- Foreign currency trading on the currency market of Ukraine (excluding the transactions with foreign currency cash and cheques (purchase, selling, exchange), which are performed at cash desks and exchange offices of the banks and agents;
- Foreign currency trading on international markets;
- Attraction and placing bank metal on the currency market of Ukraine;
- Bank metals trading on the currency market of Ukraine;
- Other currency transactions on the currency market of Ukraine.

Also, according to the Licenses received from the National Securities and Stock Market Commission on November 20 2011, the Bank is authorized to perform its professional activities on the stock market of stock trading, notably brokerage, dealer activities and underwriting.

Moreover, during 2010 the Bank received the National Bank of Ukraine permission to provide a new type of financial service, notably fiduciary maintenance of assets and stock on the basis of contracts with legal entities and individuals.

The Bank does not have the status of a specialized bank.

Among the main activities of the Bank there are: credit and deposit transactions, settling and cash service of clients, foreign exchange transactions, transactions with stock, transactions with payment cards, documentary transactions. The use of the policies of flexible and individual approach to every client allows the Bank, due to the wide range of services for clients, constantly to increase its own client base and drain the clients' assets to deposits, and also, to provide wide activities in the crediting of the real economy sector of Ukraine.

Also, the Bank has a wide activity on the interbank market: it uses the instruments of the interbank market to drain or place the resources promptly, and also, to perform the foreign currency exchange transactions in the benefit of the clients or the Bank currency position.

In order to perform international transactions the Bank has set correspondent relations with "DEUTSCHE BANK TRUST COMPANY AMERICAS" (the USA), "DEUTSCHE BANK AG" (Germany), and "CREDIT EUROPE BANK N.V." (The Netherlands), "Promsvyaz" JSC (Russia), "Pumb" PJSC, "Kredobank" PJSC and others.

The Bank is the member of SWIFT payment system from 2006. In 2008 the Bank for Investments and Savings PJSC has become the member of Visa International payment system; the Bank has received the registration certificate of the National Bank of Ukraine that confirms the right to issue Visa International payment cards, and has begun the emission of the payment cards of this system, notably: Visa Electron, Visa Classic, Visa Gold and Visa Platinum.

During incomplete five years since the beginning of the emission (as of December 31 2012), the Bank has emitted more than 16.000 cards for its clients and provided salary projects for 111 companies. On May 2012 the Bank has become a member of ATMoSfera united cash machine network.

In the reporting year 2012 the main concern of the Bank was about the providing the sufficient level of liquidity and solvency (capital adequacy) while achieving the goal of dynamic increasing of the main financial indices.

In 2012 the total amount of the Bank net assets increased from (in Thousands of hryvnias) 1 911 100 to 2 147 528, otherwise by 236 428 or by 12.4%.

The increase of the Bank assets was possible due to the increase of the following sources:

- Assets of banks – (in Thousands of hryvnias) 160 841;
- Assets of clients - (in Thousands of hryvnias) 76 296;

By the end of the reporting period the total amount of loans to customers was (in Thousands of hryvnias) 1 604085 (or 74.7% of the net assets). Also, a considerable part of the assets have been accumulated in liquid assets (22.5%): financial assets and their equivalents - (in thousands of hryvnias) 316 132 (14.7%), assets in other banks - (in thousands of hryvnias) 150 793 (7%) and securities in the Bank portfolio till maturity - (in thousands of hryvnias) 17 451 (0.1%).

The investments in P&E and intangible assets increased by UAH 407 thsd (to UAH 23 319 thsd). In general, in the reporting year the Bank has opened two new branches placed by the rent of premises.

The main sources of income in 2012 were: the net interest income (UAH 60 896 thsd), net commission income (UAH 13 736 thsd) and foreign currency trade income (UAH 4 168 thsd). The Bank main expenditures were caused by the administrative and other operating expenditures (UAH 74 144 thsd), and forming the reserves on debts and credits (UAH 1 761 thsd). In general, the income before taxation was UAH 5 570 thsd, income tax – UAH 1 218 thsd, net income after the taxation – UAH 4 352 thsd. In other words, the amount of received income was sufficient to provide the profitable activities of the Bank.

During 2012 (by the results of work in 2011) the Bank shareholders received dividends in amount of UAH 2 030 thsd.

(UAH thousands)

In general, according to the results of activities in 2012, Bank for Investments and Savings PJSC has strengthened its positions in the rating of Association of Ukrainian Banks according to the main financial indices:

	as of December 31 2012 (from 138 banks)	as of December 31 2011 (from 143 banks)
Net assets	Position 51	Position 60
Capital	Position 71	Position 69
Funds of legal bodies	Position 48	Position 46
Funds of individuals	Position 43	Position 48
Financial result	Position 65	Position 60

Thus, since the foundation of the Bank for Investments and Savings PJSC the main financial indices of the Bank are keeping the tendencies of the constant grow. The Bank achieved great efficiency in maintenance of assets and liabilities, which are expressed in the profitable activities and low specific weight of overdue credits in the credit portfolio (only 0.02%). As a result, the Bank has increased its assets and the resource base having guaranteed the sufficient level of liquidity and the high level of solvency.

The sufficient level of liquidity is confirmed by the factual values of the compulsory economic standard of H2 that is "the adequacy of the regulatory capital": by the end of 2010 its rate was 20.16% (minimal value set by the National Bank of Ukraine is 10%). Standards of H2 are represented by the Bank ability to pay off its liabilities on timely basis. Moreover, the amount of regulatory capital was UAH 286.984 thsd as of December 31 2012, and it corresponded to all special license requirements on the amount of the regulatory capital of the Bank (in order to perform the bank transactions according to the received license of the National Bank of Ukraine".

The Bank successfully continues to realize the important strategic goal to widen a circle of the counter-agents segments. In 2010 the client base of the Bank increased due to:

	December 31 2012	December 31 2011
Number of clients, total, including:	14 861	11 984
- economic entities	994	863
- individuals	13 867	11 121

During 2012 the client base of the Bank for Investments and Savings Public Joint Stock Company has mainly been increased due to the involvement into transaction of the small scale and medium business entities, and also, of the individuals (due to the payment cards emission). The Bank serves the entities of the food industry, fuel and energy sector, agriculture, wholesale trade, building, transport, hotel business etc. The Bank also widely cooperates with non-bank financial companies (those are mostly insurance companies, credit unions and other financial entities).

Also, since 2009 the Bank has been cooperating with The State Mortgage Institution (the budget institution) in the sphere of market mortgage crediting transactions.

Moreover, the Bank is an active member of the market of the interbank transactions. There are about 100 leading banks acting as counter-agents of the Bank for Investments and Savings PJSC, and more than 50 of them are the permanent partners in the performance of the credit and foreign exchange interbank transactions.

- The risk management system of the Bank for Investments and Savings PJSC is built according to the requirements and recommendations of the National Bank of Ukraine and with considering the main provisions of the Basel Capital Accord (Basel II). The process of risk management in the Bank is maintained along with the use of the best experience in the risk management.

Also, The Bank Supervisory Board, the Bank Management, collegiate profile bodies (committees), Risk Analysis and Management Department, Inner Audit Department are involved into the process of the risk management.

- The Bank Supervisory Board is responsible for the financial conditions and reliability of the Bank to the Bank owners, investors, clients and bank supervisory bodies, and also:
    - defines the organization structure of the Bank in the risk management;
    - defines and approves the strategy of the Bank development, the Bank budget included;
    - examines the reports prepared by the sub-department of the Inner Audit, external auditors and the bank supervisory bodies;
    - Hear the accounts of the Bank Management.

As an executive body, the Bank Management is accountable to the Bank Supervisory Board, cooperates with the Bank Supervisory Board in the questions concerning the risk management. The Bank Management is responsible for the organization and implementation of the risk management process, provides the identification, evaluation, control and monitoring of the risks, considering their mutual influence. The Bank Management forms the tactics of work in the risk management by the approval of the mission, goals and tasks of the Bank.

The Management on the level of the Bank Supervisory Board and the Bank Management receives the reports on the risk levels on a regular basis (adherence to the standards/limits for the risk positions and other analytical materials on the main risk types).

The policies of the risk management is implemented by the function of committees, which are active in the Bank on the permanent basis: the Credit Committee (responsible for credit risks), Assets and Liabilities Management Committee (responsible for market risks and risks for liquidity), Information Security Committee (responsible for operating risks, the risks for informational security included), Tariff Committee (responsible for the pricing policies), Tendering Committee (responsible for expenditures management). All these committees are analytically supported by the Risk Analysis and Management Department. In case, if the credit is becoming a problem, the Bank security Department and the Juridical Department carry out the work with the problem debt (soft/hard & legal collection).

- The Credit Committee is a collegiate body. It is independent in its decision making, and it has been founded to adhere the optimal structure of the Bank credit portfolio in general and in the departments in particular. Also, the Credit Committee is responsible for the setting and realization of the credit and investment policies of the Bank, the setting of the maximum amount of the credit portfolios of the Bank institutions, decision making about granting of credit and other active transactions, and setting and control of the concentration limits.

- The Assets and Liabilities Management Committee (ALMC) is a collegiate body, which is headed by the Chairman of the Management Board. The main task of the ALMC is to provide the current tasks and the Bank plans realization in order to achieve its strategic goal, by using the appropriate policies, methods and instruments of management and control of the liquidity risks and market risks (exchange, interest, price risks). The ALMC defines the methodology of the management of the market and liquidity risks, sets appropriate limits and standards, and also, it controls their fulfillment. Also, the ALMC is responsible for the planning of the Bank capitalization. The information for the ALMC on market and liquidity risks is prepared and developed by the Risk Analysis and Management Department

- The Information Security Committee is a collegiate body. It is independent in its decision-making process, and it has been founded to minimize possible damages from the influence of the operating risks (information security risks included).

- The Tariff Committee is a collegiate body. It is independent in its decision-making process, and it has been founded to set the bank services tariffs.

- The Tendering Committee is a collegiate body. It is independent in its decision-making process, and it has been founded to optimize the Bank expenditures in purchase of the inventory holdings and software by organizing and holding tenders.

There is a separate department in the Bank, which is responsible for risk management and methods of their minimizing. It is the Risk Analysis and Management Department. The tasks of this Department are:

- Adherence to the procedure of the risk management according to the requirements of the National Bank of Ukraine and the recommendations of the Basel Committee on Bank Supervision;

- Timely identification and evaluation of the market risks in all bank transactions of the Bank, the optimum allocation of resources between all types of active transactions and their efficient usage.

- Calculation of the main quantity indices of risks according to the inner normative documents currently in force, and prevention of the non-fulfillment of the inner indices / limits of risk.

The Head of Risk Analysis and Management Department reports directly to the Chairman of the Management Board. The Head of Risk Analysis and Management Department is a member of the Bank Management and following collegiate bodies: the Assets and Liabilities Management Committee, the Credit Committee, the Information Security Committee and the Tendering Committee.

The Inner Audit Committee holds regular checks of the activities of all bank departments on the basis of adherence of all normative legal acts of the National Bank of Ukraine and inner normative provisions of the Bank. The consideration of the recommendations and notes of the Inner Audit Committee helps the Bank to minimize the level of risks.

- The risk management is maintained according to the accepted Bank Development Strategy. In particular, the strategy in the risk management is based on the principles of adherence to the break-even activities and is aimed to provide the optimum correlation between the profitability of the business activities of the Bank and the level of the risks accepted by the Bank.

- The risk management strategy contemplates the usage of all possible instruments to lower the risks and the usage of every instrument considering the type of risk.
- During the reporting year, aiming to create a maximum efficient system of the risk management, the work on projecting, implementation and improvement of the evaluation, analysis and risk management system has been performed.
- In order to manage the risks efficiently, the Bank created and performs the procedures of the liquidity, credit, transactional and market risk management. These procedures of the risk limitations are used to provide the Bank stability and reliability while achieving the planned results of its activity.
- The Bank is improving and developing new methods of risk evaluation and management on the permanent basis, and that allows performing the most effective decision-making process in different spheres of the Bank activities in market conditions. The efficiency of the Bank developed and implemented procedures of the risk management is aimed to ability to timely identify and evaluate in terms of quantity the Bank position in case of rise of unforeseen situations.

The Bank has four strictly defined interrelated stages of the risk management:

- Risk identification;
- Risk evaluating in terms of quantity;
- Risk management (elimination or minimization of the negative influence);
- Risk monitoring and control.

While performing the process of the risk identification, the Bank is constantly and systematically detecting the sources of risks, defying the risk factors and their classification.

During the process of calculation and evaluation of risk, the probability of risk rise and the amount of possible damages in the case it has arisen are defined; also, the evaluation of the risk level in terms of quality and quantity is defined.

Depending on the results of the calculation and evaluation of risks, the following methods of the risk management are used: declining, decreasing, optimization, acceptance, distribution or transfer of risks.

There is a developed system of risk limits and risk limit adherence control in the Bank. The system of limits and standards set in the Bank allows to effectively limiting the risks without considerable loss of the Bank financial policy flexibility.

The limit system includes all crucial types of risks and also, it contains:

- Structural limits;
- Positional limits;
- Indicative limits;
- Limits of personal authorities (for branches).

The main areas of the Bank risk management:

- Management of credit risks;
- Management of market risks (risk of interest rate change, exchange risks, stock risks);
- Management of operating risks;
- Management of liquidity risks.

<u>Credit risks</u>

In order to monitor and regulate the credit risks, the Bank has developed credit policies, provisions, methods, procedures of credit risk management.

The Bank constantly provides the improvement of the credit procedures (in the sphere of decision-making in credit risks and renewal of the methods of defying the solvency of debtors.

The Bank inner normative documents have been renewed according to the requirements of the National Bank of Ukraine Management Resolution #23 "Procedure of formation and usage of reserves for compensation of possible damages from the active bank procedures for banks of Ukraine" dated January 25 2012 (with amendments introduced by the NBU resolution #499 dated November 30 2012).

The Bank Management receives the administrative reports on the conditions and quality of the credit portfolio. The decisions on the credit risks are approved by the Management, The Credit Committee and The Assets and Liabilities Management Committee (ALMC) according to the divided authorities.

The process of management of the exchange, interest and liquidity risks is performed by the Risk Analysis and Management Department.

The interest and liquidity risks

The interest and liquidity risk management is performed with the help of the following instruments:

- Setting the GAP-breaks in assets and liabilities;
- Adherence of the liquidity standards and obligatory reservation norms;
- Net interest margin level and spread management;
- Setting of the minimal accepted interest rates in the credit transactions and maximum accepted deposit involvement rates;
- Setting of the positional limits on the interest assets and liabilities;
- Conduct of the stress-testing;
- Development of the plan of actions in case of the unforeseen events;

The procedure of the interest and liquidity risk management is set by the appropriate provisions and methods approved by the Bank Management.

Exchange risk

The exchange risk management is performed with the help of the following instruments:

- Setting of limits of the long-/short-term exchange transactions on convertible and nonconvertible currency separately;
- Usage of VAR- methodology;
- Usage of instruments of hedging;
- Conduct of back-testing and stress-testing;
- Sensitivity analysis.

The calculation and setting of the limits of the exchange position is performed according to the calculation methodology of the abovementioned limits, and also to the normative documents of the NBU.

During the routine regime the Risk Analysis and Management Department by issuing a resolution has a right to correct the limit parameters of the assets and liabilities transactions performance.

Monitoring of the adherence to the set limits is performed during the set terms on the ALMC with decision made concerning the violators and the means of solving of the problem situations, which can prevent the process of risk negative influence elimination.

Operating Risks

The operating risks management is maintained in the following main groups of the operating risks: human factor risk (mistake, inner and external fraud etc.), process risks (inadequacy of the processes and/or control), technology risks (equipment errors, its discrepancy, system systemic disruptions etc.), external events risks (natural disasters, wars etc.).

The task of the risk management is to minimize the operating risks by means of:

- Increase of the bank technologies efficiency;
- Analysis of the efficiency of the information flows functioning;
- Development of the calculation and monitoring system of the operating risks;
- Regular monitoring of operating risk indicators;
- Forming the list of operating risk factors;

Aiming to limit the operating risks connected with the defects in systems and procedures of the management, support and control, there is a control of a proper usage of the Bank normative documents, aimed to risk management (provisions, regulations, bank products etc.) by all Bank branches.

According to the organization structure of the Bank, the Management bodies of the Bank are the General Meeting of Shareholders, the Supervisory Board and the Bank Management.

The General Meeting of Shareholders is the supreme body of the Bank management. All the shareholders or their appointed representatives take part in the Meeting.

The representatives can be appointed on the temporary or permanent basis.

The shareholders have a right to delegate their authorities on the General Meeting to their representatives. Ordinary General Meeting of Shareholders is convened no less than once a year. Extraordinary Meeting is convened if the special circumstances mentioned in the statute documents are arising, in case of the Bank insolvency, and also in any other case, if it is demanded by the Bank interests.

The Supervisory Board of the Bank or Shareholders, who together hold no less than 10 % of votes, have a right of demanding to convene the Extraordinary General Meeting of Shareholders in any time for any reason, which concerns the Bank interests.

The Supervisory Board of the Bank is elected by the General Meeting of Shareholders from the number of the Bank Shareholders or their representatives. The members of the Supervisory Board cannot be members of the Bank Management or the Bank Revisionary Board.

The Supervisory Board approves the organization structure of the Bank.

The Bank Management is an executive body of the Bank, and it maintains the current activity of the Bank, forms its funds needed for the statutory activity of the Bank and is responsible for the efficiency of its activities according to the principles and procedures set by the Bank Statute, decisions of the General Meeting of Shareholders and the Bank Supervisory Board.

In the bounds of its competence the Management acts in the name of the Bank and is accountable to the General Meeting of Shareholders and the Bank Supervisory Board. The Management is acting on the basis of the provisions that are approved by the Bank Supervisory Board.

The members of Management are appointed by the Bank Supervisory Board.

The Management convenes the General Meeting of Shareholders in cases mentioned in the Statute and by the demand of the Bank Supervisory Board or the Revisionary Commission.

The Bank Management is elected by the Bank Supervisory Board for a period until its re-election.

The corporate culture of the Bank is set by the inner normative documents of the Bank.

As of the date of preparation of the financial report for 2012, none of the means of stoppage of the Bank services has been used towards the Bank for Investments and Savings Public Joint Stock Company.

As of December 31 2012 the Bank had limitations in ownership of the following assets (in connection of grating of them as a pledge to other counter-agents: total – UAH 98.418 thsd (property rights to the financial assets on the deposits and interbank agreements.

As of December 31 2012 the owners of the considerable part of the Bank for Investments and Savings Public Joint Stock Company are residents of Ukraine exclusively:

1) Serhyi Mykolayovych Lahur – 15.91% of the total share capital;
2) Stepan Petrovych Ivakhiv – 23.33% of the total share capital;
3) Andriy Volodymyrovich Popov – 15.00% of the total share capital (including 14.9996% of direct participation, and 0.0004% of indirect participation, which is expressed in owning of the Kompaniya Evrorezerv Limited Liability Company).

The part of management in the Bank shares is absent.

There were no mergers, takeovers, partitions or separations of the Bank in the reporting year.

