

**Public Joint-Stock Company
“ING Bank Ukraine”**

IFRS Financial statements

*Year ended 31 December 2012
together with independent auditors' report*

Translation from Ukrainian original

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Independent auditors' report

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

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

Independent Auditors' Report (Audit Opinion)

To the Shareholder and Management Board of ING Bank Ukraine

Report on the Financial Statements

We have audited the accompanying financial statements of ING Bank Ukraine («the Bank») (code ERDPU - 21684818, actual address -30-A, Spaska St., Kyiv, 04070, Ukraine; date of state registration -15 December 1997), which comprise the statement of financial position as at 31 December 2012, income statement, statement of comprehensive income, statement of changes in equity, and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

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

Report on Other Legal and Regulatory Requirements

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

- 1) Section 3 of Article 155 of the Civil Code of Ukraine requires a joint stock company to announce denomination of the share capital and to register the respective changes in accordance with the effective legislation in case its net assets as at the end of the second annual reporting period (from the inception) and all subsequent reporting periods are lower than its statutory capital. A joint stock company should be liquidated in case its net assets are lower than the minimum share capital required by effective legislation. The Bank's net assets as at 31 December 2012 are UAH 1,989,264 thousand, which is greater than its registered statutory capital as at the respective date.
- 2) We have read the other information disclosed by the Bank in its annual report of the issuer of securities, which includes, but is not limited to the accompanying financial statements. We have not noted any material inconsistencies between the accompanying financial statements and the unaudited annual report of the issuer of securities.
- 3) The Law of Ukraine "On Joint Stock Companies" ("the Law") requires certain approvals to be obtained prior to executing significant transactions by a joint stock company with a market value of such assets (works, services) more than 10% of an entity's total assets as at the end of the latest annual reporting period. Our audit of the financial statements involved performing procedures to obtain audit evidence on a test basis about the amounts and disclosures in the financial statements, but was not designed to express an opinion on the compliance of all significant transactions (as defined by the Law) with the requirements of the Law. Accordingly, we do not express such an opinion.
- 4) The Law requires joint stock companies developing a code (principles) of corporate governance, and requires establishing a supervisory board and an audit committee. The Bank has established Supervisory Board and Audit Committee by Shareholder's decision dated 19 February 1997,

We could not assess the effectiveness of the Bank's corporate governance as to compliance with the Law, because no clear criteria for standards of corporate governance are established by the Law or other regulations. Accordingly, we do not express an opinion as to the effectiveness of the Bank's corporate governance.
- 5) In the course of our audit of the financial statements, we have assessed the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we have considered internal control relevant to the Bank's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control, including controls designed to prevent and detect fraud. Accordingly, we do not express such an opinion.

Other Matters - Contractual arrangements and timing of the audit

We have been engaged by the Bank and concluded an agreement No. GFS -2012-00257 dated 31 October 2012. Our audit of the financial statements of the Bank has been performed during the period from 1 December 2012 to 9 April 2013.


Alexander Svistich
General Director

Yulia Studynska
Partner

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

Certificate on inclusion in the National Bank
of Ukraine register of banking auditors
No. 0000111

9 April 2013
Kyiv, Ukraine

Statement of financial position**As at 31 December 2012***(thousands of Ukrainian hryvnia)*

| | Notes | 2012 | 2011 (reclassified) | 2010 (reclassified) |
|--|--------------|-------------------|--------------------------------|--------------------------------|
| Assets | | | | |
| Cash and cash equivalents | 5 | 1,553,975 | 1,222,845 | 1,112,218 |
| Trading securities | 6 | 192,957 | 520,298 | 692,112 |
| Amounts due from credit institutions | 7 | 984,220 | 1,461,181 | 1,168,885 |
| Derivative financial assets | 13 | 10,423 | 3,858 | 2,836 |
| Loans to customers | 8 | 8,521,132 | 7,685,177 | 6,662,997 |
| Investment securities available-for-sale | 9 | 3,391 | 5,353 | 10,356 |
| Property and equipment | | 8,782 | 10,405 | 7,748 |
| Intangible assets | | 1,608 | 1,406 | 1,360 |
| Current income tax assets | | 1 | 6,070 | 25,636 |
| Deferred income tax assets | 10 | 25,311 | – | 10,736 |
| Other assets | 12 | 5,771 | 12,435 | 5,869 |
| Total assets | | 11,307,571 | 10,929,028 | 9,700,753 |
| Liabilities | | | | |
| Amounts due to credit institutions | 14 | 4,773,600 | 6,662,490 | 5,482,554 |
| Amounts due to customers | 15 | 4,420,734 | 2,269,148 | 2,523,942 |
| Derivative financial liabilities | 13 | 302 | 15,083 | 6,316 |
| Current income tax liabilities | | 43,836 | – | 24,662 |
| Deferred income tax liabilities | 10 | – | 35,325 | – |
| Subordinated debt | | – | 43,162 | 43,003 |
| Other liabilities | 12 | 79,835 | 59,902 | 61,922 |
| Total liabilities | | 9,318,307 | 9,085,110 | 8,142,399 |
| Equity | | | | |
| Share capital | 16 | 751,579 | 751,579 | 751,579 |
| Additional paid-in capital | | 13,359 | 13,359 | 13,359 |
| Retained earnings | | 1,224,326 | 1,078,980 | 793,416 |
| Total equity | | 1,989,264 | 1,843,918 | 1,558,354 |
| Total equity and liabilities | | 11,307,571 | 10,929,028 | 9,700,753 |

Signed and authorised for release on behalf of the Management Board of the Bank

Acting Chairman of the Board



Sergey Sokolov

Chief Accountant

Oksana Chizhevskaya

9 April 2013

Income statement**For the year ended 31 December 2012***(thousands of Ukrainian hryvnia)*

| | Notes | 2012 | 2011 (reclassified) |
|---|--------------|------------------------------|--------------------------------|
| Interest income | | | |
| Loans to customers | | 768,163 | 606,044 |
| Amounts due from credit institutions | | 117,165 | 44,403 |
| Investment securities available-for-sale | | 250 | 796 |
| Amounts due from the National Bank of Ukraine | | 3,607 | 3,737 |
| | | <u>889,185</u> | <u>654,980</u> |
| Trading securities | | 28,228 | 70,130 |
| | | <u>917,413</u> | <u>725,110</u> |
| Interest expense | | | |
| Amounts due to credit institutions | | (54,873) | (51,894) |
| Amounts due to customers | | (94,150) | (42,980) |
| Amounts due to the National Bank of Ukraine | | – | (1,188) |
| Subordinated debt | | (187) | (140) |
| | | <u>(149,210)</u> | <u>(96,202)</u> |
| Net interest income | | <u>768,203</u> | <u>628,908</u> |
| Allowance for loan impairment | 7, 8 | (141,036) | (30,604) |
| Net interest income after allowance for loan impairment | | <u>627,167</u> | <u>598,304</u> |
| Fee and commission income | 18 | 41,460 | 59,164 |
| Fee and commission expense | 18 | (273,149) | (203,147) |
| Gains less losses from trading securities | | 22,611 | 9,196 |
| Gains less losses from investment securities available-for-sale | | (23) | 1,327 |
| Gains less losses from foreign currencies | 19 | 140,553 | 72,962 |
| Other income | 20 | 7,043 | 6,816 |
| Non-interest income | | <u>(61,505)</u> | <u>(53,682)</u> |
| Personnel expenses | 21 | (94,455) | (96,893) |
| Depreciation and amortisation | | (3,525) | (4,229) |
| Other administrative and operating expenses | 21 | (69,856) | (69,125) |
| Other impairment allowances and provisions | 11 | (341) | 1,390 |
| Non-interest expense | | <u>(168,177)</u> | <u>(168,857)</u> |
| Profit before income tax expense | | <u>397,485</u> | <u>375,765</u> |
| Income tax expense | 10 | (88,167) | (90,201) |
| Profit for the year | | <u><u>309,318</u></u> | <u><u>285,564</u></u> |

Acting Chairman of the Board



Sergey Sokolov

Chief Accountant

Oksana Chizhevskaya

9 April 2013

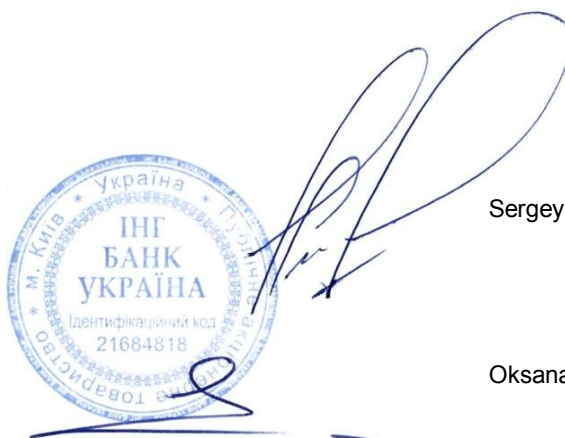
Statement of comprehensive income**For the year ended 31 December 2012***(thousands of Ukrainian hryvnia)*

| | <u>2012</u> | <u>2011</u> |
|--|-----------------------|-----------------------|
| Profit for the year | 309,318 | 285,564 |
| Other comprehensive income | | |
| Unrealised gains/(losses) on securities available-for-sale | (23) | 1,327 |
| Realised gains on securities available-for-sale reclassified to the income statement | 23 | (1,327) |
| Income tax relating to other comprehensive income | - | - |
| Other comprehensive income | <u>-</u> | <u>-</u> |
| Total comprehensive income | <u>309,318</u> | <u>285,564</u> |

Acting Chairman of the Board

Chief Accountant

9 April 2013



The stamp is circular and contains the following text: "Україна" at the top, "ІНГ БАНК УКРАЇНА" in the center, and "Ідентифікаційний код 21684818" at the bottom. The signature is written in blue ink over the stamp.

