PJSC West Finance and Credit Bank

Financial Statements
31 December 2012

These financial statements contain 48 pages

Content

(in thousands of UAH)	*Note*	**31 December 2012**	31 December 2011 (reclassified)
Assets			
Cash and cash equivalents	*5*	**143,335**	143,310
Mandatory reserve with the National Bank of Ukraine		**5,644**	2,471
Due from banks	*6*	**1,481**	3,067
Loans and advances	*7*	**181,930**	83,024
Investment property	*8*	**5,760**	6,156
Property, equipment and intangible assets	*9*	**1,841**	1,108
Other assets	*10*	**2,591**	5,207
Total assets		**342,582**	244,343
Liabilities			
Due to banks	*11*	**107,562**	23,933
Due to customers	*12*	**84,775**	75,064
Income tax payable		**994**	909
Deferred tax liability		**1**	1,604
Other liabilities	*13*	**1,134**	692
Subordinated debt	*14*	**39,310**	38,418
Total liabilities		**233,776**	140,620
Equity			
Share capital	*15*	**88,045**	88,045
Share premium and additional paid-in capital		**7,328**	7,328
Retained earnings		**13,433**	8,350
Total equity		**108,806**	103,723
Total liabilities and equity		**342,582**	244,343

Commitments and contingent liabilities

Signed and authorized for issuance
10 April 2013

Mr. Adnan Anacali
Head of the Board

Mr. Igor Kuzmenko
Chief Accountant

The statement of financial position is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 7 to 48.

(in thousands of UAH)	*Note*	**31 December 2012**	31 December 2011 (reclassified)
Interest income	*17*	**26,610**	17,336
Interest expense	*17*	**(8,501)**	(8,931)
Net interest income	*17*	**18,109**	8,405
Fee and commission income	*18*	**6,958**	7,158
Fee and commission expense	*18*	**(985)**	(1,057)
Gains less losses arising from dealing in foreign currencies		**3,566**	2,621
Gains less losses from foreign currency revaluation		**240**	11
Provision for impairment of loans and advances and due from banks	*21*	**(7,486)**	144
Other operating income	*19*	**7,228**	6,352
Administrative and other operating expenses	*20*	**(20,856)**	(18,615)
Profit before tax		**6,774**	5,019
Income tax expense	*22*	**(1,691)**	(1,102)
Net profit and total comprehensive income		**5,083**	3,917
Earnings per share			
Basic and diluted earnings per share		**0.00006**	0.000044

Signed and authorized for issuance
10 April 2013

Mr. Adnan Anacali
Head of the Board

Mr. Igor Kuzmenko
Chief Accountant

The statement of comprehensive income is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 7 to 48

(in thousands of UAH)	**2012**	2011 (reclassified)
Operating activities		
Interest received	**25,505**	16,287
Interest paid	**(7,200)**	(7,467)
Fees and commissions received	**6,965**	7,149
Fees and commissions paid	**(985)**	(1,057)
Net receipts from operations with derivative financial instruments	**6,507**	6,201
Net receipts from dealing in foreign currencies	**3,566**	2,621
Other operating income received	**6**	53
General administrative and other operating expenses paid	**(18,179)**	(16,851)
Income tax paid	**(3,313)**	(1,170)
Cash flows from operating activities before change in operating assets and liabilities	**12,872**	5,766
Changes in operating assets and liabilities		
Change in mandatory reserve balances with the National Bank of Ukraine	**(3,170)**	(1,279)
Change in due from banks	**(4)**	(2,215)
Change in loans and advances	**(105,259)**	(33,484)
Change in other assets	**1,572**	1,261
Change in due to banks	**83,750**	(153)
Change in due to customers	**10,948**	(4,604)
Change in other liabilities	**378**	-
Cash flows from (used in) operating activities	**1,087**	(34,708)

(continued)

The statement of cash flows is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 7 to 48.

Investing activities		
Acquisition of property, equipment and intangible assets	**(1,493)**	(340)
Proceeds from disposals of property, equipment and intangible assets	**431**	-
Cash flows used in investing activities	**(1,062)**	(340)
Financing activities		
Proceeds from issuance of share capital	**-**	15,870
Receipt of subordinated debt	**-**	3,995
Cash flows from financing activities	**-**	19,865
Net increase (decrease) in cash and cash equivalents	**25**	(15,183)
Cash and cash equivalents as at 1 January	**143,310**	158,493
Cash and cash equivalents as at 31 December	**143,335**	143,310

Signed and authorized for issuance
10 April 2013

Mr. Adnan Anacali
Head of the Board

Mr. Igor Kuzmenko
Chief Accountant

ВЕСТ ФАЙНЕНС ЕНД КРЕДИТ БАНК
Ідентифікаційний код 34575675

The statement of cash flows is to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 7 to 48.

(in thousands of UAH)	*Note*	Share capital	Share premium and additional paid-in capital	Retained earnings	Total
Balance as at 1 January 2011		**72,175**	**7,328**	**4,433**	**83,936**
Total comprehensive income		-	-	3,917	3,917
Issue of share capital		15,870	-	-	15,870
Balance as at 31 December 2011		**88,045**	**7,328**	**8,350**	**103,723**
Total comprehensive income		-	-	**5,083**	**5,083**
Balance as at 31 December 2012		**88,045**	**7,328**	**13,433**	**108,806**

Signed and authorized for issuance
10 April 2013

Mr. Adnan Anacali
Head of the Board

Mr. Igor Kuzmenko
Chief Accountant

The statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 7 to 48.

1 Background

(a) Organization and operations

Public Joint Stock Company “West Finance and Credit Bank” (the Bank) was established as the closed joint stock company according to Ukrainian legislation and registered by the National Bank of Ukraine (the NBU) on 4 October 2006. In January 2009, the Bank was reorganised into open joint-stock company. In January 2011, the Bank was re-registered in the form of a public joint stock company.

The principal activities of the Bank are lending, deposits taking, cash and settlement operations, operations with securities and foreign exchange, as well as other services. The Bank’s activities is regulated by the National Bank of Ukraine.

The head office is located at 17 Kovpaka St., Kyiv, Ukraine.

As at 31 December 2012, the Bank has one branch (31 December 2011: 1) and 59 employees (31 December 2011: 59 employees).

(b) Ukrainian business environment

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

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

2 Basis of preparation

(a) Statement of compliance

These financial statements are prepared in accordance with International Financial Reporting Standards (IFRSs), requirements of the National Bank of Ukraine on financial reporting by Ukrainian banks, Ukrainian legislation, the effective regulations on submission of annual reports by issuers and professional participants in the stock market to the National Commission on Securities and Stock Market.

Effective in 2012, the changes to the Law of Ukraine *On Accounting and Financial Reporting* were adopted by the Ukrainian Parliament according to which banks in Ukraine should prepare and file their financial statements in accordance with the requirements of IFRS and the requirements of the NBU. Therefore, IFRS became the obligatory reporting framework for Ukrainian banks starting from the annual financial statements as at and for the year ended 31 December 2012. Based on this, in 2011 the NBU adopted Resolution No. 373 which regulates preparation, presentation and filing of banks' financial statements in accordance with the requirements of IFRS. Based on this requirement, the Bank made certain reclassifications to corresponding figures to align the presentation of its IFRS financial statements to the requirements of the Resolution No. 373 (note 3n).

(b) Basis of measurement

The financial statements are prepared on the historical cost basis except for derivative financial instruments stated at fair value.

(c) Functional and presentation currency

The national currency of Ukraine is the Ukrainian hryvnia (UAH). Consequently, the functional and presentation currency for the purposes of these financial statements is the Ukrainian hryvnia.

Financial information presented in UAH is rounded to the nearest thousand.

(d) Critical accounting estimates and judgments in applying accounting policies

The preparation of financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of policies and the reported amounts of assets, liabilities, income and expense. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from these estimates.

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

Critical judgements

The Bank's accounting policies allow offsetting of assets and liabilities (i.e. loans due from and deposits due to the same banks) only when there is legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. Although settlement of loans and deposits is typically done on the same day, loans due from and deposits due to the same banks are settled by receiving and paying separate amounts, thus exposing the Bank to credit risk for the full amount of the asset or liquidity risk for the full amount of the liability. These risk exposures may be significant even though relatively brief. Management believes that these transactions are in substance foreign currency exchange swaps and accounts for these transactions in accordance with the Bank's accounting policy in respect of derivatives (note 3b). Accordingly, the gross fair value of foreign currency exchange swaps is recognised as an asset when the fair value is positive and as a liability when the fair value is negative. The net amounts of receivables/payables on settlement (having the legal form of loans due from and deposits due to the same banks) are offset and not recognised on the balance sheet. Refer to note 23 for the information about maximum exposure to credit risk arising from these derivative instruments (i.e. gross amount of receivable upon settlement of loans due from banks). Refer to note 24 for the information about exposure to maximum liquidity risk (i.e. gross amount of payable upon settlement of deposits due to banks).

