

PUBLIC JOINT STOCK COMPANY
JOINT STOCK BANK
“UKRGASBANK”
Financial Statements

Year ended 31 December 2011
Together with Independent Auditors' Report

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Independent Auditors' Report

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

We have audited the accompanying financial statements of Public Joint-Stock Company Joint Stock Bank "Ukrasbank" (the Bank), which comprise the statement of financial position as at 31 December 2011, and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2011, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.



JSC KPMG Audit

24 May 2012

STATEMENT OF FINANCIAL POSITION**as at 31 December 2011***(Thousands of Ukrainian hryvnia)*

	Notes	2011	2010
Assets			
Cash and cash equivalents	6	1,637,546	1,563,085
Precious metals		77,315	28,312
Amounts due from credit institutions	7	247,294	68,980
Derivative financial assets	8	4,499	7,779
Loans to customers	9	9,365,189	3,872,421
Investment securities available-for-sale	10	3,262,323	2,378,921
Investment property	11	10,266	11,637
Property, equipment and intangible assets	12	693,917	696,538
Current income tax assets		313	313
Other assets	15	26,600	21,598
Total assets		15,325,262	8,649,584
Liabilities			
Amounts due to the National Bank of Ukraine	16	4,744,281	3,901,675
Amounts due to credit institutions	17	1,473,462	310,969
Derivative financial liabilities	8	21,372	1,324
Amounts due to customers	18	5,602,209	5,229,710
Debt securities issued	19	20,382	59,916
Deferred income tax liabilities	13	-	1,228
Subordinated debt	20	50,435	50,510
Provisions for guarantees and commitments	14	4,630	10,083
Other liabilities	15	50,432	60,952
Total liabilities		11,967,203	9,626,367
Equity			
	21		
Share capital		10,012,835	5,712,835
Additional paid-in capital		136,733	136,733
Other reserves		183,051	250,673
Accumulated deficit		(6,974,560)	(7,077,024)
Total equity		3,358,059	(976,783)
Total equity and liabilities		15,325,262	8,649,584

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

Sergiy Mamedov

Chairman of the Board

Nataliya Khrustalyova

Chief Accountant

24 May 2012



STATEMENT OF COMPREHENSIVE INCOME**for the year ended 31 December 2011***(Thousands of Ukrainian hryvnia)*

	Notes	2011	2010
Interest income			
Loans to customers		1,174,488	913,174
Amounts due from credit institutions		22,649	51,674
Investment securities available-for-sale		370,566	359,336
		1,567,703	1,324,184
Interest expense			
Amounts due to the National Bank of Ukraine		(343,276)	(366,421)
Amounts due to customers		(525,887)	(648,022)
Amounts due to credit institutions		(58,498)	(15,050)
Debt securities issued		(6,827)	(15,382)
Subordinated debt		(5,926)	(6,000)
		(940,414)	(1,050,875)
Net interest income		627,289	273,309
Allowance for loan impairment and amounts due to credit institutions	7, 9	(73,115)	(1,013,999)
Net interest income after allowance for loan impairment		554,174	(740,690)
Net fee and commission income	23	101,339	84,851
Net losses from investment securities available-for-sale	24	(47,831)	(43,519)
Loss on initial recognition of investment securities available-for-sale	25	(1,845)	(130,377)
Net gains/(losses) from foreign currencies:			
- dealing		87,813	18,483
- translation differences		(12,989)	(2,123)
Net gains/(losses) from investment property		68	(109)
Other income	26	20,943	6,819
Non-interest expense		147,498	(65,975)
Personnel expenses	27	(320,742)	(312,465)
Other operating expenses	27	(172,712)	(185,046)
Depreciation and amortization	12	(52,868)	(54,729)
Other impairment and provisions	14,15	(33,768)	(27,152)
Non-interest expense		(580,090)	(579,392)
Profit (loss) before income tax		121,582	(1,386,057)
Income tax expense / (benefit)	13	(19,118)	7,208
Net profit (loss)		102,464	(1,378,849)
Other comprehensive income:			
Unrealised gains on investment securities available-for-sale	21	(100,090)	14,857
Realised losses on investment securities available-for-sale reclassified to profit and loss	21	(5,689)	(2,090)
Revaluation of buildings	21	17,811	-
Income tax relating to components of other comprehensive income	13	20,346	44,954
Other comprehensive income for the year		(67,622)	57,721
Total comprehensive loss for the year		34,842	(1,321,128)
Weighted average number of shares (in thousands)		7,561,370	5,517,808
Basic and diluted loss per share		(0.00)	(0.24)

The accompanying notes on pages 5 to 41 are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2011

(Thousands of Ukrainian hryvnia)

	Share capital	Additional paid-in capital	Other reserves	Accumulated deficit	Total equity
31 December 2009	5,363,039	486,539	192,964	(5,698,187)	344,355
Total comprehensive loss for the year	-	-	57,721	(1,378,849)	(1,321,128)
Transfer to retained earnings	-	-	(12)	12	-
Issue of share capital (Note 21)	349,796	(349,806)	-	-	(10)
31 December 2010	5,712,835	136,733	250,673	(7,077,024)	(976,783)
Total comprehensive income for the year	-	-	(67,622)	102,464	34,842
Issue of share capital (Note 21)	4,300,000	-	-	-	4,300,000
31 December 2011	10,012,835	136,733	183,051	(6,974,560)	3,358,059

STATEMENT OF CASH FLOWS**for the year ended 31 December 2011***(Thousands of Ukrainian hryvnia)*

	Notes	2011	2010
Cash flows from operating activities			
Interest received		1,242,507	903,166
Interest paid		(1,007,730)	(1,097,215)
Fees and commissions received		124,168	105,611
Fees and commissions paid		(23,175)	(20,223)
Receipts from dealing in foreign currencies		111,141	16,674
Other income received		7,812	6,819
Personnel expenses paid		(315,360)	(307,645)
Other operating expenses paid		(171,718)	(158,682)
Cash flows used in operating activities before changes in operating assets and liabilities		(32,355)	(551,495)
<i>Net (increase)/decrease in operating assets</i>			
Precious metals		(48,847)	(3,815)
Amounts due from credit institutions		(167,174)	31,108
Loans to customers		(5,425,971)	220,465
Other assets		(44,956)	(36,221)
<i>Net increase/(decrease) in operating liabilities</i>			
Amounts due to credit institutions		1,271,402	(132,772)
Amounts due to customers		394,288	1,210,785
Other liabilities		(16,290)	(6,048)
Net cash flows from (used in) operating activities before income tax		(4,069,903)	732,007
Income tax paid		-	-
Net cash from (used in) operating activities		(4,069,903)	732,007
Cash flows from investing activities			
Purchase of investment securities		(25,611,682)	(23,207,010)
Proceeds from sale and redemption of investment securities		29,029,529	21,740,250
Purchase of property and equipment		(19,101)	(29,380)
Proceeds from sale of property and equipment		999	1,163
Net cash used in investing activities		3,399,745	(1,494,977)
Cash flows from financing activities			
Proceeds from borrowings from credit institutions		(111,294)	(105,826)
Repayment of borrowings from credit institutions		-	-
Proceeds from borrowings from the National bank of Ukraine		899,999	-
Proceeds from issue of share capital	21	-	-
Proceeds from bonds issued		10,737	6,508
Redemption of bonds issued		(50,066)	(63,023)
Net cash from (used in) financing activities		749,376	(162,341)
Effect of exchange rates changes on cash and cash equivalents		(4,757)	(3,055)
Net decrease/(increase) in cash and cash equivalents		74,461	(928,366)
Cash and cash equivalents, beginning		1,563,085	2,491,451
Cash and cash equivalents, ending	6	1,637,546	1,563,085
Non-cash financing activities:			
Issue of share capital/ Purchase of investment securities (Note 21)		4,300,000	-

The accompanying notes on pages 5 to 41 are an integral part of these financial statements.

(thousands of Ukrainian hryvnia unless otherwise indicated)

1. Background

Organisation and operations

The Public Joint-Stock Company Joint Stock Bank "Ukrasbank" (the Bank) was established on 22 August 1995 as a closed joint stock company under the National Bank of Ukraine (the NBU) license #183 from the former Closed Joint Stock Company Joint Stock Bank "Hadjibei", which later was renamed to "Intergazbank". On 27 May 1997 the Bank changed its name from "Intergazbank" to "Ukrasbank". Subsequently, on 10 October 1997, Ukrasbank was re-registered by the NBU as an open joint stock company joint stock bank. In September 2009, the Bank changed its name from Open Joint Stock Company Joint Stock Bank "Ukrasbank" to Public Joint Stock Company Joint Stock Bank "Ukrasbank" according to the requirements of Ukrainian legislation and the decision of the general meeting of shareholders dated 29 May 2009.

The Bank accepts deposits from the public and extends loans, transfers payments in Ukraine and abroad, exchanges currencies and provides other banking services to its commercial and retail customers. Its main office is in Kyiv and it has 1 branch and 277 operating outlets (2009 – 11 branches and 268 operating outlets) in different regions of Ukraine. The Bank's main office address is 39, Velyka Vasylkivska St., Kyiv, Ukraine. The Bank's registered legal address is 1, Yerevanska St., Kyiv, Ukraine.

As at 31 December, the structure of the Bank's shareholders was as follows:

Shareholder	2011 %	2010 %
The Ministry of Finance of Ukraine	92.9	87.7
"Financial Investment Alliance" LLC	2.8	4.9
"Company "Ukrasinvest plus" LLC	1.3	2.3
"Investanalitk" LLC	0.5	1.0
"Ukrainian company of projects development" LLC	0.5	0.9
"Ukrainian venture capital" LLC	0.5	0.8
Other	1.5	2.4
Total	100.0	100.0

Ukrainian business environment

Ukraine is experiencing political and economic change that has affected, and may continue to affect, the activities of enterprises operating in this environment. In addition, the contraction in the capital and credit markets and its impact on the economy of Ukraine have further increased the level of economic uncertainty in the environment. These financial statements reflect management's current assessment of the impact of the Ukrainian business environment on the operations and the financial position of the Bank. The future business environment may differ from management's assessment.