On December 21 2012 the Credit Rating independent rating agency made a decision about the increasing the credit rating of the Bank for Investments and Savings PJSC for one level to the uaBBB+ level, that is an investment level with the prognosis as "stable".

Also, the agency confirmed the rating of stability of bank deposit on the level of «4-» (that is "high reliability").

Note 2. The economic environment of the Bank

In general, the economic environment in 2012 was conditionally stable, which encouraged the development of the banking business in Ukraine.

The gross domestic product of Ukraine increased by 0.2%. The amount of industry production decreased by 1.8% due to the decrease of the level of reclamation industry (in particular, light industry, metal production). The revival was noticeable in such spheres as mining, production and distribution of the electricity, gas and water.

By the results of 2012 the deficit of consolidated balance of payments in amount of $4.2 bn was registered. In 2011 the abovementioned sum was $2.5 bn. Because of the unfavorable conjecture on the international goods markets the foreign economic activities of the transactors of Ukraine in 2012 demonstrated unstable dynamics of the exceeding the volume of goods exports (which increased by 0.6% to $68.809 bn) over the volume of goods imports (which increased by 2.5% to $84.658 bn); that led to the red ink in amount of $15.848 bn, which was the main reason of the deficit of consolidated balance of payments.

In general, by the preliminary information of the State Statistics Service of Ukraine in 2012 the amount of agricultural production reduced to UAH 222 bn (or by 4.5%). The biggest setback in production took place in the agricultural enterprises (6.5%), and in households this rate was 2.4%. In comparison with 2011, the shortening of the agricultural production mostly could be explained by the record harvest fixed a year ago. In comparison with two previous years (2009-2010), the amount of agricultural production increased by 12.1% and 13.9% respectively. Note: by the end of 2010 and 2009 the amounts of agricultural production were UAH 194.9 bn and 197.9 bn respectively.

By the results of 2012 ,the amount of building sector production was UAH 62.280 bn, that is by 13.8% less than in 2011, but by 14.3% higher than in 2010 and 8% higher than in 2009. The Negative dynamics can be explained by the fact that in 2011 the activation of the state programs on realization of the infrastructural projects of preparation to the Euro-2012 European Football Cup with the relevant influence on the amounts of the sector production of that year, while in 2012 the amount of such investments was much shorter. Note: as of the end of 2010, 2009 the amount of the sector production was UAH 54.460 bn and UAH 57.570 bn, respectively.

The turnover of the retail trade increased to UAH 804.33 bn in 2012 or by 15.9% in comparison with 2011.

For the first time in the last 10 years Ukraine completed the year with the 0.2% deflation. The decrease of the consumer prices was fixed for the first time since 2002 (the deflation rate in 2002 was 0.6%). The inflation (the consumer price index) in 2011 in comparison with 2010 was 4.6%.

The last reporting year average monthly salary of one employee grew to UAH 3025 (nominal salary grew by 14.9%; a real one grew by 14.4%).

Among the positive tendencies one should mention the relative stability of the exchange market of Ukraine: the official rate of exchange of hryvnia to American dollar almost did not change, and by the end of the year it was 7.993 UAH/USD (as of the beginning of the year it was 7.9898 UAH/USD). It had place also due to the support of the rate stability by the means of the international reserves of NBU (which decreased from USD 31.79 bn to USD 24.5 bn during 2012).

In general, the dynamics of the most macroeconomic indices in Ukraine represent the uncertainty of the business activity in the most sectors of economics, but that did not have bad influence on the economic revival of Ukrainian commercial banks, which assets grew to UAH 1.127 trl or by 6.9% during the last year.

Also, the absence of the scandalous cases on the bankruptcy (liquidation) of Ukrainian banks, the relative stability of the exchange market of Ukraine and high profitability of the deposits in 2012 allowed Ukrainians to revive trust to Ukrainian banks, and that has influenced on the increase of the population assets amounts on the bank accounts to UAH 364 bn or by 18.9%. The assets of the entities also increased to UAH 202.5 bn or 8.8% for the last year. The growth of the resource base due to the clients encouraged the increase of crediting of the real sector of economy: the amounts of credits granted to entities increased to UAH 609.2 bn or by 4.9% along with the decrease of the credit amounts granted to individuals to UAH 161.8 bn or 7.4%.

During 2012, the equity capital of Ukrainian banking system continued to increase. The total amount of the equity capital is still lower than the share capital of the banks, which is explained by considerable accumulated losses in 2009-2011. In general, in 2012 the amount of equity capital grew by 9.5% (UAH 14.7 bn) and by the end of 2012 constituted UAH 170.2 bn. Despite the increase of the share capital by banks (by 1.1% or to UAH 176.2 bn as of the end of 2012), the general level of bank capitalization descended: the mean value of "regulatory capital adequacy" N2 standard decreased from 18.9% to 18.1%, which represents the sufficient level of solvency of Ukrainian banking system (the minimum indispensable value of 10%).

A certain economic stability in 2012 and also, the significant past-due credit loan forgivenesses to off-balance-sheet accounts and/or novations (selling) of the problem credits to third-party companies, were conductive to decrease of the aggregated past-due credit loans (to UAH 78.8 bn or by -0.7%).

For the first time in last three years the Ukrainian banking system has completed the year with the UAH 4.9 bn profit (while in 2011 and 2010 the losses constituted UAH 7.7 bn and UAH 13.0 bn, respectively). A gradual movement to the profitable activities is connected with the fulfillment by banks the reserve forming on distressed loans, the amount of which is gradually decreasing on statements of banks.

Despite the conditionally stable economic environment, the financial conditions of the Bank for Investments and Savings Public Joint Stock Company under its influence were stable, which are demonstrated by the positive dynamics of the main financial indicators, low level of past-due credit loans, sufficient level of capitalization and profitable activities.

Note 3. Bases of presentation of the financial statements

The financial statement of the Bank is prepared according to the requirements of the International Financial Reporting Standards.

The Bank maintains records according to the rules and provisions, which regulate the banking activities in Ukraine. The prepared financial statement for 2012 is based on the provisions of the Instruction on Compilation and Disclosure of the Financial Statements of Banks of Ukraine, approved by the Board of National Bank of Ukraine Resolution #373 dated October 24 2011 (with amendments introduced), the Procedure of Transformation Method Implementation in Compilation of the Financial Statements of Banks of Ukraine approved by the Board of National Bank of Ukraine Resolution, dated December 10 2012, #510.

Functional and presentation currencies

The main transactions of the Bank are performed in hryvnias. Ukrainian hryvnia is the national currency of Ukraine; all accounting records are being kept in hryvnias, as well as all statements according to the national procedures of accounting. On the assumption of abovementioned information, the Bank specified the Ukrainian hryvnia as a functional currency. The transactions in currencies other than hryvnia are considered as ofeign exchange transactions. The Ukrainian hryvnia is also specified as a presentation currency of the financial statement. All sums mentioned in this financial statement are given in Thousands of hryvnias of Ukraine (if no other is mentioned).

Note 4. Accounting policies

Note 4.1. Consolidated financial statements

The Bank does not have any associated or subsidiary companies, and therefore, it does not prepare the consolidated financial statement.

Note 4.2. Basic estimations of financial statements preparation

This financial statement has been prepared on the basis of assessment principle of historical costs, excluding the items, which are represented at fair value or amortized cost, according to IAS 39 "Financial Instruments: Recognition and Measurement".

During the initial recognition of assets, liabilities, equity capital, profits and losses, the foreign exchange transactions are represented in the accounting in double value: at face value of foreign currency and its equivalent in hryvnia according to the official currency rate as of the date of accounting transaction performance. In the financial statement the assets and liabilities of the Bank in the foreign currency are represented in hryvnia equivalent of foreign currencies according to the official hryvnia exchange rate as of the date of financial statement compilation.

Note 4.3. Initial recognition of financial instruments

According to IAS 39 "Financial Instruments: Recognition and Measurement", the financial instruments of the Bank are classified at the moment of their acquisition as: loans and receivables; financial assets of fair value through profit and loss, held-to-maturity investments, financial assets available for sale, financial liabilities, which are evaluated at fair value through profit or loss.

The Bank recognizes the financial asset or liability, when the Bank becomes a party of contractual provisions considering this financial instrument.

During the initial recognition the financial assets or liabilities are evaluated and represented in the accounting at fair value. After the initial recognition they are represented through amortized cost with using of the effective interest rate instrument, excluding the financial assets at fair value with representation of revaluation through profit or loss.

In case if the investments are not classified as financial assets at fair value through profit or loss, then at the moment of their initial recognition the expenditures are added to their fair value, which are directly connected with the transaction.

The fair value during the initial recognition of the financial asset is proved by the cost of the transaction.

The profit or loss during the initial recognition is accounted only in that case if there is a difference between the fair value and transaction cost, which can be proved by the current market transactions with the same instruments, or evaluation methods, which are using the open market information.

All transactions of purchase or sale of financial assets, which presuppose the delivery during the period defined by law or accepted by market, are recognized on a date of transaction, that is the date the Bank assumes responsibilities of purchase of asset. All other transactions of purchase of financial instruments are recognized on a settlement date and a date of proprietary transfer of such instruments.

The initial recognition of financial instruments is performed using following values of separate items of assets and liabilities.

Financial assets

Loans and receivables. This category includes the non-derivative financial assets with fixed payments or payments, which are to be recognized and do not have quoting on the active market and shall be returned on a fixed date or a date, which shall be defined; here at the Bank does not intent to perform trade transactions with these receivables. Granted loans are initially evaluated and represented in accounting at fair value with due regard to expenses, which are connected with the transaction performance directly. After the initial recognition the mentioned assets are calculated at amortized cost price using the effective interest method. Such assets are debts of other banks, granted loans to clients etc.

Financial assets at fair value through profit and loss. This category includes securities recognized by Bank during the initial recognition, towards which the Bank has an intent and possibility of account at fair value with revaluation recognition through profit and loss. After the initial recognition the abovementioned securities are calculated in a trade portfolio. The expenditures for purchase transactions are recognized through the expenditures accounts during the initial recognition of such securities.

Financial assets available for sale. This category includes non-derivative financial assets, which the Bank intends to hold during indefinite time, and which can be sold to cover the liquidity or because of changes of interest rates, foreign exchange rates or securities cost. Securities are considered as such assets. The securities for sale after the initial recognition are calculated at fair value with further revaluation. As of the reporting date the securities available for sale in the Bank portfolio are absent.

Held-to-maturity investments. This category of financial assets includes non-derivative financial assets, which have market quotation with the fixed payments or assets shall be recognized, and fixed terms of maturity, which the Bank has an intent and possibility to hold to maturity terms. The investment securities are considered as such investments. Bank held-to maturity investments after the initial recognition are calculated at amortized cost.

Financial liabilities

Due to other banks. Debts to other banks are calculated from the moment of granting to the Bank of the cash assets or other assets by counter-agent banks and the National Bank of Ukraine. These debts are granted loans by counter-agent banks, granted loan of refinancing by the NBU. Mentioned non-derivative financial liabilities are calculated at amortized cost.

Due to clients. Assets and deposits are recognized by the Bank during their involvement from clients, who are the owners of the cash assets (individuals and entities). The involved assets of clients include non-derivative financial liabilities to individuals, state or corporate clients, and are calculated at amortized cost.

Provided guarantees to clients are initially evaluated at fair value, that is the sum of received fees (rewards for guarantees provided). The fee received for guarantee provided is amortized by the straight line method through the duration period of the respected guarantee.

Debt securities of own emission. The debt securities can be realized, by the nominal value, with discount or premium, by the Bank. Interest charge and discount (premium) amortization on these securities are performed using the effective interest method and depending on conditions of securities issuing, but at least once in a month during the period from the security sale until its maturity. As of the reporting date the debt securities of own emission in the Bank portfolio are absent.

Note 4.4. Impairment of financial assets

The Bank creates the provision for possible impairment for all categories of financial assets excluding those calculated at fair value through profit or loss.

The Bank considers the financial assets as an impaired one, and the damages due to impairment are arising for the Bank only when there are objective signs of impairment in a result of one or several events, which had place after the initial recognition and can be authentically evaluated, and such case or cases of arising of detrimental events have influence on expected future cash flows or a group of financial assets, which can be authentically defined.

The objective sign of impairment (depreciation) of financial assets is information considering such detrimental events:

- A debtor or a group of debtors are suffering from significant financial difficulties at creditor or emitter, including those connected with the changes of situation in the national economy, violate obligations of interest payments or the principal of loan;
- The creation of such conditions due to the economical or juridical reasons of financial difficulties of the debtor by the creditor, which could not be created in other circumstances (interest rate change, prolongation etc.);
- The availability of information about possible bankruptcy or financial reorganization;
- The availability of information about violation the terms and conditions of the equivalent financial asset by the creditor or emitter, and inability to realize present cover funds, if exits, by lowering their cost, due to the negative changes of market conditions, and also on the basis of data of observed market information, decrease of expected future cash flows, which can be authentically evaluated.

The impairment of financial assets is represented by the means of forming provisions for reimbursement of possible losses of active banking transactions at the Bank expense.

With the aim of forming provisions for financial assets the Bank evaluates the risks of such assets starting from the date of their recognition in the accounts until the date of their derecognition.

The Bank evaluates the risk of non-fulfillment of obligations by debtor/counter-agent, and forms the provision to its full extent regardless of the amount of its profits as of the first day of every month next to the reporting one.

The impairment expenses for financial assets are presented in the Statement of Income and Comprehensive Income.

The assets, the maturity of which is considered as impossible, and in relation to which all necessary procedures of full of partial reimbursement are completed, and the final loss sum is defined, are written-off at the expense of formed provision for impairment.

In case if the cash from before written-off assets is delivered, it is also recognized as profit on an acquisition date.

The decision on reimbursement (writing-off) at the expense of reserve of bad debts is made by the Bank Management.

Note 4.5. Derecognition of financial assets

The Bank *derecognizes the financial assets* (or a group of financial assets) by the following criteria:

- If the period of validation for cash flows of the financial assets defined by the agreement, terminates;
- If the transfer of financial asset meets the criteria of derecognition, which are provided below.

The Bank transfers the financial assets if one of the following conditions is fulfilled.

1) The banks transfers the right to receive contractual cash flows from the financial asset;

2) The Bank reserves the right to receive the cash flows from the financial asset provided by the contract on transfer, but it assumes responsibilities of cash flows payment to one or several receivers according to the contract meeting the following conditions:

- The Bank does not have any obligations of payment to a final buyer before the receipt of the initial asset equivalent amount.
- The terms and conditions of the contract prohibit the Bank to sell or deposit the initial asset as a pledge, excluding its transfer to the final receiver as a guarantee of payment of cash flows;
- The Bank is obliged to transfer any cash flows, which are encashed by it due to the power of attorney issued by the final buyers without a significant delay.

During the transfer of the financial asset the Bank evaluates the bounds, where it reserves all the risks and rewards from possessing of the asset, including:

a) If in general all risks and rewards of possessing of the financial asset are being transferred, then the Bank can derecognize the financial asset and recognize rights and liabilities evolved or preserved during the transfer as an asset or a liability, separately.

b) If in general the Bank reserves all risks and rewards of possessing of the financial asset, then the Bank is still recognizing the financial asset;

c) If in general the Bank does not transfer and reserve all risks and rewards of possessing of the financial asset, then the Bank defines whether the control over the financial asset is reserved.

The Bank has no control over the transferred asset, if the party receiving these assets is able to sell it to the third unrelated party and can perform this selling unilaterally without a need to set additional restrictions for such transfer.

If the control over the financial asset is not retained, then the Bank derecognizes such asset and recognizes the rights and liabilities, evolved or reserved during the transfer, as an asset or a liability, separately. In case the control over the financial asset is reserved, the Bank continues to recognize such transferred assets in the bounds of its further share.

Recognition of a financial liability terminates in case of payment, annulment or termination of the maturity period of the respective liability.

In case of change of one available liability to the same creditor with significantly different conditions, or in case of introducing significant changes to the conditions of the existing liability, the recognition of the initial liability terminates, and a new liability is represented in the accounting with the recognition of the difference in carrying cost of liabilities.

Note 4.6. Cash and cash equivalents

The Bank includes cash, assets in the National Bank of Ukraine and assets, which are accounted on correspondent accounts and overnight loans to the cash and cash equivalents.

The cash and cash equivalents are represented at cost price or amortized cost.

The Bank does not include restricted cash in the cash and cash equivalents. These assets are the amounts of required reserves defined by the regulatory legal acts of the National Bank of Ukraine, and assets on accounts and cash cover placed in other banks demanded by the counter-agent bank in different transactions (letters of credit etc.).

The information on the cash and cash equivalents is disclosed in Note 6 "Cash and cash equivalents"

Note 4.7. Bank metals

The Bank performs purchase and sale of the bank metals with the aim to generate profit due to the short-term fluctuations of prices or dealer's margin. Gold and other bank metals are accounted according to the rates of the National Bank of Ukraine, which is approximately corresponds with the fair value, and the gains and losses are represented as a part of gains and losses and other comprehensive income. As a result of the Bank evaluating the bank metals at fair value, the requirements of IAS 2 "Inventory" are not applied to them as regards the value. The information on the bank metals is disclosed in Note 13 "Other assets".

Note 4.8. Trading securities

To this category of the financial assets the Bank includes the trading securities accounted at fair value through profit and losses.

The securities are classified as trading securities, if they have been purchased by the Bank with the aim of their sale in short-term prospects and receipt of the profit from the short-term fluctuations of the market price, and they are accounted in the trade portfolio.

The trade portfolio has the following securities as accounted:

- Debt securities, shares and other common shares, which are used by the Bank in order to receive profit in a result of the short-term fluctuations of price or dealer's margin and sale in the nearest future;
- Any other securities, which are during the initial recognition defined by the Bank as those the Bank has an intent and possibility to account at fair value through profits and losses (excluding the securities not having the quoted price on the active market and the fair value of which is difficult to define accurately).

The trade securities are initially evaluated at fair value. The expenses for transactions of purchase are recognized in the accounts of expenditures during the initial recognition of such securities.

In case of change of a fair value, the revaluation of the securities is performed according to the data of the last quotation in the reporting period at the officially organized market. The result of revaluation is obligatory represented in the accounting as of the balance date.

In order to define the fair value of the securities, according to which the quotation as listed securities registered in the Stock Register are disclosed, the Bank follows IAS 39, "Financial Instruments: Recognition and Measurement", namely: current fair value of security is defined by its quoted price of the purchaser according to disclosed quotations of listed securities at stock exchange as of the date of the close of last exchange day of the reported month. In case of absence of such quotations on the defined date, the Bank must define the fair value of the security according to the last stock price, which is defined by the results of the stock trading that took place during last five days of the reported month.

Results of changes of the fair value of the trading securities prices are disclosed in the items of the Statement of Income and Other Comprehensive Income, that are "Profits/ (losses), which arise during initial recognition of financial assets at interest rate higher or lower, than the market one", and "Results of revaluation of other financial instruments accounted at fair value through profits and losses".

Trading securities are not reviewed for impairment.

In case of sale of securities from the trading portfolio, the profit or loss (the difference between the sale cost and balance cost) is represented in the item "Results of transactions with securities of the trading portfolio of the Bank" of the Statement of Income and Other Comprehensive Income.