Impairment of loans and advances

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

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

Note 7 contain a description of the sensitivity of the carrying amount of loans and advances to changes in estimates. Should actual repayments be less than management estimates, the Bank would be required to record additional impairment expense.

3 Significant accounting policies

The accounting policies set out below are consistently applied to in the preparation of these financial statements. Changes in presentation of corresponding figures are described in the end of this note.

(a) Foreign currency translation

Transactions in foreign currencies are translated to the respective hryvnias at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to hryvnias at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period. Foreign currency differences arising on retranslation are recognized in profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

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

Currency	**31 December 2012**	31 December 2011
US dollar	**7.99**	7.99
EUR	**10.54**	10.30

At the date of these financial statements, 10 April 2013, the exchange rate is UAH 7.99 to USD 1.00 and UAH 10.42 to USD 1.00.

(b) Financial instruments

(i) Classification

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

- acquired or incurred principally for the purpose of selling or repurchasing in the near term

- part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking

- derivative financial instruments (except for derivative financial instruments that are designated and effective hedging instruments) or,

- upon initial recognition, designated as at fair value through profit or loss.

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

- the assets or liabilities are managed, evaluated and reported internally on a fair value basis

- the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise or,

- the asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

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

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

Financial instruments at fair value through profit or loss comprise derivatives,which mainly refer to forward currency contracts.

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

- intends to sell immediately or in the near term

- upon initial recognition designates as at fair value through profit or loss

- upon initial recognition designates as available-for-sale or,

- may not recover substantially all of its initial investment, other than because of credit deterioration.

Loans and receivables comprise loans and advances, due from banks, mandatory reserve with the National Bank of Ukraine, cash and cash equivalents.

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that management has the positive intention and ability to hold to maturity, other than those that:

- management upon initial recognition designates as at fair value through profit or loss

- management designates as available-for-sale or,

- meet the definition of loans and receivables.

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified as loans and receivables, held-to-maturity investments or financial instruments at fair value through profit or loss.

(ii) Recognition

Financial assets and liabilities are recognized in the statement of financial position when the Bank becomes a party to the contractual provisions of the instrument. All regular way purchases of financial assets are accounted for at the settlement date.

(iii) Measurement

A financial asset or liability is initially measured at its fair value plus, in the case of a financial asset or liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or liability.

Subsequent to initial recognition, financial assets, including derivatives that are assets, are measured at their fair values, without any deduction for transaction costs that may be incurred on sale or other disposal, except for:

- loans and receivables which are measured at amortized cost using the effective interest method

- held-to-maturity investments that are measured at amortized cost using the effective interest method

- investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured which are measured at cost less impairment loss.

All financial liabilities, other than those designated at fair value through profit or loss and financial liabilities that arise when a transfer of a financial asset carried at fair value does not qualify for de-recognition, are measured at amortized cost.

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortized based on the effective interest rate of the instrument.

Financial assets or liabilities originated at interest rates different from market rates are re-measured at origination to their fair value, being future interest payments and principal repayment(s) discounted at market interest rates for similar instruments. The difference between the fair value and the nominal value at origination is credited or charged to profit or loss or to equity (if financial assets or financial liabilities resulted from transactions with shareholders acting as shareholders) as gains or losses on origination of financial instruments at rates different from market rates. Subsequently, the carrying amount of such assets or liabilities is adjusted for amortization of the gains/losses on origination and the related income/expense is recorded in profit or loss using the effective interest method.

(iv) Fair value measurement principles

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arms' length transaction on the measurement date.

When available, the management measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

If a market for a financial instrument is not active, the Bank establishes fair value using a valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analyses and option pricing models. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Bank, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, i.e., the fair value of the consideration given or received, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e., without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at the transaction price and any difference between this price and the value initially obtained from a valuation model is subsequently recognised in profit or loss on an appropriate basis over the life of the instrument but not later than when the valuation is supported wholly by observable market data or the transaction is closed out.

(v) Gains or losses on subsequent measurement

A gain or loss arising from a change in the fair value of a financial asset or liability is recognized as follows:

- a gain or loss on a financial instrument classified as at fair value through profit or loss is recognized in profit or loss

- a gain or loss on an available-for-sale financial asset is recognized as other comprehensive income in equity (except for impairment losses and foreign exchange gains and losses) until the asset is derecognized, at which time the cumulative gain or loss previously recognised in equity is recognized in profit or loss. Interest in relation to an available-for-sale financial asset is recognized in profit or loss using the effective interest method.

For financial assets and liabilities carried at amortized cost, a gain or loss is recognized in profit or loss when the financial asset or liability is derecognized or impaired, and through the amortization process.

(vi) Derecognition

The Bank derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset. Any interest in transferred financial assets that qualify for de-recognition that is created or retained by the Bank is recognised as a separate asset or liability in the statement of financial position. The Bank derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

The Bank also derecognizes certain assets when it writes off balances pertaining to the assets deemed to be uncollectible.

(vii) Derivative financial instruments

Derivative financial instruments include swaps, forwards, futures, spot transactions and options in interest rates, foreign exchanges, precious metals and stock markets, and any combinations of these instruments.

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. All derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

Changes in the fair value of derivatives are recognised immediately in profit or loss.

Derivatives may be embedded in another contractual arrangement (a host contract). An embedded derivative is separated from the host contract and is accounted for as a derivative if, and only if the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the combined instrument is not measured at fair value with changes in fair value recognised in profit or loss. Derivatives embedded in financial assets or financial liabilities at fair value through profit or loss are not separated.

Although the Bank trades in derivative instruments for risk hedging purposes, these instruments do not qualify for hedge accounting.

(viii) Interest bearing borrowings

Interest bearing borrowings are recognised initially at fair value. Subsequent to initial recognition, interest bearing borrowings are stated at amortised cost and any difference between cost and redemption value is recognised in profit or loss over the period of the borrowings.

When borrowings are repurchased or settled before maturity, any difference between the amount repaid and the carrying amount is immediately recognised in profit or loss.

(c) Impairment

(i) Calculation of recoverable amount

Financial assets carried at amortized cost

Financial assets carried at amortized cost consist principally of loans, advances and other receivables (loans and receivables). Management reviews its loans and receivables to assess impairment on a regular basis. A loan (or group of loans) is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the loan and that event (or events) has had an impact on the estimated future cash flows of the loan (group of loans) that can be reliably estimated.

Management first assesses whether objective evidence of impairment exists individually for loans and advances that are individually significant, and individually or collectively for loans and advances that are not individually significant. If management determines that no objective evidence of impairment exists for an individually assessed loan or receivable, whether significant or not, it includes the loan in a group of loans with similar credit risk characteristics and collectively assesses them for impairment. Loans that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on a loan or receivable has been incurred, the amount of the loss is measured as the difference between the carrying amount of the loan and the present value of estimated future cash flows including amounts recoverable from guarantees and collateral discounted at the loan or receivable's original effective interest rate. Contractual cash flows and historical loss experience adjusted on the basis of relevant observable data that reflect current economic conditions provide the basis for estimating expected cash flows.

In some cases the observable data required to estimate the amount of an impairment loss on a loan may be limited or no longer fully relevant to current circumstances. This may be the case when a borrower is in financial difficulties and there is little available historical data relating to similar borrowers. In such cases, management uses its experience and judgement to estimate the amount of any impairment loss.

The assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

All impairment losses in respect of loans and receivables are recognized in profit or loss and are only reversed if a subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

When a loan is uncollectable, it is written off against the related allowance for loan impairment. The Bank writes off a loan balance (and any related allowances for loan losses) when management determines that the loans are uncollectible and when all necessary steps to collect the loan are completed.

Available-for-sale financial assets

Impairment losses on available-for-sale financial assets are recognised by transferring the cumulative loss that is recognised in other comprehensive income to profit or loss as a reclassification adjustment. The cumulative loss that is reclassified from other comprehensive income to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

For an investment in an equity security available-for-sale, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

Non financial assets

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

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

(ii) Resersal of impairment

An impairment loss in respect of a held-to-maturity asset or a loan or a receivable carried at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised. An impairment loss in respect of an investment in an equity instrument classified as available-for-sale is not reversed. If the fair value of a debt instrument classified as available-for-sale increases and the increase can be related objectively to an event occurring after the impairment loss was recognised in profit or loss, then the impairment loss is reversed, with the amount of the reversal recognised in profit or loss.

In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset’s carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognised.

(iii) Credit related commitments

In the normal course of business, the Bank enters into credit related commitments, comprising undrawn loan commitments, letters of credit and guarantees, and provides other forms of credit insurance.

Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

A financial guarantee liability is recognised initially at fair value net of associated transaction costs, and is measured subsequently at the higher of the amount initially recognised less cumulative amortisation or the amount of provision for losses under the guarantee. Provisions for losses under financial guarantees and other credit related commitments are recognised when losses are considered probable and can be measured reliably.

Financial guarantee liabilities and provisions for other credit related commitment are included in other liabilities.