2. Basis of preparation

Statement of compliance

These financial statements are prepared in accordance with International Financial Reporting Standards (IFRS).

Basis of measurement

These financial statements are prepared on the historical cost basis except that derivative financial instruments, available-for-sale financial assets and investment property are stated at fair value, and buildings are stated at revalued amounts.

Functional and presentation currency

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

3. Significant accounting policies

The accounting policies set out below are applied consistently to all periods presented in these financial statements.

Foreign currency translation

Transactions in foreign currencies are initially recognised in the Bank's functional currency at the exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date. The foreign currency gain or loss is recognised in the statement of comprehensive income as net result from foreign currency transactions. Non-monetary assets and

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(thousands of Ukrainian hryvnia unless otherwise indicated)

liabilities denominated in foreign currencies that are measured at fair value are translated into hryvnias at the exchange rate at the date that the fair value is determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

The differences between a contractual exchange rate on a specific transaction in a foreign currency and the official rate of the National Bank of Ukraine ruling at the date of such transaction are also included in the result of dealing in foreign currencies.

The official UAH exchange rates of the National Bank of Ukraine used in the preparation of these financial statements are as follows:

Currency	2011	2010
US dollar	7.9898	7.9617
EUR	10.2981	10.5731

As at the date of these financial statements are authorised for issue, 24 May 2012, the NBU exchange rate is UAH 7.9925 to USD 1.00 and UAH 10.1177 to EUR 1.00.

Financial assets

Initial recognition

Financial assets in the scope of IAS 39 *Financial Instruments: Recognition and Measurement* 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 as described below.

Date of recognition

All regular way purchases and sales of financial assets are recognised on the trade date i.e., the date that the Bank commits to purchase the asset. 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 'investment securities designated 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. Gains or losses on financial assets at fair value through profit or loss are recognised in profit and loss.

The Bank may designate financial assets and liabilities at fair value through profit or loss where either the assets or liabilities are managed and evaluated on a fair value basis, the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise or, the asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

Financial assets at fair value through profit and loss and derivative financial instruments are not reclassified subsequent to initial recognition.

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 method. Gains and losses are recognised in profit and loss 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, held-to-maturity financial assets or loans and receivables. After initial recognition available-for sale financial assets are measured at fair value with gains or losses being recognised in other 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 other comprehensive income is reclassified to profit and loss. Interest calculated using the effective interest method is recognised in profit and loss.

Measurement

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

The accompanying notes on pages 5 to 41 are an integral part of these financial statements.

(thousands of Ukrainian hryvnia unless otherwise indicated)

- loans and receivables which are measured at amortized cost using the effective interest method or
- held-to-maturity investments that are measured at amortized cost using the effective interest method or
- investments in equity instruments that do not have a quoted market price in an active market and whose fair value can not be reliably measured which are measured at cost.

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

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

Gains and losses on subsequent measurement

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

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

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

Determination of fair value

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

For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques with a maximum use of market inputs. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist, options 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.

Reclassification of financial assets

A financial asset classified as available-for-sale that would have met the definition of loans and receivables may be reclassified to the loans and receivables category if the Bank has the intention and ability to hold it for the foreseeable future or until maturity.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, unrestricted balances with the NBU, amounts due from credit institutions that mature within ninety days of the date of origination and that are free from contractual encumbrances, and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value, and are used to manage short-term commitments. The mandatory reserve deposit with the NBU is not considered to be a cash equivalent due to restrictions on its withdrawability.

Precious metals

Precious metals are stated at the lower of net realizable value or cost. The net realizable value of precious metals is estimated based on quoted market prices. The cost of precious metals is assigned using the first-in, first-out cost formula.

Repurchase and reverse repurchase agreements and securities lending

Sale and repurchase agreements are treated as secured financing transactions. Securities sold under sale and repurchase agreements are retained in the statement of financial position and, in case the transferee has the right by

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(thousands of Ukrainian hryvnia unless otherwise indicated)

contract or custom to sell or repledge them, 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 repurchase agreements) are recorded as amounts due from credit institutions or loans to customers as appropriate. The difference between 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 gains less losses from trading securities in profit and loss. 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 and swaps in the foreign exchange market primarily with Ukrainian Banks. Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. All derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

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

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

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 the National Bank of Ukraine, amounts due to credit institutions, amounts due to customers, debt securities issued and subordinated debt. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in profit and loss 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 profit and loss.

Leases

i. 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.

ii. 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 profit and loss on a straight-line basis over the lease term as either net gains/losses from investment property for buildings and premises or 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.

(thousands of Ukrainian hryvnia unless otherwise indicated)

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 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 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 profit and loss. Interest income continues to be accrued on the reduced carrying amount based on the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. 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 allowance account.

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 on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the 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.

Loans to customers

The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue 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.

i. 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, the availability of other financial support and the realisable value of collateral, and the timing of the expected cash flows and other factors. The impairment losses are evaluated at each reporting date.

ii. Collectively assessed allowances

Allowances are assessed collectively for losses on loans to customers that are not individually significant 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 the following information: historical losses on the portfolio, current economic conditions, the appropriate delay between the time a loss is likely to have been uncured and the time it will be identified as requiring an individually assessed impairment allowance, and expected receipts and recoveries once impaired.

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

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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 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 but the cash flows are renegotiated on favourable terms for the borrower the loan is not recognised as impaired. The loan is not derecognised and a new effective interest rate is determined based on the remaining cash flows under the loan agreement till maturity
- if the loan is impaired after restructuring, the Bank uses the original effective interest rate in respect of new cash flows to estimate the recoverable amount of the loan. The difference between the recalculated present value of the new cash flows taking into account collateral and the carrying amount before restructuring is included in the provision charges for the period.

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.

Available-for-sale investment securities

For available-for-sale investment securities, 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 profit and loss – is removed from equity and recognised in the profit and loss. Impairment losses on equity investments are not reversed through profit and loss; increases in their fair value after impairment are recognised in other 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. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded in profit and loss. 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 profit and loss, the impairment loss is reversed through profit and loss.

No-financial assets

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

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

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
- the Bank either (a) has 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

The accompanying notes on pages 5 to 41 are an integral part of these financial statements.

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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.

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 profit and loss.

Financial guarantees

In the ordinary course of business, the Bank gives financial guarantees consisting of letters of credit, guarantees and other forms of credit insurance. Financial guarantees are initially recognised in the financial statements at fair value, in 'Other liabilities', being the premium received. Subsequent to 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 to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is taken to profit and loss. The premium received is recognised in profit and loss 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 balance sheet 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.

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

Property and equipment

Following initial recognition at cost, buildings are carried at their revalued amount, which is the fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount.

Any revaluation surplus is credited to the revaluation reserve which is included in other comprehensive income, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit and loss, in which case the increase is recognised in profit and loss. A revaluation deficit is recognised in profit and loss, except that a deficit directly offsetting a previous surplus on the same asset is directly offset against the surplus in the property revaluation reserve.

Additionally, accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

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>
Buildings	50
Furniture and equipment	3-10
Leasehold improvements	over the period of the related lease agreement
Motor vehicles	5

The asset's residual values, useful lives and depreciation methods are reviewed, and adjusted as appropriate, at each reporting date.

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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 computer software. Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. 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 of 3 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 indefinite 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.

Retirement and other benefit obligations

The Bank has pension arrangements to 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. Also the Bank has voluntary contribution pension arrangements with the non-state pension fund, which requires current contributions by the employer calculated as a percentage of employees' payments to this pension fund; such expense is charged in the period the related salaries are earned. Bank has no post-retirement benefits or significant other compensated benefits requiring accrual.

Share capital

Ordinary and preference shares are classified as equity. Any excess of consideration received over the par value of shares issued is recognised as additional paid-in capital.

Segment reporting

The Bank's segmental reporting is based on the following operating segments: retail banking, corporate banking, financial institutions, asset management and other.

Contingencies

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

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 expense

For all financial instruments measured at amortised cost and interest bearing securities classified as 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.

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.

The accompanying notes on pages 5 to 41 are an integral part of these financial statements.

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New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective as at 31 December 2011, and are not applied in preparing these financial statements. Of these pronouncements, potentially the following will have an impact on the financial position and performance. Management plans to adopt these pronouncements when they become effective.

