



Versobank AS
(Versobank Ltd.)

**Public Interim Report
IV Quarter 2012**

Translation from original in Estonian

Registry code: 10586461
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SUMMARY INFORMATION

General Data of Credit Institution

Business name	Versobank AS
Location and address	Pärnu mnt 12, 10148 Tallinn, Estonia
Country of registration	Republic of Estonia
Registration date	14.10.1999
Registration code	10586461 (Estonian Commercial Register)
Telephone	(+372) 6 802 500
Fax	(+372) 6 802 501
S.W.I.F.T. BIC code	SBMBEE22
E-mail	info@versobank.com
Internet home page	http://www.versobank.com

Auditor

Business name of auditor	KPMG Baltics OÜ
Registration code of auditor	10096082
Auditor's location and address	Narva mnt 5, 10117 Tallinn, Estonia
Partner in charge	Taivo Epner
Engagement leader	Risto Viirg

Report balance sheet date	31.12.2012
Report period	01.01.2012 – 31.12.2012
Report currency and units	Euro (EUR), in thousands of euros

Bank has not been rated by international rating agencies.

Public Interim Report IV Quarter 2012 of Versobank AS is unaudited.
Only the credit institution data and figures are disclosed in the report.

	EUR ths.
Total assets	62,142
Net profit / loss	-3,536
Return on equity (ROE)	-57.39%
Asset utilisation (AU)	4.17%
Overdue claims and loans	4,895
Loan loss provisions	-4,683
Net own funds	9,409
Capital adequacy	26.60%

"Public Interim Report IV Quarter 2012" of Versobank AS is available in the office of Versobank AS in Tallinn, Pärnu mnt 12 and on the Bank's internet web page www.versobank.com from 22.02.2013.

DECLARATION OF THE MANAGEMENT BOARD

The Management Board of Versobank AS is, after examining the information presented in this Public Interim Report, of opinion that:

1. Public Interim Report, consisting of summary information, declaration of the Management Board, management report and financial statements, discloses information meeting the requirements set by the rules of "Public Interim Report".
2. The data and additional information presented in the Public Interim Report is true and complete.
3. Nothing is missing or omitted from the data and information presented in the Public Interim Report, which could influence their content or meaning.
4. Financial statements have been compiled in accordance with International Financial Reporting Standards as adopted by the European Union, and give a true and fair view of the financial position of the bank and of the results of its operations and its cash flows.
5. Versobank AS is operating on a going concern basis.

In Tallinn, 22.02.2013

Riho Rasmann
Chairman of the Management Board

Sven Raba
Member
of the Management Board

Mart Veskimägi
Member
of the Management Board

Marija Sutirina
Member
of the Management Board

MANAGEMENT REPORT

Description of the Credit Institution and its Management Bodies

Versobank AS is a credit institution, established in 1999 and operating in Estonia. Versobank AS (hereinafter: the Bank) holds the activity license issued by the Bank of Estonia, which allows the Bank to engage in all banking operations. Bank has an account manager status of Estonian Central Depository for Securities, is a member of S.W.I.F.T. and an associate member of Visa Europe. Bank has joined SEPA (Single Euro Payments Area) systems as an indirect member, cross-border clearing system TARGET2-Eesti and domestic clearing system ESTA.

The owners of Versobank AS, as of the report date 31.12.2012 and as of the report compilation date, are:

82.8239% of shares are owned by UKRSELHOSPROM PCF LLC (location Dnepropetrovsk, Ukraine);

11.4594% of shares are owned by Mr. Nikolaos Sarros (place of residence Athens, Greece);

2.2350% of shares are owned by Sigma Real Estate OÜ (location Tallinn, Estonia), a private limited company under control of Mr. Nikolaos Sarros;

1.7277% is owned by Frösundaviksparken AB (location Stockholm, Sweden);

0.8814% of shares are owned by Mirage Investments OÜ (location Tallinn, Estonia) and

0.8726% is owned by Mr. Emmanouil Karavelakis (place of residence Athens, Greece).

Extraordinary Meeting of Shareholders decided on 27.11.2012 to increase the share capital of the Bank by EUR 2,000,001, i.e. from EUR 12,088,774.20 to EUR 14,088,775.20 by issuing new shares. The majority shareholder UKRSELHOSPROM PCF LLC subscribed the issue in full on 13.12.2012 and filed an application with the Central Bank of Ukraine for receiving appropriate license. The term of payment for new shares is 28.02.2013.