(d) Property, equipment and intangible assets

Property, equipment and intangible assets are carried at cost less accumulated depreciation and amortization and impairment losses. Depreciation and amortization is computed by the straight-line method over the estimated useful lives of the assets. Depreciation and amortization commences from the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. The estimated useful lives are as follows:

Furniture and equipment	5 years
Motor vehicles	5 years
Intangible assets	3 years

Expenditures for leasehold improvements are recognised as assets and charged to profit or loss on a straight-line basis over the shorter of their economic life or the period of the applicable lease.

(e) Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in normal course of business, or for the use in production or supply of goods or services or for administrative purposes. Investment property is measured at cost less accumulated depreciation and impairment losses.

(f) Leases

Payments for operating leases, where the Bank does not assume substantially all the risks and rewards of ownership are classified as expenses when incurred.

(g) Income and expense recognition

Interest and similar income and interest expense and similar charges are recognized in profit or loss on an accrual basis, taking into account the effective yield/rate of the asset/liability or an applicable floating rate. Interest and similar income and interest expense and similar expense include the amortization of any discount or premium or other differences between the initial carrying amount of an interest-bearing instrument and its amount at maturity calculated on an effective interest rate basis.

Commission income and expense is recognized on accrual basis. Other fees, commission and other income are recognized when the corresponding services are provided/received.

Loan origination fees, loan servicing fees and other fees that are considered to be integral to the overall profitability of a loan, together with the related transaction costs, are deferred and amortized to interest income over the estimated life of the financial instrument using the effective interest method.

Expenses incurred in connection with the loan are amortised over the life of the loan as an adjustment to interest income.

(h) Taxation

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

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

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

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

(i) Employee benefits

Pensions are provided by the State. Mandatory contributions are made by the Bank and employees based on the earnings of the employees. The cost for these contributions is recognized in profit or loss when contributions are due and is included in salaries and employee benefits as part of administrative and other operating expenses.

(j) Cash and cash equivalents

Cash and cash equivalents include cash, balances with the National Bank of Ukraine, except for mandatory reserves, and balances due from banks with contractual maturity within three months. As at 31 December 2012 and 2011, the mandatory reserve with the NBU is not considered to be cash equivalent for the purposes of the statement of cash flow and the statement of financial position due to restrictions on its withdrawability.

(k) Offsetting

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

(l) Segment reporting

An operating segment is a component of a Bank that is engaged in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same Bank); whose operating results are regularly reviewed by the chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

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

(m) New standards and interpretations not yet adopted

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

- IFRS 9 Financial Instruments will be effective for annual periods beginning on or after 1 January 2015. The new standard is to be issued in phases and is intended ultimately to replace International Financial Reporting Standard IAS 39 Financial Instruments: Recognition and Measurement. The first phase of IFRS 9 was issued in November 2009 and relates to the classification and measurement of financial assets. The second phase regarding classification and measurement of financial liabilities was published in October 2010. The remaining parts of the standard are expected to be issued during 2013. The Bank recognises that the new standard introduces many changes to the accounting for financial instruments and is likely to have a significant impact on Bank's financial statements. The impact of these changes will be analysed during the course of the project as further phases of the standard are issued. The Bank does not intend to adopt this standard early.
- IFRS 13 *Fair Value Measurement* will be effective for annual periods beginning on or after 1 January 2013. The new standard replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It provides a revised definition of fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. IFRS 13 does not introduce new requirements to measure assets or liabilities at fair value, nor does it eliminate the practicability exceptions to fair value measurement that currently exist in certain standards. The standard is applied prospectively with early adoption permitted. Comparative disclosure information is not required for periods before the date of initial application.
- Amendments to IFRS 7 *Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities* contain new disclosure requirements for financial assets and liabilities that are offset in the statement of financial position or subject to master netting arrangements or similar agreements. The amendments are effective for annual periods beginning on or after 1 January 2013, and are to be applied retrospectively.
- Amendments to IAS 32 *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities* do not introduce new rules for offsetting financial assets and liabilities; rather they clarify the offsetting criteria to address inconsistencies in their application. The Amendments specify that an entity currently has a legally enforceable right to set-off if that right is not contingent on a future event; and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties. The amendments are effective for annual periods beginning on or after 1 January 2014, and are to be applied retrospectively.
- Various *Improvements to IFRSs* have been dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purposes, will come into effect not earlier than 1 January 2013. The Bank has not yet analysed the likely impact of the improvements on its financial position or performance.

Management is currently studying what effect these new standards and amendments may have on the financial position and result of operations.

(n) Corresponding figures

As as 31 December 2012 certain corresponding figures are reclassified in order to align the classification of those items to the presentation and classification principles followed by the regulation of the National Bank of Ukraine # 373. It resulted in the following reclassifications as at 31 December 2011:

Balances with the NBU (except for mandatory reserves) as at 31 December 2011 amounting to UAH 15,853 thousand, and current account balances placed with other banks amounting to UAH 120,214 thousand are reclassified to cash and cash equivalents**.**

Current accounts as at 31 December 2011 amounting to UAH 62,439 thousand and deposits of customers amounted to UAH 12,625 thousand are aggregated and presented as due to customers.

Salaries and employee benefits expenses for the year ended 31 December 2011 amounting to UAH 10,074 thousand, general and administrative expenses amounting to UAH 6,537 thousand, depreciation and amortization expenses amounting to UAH 756 thousand and provision for impairment of other assets amounting to UAH 1,248 thousand are aggregated and presented as administrative and other operating expenses.

Gains less losses from dealing in foreign currencies and gains less losses from dealing in foreign currency derivatives amounting to UAH 8,931 thousand, for the year ended 31 December 2011, are divided into gains less losses from dealing in foreign currencies amounting to UAH 2,621 thousand, gains less losses from revaluation of foreign currencies amounting to UAH 11 thousand and other operating income amounting to UAH 6,299 thousand.

4 Segment reporting

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

There are no customers from which revenues exceed 10% of total external revenue.

Substantially all revenues from external customers relate to residents of Ukraine. Substantially all of assets are located in Ukraine.

5 Cash and cash equivalents

As at 31 December cash and cash equivalents are as follows:

(in thousands of UAH)	**2012**	2011 (reclassified)
Cash	**7,003**	7,243
Balances with the NBU (except for mandatory reserves)	**15,971**	15,853
Current accounts placed with other banks	**56,415**	120,214
Balances due from banks with contractual maturity three months or less	**63,946**	-
Total	**143,335**	143,310

The following table represents an analysis of current accounts in other banks balances and balances due from banks with contractual maturity three months or less by rating agency designation based on Standard and Poor's ratings (S&P) or their equivalent as at 31 December:

(in thousands of UAH)	**2012**	2011
Current accounts:		
BBB- to A+	**51,220**	55,092
BB- to BB+	**127**	-
B- to B+	**5,068**	65,122
	56,415	120,214
Balances due from banks with contractual maturity three months or less		
BBB- to A+	**3,997**	-
B- to B+	**35,969**	-
CCC- to CCC+	**19,983**	-
Non-rated	**3,997**	-
	63,946	-
Total	**120,361**	120,214

As at 31 December 2012, the two largest balances on current accounts placed with other banks and balances due from banks with contractual maturity three months or less amount to UAH 82,712 thousand or 68.7% of the gross exposure of current accounts placed with other banks and balances due from banks with contractual maturity three months or less (31 December 2011: UAH 113,273 thousand or 94.2%).

The Bank is required by the NBU to maintain a mandatory reserve balance calculated as an average of certain customer funds over a period of one month. As at 31 December 2012 the mandatory reserve balance with the NBU amounts to UAH 5,644 thousand (31 December 2011: UAH 2,471 thousand). As at 31 December 2012 and 2011 the Bank meets the NBU requirements regarding this mandatory reserve.

As at 31 December 2012 and 2011 mandatory reserve funds cannot be used for financing of transactions in normal course of business, therefore this amount is not included in cash and cash equivalents, but it is presented as mandatory reserves with the National Bank of Ukraine.

6 Due from banks

Balances due from banks as at 31 December are as follows:

(in thousands of UAH)	**2012**	2011 (reclassified)
Loans granted to other banks:		
Short-term loans	**-**	1,997
Deposits placed with other banks:		
Deposits placed with contractual maturity over three month	**1,481**	1,070
Total	**1,481**	3,067

The following table represents an analysis of due from banks by rating agency designation based on Standard and Poor's ratings (S&P) or their equivalent as at 31 December:

in thousands of UAH)	**2012**	2011
Loans granted to other banks:		
Non-rated	**-**	1,997
Deposits placed with other banks:		
B- to B+	**1,481**	1,070
Total	**1,481**	3,067

As at 31 December 2012, deposits and loans with other banks amounting to UAH 1,481 thousand, or 100.0% of total amount due from banks, are placed with two banks (31 December 2011: UAH 2,588 thousand, or 84.4%).

As at 31 December 2012 and 2011 balances due from banks are neither impaired nor past due.