The interest charge is performed depending on the securities issuing conditions, but no less than once in a month during the period starting from the date of security acquisition until the its maturity date or sale.

Note 4.9. Loans to customers

Loans to customers are non-derivative financial assets with fixed payments or payments which are to be recognized and do not have a quotation on the active market, and shall be returned on the fixed date or a date may be defined, and here at the Bank does not have an intent to perform the trading transactions with these receivables.

The loans to customers are represented beginning from the moment of granting of cash assets to the creditors. The Bank evaluates the granted loans during the initial recognition at the fair value, including the expenditures for transaction and other payments, which are connected with the loans initiating. With the presence of the active market, the fair value of loans is measured by the Bank using the method of discounted cash flow analysis through the market interest rate for the similar financial instrument. If such active market is absent, the fair value of the loans is defined by other methods of measurement (the market price is defined as a sum of a common market-value (e.g. LIBOR rates, EURIBOR etc.). The market interest rates are set by the decision of the Assets and Liabilities Management Committee of the Bank.

The loans granted at the interest rate, higher or lower, than the market interest rate, are measured as of the date of grant at the fair value, which present future interest payments and payments of principal debt discounted cum of market rates of analogue loans. At that, the Bank recognizes the profit or loss of the first day at amount of the difference between the fair and nominal value of the loan. Profit of loss recognized by the Bank is represented in the Statement of Income and Other Comprehensive Income in the item "Profits/ (losses), which arise during initial recognition of financial assets at interest rate higher or lower, than the market one".

In what follows, the loans to customers are measured at amortized cost price using the effective interest rate during the amortization of a discount (premium) and interest charge. The amortization of the discount (premium) of the financial instruments is performed along with the interest charge.

During the reporting period of 2012, the Bank granted guarantees of provision of offer and guarantees of provision of contract conditions implementation to clients. The granted financial guarantees are initially measures at fair value, which equals to the amount of received commissions (reward for guarantee granted). The commission received for the granted guarantee is amortized during the term of validity by straight line depreciation method.

In order to maintain the solvency of the debtors, which are in a difficult situation due to the unforeseen circumstances, relevant decrease of the credit risk and provision of the stability of its activities, the Bank performs the restructuring of credit transactions.

Restricting is a change of significant conditions of the credit transactions with the characteristics of depreciation accepted by both parties (the Bank and the debtor) in the signed additional contract to existing credit agreement or a conclusion of a new contract on crediting with the financing of existing receivables aiming to decrease the debt load of the Debtor and resumption of his solvency.

The Bank uses standard variants of restricting (change of the date of credit repayment, deferral of periodical payments at main amount of debt and/or at interest (profit) charge for credit transactions, credit foreign exchange change to the national currency, refinancing, decrease of the interest rate of the credit (permanently or temporarily) or decrease of the amount/disuse of the contractual presumptive damages etc.).

The Bank is constantly analyzing the restructured loan in order to control the quality of the restructuring performance and ability to perform future payments. Such loans will be measured for the impairment at a later date.

The information on the loans and receivables is disclosed in the Statement on the financial conditions in Note 9 "Loans and receivables of clients".

Note 4.10. Securities for sale in the Bank portfolio

In the portfolio of securities for sale the shares and other common securities, debt securities non-classified to other portfolios are accounted.

The securities for sale in the Bank portfolio are initially measured and represented in the accounting at:

- Fair value;
- Cost price plus the impairment: shares and common shares, fair value of which is difficult to define;

The profit from the debt securities is recognized on a daily basis. The discount (premium) amortization is performed using the effective interest rate method along with interest charge.

The expenditures for transactions connected with the purchase of the debt securities to the portfolio for sale are represented for the accounts of the discount (premium) during the initial recognition of these securities.

The securities for sale in the bank portfolio as of the reporting date are absent. During the reporting period of 2012 the Bank has not performed any purchase and sale transactions of the securities in the portfolio for sale.

Note 4.11. Sale (purchase) of securities with liabilities of buy-back agreements

Securities purchased under buy-back agreements (buy-back repo) are represented as due to banks or loans granted to clients.

All profits or losses, which arise from the transactions of sale (purchase) of the securities with liabilities of buy-sell back are recognized as interest, and are charged during the time of validity of the reverse repurchase agreements using the effective interest rate method.

During the reporting period of 2012, the Bank has not performed any sale (purchase) of the securities with liabilities of buy-back transactions.

Note 4.12. Securities held-to-maturity in the Bank portfolio

In the held-to-maturity securities the common securities, securities with assignable payment, securities with the fixed term of payment, which the Bank intends to hold to maturity in order to receive the interest profit.

The purchased securities held-to-maturity in the portfolio are initially measured and represented in the accounting at cost price. After the initial recognition the securities held-to-maturity in the portfolio are represented in the accounting at amortized cost price using the effective interest rate method.

The profit recognition and amortization of the discount (premium) of securities are performed using the effective interest rate method.

The expenditures for transaction, made during the purchase of the securities, are included into the cost of purchase and represented at accounting of the discount (premium) account.

Note 4.13. Investments to associates

The investments in associates are the shares and common shares of emitters, which correspond to the definition of the Bank associated company, excluding such securities that are purchased and/or held only until the sale in 12 months since the purchase date.

The investments placed to associated companies are initially measured and represented in the accounting at cost price. The expenditures of transactions connected with the purchase of the investment increase the amount of such investment as of the date of its purchase.

The investments to associated companies are accounted using the equity participation method with considering its impairment, and are represented in the accounting at the value, which is defined with considering the change of the total equity amount of the associated company, excluding those, which are the results of transactions between the Bank and the associated company.

During the reporting period of 2012, the Bank has not performed any investments in associates.

Note 4.14. Investment property

The investment property is:

- Land not to be sold in the short-term prospects during the performance of activities, but held in order to receive the profit from the capital growth in long-term prospects,
- Land, the further usage of which is yet undefined,
- Building in the Bank property (or in its disposal according to the financial leasing (rent) and 90% (or a part) of which are provided for leasing (rent) according to one or several operating leasing agreements,
- Building, which is not occupied and aimed to be leased (rented) according to one or several operating leasing agreements,
- The property, which is being built, or improved for the further usage of it as investment property.

In the reporting year of 2012, according to the defined criteria, the Bank has not recognized any investment property.

Note 4.15. Goodwill

In the reporting year of 2012, the Bank has not recognized the goodwill.

Note 4.16. Property and equipment

Purchased (produced) property and equipment are represented in the accounting at initial cost, which includes all the expenses connected with the purchase (production), delivery, installment and reduction to the state appropriate for intended use.

The initial cost of property and equipment increases on the expenses amount connected with the repairmen of the object (modernization, reconstruction etc.).

The depreciation of the property and equipment is accounted starting from the first day of the month following the acquisition month, and the charge terminates from the first day of the month following the month of fixed asset retirement.

Standards used to charge the depreciation of property and equipment are measured depending on the period of their useful life (maintenance) according to the straight line method. In 2012 the depreciation method has not been changed.

The standards of depreciation charges have been set by the permanently acting commission during putting into transaction of the property and equipment on the basis of their useful life, which has values in bounds of the following property and equipment objects:

Plot of land – not depreciated;

Houses, buildings and transmitting devices – 10-30 years;

Machinery and equipment – 4-10 years;

Means of transportation (auto cars) – 5 years;

Tools, devices, stock (furniture) – 4-5 years;

Other property and equipment – 12 years.

The depreciation of tangible negotiable assets of a little value is accounted in the first month of the object usage in the amount of its 100% cost.

The revision of period of the effective usage and depreciation standards of the property and equipment objects are performed by the permanently acting commission on taxation and retirement of the non-negotiable and tangible assets in case of change of the expected benefits from their usage. In 2012 the Bank has not changed the depreciation standards and the useful lives.

In the Bank the recognition of the impairment of the property and equipment is accepted by the permanently acting commission is case, if there are signs of possible losses of economic benefits of the property and equipment. On a basis of analysis of the possibility of the loss of economic benefits of the non-current assets, the decision is made as of the recognition of impairment or renewal of efficiency of the non-current assets.

In the reporting year of 2012, the Bank has not recognized the impairment of the property and equipment, having regard to the absence of the possible loss of economic benefits of the property and equipment, which are accounted by the Bank.

In the Financial Statement the property and equipment are represented in depreciated cost, which is the difference between the initial cost and the accumulated depreciation of the property and equipment, and also, having regard to possible losses due to impairment.

Note 4.17. Intangible assets

In general, the Bank accounts the right to use the software in order to provide the Bank activities automation as intangible assets.

During the initial recognition, the intangible assets are accounted at their initial cost, which includes all expenses connected with their purchase (creation), delivery, and installment and putting into transaction. Further, the intangible assets are represented at their cost minus the accumulated amortization and impairment loss.

The amortization of intangible assets is accounted monthly using the straight line method according to the useful life of the intangible assets. In 2012 the amortization method has not been changed. The amortization of the intangible assets is charged during the useful life of the object.

The revision of the amortization standards and the periods of the useful life put into transaction intangible assets is performed in case of change of the expected benefits from their usage. In 2012 the Bank has not changed the standards of amortization and period of useful life of the intangible assets.

In the Bank the recognition of the impairment of the intangible assets is accepted by the permanently acting commission is case, if there are signs of possible losses of economic benefits of the intangible asets. The analysis of the possibility of the economic benefits losses is performed by the Analysis and Risk Management Department, on the basis of which the permanently acting commission makes decisions as of recognition of impairment or renewal of the benefits of the intangible assets.

The Bank has not recognized any impairment of the intangible assets in the reporting year of 2012, in consideration of the absence of the possible loss of the economic benefits of the intangible assets accounted on the Bank balance.

Note 4.18. Operating leasing (rent) with the Bank acting as lessor and/or lessee

Leasing (rent) of assets with all ownership risks and rewards of rented property stay in the possession of a lessor, is classified as operative leasing (rent).

During the reporting year of 2012, the Bank was a lessee of the business premises received under operating leasing (rent). The leased (rented) payments of contracts on receipt of the assets to operating leasing (rent) are recognized as operating expenses. The information on the expenses from the received into operating rent of the property and equipment is disclosed in Note 25 "Administrative and operating expenses".

The expenses of the Bank acting as lessor for improvement of the operating leasing (rented) object (modernization, modification, completion, further equipping, reconstructing etc.), which are leading to increase of the future economic benefits, which have been initially expected from its usage, are represented by the lessee as capital investment for improvement of the rented property and equipment.

In the reporting year of 2012, the Bank leased a part of its own premises as operating leasing. As of December 31 2012, the Bank leased (rented) operating leasing assets are UAH 1887 thsd.

The method of measurement of property and equipment used in operating leasing corresponds to the method of measurement of property and equipment.

The leasing (rent) payments on property and equipment used in operating leasing (rent) are charged monthly during the lease term according to the concluded contracts. The information on operating leasing profits is disclosed in Note 24 "Other operating income".

Note 4.19. Financial leasing (rent), with the Bank acting as lessor and/or lessee

The Bank uses the following criteria in order to define the transaction as a financial leasing (rent)

- At the end of leasing (rent) period, the ownership and other material rights for the asset are transferred to the lessee;
- The lessee has a right to purchase this asset for a price significantly lower than the fair value as of the date of the exercise of this right, and at the beginning of the leasing (rent) period there is a grounded assurance that this right will be exercised;
- The period of leasing (rent) composes the bigger part of the period of beneficial usage of the assets, even so the proprietary is not transferred;
- At the beginning of the leasing (rent) period the current value of the minimal leasing (rent) payments is almost equal to the fair value of the leased (rented) asset;
- The leased (rented) assets have specific characteristics, i.e. only the lessee can use them without significant modifications.

During the reporting period of 2012 the Bank has not granted and or received the property and equipment as the financial leasing.

Note 4.20. Non-current assets held to sale and disposal groups.

The Bank classifies the non-current assets as those held for sale, if the book value of such assets will be compensated by the sale transactions, and not by the current use.

The non-current assets are classified by the Bank as those held to sale, if on the date of decision making on recognition them as assets held for sale if such conditions are fulfilled: the condition of the assets allows to perform an immediate sale, and there is a high level of probability of their sale during one year starting from their classification.

As of the reporting date the Bank does not have and assets held for sale and disposal groups.

Note 4.21. Discontinued activities

No discontinued activities of any banking transactions have been performed during in the reporting year.

Note 4.22. Derivative financial instruments

A derivative financial instrument (derivative) is a financial instrument, which has all three following characteristics:

- Its value changes as a respond to change of set interest rate, financial instrument price, consumer goods price, foreign exchange, indices of prices and rates, rate of the credit rating and solvency index or any other similar variable value;

- It does not require the initial net investments, or requires the initial net investments less than those required for other types of contracts having similar response to the change of market conditions;
- It is paid on the future date.

The derivative financial instruments include the currency swaps, forward transactions, spot currency exchange, precious metals and any other combination of these instruments.

The derivative financial instruments are initially accounted at fair value on the date of contract conclusion on the financial instrument, after that they are revaluated at fair value. All derivative financial instruments are shown as assets, if their fair value has positive value since the liabilities, if their fair value is negative.

The derivative financial instrument fair value change is recognized in the profits or losses.

The derivative financial instruments can be input to another contract ("host contract"). The input derivative instrument is accounted as a derivative instrument only in case, if the economic characteristics and risks of the prime contract and the input derivative instrument are not closely related, if the separate instrument in the same conditions as the input derivative instrument, corresponds to the definition of the derivative instrument, and if the combined instrument is not measured at the fair value through profit or loss. The derivative instruments input to the financial assets or liabilities at fair value through profit or loss, are not separated.

As the matter of fact, the loan granting transactions (deposit placement) and the loan receipts (involvement of deposits) denominated in different currencies for the equivalent amount with the same counter-agent bank and the same payment period is an exchange swap, which is a contractual agreement between two parties to perform the exchange of the foreign exchange rates and interest rates on the market, and such transactions are to be netted.

Note 4.23. Borrowed funds

Borrowed funds, which include funds of the National Bank of Ukraine, credit institutions and clients, debt securities issued and subordinated debt during the initial recognition at fair value, including transaction costs and other fees associated with the initiation of these investments (deposits). After the initial recognition, borrowed funds are measured at amortized cost using the effective interest rate. Amortization of discount (premium) is performed on a monthly basis, along with interest charge during the period of validity of the financial liability. The amount of discount (premium) must be fully amortized at the date of return of the deposit.

The Bank recognizes a profit or loss in the amount of the difference between the fair value of the financial liability and the cost of the contract in correspondence with premium (discount) accounts, if the effective interest rate on this instrument is higher or lower than the market one. The fair value of financial liabilities at initial recognition is the transaction cost.

Bank presents the accounting exchange transaction deposits with substantially different conditions as the repayment of initial financial liability and recognition of a new one. The Bank recognizes significantly different such conditions, under which the current net value of cash flows under the new conditions is discounted at the initial effective interest rate (for financial liabilities with variable interest rates the effective interest rate is used, which was calculated at the time of the last change in nominal interest rate), and it differs by at least 10% of the current discounted value of cash flows remaining to maturity of the initial financial liability.

Bank derecognized the financial liability or its part, if such liability is paid, annulated or the term of its exercise is expired

During the reporting period of 2012, the Bank has not issued or placed securities emitted by the Bank.

Note 4.24. Provisions for liabilities

Bank forms the provision for financial liabilities, which are accounted in off-balance sheets of the following groups:

- Warranties, guarantees, letters of credit and acceptances granted to banks;
- Guarantees granted to clients;
- Loan obligations granted to banks;
- Loan obligations granted to clients.

The Bank does not form the provision for liabilities from loans granted to clients (excluding banks), which are revocable and risk-free, i.e. the contact on which defined the Bank vested right without prior notice to the debtor unilaterally to refuse subsequent fulfillment of all its obligations, including the cases of deterioration of the financial condition of the debtor and/or delay in the performance of contractual obligations to the Bank.

Reserves for financial liabilities are provisions to ensure their implementation in the future that is recognized in the balance sheet as a liability and indicates possible losses due to an outflow of resources associated with the implementation by the Bank of such financial liabilities.

Note 4.25. Subordinated debt

Subordinated debt is a common unsecured by bank debt capital instruments (equity components), which, according to the contract, cannot be taken from the Bank in a period less than five years, and in the case of bankruptcy or liquidation are returned to the investor after repayment of claims of all other creditors. Amount of subordinated debt included in equity is annually declining by 20% of its initial size during the last five years of the contract.

The involvement of assets on terms of subordinated loan has not been conducted by the Bank during the reporting year of 2012.

Raising funds for subordinated debt during the reporting year 2012 the Bank has not carried out.

Note 4.26. Income tax

In the reporting year tax accounting has been performed according with the Tax Code of Ukraine.

The income tax rate from January 1, 2012, as compared to 2011, decreased from 23 % to 21 %.

Accounting policies of taxation of tax accounting and financial accounting lead to differences between taxable and accounting incomes.

When calculating deferred taxes, The Bank applies the method on temporary differences, which is a comparison of the assets and liabilities according to the balance of financial and tax accounting data.

Total current income tax is determined by the tax laws of Ukraine. In the financial statement, the income tax expenses consist of current tax and changes in deferred tax amounts.

Income tax expenses are represented through profit or loss, except for the amounts that relate directly to equity.

Deferred tax amounts are calculated using the balance liabilities of temporary differences arising between the tax bases of assets and liabilities and their balance amounts for financial statement purposes. Deferred tax assets are recognized only to the extent that it is probable that future taxable profit will be available, against which the deferred tax assets will be realized.

Deferred tax assets and liabilities are calculated according to the tax rates currently in force during the period when the asset is realized, or the liability is paid on the basis of the legislative regulations currently in force at the reported date.

Note 4.27. Statutory capital and share premium

The statutory capital is cash contributions paid by members of the bank of share price, shares of the bank at an amount determined by the Statute.

Share premium (emission differences) is the excess of the amount of cash funds received from the initial issue or own shares sale over their par or exceeding the nominal value of their purchase.

Contributions to share capital are presented at their fair value at the date of the transaction.

As of 31.12.2012 registered and fully paid share capital comprised 250,000 ordinary registered shares with a nominal value of UAH 1000 each. All ordinary shares give equal voting rights on the principle of "one share is one vote".

The Bank has not increased the share capital during the reporting year of 2012.

Note 4.28. Treasury stock

The purchase of the Bank treasury stock is recognized as a reduction of capital. Treasury shares are accounted at their cost. Profits and losses from sale of treasury shares are accounted in retained earnings.

The Bank has not performed treasury stock transactions during the reporting year of 2012.

Note 4.29. Recognition of income and expenses

As a result of transaction activities of the Bank, such income and expenses arise:

Interest income and expenses;

Commission income and expenses;

Profits (losses) on trading;

Dividend income;

Expenses for special reserves forming of the Bank;

Profits from the repayment of assets previously written off;

Other operating profits and expenses;

General administrative expenses;

Income tax.