The Supervisory Board of the Bank had five members as of the report date and the date of report compilation. Mr. Oleksandr Rechytskyi is the Chairman of the Supervisory Board, members are Mr. Vadym Iermolaiev, Mr. Stanislav Vilens'kyi, Mrs. Steinunn Kristin Thordardottir and Mr. Härmo Värk.

The Management Board of the Bank had four members as of the report date and the date of report compilation. Mr. Riho Rasmann is the Chairman of the Management Board and the members of the Management Board are Mr. Sven Raba, Mr. Mart Veskimägi and Mrs. Marija Sutirina. The Chairman of the Management Board and the members of the Management Board do not own shares neither hold options to acquire shares of the Bank.

The Bank's only subsidiary Osito Casa OÜ was liquidated in year 2012. The main real estate activities of the company were moved under the bank in September 2011 and the subsidiary was deleted from the commercial register on 28.12.2012. The Bank has no participating interests, exceeding 20% shareholding in any company, but the Bank owns 16% of business development company European Business Development AS.

Major Economic Events

Replacement of the main shareholder of the Bank was the most important economic event of the last year, followed by the change of business name, share capital increase and changes in strategy which lead to substantial growth in the number of non-resident corporate customers. These events had a more significant impact on the economic results of the Bank starting from July 2012, when a new price list came into force which also distinguishes between the fees for residents and non-residents. The proportion of non-resident customers, volumes of transactions and thereby also the fees and commissions income of the Bank have increased significantly as a result of these changes.

Number of customers of the Bank increased 9.3% during the last year (year earlier 10.6%), the number of active depositors increased 3.0% (decreased 0.6% year earlier). The growth of deposits was very fast: 54.6% in year 2012, compared with a 28.8% decrease year earlier. Client deposits with the Bank totalled 50.8 million euros as of 31.12.2012 (32.8 million euros as of 31.12.2011). Total balance sheet of the Bank has increased 46.3% from beginning of the year, reaching 62.1 million euros as of 31.12.2012 (as of 31.12.2011 the balance sheet total was 42.5 million euros).

Gross loan portfolio (excluding deposits with financial institutions) comprised 25.1 million euros, decreasing 19.3% from beginning of the last year (decrease was 17.0% year earlier) and forming 40.4% of total assets as at the end of financial year (31.12.2011: 73.2%). Gross loan portfolio amounted 31.1 million euros as of 31.12.2011. Decrease was mainly due to the write-off of non-performing claims in the amount of 5.1 million euros during year 2012 (0.3 million euros during year 2011). Bank had continuously much more deposits than loans – deposits ratio to loans stood at 2.02 as of 31.12.2012 (1.06 at year-end 2011).

Decrease in interest income, conservative loan and other loss provisions caused the net loss of the Bank in year 2012, but the Bank forecasts a significant improvement of results in next reporting periods. Net loss of year 2012 comprised 3.5 million euros (net loss of year 2011 was 2.2 million euros). Bank investments in debt securities have been significantly increased for the diversification of interest income sources.

Net interest income of the reporting period was 0.9 million euros (2011: 1.2 million euros), earned mostly on loans. Net fees and commissions income totalled 0.17 million euros (2011: 0.02 million euros). 0.08 million euros were earned on foreign exchange transactions (2011: 0.06 million euros). Total operating income from banking activities (excluding loan provisions) comprised 1.0 million euros in year 2012 compared with 1.1 million euros year earlier. Administrative expenses of year 2012 and 2011 were 2.3 million euros and 2.2 million euros correspondingly.

Bank's equity totalled 7.5 million euros as of 31 December 2012 and the regulatory capital adequacy stood at 26.60% (31.12.2011: 4.8 million euros, capital adequacy 23.01%). Share capital increase by 2.0 million euros will be finalised in the 1st quarter of year 2013 via monetary payment for new shares.

No new branch offices were opened in year 2012, but preparations were made for opening Bank's representative office in Dnepropetrovsk, Ukraine. The Bank received appropriate license from the National Bank of Ukraine in January 2013. Bank has increased the functionality of its internet bank ibVerso and added the possibility to use digipasses (PIN calculators) for authentication.

Bank paid a lot of attention last year to correspondent banking and liquidity management. Swiss bank BSI AG opened a 10 million euro credit line to the Bank as a new cooperation partner. Bank has opened several new correspondent accounts (incl. accounts with Commerzbank AG, Sberbank, Raiffeisen Bank International AG) aiming at better and faster service to customers, increased the speed of foreign payment settlements and prolonged the

clearing day. Letters of credit have been added to new products, and the start of the VISA bank card issuing has been planned for second half of year 2013.