7 Loans and advances

Loans and advances as at 31 December are as follows:

(in thousands of UAH)	**2012**	2011
Corporate	**183,029**	82,460
Retail	**1,622**	5,256
Total loans and advances	**184,651**	87,716
Provision for impairment (note 21)	**(2,721)**	(4,692)
Total loans and advances, net	**181,930**	83,024

Loans and advances include principal amounts and accrued interest as at 31 December 2012 and 2011.

Changes in collection estimates can affect the impairment losses recognised. For example, to the extent that the net present value of the estimated cash flows differs by plus/minus one percent, the loan impairment as at 31 December 2012 would be UAH 1,819 thousand lower/higher (31 December 2011: UAH 830 thousand).

(a) Significant credit risk concentration

As at 31 December 2012, loans and advances to the ten largest borrowers total UAH 162,138 thousand, and represent 87.8% of the total gross loans and advances (31 December 2011: UAH 73,456 thousand or 83.7%).

(b) Loan impairment

Loan impairment as at 31 December 2012 is as follows:

(in thousands of UAH)	**Gross loans**	**Impairment**	**Net loans**	**Impairment to gross loans**
Corporate loans				
Loans with specific impairment	**1,879**	**(1,879)**	**-**	**100.0%**
Loans without specifically identified impairment	**181,150**	**(432)**	**180,718**	**0.2%**
Total corporate loans	**183,029**	**(2,311)**	**180,718**	**1.3%**
Retail loans				
Loans without specifically identified impairment	**1,622**	**(410)**	**1,212**	**25.3%**
Total retail loans	**1,622**	**(410)**	**1,212**	**25.3%**
Total	**184,651**	**(2,721)**	**181,930**	**1.5%**

Loan impairment as at 31 December 2011 is as follows:

	Gross loans	Impairment	Net loans	Impairment to gross loans
(in thousands of UAH)				
Corporate loans				
Loans with specific impairment	6,111	(2,632)	3,479	43.1%
Loans without specifically identified impairment	76,349	(461)	75,888	0.6%
Total corporate loans	82,460	(3,093)	79,367	3.8%
Retail loans				
Loans with specific impairment	2,013	(497)	1,516	24.7%
Loans without specifically identified impairment	3,243	(1,102)	2,141	34.0%
Total retail loans	5,256	(1,599)	3,657	30.4%
Total	87,716	(4,692)	83,024	5.3%

As at 31 December 2012, there were no loans that were past due but not impaired.

As at 31 December 2012, accrued interest income on impaired loans and advances amounted to UAH 75 thousand (31 December 2011: UAH 160 thousand).

During the year ended 31 December 2012, loans written off amounted to UAH 9,457 thousand (31 December 2011: UAH 6,525 thousand).

(c) Collateral

The following table provides information on collateral as at 31 December, by type of collateral. The table shows the amounts of secured loans rather than the fair value of collateral.

	2012	2011
(in thousands of UAH)		
Real estate	**58,754**	40,745
Motor vehicles	**30,299**	8,192
Other	**95,001**	37,345
Unsecured	**597**	1,434
Total	**184,651**	87,716

Other collateral is primarily represented by production facilities.

The Bank’s lending activities are conducted in Ukraine. The ability of the borrowers to repay their debt is dependent on a number of factors including the overall financial health of the individual borrowers and the continued development of the Ukrainian economy.

Although collateral can be an important mitigation of credit risk, it is the Bank’s policy to lend on the basis of the customer’s capacity to repay, rather than rely primarily on the value of collateral offered. Depending on the customer's standing and the type of product, loans may be provided without collateral.

Corporate loans

As at 31 December 2012, estimated difference between the Bank's actual impairment losses on commercial loans with specific impairment and what they would have been without any collateral is nil (31 December 2011: UAH 3,075 thousand).

For corporate loans without specifically identified impairment with net carrying value of UAH 180,718 thousand (31 December 2011: UAH 75,888 thousand), the fair value of collateral was estimated at the loan origination date and adjusted for subsequent changes to the reporting date. The recoverability of these loans is primarily dependent on the creditworthiness of the borrowers rather than the value of collateral, and the current value of the collateral does not impact the impairment assessment.

Retail loans

Retail loans are secured with the underlying housing and commercial real estate. Mortgage and car loans are assessed for impairment on a collective and individual basis depending on the nature of impairment identified. Collateral on mortgage loans is valuated as at loan origination date, and the Bank monitors changes in property value as they are critical in the assessment of collective impairment. If any indication of impairment exists, the Bank obtains individual valuation of collateral. For car loans, management believes that the fair value of collateral is approximately equal to the carrying amount of individual loans as at the reporting date. Subsequent to loan origination, the Bank revalues collateral to current value considering estimated changes in prices and aging of cars.

As at 31 December 2011, an estimated difference between actual impairment losses on retail loans with specific impairment and what they would have been without any collateral amounts to UAH 1,516 thousand (31 December 2012 : nil).

(d) Corporate loans by industry

Corporate loans by industry as at 31 December are as follows:

(in thousands of UAH)	**2012**	**2011**
Production	**28,134**	10,307
Trade	**69,296**	32,409
Car rent	**30,806**	-
Financial services	**16,261**	504
Real estate	**15,611**	25,001
Agriculture	**9,435**	7,345
Other	**8,276**	-
Construction	**5,210**	6,434
Transportation	**-**	460
Total	**183,029**	82,460

8 Investment property

Movement in investment property during the year ended 31 December is as follows:

(in thousands of UAH)	**2012**	2011
Cost as at 1 January	**6,156**	3,704
Additions	**-**	2,452
Cost as at 31 December	**6,156**	6,156
Accumulated depreciation as at 1 January	**-**	-
Depreciation	**(396)**	-
Accumulated depreciation as at 31 December	**(396)**	-
Net book value as at 31 December	**5,760**	6,156

During the year ended 31 December 2012, there were no foreclosures on pledged commercial and residential real estate (31 December 2011: foreclosure on commercial real estate and land of UAH 2,452 thousand). The Bank intends to keep the property for capital appreciation purposes.

Useful life of investment property is 25 years. Investment property is depreciated using straight-line method over useful life.

9 Property, equipment and intangible assets

Movement of property, equipment and intangible assets for the year ended 31 December 2012 is as follows:

(in thousands of UAH)	**Leasehold improvements**	**Furniture and equipment**	**Motor vehicles**	**Intangible assets**	**Total**
Cost					
1 January 2012	**80**	**2,840**	**672**	**968**	**4,560**
Additions	**-**	**409**	**1,084**	**-**	**1,493**
Disposals	**-**	**(3)**	**(661)**	**(132)**	**(796)**
31 December 2012	**80**	**3,246**	**1,095**	**836**	**5,257**
Accumulated depreciation and amortisation					
1 January 2012	**80**	**1,812**	**653**	**907**	**3,452**
Depreciation and amortisation	**-**	**483**	**199**	**44**	**726**
Disposals	**-**	**(2)**	**(629)**	**(131)**	**(762)**
31 December 2012	**80**	**2,293**	**223**	**820**	**3,416**
Net book value as at 31 December 2012	**-**	**953**	**872**	**16**	**1,841**

Movement of property, equipment and intangible assets for the year ended 31 December 2011 is as follows:

(in thousands of UAH)	**Leasehold improvements**	**Furniture and equipment**	**Motor vehicles**	**Intangible assets**	**Total**
Cost					
1 January 2011	80	2,512	672	961	4,225
Additions	-	330	-	10	340
Disposals	-	(2)	-	(3)	(5)
31 December 2011	80	2,840	672	968	4,560
Accumulated depreciation and amortisation					
1 January 2011	80	1,311	447	863	2,701
Depreciation and amortisation	-	503	206	47	756
Disposals		(2)	-	(3)	(5)
31 December 2011	80	1,812	653	907	3,452
Net book value as at 31 December 2011	-	1,028	19	61	1,108

10 Other assets

Other assets as at 31 December are as follows:

(in thousands of UAH)	**2012**	2011
Foreclosed curtain fabric	**1,556**	3,158
Derivative financial instruments (note 23)	**423**	1,001
Prepayments	**288**	639
Prepaid taxes	**197**	301
Materials and supplies	**66**	66
Other	**61**	42
Total	**2,591**	5,207

11 Due to banks

Balances due to banks as at 31 December are as follows:

(in thousands of UAH)	**2012**	2011
Deposits and balances due to banks:		
OECD countries	**3,996**	-
Domestic	**103,566**	23,933
Total	**107,562**	23,933

As at 31 December 2012, balances due to banks amounting to UAH 55,954 thousand, or 52.0% of total due to banks, are placed with two banks (31 December 2011: UAH 29,933 or 100% of total due to banks are placed with one bank).