Sergey Sokolov

Oksana Chizhevskaya

Statement of changes in equity**For the year ended 31 December 2012***(thousands of Ukrainian hryvnia)*

| | <i>Share capital</i> | <i>Additional paid-in capital</i> | <i>Retained earnings</i> | <i>Total</i> |
|---|--------------------------|---------------------------------------|------------------------------|------------------|
| 1 January 2011 | 751,579 | 13,359 | 793,416 | 1,558,354 |
| Total comprehensive income for the year | | | 285,564 | 285,564 |
| 31 December 2011 | 751,579 | 13,359 | 1,078,980 | 1,843,918 |
| Total comprehensive income for the year | - | - | 309,318 | 309,318 |
| Dividends to the Shareholder of the Bank (Note 16) | | | (163,972) | (163,972) |
| 31 December 2012 | 751,579 | 13,359 | 1,224,326 | 1,989,264 |

Acting Chairman of the Board



Sergey Sokolov

Chief Accountant

Oksana Chizhevskaya

9 April 2013

Statement of cash flows**For the year ended 31 December 2012***(thousands of Ukrainian hryvnia)*

| | Notes | 2012 | 2011 (reclassified) |
|--|--------------|------------------|--------------------------------|
| Cash flows from operating activities | | | |
| Interest received | | 880,339 | 708,033 |
| Interest paid | | (132,240) | (91,345) |
| Fees and commissions received | | 41,466 | 58,583 |
| Fees and commissions paid | | (273,155) | (198,220) |
| Realised gains less losses from dealing in foreign currencies | | 142,131 | 83,060 |
| Other income received | | 7,043 | 6,816 |
| Personnel expenses paid | | (98,548) | (92,788) |
| Other operating expenses paid | | (69,860) | (73,701) |
| Cash flows from operating activities before changes in operating assets and liabilities | | 497,176 | 400,438 |
| <i>Net (increase)/decrease in operating assets</i> | | | |
| Trading securities and securities pledged under repurchase agreements | | 335,620 | 216,019 |
| Amounts due from credit institutions | | 484,083 | (273,793) |
| Loans to customers | | (923,997) | (1,036,527) |
| Other assets | | (1,943) | (4,665) |
| <i>Net increase/(decrease) in operating liabilities</i> | | | |
| Amounts due to credit institutions | | (1,893,462) | 1,131,014 |
| Amounts due to customers | | 2,130,321 | (239,304) |
| Other liabilities | | 3,425 | (6,635) |
| Net cash flows from operating activities before income tax | | 631,223 | 186,547 |
| Income tax paid | | (98,898) | (49,236) |
| Net cash from operating activities | | 532,325 | 137,311 |
| Cash flows from investing activities | | | |
| Proceeds from sale and redemption of available-for-sale securities | | 1,883 | 6,204 |
| Purchase of property, equipment and intangible assets | | (4,629) | (7,251) |
| Proceeds from sale of property and equipment | | 2,527 | 1,007 |
| Net cash used in investing activities | | (219) | (40) |
| Cash flows from financing activities | | | |
| Repayment of subordinated debt | | (43,162) | - |
| Dividends paid | | (163,972) | - |
| Net cash used in financing activities | | (207,134) | - |
| Effect of exchange rates changes on cash and cash equivalents | | 6,158 | (26,644) |
| Net increase in cash and cash equivalents | | 331,130 | 110,627 |
| Cash and cash equivalents, 1 January | | 1,222,845 | 1,112,218 |
| Cash and cash equivalents, 31 December | | 1,553,975 | 1,222,845 |

Acting Chairman of the Board



Sergey Sokolov

Chief Accountant

Oksana Chizhevskaya

9 April 2013

The accompanying notes on pages 6 to 37 are an integral part of these financial statements.

(thousands of Ukrainian hryvnia unless otherwise indicated)

1. Principal activities

Public Joint-Stock Company "ING Bank Ukraine" (hereinafter – the Bank) was created as a closed joint-stock company according to the Ukrainian legislation and was registered by the National Bank of Ukraine (the "NBU") on 15 December 1997.

The Bank specialises in providing banking services to leading Ukrainian and foreign companies and banks. These services include lending, trade finance, payments and cash, custody and other services. The Bank also opens accounts and offers fixed-term liability products to legal entities. The Bank operates under a general banking licence issued by the NBU. The Bank also has trading securities, depositary and custodian licences issued by the State Commission on Securities and Stock Market and is a member of the state deposit insurance scheme in Ukraine.

The activities are conducted principally in Ukraine, although the Bank also conducts transactions on international markets.

The Bank is a wholly owned subsidiary of ING Bank N.V., Netherlands. The head office is located at 30-A Spasska St., Kyiv, Ukraine.

2. Basis of preparation

Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

IFRS became a primary set of accounting standards for Ukrainian public joint stock companies, banks and insurance companies starting from 1 January 2012 in accordance with the requirements of the Law of Ukraine "On accounting and financial reporting in Ukraine". Accordingly, the Bank ceased to prepare financial statements in accordance with "Regulations on the Organisation of Reporting and Publication for Ukrainian Banking Institutions" issued by the National Bank of Ukraine since 1 January 2012.

Basis of measurement

The financial statements are prepared under the historical cost convention except as disclosed in the accounting policies below. For example, trading, available-for-sale securities and derivatives are measured at fair value.

Functional and presentation currency

The national currency of Ukraine is the Ukrainian hryvnia ("UAH"). These financial statements are presented in thousands of Ukrainian hryvnia ("UAH thousands"), which is the Bank's functional and presentation currency, unless otherwise indicated.

Inflation accounting

The Ukrainian economy was considered hyperinflationary until 31 December 2000. As such, the Bank has applied IAS 29 *Financial Accounting in Hyperinflationary Economies*. The effect of applying IAS 29 is that non-monetary items, including components of equity, were restated to the measuring units current at 31 December 2000 by applying the Consumer Price Indexes to the historical cost, and that these restated values were used as a basis for accounting in subsequent accounting periods.

Reclassifications

In 2012, the Bank reclassified certain positions within the components in the statement of financial position as at 31 December 2011, income statement and statement of cash flows as at 31 December 2011 and for the year then ended 2011 to conform to the improved presentation of the 2012 IFRS financial statements.

The effect of these reclassifications is provided in the table below.

(thousands of Ukrainian hryvnia unless otherwise indicated)

The effect of the reclassification of the corresponding figures is as follows:

| Financial statements line item | As previously reported | Reclassification | As reclassified |
|--|------------------------|------------------|-----------------|
| Statement of financial position as at 31 December 2010 | | | |
| Derivative financial assets | – | 2,836 | 2,836 |
| Other assets | 8,705 | (2,836) | 5,869 |
| Trading securities | 933,859 | (241,747) | 692,112 |
| Loans to customers | 6,421,250 | 241,747 | 6,662,997 |
| Cash and cash equivalents | 804,739 | 307,479 | 1,112,218 |
| Amounts due from credit institutions | 1,476,364 | (307,479) | 1,168,885 |
| Statement of financial position as at 31 December 2011 | | | |
| Derivative financial assets | – | 3,858 | 3,858 |
| Other assets | 16,293 | (3,858) | 12,435 |
| Trading securities | 747,383 | (227,085) | 520,298 |
| Amounts due from credit institutions | 1,524,926 | (63,745) | 1,461,181 |
| Cash and cash equivalents | 932,015 | 290,830 | 1,222,845 |
| Income statement for the year ended 31 December 2011 | | | |
| Interest income | | | |
| Amounts due from credit institutions | 14,020 | 30,383 | 44,403 |
| Trading securities | 95,631 | (25,501) | 70,130 |
| Gains less losses from trading securities | 14,078 | (4,882) | 9,196 |
| Statement of cash flows for the year ended 31 December 2011 | | | |
| <i>Net (increase)/decrease in operating assets</i> | | | |
| Trading securities | 230,681 | (14,662) | 216,019 |
| Loans to customers | (1,278,274) | 241,747 | (1,036,527) |
| Amounts due from credit institutions | (30,059) | (243,734) | (273,793) |
| Net increase in cash and cash equivalents | 127,276 | (16,649) | 110,627 |

3. Summary of significant accounting policies

Changes in accounting policies and disclosures – new and amended standards and interpretations

The Bank has adopted the following amended IFRS during the year:

Amendments to IFRS 7 Financial Instruments: Disclosures

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

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

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

Financial assets

Initial recognition

Financial assets in the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Bank determines the classification of its financial assets upon initial recognition, and subsequently can reclassify financial assets in certain cases.

(thousands of Ukrainian hryvnia unless otherwise indicated)

Date of recognition

All regular way purchases and sales of financial assets are recognised on the settlement date, i.e. the date when the asset is delivered to the Bank. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial assets at fair value through profit or loss

Financial assets classified as held for trading and those designated at fair value through profit or loss at inception are included in the category 'financial assets at fair value through profit or loss'. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on financial assets at fair value through profit or loss are recognised in the income statement.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as trading securities or designated as investment securities available-for-sale. Such assets are carried at amortised cost using the effective interest rate method. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments. After initial recognition available-for-sale financial assets are measured at fair value with gains or losses being recognised as a separate component in the statement of comprehensive income until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in the statement of comprehensive income is included in the income statement. However, interest calculated using the effective interest rate method is recognised in the income statement.

Investments in equity instruments that do not have a quoted market price in an active market are measured at cost less any allowance for impairment.

Determination of fair value

The fair value for financial instruments traded in an active market at the reporting date is based on their quoted market price or dealer price quotations (bid price for long positions and offer price for short positions), without any deduction for transaction costs.

For all other financial instruments not listed in an active market, fair value is determined by using appropriate valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist, forward pricing models and other relevant valuation models.

Offsetting

Financial assets and liabilities are offset and the net amount is 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 to realise the asset and settle the liability simultaneously.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, current accounts with the NBU not restricted for use by the Bank, and amounts due from credit institutions that mature within ninety days of the date of origination and are free from contractual encumbrances.

Repurchase and reverse repurchase agreements and securities lending

Sale and repurchase agreements ("repos") are treated as secured financing transactions. Securities sold under sale and repurchase agreements are retained in the statement of financial position and, in the event that the transferee has the right by contract or custom to sell or repledge them, they are reclassified as securities pledged under sale and repurchase agreements. The corresponding liability is presented within amounts due to credit institutions or customers. Securities purchased under agreements to resell ("reverse repo") are recorded as amounts due from credit institutions or loans to customers as appropriate. The difference between the sale and repurchase price is treated as interest and accrued over the life of repo agreements using the effective yield method.

Securities lent to counterparties are retained in the financial statements. Securities borrowed are not recorded in the financial statements, unless these are sold to third parties, in which case the purchase and sale are recorded within

(thousands of Ukrainian hryvnia unless otherwise indicated)

gains less losses from trading securities in the income statement. The obligation to return them is recorded at fair value as a trading liability.

Derivative financial instruments

In the normal course of business, the Bank enters into various derivative financial instruments including forwards in the foreign exchange and securities markets. Such financial instruments are held for trading and recorded at fair value. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets if their fair value is positive and as liabilities if it is negative. Gains and losses resulting from these instruments are included in the income statement as gains less losses from trading securities or gains less losses from foreign currencies dealing, depending on the nature of the instrument.

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

Borrowings

Issued financial instruments or their components are classified as liabilities, where the substance of the contractual arrangement results in the Bank having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity instruments. Such instruments include amounts due to credit institutions, amounts due to customers and subordinated debt. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in the income statement when the borrowings are derecognised as well as through the amortisation process.

If the Bank purchases its own debt, it is removed from the statement of financial position and the difference between the carrying amount of the liability and the consideration paid is recognised in the income statement.

Leases

Operating – Bank as lessee

Leases of assets under which the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. Lease payments under an operating lease are recognised as expenses on a straight-line basis over the lease term and included into other operating expenses.

Operating – Bank as lessor

The Bank presents assets subject to operating leases in the statement of financial position according to the nature of the asset. Lease income from operating leases is recognised in the income statement on a straight-line basis over the lease term as other income. The aggregate cost of incentives provided to lessees is recognised as a reduction of rental income over the lease term on a straight-line basis. Initial direct costs incurred specifically to earn revenues from an operating lease are added to the carrying amount of the leased asset.

Impairment of financial assets

The Bank assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Amounts due from credit institutions and loans to customers

For amounts due from credit institutions and loans to customers carried at amortised cost, the Bank first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risks characteristics and collectively assesses them for impairment. Assets 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 an objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future

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expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Bank. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the income statement.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Bank's internal credit grading system that considers credit risk characteristics such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated based on historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted based on current observable data to reflect the effects of current conditions that did not affect the years on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the group or their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Available-for-sale financial assets

For available-for-sale financial assets, the Bank assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement – is removed from statement of comprehensive income and recognised in the income statement. Impairment losses on equity investments are not reversed through the income statement; increases in their fair value after impairment are recognised directly in statement of comprehensive income.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed through the income statement.

Renegotiated loans

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions.