Interest income and expenses are operating income and expenses received (paid) by the Bank for the use of cash and cash equivalents or amounts owed to the Bank (involved by the Bank), calculated in proportion to the amount of time using the effective interest rate. They are:

- Income (losses) from operations with funds placed in other banks (involved from other banks);
- Income (losses) on loans and deposits granted (received) to legal entities and individuals, and on other financial instruments, including securities;
- Income on amortization of discount (premium).

For all financial instruments measured at amortized cost and interest financial instruments classified as trading or available-for-sale, interest income or expense are represented at the effective interest rate, which is the rate that exactly discounts expected future cash payments through the expected service age of the financial instrument or a shorter period where it is appropriate, to the net book value of the financial asset or financial liability. The calculation takes into account all contractual conditions of the financial instrument (for example, prepayment options) and includes all rewards or additional expenses that are directly connected with the financial instrument, and are an integral part of the effective interest rate, but not future credit losses. The book value of the financial asset or financial liability is adjusted if the Bank revises its estimates of future cash flows. The adjusted book value is calculated on the basis of the initial effective interest rate, and the changes in book value are represented as interest income or expenses.

At the recorded in the financial statement value of the financial assets or group of similar financial assets due to impairment, interest income continues to be recognized using the initial effective interest rate applied to the new book value.

Commission income and expenses (hereinafter commissions) are operating income and expenses for granted (received) services, the amounts of which are calculated as proportional to the amounts of the asset or liability, or are fixed.

Received (paid) by Bank commissions, depending on the purpose of their measurement and basis of accounting of their associated financial instrument, can be divided into the following categories:

Commissions, which are an integral part of the revenues (expenses) of the financial instrument;

Commissions received (paid) during the provision of services, are recognized as income (expense);

Commissions received (paid) after performing certain actions are recognized as income (loss) after certain actions.

Profits (losses) on trading are the result (profit or loss) from operations of purchase and sale of various financial instruments.

Dividend income is and income arising from the Bank use of securities with variable income.

The costs of charging specific reserves of the Bank are the costs for covering the possible losses from impairment and write-offs of bad bank assets.

Profits from return of previously written-off assets are funds received to pay off debt, which was recognized by the Bank as bad on receipt.

Other operating income and expenses are income and expenses from operations that are not related to investing and financing activities.

General administrative expenses are operating expenses associated with the provision of the Bank activities.

Income tax is the Bank operating expenses associated with the payment of taxes in accordance with law currently in force and subject to the requirements of international accounting standards for the recognition of deferred tax liabilities and tax assets.

Profits and expenses of the Bank recorded in the accounting records and financial statements using the basic principles of accounting, including accrual and matching.

All income and expenses that relate to the reporting period are reflected in the accounting records of this period, regardless of when they were received.

The Bank recognizes interest income and expenses on account of interest income and expense using the effective interest method.

Amortization of discount (premium) on financial instruments is performed simultaneously with interest charge.

(UAH thousands)

Profits (expenses) from one-time services (e.g., fees for currency exchange, granting or receiving consultations, etc.) are recognized without a display on accrued income (expenses), if the funds have been received (paid) in the reporting period in which the services actually been granted (received).

Note 4.30. Foreign currency revaluation

Monetary assets and liabilities denominated in foreign currencies and precious metals are initially recorded at the official rate of hryvnia to foreign currency / precious metals (on the accounting date , which is the date of recognition of assets and liabilities and are further revalued after each rate change).

Non-monetary assets in foreign currency are recorded at historical (initial) value that is at the official exchange rate of hryvnia to foreign currencies at the date of acquisition of the asset.

Monetary assets and liabilities denominated in foreign currencies are recalculated into the functional currency at the official rate of foreign exchange currently in force at the balance date. In the Statement, profits and losses resulting from recalculation of foreign currency transactions are shown through profit or loss and other comprehensive income as a result of transactions in foreign currencies, and that are recalculation differences.

Non-monetary items measured at historical (initial) value in a foreign currency are recalculated at the official exchange rate of hryvnia to foreign currencies currently in force on the dates of the initial transactions. Non-cash items accounted at fair value are recalculated at the official exchange rate of hryvnia at the date when the fair value has been defined.

In the Statement of Income and Other Comprehensive Income, assets and liabilities in Statement of Financial Position are represented according to the official exchange rate of hryvnia to foreign currencies set National Bank of Ukraine on December 31, 2012 and used for translating to hryvnia of foreign currencies, were as following:

Currency code		Currency name		December 31 2012	December 31 2011
826	GBP	100	British pounds sterling	1289-8185	1231-8245
840	USD	100	US dollar s	799-3000	798-9800
985	PLN	100	Polish złoty	258-2071	231-8807
643	RUB	10	Russian rubles	2-6316	2-4953
756	CHF	100	Swiss francs	872-2824	845-0725
978	EUR	100	Euros	1053-7172	1029-8053

In order to reduce the currency risks the Bank follows the open currency position standards

Note 4.31. Offsetting items of assets and liabilities

Balance assets and financial liabilities are offset, and the balance reflects balance remaining, only when the Bank has a legally enforceable right to set off the balance recognized amounts and intends either to offset or to realize the asset or exercise the liability simultaneously. In accounting, for a transfer of a financial asset that does not qualify for derecognition, the Bank does not offset the transferred asset and its associated liability.

Note 4.32. Business segment information

As the he primary statement format the Bank uses business segment as the risks and profitability of the Bank are predominantly influenced by differences in the products and services that it provides.

Segment is a separated component of the Bank that provides a single product or services (business segment), or supplies products or services within a particular economic environment (geographical segment), which is exposed to the risks and receives income, other than the risks and income in other sectors. Segments, where the majority of revenues is obtained due to service provision to external customers, and revenues, financial result or assets are 10% or more of overall indices of all segments, are reported separately. The Bank does not perform its activities outside Ukraine, and thus reporting on geographical segments in this financial statement is not disclosed.

As the primary reporting format Bank uses business segment because of the risks and profitability of the Bank are affected predominantly by differences in the products and services that it provides.

For management purposes, the Bank has three main business segments:

1) Banking service of retail business: service of investments (deposits) of individual clients, granting of loans, overdrafts, service of cards and money transfer services;

2) Banking service of corporate business: granting of loans, credit lines and overdrafts, documentary services, factoring services, deposit and current accounts service of legal entities-clients;

3) Interbank business.

Pricing for the business segments is based on the basis of the Bank analysis of the cost of each segment services and the market prices of the services, tariffs, banking services, approved by the Tariff Committee of the Bank.

The distribution of reporting indicators by segments is performed according to management accounting data. Operating segment income is profit directly related to the segment, regardless of whether it is received from the sale to external buyers or from transactions with other segments. Segment expenses are costs resulting from operating activities directly related to the segment.

In the reporting year, the changes in accounting policy on determining income and expenses of operating segments have been not performed.

Information on operating segments is disclosed in Note 29 "Operating Segments".

Note 4.33. The effect of changes in accounting policies, accounting estimates and corrections of substantial errors

Basic principles of recognition and measurement methods of assets, liabilities, income and expenses remained unchanged, and therefore, changes in accounting policies during the reporting year of 2012 have not been performed.

Compared to the last year the Bank has changed the accounting of swap loans and deposits. These transactions are recorded as currency swaps. In this regard, the Bank has adjusted the statement of 2011.

Errors in preceding years and related adjustments of statement in 2012 did not occur.

Note 4.34. Basic accounting estimates and judgments used in financial statement preparation

Principles of preparation of financial statements require from management of the Bank to use estimates and assumptions that can affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities on the date of the financial statement, and included amounts of profit for the period. These estimates and assumptions are based on information available on the date of the financial statement. Although, these estimates are based on the best understanding direction of current events and transactions by the Management, actual results may differ significantly from these estimates and assumptions.

The main reasons of ambiguity of estimates are following:

Impairment of loans and receivables

Management assesses impairment by the means of loan repayment probability based on the analysis of individual borrowers on individual significant loans, and collectively for loans with similar conditions and risk characteristics.

Factors taken into consideration when assessing individual loans include payment history, current financial conditions of the borrower, on time payments and pledge if any. To determine the amount of impairment, the Management estimates the amount and terms of future payments of principal amount and interests, and in payments from the sale of pledge, if any. After that, these cash flows are discounted using the initial interest rate on position. Actual payments of principal repayments and interests depend on the borrower's ability to generate cash flows from transactions or obtain alternative financing, and may differ from the Management estimates.

Factors taken into account when assessing the impairment of loans assessed collectively comprise accumulated experience in evaluation losses on loans, delinquency rates in the credit portfolio and general economic conditions. Note 8 provides information on the book value of loans and prepayments, and amounts recognized reserves for impairment. If the actual repayments were lower than Management estimated, the Bank would have been obliged to record additional expenses due to impairment.

Fair value of financial instruments

If the fair value of financial assets and liabilities recorded in the Statement of Financial Position cannot be derived on the basis of active market prices, it is derived using different measurement methodologies that include the use of mathematical models. The input data for such models is obtained from observed markets if possible, but in case the observation is not possible, the certain assumptions are used in order to derive the fair value.

Note 5. Transition to new and amended standards

New and amended mandatory standards and interpretations to be used by the Bank

Some new standards and interpretation have become required for usage since January 1, 2012.

The new and amended standards and interpretations that are mandatory to be used by the Bank are following:

Amendment to IAS 12 “Income Taxes: Recovery of Underlying Assets”. The amendment clarifies the determination of deferred tax on investment property revaluated at fair value. The amendment introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model, according to IAS 40, should be determined on the basis that its book value will be reimbursed through sale. Also, it introduces the requirement of deferred tax calculation on Non-depreciable assets that are measured using the revaluation model in IAS 16 only be measured on a sale basis of the asset. The amendment becomes effective for annual reporting periods beginning on or after January 1, 2012.

Amendment to IFRS 7 Financial Instruments: Disclosures — Enhanced Derecognition Disclosure Requirements. The amendment requires additional disclosure about financial assets that have been transferred but not derecognized to enable the users of the financial statements to understand the relations of those assets that have not been derecognized and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognized assets to enable the users to evaluate character of entity continuing involvement in those derecognized assets and risks associated with it. The amendment becomes effective for annual reporting periods beginning on or after 1 July 2011.

The adoption of the mentioned standards and interpretations had no significant impact on financial results and financial conditions of the Bank

IFRS and Interpretation not yet effective

The Bank has not applied the following IFRSs and Interpretations of the International Financial Reporting Standards and International Accounting Standards Interpretations that have been issued but are not yet effective:

Amendments to IAS 1 *Financial Statement Presentation – Presentation of Items of Other Comprehensive Income* (become effective for annual reporting periods beginning on or after 1 July 2011)

The amendments to IAS 1 change the grouping of items presented in other comprehensive income. Items that could be reclassified to profit or loss at a defined point in time (e.g, in case of derecognition or repayment) would be presented separately from items that will never be reclassified. The amendment will affect information presentation only, and will not have any impact on the Bank financial conditions or results of its activities.

Amendments to IFRS 9 *Financial Instruments: Classification and Measurement*. The standard was issued in November 2009. It provides new requirements on classification and measurement of financial instruments and liabilities, and their recurrent recognition, and replaces IAS 39, *Financial Instruments: Recognition and Measurement* as regards classification and measurement of financial instruments. The standard becomes effective for annual reporting periods, beginning on or after January 1, 2015.

The Bank is evaluating the standard impact on its financial statement.

Amendments to *IFRS 10, Consolidated Financial Statements* provide a single consolidation model that identifies control as the basis for consolidation for all types of entities. The standard sets out requirements for situations when control is difficult to assess, including cases involving potential voting rights, agency relationships, control of specified assets and circumstances where voting rights are not the dominant factor in determining control. Also, IFRS 10 introduces specific application guidance for agency relationships. The standard also contains accounting requirements and consolidation procedures, which are carried over unchanged from IAS 27. IFRS 10 replaces the consolidation requirements in SIC-12 *Consolidation—Special Purpose Entities* and IAS 27 *Consolidated and Separate Financial Statements*. The adoption of IFRS 10 will not have any impact on the Bank financial conditions and results of its performance.

Amendments to *IFRS 11 Joint Arrangements* improve the accounting for joint arrangements by introducing a principle-based approach that requires a party to a joint arrangement to recognize its rights and obligations arising from the arrangement. The classification of a joint arrangement is determined by assessing the rights and obligations of the parties arising from that arrangement. Only two types of arrangements provided in the standard, these are joint operation and joint venture. IFRS 11 also eliminates proportionate consolidation as a method to account for joint arrangements. IFRS 11 supersedes IAS 31 Interests in Joint Ventures and SIC-13 Jointly Controlled Entities—Non-monetary Contributions by Venturers. The adoption of IFRS 11 will not have any impact on the Bank financial conditions and results of its performance.

Amendments to *IFRS 12 Disclosure of Interests in Other Entities* is a new and comprehensive standard on disclosure requirements for all forms of investments in other entities, including subsidiaries, joint arrangements, associated companies and unconsolidated structured entities. IFRS 12 becomes effective for annual reporting periods, beginning on or after January 1, 2013. Earlier application is permitted. The adoption of IFRS 12 will not have any impact on the Bank financial conditions and results of its performance.

Amendments to *IFRS 13 Fair Value Measurement* defines fair value, and sets out in a single IFRS a framework for measuring fair value and requires disclosures about such measurements. The standard applies when other IFRSs require or permit fair value measurements. It does not introduce any new requirements of measurement of an asset or a liability at fair value; it does not change the objects that are measured at fair value, and does not explain on change of fair value. The adoption of IFRS 13 may have an effect on the measurement of the Bank assets and liabilities accounted at fair value. At the moment the Bank is evaluating the standard impact on its financial conditions and results of activities.

Interpretation of IFRIC 20 "Stripping Costs in the Production Phase of a Surface Mine" is applied to the cost of removing slag rocks, or stripping, arising during operation of developed open pit deposit. In the interpretation the method of accounting benefits of stripping operations is concerned. The interpretation becomes effective for annual reporting periods, beginning on or after January 1, 2013. . The adoption of IFRS 12 interpretation will not have any impact on the Bank financial statement

Amendments to IAS 12 *"Income Taxes:*

Amendment to IAS 12 "Income Taxes: Recovery of Underlying Assets". (the amendment becomes effective for annual reporting periods beginning on or after January 1, 2012) The amendment clarifies the determination of deferred tax on investment property revaluated at fair value. The amendment introduces a rebuttable presumption that cost of investment property measured using the fair value model is recovered through sale. Also, amendments to IAS 12 include the instructions considering Non-depreciable assets not included to SIC-21 "Recovery of Revalued Non-depreciable Assets") and according to this, were excluded.

Amendments to IAS 19 *"Employee benefits" (become effective for* annual reporting periods beginning on or after January 1, 2013): the crucial amendments are aimed to exclude "the corridor principle", modifications in benefit accounting related to dismissal, and to improve the requirements on recognition and disclosure for fixed benefit systems.

Revised IAS 27 Separate Financial Statements (*become effective for* annual reporting periods beginning on or after January 1, 2013). This is a revised and renamed standard; it now applies only to requirements for separate financial statements that most have been transferred unchanged from IAS 27 "Consolidated and Separate Financial Statements". This standard basically requires the subject to prepare separate financial statements where investments to subsidiaries, associated and jointly controlled companies accounted either at cost or in accordance with IFRS 9 "Financial Instruments". It also contains requirements for the recognition of dividends, certain groups restructuring and includes several disclosure requirements. It *becomes effective for* annual reporting periods beginning on or after January 1, 2013.

Revised IAS 28 Investments in Associates and Joint Ventures (*becomes effective for* annual reporting periods beginning on or after January 1, 2013). This revised and renamed standard defines the accounting of investments to associated companies and establishes requirements of the equity method of accounting in the management of investment accounting in associated and joint ventures. The standard has a definition of "significant effect", describes the application of the equity method (and also, some exceptions when the equity method is not applied), and establishes the procedure for testing impairment of investments in associated companies and joint ventures. It *becomes effective for* annual reporting periods beginning on or after January 1, 2013.

Amendments to IAS 32Financial assets: presentation: Offsetting Financial Assets and Financial Liabilities (become effective for annual reporting periods beginning on or after July 1, 2014, earlier application is permitted): changes relate to deficiencies of the current practice of applying the offsetting criteria in IAS 32, and essentially explains the phrase "now has lawfully acquired right to offset" and that some gross settlement systems may be considered as equivalent to net calculations.

Amendments to IFRS 7 Financial instruments: Disclosures — Offsetting Financial Assets and Financial Liabilities (become effective for annual reporting periods beginning on or after July 1, 2014) change the requirements for disclosures about the impact or potential impact of netting agreements, including the right to pursue offset associated with the recognition of financial assets and liabilities of the economic entity, on financial conditions of such entity.

The following enumerated improvement will not have significant impact on the Bank financial statements:

IFRS 1 "First-time Adoption of International Financial Reporting Standards". This improvement clarifies that a company which has ceased to apply IFRS in the past and decided or obliged to report under IFRS, has the right to apply IFRS 1 again. If IFRS 1 does not apply again, the company must retroactively recalculate financial statements as if it never stopped to apply IFRS.

IAS 1 "Financial Statements - Presentation". This improvement clarifies the difference between additional comparative information is provided on a voluntary basis, and the minimum required comparative information. Usually, the minimum required comparative information is the information on the preceding reporting period.

IAS 16 "Property, Plant and Equipment". This improvement clarifies that the main parts and additional equipment meet the definition of assets, and are not stock.

IAS 32 "Financial Instruments: Presentation ". This improvement clarifies that income tax relating to payments to benefits of shareholders are accounted under IFRS (IAS) 12, "Income Tax".

IAS 34 "Interim Financial Reporting". This improvement results in line with the requirements for disclosure about the overall amount of segment assets required to disclose about segment liabilities in the interim financial statements. According to this explanation, disclosures in interim financial statements also comply with the disclosure in the annual financial statements.

These improvements become effective for annual reporting periods beginning on or after January 1, 2013.

Note 6. Cash and cash equivalents

Table 6.1. Cash and cash equivalents

(Thousands of hryvnias)

Line	Item	Reporting period	Previous period
1	Cash assets	36 780	27 676
2	Assets in the National Bank of Ukraine (excluding obligatory reserves)	126 690	206 594
3	Correspondent accounts, overnight loans and deposits in banks of:	152 662	94 380
3.1	Ukraine	148 942	18 672
3.2	Other countries	3 720	75 618
4	**Cash and cash equivalents total**	**316 132**	**328 650**

The amounts of obligatory reserves of banks in the Bank, determined in accordance with the regulations of the National Bank of Ukraine, not intended to finance current operations of the Bank, constituted at the end of the day 31.12.2012 and 31.12.2011, respectively, UAH 14 248 thsd and UAH 20 223 thsd. These amounts are not included in "Cash and cash equivalents" as the Bank has restrictions on their use.

In order to cover the obligatory reserves, the Bank classifies acquired tracking stock, placed by the Ministry of Finance of Ukraine in the amount of 50% of their par value.

As of December 31, 2012 the government bonds are issued by the Ministry of Finance of Ukraine, par value UAH 16 000 thsd. (Note 10)

Cash equivalents that have been actually guaranteed by securities purchased under repurchase agreements, and securities may be sold or remortgaged in the Bank of Investment and Savings PJSC are absent.