Ratings

Versobank AS has not been rated by international rating agencies.

Ratios

		01.01.2012 - 31.12.2012	01.01.2011 - 31.12.2011
Return on equity	ROE	-57.39%	-42.37%
Equity multiplier	EM	8.49	8.39
Profit margin	PM	-162.20%	-94.91%
Asset utilisation	AU	4.17%	5.32%
Return on assets	ROA	-6.76%	-5.05%
Net interest margin	NIM	1.65%	3.82%
Basic earnings per share	Basic EPS	-0.21	-0.17
Diluted earnings per share	Diluted EPS	-0.21	-0.17
Spread	SPREAD	1.63%	4.50%
Yield on interest-earning assets	YIEA	3.32%	7.29%
Cost of interest-bearing liabilities	COL	1.69%	2.79%

Explanations to ratios

Total income includes the following income items: interest income, fees and commissions income, dealing profits, income from financial investments, other operating income, extraordinary income, income from value adjustments of fixed and intangible assets (+), income from value adjustments of advances and off-balance sheet commitments (+), income from value adjustments of long term financial investments.

ROE	Net profit (loss) / Average equity * 100
EM	Average assets / Average equity
PM	Net profit (loss) / Total income * 100
AU	Total income / Average assets * 100
ROA	Net profit (loss) / Average assets * 100
NIM	Net interest income / Average interest earning assets * 100
Basic EPS	Net profit (loss) / Average number of shares
Diluted EPS	Net profit (loss) / Average number of shares (considering all convertible securities)
SPREAD	Yield on interest earning assets - Cost of interest bearing liabilities = YIEA - COL
YIEA	Interest income / Average interest earning assets * 100
COL	Interest expense / Average interest bearing liabilities * 100

Legal Disputes

Courts are proceeding with Bank actions against different persons, who have not fulfilled their obligations, and where the mutually satisfying agreements have not been reached in negotiations. Bankruptcy proceedings are also taking place against obligors as well as guarantors and execution proceedings are taking place with regard to pledged collateral assets and private person debtors.

The total of five court actions has been filed against the Bank as of the date of compiling the management report. There are no cases pending in courts or arbitration bodies that might cause significant proprietary damage to the Bank.

FINANCIAL STATEMENTS

Statement of Financial Position

	EUR ths.	EUR ths.
	31.12.2012	31.12.2011
ASSETS		
Cash	130	117
Loans and advances	48,183	37,221
Balances with the central bank	4,545	8,778
Due from other credit institutions	22,979	4,679
Due from customers	20,659	23,764
o/w allowance (-)	-4,683	-7,636
o/w interest	882	1,138
Financial assets held for trading	19	5
Available-for-sale financial assets	4,404	124
Held-to-maturity investments	5,039	0
Property and equipment	129	184
Investment properties	3,938	4,557
Intangible assets	96	105
Other assets	204	165
TOTAL ASSETS	62,142	42,478
LIABILITIES		
Financial liabilities held for trading	16	6
Financial liabilities measured at amortised cost	51,031	32,836
Due to credit institutions and borrowings	276	15
Due to customers	50,755	32,821
Companies	26,574	14,073
Non-profit organisations	2,493	587
Private persons	21,272	17,814
incl. interest payable	416	347
Subordinated debt	2,931	4,033
Borrowed funds from government and foreign aid	199	166
Tax liabilities	143	87
Other liabilities	326	521
TOTAL LIABILITIES	54,646	37,649
SHAREHOLDERS' EQUITY		
Share capital	12,089	7,049
Other equity instruments	1,069	0
Statutory legal reserve	36	36
Fair value reserve of available-for-sale financial assets	83	-11
Accumulated deficit	-2,245	-1
Profit / loss for the financial year	-3,536	-2,245
TOTAL SHAREHOLDERS' EQUITY	7,496	4,829
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	62,142	42,478