The accounting treatment of such restructuring is as follows:

- If the currency of the loan has been changed the old loan is derecognised and the new loan is recognised.
- If the loan restructuring is not caused by the financial difficulties of the borrower the Bank uses the same approach as for financial liabilities described below.
- If the loan restructuring is due to the financial difficulties of the borrower and the loan is impaired after restructuring, the Bank recognizes the difference between the present value of the new cash flows discounted using the original effective interest rate and the carrying amount before restructuring in the provision charges for the period. In case loan is not impaired after restructuring the Bank recalculates the effective interest rate.

Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original or current effective interest rate.

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Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Bank has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; and
- the Bank either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Bank has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Bank's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Bank's continuing involvement is the amount of the transferred asset that the Bank may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Bank's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the income statement.

Financial guarantees

In the ordinary course of business, the Bank gives financial guarantees consisting of letters of credit, guarantees and avals. Financial guarantees are initially recognised in the financial statements at fair value as 'Other liabilities' being the premium received. After the initial recognition the Bank's liability under each guarantee is measured at the higher of the amortised premium and the best estimate of expenditure required settling any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is taken to the income statement. The premium received is recognised in the income statement on a straight-line basis over the life of the guarantee.

Taxation

The current income tax charge is calculated in accordance with Ukrainian taxation regulations.

Deferred tax assets and liabilities are calculated in respect of temporary differences using the liability method. Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, except where the deferred income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the reporting date.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Ukraine also has various operating taxes, which are assessed on the Bank's activities. These taxes are included as a component of administrative and operating expenses.

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Property and equipment

Property and equipment is carried at cost excluding the costs of day-to-day servicing, less accumulated depreciation and any accumulated impairment. The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

Depreciation of an asset begins when it is available for use. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

| | <u>Years</u> |
|-----------------------|--------------|
| Equipment | 2-5 years |
| Furniture | 8 years |
| Other tangible assets | 5-7 years |
| Vehicles | 5 years |

The asset's residual values, useful lives and methods are reviewed and adjusted as appropriate at each financial year-end.

Costs related to repairs and renewals are charged when incurred and included in other operating and administrative expenses unless they qualify for capitalisation.

Intangible assets

Intangible assets include acquired computer software and licences. Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic lives from three to ten years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation periods and methods for intangible assets with finite useful lives are reviewed at least at each financial year-end.

Provisions

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of obligation can be made.

Employee benefits

The Bank does not have any pension arrangements separate from the State pension system of Ukraine, which requires current contributions by the employer calculated as a percentage of current gross salary payments; such expense is charged in the period the related salaries are earned. In addition, the Bank has no significant post-retirement benefits.

Share capital

Share capital

Ordinary shares are classified as equity. Share capital contributions received before 31 December 2000 are recognised at restated cost following the application of IAS 29 *Financial Reporting in Hyperinflationary Economies*.

External costs directly attributable to the issue of new shares are shown as a deduction from the proceeds in equity. Any excess of the fair value of consideration received over the par value of shares issued is recognised as additional paid-in capital.

Dividends

Dividends are recognised as a liability and deducted from equity at the reporting date only if they are declared before or on the reporting date. Dividends are disclosed when they are proposed before the reporting date or proposed or declared after the reporting date but before the financial statements are authorised for issue.

Contingencies

Contingent liabilities are not recognised in the statement of financial position but are disclosed unless the possibility of any outflow in settlement is remote. A contingent asset is not recognised in the statement of financial position but disclosed when an inflow of economic benefits is probable.

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Recognition of income and expense

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Interest and similar income and expenses

For all financial instruments measured at amortised cost and interest bearing securities classified as trading or available-for-sale, interest income or expense is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the original effective interest rate applied to the new carrying amount.

Fee and commission income

The Bank earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

- Fee income earned from services that are provided over a certain period of time

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and asset management, custody and other management and advisory fees. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the effective interest rate on the loan.

- Fee income from providing transaction services

Fees arising from negotiating or participating in the negotiation of a transaction for a third party – such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses – are recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

Foreign currency translation

The financial statements are presented in Ukrainian hryvnia ("UAH"), which is the Bank's functional and presentation currency. Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognised in the income statement as gains less losses from foreign currencies – translation differences. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the transaction dates. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Differences between the contractual exchange rate of a transaction in a foreign currency and the NBU exchange rate on the date of the transaction are included in gains less losses from dealing in foreign currencies.

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The principal Ukrainian hryvnia exchange rates used in the preparation of these financial statements as at 31 December are as follows:

| Currency | 31 December 2012 | 31 December 2011 |
|-----------------|-----------------------------|-----------------------------|
| US dollar | 7.9930 | 7.9898 |
| Euro | 10.5372 | 10.2980 |

Future changes in accounting policies

Standards and interpretations issued but not yet effective

IFRS 9 Financial Instruments

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

IFRS 10 Consolidated Financial Statements

IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgement to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in IAS 27. In addition IFRS 10 introduces specific application guidance for agency relationships. IFRS 10 replaces the portion of IAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12 *Consolidation — Special Purpose Entities*. It is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted. Adoption of IFRS 10 will not have any effect on Bank's financial position and performance.

IFRS 11 Joint Arrangements

IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. IFRS 11 supersedes IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly Controlled Entities – Non-monetary Contributions by Venturers* and is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted. Adoption of IFRS 11 will not have any effect on Bank's financial position and performance.

IFRS 12 Disclosure of Interests in Other Entities

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

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. IFRS 13 is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted. The adoption of the IFRS 13 may have effect on the measurement of the Bank's assets and liabilities accounted for at fair value. Currently the Bank evaluates possible effect of the adoption of IFRS13 on its financial position and performance.

IAS 27 Separate Financial Statements (as revised in 2011)

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

IAS 28 Investments in Associates and Joint Ventures (as revised in 2011)

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

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Amendments to IAS 19 Employee Benefits

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

Amendments to IAS 1 Changes to the Presentation of Other Comprehensive Income

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

Amendments to IFRS 7 Disclosures – Offsetting Financial assets and Financial Liabilities

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

Amendments to IAS 32 – Offsetting Financial Assets and Financial Liabilities

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

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

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

Amendment to IFRS 1 – Government loans

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

Improvements to IFRS

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

- *IFRS 1 First-time Adoption of International Financial Reporting Standards:* This improvement clarifies that an entity that stopped applying IFRS in the past and chooses, or is required, to apply IFRS, has the option to re-apply IFRS 1. If IFRS 1 is not re-applied, an entity must retrospectively restate its financial statements as if it had never stopped applying IFRS.
- *IAS 1 Presentation of Financial Statements:* This improvement clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative information is the previous period.
- *IAS 16 Property Plant and Equipment:* This improvement clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventory.
- *IAS 32 Financial Instruments, Presentation:* This improvement clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 *Income Taxes*.
- *IAS 34 Interim Financial Reporting:* The amendment aligns the disclosure requirements for total segment assets with total segment liabilities in interim financial statements. This clarification also ensures that interim disclosures are aligned with annual disclosures.

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4. Significant accounting judgements and estimates

Judgements

In the process of applying the Bank's accounting policies the management has made the following judgements, apart from those involving estimates, which have the most significant effect on the amounts recognised in the financial statements:

Classification of securities

Securities owned by the Bank comprise Ukrainian State and corporate bonds and corporate shares. Upon initial recognition, the Bank designates securities as financial assets with recognition of changes in fair value through profit or loss, or available-for-sale financial assets with recognition of changes in fair value through the statement of comprehensive income.

Estimation uncertainty

In the process of applying the Bank's accounting policies, management has used its judgement and made estimates in determining the amounts recognised in the financial statements. The most significant use of estimates is as follows:

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values.

Allowance for impairment of loans and receivables

The Bank regularly reviews its loans and receivables to assess impairment. The Bank uses its judgement to estimate the amount of any impairment loss in cases where a borrower is in financial difficulties and there is little available historical data relating to similar borrowers. Similarly, the Bank estimates changes in future cash flows based on the observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of loans and receivables. The Bank uses its judgement to adjust observable data for a group of loans or receivables to reflect current circumstances.

Deferred tax asset recognition

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

5. Cash and cash equivalents

Cash and cash equivalents comprise:

| | 2012 | 2011 (reclassified) | 2010 (reclassified) |
|--|------------------|--------------------------------------|--------------------------------------|
| Cash on hand | 11,950 | 10,728 | 14,990 |
| Current accounts with the NBU | 387,413 | 448,318 | 355,292 |
| Current accounts with other credit institutions | 730,513 | 372,962 | 422,514 |
| Overnight deposits placed | - | - | 11,943 |
| Time deposits with the NBU up to 90 days | - | 100,007 | - |
| Time deposits with the other credit institutions up to 90 days | 326,460 | 231,436 | 307,479 |
| Reverse repurchase agreements with other credit institutions up to 90 days | 97,639 | 59,394 | - |
| Cash and cash equivalents | 1,553,975 | 1,222,845 | 1,112,218 |

The current account with the NBU represents amounts deposited with the NBU relating to daily settlements and other activities.

As at 31 December 2012, UAH 702,271 thousand placed on current accounts with four OECD banks (2011: UAH 359,511 thousand with four OECD banks, 2010: UAH 382,327 thousand with eight OECD banks) is included in current accounts with other credit institutions. The placements have been made under normal banking terms and conditions.

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As at 31 December 2012, an amount of UAH 221,049 thousand placed with five Ukrainian banks (2011: UAH 201,212 thousand, 2010: UAH 247,370 thousand) is included in time deposits with other credit institutions up to 90 days.

The Bank had entered into reverse repurchase agreements with two credit institutions (2011: one credit institution, 2010: none). The subject of these agreements is state bonds issued by Ministry of Finance of Ukraine with a fair value of UAH 103,134 thousand (2011: state bonds with fair value of UAH 59,762 thousand, 2010: none).

6. Trading securities

As at 31 December 2012, trading securities are represented by Ukrainian State bonds with a carrying value of UAH 192,957 thousand (2011: UAH 520,298 thousand; 2010: UAH 692,112 thousand).

7. Amounts due from credit institutions

Amounts due from credit institutions comprise:

| | 2012 | 2011 (reclassified) | 2010 (reclassified) |
|--|----------------|--------------------------------|--------------------------------|
| Obligatory reserves with the NBU | 686,374 | 1,293,512 | 1,132,850 |
| Loans and deposits due from banks | 4,331 | 4,227 | 15,648 |
| Reverse repurchase agreements with other credit institutions up to 90 days | 293,736 | 167,692 | - |
| Other amounts | - | - | 24,752 |
| Gross amounts due from credit institutions | 984,441 | 1,465,431 | 1,173,250 |
| Less – Allowance for impairment | (221) | (4,250) | (4,365) |
| Amounts due from credit institutions | 984,220 | 1,461,181 | 1,168,885 |

The Bank had entered into reverse repurchase agreements with three credit institutions (2011: two credit institutions, 2010: none). The subject of these agreements is state bonds issued by Ministry of Finance of Ukraine with a fair value of UAH 292,481 thousand (2011: state bonds with fair value of UAH 170,010 thousand, 2010: none).

As at 31 December 2012, Ukrainian banks are required to keep 50% of the mandatory reserve for the previous month on a separate account with the NBU (2011: 70%; 2010: 100%) bearing interest at 2.25% p.a. (2011: 2.33% p.a.; 2010: 2.33% p.a.). As at 31 December 2012, the amount of obligatory reserves of the Bank placed on separate account was UAH 174,309 thousand (2011: UAH 139,504 thousand, 2010: UAH 164,762 thousand).