Table 6.2. Analyses of the credit quality of the cash equivalents for the reporting period

(Thousands of hryvnias)

Line	Item	Correspondent account	Overnight loans	Total
1	2	3	4	6
1	In 20 biggest banks of Ukraine	-	-	-
2	In other banks of Ukraine	109 321	39 621	148 942
3	In big banks of OECD countries	1 160	-	1 160
4	In other banks of OECD countries	1 657	-	1 657
5	In other banks	903	-	903
6	Cash equivalents total	113 041	39 621	152 662

Table 6.3. Analyses of the credit quality of the cash equivalents for the previous period

(Thousands of hryvnias)

Line	Item	Correspondent account	Total
1	2	3	4
1	In 20 biggest banks of Ukraine	-	-
2	In other banks of Ukraine	18 763	18 763
3	In big banks of OECD countries	74 903	74 903
4	In other banks of OECD countries	562	562
5	In other banks	152	152
6	Cash equivalents total	94 380	94 380

Note 7. Trading securities

Table 7.1. Trading securities

(Thousands of hryvnias)

Line	Item	Reporting period	Previous period
1	2	3	4
1	Debt securities :	15 540	-
1.1	Bonds of entities	15 540	-
2	Trading securities total	15 540	-

As of the end of December 31, 2012, the trading portfolio of the Bank accounts the trading securities (bonds) of Halychyna Private Enterprise.

Table 7.2. Analyses of the credit quality of the trading securities for the reporting period

(Thousands of hryvnias)

Line	Item	Bonds of entities	Total
1	2	3	4
1	Undue debt securities (at fair value)	15 540	15 540
1.1	Large-scale enterprises	15 540	15 540
2	Debt securities total	15 540	15 540

Dividing the bank counter-agents into large, medium and small are calculated from the gross income from the sale of products (goods and services) received during the reporting period. The Bank defines an enterprise as small if its income is less than UAH 70 mln, as large is its income is minimum UAH 100 mln., all remaining are defined as medium.

Table 7.3 "Analyses of the credit quality of the trading securities for the previous period" is not provided as such securities were absent at the respected date.

Trading securities have not been provided as collateral for repo transactions and other transactions; the rights on their sale and subsequent mortgage have not been transmitted.

Note 8. Due from other banks

Table 8.1. Due from other banks

(Thousands of hryvnias)

Line	Item	Reporting period	Previous period
1	2	3	4
1	Loans granted to other banks	152 958	61 188
1.1	Short-term	152 958	61 188
2	Provision for impairment in other banks	(2 165)	(79)
3	Assets total less provisions	150 793	61 109

Table 8.2. Analyses of the credit quality of due from other banks for the reporting period

(Thousands of hryvnias)

Line	Item	Loans	Total
1	2	3	4
1	Undue and non-amortized:	152 958	152 958
1.2	In other banks of Ukraine	152 958	152 958
2	Due from other banks before provision charge	152 958	152 958
3	Provision for assets impairment in other banks	(2 165)	(2 165)
4	Due from other banks total , net of provisions	150 793	150 793

The interbank loans of first category of quality, under which the reserves are formed, are shown as undue and non-depreciated.

Table 8.3 Analyses of the credit quality of due from other banks for the previous period

(Thousands of hryvnias)

Line	Item	Loans	Other assets	Total
1	2	3	4	5
1	Undue and non-amortized:	47 939	-	47 939
1.2	In other banks of Ukraine	47 939	-	47 939
2	Depreciated assets measured at individual basis	13 249	-	13 249
2.1	Without delay in payment	13 249	-	13 249
3	Due from other banks before provision charge	61 188	-	61 188
4	Provision for assets impairment in other banks	(76)	(3)	(79)
5	Due from other banks total , net of provisions	61 112	(3)	61 109

Table 8.4. Analysis of change of provision for impairment in other banks

(Thousands of hryvnias)

Line	Reserve flows	Reporting period	previous period
		Assets in other banks	Assets in other banks
1	2	3	4
1	Provision for impairment as of the beginning of period	(79)	(1 702)
2	(Increase)/decrease of provision for impairment during the period	(2 086)	1 616
3	Impact of the recalculation to the reporting currency	-	7
4	Provision for impairment as of the end of period	(2 165)	(79)

Note 9. Loans to customers

Table 9.1. Loans to customers

(Thousands of hryvnias)

Line	Item	Reporting period	Previous period
1	2	3	4
1	Loans granted to legal entities	1 627 474	1 496 616
2	Loans granted under repurchase		
3	Loans granted to individual entrepreneurs	7 075	5 968
4	Credits on mortgage of individuals	1 506	1 638
5	Loans granted to individuals for current needs	20 705	18 674
6	Other loans granted to individuals	396	316
7	Provision for loan impairment	(53 071)	(69 250)
8	Loans total excluding provisions	1 604 085	1 453 962

The Bank has no received as pledge securities that are guarantees for loans and advances to clients on repurchase transactions.

Table 9.2. Analysis of provision change for impairment for loans for the reporting period

(Thousands of hryvnias)

Line	Provision flows	Loans granted to legal entities	Loans granted to individual entrepreneurs	Credits on mortgage of individuals	Loans granted to individuals for current needs	Other loans granted to individuals	Total
1	2	3	4	5	6	7	8
1	Opening balance	(68 810)	(89)	(100)	(163)	(88)	(69 250)
2	(Increase)/decrease of provision for impairment during the period	(1 532)	16	100	95	62	(1 259)
3	Writing-off the bad loans under provision	17 438	-	-	-	-	17 438
7	Closing balance	(52 904)	(73)		(68)	(26)	(53 071)

During the 2012, there has been a partial redemption by counter-agents of written-off amount of the bad loans of UAH 47 thsd under the special reserve: namely, principal on foreign currency loans in amount of UAH 27 thsd, and acquired interest in the amount of UAH 20 thsd.

Table 9.3. Analysis of provision change for impairment of loans for the reporting period

(Thousands of hryvnias)

Line	Provision flows	Loans granted to legal entities	Loans granted to individual entrepreneurs	Credits on mortgage of individuals	Loans granted to individuals for current needs	Other loans granted to individuals	Total
1	2	3	4	5	6	7	8
1	Opening balance	(50 778)	(89)	-	(1 637)	(220)	(52 724)
2	(Increase)/decrease of provision for impairment during the period	(18 034)	(1)	(100)	1 222	42	(16 871)
3	Writing-off the bad loans under reserve	-	-	-	251	90	341
4	Impact of the translation into the reporting currency	2	1	-	1	-	4
5	Closing balance	(68 810)	(89)	(100)	(163)	(88)	(69 250)

Table 9.4. Loan structure by economic activities

(Thousands of hryvnias)

Line	Economic activities	Reporting period		Previous period	
		Amount	%	Amount	%
1	2	3	4	5	6
1	Production and distribution of the electricity, gas and water	67 100	4,05	1 664	0,11
2	Real estate operations, rent, engineering and service	420 590	25,38	359 756	23,62
3	Trade, auto repair, repair of household devices and personal hygiene items.	798 066	48,16	781 743	51,32
4	Agriculture, hunting and forestry	5 512	0,33	90 455	5,94
5	Individuals	22 607	1,36	20 627	1,35
6	Other	343 281	20,72	268 967	17,66
7	Loans to customers total excluding provisions	1 657 156	100	1 523 212	100

The table shows details of outstanding balances on loans divided by economic activities. The main sectors of the economy that Bank loans are trade, real estate, auto repair, household devices repair etc. the in order to minimize the credit risks the Bank sets lending ceiling by industry, which during the reporting year have not been violated.

Table 9.5. Information on loans by types of credit securities for the reporting period

(Thousands of hryvnias)

Line	Item	Loans granted to legal entities	Loans granted to individual entrepreneurs	Credits on mortgage of individuals	Loans granted to individuals for current needs	Other loans granted to individuals	Total
1	2	4	5	6	7	8	9
1	Unsecured loan	268 594	-	-	76	275	268 945
2	Secured loans:						
2.1	By cash assets	785 472	-	-	17 320	-	802 792
2.2	By real estate	228 137	3	1 506	1 942	-	231 588
2.2.1	Dwellings included	16 871	-	1 506	1 942	-	20 319
2.4	By guarantees and warranties	14 215	-	-	923	-	15 138
2.5	By other assets	331 056	7 072	-	444	121	338 693
3	Loans to customers less provisions	1 627 474	7 075	1 506	20 705	396	1 657 156

During the reporting year of 2012, the Bank did not purchase financial and non-financial assets through foreclosure on pledge, or the right exercise for other instruments that reduce the credit risk.

Table 9.6. Information on loans by types of credit securities for the previous period

(Thousands of hryvnias)

Line	Item	Loans granted to legal entities	Loans granted to individual entrepreneurs	Credits on mortgage of individuals	Loans granted to individuals for current needs	Other loans granted to individuals	Total
1	2	4	5	6	7	8	9
1	Unsecured loan	95 294	-	-	621	198	96 113
2	Secured loans:						
2.1	By cash assets	580 208	-	-	16 731	-	596 939
2.2	By real estate	538 348	3 460	1 638	838	-	544 284
2.2.1	Dwellings included	15 959	26	757	838	-	17 580
2.4	By guarantees and warranties	-	-	-	334	-	334
2.5	By other assets	282 766	2 508	-	150	118	285 542
3	Loans to customers less provisions	1 496 616	5 968	1 638	18 674	316	1 523 212

Table 9.7. Analysis of credit quality for the reporting period

(Thousands of hryvnias)

Line	Item	Loans granted to legal entities	Loans granted to individual entrepreneurs	Credits on mortgage of individuals	Loans granted to individuals for current needs	Other loans granted to individuals	Total
1	2	3	4	5	6	7	8
1	Undue and non-depreciated:	1 281 861	7 002	1 506	19 692	370	1 310 431
1.1	Big borrowers, with credit years more than 2 years long	312 424	-	-	-	-	312 424
1.2	New big borrowers	256 677	-	-	-	-	256 677
1.3	Loans to medium enterprises		-	-	-	-	
1.4	Loans to small enterprises	712 760	7 002	-	-	-	719 762
1.5	Other loans granted to individuals	-	-	1 506	19 692	370	21 568
2	Overdue but non-depreciated	6 185	-	-	-	-	6 185
2.1	With delay of payment no more than 31 day	6 185	-	-	-	-	6 185
3	Depreciated loans evaluated on the individual basis :	339 428	73	-	1 013	26	340 540
3.1	Without delay of payment	339 428	-	-	997	-	340 425
3.2	With delay of payment from 184 to 365 days	-	-	-	-	26	26
3.3	With delay of payment more than 366 (367) days	-	73	-	16	-	89
4	Loan amount total before provision charge	1 627 474	7 075	1 506	20 705	396	1 657 156
5	Provision for impairment of loans	(52 904)	(73)	-	(68)	(26)	(53 071)
6	Loans total excluding provisions	1 574 750	7 003	1 506	20 637	370	1 604 085

Dividing the bank counter-agents into large, medium and small are calculated from the gross income from the sale of products (goods and services) received during the reporting period. The Bank defines an enterprise as small if its income is less than UAH 70 mln, as large - with income minimum of UAH 100 mln., all remaining are defined as medium.

Liabilities to banks include accrued and unpaid income and take into account the amount of reserves made for them. The assignment of the borrower to the bank to a certain category of quality is based on the principle of worst-case, i.e., in the case of overdue liabilities (loan or interest thereon) the amount of all obligations under the credit transaction is classified as the worst type of debt.

Table 9.8 Analysis of credit quality for the previous period

(Thousands of hryvnias)

Line	Item	Loans granted to legal entities	Loans granted to individual entrepreneurs	Credits on mortgage of individuals	Loans granted to individuals for current needs	Other loans granted to individuals	Total
1	2	3	4	5	6	7	8
1	Undue and non-depreciated:	871 665	5 880	758	-	-	878 303
1.1	Big borrowers, with credit years more than 2 years long	56 475	-	-	-	-	56 475
1.2	New big borrowers	481 645	-	-	-	-	481 645
1.4	Loans to small enterprises	333 545	5 880	758	-	-	340 183
1.5	Other loans granted to individuals	-	-	-	-	-	-
3	Depreciated loans evaluated on the individual basis:	624 951	88	880	18 674	316	644 909
3.1	Without delay of payment	602 493	-	880	18 567	219	622 159
3.2	With delay of payment no more than 31 day	5 915	-	-	-	97	6 012
3.3	With delay of payment from 93 to 183 days	16 543	-	-	27	-	16 570
3.4	With delay of payment more than 366 (367) days	-	88	-	80	-	168
4	Loan amount total before provision charge	1 496 616	5 968	1 638	18 674	316	1 523 212
5	Provision for impairment of loans	(68 810)	(89)	(100)	(163)	(88)	(69 250)
6	Loans total excluding provisions	1 427 806	5 879	1 538	18 511	228	1 453 962

In the reporting year of 2012, by the decision of the Management Board all debts under credits (including accrued interest on them) in the amount of UAH17 438 thsd. (for loans – UAH 15027.8 thsd., accrued interest is UAH 2410.2 thsd.) are declared uncollectible and are written-off under reserve stormed for possible losses on credit transactions. Subsequent measurement of bad debt written off is carried by the Bank on 9611 off-balance sheet account "written-off as a loss debt on credit transactions."

Note 10. Securities held-to-maturity in the Bank portfolio

Table 10.1. Securities held-to-maturity in the Bank portfolio

(Thousands of hryvnias)

Line	Item	Reporting period	Previous period
1	2	3	4
1	Government bonds	17 451	18 586
2	Securities held-to-maturity in the Bank portfolio total excluding provisions	17 451	18 586

Note 10.2. Analysis of securities held-to-maturity in the Bank portfolio quality for the reporting period

(Thousands of hryvnias)

Line	Item	Government bonds	Total
1	2	3	7
1	Undue and non-depreciated debt securities	17 451	17 451
1.1	State institutions and entities	17 451	17 451
2	Securities held-to-maturity in the Bank portfolio total excluding provisions	17 451	17 451

The Bank has not transferred the securities held-to-maturity without derecognition as collateral under repurchase transactions.

Note 11. Property and equipment and intangible assets

Table 11.1. Property and equipment and intangible assets

The transactions of receipt, transfer, commitment, retirement of property and equipment and intangible assets are carried at the book value.

(Thousands of hryvnias)

Line	Item	Plots of land	Houses, buildings and transmitting devices	Machinery and equipment	Means of transportation	Tools, devices, stock (furniture)	Other property and equipment	Other non-negotiable intangible assets	Uncompleted capital investments to the property and equipment and intangible assets	Intangible assets	total
1	2	3	4	5	6	7	8	9	10	11	12
1	Book value at the beginning of the previous period	13	14 814	3 390	407	1 485	710	2 164	181	575	23 739
1.1	Initial (revaluated) value	13	16 205	6 823	1 289	2 494	1 335	4 885	181	1 331	34 556
1.2	Amortization and depreciation at the beginning of the previous period	-	(1 391)	(3 433)	(882)	(1 009)	(625)	(2 721)	-	(756)	(10 817)
3	Receipts	-	-	2 152	-	215	44	560	1 131	121	4 223
4	Capital investments for the completion of property and equipment and improvement of intangible assets	-	-	293	301	132	96	-	(833)	11	-
6	Retirement	-	-	(6)	(18)	(3)	(1)	(16)	-	-	(44)
7	Amortized values	-	(547)	(1 385)	(99)	(580)	(276)	(1 435)	-	(277)	(4 599)
8	Other changes			(69)	(136)	6	(3)	(35)	(170)		(407)
9	Book value at the end of the previous period (beginning of the reporting period)	13	14 267	4 375	455	1 255	570	1 238	309	430	22 912
9.1	Initial (revaluated) value	13	16 205	9 193	1 436	2 844	1 471	5 394	309	1 463	38 328
9.2	Amortization and depreciation at the end of the previous period (beginning of	-	(1 938)	(4 818)	(981)	(1 589)	(901)	(4 156)	-	(1 033)	(15 416)

(UAH thousands)

	the reporting period)										
10	Receipts	-	-	1 263		281	25	385	3 389	298	5 641
11	Capital investments for the completion of property and equipment and improvement of intangible assets	-	-	489	635	260	127	65	(2 449)	873	-
12	Retirement	-	-	(12)	-	(4)	(1)		-	-	(17)
13	Amortized values	-	(538)	(1 667)	(52)	(565)	(259)	2 098	-	(278)	(1 261)
14	Other changes	-	-	(85)	(217)	(18)	(23)	(3 502)	(99)	(12)	(3 956)
15	Book value at the end of the reporting period	**13**	**13 729**	**4 363**	**821**	**1 209**	**439**	**284**	**1 150**	**1 311**	**23 319**
15.1	Initial (revaluated) value	**13**	**16 205**	**10 848**	**1 854**	**3 363**	**1 599**	**2 342**	**1 150**	**2 622**	**39 996**
15.2	Amortization and depreciation at the end of the reporting period	-	(2 476)	(6 485)	(1 033)	(2 154)	(1 160)	(2 058)	-	(1311)	(16677)

During 2012 the Bank has carried writing off the assets of total amount of UAH 23 862 thsd, namely: the realized fixed asset object (auto car) in the amount of book valueof UAH 217 thsd., unfit for further use (damaged, broken, physically old) of property and equipment objects, revealed by the results of the inventory in the amount of UAH 166 thsd., and set by the decision by the permanently acting commission of amortized cost of improvements of rented premises by the Bank in the amount of UAH 3479 thsd.

Bank had no property and equipment and intangible assets for which there are legal:

- Restrictions on the possession, use and disposal.
- The Bank had no property and equipment issued as pledge.
- The Bank had no property and equipment that are temporarily not used (conservation, reconstruction, etc.).

The Bank had no property and equipment retired from usage in order to be sold;

- The initial value of fully depreciated fixed non-current assets was UAH 6 657 thsd.
- The Bank had no value of intangible assets for which there are proprietary limitations;
- The Bank had no created intangible assets;
- The Bank did not increase or decrease during the reporting period, arising from revaluations, and as a result of impairment losses recognized or created directly in equity capital.

Note 12. Other financial assets

Table 12.1. Other financial assets

(Thousands of hryvnias)

Line	Item	Notes	Reporting period	Previous period
1	2	3	4	5
1	Receivables on foreign exchange transactions		1 060	739
2	Restricted cash		2 318	2 199
3	Other financial assets		126	1 429
4	Provisions for impairment of other financial assets		-	(431)
5	Other financial assets total excluding provisions		3 504	3 936

In the item "Restricted cash" balance of the "Assets of the Bank in settlements" balance account is shown, where the security deposit is accounted in the bank "Pivdennyi" JSC to ensure the fulfillment of the contract to support MPS VISA membership.