- IFRS 9 "*Financial Instruments*" will be effective for annual periods beginning on or after 1 January 2013. The new standard is to be issued in phases and is intended ultimately to replace International Financial Reporting Standard IAS 39 "*Financial Instruments: Recognition and Measurement*". The first phase of IFRS 9 was issued in November 2009 and relates to the classification and measurement of financial assets. The second phase regarding classification and measurement of financial liabilities was published in October 2010. The remaining parts of the standard are expected to be issued during 2012. The Group recognises that the new standard introduces many changes to the accounting for financial instruments and is likely to have a significant impact on Group's consolidated financial statements. The impact of these changes will be analysed during the course of the project as further phases of the standard are issued. The Group does not intend to adopt this standard early.
- New IFRS 10 "*Consolidated Financial Statements*" replacing the requirements previously contained in IAS 27. Applicable to annual reporting periods beginning on or after 1 January 2013.
- New IFRS 11 "*Joint Arrangements*" replaces IAS 31 *Interests in Joint Ventures*. Requires a party to a joint arrangement to determine the type of joint arrangement in which it is involved by assessing its rights and obligations and then account for those rights and obligations in accordance with that type of joint arrangement. Applicable to annual reporting periods beginning on or after 1 January 2013.
- New IFRS 12 "*Disclosure of Interests in Other Entities*" requires the extensive disclosure of information that enables users of financial statements to evaluate the nature of, and risks associated with, interests in other entities and the effects of those interests on its financial position, financial performance and cash flows. Applicable to annual reporting periods beginning on or after 1 January 2013.
- New IFRS 13 "*Fair Value Measurement*" replaces the guidance on fair value measurement in existing IFRS accounting literature with a single standard. Applicable to annual reporting periods beginning on or after 1 January 2013. The new standard replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It provides a revised definition of fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. IFRS 13 does not introduce new requirements to measure assets or liabilities at fair value, nor does it eliminate the practicability exceptions to fair value measurement that currently exist in certain standards. The standard is applied prospectively with early adoption permitted. Comparative disclosure information is not required for periods before the date of initial application.
- Improvements to IAS 27 "*Separate Financial Statements*" include using only for them, because requirement to consolidated statements replaced in IFRS 10 "*Consolidated Financial Statements*". Applicable to annual reporting periods beginning on or after 1 January 2013.
- Improvements to IAS 28 "*Investments in Associates*" sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. Applicable to annual reporting periods beginning on or after 1 January 2013.
- An amended version of IAS 19 "*Employee Benefits*" with revised requirements for pensions and other postretirement benefits, termination benefits and other changes. Applicable to annual reporting periods beginning on or after 1 January 2013.
- Amends IAS 32 "*Financial Instruments: Presentation*" and IFRS 7 "*Financial Instruments: Disclosure*" to clarify certain aspects because of diversity in application of the requirements on offsetting financial assets and financial liabilities. Applicable to annual reporting periods beginning on or after 1 January 2014.
- Amends the disclosure requirements in IFRS 7 "*Financial Instruments: Disclosure*" to require information about all recognized financial instruments that are set off. Applicable to annual periods beginning on or after 1 January 2013 and interim periods within those periods.
- Amends IAS 1 "*Presentation of Financial Statements*" to revise the way other comprehensive income is presented. Applicable to annual reporting periods beginning on or after 1 July 2012.
- Amends IAS 12 "*Income Taxes*" to provide a presumption that recovery of the carrying amount of an asset measured using the fair value model in IAS 40 *Investment Property* will, normally, be through sale. Applicable to annual periods beginning on or after 1 January 2012.

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

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4. Significant accounting judgements and estimates

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

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

Critical accounting estimates

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded on 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

Management estimates impairment by assessing the likelihood of repayment of loans and advances based on analysis of individual accounts for individually significant loans, and collectively for loans with similar terms and risk characteristics.

Factors taken into consideration when assessing individual loans include collection history, current financial condition of the borrower, timeliness of repayments and collateral, if any. To determine the amount of impairment, management estimates the amounts and timing of future payments of principal and interest and proceeds from the disposal of collateral, if any. These cash flows are then discounted using the loan's original interest rate. Actual principal and interest payments depend on the borrowers' ability to generate cash flows from operations or obtain alternative financing, and could differ from management's estimates.

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

Note 9 contains a description of the sensitivity of the carrying amount of loans and advances to changes in estimates. Should actual repayments be less than management estimates, the Bank would be required to record additional impairment expense.

Fair value of buildings

As stated in Note 3, buildings are carried at revalued amount less any subsequent accumulated depreciation and impairment losses. The method used to estimate fair value is the market approach. The market approach is based on an analysis of the results of comparable sales of similar buildings. Estimating the fair value of buildings requires the exercise of judgment and the use of assumptions regarding the comparability of properties and other factors. Management engages external independent appraisers to estimate the fair value of property. Note 12 contains a description of the key assumptions used in estimating the fair value of buildings.

Critical accounting judgements

The Bank's accounting policies allow offsetting of assets and liabilities (i.e. loans due from and deposits due to the same banks) only when there is legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. Although settlement of loans and deposits is typically done on the same day, loans due from and deposits due to the same banks are settled by receiving and paying separate amounts, thus exposing the Bank to credit risk for the full amount of the asset or liquidity risk for the full amount of the liability. These risk exposures may be significant even though relatively brief. Management believes that these transactions are in substance foreign currency exchange swaps and accounts for these transactions in accordance with the Bank's accounting policy in respect of derivatives (Note 3). Accordingly, the net fair value of foreign currency exchange swaps is recognised as an asset when the fair value is positive and as a liability when the fair value is negative. The gross amount of amounts receivable/payable on settlement (having the legal form of loans due from and deposits due to the same banks) are offset and not recognised on the balance sheet. Refer to Note 28 for information about maximum exposure to credit risk arising from these derivative instruments (i.e. gross amount of receivable upon settlement of loans due from banks) and information about exposure to liquidity risk (i.e. gross amount of payable upon settlement of deposits due to banks).

The accompanying notes on pages 5 to 41 are an integral part of these financial statements.

(thousands of Ukrainian hryvnia unless otherwise indicated)

5. Segment information

For management purposes, the Bank is organised into four operating segments based on products and services as follows:

Corporate	Principally handling loans and other credit facilities and deposit and current accounts for corporate and institutional customers.
Private individuals	Principally handling individual customers' deposits, and providing consumer loans, overdrafts, credit cards facilities and funds transfer facilities.
Financial institutions	Principally placing funds with financial institutions, attracting deposits and other borrowings from financial institutions.
Asset management and other	Finance and other central functions

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance, as explained in the table below, is measured differently from profit or loss in the financial statements. Income taxes are managed on a central basis and are not allocated to operating segments.

The segment information below is presented on the basis used by the Bank's chief operating decision maker to evaluate performance, in accordance with IFRS 8 *Operating segments*. The Board reviews discrete financial information for each of its segments, including measures of operating results, assets and liabilities. The segments are managed primarily on the basis of their results without analysis of funding between segments and income and expenses between them.

In 2011, the Bank received revenue from the loan transactions with a single client of UAH 434,807 thousand, which is more than 10% of the Bank's total revenue. In 2010, the Bank did not have any revenue from operations with a single customer, which would be more than 10% of the Bank's total revenue.

The following tables present income and profit and certain asset and liability information regarding the Bank's operating segments for the years ended 31 December 2011 and 2010:

	<i>Corporate</i>	<i>Private individuals</i>	<i>Financial institutions</i>	<i>Asset management and other</i>	<i>Total</i>
2011					
Revenue					
Third party					
Interest income	911,203	263,285	22,649	370,566	1,567,703
Fee and commission income	38,633	57,452	21,463	6,620	124,168
Net losses from investment securities available-for-sale	-	-	-	(47,831)	(47,831)
Net gains from foreign currencies	-	-	-	74,824	74,824
Loss on initial recognition of investment securities available-for-sale	-	-	-	(1,845)	(1,845)
Other income	7,718	11,492	497	1,304	21,011
Total revenue	957,554	332,229	44,609	403,638	1,738,030
Interest expense	(99,003)	(432,810)	(401,774)	(6,827)	(940,414)
Fee and commission expense	(8,375)	(10,550)	(467)	(3,437)	(22,829)
Allowance for loan impairment	(194,971)	76,534	45,322	-	(73,115)
Personnel expenses	(118,975)	(176,929)	(7,666)	(17,172)	(320,742)
Depreciation and amortization	(19,611)	(29,163)	(1,264)	(2,830)	(52,868)
Other impairment and provisions	(22,028)	(32,757)	24,196	(3,179)	(33,768)
Other segment expenses	(56,703)	(99,190)	(9,312)	(7,507)	(172,712)
Segment results	437,888	(372,636)	(306,356)	362,686	121,582
Income tax expense				(19,118)	(19,118)
Income for the year				343,568	102,464
Segment assets	7,970,472	2,059,401	1,279,248	4,016,141	15,325,262
Segment liabilities	(1,358,219)	(4,395,758)	(6,168,773)	(44,453)	(11,967,203)
Other segment information					
Capital expenditure	7,085	10,537	457	1,023	19,101

The accompanying notes on pages 5 to 41 are an integral part of these financial statements.

(thousands of Ukrainian hryvnia unless otherwise indicated)

2010	Corporate	Private individuals	Financial institutions	Asset management and other	Total
Revenue					
Third party					
Interest income	752,886	160,288	51,674	359,336	1,324,184
Fee and commission income	36,100	47,110	18,215	4,151	105,576
Net losses from investment securities available-for-sale	-	-	-	(43,519)	(43,519)
Net gains from foreign currencies	-	-	-	16,360	16,360
Loss on initial recognition of investment securities available-for- sale	-	-	-	(130,377)	(130,377)
Other income	2,732	3,587	232	159	6,710
Total revenue	791,718	210,985	70,121	206,110	1,278,934
Interest expense	(96,956)	(557,066)	(381,471)	(15,382)	(1,050,875)
Fee and commission expense	(9,302)	(10,151)	(669)	(603)	(20,725)
Allowance for loan impairment	(1,196,453)	229,156	(46,702)	-	(1,013,999)
Personnel expenses	(126,632)	(165,255)	(10,764)	(9,814)	(312,465)
Depreciation and amortization	(22,180)	(28,945)	(1,885)	(1,719)	(54,729)
Other impairment and provisions	(579)	(756)	(25,772)	(45)	(27,152)
Other segment expenses	(71,180)	(102,521)	(8,037)	(3,308)	(185,046)
Segment results	(731,564)	(424,553)	(405,179)	175,239	(1,386,057)
Income tax benefit				7,208	7,208
Loss for the year				182,447	(1,378,849)
Segment assets	2,534,112	2,008,146	906,954	3,200,372	8,649,584
Segment liabilities	(921,994)	(4,425,112)	(4,214,759)	(64,502)	(9,626,367)
Other segment information					
Capital expenditure	11,906	15,537	1,012	922	29,377

6. Cash and cash equivalents

Cash and cash equivalents comprise:

	2011	2010
Cash on hand	329,657	319,728
Current accounts with the National Bank of Ukraine	293,412	174,882
Current accounts with other credit institutions	812,953	811,905
Time deposits with credit institutions up to 90 days	201,524	-
Ukrainian State bonds received as a contribution to share capital	-	256,570
Cash and cash equivalents	1,637,546	1,563,085

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

The average daily requirement for the period from 1 to 31 December 2011 was UAH 89,449 thousand (2010: UAH 118,123 thousand). The Bank complied with the NBU obligatory reserve requirements as at 31 December 2011 and 2010.