With effect from August 2008, Ukrainian banks are required to deposit 20% of amounts attracted from non-residents in foreign currencies for a period of less than 183 days on separate account with the NBU in form of a non-interest bearing cash deposit. With effect from 2009, Ukrainian banks are required to deposit on the same separate account with the NBU an amount equivalent to the impairment allowance (determined under the NBU requirements) created for loans granted in foreign currencies to borrowers with no foreign currency income on a separate account with the NBU in form of a non-interest bearing cash deposit. As at 31 December 2012, the total amount placed by the Bank on the separate account was UAH 512,065 thousand (2011: UAH 1,154,008 thousand, 2010: UAH 968,088 thousand).

The obligatory reserves with the NBU are not available for use in the Bank's day-to-day operations. The Bank complied with the NBU's requirements for such obligatory reserve as at 31 December 2012, 2011 and 2010.

The movements in allowance for impairment of amounts due from credit institutions were as follows:

| | 2012 | 2011 | 2010 |
|--------------------|--------------|--------------|--------------|
| 1 January | 4,250 | 4,365 | 4,005 |
| (Release)/charge | (4,029) | (115) | 360 |
| 31 December | 221 | 4,250 | 4,365 |

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8. Loans to customers

Loans to customers comprise:

| | 2012 | 2011 | 2010 (reclassified) |
|---------------------------------|------------------|------------------|--------------------------------|
| Commercial | 8,679,580 | 7,609,692 | 6,491,919 |
| Overdrafts | 61,710 | 139,296 | 201,876 |
| Retail | 84,515 | 95,797 | 98,091 |
| Gross loans to customers | 8,825,805 | 7,844,785 | 6,791,886 |
| Less – Allowance for impairment | (304,673) | (159,608) | (128,889) |
| Loans to customers | 8,521,132 | 7,685,177 | 6,662,997 |

Allowance for impairment of loans to customers

A reconciliation of the allowance for impairment of loans to customers by class is as follows:

| | Commercial | Overdrafts | Retail | Total |
|---|-------------------|-------------------|---------------|----------------|
| At 1 January 2012 | 151,313 | 37 | 8,258 | 159,608 |
| Charge/(release) for the year | 135,919 | 86 | 9,060 | 145,065 |
| At 31 December 2012 | 287,232 | 123 | 17,318 | 304,673 |
| Individual impairment | 279,512 | – | 9,883 | 289,395 |
| Collective impairment | 7,720 | 123 | 7,435 | 15,278 |
| | 287,232 | 123 | 17,318 | 304,673 |
| Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance | 759,373 | – | 11,569 | 770,942 |
| | Commercial | Overdrafts | Retail | Total |
| At 1 January 2011 | 121,044 | 38 | 7,807 | 128,889 |
| Charge/(release) for the year | 30,269 | (1) | 451 | 30,719 |
| At 31 December 2011 | 151,313 | 37 | 8,258 | 159,608 |
| Individual impairment | 147,859 | – | 2,161 | 150,020 |
| Collective impairment | 3,454 | 37 | 6,097 | 9,588 |
| | 151,313 | 37 | 8,258 | 159,608 |
| Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance | 522,437 | – | 2,804 | 525,241 |

Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- For commercial lending – banking and corporate guarantees, charges over real estate properties, inventory and trade receivables;
- For retail lending – mortgages over residential properties, plot of land, property rights.

The Bank also obtains guarantees from ING Group companies for loans granted to corporate customers.

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for loan impairment.

(thousands of Ukrainian hryvnia unless otherwise indicated)

Concentration of loans to customers

As at 31 December 2012, the Bank had a concentration of loans represented by UAH 4,469,450 thousand due from the ten largest third party borrowers (50.6% of gross loan portfolio) (2011: UAH 4,617,150 thousand or 58.9%). The allowance for impairment recognised against these loans amounted to UAH 6,467 thousand as at 31 December 2012 (2011: UAH 1,466 thousand). As at 31 December 2012, the amount of guarantees received in respect of these loans from ING Group companies was UAH 3,938,908 thousand or 88% of gross carrying value (2011: UAH 4,254,999 thousand or 92%).

As at 31 December 2012, the amount of guarantees from ING Group Companies in respect of other loans was UAH 2,839,748 thousand or 45% of gross carrying value (2011: UAH 1,762,179 thousand or 99%).

Loans are made principally within Ukraine in the following industry sectors:

| | 2012 | 2011 | 2010 (reclassified) |
|----------------------------------|------------------|------------------|--------------------------------|
| Trade | 1,784,213 | 2,171,616 | 1,421,566 |
| Metallurgy | 1,382,635 | 1,486,481 | 1,532,121 |
| Food and beverages | 1,238,049 | 1,054,040 | 1,040,247 |
| Consultancy services | 876,588 | 286,073 | 280 |
| Machinery | 689,340 | 608,949 | 611,019 |
| Energy | 918,081 | 445,543 | 365,506 |
| Construction material production | 351,882 | 216,172 | 328,345 |
| Tobacco | 343,144 | 309,568 | 205,273 |
| Chemical goods production | 268,409 | 181,830 | 401,459 |
| Communications | 144,350 | 158,179 | 94,278 |
| Wood processing | 166,886 | 155,082 | 83,538 |
| Retail | 84,515 | 95,797 | 98,091 |
| Other | 577,713 | 675,455 | 610,163 |
| | 8,825,805 | 7,844,785 | 6,791,886 |

9. Investment securities available-for-sale

As at 31 December 2012, available-for-sale securities are represented by shares with carrying value of UAH 3,391 thousands (2011: corporate bonds of UAH 2,124 thousand and shares of UAH 3,391 thousand).

As at 31 December 2012, the Bank did not recognize any impairment loss on available-for-sale securities (2011: UAH 162 thousand).

10. Taxation

The corporate income tax expense comprises:

| | 2012 | 2011 |
|-------------------------------|---------------|---------------|
| Current tax charge | 148,803 | 44,140 |
| Deferred tax (benefit)/charge | (60,636) | 46,061 |
| Income tax expense | 88,167 | 90,201 |

According to the Tax Code of Ukraine, the corporate income tax rate was 21% during 2012 (2011: 25% up to 1 April and 23% after) and will be decreased to 19% from 1 January 2013 and to 16% from 1 January 2014. Deferred tax balances are measured using the tax rates that will be applicable when temporary differences are expected to reverse.

The effective income tax rate differs from the statutory income tax rates. A reconciliation of the income tax expense based on statutory rates with actual is as follows:

| | 2012 | 2011 |
|--|---------------|---------------|
| Profit before income tax expense | 397,485 | 375,765 |
| Statutory tax rate | 21% | 23% |
| Income tax expense at the statutory rate | 83,472 | 86,426 |
| Non-deductible expenditures | 377 | 767 |
| Effect of changes in tax legislation | 352 | 830 |
| Adjustment in respect of current income tax of prior years | 247 | - |
| Reassessment of temporary differences | 859 | 1,135 |
| Effect of change in tax rates | 2,860 | 1,043 |
| Income tax expense | 88,167 | 90,201 |

(thousands of Ukrainian hryvnia unless otherwise indicated)

Deferred tax assets and liabilities as at 31 December and their movements for the respective years comprise:

| | <i>Origination and reversal of temporary differences</i> | | | <i>Origination and reversal of temporary differences</i> | | | |
|--|--|--------------------------------|--------------------------------------|--|--------------------------------|--------------------------------------|---------------|
| | <i>2010</i> | <i>in the income statement</i> | <i>in other comprehensive income</i> | <i>2011</i> | <i>in the income statement</i> | <i>in other comprehensive income</i> | <i>2012</i> |
| Tax effect of deductible and taxable temporary differences: | | | | | | | |
| Cash and cash equivalents | - | - | - | - | (50) | - | (50) |
| Amounts due from credit institutions | (9,833) | 7,097 | - | (2,736) | (353) | - | (3,089) |
| Securities owned | (2,500) | (4,875) | - | (7,375) | 4,218 | - | (3,157) |
| Loans to customers | (4,659) | (29,774) | - | (34,433) | 63,301 | - | 28,868 |
| Property and equipment | 4,609 | (2,558) | - | 2,051 | (1,156) | - | 895 |
| Intangible assets | - | - | - | - | 66 | - | 66 |
| Other assets | 389 | (1,193) | - | (804) | (1,095) | - | (1,899) |
| Amounts due to customers | 10,924 | (10,924) | - | - | - | - | - |
| Other liabilities | 11,806 | (3,834) | - | 7,972 | (4,295) | - | 3,677 |
| Deferred tax asset/(liability) | 10,736 | (46,061) | - | (35,325) | 60,636 | - | 25,311 |

11. Other impairment allowances and provisions

The movements in other impairment allowances and provisions were as follows:

| | <i>Other assets</i> |
|-------------------------|---------------------|
| 31 December 2010 | 1,556 |
| Reversal | (1,390) |
| Write-offs | (25) |
| 31 December 2011 | 141 |
| Charge | 341 |
| 31 December 2012 | 482 |

The allowance for impairment of assets is deducted from the carrying amounts of the related assets.

(thousands of Ukrainian hryvnia unless otherwise indicated)

12. Other assets and liabilities

Other assets comprise:

| | 2012 | 2011 | 2010 (reclassified) |
|--|--------------|---------------|--------------------------------------|
| Accrued income | 1,334 | 4,909 | 4,391 |
| Amounts due on operations with other financial instruments | 1,448 | 3,416 | 1,458 |
| Prepayments for fixed assets | – | 1,952 | 29 |
| Prepaid expenses | 2,734 | 1,267 | 780 |
| Other prepayments | 477 | 858 | 401 |
| Other | 260 | 174 | 366 |
| | 6,253 | 12,576 | 7,425 |
| Less – Allowance for impairment of other assets (Note 11) | (482) | (141) | (1,556) |
| Other assets | 5,771 | 12,435 | 5,869 |

Other liabilities comprise:

| | 2012 | 2011 |
|--|---------------|---------------|
| Accrued expenses | 42,523 | 49,149 |
| Payables for services | 15,700 | 6,708 |
| Transit accounts in respect of transactions with clients | 18,387 | 1,815 |
| Currency conversion operations | 786 | – |
| Taxes payable other than income tax | 1,731 | 1,549 |
| Other | 708 | 681 |
| Other liabilities | 79,835 | 59,902 |

13. Derivative financial instruments

The Bank enters into derivative financial instruments for trading purposes. The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are not indicative of the credit risk.

| | 2012 | | | 2011 | | | 2010 | | |
|--|------------------------|--------------------|------------------|------------------------|-------------------|------------------|------------------------|-------------------|------------------|
| | Notional amount | Fair values | | Notional amount | Fair value | | Notional amount | Fair value | |
| | | Asset | Liability | | Asset | Liability | | Asset | Liability |
| Securities trading contracts | | | | | | | | | |
| Forwards – foreign | – | – | – | 173,453 | – | (7,452) | 279,279 | – | (6,316) |
| Forwards – domestic | – | – | – | 63,541 | 196 | (2,172) | 46,222 | 2,836 | – |
| Foreign exchange contracts | | | | | | | | | |
| Forwards – foreign | 114,371 | 766 | (262) | 16,168 | – | (62) | – | – | – |
| Forwards – domestic | 508,577 | 9,657 | (40) | 765,141 | 3,662 | (5,397) | – | – | – |
| Total derivative assets/liabilities | | 10,423 | (302) | | 3,858 | (15,083) | | 2,836 | (6,316) |

(thousands of Ukrainian hryvnia unless otherwise indicated)

14. Amounts due to credit institutions

Amounts due to credit institutions comprise:

| | 2012 | 2011 |
|---|------------------|------------------|
| Short term loans and deposits | 4,079,578 | 6,287,845 |
| Long term loans and deposits | 694,022 | 374,645 |
| Amounts due to credit institutions | 4,773,600 | 6,662,490 |

As at 31 December 2012, loans and deposits due to credit institutions include UAH 4,705,048 thousand received from ING Group banks (2011: UAH 6,548,373 thousand).