Income Statement

	EUR ths. 01.01.2012- 31.12.2012	EUR ths. 01.10.2012- 31.12.2012	EUR ths. 01.01.2011 - 31.12.2011	EUR ths. 01.10.2011 - 31.12.2011
Interest income	1,722	440	2,235	677
From loans	1,464	330	2,071	646
From deposits	46	15	159	30
From debt securities	28	27	5	1
From financial investments	184	68	0	0
Interest expense	773	199	1,073	245
On demand deposits	8	2	13	3
On time deposits	793	276	864	191
On derivatives	0	0	7	1
From borrowings	-29	-79	189	50
Other expenses	1	0	0	0
Net interest income	949	241	1,162	432
Fees and commissions income	222	150	71	21
Account opening and maintenance fees	68	30	21	8
Bank transaction fees	134	108	37	10
Letters of credit fees	5	5	0	0
Securities' transaction fees	5	1	7	1
Other fees and commissions income	10	6	6	2
Fees and commissions expense	57	33	47	14
Securities' transactions expenses	11	6	6	2
Bank transaction expenses	24	16	15	4
S.W.I.F.T. expenses	16	5	26	8
Other fees and commissions expense	6	6	0	0
Net fees and commissions expense	165	117	24	7
Net trading income/expense	120	70	59	18
From foreign exchange	75	33	59	14
From shares and debt securities in trading portfolio	45	37	0	4
Other operation income	116	34	92	24
Other operation expenses	345	200	201	51
Guarantee Fund payments	65	17	68	16
Financial Supervision Authority fees	56	14	55	14
Tallinn Stock Exchange fees	11	0	22	6
Other operating expenses	213	169	56	15
Total income	1,005	262	1,136	430
Administrative expenses	2,269	628	2,174	514
Personnel expense, payroll related taxes	1,430	411	1,280	289
Other administrative expense	839	217	894	225
Depreciation and amortisation of tangible and intangible assets	-79	-16	-109	-23
Provisions (+/-)	142	48	-90	-90
Impairment loss on assets (+/-)	-2,335	-1,786	-1,008	-326
Total operating expenses	4,541	2,382	3,381	953
Profit before taxation	-3,536	-2,120	-2,245	-523
NET PROFIT / LOSS FOR THE PERIOD	-3,536	-2,120	-2,245	-523
Basic earnings/loss per share	-0.21 EUR		-0.17 EUR	
Diluted earnings/loss per share	-0.21 EUR		-0.17 EUR	

Statement of Cash Flows

	EUR ths.	EUR ths.
	01.01.2012 - 31.12.2012	01.01.2011 - 31.12.2011
Cash flows from operating activities	17,345	-4,959
Interests received	1,466	2,021
Interests paid	-704	-799
Fees and commissions received	206	56
Fees and commissions paid	-57	-47
Administrative expenses	-2,227	-2,133
Trading income received	120	59
Other operating income	116	92
Other operating expenses	-345	-201
Change in operating assets and liabilities:		
Change in due from other banks	211	2,106
Change in due from customers of credit institution	2,849	6,920
Change in due to credit institutions	94	1,538
Change in due to customers	17,865	-13,370
Change in assets and liabilities connected with other operating activities	-2,249	-1,201
Cash flows from investing activities	-8,505	-78
Purchase of property and equipment	-24	-56
Purchase of intangible assets	-8	-6
Purchase of investment properties	0	-95
Sale of investment properties	382	79
Debt securities purchased	-10,815	0
Debt securities sold	1,960	0
Cash flows from financing activities	5,240	1,312
Increase of share capital	5,040	1,600
Decrease of share capital	0	0
Subordinated debt received	0	0
Change in interest of subordinated debt	0	-182
Other borrowings received	295	100
Borrowings repaid	-95	-206
Total cash flows	14,080	-3,725
Cash and cash equivalents at the beginning of year	13,574	17,299
Net change in cash and cash equivalents	14,080	-3,725
Cash and cash equivalents at the end of the year *	27,654	13,574

* Cash and cash equivalents at the end of the year comprise:

	EUR ths.	EUR ths.
	31.12.2012	31.12.2011
Cash	130	117
Mandatory reserve and deposits with the Bank of Estonia	4,545	8,778
Deposits with credit institutions with maturity up to 3 months	22,979	4,679
Total	27,654	13,574