Table 12.2. Analysis of the provision change on other financial assets impairment for the reporting period

(Thousands of hryvnias)

Line	Provision flows	Restricted cash	Total
1	2	3	4
1	Opening balance	(431)	(431)
2	(Increase)/decrease of provision for impairment during the period	431	431
3	Closing balance	-	-

Table 12.3 Analysis of the provision change on other financial assets impairment for the previous period

(Thousands of hryvnias)

Line	Provision flows	Restricted cash	Total
1	2	3	4
1	Opening balance	(305)	(305)
2	(Increase)/decrease of provision for impairment during the period	(126)	(126)
3	Closing balance	(431)	(431)

Table 12.4. Analysis of the credit quality of other financial assets for the reporting period

(Thousands of hryvnias)

Line	Item	Receivables on foreign exchange transactions	Restricted cash	Other financial assets	total
1	2	6	7	8	9
1	Undue and non-amortized receivables:	1 060	2 318	126	3 504
1.1	Big borrowers, with credit years more than 2 years long	1 060	2 318	-	3 378
1.2	Small enterprises	-	-	126	126
2	Other financial activities total before provision charge	1 060	2 318	126	3 504
3	Provisions for impairment of other financial assets	1 060	2 318	126	3 504

Table 12.5 Analysis of the credit quality of other financial assets for the previous period

(Thousands of hryvnias)

Line	Item	Receivables on foreign exchange transactions	Restricted cash	Other financial assets	total
1	2	3	4	5	6
1	Undue and non-depreciated receivable:	739	2 199	1 429	4 367
1.1	Big borrowers, with credit years more than 2 years long	739	2 199	-	2 938
1.2	Small enterprises	-	-	1 429	1 429
2	Other financial activities total before pcharge	739	2 199	1 429	4 367
3	Provisions for impairment of other financial assets	-	(431)	-	(431)
4	Other financial assets total excluding provisions	739	1 768	1 429	3 936

Note 13. Other assets

Table 13.1. Other assets

(Thousands of hryvnias)

Line	Item	Notes	Reporting period	Previous period
1	Receivables on purchase of assets		34	589
2	Service prepayment		-	100
3	Precious metals		1 392	
4	Other assets		611	582
5	Other assets total excluding provisions		2 037	1 271

Note 14. Due to banks

(Thousands of hryvnias)

Line	Item	Reporting period	Previous period
1	2	3	4
1	Correspondent accounts and overnight deposits of other banks	59 168	-
2	Deposits of other banks	47 958	-
2.1	Short-term	47 958	-
3	Received loans:	147 916	94 201
3.1	Short-term	147 916	94 201
4	Total due to other banks	255 042	94 201

During the reported and previous periods, all liabilities on principal amounts of due to other banks and related interests have been paid on time according to their repayment schedule.

Note 15. Due to clients

Table 15.1. Due to clients

(Thousands of hryvnias)

Line	Item	Reporting period	Previous period
1	2	3	4
1	governmental and public organizations	526	190
1.1	Current accounts	526	190
2	Other legal entities	636 620	757 035
2.1	Current accounts	126 463	438 124
2.2	Term deposits	510 157	318 911
3	Individuals:	962 312	765 937
3.1	Current accounts	22 740	38 995
3.2	Term deposits	939 572	726 942
4	Due to clients, total	1 599 458	1 523 162

Table 15.2. Distribution of due to clients by the types of economic activities

(Thousands of hryvnias)

Line	Economic activities	Reporting period		Previous period	
		Amount	%	Amount	%
1	2	3	4	5	6
1	Government	-		-	
2	Production and distribution of the electricity, gas and water	5 204	0,33%	381	0,02%
3	Real estate operations, rent, engineering and service	5 431	0,34%	1 050	0,07%
4	Trade, auto repair, repair of household devices and personal hygiene items.	142 734	8,92%	228 282	14,99%
5	Agriculture, hunting and forestry	25 596	1,60%	3 088	0,20%
6	individuals	962 312	60,16%	765 937	50,29%
7	other	458 181	28,65%	524 424	34,43%
8	Due to clients total	1 599 458	100 %	1 523 162	100 %

The book value of due to clients, as collateral for credit operations and irrevocable liabilities, amounts to UAH 834 240 thsd. These are only term deposit clients; UAH 816 675 thsd of the mentioned amount are pledged for loans of legal entities, and UAH 17 565 thsd are pledged for loans of individuals.

Note 16. Other attracted funds

Table 16.1. Other attracted funds

(Thousands of hryvnias)

Line	Item	Reporting period	Previous period
1	2	3	4
1	Loans received from international and other financial organizations	640	757
2	Total	640	757

In the note it is referred to the assets received from the State Mortgage Institution under long-term refinancing of mortgage loans of up to 2016 at 13.5%. During the reporting period, all the repayments of principal and interests have been performed on time according to the payment schedule. The pledge for the borrowed funds is a credit of mortgage of mortgage market price UAH 1638 thsd owned by the individual borrowers.

Note 17. Provisions for liabilities

Table 17.1. Provisions for liabilities changes for the reporting period

(Thousands of hryvnias)

Line	Reserve flows	Notes	Credit related liabilities	Total
1	2	3	4	5
1	Opening balance		12	12
2	Forming and/or increase of provision		309	309
3	Closing balance		321	321

Provision for liabilities listed in the table are formed under bank guarantees granted to legal entities, and unused remains on credit lines accounted on off-balance sheet accounts.

Table 17.2. Provision for liabilities changes for the previous period

(Thousands of hryvnias)

Line	Provision flows	Notes	Loan liabilities	Total
1	2	3	4	5
1	Opening balance		612	612
2	Forming and/or increase of reserve		(600)	(600)
3	Closing balance		12	12

Provision for liabilities listed in the table are formed under bank guarantees granted to legal entities, and unused balances on credit lines accounted on off-balance sheet accounts.

Note 18. Other financial liabilities

Table 18.1. Other financial liabilities

(Thousands of hryvnias)

Line	Item	Note	Reporting period	Previous period
1	2	3	4	5
1	Accounts payable on foreign exchange transactions		284	2
2	Derivative financial liabilities in the trading bank portfolio		-	5 032
3	Other financial liabilities		488	55
4	Other financial liabilities total		772	5 089

Note 19. Other liabilities

(Thousands of hryvnias)

Line	Reserve flows	Notes	Credit related liabilities	Total
1	2	3	4	5
1	Accounts payable on taxes and charges, excluding the income tax		1 651	966
2	Accounts payable on payments with the bank employees		1 185	1 152
3	Income of future periods		52	12
4	Total		2 888	2 130

Note 20. Statutory capital and emission differences (share premium)

(Thousands of hryvnias)

Line	Item	Quantity of stock in circulation (Thousands pieces)	Common shares	Total
1	2	3	4	5
1	Balance as of the beginning of the previous period	195	195	195 000
2	Issue of new stock (shares)	55	55	55 000
3	Balance as of the end of the previous period (beginning of the reporting period)	250	250	250 000
4	Balance as of the end of the reporting period	250	250	250 000

In 2012, the Bank has not issued any shares. Total amount of common shares issued is 250 000 with a par of one share of UAH 1000. Each ordinary registered share gives the shareholder the right of one vote in all matters, including decisions made by the General Meeting of Shareholders.

Note 21. Analysis of the assets and liabilities by maturity

(Thousands of hryvnias)

Line	Item	Notes	Reporting period			Previous period		
			Less than 12 months	More than 12 months	Total	Less than 12 months	More than 12 months	Total
1	2	3	4	5	6	7	8	9
	ASSETS							
1	Cash and cash equivalents	6	316 132	-	316 132	328 650	-	328 650
2	Assets of obligatory reserves in the National Bank of Ukraine	-	14 248	-	14 248	20 223	-	20 223
3	Trading securities	7	15 540	-	15 540	-	-	
4	Due from other banks	9	150 793	-	150 793	61 109	-	61 109
5	Loans to customers	10	1340898	263187	1604085	1230580	223382	1453962
6	Securities held-to-maturity in the Bank portfolio	12	17 451	-	17 451	632	17 954	18 586
7	Deferred tax asset		419	-	419	451	-	451
8	Property and equipment and intangible assets	16	-	23 319	23 319	-	22 912	22 912
9	Other financial assets	17	3 504	-	3 504	3 936	-	3 936
10	Other assets	18	2 037		2 037	1 271		1 271
11	Assets total		1861022	286 506	2 147528	1646852	264 248	1 911 100
LIABILITIES								
12	Due to banks	20	255 042	-	255 042	94 201	-	94 201
13	Due to clients	21	1570560	28898	1599458	1483579	39583	1 523 162
14	Other involved assets	23	-	640	640	-	757	757
15	Liabilities on the current income tax		725	-	725	389	-	389
16	Reserves on liabilities	24	321	-	321	12	-	12
17	Other financial liabilities	25	772	-	772	5 089	-	5 089
18	Other liabilities	26	2 888	-	2 888	2 130	-	2 130
19	Liabilities total		1830308	29 538	1859846	1585400	40340	1 625 740

Note 22. Interest income and expenses

(Thousands of hryvnias)

Line	Item	Reporting period	Previous period
1	2	3	4
INTEREST INCOME			
1	Loans to customers	205 461	184 680
2	Securities held-to-maturity in the Bank portfolio	865	762
3	Due from other banks	12 456	18 718
4	Trading securities	2 347	-
5	Correspondent accounts in other banks	714	266
6	Interest income total	221 843	204 426
INTEREST EXPENSES			
7	Term deposits of legal entities	(43 463)	(21 408)
8	Other involved assets	(95)	(110)
9	Term deposits of individuals	(94 095)	(81 157)
10	Term deposits of other banks	(19 364)	(28 740)
11	Overnight deposits of other banks	(2)	-
12	Current accounts	(3 928)	(5 769)
13	Interest expenses total	(160 947)	(137 184)
14	Net interest income /(expenses)	60 896	67 242

Note 23. Commission income and expenses

(Thousands of hryvnias)

Line	Item	Reporting period	Previous period
1	2	3	4
COMMISSION INCOME:			
1	Cash operations	7 520	5 994
2	Securities operations	3	6
3	other	7 615	7 210
4	Granted guarantees	470	197
5	Commission income total	15 608	13 407
COMMISSION EXPENSES			
6	Cash operations	(1 806)	(1 510)
7	Securities operations	(23)	(22)
8	other	(42)	(22)
9	Granted guarantees	(1)	
10	Commission expenses total	(1 872)	(1 554)
11	Net commission income /(expenses)	13 736	11 853

Interpretation of "Other (line 3): "Other" item includes commission income from transactions of purchase / sale of foreign currency to clients at the foreign exchange market in the amount of UAH 7 149 thsd.

Note 24. Other operating income

(Thousands of hryvnias)

Line	Item	Notes	Reporting period	Previous period
1	2	3	4	5
1	Sublease income		95	132
2	Income from loans and receivables sale		2 552	-
3	Income from retirement of property and equipment and intangible assets		63	-
4	other		93	359
5	Operating income total		2 803	491

During the reporting year, the Bank has performed three operations to repurchase at a discount of a bad debt on loans that were granted to other banks in order to resale, and received income of UAH $ 2.552 thsd. At the end of 2012 the Bank has no debts on credits that have been granted by other banks on the balance, that is they are either sold to third parties, or agreement of lawsuit is concluded with the borrower for its voluntary repayment.

Note 25. Administrative and other operative expenses

(Thousands of hryvnias)

Line	Item	Notes	Reporting period	Previous period
1	2	3	4	5
1	Staff costs		27 457	25 675
2	Property and equipment depreciation		4 324	4 502
3	Amortization of software and other intangible assets		793	336
4	Expenses for maintenance of the property and equipment and intangible assets, telecommunications and other operating services		3 342	2 363
5	Operating leasing (rent) expenses		9 982	8 925
6	Other expenses related to property and equipment		1 497	1 737
7	Professional services		1 069	1 082
8	Marketing and advertising expenses		1 705	12 127
9	Insurance expenses		16 546	-
10	Payment of other taxes and charges excluding the income tax		4 599	4 877
11	Other		2 830	2 318
12	Administrative and other operating expenses total		74 144	63 942

Note 26. Income tax expenses

Table 26.1. Income tax payment expenses

(Thousands of hryvnias)

Line	Item	Reporting period	Previous period
1	2	3	4
1	Current income tax	1 186	1 642
2	Change of deferred income tax	32	(451)
3	Income tax expenses total	1 218	1 191

Table 26.2. Accordance of the amount of accounted income (loss) and income (loss) tax amount

(Thousands of hryvnias)

Line	Item	Reporting period	Previous period
1	2	3	4
1	Income before tax	5 570	2399
2	Theoretical tax accruals on relevant tax rate	1 170	552
ADJUSTMENT OF THE ACCOUNTING INCOME (LOSS)			
3	Expenses that are not included in the total expenses to calculate tax income, but are recognized in the accounting (specify which one)	1 449	1 794
4	Expenses that are included in the total expenses to calculate tax income, but are not recognized in the accounting (specify which one)	(890)	(704)
5	Income subject to income tax, but not recognized (not included) to accounting income (loss) (specify which one)	850	-
6	Income not subject to income tax, but recognized (not included) to accounting income (loss) (specify which one)	(1 393)	-
7	Amount of income (loss) tax	1 186	1 642

The differences between the tax and accounting income that are present due to the temporal and permanent differences arose due the following parameters:

- expenses, which are not included to the amount of expense in order to calculate the tax income, but are defined in the accounting in the amount of UAH 1 651 thsd, including:

other operating expenses – UAH 4 thsd.;

staff costs – UAH 129 thsd;

expenses on maintenance of own and leased property and equipment – UAH 1 101 thsd. (including amortization – UAH 1075 thsd.);

other business and operating costs– UAH 29 thsd.;

insurance reserve formed under credit lines– UAH 3 thsd.;

other administrative expenses and telecommunication costs– UAH 14 thsd.;

payment of taxes and other obligatory charges, charges to Deposit Guarantee Fund included– UAH 345 thsd.;

other expenses – UAH 26 thsd.

- expenses, which are included to the amount of expense in order to calculate the tax income, but are not defined in the accounting in the amount of UAH 1 092 thsd., including:

vacation reserve – UAH 212 thsd.;

property and equipment depreciation – UAH 670 thsd.;

results of writing-off of the fixed asses O3 – UAH 8 thsd.;

charges to provision for impairment of loans and assets in other banks - UAH 202 thsd.

- income, which is not liable to income tax, but is defined in the accounting in the amount of UAH 1 393 thsd , including:

Interest income on the securities– UAH 675 thsd.;

Results of trading operations with - UAH 701 thsd.;

Results of property and equipment realization– UAH 17 thsd.

- income, which is liable to income tax, but is not defined in the accounting in the amount of– UAH 850 thsd.

Interest income on the securities – UAH 836 thsd.;

Results of property and equipment realization – UAH 14 thsd .

The difference between the accounting and tax income calculated at the interest rate of 21%

Table 26.3. The tax results related to the recognition of the deferred tax assets and liabilities for the reporting period

(Thousands of hryvnias)

Line	Item	Opening balance	Recognized in income/losses	Closing balance
1	2	3	4	5
1	The tax impact of the temporary differences that decrease (increase) the taxation amount, and the tax loss carried forward			
1.1	Property and equipment	341	170	511
1.2	Accrued income (losses)	242	102	344
1.3	Other	(132)	(304)	(436)
2	Deferred net tax asset (liability)	451	(32)	419
3	Recognized deferred tax asset	451	(32)	419

Table 26.4 The tax consequences related to the recognition of the deferred tax assets and liabilities for the previous period

(Thousands of hryvnias)

Line	Item	Opening balance	Recognized in income/losses	Closing balance
1	2	3	4	5
1	The tax impact of the temporary differences that decrease (increase) the taxation amount, and tax loss carried forward			
1.1	Property and equipment	(7)	348	341
1.2	Accrued income (losses)	-	242	242
1.3	Other	-	(132)	(132)
2	Deferred net tax asset (liability)	(7)	458	451
3	Recognized deferred tax asset	(7)	458	451

Note 27. Income/ (loss) per one common and preference share

Table 27.1. Net and adjusted income / (loss) per one common and preference share

(Thousands of hryvnias)

Line	Item	Notes	Reporting period	Previous period
1	2	3	4	5
1	Income/(loss), attributable to owners of common share of the Bank		4 352	1 208
2	Annual income/(loss)		4 352	1 208
3	Average annual number of common outstanding shares (th. p.)	28	250	236
4	**Net and adjusted income / (loss) per one common share**		17,41	5,12

Table 27.2. Calculation of income / (loss) attributable to the shareholders of the common and preference shares of the Bank

(Thousands of hryvnias)

Line	Item	Notes	Reporting period	Previous period
1	2	3	4	5
1	Annual income/(loss) owned by the Bank owners		4 352	1 208
2	Common and preference share dividends	37	2 030	2 573
3	Annual retained earnings/(loss)		4 352	1 208
4	Dividends on common shares, approved for payment during the year	37	2 030	2 573
5	Annual income/(loss) owned by the shareholders ,who are the owners of the common shares		4 352	1 208

Note 28. Dividends

(Thousands of hryvnias)

Line	Item	Reporting period		Previous period	
		Common shares	Preference shares	Common shares	Preference shares
1	Opening balance	-	-	-	-
2	Dividends approved for payment during the year	2 030	-	2 573	-
3	Dividends paid during a year	2 030	-	2 573	-
4	Closing balance	-	-	-	-
5	Dividends for a share approved for payment during the period	8,12		10,29	

Common shares give their holders the right to receive part of the profits of the Bank in the form of dividends, to participate in the management of the Bank, to receive part of the Bank property in case of its liquidation and other rights according to the Law of Ukraine "On Joint Stock Companies". Common shares give their holders equal rights.

General Meeting of Shareholders decides on the order of payment of dividends according to the legislation of Ukraine currently in force, and of the Statute of the Bank. Each common share of the Bank is charged by same amount of dividends.

Dividends are paid once a year by results of the year. Dividends paid from net profits of the reporting year and / or retained income in the amount set by the General Meeting of Shareholders.

Payment of dividends to shareholders is held once in its full amount within the period set by the General Meeting of Shareholders in the decision on payment of dividends. Dividends are paid within a period not later than six months after the end of the reporting year.