12 Due to customers

Due to customers as at 31 December are as follows:

(in thousands of UAH)	**2012**	2011 (reclassified)
Current accounts:		
Corporate	**45,764**	53,693
Retail	**7,904**	8,746
Total current accounts	**53,668**	62,439
Deposits:		
Corporate	**4,119**	2,202
Retail	**26,988**	10,423
Total deposits	**31,107**	12,625
Total	**84,775**	75,064

As at 31 December 2012, current accounts of the five largest customers total UAH 16,394 thousand, or 30.5% of total current accounts (31 December 2011: UAH 40,859 thousand, or 65.5%).

As at 31 December 2012, deposits of the five largest customers total UAH 19,499 thousand, or 62.7% of total deposits (31 December 2011: UAH 7,196 thousand, or 57.0%).

13 Other liabilities

Other liabilities as at 31 December are as follows:

(in thousands of UAH)	**2012**	2011
Provision for unused vacations	**613**	608
Derivative financial instruments (note 23)	**95**	
Accounts payable	**77**	-
Taxes payable, other than corporate income tax	**14**	-
Other	**335**	84
Total	**1,134**	692

14 Subordinated debt

During 2008, the Bank received from the shareholder, JSC "ALTINBAŞ HOLDİNG ANONİM ŞIRKETİ", a subordinated loan denominated in US dollars amounting to USD 5,000 thousand with a nominal interest rate of 5.5%. The principal amount of this loan was initially repayable in August 2013. During 2011, the maturity of the loan was extended until July 2017.

This loan was initially recognised at fair value determined by management as the present value of future payments under the loan discounted using a market rate of interest for similar instruments of 12%.

On initial recognition, the difference of UAH 5,901 thousand between the fair value of the loan amounting to UAH 18,099 thousand and total proceeds from the loan amounting to UAH 24,000 thousand is recognized as additional paid-in capital in the statement of changes in equity. Subsequent to initial recognition, the difference between the fair value and the nominal value is amortised in the statement of comprehensive income over the term of the loan using the effective interest method. As at 31 December 2012, the effective interest rate is 9.2% (31 December 2011: 9.2%).

During 2011, the Bank received from the shareholder, JSC "ALTINBAŞ HOLDİNG ANONİM ŞIRKETİ", a subordinated loan denominated in US dollars amounting to USD 500 thousand with a nominal interest rate of 6.1%. The loan is repayable in July 2016.

Subordinated debt includes principal amount and accrued interest as at 31 December 2012 and 2011.

15 Share capital

Share capital as at 31 December is as follows:

	2012		2011	
(in thousands of UAH)	**Number of shares**	**Amount**	Number of shares	Amount
Shares authorised, issued and fully paid in	**88,045,200**	**88,045**	88,045,200	88,045

The nominal value of an ordinary share is UAH 1 per share as at 31 December 2012 and 2011. All ordinary shares have equal voting, dividend and capital repayment rights. No dividends were declared and paid in 2012 and 2011.

During the years ended 31 December 2012 and 2011, weighted average number of shares corresponds to the number of shares in the above table. There were no dilutive shares.

In accordance with Ukrainian legislation, the distributable reserves are limited to the balance of retained earnings determined in accordance with legislative and regulatory requirements.

16 Commitments and contingencies

(a) Guarantees

As at 31 December 2012 and 2011, there are no guarantees issued by the Bank.

(b) Operating lease commitments

The Bank leases operational premises in the normal course of business. Future payments on non-cancellable leases as at 31 December are as follows:

(in thousands of UAH)	**2012**	2011
Within one year	**80**	96
	80	96

(c) Commitments to extend credit

The Bank has outstanding commitments to extend credit. These commitments take the form of approved loans and loan facilities. The total outstanding contractual commitments do not necessarily represent future cash requirements, as these commitments may expire or terminate without being funded. As at 31 December 2012, irrevocable commitments to extend credit amount to UAH 34,054 thousand (31 December 2011: UAH 25,199 thousand).

(d) Insurance

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

(e) Tax contingency

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

The new Tax Code of Ukraine became effective on 1 January 2011. The new Tax Code introduces certain changes in tax accounting including reduction of corporate income tax rate from 21% in 2012 to 19% since 1 January 2013, and 16% since 1 January 2014 and further on.

Management believes it has complied with all existing tax legislation. However, there can be no assurance that the tax authorities will not have a different interpretation of the Bank’s compliance with existing legislation and assess fines and penalties. No provision for potential tax assessments was recognised in these financial statements.

(f) Litigation

The Bank is involved in various legal proceedings in the ordinary course of business. Management does not believe the result of any such actions will have a material effect on financial position or results of operations.

17 Interest income and expense

Interest income and expense for the year ended 31 December are as follows:

(in thousands of UAH)	**2012**	2011
Loans and advances	**19,168**	9,301
Due from banks	**7,389**	7,996
Other	**53**	39
Total	**26,610**	17,336
Subordinated debt	**(3,387)**	(3,466)
Current accounts	**(1,926)**	(502)
Deposits	**(1,695)**	(4,610)
Due to banks	**(1,493)**	(353)
Total	**(8,501)**	(8,931)
Net interest income	**18,109**	8,405

Interest income on loans and advances with specific impairment amounts to UAH 358 thousand for the year ended 31 December 2012 (31 December 2011: UAH 1,429 thousand).

18 Fee and commission income

Fee and commission income for the year ended 31 December is as follows:

(in thousands of UAH)	**2012**	2011
Fee and commission income:		
Currency exchange	**3,485**	3,626
Payments and cash withdrawals	**3,316**	3,399
Other	**157**	133
Total fee and commission income	**6,958**	7,158
Fee and commission expense:		
Payments and cash withdrawals	**(754)**	(824)
Other	**(231)**	(233)
Total fee and commission expense	**(985)**	(1,057)

19 Other operating income

(in thousands of UAH)	**2012**	2011 (reclassified)
Net result from operations with derivative financial instruments	**6,835**	6,299
Penalties and fines	**45**	51
Other	**348**	2
Total other operating income	**7,228**	6,352

20 Administrative and other operating expenses

Administrative and other operating expenses for the year ended 31 December are as follows:

(in thousands of UAH)	**2012**	2011 (reclassified)
Salary and employee benefits	**10,902**	10,074
Changes in net realisable value of foreclosed curtain fabric	**1,565**	1,248
Communication and information	**1,885**	1,853
Rent and maintenance of premises	**1,686**	1,553
Depreciation and amortization	**1,122**	756
Repairs and maintenance of property and equipment	**621**	498
Stationary and office consumables	**614**	428
Legal and consulting services	**528**	449
Security	**164**	165
Taxes other than on income and other charges	**144**	131
Business trips	**81**	99
Advertising and marketing	**26**	88
Transportation	**25**	17
Other	**1,493**	1,256
Total	**20,856**	18,615

21 Provision for impairment

The following is a schedule of movements in provision for impairment for the year ended 31 December:

(in thousands of UAH)	**2012**	2011
Balance as at 1 January	**7,904**	13,325
Provision for impairment:		
Loans and advances	**7,486**	(144)
Other assets (note 20)	**1,565**	1,248
Provision for impairment charged to comprehensive income	**9,051**	1,104
Loans and advances written off	**(9,457)**	(6,525)
Other assets written off	**(45)**	-
Balance as at 31 December	**7,453**	7,904
Balance as at 31 December consist of:		
Loans and advances	**2,721**	4,692
Other assets	**4,732**	3,212

22 Income tax expense

The statutory income tax rate for the year ended 31 December 2012 was 21% (from 1 January 2011 to 31 March 2011 the tax rate was 25% and from 1 April 2011 to 31 December 2011: 23%).

The components of income tax expense for the year ended 31 December are as follows:

(in thousands of UAH)	**2012**	2011
Current tax expense	**3,294**	1,445
Deferred tax benefit	**(1,603)**	(343)
Total tax expense	**1,691**	1,102

The difference between the total expected income tax expense computed by applying the statutory income tax rate to profit before tax and the reported income tax expense is as follows:

	Year ended 31 December			
(in thousands of UAH)	**2012**	**2012**	2011	2011
Profit before tax	**6,774**	**100%**	5,019	100%
Computed expected income tax expense at statutory rate	**1,423**	**21.0%**	1,179	23.5%
Non-deductible expenses	**113**	**1.7%**	516	10.3%
Effect of decrease in income tax rate	**155**	**2.3%**	(593)	(11.8%)
Effective income tax expense	**1,691**	**25.0%**	1,102	22.0%

(a) Movements in recognised temporary differences during the year

Deferred tax assets and liabilities as at 31 December 2012 are attributable to the items detailed as follows:

(in thousands of UAH)	**1 January 2012** ***Asset (liability)***	**Recognised through profit or loss** ***Benefit (charge)***	**31 December 2012** ***Asset (liability)***
Due from banks	**(188)**	**21**	**(167)**
Loans and advances	**(988)**	**871**	**(117)**
Investment property	**-**	**75**	**75**
Property, equipment and intangible assets	**(30)**	**30**	**-**
Other assets	**453**	**443**	**896**
Subordinated debt	**(977)**	**174**	**(803)**
Other liabilities	**126**	**(11)**	**115**
Total	**(1,604)**	**1,603**	**(1)**

Deferred tax assets and liabilities as at 31 December 2011 are attributable to the items detailed as follows:

(in thousands of UAH)	1 January 2011 *Asset (liability)*	Recognised through profit or loss *Benefit (charge)*	31 December 2011 *Asset (liability)*
Due from banks	-	(188)	(188)
Loans and advances	(948)	(40)	(988)
Property, equipment and intangible assets	(1)	(29)	(30)
Other assets	271	182	453
Subordinated debt	(1,309)	332	(977)
Other liabilities	40	86	126
Total	1,947	343	(1,604)

23 Derivative financial instruments at fair value through profit or loss

Derivative financial instruments relate mainly to forward foreign currency exchange contracts and interbank swaps.