15. Amounts due to customers

The amounts due to customers include the following:

| | 2012 | 2011 |
|-------------------------------------|------------------|------------------|
| Current accounts | | |
| - Legal entities | 1,599,664 | 1,745,079 |
| - Individuals | 10,364 | 17,291 |
| | 1,610,028 | 1,762,370 |
| Time deposits from legal entities | 2,810,706 | 506,778 |
| Amounts due to customers | 4,420,734 | 2,269,148 |
| Held as security against guarantees | 4,730 | 5,850 |

As at 31 December 2012, current accounts of legal entities amounting to UAH 660,800 thousand (42% of legal entities current accounts) were due to the ten largest third party customers (2011: UAH 710,066 thousand or 41%).

As at 31 December 2012, term deposits from legal entities of UAH 2,785,577 thousand or 99.1% of term deposits from legal entities were due to the ten third party customers (2011: UAH 465,422 thousand or 91.8%).

An analysis of customer accounts by economic sector follows:

| | 2012 | 2011 |
|---------------------------------|------------------|------------------|
| Mining | 2,052,153 | – |
| Trade | 934,030 | 829,485 |
| Manufacturing | 65,335 | 515,973 |
| Individuals | 10,364 | 17,291 |
| Services | 178,609 | 215,918 |
| Financial services | 129,846 | 138,413 |
| Metallurgy | 25,008 | 97,840 |
| Chemical | 8,560 | 76,691 |
| Transport and communications | 67,887 | 69,694 |
| Real estate constructions | 1,486 | 14,491 |
| Agriculture and food processing | 808,405 | 11,540 |
| Machine building | 274 | 10,308 |
| Energy | 1,704 | 370 |
| Other | 137,073 | 271,134 |
| Amounts due to customers | 4,420,734 | 2,269,148 |

16. Equity

As at 31 December 2012 and 2011, the Bank's authorised issued share capital comprised 73,129,804,500 ordinary shares, with a nominal value of UAH 0.01 per share. All shares have equal voting rights. As at 31 December 2012 and 2011, all issued shares were fully paid and registered.

The share capital of the Bank was contributed in Ukrainian hryvnia and the shareholder is entitled to dividends and any capital distributions in Ukrainian hryvnia.

At the Shareholders' Meeting in April 2012, the Bank declared dividends in respect of the year ended 31 December 2011, totalling UAH 163,972 thousand on ordinary shares.

(thousands of Ukrainian hryvnia unless otherwise indicated)

The balances of share capital were as follows:

| | Number of shares | Nominal amount, UAH thousand | Restated cost, UAH thousand |
|---------------------------------|-----------------------------|---|--|
| 31 December 2012, 2011 and 2010 | 73,129,804,500 | 731,298 | 751,579 |

Other reserves

As at 31 December 2012 retained earnings include undistributable reserve of UAH 366,750 thousand (2011: UAH 358,119 thousand). The reserve is created as required by the Ukrainian regulations in respect of general banking risks, including future losses and other unforeseen risks or contingencies.

17. Commitments and contingencies

Operating environment

The Ukrainian economy while deemed to be of market status continues to display certain characteristics consistent with that of an economy in transition. These characteristics include, but are not limited to, low levels of liquidity in the capital markets, high inflation and the existence of currency controls which cause the national currency to be illiquid outside of Ukraine. The stability of the Ukrainian economy will be significantly impacted by the Government's policies and actions with regard to administrative, legal, and economic reforms. As a result, operations in Ukraine involve risks that are not typical for developed markets.

The Ukrainian economy has been affected by market downturns and economic slowdowns in the world. The global financial crisis has resulted in a decline in the gross domestic product, instability in the capital markets, a significant deterioration in the liquidity of the banking sector, and tighter credit conditions within Ukraine. Whilst the Ukrainian Government continues to introduce various stabilisation measures aimed at supporting the banking sector and providing liquidity to Ukrainian banks and companies, there continues to be uncertainty regarding access to capital and its cost for the Bank and its counterparties, which could affect the Bank's financial position, results of operations and business prospects.

In addition, factors including increased unemployment in Ukraine, reduced corporate liquidity and profitability, and increased corporate and personal insolvencies, have affected the ability of the Bank's borrowers to repay the amounts due to the Bank. In addition, changes in economic conditions have resulted in deterioration in the value of collateral held against loans and other obligations. To the extent that information is available, the Bank has reflected revised estimates of expected future cash flows in its impairment assessment.

Whilst management believes it is taking appropriate measures to support the sustainability of the Bank's business in the current circumstances, any unexpected further deterioration in the areas described above could negatively affect the Bank's results and financial position in a manner not currently determinable.

Legal

In the ordinary course of business, the Bank is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations of the Bank.

Taxation

Ukrainian legislation and regulations regarding taxation and other operational matters continue to evolve as a result of an economy in transition. Legislation and regulations are not always clearly written and their interpretation is subject to varying interpretations by local, regional and national authorities, and other Governmental bodies. Instances of inconsistent interpretations are not unusual. Management believes that the Bank have complied with all regulations and paid or accrued all taxes that are applicable. Where the risk of outflow of resources is probable, the Bank has accrued tax liabilities based on management's best estimate.

The Bank's operations and financial position will continue to be affected by Ukrainian political developments including the application of existing and future legislation and tax regulations. The Bank believes that obligations that could arise as a result of these contingencies, as relating to its operations, would not be more significant than those of similar enterprises in Ukraine.

(thousands of Ukrainian hryvnia unless otherwise indicated)

Commitments and contingencies

The Bank's financial commitments and contingencies comprise the following:

| | 2012 | 2011 |
|--|----------------|------------------|
| Credit related commitments | | |
| Letters of credit | 95,016 | 321,611 |
| Guarantees | 410,076 | 773,009 |
| Promissory note guarantees | – | 12,397 |
| Undrawn loan commitments | 11,052 | 12,511 |
| | 516,144 | 1,119,528 |
| Less – Cash held as security against letters of credit, guarantees and promissory notes guarantees (Note 15) | (4,730) | (5,850) |
| Commitments and contingencies | 511,414 | 1,113,678 |

18. Net fee and commission expense

Net fee and commission expense comprises:

| | 2012 | 2011 |
|---------------------------------------|------------------|------------------|
| Operations with securities | 14,003 | 17,755 |
| Payments and withdrawals | 12,228 | 12,179 |
| Guarantees and commitments | 14,983 | 28,719 |
| Credit service to customers | 246 | 511 |
| Fee and commission income | 41,460 | 59,164 |
| Guarantees and commitments | (268,803) | (197,305) |
| Operations with securities | (1,357) | (2,814) |
| Payments and withdrawals | (2,867) | (2,914) |
| Other | (122) | (114) |
| Fee and commission expense | (273,149) | (203,147) |
| Net fee and commission expense | (231,689) | (143,983) |

Included in commission expense are commissions of UAH 268,803 thousand (2011: UAH 197,305 thousand) for guarantees obtained from ING Group companies to cover credit risk on loans granted by the Bank to corporate customers (Note 8).

19. Gains less losses from foreign currencies

Gains less losses from foreign currencies comprises:

| | 2012 | 2011 |
|---|----------------|---------------|
| Dealing | 69,248 | 33,529 |
| Net result from dealing in and revaluation of forward contracts | 26,057 | 5,516 |
| Commission income from dealing in foreign currencies | 46,826 | 42,360 |
| Commission expense from dealing in foreign currencies | – | (136) |
| Translation differences | (1,578) | (8,307) |
| Gains less losses from foreign currencies | 140,553 | 72,962 |

20. Other income

| | 2012 | 2011 |
|---|--------------|--------------|
| Consulting | 3,444 | 3,913 |
| Sub-leasing | 435 | 502 |
| Insurance agent services | 934 | 523 |
| Penalties received | 1,645 | 768 |
| Gain on disposal of property, equipment and intangible assets | 346 | 830 |
| Other | 239 | 280 |
| Total other income | 7,043 | 6,816 |

(thousands of Ukrainian hryvnia unless otherwise indicated)

21. Personnel and other administrative and operating expenses

Personnel and other operating expenses comprise:

| | 2012 | 2011 |
|----------------------------------|---------------|---------------|
| Salaries and bonuses | 82,025 | 85,253 |
| Social security costs | 12,430 | 11,640 |
| Personnel expenses | 94,455 | 96,893 |
| Repair and maintenance | 34,064 | 30,331 |
| Occupancy and rent | 12,913 | 12,467 |
| Operational and maintenance | 8,806 | 8,773 |
| Consulting | 5,446 | 7,813 |
| Business trips | 3,022 | 4,679 |
| EDP cost | 2,311 | 2,262 |
| Communications | 1,488 | 1,644 |
| Security | 426 | 420 |
| Loss on sale of financial assets | 875 | 262 |
| Marketing and advertising | 95 | 130 |
| Penalties paid | 6 | 16 |
| Operating taxes | 1 | 2 |
| Other | 403 | 326 |
| Other operating expenses | 69,856 | 69,125 |

22. Risk management

Introduction

The Bank is exposed to risks i.e. credit risk, liquidity risk and market risk (which is subdivided into interest rate risk, currency risk and trading book risk), operational risk as well as strategic and reputation risk which are continuously identified, assessed and controlled within the risk management process. The risk management process is decisive for ensuring the Bank's efficiency and profitability and each employee of the Bank is responsible for respecting the risk management rules and procedures in the course of fulfilling their tasks and duties.

Risk management structure

The risk management policies aim to identify, analyse 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 operational risk management functions are aimed at developing and ensuring proper functioning of internal processes and procedures to manage the exposure to internal and external risk factors.

Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered.

Risk management policies, monitoring and control are conducted by a number of specialised divisions and units within the Risk Management Department ("RMD") and other divisions under the supervision of the Asset and Liability Management Committee ("ALCO"). The ALCO is supervised by the Supervisory Board and the Management Board and specialised divisions of the Parent Bank.

The Supervisory Board has the highest degree of authority with respect to risk management, and is empowered through the Charter to approve any transactions on behalf of the Bank, including those that are outside of the scope of the authority of the Management Board and other governing bodies. Specifically, the Supervisory Board is responsible for appointing the external auditor and for establishing the procedure for auditing and monitoring the financial and economic activities. The Supervisory Board's Risk Management Committee determines the overall risk management strategy. The Management Board is directly responsible for its implementation.

The Management Board is generally responsible for the activities of the Bank, including those relating to risk management. The Management Board delegates its powers with respect to assets, liabilities and risks management to the ALCO.

The ALCO is chaired by the Chief Financial Officer. The ALCO sits at least once every month or more frequently if required. The ALCO is responsible for the control and management of the asset and liability structure. It also monitors interest rates and maturity limits and compares key performance indicators with those of competitors. In addition, the ALCO is responsible for managing liquidity risks and monitoring compliance with the limits, reviewing reports on liquidity, interest and foreign exchange risk.