As at 31 December 2010 Ukrainian State bonds received as a contribution to share capital are included to cash and cash equivalents, as these bonds can be exchanged for cash on the Bank's demand.

*(thousands of Ukrainian hryvnia unless otherwise indicated)***7. Amounts due from credit institutions**

Amounts due from credit institutions comprise:

	2011	2010
Obligatory reserve with the National Bank of Ukraine	199	45
Time deposits for more than 90 days and overdue	583,497	509,981
Other amounts due from credit institutions	87,410	68,935
Overdue current accounts with other credit institutions	699,211	699,261
	1,370,317	1,278,222
Less – allowance for impairment	(1,123,023)	(1,209,242)
Amounts due from credit institutions	247,294	68,980

As at 31 December 2011, time deposits for more than 90 days for the amount of UAH 583,497 thousand (2010: UAH 509,981 thousand) were overdue more than ninety days and fully provided for.

The mandatory reserve balance is calculated in accordance with regulations issued by the NBU. As at 31 December 2011 and 2010, the Bank complied with the NBU requirements in respect of mandatory reserve balance. As at 31 December 2011, Ukrainian State bonds amounting to UAH 178,500 thousand (2010: UAH 143,500 thousand). As at 31 December 2011, withdrawability of UAH 199 thousand is restricted (2010: UAH 45 thousand).

Other amounts due from credit institutions represent security deposits, placed mainly in respect of customers transactions, such as letters of credit, performance guarantees and transactions with travellers' cheques.

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

	2011	2010
1 January	1,209,242	1,162,516
Charge (reversal)	(45,322)	46,702
Write-offs	(40,907)	-
Translation difference	10	24
31 December	1,123,023	1,209,242

8. Derivative financial instruments

The Bank has loans due from and deposits due to the same banks that are denominated in different currencies for the same period with the same or similar amounts. Cash flows under these instruments are similar to cash flows under foreign exchange swaps. The Bank enters into these instruments for risk hedging purposes; however, these instruments do not qualify for hedge accounting. Refer to Note 4 for a description of critical accounting judgments made by management in application of the Bank's accounting policies for these instruments.

The Bank enters into operations on currency conversion operations whereby it is obliged to supply one currency in exchange for another under pre-determined exchange rates. Such transactions are entered into with domestic and international banks. Delivery under such contracts is usually within one month. The Bank also enters into agreement with its customers for delivery of currency with fixed exchange rates.

Notional amounts in the tables below represent receivable in the respective currency

	2011			2010		
	Notional amount	Fair values Asset	Liability	Notional amount	Fair value Asset	Liability
Foreign exchange contracts						
Swaps	2,596,106	3,825	(20,915)	1,277,709	2,286	(1,324)
Spots	433,151	674	(457)	765,295	5,493	-
Total derivative assets/liabilities		4,499	(21,372)		7,779	(1,324)

*(thousands of Ukrainian hryvnia unless otherwise indicated)***9. Loans to customers**

Loans to customers comprise:

	2011	2010
Corporate	12,652,785	7,094,574
Private individuals	2,685,217	2,647,017
Gross loans to customers	15,338,002	9,741,591
Less allowance for impairment	(5,972,813)	(5,869,170)
Loans to customers	9,365,189	3,872,421

Loans and advances include loan principal and accrued interest as at 31 December 2011 and 2010.

As at 31 December 2011, the carrying amount of loans under repurchase agreements comprised UAH 179,379 thousand (2010: UAH 57,237 thousand).

Changes in collection estimates can affect the impairment losses recognised. For example, to the extent that the net present value of the estimated cash flows differs by plus/minus one percent, the loan impairment as at 31 December 2011 would be UAH 93,652 thousand lower/higher (2010: UAH 38,724 thousand).

As at 31 December 2011, loans to customers in the gross amount of UAH 51,190 thousand (2010: UAH 154,045 thousand,) were pledged as collateral under loans received from another bank (Note 17).

As at 31 December 2011, loans to customers in the gross amount of UAH 3,832,950 thousand (2010: UAH 431,590 thousand) were pledged as collateral under loans due to the National Bank of Ukraine (Note 16).

As at 31 December 2011, the total restructured loans that would otherwise be overdue amounted to UAH 413,669 thousand (2010: UAH 755,480 thousand).

Analysis of the credit quality of loans to customers is represented in Note 28.

Allowance for impairment of loans to customers

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

	Corporate	Private individuals	Total
At 1 January 2011	4,769,911	1,099,259	5,869,170
Charge (reversal) for the year	194,971	(76,534)	118,437
Amounts written off	(12,397)	(1,239)	(13,636)
Translation difference	(3,199)	2,041	(1,158)
At 31 December 2011	4,949,286	1,023,527	5,972,813
Gross amount of loans determined to be impaired, before deducting any assessed impairment allowance	6,795,237	2,463,717	9,258,954

	Corporate	Private individuals	Total
At 1 January 2010	3,579,999	1,325,346	4,905,345
Charge (reversal) for the year	1,196,453	(229,156)	967,297
Amounts written off	(13,832)	(19)	(13,851)
Translation difference	7,291	3,088	10,379
At 31 December 2010	4,769,911	1,099,259	5,869,170
Gross amount of loans determined to be impaired, before deducting any assessed impairment allowance	5,859,595	2,440,752	8,300,347

Impaired corporate loans and loans to private individuals of UAH 6,795,237 thousand and UAH 2,463,717 thousand (2010: UAH 5,859,595 thousand and UAH 2,440,752 thousand), respectively, include loans, which were assessed applying the portfolio method.

Impaired loans

Interest income accrued on loans, for which impairment allowances have been recognised, for the year ended 31 December 2011, comprised UAH 848,786 thousand (2010: UAH 646,576 thousand).

The accompanying notes on pages 5 to 41 are an integral part of these financial statements.

(thousands of Ukrainian hryvnia unless otherwise indicated)

Collateral

The following table provides an analysis of the gross loan portfolio by types of collateral:

Type of collateral	Corporate loans	2011 Private individuals loans	Total	Corporate loans	2010 Private individuals loans	Total
<i>Impaired loans</i>						
Deposits	29,474	3,610	33,084	19,974	3,570	23,544
Real estate	4,246,369	1,685,817	5,932,186	3,812,831	1,705,463	5,518,294
Other assets	1,488,703	360,020	1,848,723	1,052,671	418,054	1,470,725
Unsecured	1,030,691	414,270	1,444,961	974,119	313,665	1,287,784
Total impaired loans	6,795,237	2,463,717	9,258,954	5,859,595	2,440,752	8,300,347
<i>Loans without specifically identified impairment</i>						
Deposits	79,473	43,534	123,007	50,261	28,943	79,204
Real estate	189,029	159,132	348,161	313,020	172,941	485,961
Other assets	5,409,980	-	5,409,980	806,191	-	806,191
Unsecured	179,065	18,834	197,899	65,507	4,381	69,888
Total loans without specifically identified impairment	5,857,548	221,500	6,079,047	1,234,979	206,265	1,441,244
Total	12,652,785	2,685,217	15,338,002	7,094,574	2,647,017	9,741,591

The amounts shown in the table above represent the carrying value of the loans, and do not necessarily represent the fair value of collateral. The Bank assesses the fair value of collateral when the loan is extended, when collateral under the loan agreement is changed or when the collateral is foreclosed in case of the borrower's inability to repay the loan. When assessing the impairment allowance, the Bank applies the reduction factors of 40%-100% depending on the type of the collateral, except for deposits in the Bank that are taken as collateral without applying such reduction factors. The Bank takes into consideration historical data on the realisable value of collateral.

As at 31 December 2011 and 2010, other assets comprise movable property, goods in turnover, etc.

As at 31 December 2011, an estimated difference between the Bank's actual impairment losses for corporate loans and what they would have been without any collateral amounts to UAH 595,668 thousand (2010: UAH 666,084 thousand).

As at 31 December 2011, an estimated difference between the Bank's actual impairment losses for loans to private individuals and what they would have been without any collateral amounts to UAH 514,250 thousand (2010: UAH 577,465 thousand).

As at 31 December 2011, the Bank had a concentration of loans of UAH 7,555,926 thousand due from the ten largest entities (49,29% of gross loan portfolio) (2010: UAH 2,957,373 thousand or 30,4%).

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

	2011	2010
Services	5,863,309	1,342,852
Private individuals	2,685,217	2,647,017
Trade	2,049,553	1,725,184
Finance	900,278	732,809
Agriculture and food processing	895,520	790,175
Manufacturing	871,343	646,003
Construction	767,709	738,708
Real estate	711,987	658,583
Transport	480,682	330,130
Metallurgy	58,455	81,155
Other	53,949	48,975
Total	15,338,002	9,741,591

As at 31 December 2011, the "Services" sector above includes some loans to enterprises of the energy sector under state-control in the amount of UAH 4,588,964 thousand (2010: UAH 17,878 thousand).

*(thousands of Ukrainian hryvnia unless otherwise indicated)***10. Investment securities available-for-sale**

Available-for-sale securities comprise:

	2011	2010
Ukrainian State bonds	2,940,728	1,948,433
Municipal bonds	152,327	31,622
Corporate bonds	147,928	237,739
Corporate shares	21,340	15,825
State Mortgage Institution bonds	-	145,302
Investment securities available-for-sale	3,262,323	2,378,921

As at 31 December 2011, the total amount of impairment loss recognised on investment securities comprised UAH 549,007 thousand (2010: UAH 511,205 thousand). As at 31 December 2011, the overdue investment securities were fully provided for.