Note 29. Operating segments

Table 29.1. Income, expenses and results of the reporting segments for the reporting period

(Thousands of hryvnias)

Line	Item	Reporting segment item			Other segments and operations	retirement	total
		Service of corporate clients	Service of individuals	Interbank business			
1	2	3	4	5	6	7	8
	Income from external clients						
1	Interest income	202 113	3 348	13 170	3 212		221 843
2	Commission income	14 363		1 245			15 608
3	Other operating income	2 569	52	-	119		2 740
	Other segments income						
6	Other operating income				63		63
7	Segments income total	219 045	3 400	14 415	3 394		240 254
8	Interest expanses	(45 080)	(96 407)	(19 366)	(95)		(160 947)
9	Charges to provision for impairment of loans and assets in other banks	(1 814)	(249)	302			(1 761)
11	Result of trading operations with securities in trading portfolio of the Bank				3 340		3 340
13	Result of trading operations with other financial instruments			(3 159)			(3 159)
15	Result of trading operations with foreign exchange			4 631			4 631
16	Result of revaluation of trading operations with foreign exchange				(463)		(463)
18	Commission expenses	(1)	(950)	(898)	(23)		(1 872)
21	Charges to reserves on liabilities	(308)	(2)				(309)
22	Administrative and other operating expanses		(250)		(73 894)		(74 144)
24	SEGMENT RESULT: income/(loss)	171 842	(94 457)	(4 075)	(67 740)		5 570

Table 29.2 Income, expenses and results of the reporting segments for the previous period

(Thousands of hryvnias)

Line	Item	Reporting segment item			Other segments and operations	retirement	total
		Service of corporate clients	Service of individuals	Interbank business			
1	2	3	4	5	6	7	8
	Income from external clients						
1	Interest income	181 524	3 157	18 983	762		204 426
2	Commission income	10 708	1 906	793			13 407
3	Other operating income				491		491
	Other segments income						
6	Other operating income						
7	Segments income total	192 232	5 063	19 776	1 253		218 324
8	Interest expanses	(22 333)	(86 001)	(28 740)	(110)		(137 184)
9	Charges to provision for impairment of loans and assets in other banks	(18 290)	535	1 233			(16 522)
10	Result of trading operations with securities in trading portfolio of the Bank			5 071			5 071
11	Result of trading operations with other financial instruments				(2 394)		(2 394)
12	Commission expenses	(44)	(336)	(1 174)			(1 554)
13	Charges to reserves on liabilities	600					600
14	Administrative and other operating expanses		(21)		(63 921)		(63 942)
15	SEGMENT RESULT: income/(loss)	152 164	(80 760)	(3 833)	(65 171)		2 399

Table 29.3. Assets and liabilities of the reporting segments for the reporting period

(Thousands of hryvnias)

Line	Item	Reporting segment item			Other segments and operations	Total
		Service of corporate clients	Service of individuals	Investment activity of the Bank		
	ASSETS OF SEGMENTS					
1	Assets of segments	1 597 112	22 513	446 711	17 451	2 083 787
2	Assets of segments total	1 597 112	22 513	446 711	17 451	2 083 787
3	Unallocated asset				63 741	63 741
4	Assets total	1 597 112	22 513	446 711	81 192	2 147 528
	LIABILITIES OF SEGMENTS					
5	Liabilities of segments	637 147	962 312	255 042	640	1 855 141
7	Liabilities of segments total	637 147	962 312	255 042	640	1 855 141
8	Unallocated liabilities				4 705	4 705
9	Liabilities total	637 147	962 312	255 042	5 346	1 859 847
	OTHER SEGMENT ITEMS					
10	Capital investment				(68)	(68)
11	Depreciation				(1 261)	(1 261)
12	Other non-monetary income (expenses)					

Table 29.4 Assets and liabilities of the reporting segments for the previous period

(Thousands of hryvnias)

Line	Item	Reporting segment item			Other segments and operations	Total
		Service of corporate clients	Service of individuals	Investment activity of the Bank		
	ASSETS OF SEGMENTS					
1	Assets of segments	1 433 686	20 276	384 075	18 586	1 856 623
2	Assets of segments total	1 433 686	20 276	384 075	18 586	1 856 623
3	Unallocated asset				54 477	54 477
4	Assets total	1 433 686	20 276	384 075	73 063	1 911 100
	LIABILITIES OF SEGMENTS					
5	Liabilities of segments	757 225	765 937	94 201	757	1 618 120
7	Liabilities of segments total	757 225	765 937	94 201	757	1 618 120
8	Unallocated liabilities				7621	7621
9	Liabilities total	757 225	765 937	94 201	8378	1 625 741
	OTHER SEGMENT ITEMS					
10	Capital investment				129	129
11	Depreciation				(4 599)	(4 599)
12	Other non-monetary income (expenses)					

Table 29.5. Information of geographical regions

(Thousands of hryvnias)

Line	Item	Reporting year			Previous year		
		Ukraine	Other countries	Total	Ukraine	Other countries	Total
1	2	3	4	5	6	7	8
1	Income from external clients	240 147	44	240 191	218 292	0	218 292
2	Property and equipment	20 816	0	20 816	21 244	0	21 244

Note 30. Financial risk management

The goals of financial risk management in the Bank are 1) to ensure profitable activities taking into account a moderate level of risks; 2) adherence to all requirements of the NBU on the risk management; 3) approach of risk management standards to guidelines of Basel Committee (in particular, changes in regulations of bank risk management provide a gradual transition from Basel I to Basel II-III).

Risk management system in the Bank is designed so that it involves all management levels: the Supervisory Board determines the Bank development strategy, including on risk management; the Bank Management Board carries out operating management of the Bank activities, including consideration of maintaining the moderate level of risks; Analysis and Risk Management Department provides direct analysis, monitoring and control of the risks which effect on the Bank indicators is the most significant.

In addition, collegial bodies (Loan Committee, Asset and Liability Management Committee, Tariff Committee, Tender Committee) have been established and are permanently functioning in the Bank, which task includes operational decisions on tactical objectives of the risk management.

The level of the Bank risk management system is in full accordance with the volumes and complexity of the transactions performed. Since 2008, the Bank uses up to-date analytical module "Asset and Liability Analyzer", enabling to receive automatically management reporting for managing the principal risk types and make promptly required decisions on minimizing the adverse effect of risks on the Bank financial indices.

Among the financial risks that are managed by the Bank on a systematic basis (daily) the traditional ones should be singled out: credit risk, market risk (interest rate, currency and price risks) and liquidity risk.

Credit risk

Credit risk (the most significant risk among all) is the risk that a borrower fails to repay the loan and interest thereon. Minimization of this risk is achieved through clear credit procedures for credit operations and deliberate techniques implemented by the Bank that are used in ,borrower solvency analysis, as well as through lending primarily under the liquid securities (real estate, property rights for cash deposits of banks and other)

Among the methods the Banks uses in risk management should be singled out: limit setting on credit operations (on borrower, economy branches, associated persons etc.); obligatory adherence to economic standards of the NBU (standards of credit risk); use of the up-to-date methods of analysis of borrower's activities; setting of the credit ratings of the own Bank scale on the basis of financial stability of the borrower; insurance of the pledged property and financial risks; use of different measurement methods of marker value of pledged property (profit, expense methods and method of analogues); performance of the stress testing of the credit portfolio taking into account the changes in business environment)

In addition, the Bank has set limits to the authorities of departments within which the Credit commissions of the departments may lend own clients. All non-limit credit operations shall be approved by the Credit Commission of the Head office.

During the year 2012 the Bank has actualized the majority of regulations related to the credit risk management (in particular, due to transmission of the banking system of Ukraine to new principles of reserves on active operations calculations starting January 1, 2013).

Market risk

Market risk is the risk of unforeseen losses of the Bank arising from adverse changes in interest rates, foreign exchange rates, share prices, etc. Under the classification of the Basel Committee, the market risks comprise currency risk, interest rate risk and price risk. Market risk management under the above classification is performed centrally by the Analysis and Risk Management Department using up-to-date methods of measuring, assessment and control over their level. The reports on market risk are read over by the Asset and Liability Management Committee that subsequently makes decisions on adjustment of risk positions taking into account expected/forecast levels of exchange rates, interest rates and securities prices.

The Bank activities are mostly affected by currency and interest rate risks,

Whereas price risk does not exist actually because the Bank does not have any remains on balance on common securities (shares and others)

Maximum credit risk is summarized as follows::

	December 31, 2012	December 31, 2012
Statement of financial position		
Cash and cash equivalents (excluding cash on hand)	279 352	300 974
Trading securities	15 540	-
Due to other banks	152 958	61 188
Loans to customers	1 657 156	1 523 212
Securities held-to-maturity	17 451	18 586
Other financial assets	3 504	4 367
	2 124 569	1 907 574
Off-Balance sheet items		
Liabilities related to crediting	70 912	35 787
Guarantees	63 255	5 751
	134 167	41 538

Currency risk

Currency risk (market component of risk) is the risk related to existing or potential effects of adverse fluctuations of the exchange rates and banking metal values on the Bank proceeds. Minimization of this risk is achieved through the foreign exchange transactions made by the Bank solely within the currency position limits.

Among the methods used by the Bank in currency risk management, the following should be singled out: VAR methodology; fixing of limits to maximum possible amounts of currency position; obligatory adherence to economic standards of the NBU (currency risk standards); currency risks hedges; back-testing; stress testing under various scenarios of development of financial markets.

Table 30.1. Analysis of currency market

(Thousands of hryvnias)

Line	Currency name	As of reporting date of the reporting period				As of reporting date of the previous period			
		Monetary assets	Monetary liabilities	Derivative financial instruments	Net position	Monetary assets	Monetary liabilities	Derivative financial instruments	Net position
1	2	3	4	5	6	7	8	9	10
1	US dollar	1 319 329	1 344 597	-	(25268)	1 194 548	1 195 954	-	(1 406)
2	Euro	356 774	356 443	-	331	223 869	222 361	-	1 508
3	British pound of sterling	23	-	-	23	25	-	-	25
4	Other	4 386	2 276	-	2 110	28 944	28 954	-	(10)
5	Total*	1 680512	1 703 316	-	27 732	1 447386	1 447 269	-	2 949

*) in the column "Net position" the general position on all currencies is shown

Table 30.2. Change of profit or loss and equity as a result of possible changes in hryvnia official exchange rate to foreign currencies set on the balance date, ensuring that all other variables characteristics remain fixed

(Thousands of hryvnias)

Line	Item	As of reporting date of the reporting period		As of reporting date of the previous period	
		Impact on income / (loss)	Impact on equity capital	Impact on income / (loss)	Impact on equity capital
1	Strengthening of US dollar by 5 %	(1 263)	(1 263)	(70)	(70)
2	Weakening of US dollar by 5 %	1 263	1 263	70	70
3	Strengthening of euro by 5 %	17	17	75	75
4	Weakening of euro by 5 %	(17)	(17)	(75)	(75)
5	Strengthening of British pound of sterling by 5 %	1	1	1	1
6	Weakening of British pound of sterling by 5 %	(1)	(1)	(1)	(1)
7	Strengthening of other currencies and bank metals	106	106	1	1
8	Weakening of other currencies and bank metals	(106)	(106)	(1)	(1)

Table 30.3. Change of income or loss and equity as a result of possible changes in hryvnia official exchange rate to foreign currencies set as average weighted rate, ensuring that all other variables characteristics remain fixed

(Thousands of hryvnias)

Line	Item	Average-weighted exchange rate of the reporting period		Average-weighted exchange rate of the previous period	
		Impact on income / (loss)	Impact on equity capital	Impact on income / (loss)	Impact on equity capital
1	Strengthening of US dollar by 5 %	(1 263)	(1 263)	(70)	(70)
2	Weakening of US dollar by 5 %	1 263	1 263	70	70
3	Strengthening of euro by 5 %	16	16	81	81
4	Weakening of euro by 5 %	(16)	(16)	(81)	(81)
5	Strengthening of British pound of sterling by 5 %	1	1	1	1
6	Weakening of British pound of sterling by 5 %	(1)	(1)	(1)	(1)
7	Strengthening of other currencies and bank metals	106	106	1	1
8	Weakening of other currencies and bank metals	(106)	(106)	(1)	(1)

Interest risk

Interest rate risk is the risk related to existing or potential effects of adverse fluctuations in the interest rates on the Bank activities. Minimization of this risk is achieved through balancing the assets and liabilities that are sensitive to changes in the interest rate.

Among the methods used by the Bank in interest rate risk management, the following should be singled out: GAP analysis and fixing of the limits to maximum possible gaps between the assets and liabilities that are sensitive to changes in the interest rate; managing of the structure of assets and liabilities using indicators of spread, net interest margin, profitability/value of individual items of interest- bearing assets/liabilities (by currency); implementing a deliberate price policy to maximize net interest income; stress testing under various scenarios of development of financial markets

Table 30.4. General analysis of the interest risk

(Thousands of hryvnias)

Line	Item	On demand and less than 1 month	1-6 months	6-12 months	More than 1 year	Non-monetary	Total
1	2	3	4	5	6	7	8
	Reporting period						
1	Financial assets total	546325	680975	367901	268279	75549	1939029
2	Financial liabilities total	410356	769087	419745	29396	-	1628584
3	Net gap between the interest rates at the end of previous period	135969	(88112)	(51844)	238883	75549	310445
	Previous period						
4	Financial assets total	396661	586249	354558	237270	17532	1592270
5	Financial liabilities total	196804	594994	295480	40327	-	1127605
6	Net gap between the interest rates at the end of previous period	199857	(8745)	59078	196943	17532	464665

The table shows interest rate sensitive assets and liabilities at book value and maturity terms.

Interests on all assets and liabilities presented in the table are calculated at fixed rates.

(UAH thousands)

Table 30.5. Monitoring of interest rates on financial instruments

(%)

Line	Item	Reporting period				Previous period			
		hryvnia	US dollar	Euro	Other	hryvnia	US dollar	Euro	Other
1	2	3	4	5	6	7	8	9	10
	Assets								
1	Cash and cash equivalents	10,64	1,01	0,07	2,13	-	0,07	0,34	1,54
2	Assets of obligatory reserves in NBU	2,25				2,33			
3	Trading debt securities	4,94	-	-	-	-	-	-	-
4	Due from other banks	17,93	10,21	-	-	12,18	3,77	2,00	2,00
5	Loans to customers	16,46	11,51	10,85	-	16,22	10,65	9,89	-
6	Debt securities held-to-maturity in the Bank portfolio	4,94	-	-	-	4,94	-	-	-
7	Other assets		2,00	-	-	-	3,43	-	-
	Liabilities								
8	Due to banks	9,16	8,59	0,07	5,71	13,00	3,15	1,34	3,24
9	Due to clients:								
9.1	Current accounts	1,34	1,77	0,12	0,06	1,61	0,05	0,62	-
9.2	Term deposits	18,28	9,87	8,14	-	17,23	9,95	7,98	-
10	Other attracted funds	13,50				13,50			

The table shows the average data rate. Interest rate is calculated as a percentage of annual account.

Geographical risk

Table 30.6. Analysis of geographical concentration of financial assets and liabilities on the reporting period

(Thousands of hryvnias)

Line	Item	Ukraine	OECD	Other countries	Total
1	2	3	4	5	6
	Assets				
1	Cash and cash equivalents	312 412	2 817	903	316 132
2	Assets of obligatory reserves in NBU	14248			14248
3	Trading debt securities	15 540	-	-	15 540
4	Due from other banks	150793	-	-	150793
5	Loans to customers	1604085	-	-	1604085
6	Debt securities held-to-maturity in the Bank portfolio	17451	-	-	17451
7	Other financial assets	3504	-	-	3504
8	Other financial assets total	2118033	2817	903	2121753
	Liabilities				
9	Due to banks	207084	-	47958	255042
10	Due to clients:	1184730	10	414718	1599458
11	Other attracted funds	640	-	-	640
12	Other financial liabilities	772	-	-	772
13	Other financial liabilities total	1393226	10	462676	1855912
14	Net balance position on financial instuments	724807	2 807	(461773)	265841
15	Credit liabilities	133 846	-	-	133 846

Table 30.7 Analysis of geographical concentration of financial assets and liabilities on the previous period

(Thousands of hryvnias)

Line	Item	Ukraine	OECD	Other countries	Total
1	2	3	4	5	6
	Assets				
1	Cash and cash equivalents	253033	75465	152	328650
2	Assets of obligatory reserves in NBU	20223	-	-	20223
3	Trading debt securities	61109	-	-	61109
4	Due from other banks	1453962	-	-	1453962
5	Loans to customers	18586	-	-	18586
6	Debt securities held-to-maturity in the Bank portfolio	3936	-	-	3936
7	Other financial assets	1810849	75465	152	1886466
	Other financial assets total				
8	Liabilities	46262	-	47939	94201
9	Due to banks	1115674	2758	404730	1523162
10	Due to clients:	757	-	-	757
11	Other attracted funds	5089	-	-	5089
12	Other financial liabilities	1167782	2758	452669	1623209
13	Other financial liabilities total	643067	72707	(452517)	263257
14	Net balance position on financial instuments	41525	-	-	41525

Liquidity risk

Liquidity risk is the risk that the Bank will not be able to discharge its liabilities to the clients and counterparties on a timely basis and in full. Minimization of this risk is achieved through balancing by the Bank of own structure of assets and liabilities by repayment/maturity dates (including by basic currencies in which the Bank makes the transactions).

Among the methods used by the Bank in liquidity risk management, the following should be singled out: GAP analysis and setting of the limits to maximum possible gaps of liquidity; using of payment schedule; adherence to the liquidity ratios (including mandatory economic standards of the NBU and mandatory reserve standards); diversification of assets and liabilities; maintaining an emergency plan in active state; stress testing of the Bank's liquidity positions under various scenarios of development of financial markets.

Table 30.8. Analysis of financial liabilities on their maturity for the reporting period

(Thousands of hryvnias)

Line	Item	On demand and less than 1 month	1-3 months	3-12 months	1-5 years	Total
1	2	3	4	5	6	7
1	Due to banks	207084	47958	-	-	255042
2	Due to clients	423160	312784	834902	28958	1599804
2.1	Assets of individuals	139988	276521	517176	28958	962642
2.2	Other	283172	36263	317726		637161
3	Other attracted funds	-	-	-	641	641
4	Other financial liabilities	301	16	455	-	772
5	Financial guarantees	504	3055	59696	-	63255
6	Other credit liabilities	3705	8029	15241	43937	70912
7	Potential future payments on financial liabilities total	634753	371843	910294	73535	1990425

The following maturities shown in the table are determined from the reporting date to the maturity date under the contract. These amounts represent the contractual undiscounted cash flows differ from the amount included in the balance, as the balance amount is based on discounted cash flows. Financial instruments accounted under a net basis, are presented in the net amount.

Table 30.9. Analysis of financial liabilities on their maturity for the previous period

(Thousands of hryvnias)

Line	Item	On demand and less than 1 month	1-3 months	3-12 months	1-5 years	Total
1	Due to banks	63307	30894	-	-	94201
2	Due to clients	619254	568001	296324	39583	1523162
2.1	Due to individuals	141983	525058	59303	39583	765927
2.2	Other	477271	42943	237021		757235
3	Other attracted funds				758	758
4	Other financial liabilities	5056	1	33	-	5090
5	Financial guarantees	572	219	4960	-	5751
6	Other loan liabilities	2500	6211	16627	10449	35787
7	Potential future payments on financial liabilities total	1141518	605327	317943	50789	2115577

Table 30.10. Analysis of financial assets and liabilities on the maturity terms on the basis of expected maturity terms for the reporting period

(Thousands of hryvnias)

Line	Item	On demand and less than 1 month	1-3 months	3-12 months	1-5 years	Total
1	2	3	4	5	6	7
	Assets					
1	Cash and cash equivalents	316132	-	-	-	316132
2	Assets of obligatory reserves in NBU	14248				14248
3	Trading securities	15540	-	-	-	15540
4	Due from other banks	150793	-	-	-	150793
5	Loans to customers	318096	418740	604062	263187	1604085
6	Securities held-to-maturity in the Bank portfolio	16808	643	-	-	17451
7	Other financial assets	3504	-	-	-	3504
8	Financial assets total	835121	419383	604062	263187	2121753
	Liabilities					
9	Due to other banks	207084	47958	-	-	255042
10	Due to clients	423138	312735	834687	28898	1599458
11	Other attracted funds	-	-	-	640	640
12	Other financial liabilities	301	16	455	-	772
13	Financial liabilities total	630523	360709	835142	29538	1855912
14	Net liquidity gap on the end of December 31	204598	58674	(231080)	233649	265841
15	Total liquidity gap on the end of December 31	204598	263272	32192	265841	265841

These financial assets and liabilities are presented in the table at book value, i.e. considering discounted cash flows.