The Credit Committee is responsible for ratification of loans granting, implementing the lending strategy, coordinating the activities of the departments and forming a balanced and diversified loan portfolio. Approval and ratification from the

(thousands of Ukrainian hryvnia unless otherwise indicated)

Credit Committee is required to grant loans, make provisions and recover debt (including signing loan agreements and bringing claims or legal proceedings).

The RMD assists the ALCO and the various committees in discharging their functions. Its functions include evaluating and analysing financial risks, monitoring compliance with limits, and making recommendations with regard to balancing levels of risk and profitability, based on overall levels of risk and risks associated with particular business areas and banking products.

The RMD evaluates financial risks using information on parameters of assets and liabilities (including interest rates, amounts and maturities) from the business divisions, information on exposure limits, procedures and methodologies from the ALCO. It then provides the ALCO with the results of its risk analysis and monitoring and recommendations on setting or changing limits, and informs the business divisions, back office, etc. of the normative risk levels.

Initial monitoring of certain financial risks is performed as well by other divisions, such as Bank's Treasury Department ("BT") and Corporate and Financial institutions lending department ("CFILD").

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 Management 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. In general, the Bank uses the risk assessment/management methods used by ING Group to the extent they are in line with regulations of the NBU.

The Internal Audit Department is responsible for monitoring compliance with risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank. The Internal Audit Department undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Supervisory Board.

The principal categories of risks to which the Bank is exposed through its operations and the way the Bank manages these risks are described below.

Risk mitigation

The Bank does not use derivatives for the management of risks arising from changes in interest rates, credit risk and liquidity risk.

The Bank extensively uses collateral to minimise credit risk.

Excessive risk concentration

Concentration arises when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Bank's performance to the developments affecting a particular industry or geographical area.

Identified risk concentrations are controlled and managed.

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 to customers and other banks and investment securities. For risk management reporting purposes, the Bank considers and consolidates all elements of credit risk exposure (such as individual customer and counterparty default risk, country, and industry risk).

For risk management purposes, credit risk arising on trading securities is managed independently and reported as a component of market risk exposure.

The Bank manages its credit risk by establishing internal policies aimed at maximising risk adjusted profit by maintaining credit risk exposure within accepted parameters by setting, monitoring and reviewing credit ratings, by setting and authorising lending limits and by actively monitoring the performance of its customers. The Bank deal with counterparties of good credit standing and, when appropriate, obtains collateral. The credit policy is reviewed and approved by the Management Board.

The RMD determines levels of overall risk exposure by reference to customers and products and regularly evaluates customers' creditworthiness and business performance.

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, expected return on the loan, the liquidity of the proposed collateral and whether it is acceptable in view of the credit risk, 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, the Bank receives sufficient information to

(thousands of Ukrainian hryvnia unless otherwise indicated)

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.

The Bank also considers credit risk associated with the industry in which the borrower operates. The Bank has developed an internal credit rating system whereby each borrower is assigned ratings based on (i) financial and operational ratios, (ii) financial position, (iii) market position and management effectiveness. In making its credit decisions with regard to loans to banks, the Bank uses a rating scale based on the international ratings, if any, and financial statements audited by recognised auditors, allocating various credit ratings to the borrowers. The Bank evaluates the borrower's financial statements, credit history, and cash flows in order to determine the expected risk of default for such borrower and also monitors the weighted average credit risk of potential borrowers on a portfolio basis and by industry sector.

The borrower's financial standing is subject to continual monitoring and review on a quarterly basis or as the business may require.

The Bank structures the levels of credit risk it undertakes by placing separate limits on the amount of risk accepted in relation to each borrower and each category of borrowers within a particular industry or geographical region. Such risks are monitored and reviewed regularly (at least monthly).

When structuring loans to corporate customers, the Bank follows certain basic principles. It sets out repayment schedules and adapts them so as to take into account any seasonality in the borrower's business and, where applicable, also obtains guarantees from affiliates of the borrower or other ING Group division, enters into collateral agreements to secure related loans, prescribes the borrower's own equity contribution for the project financing and requires cash flows from the financed project or counterparties to be directed to the current accounts opened with the Bank. In the case of loans to retail customers, the Bank takes collateral to secure such loans. As the lending policy is to give priority to the quality of the borrower over the quality of the collateral available, lending decisions are always based on risk assessment rather than on the quality of the collateral. When taking security, the Bank gives preference to the most liquid form of collateral with the highest re-sale value. It also takes into account regional factors when determining the value of collateral.

Each year, the CFILD determines and submits to the Board for approval an annual Lending Policy, containing, inter alia, target credit risk exposures by particular industry sectors, products, currency and borrower risk classes.

The Bank establishes an allowance for loan losses that represent its estimates of losses incurred in its loan portfolio.

The Bank writes off a loan balance (and any related provision for impairment losses) when the Credit Committee determines that the loan is uncollectible and when all necessary steps to collect the loan are completed. This determination is reached after considering information such as the occurrence of significant changes in the borrower's financial position such that the borrower can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure.

Derivative financial instruments

Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded in the statement of financial position.

Credit-related commitments risks

The Bank makes available to its customers guarantees which may require that the Bank make payments their behalf. Such payments are collected from customers under the terms of the letters of credit. These arrangements expose the Bank to similar risks to loans and these are mitigated by similar control procedures and policies.

The maximum exposure to credit risk for the components of the statement of financial position, including derivatives, before the effect of mitigation through the use of master netting and collateral agreements, is best represented by their carrying amounts.

If recorded at fair value, the carrying value represents the current credit risk exposure but not the maximum risk exposure that could arise in future as a result of changes in values.

Credit quality by class of financial assets

The credit quality of financial assets is managed by the Bank's internal credit ratings. The table below shows the credit quality by class of asset for loan-related lines in the statement of financial position, based on the Bank's credit rating system.

(thousands of Ukrainian hryvnia unless otherwise indicated)

31 December 2012

| | Notes | Neither past due nor individually impaired | | | Past due or individually impaired | Total |
|--------------------------------------|-------|--|----------------------|-----------------------|-----------------------------------|--------------------------|
| | | High grade | Standard grade | Sub-standard grade | | |
| Cash equivalents | 5 | 1,516,970 | 25,055 | - | - | 1,542,025 |
| Amounts due from credit institutions | 7 | 980,109 | - | 4,332 | - | 984,441 |
| Loans to customers | 8 | | | | | |
| Commercial | | 7,548,077 | 30,857 | 341,273 | 759,373 | 8,679,580 |
| Overdrafts | | 55,872 | 476 | 5,362 | - | 61,710 |
| Retail | | 42,861 | - | 30,085 | 11,569 | 84,515 |
| | | <u>7,646,810</u> | <u>31,333</u> | <u>376,720</u> | <u>770,942</u> | <u>8,825,805</u> |
| Total | | <u>10,143,889</u> | <u>56,388</u> | <u>381,052</u> | <u>770,942</u> | <u>11,352,271</u> |

31 December 2011 (reclassified)

| | Notes | Neither past due nor individually impaired | | | Past due or individually impaired | Total |
|--|-------|--|-----------------------|-------------------------|-----------------------------------|--------------------------|
| | | High grade | Standard grade | Sub-standard grade | | |
| Cash equivalents | 5 | 991,805 | 170,038 | 50,274 | - | 1,212,117 |
| Amounts due from credit institutions | 7 | 1,461,181 | - | - | 4,250 | 1,465,431 |
| Loans to customers | 8 | | | | | |
| Commercial | | 3,788,199 | 139,440 | 3,159,616 | 522,437 | 7,609,692 |
| Overdrafts | | 72,869 | 2 | 66,425 | - | 139,296 |
| Retail | | 67,019 | 16,996 | 2,333 | 9,449 | 95,797 |
| | | <u>3,928,087</u> | <u>156,438</u> | <u>3,228,374</u> | <u>531,886</u> | <u>7,844,785</u> |
| Investment securities available-for-sale | 9 | - | - | 2,124 | - | 2,124 |
| Total | | <u>6,381,073</u> | <u>326,476</u> | <u>3,280,772</u> | <u>536,136</u> | <u>10,524,457</u> |

In the table above loans to banks and customers of high grade are those having a minimal level of credit risk, normally with a credit rating on or close to sovereign level or very well collateralised. Other borrowers with good financial position and good debt service are included in the standard grade. Sub-standard grade comprises loans below standard grade but not individually impaired.

Ageing analysis of past due but not impaired loans per class of financial assets

| | 2012 | | | | |
|--------------------|------------------------|--------------------|--------------------|------------------------|---------------------|
| | Less than 30 days 2012 | 31 to 60 days 2012 | 61 to 90 days 2012 | More than 90 days 2012 | Total 2012 |
| Loans to customers | | | | | |
| Retail | 3,299 | - | - | - | 3,299 |
| Total | <u>3,299</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>3,299</u> |
| | 2011 | | | | |
| | Less than 30 days 2011 | 31 to 60 days 2011 | 61 to 90 days 2011 | More than 90 days 2011 | Total 2011 |
| Loans to customers | | | | | |
| Retail | 6,645 | - | - | - | 6,645 |
| Total | <u>6,645</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>6,645</u> |

See Note 8 for more detailed information with respect to the allowance for impairment of loans to customers.

Impairment assessment

The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue by more than 90 days or there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract. The Bank addresses impairment assessment in two areas: individually assessed allowances and collectively assessed allowances.

(thousands of Ukrainian hryvnia unless otherwise indicated)

Individually assessed allowances

The Bank determines the allowances appropriate for each individually significant loan on an individual basis. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and the expected dividend payout should bankruptcy ensue, the availability of other financial support and the realisable value of collateral, and the timing of the expected cash flows. The impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

Collectively assessed allowances

Allowances are assessed collectively for losses on loans to customers that are not individually significant (including residential mortgages) and for individually significant loans where there is not yet objective evidence of individual impairment. Allowances are evaluated on each reporting date with each portfolio receiving a separate review.

The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is no yet objective evidence of the impairment in an individual assessment. Impairment losses are estimated by taking into consideration of the following information: historical losses on the portfolio, current economic conditions, the appropriate delay between the time a loss is likely to have been incurred and the time it will be identified as requiring an individually assessed impairment allowance, and expected receipts and recoveries once impaired. Local management is responsible for deciding the length of this period which can extend for as long as one year. The impairment allowance is then reviewed by credit management to ensure alignment with the Bank's overall policy.

Financial guarantees and letters of credit are assessed and provision made in a similar manner as for loans.