As at 31 December 2011 Ukrainian State bonds with a carrying value of UAH 1,293,636 thousand (2010: UAH 1,033,051 thousand) were pledged as collateral under the loans due to the National Bank of Ukraine (Note 16).

As at 31 December 2011, Municipal bonds with a carrying value of UAH 23,244 thousand (2010: nil) were pledged as collateral under the loans due to the National Bank of Ukraine (Note 16).

11. Investment property

The movements of investment property were as follows:

	2011	2010
1 January	11,637	16,306
Additions	-	3
Transfer from (to) property and equipment	(993)	(4,111)
Fair value adjustment	(378)	(561)
31 December	10,266	11,637

Investment property, comprising office buildings, was held for long-term rental yields or appreciation in value and is not occupied by the Bank. Investment property was initially measured at cost together with transaction costs. Subsequent to initial recognition, investment property is carried at fair value with gain or loss resulting from a change in the fair value recognised in profit and loss in the period in which it arises.

The valuation of investment property was performed by an independent appraiser as at 31 December 2011. Fair values were determined by reference to market-based evidence. The method used to estimate fair value includes comparison to recent sales of similar buildings. Key assumptions relate to the condition, quality and location of buildings used as comparatives.

Investment property rental income of UAH 446 thousand for the year ended 31 December 2011 (2010: UAH 452 thousand) is included in net gains/(losses) from investment property in profit and loss.

(thousands of Ukrainian hryvnia unless otherwise indicated)

12. Property, equipment and intangible assets

The movements in property, equipment and intangible assets were as follows:

	<i>Buildings</i>	<i>Furniture and equipment</i>	<i>Leasehold improvements</i>	<i>Motor vehicles</i>	<i>Construction in progress</i>	<i>Intangible assets</i>	<i>Total</i>
Cost or revalued amount							
1 January 2011	551,647	213,018	28,378	18,747	57,567	17,630	886,987
Additions	1,246	1,989	676	6	7,944	7,240	19,101
Disposals	-	(6,221)	(6,149)	(468)	(3)	(284)	(13,125)
Transfers	899	14,316	431	-	(15,646)	-	-
Reclassification from investment property	963	-	-	-	-	-	963
Revaluation	(5,795)	-	-	-	12,099	-	6,304
31 December 2011	548,960	223,102	23,336	18,285	61,961	24,586	900,230
Accumulated depreciation							
1 January 2011	12,181	134,829	21,876	13,649	-	7,914	190,449
Depreciation charge	12,487	29,321	3,788	2,509	-	4,763	52,868
Disposals	-	(6,032)	(5,619)	(414)	-	(271)	(12,336)
Reclassification from investment property	(30)	-	-	-	-	-	(30)
Revaluation	(24,638)	-	-	-	-	-	(24,638)
31 December 2011	-	158,118	20,045	15,744	-	12,406	206,313
Net book value:							
1 January 2011	539,466	78,189	6,502	5,098	57,567	9,716	696,538
31 December 2011	548,960	64,984	3,291	2,541	61,961	12,180	693,917

	<i>Buildings</i>	<i>Furniture and equipment</i>	<i>Leasehold improvements</i>	<i>Motor vehicles</i>	<i>Construction in progress</i>	<i>Intangible assets</i>	<i>Total</i>
Cost or revalued amount							
1 January 2010	520,663	199,504	28,304	19,848	116,802	11,890	897,011
Additions	922	19,017	563	4	3,018	5,853	29,377
Disposals	(36)	(5,503)	(1,211)	(1,105)	(26)	(113)	(7,994)
Transfers	26,030	-	722	-	(26,752)	-	-
Reclassification from investment property	4,068	-	-	-	-	-	4,068
Loss on devaluation	-	-	-	-	(35 475)	-	(35 475)
31 December 2010	551,647	213,018	28,378	18,747	57,567	17,630	886,987
Accumulated depreciation							
1 January 2010	-	108,359	17,421	11,331	-	5,620	142,731
Depreciation charge	12,228	31,524	5,537	3,033	-	2,407	54,729
Disposals	(4)	(5,054)	(1,082)	(715)	-	(113)	(6,968)
Reclassification from investment property	(43)	-	-	-	-	-	(43)
31 December 2010	12,181	134,829	21,876	13,649	-	7,914	190,449
Net book value:							
1 January 2010	520,663	91,145	10,883	8,517	116,802	6,270	754,280
31 December 2010	539,466	78,189	6,502	5,098	57,567	9,716	696,538

Buildings are carried at a revalued amount representing fair value less subsequent accumulated depreciation and subsequent accumulated impairment losses. To determine the fair value of buildings, management obtained appraisals from independent and professionally qualified appraisers as at 31 December 2011. The method used to estimate fair value includes comparison to recent sales of similar buildings. Key assumptions relate to the condition, quality and location of buildings used as comparatives.

(thousands of Ukrainian hryvnia unless otherwise indicated)

As at 31 December 2011, the carrying amount of buildings that would have been included in the financial statements had the buildings been carried at its cost less any accumulated depreciation and any accumulated impairment losses is UAH 321,805 thousand (2010: UAH 335,803 thousand).

As at 31 December 2011, buildings in the carrying amount of UAH 343,028 thousand (2010: UAH 301,144 thousand) were pledged as collateral under loans due to the National Bank of Ukraine (Note 16).

13. Taxation

The corporate income tax benefit comprises:

	2011	2010
Current tax charge	-	-
Changes in deferred taxes – origination and reversal of temporary differences	19,118	(7,208)
Income tax expense (benefit)	19,118	(7,208)

In December 2010, a new Tax Code was adopted in Ukraine. The new Tax Code assumes significant changes in tax accounting for VAT and corporate income tax, including changes in applicable rates and accounting policies for recognition of taxable income and expenses. In particular, under the new Tax Code, the corporate income tax rate will be decreased in steps from 25% in 2010 to 16% in 2014.

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

	2011	2010
Profit (loss) before tax	121,582	(1,386,057)
Statutory tax rate	23%	25%
Theoretical income tax expense (benefit) at the statutory rate	27,964	(346,514)
Non-deductible expenditures	20,772	17,203
Adjustments to the tax base of loans and advances due to changes in legislation	670,212	-
Change in unrecognised deferred tax assets	(678,792)	318,713
Changes in tax rate	(21,038)	3,390
Income tax expense (benefit)	19,118	(7,208)

(thousands of Ukrainian hryvnia unless otherwise indicated)

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

	Origination and reversal of temporary differences			Origination and reversal of temporary differences		
	in profit and loss	in equity	2010	in profit and loss	in equity	2011
Tax effect of deductible temporary differences:						
Allowance for loan impairment	258,767	-	1,421,513	(1,421,513)	-	-
Valuation of investment securities available for sale	12,274	-	12,274	(12,274)	-	-
Valuation of loans to customers	(4,079)	-	-	-	-	-
Valuation of interbank loans	-	-	-	276	-	276
Accruals and provisions	12,669	-	33,796	18,666	-	52,462
Valuation of debt securities issued	(487)	-	1,836	(1,768)	-	68
Valuation of due to customers	(1,230)	-	-	50	-	50
Derivatives	3,853	-	3,853	(3,853)	-	-
Tax losses carried forward	42,371	-	252,569	947,475	-	1,200,044
Gross deferred tax asset	324,138	-	1,725,841	(472,941)	-	1,252,900
			(1,720,152)			
Unrecognised deferred tax asset	(318,713)	-	-	678,792	-	(1,041,360)
Deferred tax asset (liability)	5,425	-	5,689	205,851	-	211,540
Tax effect of taxable temporary differences:						
Property, equipment and intangible assets	(4,951)	48,146	(6,510)	(3,093)	(4,097)	(13,700)
Derivative financial instruments	-	-	-	(86)	-	(86)
Valuation of interbank loans	556	-	(407)	407	-	-
Valuation of loans to customers	-	-	-	(186,972)	-	(186,972)
Valuation of investment securities available for sale	6,178	(3,192)	-	(35,225)	24,443	(10,782)
Deferred tax liability	1,783	44,954	(6,917)	(224,969)	20,346	(211,540)
Net deferred tax liability	7,208	44,954	(1,228)	(19,118)	20,346	-

Deferred tax assets are not recognised because it is not probable that future taxable profit will be available to allow realisation of these temporary differences.

14. Other impairment and provisions

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

	Construction in progress	Other assets	Guarantees and commitments	Total
1 January 2010	-	2,834	46,285	49,119
(Reversal) / charge	35,475	28,619	(36,942)	27,152
Write-offs	-	(66)	-	(66)
Translation difference	-	16	740	756
31 December 2010	35,475	31,403	10,083	76,961
(Reversal) / charge	-	39,175	(5,407)	33,768
Write-offs	-	-	-	-
Translation difference	-	(1)	(46)	(47)
31 December 2011	35,475	70,577	4,630	110,682

Allowance for impairment of assets is deducted from the carrying amounts of the related assets. Provisions for claims, guarantees and commitments are recorded as liabilities.