Management believes that these transactions are in substance foreign exchange swaps and accounts for these transactions in accordance with the Bank's accounting policy in respect of derivative financial instruments. Refer to note 2 for a description of critical accounting judgements made by the management regarding these financial instruments.

The table below sets out gross amounts of receivable and payable upon settlement of amounts of forward foreign currency exchange derivative contracts and of loans due from and deposits due to banks. Because these contracts are short-term, the net amount of receivable or payable upon settlement also approximates the positive (net receivable) or negative (net payable) fair value of the financial instruments:

(in thousands of UAH)	**2012** **Forward currency exchange contracts**	2011 **Interbank SWAPs**
UAH receivable	**56,760**	107,160
USD receivable	**24,156**	29,225
UAH payable	**(24,224)**	(24,077)
USD payable	**(56,364)**	(106,162)
EUR payable	**-**	(5,145)
Fair value of assets (note 10)	**423**	1,001
Fair value of liabilities (note 13)	**(95)**	-
Maximum exposure to credit risk (gross amount receivable)	**80,916**	136,385

24 Financial risk management

Management of risk is fundamental to the banking business and is an essential element of operations. The major risks faced by the Bank are those related to credit exposures, market risk (which includes risk of movements in foreign exchange rates and in interest rates) and liquidity risk.

(a) Risk management framework

The risk management policies aim to identify, analyze and manage the risks faced by the Bank, to set appropriate risk limits and controls and to continuously monitor risk levels and adherence to limits.

The risks are managed in an integrated manner and are evaluated in terms of the policy of the Bank, which is reviewed and approved by the Board on an annual basis. Risk limits are established for credit, market and liquidity risks and the level of exposure is then maintained within these limits.

(б) Credit risk

Credit risk is the risk of a financial loss to the Bank if a customer or counterparty fails to meet its contractual obligations, and arises principally from loans and advances and investment securities. The maximum credit risk exposure is generally net carrying amounts of instruments as at end of the reporting period.

Management monitors concentration of credit risk. For the analysis of concentration of credit risk in respect of loans and advances refer to note 7.

The Bank has to comply with varying NBU regulations that limit exposure to companies, groups of companies and related parties. To manage credit risk, the Bank deals with counterparties of good credit standing and when appropriate obtains collateral.

Corporate Lending

In making its lending decisions, the Bank evaluates potential borrowers on the basis of their financial condition as reflected in their financial statements, their credit history with the Bank and other financial institutions and the amount of risk involved in lending to a particular borrower, using a rating scale. A lack of credit history with the Bank or lack of credit history in general is not an absolute bar to granting a loan, provided the Bank receives sufficient information to assess the borrower's business and financial condition. However, when the Bank lends to a borrower with no credit history, it sets conditions such as a requirement to transfer a certain part of the customer's banking operations to the Bank for a certain period and charging a higher interest rate, or requiring additional collateral or guarantees from such borrower.

In evaluating the risks associated with a particular borrower, the Bank takes into account the borrower's business and factors such as the quality of its management, its main business activities, its geographic location, suppliers, customers, other indebtedness, financial stability, turnover, likely return on the loan, the liquidity of the proposed collateral and whether it is sufficient in view of the credit risk. The Bank also considers the weighted average credit risk associated with the industry in which the borrower operates.

Retail Lending

Retail loans are subject to a standardised approval procedure.

Loans are subject to maximum limits depending on the applicant's income, stability of future earnings, liquidity and quality of collateral. The Credit Committee reviews a credit application and makes the relevant decision as to whether to grant the loan.

The approval is primarily based on financial condition and solvency of the borrower.

The determination of the financial condition of the borrower includes general data, financial indicators, purpose of the loan and personal qualities.

The Bank continuously monitors the performance of individual credit exposures and regularly reassesses the creditworthiness of its customers. The review is based on an analysis of overdue payments and other information obtained by the Bank. In light of this information the borrower's internal credit rating may be revised.

The Bank's maximum exposure to on balance sheet credit risk is generally reflected in the carrying amounts of financial assets on the statement of financial position. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant.

The maximum exposure to off-balance sheet credit risk at 31 December is as follows:

(in thousands of UAH)	**2012**	2011
Irrevocable credit lines (note 16(c))	**34,054**	25,199
Gross amount receivable on derivatives (note 23)	**80,916**	136 385
Total off-balance sheet exposure	**112,888**	161,584

(c) Market risk

Market risk is the risk that changes in the market prices, such as interest rate, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's/issuer's credit standing) will affect income or the value of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

(d) Foreign currency risk

Currency risk is the risk that movements in foreign exchange rates will affect income or the value of its portfolios of financial instruments.

The Bank has assets and liabilities denominated in several foreign currencies. Foreign currency risk arises when the actual or forecasted assets in a foreign currency are either greater or less than the liabilities in that currency. Management establishes limits and constantly monitors foreign currency positions in accordance with the regulations of the NBU and internally developed methodology. The policy with regard to open foreign currency position is restricted to certain thresholds under regulatory provisions of the NBU, however, the calculation of open currency position under regulatory provisions differs from the below table.

Foreign currency positions as at 31 December 2012 are as follows:

(in thousands of UAH)	**USD**	**EUR**	**Other**
Assets			
Cash and cash equivalents	**120,293**	**4,853**	**130**
Due from banks	**1,481**	**-**	**-**
Loans and advances	**87,709**	**2**	**-**
Total assets	**209,483**	**4,855**	**130**
Liabilities			
Due to banks	**(99,546)**	**-**	**-**
Due to customers	**(27,717)**	**(4,346)**	**-**
Subordinated debt	**(39,310)**	**-**	**-**
Total liabilities	**(166,573)**	**(4,346)**	**-**
Net balance sheet position	**42,910**	**509**	**130**
Derivatives: forward foreign currency exchange contracts (note 23)	**(32,208)**	**-**	**-**
Net long position	**10,702**	**509**	**130**

Foreign currency positions as at 31 December 2011 are as follows (reclassified):

(in thousands of UAH)	**USD**	**EUR**	**Other**
Assets			
Cash and cash equivalents	117,757	4,960	23
Due from banks	3,067	-	-
Loans and advances	26,866	689	-
Total assets	147,690	5,649	23
Liabilities			
Due to customers	(23,930)	(640)	-
Subordinated debt	(38,418)	-	-
Total liabilities	(62,348)	(640)	-
Net balance sheet position	85,342	5,009	23
Derivatives: forward exchange contracts (note 23)	(76,937)	(5,145)	-
Net long (short) position	8,405	(136)	23

Other currencies are mainly represented by Russian roubles.

As at 31 December, 10 percent weakening of the Ukrainian hryvnia against the following currencies would have increased (decreased) net profit for the year ended 31 December and total equity as at 31 December by the amount shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

(in thousands of UAH)	**2012**	2011
USD	**845**	647
EUR	**40**	(10)
Other	**10**	2

As at 31 December a 10 percent strengthening of the Ukrainian hryvnia against the above currencies would have had an equal but opposite effect on the net profit and total equity to the amount shown above, on the basis that all other variables remain constant.

(e) Interest rate risk

Interest rate risk is the risk that movements in interest rates will affect income or the value of financial instruments.

Interest rate risk is measured by the extent to which changes in market interest rates impact on margins and net interest income. To the extent the term structure of interest bearing assets differs from that of liabilities, net interest income will increase or decrease as a result of movements in interest rates. To manage interest rate risk, management continually assesses market interest rates for different types of interest bearing assets and liabilities.

Interest margins on assets and liabilities having different maturities may increase as a result of changes in market interest rates. In practice, management resets interest rates on both assets and liabilities based on current market conditions and mutual agreement, which is documented in an addendum to the original agreement, which sets forth the new interest rate.

The average effective interest rates of major interest bearing assets and liabilities as at 31 December are as follows:

	2012			2011		
	UAH	**USD**	**EUR**	UAH	USD	EUR
Cash and cash equivalents	**2.6%**	**1.4%**	-	1.0%	4.3%	-
Due from banks	**-**	**0.3%**	-	-	2.8%	-
Loans and advances	**20.8%**	**9.7%**	-	18.8%	9.1%	9.0%
Due to banks	**17.3%**	**5.1%**	-	17.0%	-	-
Due to customers	**15.4%**	**6.3%**	**4.6%**	13.4%	7.3%	3.3%
Subordinated debt	**-**	**9.2%**	-	-	9.2%	-

The Bank does not have any floating rate instruments. The Bank does not account for any fixed rate financial assets and liabilities at fair value through profit and loss. Therefore, a change in interest rate at the reporting date would not affect profit or loss.