Statement of Changes in Equity

	EUR ths.	EUR ths.
	01.01.2012 - 31.12.2012	01.01.2011 - 31.12.2011
Share capital		
Balance at the beginning of period	7,049	9,384
Share capital reduction to cover losses	0	-3,935
Share capital increase	5,040	1,600
Balance at the end of period	12,089	7,049
Other equity instruments		
Balance at the beginning of period	0	0
Equity component of subordinated debt	1,069	0
Balance at the end of period	1,069	0
Statutory legal reserve		
Balance at the beginning of period	36	36
Balance at the end of period	36	36
Fair value reserve of available-for-sale financial assets		
Balance at the beginning of period	-11	-12
Comprehensive loss for the period	94	1
Balance at the end of period	83	-11
Accumulated deficit		
Balance at the beginning of period	-2,245	-3,935
Share capital reduction to cover losses	0	3,935
Comprehensive loss for the period	-3,536	-2,245
Balance at the end of period	-5,781	-2,245
Total shareholders' equity:		
at the beginning of period	4,829	5,472
at the end of period	7,496	4,829

Contingent Claims and Liabilities

	31.12.2012	
	EUR ths.	EUR ths.
	Claims	Liabilities
Irrevocable transactions	12,739	13,580
Unused loan limits	0	741
Letters of credit granted but not utilised	0	100
Currency forward transactions	12,739	12,739

	31.12.2011	
	EUR ths.	EUR ths.
	Claims	Liabilities
Irrevocable transactions	5,956	6,599
Unused loan limits	0	640
Currency forward transactions	5,956	5,959

Currency Risk

	31.12.2012				
	Balance sheet position		Off-balance sheet position		Net
	assets	liabilities	assets	liabilities	position
EUR and EEK joint position	45,640	36,064	5,316	7,620	7,272
USD position	15,783	17,874	7,422	5,329	2
SEK position	580	580	0	0	0

	31.12.2011				
	Balance sheet position		Off-balance sheet position		Net
	assets	liabilities	assets	liabilities	position
EUR and EEK joint position	38,917	32,571	2,738	3,863	5,221
USD position	4,125	4,606	3,217	2,736	0
RUB position	26	26	0	0	0
SEK position	267	268	0	0	0

Risk Concentration

	31.12.2012		
	no.	EUR ths.	% of net own funds
Number of customers (client groups) with high risk concentration	18		
Due from customers with high risk concentration		33,215	352.06%
Due from persons related with credit institution		369	3.92%

	31.12.2011		
	no.	EUR ths.	% of net own funds
Number of customers (client groups) with high risk concentration	20		
Due from customers with high risk concentration		17,148	241.45%
Due from persons related with credit institution		123	1.73%

Capital Adequacy

	EUR ths.	EUR ths.
	31.12.2012	31.12.2011
Share capital paid-in	12,089	7,049
Other reserves	36	36
Accumulated deficit of the previous years	-2,245	-3
Intangible assets	-96	-105
Net loss of the period	-3,536	-2,245
Total tier 1 own funds	6,248	4,734
Subordinated debt	4,000	4,000
Available-for-sale financial instruments	37	0
Tier 2 own funds, which exceed the limits	-876	-1,632
Second level equity	3,161	2,367
Minimum own funds	9,409	7,102
Tier 1 own funds after deductions	6,248	4,734
Tier 2 own funds after deductions	3,161	2,367
Own funds for capital adequacy calculations	9,409	7,102
Central governments and central banks under standard method	55	0
Credit institutions and investment companies under standard method	689	106
Companies under standard method	313	241
Mass claims under standard method	889	962
Claims backed by mortgages under standard method	162	109
Overdue claims under standard method	461	881
Other assets under standard method	427	491
Total capital requirement for credit risk and counterparty credit risk	2,996	2,790
Capital requirement for interest rate position risk	314	0
Total capital requirements for currency risk, commodity risk and trading portfolio position risk	314	0
Operational risk base method	227	296
Total capital requirement for operational risk	227	296
Capital requirements for adequacy calculations	3,537	3,086
Capital adequacy	26.60%	23.01%

Minimum capital adequacy ratio, as required by the Bank of Estonia, is 10%.

Bank is publishing information on risk management, own funds and capital adequacy in the annual reports and interim reports on the web page of the Bank following the decree of the Governor of the Bank of Estonia. Capital adequacy requirement is applied to Versobank AS. Following the decision of the Management Board of Financial Supervision Authority dd. 16.03.2011, daughter company Osito Casa OÜ has not been included in the consolidation group. Consolidation group definition applied in capital adequacy calculation does not differ from the consolidation group definition used in the compilation of the financial statements.

The amount of capital requirement to cover currency risk and commodities risk is zero.

Bank applies standard method for calculating capital requirement for credit risk and base method for calculating capital requirement for operational risk following the capital adequacy calculation directive Basel II.