*(thousands of Ukrainian hryvnia unless otherwise indicated)***15. Other assets and liabilities**

Other assets comprise:

	2011	2010
Receivables resulting from executed guarantees	64,330	-
Prepayments	11,811	14,142
Receivables for operations with credit cards	11,955	5,608
Other accrued income	3,101	2,913
Settlements with employees	1,815	1,799
Inventory	888	730
Clearing payments for payment cards	1,310	400
Prepaid taxes other than income tax	40	31
Receivables for claims	-	25,616
Other	1,927	1,762
	97,177	53,001
Less allowance for impairment of other assets (Note 14)	(70,577)	(31,403)
Other assets	26,600	21,598

Other liabilities comprise:

	2011	2010
Penalties	9,858	26,962
Accrual for unused vacations	21,748	16,366
Payables to Guarantee Fund of Individuals' Deposits	5,481	5,024
Other accounts payables	334	3,039
Transit account in respect of transactions with plastic cards	1,624	2,921
Payables for operations with clients	5,549	1,704
Payables to plastic cards transactions processing centre	1,417	1,305
Other	4,421	3,631
Other liabilities	50,432	60,952

*(thousands of Ukrainian hryvnia unless otherwise indicated)***16. Amounts due to the National Bank of Ukraine**

Loans from the National Bank of Ukraine comprise:

	Currency	Maturity	Interest rate %	2011	2010
Long-term refinancing loans from the National Bank of Ukraine:	UAH	28 July 2016	NBU discount rate + 0.5 %.	1,000,000	1,000,000
	UAH	28 July 2016	NBU discount rate + 0.5 %	108,000	108,000
	UAH	30 May 2016	NBU discount rate + 0.5 %	108,000	108,000
	UAH	30 October 2012	NBU discount rate + 0.5 %	12,500	12,500
				1,228,500	1,228,500
Long-term stabilization loan from the National Bank of Ukraine:	UAH	28 July 2016	NBU discount rate + 0.5 %	2,608,100	2,673,175
Total long-term due to the National Bank of Ukraine				3,836,600	3,901,675
Short-term loan under repurchase agreement	UAH	11 January 2012	17,3%	907,681	-
Total due to the National Bank of Ukraine				4,744,281	3,901,675

As at 31 December 2011, the NBU discount rate is 7.75% (2010: 7.75%).

As at 31 December 2011 the NBU short-term loan under repurchase agreement secured by Ukrainian State bonds with a carrying value of UAH 911,949 thousand (2010: nil). The short-term loan under repurchase agreement was repaid on 4 January 2012.

As at 31 December the following assets were pledged under loans from the National Bank of Ukraine (carrying amount):

	Notes	2011	2010
Loans to customers	9	3,832,950	431,590
Ukrainian state bonds	10	1,293,636	1,033,051
Buildings	12	343,028	301,144
Municipal bonds	10	-	23,244
Shares of the Bank owned by shareholders		3,640,950	3,640,960

17. Amounts due to credit institutions

Amounts due to credit institutions comprise:

	2011	2010
Current accounts	1,148,366	36,759
Time deposits and loans	325,096	274,210
Amounts due to credit institutions	1,473,462	310,969

Included in time deposits and loans the amounts of UAH 1,259,796 thousand (2010: UAH 238,475 thousand) are due to two banks.

As at 31 December 2011 loans to customer of gross amount of UAH 51,190 thousand (2010: UAH 154,045 thousand), were pledged as collateral under loan received from one bank (Note 9).

The Bank is a party to various arrangements with other credit institutions, which contain financial covenants relating to the financial performance and general risk profile of the Bank. Under such covenants, the Bank is required to maintain a minimum capital adequacy ratio of 12%, to limit credit exposure to a single borrower and to ensure a certain level of operating activity. These financial covenants may restrict the Bank's ability to execute certain business strategies and enter into other significant transactions in the future.

(thousands of Ukrainian hryvnia unless otherwise indicated)

At 31 December 2011 and 2010, the Bank is in breach of certain financial covenants or loans received from credit institutions with a total carrying value of UAH 99,417 thousand, which represents an event of default. An event of default allows the lenders to require immediate repayment of amounts due. Consequently, these loans are presented in note 28 and in note 30. As at the date of these financial statements, the lenders did not require early execution of obligations under the relevant loan agreements.

18. Amounts due to customers

The amounts due to customers include the following:

	2011	2010
Current accounts:		
- Individuals	1,141,779	971,252
- Legal entities	771,404	529,810
- Budget organisations	12,385	10,652
	1,925,568	1,511,714
Time deposits:		
- Individuals	3,221,048	3,413,288
- Legal entities	455,593	304,708
	3,676,641	3,717,996
Amounts due to customers	5,602,208	5,229,710

At 31 December 2011, amounts due to customers of UAH 751,880 thousand (13,42%) are due to the ten largest customers (2010: UAH 713,525 thousand (14%)).

In accordance with the Ukrainian legislation, the Bank is obliged to repay time deposits of private individuals upon demand of a customer.

Customers by industry are summarised as follows:

	2011	2010
Individuals	4,362,827	4,384,540
Financial services	262,688	14,263
Construction	197,885	128,716
Services	193,750	151,931
Trade	169,628	105,285
Insurance	97,761	58,181
Transport	91,733	246,741
Energy	91,513	57,917
Manufacturing	71,655	31,591
Agriculture and food industry	52,815	32,672
Metallurgy	8,928	17,215
Other	1,026	658
Due to customers	5,602,209	5,229,710

19. Debt securities issued

As at 31 December 2011, the Bank has issued interest-bearing bonds with a total carrying value of UAH 20,382 thousand (2010: UAH 59,916 thousand). Bonds issued by the Bank bear interest at 16% p.a. and mature in 2012.

20. Subordinated debt

In August 2004, the Bank obtained a loan amounting to UAH 50,000 thousand with interest rate of 12% p.a. from a Ukrainian entity. Starting from 1 December 2011 the interest rate was changed to a floating rate that equals the NBU discount rate plus 2.5% per annum. This loan matures in July-August 2016. Interest payments are made on a monthly basis in arrears on the first day of each month.

(thousands of Ukrainian hryvnia unless otherwise indicated)

21. Equity**Share capital**

As at 31 December 2011, authorised issued share capital comprised 9,999,523 000 ordinary shares and 477,000 preference shares (2010: 5,699,523 000 ordinary shares and 477,000 preference shares), with a nominal value of UAH 1 per share. The ordinary shares give rights for participation on the General Shareholders' Meetings, receipt of dividends and share value. The Shareholders of preferred shares have the vote in certain cases according to the Regulations and eligible for annual receipt of fixed dividends except some cases of law.

Quantity of issued and fully paid shares:

	<i>Number of shares, '000</i>		<i>Nominal amount, UAH'000</i>		<i>Nominal amount, UAH'000</i>
	<i>Ordinary</i>	<i>Preferred</i>	<i>Ordinary</i>	<i>Preferred</i>	
31 December 2009	5,349,727	477	5,349,727	477	5,363,039
Shares issued and paid but not registered	349,796	-	349,796	-	349,796
31 December 2010	5,699,523	477	5,699,523	477	5,712,835
Shares issued and paid	4,300,000	-	4,300,000	-	4,300,000
31 December 2011	9,999,523	477	9,999,523	477	10,012,835

In March 2009, the Bank applied to the Government of Ukraine with the offer for the State to take control over the Bank participating in the Bank's share capital. In June 2009, the Government of Ukraine agreed to obtain control over the Bank acquiring additional share issue of 3,100,000,000 ordinary shares. As a result of this transaction the Government of Ukraine received 81.58% ownership of the Bank. The total consideration received for these shares was UAH 3,100,000 thousand in the form of Ukrainian State bonds which cannot be sold to third parties but are subject to repurchase by the NBU for cash within 5 days at the Bank's request.

In 2011 share capital of the Bank was increased by UAH 4,300,000 thousand by exchange of Ukrainian state bonds for shares of additional issue of the Bank (2010: nil).

Movements in other reserves

Movements in other reserves were as follows:

	<i>Revaluation reserve for buildings</i>	<i>Revaluation reserve for investment securities available- for-sale</i>	<i>Total</i>
At 1 January 2010	183,970	8,994	192,964
Revaluation of buildings	48,146	-	48,146
Tax effect of revaluation of buildings	(12)	-	(12)
Net unrealised gains on available-for-sale investments	-	14,857	14,857
Realised gains on investment securities available-for-sale reclassified to profit and loss	-	(2,090)	(2,090)
Tax effect of net gains on investment securities available-for-sale	-	(3,192)	(3,192)
At 31 December 2010	232,104	18,569	250,673
Realised revaluation of buildings	17,811	-	17,811
Net unrealised gains on available-for-sale investments	-	(100,090)	(100,090)
Realised gains on investment securities available-for-sale reclassified to profit and loss	-	(5,689)	(5,689)
Tax effect from revaluation of buildings	(4,097)	-	(4,097)
Tax effect of net gains on investment securities available-for-sale	-	24,443	24,443
At 31 December 2011	245,818	(62,767)	183,051

(thousands of Ukrainian hryvnia unless otherwise indicated)

Under the New Tax Code adopted in Ukraine in December 2010 (Note 13), tax values of property and equipment revalued as at 1 April 2011 is to be consistent with financial accounting records (prepared in accordance with Ukrainian National Accounting Standards, which correspond with IFRS in this respect) as at that date. This effectively means that a deferred tax liability arising on this temporary difference as at 31 December 2010 no longer meets the definition of a liability (to the extent that is not realised in the first quarter 2011, when the old rules still apply) since no outflow of economic benefits will occur during the realisation of this temporary difference. This resulted in the elimination of existing temporary differences between the carrying amount of property and equipment for financial reporting and the amounts used for the tax purposes as at 31 December 2010. As a result, the previously recognised deferred tax liability amounting to UAH 48,146 thousand was reversed and recognised in other comprehensive income for the year ended 31 December 2010 (to the extent of previously recognised deferred tax effect in revaluation reserve).

22. Commitments and contingencies

Legal

In the ordinary course of business, the Bank is subject to legal actions and complaints. Management believes that the amount of liabilities, 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

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

Management believes that it has complied with all existing tax legislation. However, there can be no assurance that the tax authorities will not have a different interpretation of the Bank's compliance with existing legislation and assess fines and penalties. No provision for potential tax assessments has been made in these financial statements, because as at 31 December 2011 management believes that its interpretation of the relevant legislation is appropriate and that the Bank's tax position will be sustained.

Commitments and contingencies

As at 31 December financial commitments and contingencies comprised the following:

	2011	2010
Credit related commitments		
Guarantees	24,750	103,784
Undrawn loan commitments (revocable)	36,206	42,205
Letters of credit	1,332	9,232
Promissory note guarantees	4,225	6,793
Total	66,513	162,014

As at 31 December 2011, total provisions recognised in respect of the Bank's commitments and contingencies comprised UAH 4,630 thousand (2010: UAH 10,083 thousand) (Note 14).