(f) Liquidity risk

Liquidity risk arises in the general funding of activities and in the management of positions. It includes both the risk of being unable to fund assets at appropriate maturities and rates and the risk of being unable to liquidate an asset at a reasonable price and in an appropriate time frame.

Management's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation.

The Bank seeks to actively support a diversified and stable funding base comprising debt securities in issue, long-term and short-term loans from other banks, core corporate and retail customer deposits, accompanied by diversified portfolios of highly liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

To maintain its short-term liquidity, the Bank takes short-term deposits, enters into repurchase transactions and buys and sells foreign currency, securities and precious metals. To maintain its long-term liquidity, the Bank takes medium and long-term deposits, sells assets such as securities, regulates its interest rate policy and strives to reduce expenses.

The contractual remaining maturities of financial assets and liabilities, excluding interest payments, as at 31 December 2012 are as follows:

Description	**Maturity periods**				
(in thousands of UAH)	Within one month	From one to three months	From three months to one year	From one to five years	**Total**
Cash and cash equivalents	**143,335**	**-**	**-**	**-**	**143,335**
Mandatory reserves with the National Bank of Ukraine	**5,644**	**-**	**-**	**-**	**5,644**
Due from banks	**-**	**480**	**1,001**	**-**	**1,481**
Loans and advances	**8,299**	**22,007**	**39,152**	**112,472**	**181,930**
Total assets	**157,278**	**22,487**	**40,153**	**112,472**	**332,390**
Liabilities					
Due to banks	**107,562**	**-**	**-**	**-**	**107,562**
Due to customers	**56,190**	**6,552**	**21,493**	**540**	**84,775**
Subordinated debt	**-**	**-**	**211**	**39,099**	**39,310**
Total liabilities	**163,752**	**6,552**	**21,704**	**39,639**	**231,647**
Liquidity surplus (gap) for the period	**(6,474)**	**15,935**	**18,449**	**72,833**	**100,743**
Cumulative liquidity surplus (gap)	**(6,474)**	**9,461**	**27,910**	**100,743**	

The contractual remaining maturities of financial assets and liabilities, excluding interest payments, as at 31 December 2011 are as follows (reclassified):

Description	**Maturity periods**					
(in thousands of UAH)	Within one month	From one to three months	From three months to one year	From one to five years	More than five years	**Total**
Cash and cash equivalents	143,310	-	-	-	-	143,310
Mandatory reserves with the National Bank of Ukraine	2,471	-	-	-	-	2,471
Due from banks	2,477	-	590	-	-	3,067
Loans and advances	6,847	1,663	10,032	64,482	-	83,024
Total assets	155,105	1,663	10,622	64,482	-	231,872
Liabilities						
Due to banks	23,933	-	-	-	-	23,933
Due to customers	63,281	7,753	1,141	2,889	-	75,064
Subordinated debt	-	-	189	-	38,229	38,418
Total liabilities	87,214	7,753	1,330	2,889	38,229	137,415
Liquidity surplus (gap) for the period	67,891	(6,090)	9,292	61,593	(38,229)	94,457
Cumulative liquidity surplus (gap)	67,891	61,801	71,093	132,686	94,457	-

As at 31 December 2012, under Ukrainian law individual depositors can withdraw their funds prior to the stated maturity date. Management believes that a majority of retail deposits will not be withdrawn prior to the stated maturity date, therefore, the contractual remaining maturities of financial assets and liabilities included in the tables above are presented in accordance with their contractual terms. As at 31 December 2012, the amount of retail deposits included in the maturity period "from one to three months" is UAH 5,647 thousand. (31 December 2011: UAH 5,551 thousand), in the maturity period "from three months to one year" – UAH 18,279 thousand. (31 December 2011: UAH 1,141 thousand).

The contractual maturity analysis of undiscounted cash flows (including interest payments) for financial liabilities as at 31 December 2012 is as follows:

(in thousands of UAH)	**Within one month**	**From one to three months**	**From three months to one year**	**From one to five years**	**Total**
Due to banks	**107,649**	-	-	-	**107,649**
Due to clients	**56,195**	**6,697**	**22,845**	**592**	**86,329**
Subordinated debt	-	-	**2,441**	**56,171**	**58,612**
Notional amount of derivative financial instruments	**80,588**	-	-	-	**80,588**
Credit related commitments	**31,972**	-	-	-	**31,972**
	276,404	**6,697**	**25,286**	**56,763**	**365,150**

The contractual maturity analysis of undiscounted cash flows (including interest payments) for financial liabilities as at 31 December 2011 is as follows (reclassified):

(in thousands of UAH)	**Within one month**	**From one to three months**	**From three months to one year**	**From one to five years**	**More than five years**	**Total**
Due to banks	24,147	-	-	-	-	24,147
Due to clients	63,282	7,879	1,221	4,045	-	76,427
Subordinated debt			2,451	13,676	41,227	57, 354
Notional amount of derivative financial instruments	135,384	-	-	-	-	135,384
Credit related commitments	25,199	-	-	-	-	25,199
Total	248,012	7,879	3,672	17,721	41,227	318,511

(g) Capital management

(i) Regulatory capital

The NBU sets and monitors capital requirements for the Bank as a whole.

Under the current capital requirements set by the NBU, banks have to maintain a ratio of capital to risk weighted assets (regulatory capital adequacy ratio) above the prescribed minimum level.

If the Bank does not maintain or sufficiently increase its capital base in line with the increase in its risk weighted assets, it may be non-compliant with the NBU capital adequacy regulations, which could lead to the imposition of sanctions by the NBU. This could have a material adverse effect on results of operations and financial condition. As at 31 December 2012, the minimum level required by the NBU is 10.0% (31 December 2011: 10.0%).

The Bank's capital adequacy ratio as at 31 December 2012 is 46.2% (31 December 2011: 70.5%). The Bank was in compliance with the regulatory capital ratios set by the NBU as at 31 December 2012 and 2011.

The structure of the regulatory capital as at 31 December 2012 and 2011 is as follows:

(in thousands of UAH)	**2012**	2011
Regulatory capital	**96,319**	92,764
Share capital	**88,045**	88,045
Reserves	**8,289**	4,761
Reduction of regulatory capital		
Intangible assets	**(16)**	(42)
Additional capital contributions	**54,590**	49,197
Provision for impairment for loans and advances classified as 'standard'	**455**	12
Estimated profit for the current year	**10,972**	5,241
Subordinated debt eligible to be accounted in capital	**43,162**	43,944
Deductions	**-**	-
Total regulatory capital	**150,909**	141,961

The following table shows the composition of the capital position calculated in accordance with the requirements of the Basle Accord I, as at 31 December:

(in thousands of UAH)	**2012**	2011
Tier 1 capital		
Share capital	**88,045**	88,045
Retained earnings, share premium and additional paid-in capital	**20,761**	15,678
Total Tier 1 capital	**108,806**	103,723
Subordinated debt	**38,084**	38,418
Total capital	**146,890**	142,141

25 Balances with related parties

The Bank grants loans and advances to customers, attracts deposits and performs other transactions with related parties in the ordinary course of business. Parties are considered to be related if one party has the ability to control the other party or exercises significant influence over the party when making financial and operational decisions. Terms of transactions with related parties are established at the time of the transaction. Related parties comprise entities which are under common control with the Bank, members of the Supervisory Board, key management personnel and their close family members, companies that are controlled or significantly influenced by shareholders, by key management personnel or by their close family members.

As at 31 December 2012 and 2011, the ultimate controlling party of the Bank is JSC "ALTINBAŞ HOLDING ANONIM ŞIRKETI", which is ultimately controlled by members of Altinbaş family.