Table 30.11 Analysis of financial assets and liabilities on the maturity terms on the basis of expected maturity terms for the previous period

(Thousands of hryvnias)

Line	Item	On demand and less than 1 month	1-3 months	3-12 months	1-5 years	Total
1	2	3	4	5	6	7
	Assets					
1	Cash and cash equivalents	328650	-	-	-	328650
2	Assets of obligatory reserves in NBU	20223				20223
3	Trading securities	-	-	-	-	-
4	Due from other banks	29903	31206	-	-	61109
5	Loans to customers	363279	529102	338199	223382	1453962
6	Securities held-to-maturity in the Bank portfolio	-	632	-	17954	18586
7	Other financial assets	3827	-	109	-	3936
8	Financial assets total	745882	540940	338308	241336	1886466
	Liabilities					
9	Due from other banks	63307	30894	-	-	94201
10	Due to clients	619254	568001	296324	39583	1523162
11	Other attracted funds	-	-	-	757	757
12	Other financial liabilities	5056	0	33	-	5089
13	Financial liabilities total	687617	598895	296357	40340	1623209
14	Net liquidity gap on the end of December 31	58265	(37955)	41951	200996	263257
15	Total liquidity gap on the end of December 31	58265	20310	62261	263257	263257

Note 31. Capital management

Capital management of the Bank is directed primarily to protect from possible risks typical to its activities. The Bank controls the capital adequacy both through implementation of mandatory economic standards of the National Bank of Ukraine (capital ratios) and recommended indices established by the Basel Capital Accord. In particular, the Bank performs quarterly calculation of capital adequacy in accordance with the recommendations of the Basel II (quantitative measurement of credit, market and operational risk carried out by applying the Standardized Approach).

The main objective of the Bank capital management is to ensure balanced growth of assets and regulatory capital. In particular, the Bank policy of conduction of active and passive operations, great importance is given to improvement of the structure of assets weighted considering risk ratio (to prevent too high proportion of assets that have weighed on risk ratio of 100%). Also, it is aimed to improve the level of capitalization (if necessary). The Bank may refuse to pay dividends to participants and / or to provide an increase of regulatory capital either by contributions to the share capital, or by raising subordinated debt. In addition, the Bank is working constantly in order to minimize distractions from regulatory capital: it is performing activities in order to repay overdue income, and is excluding positive liquidity gaps exceeding one year and more.

The standard of capital adequacy is in accordance with the National Bank of Ukraine requirements.

As required by the National Bank of Ukraine, the banks must maintain a capital adequacy rate on the level of 10% of assets weighted considering risk factors. The table below shows the Bank capital adequacy rate, calculated as of December 31, 2012 and 2011. During the reported and previous years the Bank met all capital standards set by the National Bank of Ukraine.

Table 31. Regulatory capital structure

Table 31.1. Regulatory capital structure

(Thousands of hryvnias)

Line	Item	Reporting period	Previous period
1	2	3	4
1	Bank regulatory capital (RC)	286 984	285 169
2	Actually paid registered statutory capital	250 000	250 000
3	Disclosed reserves created or increased on the basis of retained earnings		
3.1	General reserves and reserve funds created according to the law of Ukraine	34 258	34 151
3.1.1	Of which reserves funds	34 258	34 151
4	Reduction of property and equipment (amount of inchoate reserves; intangible assets less amortization; capital investments to intangible assets, last and previous year damages)	(2 220)	(430)
	including		
4.1	Intangible assets less amortization	(1 312)	(430)
4.2	Capital investments to intangible assets	(908)	-
5	Property and equipment (FA) (first level capital)	282 038	283 721
6	Reserves on standard accounts payable and standard debts on off-balance operations	2 125	152
7	Accounting income of the current year (adjusted)	2 821	1 296
8	Additional capital (second level capital)	4 946	1 448
9	Regulatory capital total	286 984	285 169
10	Assets weighted at risk	1 395 380	1 274 598
11	Total amount of open currency position on all foreign currencies	28 141	4 147
12	Standards of adequacy of regulatory capital (standard is no less than 10%)	20,16%	22,30%

Table 31.2. Bank capital structure calculated on the basis of Basel Capital Accord

(Thousands of hryvnias)

Line	Item	Reporting period	Previous period
1	2	3	4
1	Actually paid registered statutory capital	250 000	250 000
2	General reserves and reserve funds	34 258	34 151
3	Intangible assets less amortization	(1 312)	(430)
4	Capital investments to intangible assets	(908)	-
5	Current year income	3 423	1 208
6	**Capital**	**285 461**	**284 929**

Note 32. Contingencies of the Bank

Bank discloses information on events that occurred at the end of the reporting period but not recognized in other Notex, for which the probability of an outflow of resources for economic benefits will not meet the definition of liabilities, including:

a) legal proceedings

At the reporting date, as of December 31, 2012 there are several court disputes with the participation of "Bank of Investment and Savings" JSC (hereinafter - the Bank) on the amount of UAH 91.8 thsd. In the courts of general jurisdiction there are disputes with the Bank clients on the amount of UAH 91.8 thsd., which may be resolved in favor of the Bank.

In general, as the preliminary analysis of trials shows, the amount of compensation for the obligations of Client to the Bank exceeds the amount of possible losses of the Bank in the future.

In general, overall consideration of cases does not bear a risk of negative financial conditions and stability of the Bank.

b) Contingent tax liability.

At the reporting date, the Bank has no liabilities associated with the tax liabilities;

c) Capital investment liabilities.

As of 01.01.2013, the total amount of contractual liabilities on purchase of property and equipment amounts to UAH 261.4 thsd.

Total liabilities on acquirement of intangible assets are UAH 1 064.6 thsd., mainly that is on the payment cards software development and putting it into operation.

d) Operating lease liabilities (rent).

Table 32.1. Future minimal rent payments on undefined contract on operating leasing (rent)

(Thousands of hryvnias)

Line	Item	Reporting period	Previous period
1	2	3	4
1	Up to 1 year	1 154	1 264
2	1-5 years	10 700	7 313
3	Total	11 854	8 577

e) Loan liabilities

At the reporting date, as of December 31, 2012, the amount of contingent loan liabilities (generally represent irrevocable lines of credit granted to clients) amounted to UAH 12 294 thsd (December 31, 2011 - UAH 8 715 thsd.). Their potential financial impact on the financial performance of the Bank is insignificant. According to the degree of uncertainty the existing credit lines do not carry serious risks (liquidity risk in particular), considering that almost all of them are open for up to 1 year.

Table 32.2. Loan liabilities structure

(Thousands of hryvnias)

Line	Item	Note	Reporting period	Previous period
1	2	3	4	5
1	Unused credit lines		70 912	35 786
2	Granted guarantees		63 255	5 751
3	Reserve on credit liabilities		(321)	(12)
4	Loan liabilities total less provisions		133 846	41 525

Table 32.3. Credit liabilities by currency

(Thousands of hryvnias)

Line	Item	Reporting period	Previous period
1	2	3	4
1	Hryvnia	91 519	27 001
2	US dollar	32 137	2 001
3	Euro	10 190	12 523
5	Total	133 846	41 525

f) Pledged assets and assets with limitations associated with their possession, use and disposal

Table 32.4. Pledged assets without derecognition

(Thousands of hryvnias)

Line	Item	Reporting period		Previous period	
		Pledged assets	Secured liability	Pledged assets	Secured liability
1	2	4	5	6	7
5	property rights	89 875	57 963	6 238	6 334
6	Total	89 875	57 963	6 238	6 334

These assets are monetary funds deposited in other banks, which issued as pledge to banks on interbank involved funds obtained by pledge agreements for the duration of exercise of liabilities, which are extremely short.

Note 33. Fair value of financial instruments

The Bank defines the fair value as the amount at which a financial instrument could be exchanged between knowledgeable and willing parties other than in a forced sale or liquidation, and is best proved by an active quoted market price of the financial instrument.

The estimated fair values of financial instruments have been determined by the Bank using available market information, (if exists), and appropriate valuation methodologies:

For assets with up to one month term the fair value is approximately equals the book value due to the relatively high urgency of these financial instruments.

For longer-term due from other banks and to other banks, interest rates used reflect market rates and, accordingly, the fair value approximates their book value.

The book value of securities available for sale is an adequate estimate of their fair value. Interest-bearing securities include interest rates, reflecting fair market rates and, accordingly, the fair value approximates the book value f these instruments.

The fair value of the credit portfolio is based on the characteristics of service of loans and the interest rates of individual loans within each sector portfolio. Evaluation of reservation on losses on loans is performed taking into account the risk premium applied to different types of loans based on factors such as the current situation in the sector, in which the borrower operates, the financial conditions of each borrower and guarantees obtained. Accordingly, the reserve on losses on loans is considered a reasonable estimate of potential losses that would be required to reflect the impact of credit risk.

In general, loans are granted at market rates, and therefore the current balances represent a reasonable estimate of fair value. Accordingly, the book value calculated as the amortized cost of such instruments is a reasonable approximation of their fair value.

For deposits with maturity up to one month, the fair value approximates their book value due to relatively short-term maturity of these financial instruments. For longer-term deposit interest rates reflect market rates and, accordingly, the fair value approximates their book value.

Table 33.1. Analysis of financial instruments accounted at the amortized cost

(Thousands of hryvnias)

Line	Item	Reporting period		Previous period	
		Fair value	Book value	Fair value	Book value
	FINANCIAL ASSETS				
1	Cash and cash equivalents	330380	330380	348873	348873
1.1	Cash assets	36780	36780	27676	27676
1.2	Assets in NBU (less provisions)	126690	126690	206594	206594
1.3	Obligatory reserves in NBU	14248	14248	20223	20223
1.4	Correspondent accounts and overnight deposits and credits in banks	152662	152662	94380	94380
2	Due from other banks	150793	150793	61109	61109
2.1	Credits granted to other banks	150793	150793	61109	61109
3	Loans to customers	1604085	1604085	1453962	1453962
3.1	Loans to legal entities	1574570	1574570	1427806	1427806
3.2	Loans to individual entrepreneurs	7002	7002	5879	5879
3.3	Mortgage credits of individuals	1506	1506	1538	1538
3.4	Credits granted to individuals for current needs	20637	20637	18511	18511
3.5	Other credits to individuals	370	370	228	228
4	Securities held-to-maturity in the Bank portfolio	17451	17451	18586	18586
4.1	Government bonds	17451	17451	18586	18586
5	Other financial assets	3504	3504	3936	3936
5.1	Restricted cash	2318	2318	1769	1769
5.2	Other financial assets	1186	1186	2167	2167
6	Financial assets accounted at the amortized cost total	2106213	2106213	1886466	1886466
	FINANCIAL LIABILITIES				
7	Due to banks	255042	255042	94201	94201
7.1	Correspondent accounts and overnight deposits and credits in banks	59168	59168	-	-
7.2	Deposits of other banks	47958	47958	-	-
7.3	Received credits	147916	147916	94201	94201
8	Due to clients	1599458	1599458	1523162	1523162
8.1	Other legal entities	637146	637146	757309	757309
8.2	Individuals	962312	962312	765853	765853

9	Other attracted funds	640	640	757	757
9.1	Credits received from international and other financial organizations	640	640	757	757
10	Other financial liabilities:	772	772	5089	5089
10.1	Receivables on securities	285	285	2	2
10.2	Other financial liabilities	487	487	5087	5087
11	Financial liabilities accounted at the amortized cost total	1855912	1855912	1623209	1623209

Table 33.2. Financial liabilities accounted at fair price by levels of its measurement

(Thousands of hryvnias)

Line	Item	Fair value in different measurement models			Fair value total	Book value total
		market quotations (level I)	Measurement model using observed data (level II)	Measurement model using indices not proved by the market date (level III)		
	FINANCIAL ASSETS					
1	Trading securities:	15540	-	-	15540	15540
1.1	Bonds of entities	15540	-	-	15540	15540
2	Financial liabilities accounted at fair value total	15540	-	-	15540	15540

The Bank has no financial instruments, fair value of which is determined by its third level evaluation. There were no changes during the reporting and the previous periods considering income / expense recognized through profit / loss, other comprehensive income, purchase, sale, production, calculation, and transfer "from" or "to" the third level assessment.

During the reporting and previous periods, the Bank had no financial assets fair value of which cannot be reliably estimated.

Bank did not hold the mortgage, which was allowed to sell or remortgage.

Note 34. Financial assets presentation by the assessment categories

Table 34.1. Financial assets presentation by the assessment categories for the reporting period

(Thousands of hryvnias)

Line	item	Loans and receivables	Assets available for sale	Financial assets accounted at fair value through profit/loss		Investments held to maturity	total
				Trading assets	assets accounted at fair value through profit or loss		
1	2	3	4	5	6	7	8
	ASSETS						
1	Cash and cash equivalents	330 380	-	-	-	-	330 380
2	Trading securities	-	-	15 540	-	-	15 540
3	Due from other banks:	150 793	-	-	-	-	150 793
3.1	Deposits in other banks	-	-	-	-	-	-
3.2	Credits granted to other banks	150 793	-	-	-	-	150 793
4	Loans to customers	1 604 085	-	-	-	-	1 604 085
4.1	Loans to legal entities	1 574 570	-	-	-	-	1 574 570
4.2	Loans to individual entrepreneurs	7 002	-	-	-	-	7 002
4.3	Mortgage credits of individuals	1 506	-	-	-	-	1 506
4.4	Credits granted to individuals for current needs	20 637	-	-	-	-	20 637
4.5	Other credits to individuals	370	-	-	-	-	370
5	Securities held-to-maturity in the Bank portfolio	-	-	-	-	17 451	17 451
6	Other financial assets:	3 504	-	-	-	-	3 504
6.1	Receivables on operations with foreign currency	-	-	-	-	-	-
6.2	Restricted cash	2 318	-	-	-	-	2 318
6.3	Other financial assets	1 186	-	-	-	-	1186
7	Financial assets total	2 088 762	-	15 540	-	17 451	2 121 753

Table 34.2 Financial assets presentation by the assessment categories for the previous period

(Thousands of hryvnias)

Line	item	Loans and receivables	Assets available for sale	Financial assets accounted at fair value through profit/loss		Investments held to maturity	Total
				Trading assets	assets accounted at fair value through profit or loss		
1	2	3	4	5	6	7	8
	ASSETS						
1	Cash and cash equivalents	348 873	-	-	-	-	348 873
2	Trading securities	-	-	-	-	-	-
3	Due from other banks:	61 109	-	-	-	-	61 109
3.1	Deposits in other banks	-	-	-	-	-	-
3.2	Credits granted to other banks	61 109	-	-	-	-	61 109
4	Loans to customers	1453962	-	-	-	-	1453962
4.1	Loans to legal entities	1 427 806	-	-	-	-	1 427 806
4.2	Loans to individual entrepreneurs	5 879	-	-	-	-	5 879
4.3	Mortgage credits of individuals	1 538	-	-	-	-	1 538
4.4	Credits granted to individuals for current needs	1 8511	-	-	-	-	1 8511
4.5	Other credits to individuals	228	-	-	-	-	228
5	Securities held-to-maturity in the Bank portfolio	-	-	-	-	18 586	18 586
6	Other financial assets:	3 936	-	-	-	-	3 936
6.1	Receivables on operations with foreign currency	-	-	-	-	-	-
6.2	Restricted cash	1 769	-	-	-	-	1 769
6.3	Other financial assets	2 167	-	-	-	-	2 167
7	Financial assets total	1 867 880	-	-	-	18 586	1886466

Note 35. Related party transactions

Table 35.1. Balances of transactions with related parties as of the end of reporting period

(Thousands of hryvnias)

	Item	The biggest participants (shareholders) of the Bank	Key management staff	Other related parties (associated or related persons)
1	2	7	9	4
1	Loans to customers (contractual interest rate is 14-20%)	-	383	12 008
2	Provision for accounts payable as of December 31	-	2	-
3	Due to clients (contractual interest rate is 1 -21 %)	209 087	4 133	13 712
4	Provision for liabilities		0,4	

Table 35.2. Income and expenses on transactions with related parties as of reporting period

(Thousands of hryvnias)

Line	Item	The biggest participants (shareholders) of the Bank	Key management staff	Other related parties (associated or related persons)
1	2	3	4	5
1	Interest income	-	37	1 510
2	Interest expenses	9 755	221	1 412
3	Dividends	2 030	-	-
4	Commission income	7	2	32
5	Charges to provision for impairment of loans and due from other banks	-	2	-

Table 35.3. Other rights and liabilities on transactions with related parties as of the end of reporting period

(Thousands of hryvnias)

Line	Item	Key management staff	Other related parties
1	2	3	4
1	Other loan liabilities	18	337

Table 35.4. Total amount of credits granted to related parties and paid by the related parties during the reporting period

(Thousands of hryvnias)

Line	Item	Key management staff	Associated companies	Other related parties
1	2	7	8	9
1	Amount of credits granted to related parties during the period	383	-	11 979
2	Amount of credits paid by related parties during the period	-	2 258	5 275

Table 35.5. Balances of transactions with related parties as of the end of previous period

(Thousands of hryvnias)

Line	Item	The biggest participants (shareholders) of the Bank	Key management staff	Associated companies	Other related parties
1	2	7		8	9
1	Loans to customers (contractual interest rate is 14-20%)	-	-	2 258	5 304
2	Provision for accounts payable as of December 31	-	-	-	-
3	Due to clients (contractual interest rate is 1 -21 %)	196 200	1 513	38	499 840
4	Provision for liabilities	-	-	-	-

Table 35.6. Income and expenses on transactions with related parties as of previous period

(Thousands of hryvnias)

Line	Item	The biggest participants (shareholders) of the Bank	Key management staff	Associated companies	Other related parties
1	2	3	4	5	6
1	Interest income	-	-	-	614
2	Interest expenses	24 577	3 676	-	23 138
3	Dividends	2 573	-	-	-
4	Commission income	54	16	6	22
5	Charges to provision for impairment of loans and due from other banks	-	-	-	-

Table 35.7. Other rights and liabilities on transactions with related parties as of the end of previous period

(Thousands of hryvnias)

Line	Item	Key management staff	Other related parties
1	2	3	4
1	Other loan liabilities	9	235

Table 35.8. Total amount of credits granted to related parties and paid by the related parties during the previous period

(Thousands of hryvnias)

Line	Item	Associated companies	Other related parties
1	2	8	9
1	Amount of credits granted to related parties during the period	2 258	3 680
2	Amount of credits paid by related parties during the period		(472)

Table 35.9. Benefits to key management staff

(Thousands of hryvnias)

	Item	Reporting period		Previous period	
		expenses	Accrued liability	expenses	Accrued liability
1	2	3	4	5	6
1	Current employee benefits	4 713	4 713	4 301	4 301
2	Retirement benefits	22	22	-	-