As at 31 December 2011, commitments and contingencies are secured by cash collateral in the amount of UAH 20,401 thousand (2010: UAH 29,657 thousand).

*(thousands of Ukrainian hryvnia unless otherwise indicated)***23. Net fee and commission income**

Net fee and commission income comprises:

	2011	2010
Settlements operations	117,274	102,581
Guarantees and letters of credit	1,121	1,704
Securities operations	900	758
Other	4,873	533
Fee and commission income	124,168	105,576
Settlements operations	(19,126)	(19,192)
Guarantees and letters of credit	(1,281)	(1,524)
Currency conversion operations	(2,413)	(1)
Other	(9)	(8)
Fee and commission expense	(22,829)	(20,725)
Net fee and commission income	101,339	84,851

24. Net losses from investment securities available-for-sale

Net losses from investment securities available-for-sale recognised in the statement of operations comprise:

	2011	2010
Net losses from sale of investment securities available-for-sale	(15,718)	(10,991)
Losses from impairment of investment securities available-for-sale	(37,802)	(34,618)
Losses from investment securities available-for-sale	(53,520)	(45,609)
Net gains from sale of investment securities available-for-sale, previously recognised in other comprehensive income (Note 21)	5,689	2,090
Net losses from investment securities available-for-sale	(47,831)	(43,519)

25. Loss on initial recognition of investment securities available-for sale

Loss on initial recognition represents difference between the transaction price and fair value of the investment. Several transactions with securities conducted during 2011 and 2010 were not based on market terms. The fair value was estimated using valuation techniques.

26. Other income

	2011	2010
Reversal of impairment of property recognized in previous years	13,130	-
Penalties received	3,547	3,559
Fees received from insurance companies	1,050	683
Fees received for rental of safe boxes	713	675
Reversal of written-off assets	-	265
Dividend income	122	56
Other	2,381	1,581
Total other income	20,943	6,819

*(thousands of Ukrainian hryvnia unless otherwise indicated)***27. Personnel and other operating expenses**

Personnel and other operating expenses comprise:

	2011	2010
Salaries and bonuses	237,900	232,570
Employment taxes	81,224	77,833
Payments to non-state pension fund	1,185	1,728
Other personnel expenses	433	334
Personnel expenses	320,742	312,465
Communications	34,729	30,574
Repair and maintenance of property and equipment	29,912	25,835
Occupancy and rent	27,414	28,211
Payments to the Individual's Deposit Guarantee Fund	21,846	17,918
Security expenses	9,817	10,666
Professional services fees	9,427	8,709
Office supplies	8,360	6,971
Taxes, other than income tax	7,286	12,637
Expenses for cash collection	5,960	4,409
Business travel	3,426	968
Charity	2,834	3,868
Marketing and advertising	2,701	1,851
Loss on disposal of property and equipment	236	315
Fines and penalties	141	22,739
Other	8,623	9,375
Other operating expenses	172,712	185,046

28. Risk management

Risk is inherent in the Bank's activities but is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. The process of risk management is critical to the Bank's performance, and each member of staff is accountable for the risk exposures relating to his or her responsibilities. The Bank is exposed to credit risk, liquidity risk, market risk and operation risks.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the Bank's strategic planning process.

Risk management structure*Supervisory Board*

The Supervisory Board is ultimately responsible for final setting and approving the risks to which the Bank is exposed in a process of its activities and also for capital requirements; however, there are separate committees and departments responsible for managing and monitoring risks.

Management Board

The Management Board of Directors is responsible for the overall risk management approach and for implementation of the risk strategies and principles taken by Supervisory Board.

Credit Council

The Credit Council bears the overall responsibility for the development of the credit risk management strategy and implementing related principles, frameworks, policies and limits.

Credit Committee

The Credit Committee is responsible for authorising issuance of loans and related commitments within the established internal risk limits.

The Assets and Liabilities Management Committee

The Assets and Liabilities Management Committee is responsible for implementation, management and monitoring of the liquidity objectives and establishing the internal risk limits for the Bank.

The accompanying notes on pages 5 to 41 are an integral part of these financial statements.

(thousands of Ukrainian hryvnia unless otherwise indicated)

Treasury

The Treasury is responsible for monitoring the liquidity position. It is also primarily responsible for managing assets and liabilities.

Risk Management Department

The Risk Management Department is responsible for monitoring all the risk-management processes and also gives support to the Credit council, Credit Committee and Assets and Liabilities Management Committee. In particular, it values risks, proposes limits, monitors risk positions and develops internal risk management regulations.

Risk mitigation

As part of its overall risk management, the Bank uses different instruments to manage exposures resulting from changes in interest rates, foreign currencies and exposures arising from forecast transactions.

The Bank actively uses collateral to reduce its credit risks (see below for more detail).

Excessive risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features 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 developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risks, policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

Credit risk

Credit risk is the risk that the Bank will incur a loss because its customers, clients or counterparties failed to discharge their contractual obligations. The Bank manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits.

The Bank has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision. The credit quality review process allows the Bank to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

Derivative financial instruments

Credit risk arising from derivative financial instruments is limited to a nominal amount for the relevant contracts.

Credit-related commitments risks

The Bank makes available to its customers guarantees which may require that the Bank make payments on their behalf. Such payments are collected from customers based on the terms of the letter of credit. They expose the Bank to similar risks to loans and these are mitigated by the same control processes and policies.

The table below shows the maximum exposure to credit risk for the components of the statement of financial position, including derivatives. The maximum exposure is shown gross, except for derivatives that are shown net.

	<i>Notes</i>	<i>Maximum exposure 2011</i>	<i>Maximum exposure 2010</i>
Cash and cash equivalents (excluding cash on hand)	6	1,307,889	1,243,357
Amounts due from credit institutions	7	247,294	68,980
Derivative financial assets	8	4,499	7,779
Loans to customers	9	9,365,189	3,872,421
Investment securities available-for-sale	10	3,240,983	2,363,096
Other assets	15	11,934	4,932
		14,177,788	7,560,565
Financial commitments and contingencies	22	61,883	151,931
Total credit risk exposure		14,239,671	7,712,496

Where financial instruments are recorded at fair value, the amounts shown above represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

For more detail on the maximum exposure to credit risk for each class of financial instrument, refer to the notes.

*(thousands of Ukrainian hryvnia unless otherwise indicated)**Credit quality per class of financial assets*

The credit quality of net financial assets as at 31 December 2011 is as follows:

	Notes	Neither past due nor impaired	Past due but not impaired	Impaired	Total
Amounts due from credit institutions	7	247,294	-	-	247,294
Loans to customers	9				
Corporate		5,835,779	21,769	1,845,952	7,703,500
Private individuals		200,043	21,457	1,440,189	1,661,689
Investment securities available-for-sale	10	3,240,983	-	-	3,240,983
Total		9,524,099	43,226	3,286,141	12,853,466

The credit quality of net financial assets as at 31 December 2010 is as follows:

	Notes	Neither past due nor impaired	Past due but not impaired	Impaired	Total
Amounts due from credit institutions	7	68,980	-	-	68,980
Loans to customers	9				
Corporate		949,864	285,115	1,089,684	2,324,663
Private individuals		122,526	83,739	1,341,493	1,547,758
Investment securities available-for-sale	10	2,363,096	-	-	2,363,096
Total		3,504,466	368,854	2,431,177	6,304,497

Impaired loans include loans assessed individually for impairment and loans assessed collectively for impairment and found to be impaired.

An analysis of past due loans, by age, is provided below.

It is the Bank's policy to maintain accurate and consistent risk ratings across the credit portfolio. This facilitates focused management of the applicable risks and the comparison of credit exposures across all lines of business, geographic regions and products. The rating system is supported by a financial analytics of the Bank, combined with processed market information to provide the main inputs for the measurement of counterparty risk. All internal risk ratings are tailored to the various categories and are derived in accordance with the Bank's rating policy. The attributable risk ratings are assessed and updated regularly.

Ageing analysis of past due but not impaired loans per class of financial assets as at 31 December 2011 is as follows:

	Less than 31 days 2011	31 to 60 days 2011	61 to 90 days 2011	More than 90 days 2011	Total 2011
Loans to customers					
Corporate lending	-	-	-	21,769	21,769
Private individuals	-	-	-	21,457	21,457
Total	-	-	-	43,226	43,226

Aging analysis of past due but not impaired loans per class of financial assets as at 31 December 2010 is as follows:

	Less than 31 days 2010	31 to 60 days 2010	61 to 90 days 2010	More than 90 days 2010	Total 2010
Loans to customers					
Corporate	6,361	207	-	278,547	285,115
Private individuals	5,886	677	1,318	75,858	83,739
Total	12,247	884	1,318	354,405	368,854

See Note 9 for more detailed information with respect to the allowance for impairment of loans to customers.

The accompanying notes on pages 5 to 41 are an integral part of these financial statements.