Geographical concentration

The geographical concentration of Bank's monetary assets and liabilities is set out below:

| | 2012 | | | Total |
|--------------------------------------|-------------------|--------------------|---|-------------------|
| | Ukraine | OECD | CIS and other non-OECD countries | |
| Assets: | | | | |
| Cash and cash equivalents | 823,846 | 706,191 | 23,938 | 1,553,975 |
| Trading securities | 192,957 | - | - | 192,957 |
| Amounts due from credit institutions | 690,485 | 293,735 | - | 984,220 |
| Derivative financial assets | 9,657 | 766 | - | 10,423 |
| Loans to customers | 8,501,688 | - | 19,444 | 8,521,132 |
| Other assets | 2,955 | - | - | 2,955 |
| | 10,221,588 | 1,000,692 | 43,382 | 11,265,662 |
| Liabilities: | | | | |
| Amounts due to credit institutions | 13,647 | 4,649,030 | 110,923 | 4,773,600 |
| Amounts due to customers | 4,342,094 | 31,500 | 47,140 | 4,420,734 |
| Derivative financial liabilities | 40 | 262 | - | 302 |
| Other liabilities | 67,907 | 4,342 | - | 72,249 |
| | 4,423,688 | 4,685,134 | 158,063 | 9,266,885 |
| Net position | 5,797,900 | (3,684,442) | (114,681) | 1,998,777 |

(thousands of Ukrainian hryvnia unless otherwise indicated)

| | 2011 (reclassified) | | | Total |
|--|---------------------|--------------------|----------------------------------|-------------------|
| | Ukraine | OECD | CIS and other non-OECD countries | |
| Assets: | | | | |
| Cash and cash equivalents | 850,292 | 361,253 | 11,300 | 1,222,845 |
| Trading securities | 520,298 | - | - | 520,298 |
| Amounts due from credit institutions | 1,293,489 | 167,692 | - | 1,461,181 |
| Derivative financial assets | 3,858 | - | - | 3,858 |
| Loans to customers | 7,666,534 | - | 18,643 | 7,685,177 |
| Investment securities available-for-sale | 1,962 | - | - | 1,962 |
| Other assets | 10,219 | 1,997 | - | 12,216 |
| | 10,346,652 | 530,942 | 29,943 | 10,907,537 |
| Liabilities: | | | | |
| Amounts due to credit institutions | 114,117 | 6,522,135 | 26,238 | 6,662,490 |
| Amounts due to customers | 2,031,093 | 161,083 | 76,972 | 2,269,148 |
| Derivative financial liabilities | 7,574 | 7,509 | - | 15,083 |
| Subordinated debt | - | 43,162 | - | 43,162 |
| Other liabilities | 59,817 | 85 | - | 59,902 |
| | 2,212,601 | 6,733,974 | 103,210 | 9,049,785 |
| Net position | 8,134,051 | (6,203,032) | (73,267) | 1,857,752 |

Liquidity risk and funding management

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 period.

The process of managing liquidity risk is continuous. The BT carries out day-to-day monitoring of short-term exposure to liquidity risk. Senior management receives weekly analysis and daily reports and the ALCO performs a monthly review of liquidity risk management.

The Bank assesses liquidity risk based on gap analysis, that is, an analysis of the difference between assets and liabilities with the same maturity. The amounts of such unmatched positions in assets and liabilities having the same maturity are used to calculate the cumulative gap, which is subject to certain limits. These limits are determined by the ability to source funds on the money markets. Such limits may be reviewed, depending on changes in the Bank's capacity to source funds. The RMD is responsible for making recommendations with respect to changing limits, which are subject to review by the ALCO and approval of the responsible division of the Parent Bank. In addition, the Bank has procedures that apply in the event these limits are exceeded, as well as contingency plans for unforeseen situations.

The risks associated with the concentration of loans and deposits require continuous monitoring. Management acknowledges the risks associated with possible high concentrations of assets and liabilities and seeks to match maturities of high-value corporate loans and deposits, which management views as a means of managing liquidity and interest rate risk. The Bank has access to a diverse funding base, including deposits, subordinated liabilities and share capital, which enhances funding flexibility, limits dependence on any one source of funds and generally lowers the cost of funds. The Bank also holds a portfolio of liquid assets as part of its liquidity risk management. The use of a combination of instruments to manage liquidity risks enables the Bank to use its lending resources and maintain liquidity levels more effectively.

Assessment of the liquidity position

The adherence to the internal limits set by the Bank is in line with the liquidity risk standards established by the NBU. The liquidity position is assessed and managed by the Bank by its own efforts, based on certain liquidity ratios established by the NBU as described in the Short-Term Liquidity Risk Management section.

As at 31 December, the liquidity position, assessed by the respective liquidity ratios established by the NBU, was as follows:

| | 2012, % | 2011, % |
|---|---------|---------|
| N4 "Instant Liquidity Ratio" (vault cash and balances on nostro accounts with banks / liabilities repayable on demand) (minimum required by the NBU – 20%) | 70.04 | 51.45 |
| N5 "Current Liquidity Ratio" (assets receivable or realisable within 31 days / liabilities repayable within 31 days) (minimum required by the NBU – 40%) | 141.04 | 96.06 |
| N6 "Short-Term Liquidity Ratio" (certain assets with original maturity up to 1 year / liabilities with original maturity up to 1 year including commitments and contingencies) (minimum required by the NBU– 60%) | 110.47 | 101.88 |

(thousands of Ukrainian hryvnia unless otherwise indicated)

Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Bank's financial liabilities at 31 December based on contractual undiscounted repayment obligations.

| Financial liabilities As at 31 December 2012 | Within one month | From 1 to 3 months | 3 months to one year | 1 to 5 years | Over 5 years | Total |
|---|---------------------------------|-------------------------------|-------------------------------------|-------------------------|-------------------------|------------------|
| Amounts due to credit institutions | 3,241,101 | 497,598 | 810,057 | 261,780 | 27,951 | 4,838,487 |
| Amounts due to customers | 2,390,828 | 52,686 | 2,008,667 | – | – | 4,452,181 |
| Derivative financial instruments | | | | | | |
| - Contractual amounts payable | 7,620 | 2,803 | – | – | – | 10,423 |
| - Contractual amounts receivable | (265) | (37) | – | – | – | (302) |
| Other liabilities | 72,249 | – | – | – | – | 72,249 |
| Total undiscounted financial liabilities | 5,711,533 | 553,050 | 2,818,724 | 261,780 | 27,951 | 9,373,038 |

| Financial liabilities As at 31 December 2011 | Within one month | From 1 to 3 months | 3 months to one year | 1 to 5 years | Over 5 years | Total |
|---|---------------------------------|-------------------------------|-------------------------------------|-------------------------|-------------------------|------------------|
| Amounts due to credit institutions | 5,627,642 | 483,576 | 294,870 | 247,557 | 35,297 | 6,688,942 |
| Amounts due to customers | 2,147,242 | 127,720 | 160 | – | – | 2,275,122 |
| Subordinated debt | – | 91 | 43,163 | – | – | 43,254 |
| Derivative financial instruments | | | | | | |
| - Contractual amounts payable | 7,626 | 7,452 | – | – | – | 15,078 |
| - Contractual amounts receivable | (3,663) | (113) | (82) | – | – | (3,858) |
| Other liabilities | 58,353 | – | – | – | – | 58,353 |
| Total undiscounted financial liabilities | 7,837,200 | 618,726 | 338,111 | 247,557 | 35,297 | 9,076,891 |

The Bank expects that many customers will not demand repayment on the earliest date when the Bank could be required to make a respective repayment and the table does not reflect the expected cash flows calculated by the Bank based on information on deposit repayment in previous periods.

The table below shows the contractual expiry by maturity of the Bank's financial commitments and contingencies before deduction of cash held as security against letters of credit, guarantees and promissory notes guarantees.

| | Less than 3 months | 3 to 12 months | 1 to 5 years | Over 5 years | Total |
|------|-------------------------------|---------------------------|-------------------------|-------------------------|--------------|
| 2012 | 266,288 | 197,326 | 16,691 | 35,839 | 516,144 |
| 2011 | 682,893 | 394,078 | 8,677 | 33,880 | 1,119,528 |

The Bank expects that not all of the contingent liabilities or commitments will be drawn before their expiry. In order to limit liquidity risk arising from asymmetric prepayment and early repayment prospective of the term assets and liabilities, the Bank incorporates in standard client agreements conditions that motivate customers not to use the options of prepayment and early repayment.

The maturity analysis does not reflect the historical stability of current accounts. Their liquidation has historically taken place over a longer period than indicated in the tables above. These balances are included in amounts due within one month in the tables above.

Included in due to customers are term deposits of individuals. In accordance with Ukrainian legislation, the Bank is obliged to repay such deposits upon demand of a depositor (Note 15).

Market risk

Price risk

Price risk is the risk that the fair values of trading securities decrease as the result of changes in the levels of market securities price indices and the value of individual securities. The price risk exposure arises from the Bank's securities trading portfolio.

(thousands of Ukrainian hryvnia unless otherwise indicated)

The effect on the income statement (as a result of a change in the fair value of trading securities as at 31 December) due to a reasonably possible change in securities price indices, with all other variables held constant, is as follows:

| Market index | Change in securities price 2012 | Effect on income statement 2012 | Change in securities price 2011 | Effect on Income statement 2011 |
|---------------------|--|--|--|--|
| PFTS index | +26.61% | 51,340 | +6.68% | 34,756 |
| | -26.61% | (51,340) | -6.89% | (35,849) |

Interest rate risk

Interest rate risk is the risk that movements in interest rates will affect cash flows or the fair value of the Bank's portfolios of financial instruments. The Bank is exposed to interest rate risk, principally as a result of lending at fixed interest rates in amounts and for periods which differ from those of term borrowings at fixed interest rates. Interest margins on assets and liabilities having different maturities may increase as a result of changes in market interest rates.

The BT applies for limits on the level of mismatch of interest rate re-pricing that may be undertaken, which is monitored by the ALCO and approved of the responsible division of the Parent Bank. In the absence of any available hedging instruments, the Bank seeks to match its interest rate positions. The evaluation and analysis of interest rate risk is performed as at the first day of each month and updated as necessary to reflect market changes, for example, a change in benchmark interest rates, market volatility or similar events. The results of such evaluation and analysis are discussed at regular ALCO meetings. In addition to applying standard calculations, the Bank uses stress-tests.

These involve determining the level of interest-rate risk that would apply in the event of unforeseen circumstances or contingencies arising. This approach enables the Bank to evaluate changes in net interest income for future periods and determine the priority areas for interest risk management.

| | | 2012 | | | |
|-----------------|-------------------------------|---------------------------------|---|---------------------------------|---|
| Currency | Base for interest rate | Increase in basis points | Effect on profit before income tax expense | Decrease in basis points | Effect on profit before income tax expense |
| USD | LIBOR | +5 | 68,743 | -5 | (68,743) |
| EUR | LIBOR | +5 | (3,588) | -5 | 3,588 |
| Total | | | 65,155 | | (65,155) |

| | | 2011 | | | |
|-----------------|-------------------------------|---------------------------------|---|---------------------------------|---|
| Currency | Base for interest rate | Increase in basis points | Effect on profit before income tax expense | Decrease in basis points | Effect on profit before income tax expense |
| USD | LIBOR | +15 | 80,252 | -15 | (80,252) |
| EUR | LIBOR | +15 | 3,243 | -15 | (3,243) |
| Total | | | 83,495 | | (83,495) |

Currency risk

Exchange rate risk is the risk of losses resulting from adverse movements in foreign currency exchange rates. Exchange rate risk results from the Bank having open positions in different currencies. Such positions are calculated as differences between assets and liabilities in the same currencies as at the reporting date.

The Bank evaluates, monitors and sets limits for long and short foreign exchange positions. The Bank complies with all applicable NBU requirements in addition to using its own methods for evaluating exchange rate risk. The policy with regard to open foreign currency positions is restricted to certain thresholds under Ukrainian law and is strictly monitored by the NBU on a daily basis.

The ALCO sets limits on the level of exposure by currencies. Such limits are reviewed in the event of volatility in foreign exchange rates. The ALCO may amend limits based on recommendations by the RMD. The Bank monitors compliance with such limits on a daily basis. Reports on changes in currency positions are provided to management on a weekly and a monthly basis.