Balances and transactions with the related parties as at and for the years ended 31 December are as follows:

(in thousands of UAH)	**2012**	2011
Balances and transactions with the Parent company		
Statement of financial position:		
Subordinated debt	**39,310**	38,418
Statement of comprehensive income:		
Interest expenses	**3,387**	3,466
Balances and transactions with the key management personnel		
Statement of financial position:		
Loans and advances to customers	**9**	21
Due from customers	**1,284**	317
Statement of comprehensive income:		
Interest income	**-**	5
Interest expenses	**7**	1
Salaries and related charges	**1,165**	1,165

The foreign currency positions and interest rates of transactions with related parties as at 31 December 2012 are as follows:

(in thousands of UAH)	**UAH**	**Interest rate**	**USD**	**Interest rate**	**EUR**	**Interest rate**
Balances with the Parent company and other entities under common control						
Subordinated debt	**-**	**-**	**39,310**	**9.2%**	**-**	**-**
Balances with key management personnel						
Loans and advances to customers	**9**	**36.0%**	**-**	**-**	**-**	**-**
Deposits from customers	**42**	**-**	**1,242**	**6.54%**	**-**	**-**

The foreign currency positions and interest rates of transactions with related parties as at 31 December 2011 are as follows:

(in thousands of UAH)	**UAH**	**Interest rate**	**USD**	**Interest rate**	**EUR**	**Interest rate**
Balances with the Parent company and other entities under common control						
Subordinated debt	-	-	38,418	9.2%	-	-
Balances with key management personnel						
Loans and advances to customers	21	24.0%	-	-	-	-
Due to customers	24	1.9%	269	6.7%	24	0.3%

The contractual remaining maturities of balances with related parties as at 31 December 2012 are as follows:

(in thousands of UAH)	Within one month	From one to three months	From three months to one year	From one to five years	More than five years	**Total**
Balances with the Parent company and other entities under common control						
Subordinated debt	**-**	**-**	**211**	**39,099**	**-**	**39,310**
Balances with key management personnel						
Loans and advances to customers	**9**	**-**	**-**	**-**	**-**	**9**
Due to customers	**137**	**50**	**1,097**	**-**	**-**	**1,284**

The contractual remaining maturities of balances with related parties as at 31 December 2011 are as follows:

(in thousands of UAH)	Within one month	From one to three months	From three months to one year	From one to five years	More than five years	**Total**
Balances with Parent bank						
Subordinated debt	-	-	189	-	38,229	38,418
Balances with key management personnel						
Loans and advances to customers	-	-	21	-	-	21
Due to customers	77	-	240	-	-	317

Key management personnel are those individuals that have the authority and responsibility for planning, directing and controlling the activities of the Bank directly or indirectly, and includes members of the Board of Management.

26 Estimation of fair value

The estimated fair values of financial assets and liabilities are determined using discounted cash flow and other appropriate valuation methodologies and may not be indicative of the fair value of those instruments at the date these financial statements are distributed. These estimates do not reflect any premium or discount that could result from offering for sale at one time the Bank's entire holdings of a particular financial instrument. Fair value estimates are based on judgments regarding future expected cash flows, current economic conditions, risk characteristics of various financial instruments and other factors.

Fair value estimates are based on existing financial instruments without attempting to estimate the value of anticipated future business and the value of assets and liabilities not considered financial instruments. In addition, tax ramifications related to the realization of the unrealized gains and losses can have an effect on fair value estimates and have not been considered.

The fair values of loans and advances and due to customers as at 31 December 2012 and 2011 are assumed to approximate their carrying value due to their short term nature and/or the market rates at period end.

The fair value of all other financial assets and liabilities are assumed to approximate their carrying value due to their short term nature and/or the market rates at period end.

IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources, unobservable inputs reflect the Bank's market assumptions. These two types of inputs have resulted in the following fair value hierarchy:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges and exchanges traded derivatives like futures.

Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

This hierarchy requires the use of observable market data when available. The Bank considers relevant and observable market prices in its valuations where possible.

The estimates of fair value are intended to approximate the amount for which a financial instrument can be exchanged between knowledgeable, willing parties in an arm's length transaction. However given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realizable in an immediate sale of the assets or settlement of liabilities.

Assets and liabilities measured at fair value by hierarchy levels are as follows:

(in thousands of UAH)	**Level 1**	**Level 2**	**Level 3**	**Total**
31 December 2012				
Other assets (Derivative financial instruments)	-	**423**	-	**423**
Other liabilities (Derivative financial instruments)	-	**(95)**	-	**(95)**

(in thousands of UAH)	**Level 1**	**Level 2**	**Level 3**	**Total**
31 December 2011				
Other assets (Derivative financial instruments)	-	1,001	-	1,001

27 Other information in accordance with the requirements of the Ukrainian legislation

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

- The Bank's assets and liabilities are presented in the statement of financial position as at 31 December 2012 in these financial statements
- The Bank's elements of equity are presented in the statement of changes in equity for the year ended 31 December 2012 in these financial statements; information about the Bank's capital is presented in Note 15
- As at 31 December 2012, the Bank complies with the requirements of Part Three, Article 155 of the Civil Code of Ukraine in respect of net asset value (Note 15)
- Share capital of the Bank is fully paid
- The Bank did not manage any non-state pension funds
- The Bank did not own debt securities issued
- The Bank did not have mortgage securities issued

During 2012 there were no events as listed below that would significantly impact the issuer's financial position and operations or result in significant change in its securities price, which are specified in Section 1, Article 41 of the Law of Ukraine "On Securities and Stock Markets", namely:

- No decisions on placement of securities in the amount above 25% of the share capital were approved
- No decisions on purchase of own shares were approved
- No events of listing/delisting of securities on any stock exchange took place
- No loans or borrowings were received in the amount, which exceeds 25% of the share capital of the Bank
- No significant changes in the structure of Bank's management
- No changes in the shareholders owning 10% or more of the voting shares of the Bank took place
- No decisions of the Bank to establish or terminate its branches or representative offices were approved
- No decisions were approved to reduce the Bank's share capital
- No bankruptcy proceedings were filed against the Bank or decisions on its corporate restructuring were taken
- No decisions of the Bank's supreme governing body or court were taken in relation to filing for bankruptcy or suspension of bankruptcy proceedings

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

The Bank's supreme governing body is the General Meeting of Shareholders which appoints the Supervisory Board that is responsible for defining the Bank's strategy, appointment of the Management Board, and approval of the Bank's structure and business plans.

The Management Board (the Board) is an executive body responsible for governing day-to-day banking operations and reporting to the Supervisory Board. The Board is responsible for establishing controls and monitoring of risks. The Bank also established management committees primarily responsible for risk management (note 24), credit approvals, tariffs and assets and liabilities management.

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

JSC KPMG Audit
11 Mykhailivska Str.,
01001 Kyiv
Ukraine

Telephone +380 (44) 490 5507
Fax +380 (44) 490 5508
E-mail info@kpmg.ua

Independent Auditors' Report

To the Board of Directors
Public Joint-Stock Company "West Finance and Credit Bank"

Report on the financial statements

We have audited the accompanying financial statements of Public Joint-Stock Company "West Finance and Credit Bank" (the Bank) (EDRPOU Code 34575675, located at 17 Kovpaka St., Kyiv, registered in Kyiv on 04 October 2006), which comprise the statement of financial position as at 31 December 2012, and the statements of comprehensive income, cash flows and changes in equity, for the year then ended, and a summary of significant accounting policies and other explanatory notes, which includes general information on the Bank's activities.

Management's Responsibility

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, requirements of the National Bank of Ukraine on financial reporting by Ukrainian banks, Ukrainian legislation, the effective regulations on submission of annual reports by issuers and professional participants in the stock market to the National Commission on Securities and Stock Market and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing adopted as Ukraine's National Standards on Auditing pursuant to Resolution of the Audit Chamber of Ukraine No. 229/7 dated 31 March 2011 and in accordance with the requirements adopted pursuant to No. 1528 dated 19 December 2006 and Resolution No. 1360 dated 29 September 2011 of the State Commission on Securities and Stock Market. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

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

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

Opinion

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

Report on Other Legal and Regulatory Requirements

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

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. In conformity with Resolutions of the National Commission on Securities and Stock Market No. 1528 dated 19 December 2006 and No. 1360 dated 29 September 2011, our audit procedures addressed the disclosure of information in the financial statements as is required by International Financial Reporting Standards, requirements of the National Bank of Ukraine on financial reporting by Ukrainian banks, Ukrainian legislation and the effective regulations on submission of annual reports by issuers and professional participants in the stock market to the National Commission on Securities and Stock Market. We conducted our audit in accordance with the engagement contract No. 221-SA/2012 dated 31 October 2012. Our audit was conducted between 31 October 2012 and 10 April 2013.

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

In addition, based on Resolution of the State Commission on Securities and Stock Market No. 1528 dated 19 December 2006 and No. 1360 dated 29 September 2011, we inform you of the following:

- As at 31 December 2012, the Bank complies with the requirements of Part Three, Article 155 of the Civil Code of Ukraine in respect of net asset value.

In addition, based on Resolution of the State Commission on Securities and Stock Market No. 1360 dated 29 September 2011, we inform you of the following:

- There are no significant discrepancies between the financial statements and other information prepared by the Bank and submitted to the National Commission on Securities and Stock Market together with the financial statements;

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

JSC KPMG Audit

JSC "KPMG Audit" Certificate No. 2397 of 26 January 2001 issued by the Audit Chamber of Ukraine EDRPOU Code: 31032100 NBU Banking Auditor's Registration Certificate No. 0000012 of 17 September 2012, Resolution No. 39 10 April 2013	Ania Parkhomenko Deputy Director Certified Auditor ACU Certificate: №0085 dated 29 October 2009 NBU Certificate: №0000044 dated 20 September 2007

«КПМГ Аудит»
Ідентифікаційний код 31032100