(thousands of Ukrainian hryvnia unless otherwise indicated)

| Currency | 2012 | | 2011 | |
|--------------|-------------------------|---|-------------------------|---|
| | Change in currency rate | Effect on profit before income tax expenses | Change in currency rate | Effect on profit before income tax expenses |
| USD | 7.10% | 727 | 23.22% | (76,967) |
| EUR | 12.67% | (5,504) | 27.20% | (11,030) |
| Total | | (4,777) | | (87,997) |
| USD | -7.10% | (727) | -23.22% | 76,967 |
| EUR | -12.67% | 5,504 | -27.20% | 11,030 |
| Total | | 4,777 | | 87,997 |

Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks may cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Bank does not expect to eliminate all operational risks, but a control framework, monitoring and timely responding to potential risks are effective tools to manage the risks. Controls include the effective segregation of duties, access rights, authorisation procedures, staff training and assessment processes. Currently, operational risks are considerably reduced due to more strict observance of the requirements of technological processes.

23. Fair values of financial instruments

The Bank uses the following hierarchic methods of measurement to determine and disclose the fair values of financial instruments:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: measurement methods the inputs for which, having a material impact on fair values recognised in the financial statements, are based on observable market data, either directly or indirectly.
- Level 3: measurement methods the inputs for which, having a material impact on fair values recognised in the financial statements, are not based on observable market data.

The table below shows the analysis of financial instruments presented in the financial statements at fair value by hierarchic levels of fair value sources as at 31 December 2012 and 2011:

| At 31 December 2012 | Level 1 | Level 2 | Level 3 | Total |
|--|----------------|----------------|----------------|----------------|
| Financial assets | | | | |
| Trading securities | - | 192,957 | - | 192,957 |
| Derivative financial assets | - | 10,423 | - | 10,423 |
| Investment securities – available-for-sale | 3,391 | - | - | 3,391 |
| | 3,391 | 203,380 | - | 206,771 |
| At 31 December 2012 | | | | |
| Financial liabilities | | | | |
| Derivative financial liabilities | - | (302) | - | (302) |
| | - | (302) | - | (302) |
| At 31 December 2011 | | | | |
| Financial assets | | | | |
| Trading securities | - | 520,298 | - | 520,298 |
| Derivative financial assets | - | 3,858 | - | 3,858 |
| Investment securities – available-for-sale | 3,391 | 1,962 | - | 5,353 |
| | 3,391 | 526,118 | - | 529,509 |

(thousands of Ukrainian hryvnia unless otherwise indicated)

| At 31 December 2011 | Level 1 | Level 2 | Level 3 | Total |
|----------------------------------|----------------|-----------------|----------------|-----------------|
| Financial liabilities | | | | |
| Derivative financial liabilities | – | (15,083) | – | (15,083) |
| | – | (15,083) | – | (15,083) |

The estimated fair values of financial assets and liabilities is determined using market prices for actively traded financial assets and discounted cash flow and other appropriate valuation methodologies as at the reporting date. 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 judgements regarding future expected cash flows, current economic conditions, risk characteristics of various financial instruments and other factors, and the discount rate is a market related rate for a similar instrument at the reporting date.

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.

The fair values of all short-term financial assets and liabilities are assumed to equal their carrying values due to their short-term nature, regular re-pricing periods and/or market interest rates at period end. The fair value of loans and deposits with maturities greater than one year approximate their carrying value because for substantially all loans and deposits the Bank has applied floating interest rates that consider current value of cash flows and market conditions.

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

24. Maturity analysis of assets and liabilities

The table below shows an analysis of assets and liabilities according to when they are expected to be recovered or settled.

| | 2012 | | | 2011 (reclassified) | | |
|--|----------------------------|-------------------------------|-------------------|----------------------------|-------------------------------|-------------------|
| | <i>Within one year</i> | <i>More than one year</i> | <i>Total</i> | <i>Within one year</i> | <i>More than one year</i> | <i>Total</i> |
| Assets | | | | | | |
| Cash and cash equivalents | 1,553,975 | – | 1,553,975 | 1,222,845 | – | 1,222,845 |
| Trading securities | 192,957 | – | 192,957 | 520,298 | – | 520,298 |
| Amounts due from credit institutions | 980,135 | 4,085 | 984,220 | 1,456,931 | 4,250 | 1,461,181 |
| Derivative financial assets | 10,423 | – | 10,423 | 3,858 | – | 3,858 |
| Loans to customers | 8,256,388 | 264,744 | 8,521,132 | 6,990,769 | 694,408 | 7,685,177 |
| Investment securities available-for-sale | – | 3,391 | 3,391 | 1,962 | 3,391 | 5,353 |
| Property and equipment | – | 8,782 | 8,782 | – | 10,405 | 10,405 |
| Intangible assets | – | 1,608 | 1,608 | – | 1,406 | 1,406 |
| Corporate current tax asset | 1 | – | 1 | 6,070 | – | 6,070 |
| Deferred tax assets | – | 25,311 | 25,311 | – | – | – |
| Other assets | 5,771 | – | 5,771 | 12,435 | – | 12,435 |
| Total assets | 10,999,650 | 307,921 | 11,307,571 | 10,215,168 | 713,860 | 10,929,028 |
| Liabilities | | | | | | |
| Amounts due to credit institutions | 4,495,499 | 278,101 | 4,773,600 | 6,390,795 | 271,695 | 6,662,490 |
| Amounts due to customers | 4,420,734 | – | 4,420,734 | 2,269,148 | – | 2,269,148 |
| Derivative financial assets | 302 | – | 302 | 15,083 | – | 15,083 |
| Current income tax liabilities | 43,836 | – | 43,836 | – | – | – |
| Deferred tax liabilities | – | – | – | 35,325 | – | 35,325 |
| Subordinated debt | – | – | – | 43,162 | – | 43,162 |
| Other liabilities | 79,835 | – | 79,835 | 59,902 | – | 59,902 |
| Total liabilities | 9,040,206 | 278,101 | 9,318,307 | 8,813,415 | 271,695 | 9,085,110 |
| Net | 1,959,444 | 29,820 | 1,989,264 | 1,401,753 | 442,165 | 1,843,918 |

The maturity analysis does not reflect the historical stability of current accounts. Their liquidation has historically taken place over a longer period than indicated in the tables above. These balances are included in amounts due within one year in the table above.

(thousands of Ukrainian hryvnia unless otherwise indicated)

25. Related party disclosures

In accordance with IAS 24 *Related Party Disclosures*, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

The outstanding balances of related party transactions, at the year-end are as follows:

| | 2012 | | | 2011 | | |
|---|----------------|--------------------------|-------------------------------|----------------|--------------------------|-------------------------------|
| | Parent company | Key management personnel | Entities under common control | Parent company | Key management personnel | Entities under common control |
| Loans outstanding at 1 January, gross | - | 13,203 | 2,736 | - | 12,386 | 2,980 |
| Loans issued during the year | - | - | - | - | 1,612 | 2,687 |
| Loan repayments during the year | - | (1,716) | (2,736) | - | (1,718) | (2,902) |
| Other movements | - | (246) | - | - | 1,024 | (29) |
| Loans outstanding at 31 December, gross | - | 11,241 | - | - | 13,304 | 2,736 |
| Less: allowance for impairment at 31 December | - | (85) | - | - | (101) | - |
| Loans outstanding at 31 December, net | - | 11,156 | - | - | 13,203 | 2,736 |
| Long term deposits at 1 January | 97,857 | - | 276,788 | 100,467 | - | 284,537 |
| Long term deposits received during the year | - | - | 419,557 | - | - | - |
| Long term deposits repaid during the year | - | - | (102,648) | - | - | (8,756) |
| Other movements | 2,260 | - | 1,793 | (2,610) | - | 1,007 |
| Long term deposits at 31 December | 100,117 | - | 595,490 | 97,857 | - | 276,788 |
| Short term deposits at 31 December | 52,686 | - | 3,907,994 | - | - | 6,173,728 |
| Commitments and guarantees received | 9,362,285 | - | 23,306 | 11,683,360 | - | 66,209 |

The income and expense arising from related party transactions are as follows:

| | For the year ended 31 December | | | | | |
|-------------------------------|--------------------------------|--------------------------|-------------------------------|----------------|--------------------------|-------------------------------|
| | 2012 | | | 2011 | | |
| | Parent company | Key management personnel | Entities under common control | Parent company | Key management personnel | Entities under common control |
| Interest income | 132 | 692 | 0 | 653 | 685 | 152 |
| Allowance for loan impairment | - | 16 | - | - | 51 | 66 |
| Interest expense | (1,560) | - | (43,886) | (9,380) | - | (33,084) |
| Fee and commission income | 1,126 | 12 | 328 | 1,124 | 4 | 305 |
| Other income | - | - | - | - | - | 691 |
| Fee and commission expenses | (268,803) | (1) | (169) | (197,951) | (1) | (252) |
| Other operating expenses | - | - | - | (1,952) | - | 1 |

(thousands of Ukrainian hryvnia unless otherwise indicated)

Guaranties received from ING Group companies represent irrevocable unconditional guarantees for credit risk cover on loans granted by the Bank to corporate customers.

The aggregate short-term benefits paid to the key management personnel for 2012 is UAH 20,428 thousand (2011: UAH 16,293 thousand).

(thousands of Ukrainian hryvnia unless otherwise indicated)

26. Capital adequacy

The Bank maintains an actively managed adequate capital level to cover external risks inherent in the business. The adequacy of the Bank's capital is monitored using the ratios established by the NBU and Basel Capital Accord 1988.

During 2012, the Bank complied in full with all its externally imposed capital requirements.

The primary objectives of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains strong credit ratings and proper capital ratios in order to support its business and to maximise shareholders' value.

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. No changes were made in the objectives, policies and processes from the previous years.

NBU capital adequacy ratio

The NBU requires banks to maintain a capital adequacy ratio of 10% of the amount of risk-weighted assets, computed in accordance with the NBU requirements.

As at 31 December 2012 and 2011, the Bank's capital adequacy ratio on this basis was as follows:

| | <u>2012</u> | <u>2011</u> |
|-------------------------------|-------------------------|-------------------------|
| Main capital | 1,096,441 | 1,088,009 |
| Additional capital | 927,919 | 645,132 |
| Total capital | <u>2,024,360</u> | <u>1,733,141</u> |
| Risk weighted assets | <u>5,940,579</u> | <u>4,076,061</u> |
| Capital adequacy ratio | 34.08% | 42.52% |

Capital adequacy ratio under Basel Capital Accord 1988

As at 31 December 2012 and 2011, the Bank's capital adequacy ratio, computed in accordance with the Basel Capital Accord 1988 amended to include market risk was as follows:

| | <u>2012</u> | <u>2011</u> |
|-----------------------------|-------------------------|-------------------------|
| Tier 1 capital | 1,975,905 | 1,843,918 |
| Tier 2 capital | — | — |
| Total capital | <u>1,975,905</u> | <u>1,843,918</u> |
| Risk weighted assets | <u>9,291,482</u> | <u>9,256,442</u> |
| Tier 1 capital ratio | 21.27% | 19.92% |
| Total capital ratio | 21.27% | 19.92% |

Acting Chairman of the Board



Sergey Sokolov

Chief Accountant

Oksana Chizhevskaya

9 April 2013