(thousands of Ukrainian hryvnia unless otherwise indicated)

The geographical concentration of financial assets and liabilities is set out below:

	2011			
	<i>Ukraine</i>	<i>OECD</i>	<i>CIS and other foreign banks</i>	<i>Total</i>
Assets:				
Cash and cash equivalents	1,632,179	-	5,367	1,637,546
Precious metals	77,315	-	-	77,315
Amounts due from credit institutions	169,010	78,284	-	247,294
Derivative financial assets	4,449	-	-	4,449
Loans to customers	9,365,189	-	-	9,365,189
Investment securities available-for-sale	3,244,491	17,832	-	3,262,323
Other assets	11,934	-	-	11,934
	14,504,567	96,116	5,367	14,606,050
Liabilities:				
Amounts due to the National Bank of Ukraine	4,744,281	-	-	4,744,281
Amounts due to credit institutions	1,437,348	36,114	-	1,473,462
Derivative financial liabilities	21,372	-	-	21,372
Amounts due to customers	5,602,209	-	-	5,602,209
Debt securities issued	20,382	-	-	20,382
Subordinated debt	50,435	-	-	50,435
Other liabilities	4,630	-	-	4,630
	23,203	-	-	23,203
	11,903,860	36,114	-	11,939,974
Difference between assets and liabilities	2,600,707	60,002	5,367	2,666,076

	2010			
	<i>Ukraine</i>	<i>OECD</i>	<i>CIS and other foreign banks</i>	<i>Total</i>
Assets:				
Cash and cash equivalents	773,848	749,948	39,289	1,563,085
Precious metals	28,312	-	-	28,312
Amounts due from credit institutions	56	68,924	-	68,980
Derivative financial assets	7,779	-	-	7,779
Loans to customers	3,872,421	-	-	3,872,421
Investment securities available-for-sale	2,366,603	12,318	-	2,378,921
Other assets	4,932	-	-	4,932
	7,053,951	831,190	39,289	7,924,430
Liabilities:				
Amounts due to the National Bank of Ukraine	3,901,675	-	-	3,901,675
Amounts due to credit institutions	200,936	110,033	-	310,969
Derivative financial liabilities	1,324	-	-	1,324
Amounts due to customers	5,229,710	-	-	5,229,710
Debt securities issued	59,916	-	-	59,916
Subordinated debt	50,510	-	-	50,510
Other liabilities	39,562	-	-	39,562
	9,483,633	110,033	-	9,593,666
Difference between assets and liabilities	(2,429,682)	721,157	39,289	(1,669,236)

Liquidity risk and funding management

Liquidity risk is the risk that the Bank will be unable to meet its payment obligations when they fall due under normal and stress circumstances. Management of the Bank also performs day-to-day liquidity management activities, with due account for balances on the correspondent accounts and cash inflow/outflow projections; management of current liquidity (up to 1 month) through identification of the Bank's requirements for liquid assets and assessment of the liquidity gap for the period; management of liquidity (over 1 month) through evaluation of mismatch between maturities on assets and liabilities and development of remedial actions to maintain the Bank's relevant liquidity levels in the future.

Analysis of financial liabilities by remaining contractual maturities

The accompanying notes on pages 5 to 41 are an integral part of these financial statements.

(thousands of Ukrainian hryvnia unless otherwise indicated)

The tables below summarise the maturity profile of financial liabilities as at 31 December based on contractual undiscounted repayment obligations except for gross settled derivatives which are shown by contractual maturity. Repayments which are subject to repayment upon a call are treated as if the call were to be given immediately. However, the Bank expects that many customers will not request repayment on the earliest date.

2011	<i>Less than 3 months</i>	<i>3 to 12 months</i>	<i>1 to 5 years</i>	<i>Over 5 years</i>	<i>Total</i>
Amounts due to the National Bank of Ukraine	1,026,642	447,088	4,257,804	-	5,731,534
Amounts due to credit institutions	1,351,947	170,490	63,137	-	1,585,574
Derivative financial liabilities	21,372	-	-	-	21,372
Amounts due to customers	3,391,347	2,034,496	379,498	26,828	5,832,169
Debt securities issued	801	21,680	-	-	22,481
Subordinated debt	1,281	3,844	68,569	-	73,694
Other liabilities	23,203	-	-	-	23,203
Total undiscounted financial liabilities	<u>5,816,593</u>	<u>2,677,598</u>	<u>4,769,008</u>	<u>26,828</u>	<u>13,290,027</u>

2010	<i>Less than 3 months</i>	<i>3 to 12 months</i>	<i>1 to 5 years</i>	<i>Over 5 years</i>	<i>Total</i>
Amounts due to the National Bank of Ukraine	94,339	281,921	4,824,920	-	5,201,180
Amounts due to credit institutions	281,139	15,882	16,348	-	313,369
Derivative financial liabilities	1,324	-	-	-	1,324
Amounts due to customers	3,115,425	1,801,852	486,865	513	5,404,655
Debt securities issued	2,368	7,173	66,372	-	75,913
Subordinated debt	1,496	4,504	24,000	53,740	83,740
Other liabilities	39,562	-	-	-	39,562
Total undiscounted financial liabilities	<u>3,535,653</u>	<u>2,111,332</u>	<u>5,418,505</u>	<u>54,253</u>	<u>11,119,743</u>

The table below shows the contractual expiry by maturity of financial commitments and contingencies. Each undrawn loan commitment is included in the time band containing the earliest date it can be drawn down. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

	<i>Less than 3 months</i>	<i>3 to 12 months</i>	<i>1 to 5 years</i>	<i>Over 5 years</i>	<i>Total</i>
2011	17,662	48,475	376	-	66,513
2010	94,486	65,320	2,208	-	162,014

The Bank expects that not all of the contingent liabilities or commitments will be drawn before expiry of the commitments.

The Bank received significant funds from the NBU and several Ukrainian and OECD credit institutions. Any significant withdrawal of these funds would have an adverse impact on the operations of the Bank. As discussed in more details in Note 16, the loans received from the NBU will mature in 2015 – 2016. Management believes that the NBU loans will not be subject to early withdrawal, as the contracts with the NBU do not provide for early withdrawal in case of the Bank's non-compliance with their covenants; however, penalties are stipulated in the amount of UAH 30 thousand.

Included in due to customers are term deposits of individuals. In accordance with the Ukrainian legislation, the Bank is obliged to repay such deposits upon demand of a depositor within the period specified in the relevant deposit agreement.

Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchanges, and equity prices. The Bank classifies exposures to market risk into either trading or non-trading portfolios. The market risk for the non-trading positions are managed and monitored using other sensitivity analysis.

The accompanying notes on pages 5 to 41 are an integral part of these financial statements.

(thousands of Ukrainian hryvnia unless otherwise indicated)

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Bank's profit and loss.

The sensitivity of profit and loss is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities held as at 31 December.

Currency	Increase in basis points 2011	Sensitivity of net interest income 2011	Decrease in basis points 2011	Sensitivity of net interest income 2011
UAH	+100	(38,366)	-100	38,366
USD	+100	(1,121)	-25	280
EUR	+100	(36)	-25	9

Currency	Increase in basis points 2010	Sensitivity of net interest income 2010	Decrease in basis points 2010	Sensitivity of net interest income 2010
UAH	+100	(38,366)	-100	38,366
USD	+100	(2,644)	-25	661
EUR	+100	(112)	-25	28

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Assets and Liabilities Management Committee has set limits on positions by currency based on the National Bank of Ukraine regulations. Positions are monitored on a daily basis.

The major foreign currency positions of assets and liabilities as at 31 December 2011 are as follows:

	UAH	USD	EUR	Other currencies	Total
Assets					
Cash and cash equivalents	556,064	953,027	74,874	53,581	1,637,546
Precious metals	-	-	-	77,315	77,315
Amounts due from credit institutions	159,894	87,400	-	-	247,294
Loans to customers	8,155,283	1,181,251	28,655	-	9,365,189
Investment securities available-for-sale	3,051,496	210,827	-	-	3,262,323
Investment property	10,266	-	-	-	10,266
Property, equipment and intangible assets	693,917	-	-	-	693,917
Current tax assets	313	-	-	-	313
Other assets	22,572	2,691	1,055	282	26,600
Total assets	12,649,805	2,435,196	104,584	131,178	15,320,763
Liabilities:					
Amounts due to NBU	4,744,281	-	-	-	4,744,281
Amounts due to credit institutions	1,171,708	295,556	6,198	-	1,473,462
Amounts due to customers	2,800,032	2,073,494	647,168	81,515	5,602,209
Debt securities issued	20,382	-	-	-	20,382
Subordinated debt	50,435	-	-	-	50,435
Provisions	860	3,711	59	-	4,630
Other liabilities	47,063	2,582	784	3	50,432
Total liabilities	8,834,761	2,375,343	654,209	81,518	11,945,831
Net long (short) recognised position	3,815,044	59,853	(549,625)	49,660	
Unrecognised position:					
Nominal amount of financial assets	1,209,336	1,126,869	684,356	8,695	3,029,256
Nominal amount of financial liabilities	(1,221,115)	(1,549,466)	(252,291)	(23,257)	(3,046,129)
Commitments and contingencies	(52,373)	(13,893)	(247)	-	(66,513)
Net long (short) unrecognised position	(64,152)	(436,490)	431,818	(14,562)	
Net long (short) recognised and unrecognised position	3,750,892	(376,637)	(117,807)	35,098	

The accompanying notes on pages 5 to 41 are an integral part of these financial statements.

(thousands of Ukrainian hryvnia unless otherwise indicated)

The major foreign currency positions of assets and liabilities as at 31 December 2010 are as follows:

	UAH	USD	EUR	Other currencies	Total
Assets					
Cash and cash equivalents	646,599	772,931	104,714	38,841	1,563,085
Precious metals	-	-	-	28,312	28,312
Amounts due from credit institutions	10	68,957	13	-	68,980
Loans to customers	2,328,323	1,505,578	38,520	-	3,872,421
Investment securities available-for-sale	2,366,603	12,318	-	-	2,378,921
Investment securities under REPO agreements	-	-	-	-	-
Investment property	11,637	-	-	-	11,637
Property, equipment and intangible assets	696,538	-	-	-	696,538
Current tax assets	313	-	-	-	313
Other assets	17,933	2,172	1,121	372	21,598
Total assets	6,067,956	2,361,956	144,368	67,525	8,641,805
Liabilities:					
Amounts due to NBU	3,901,675	-	-	-	3,901,675
Amounts due to credit institutions	15,029	279,211	16,729	-	310,969
Amounts due to customers	2,797,046	1,678,377	704,941	49,346	5,229,710
Debt securities issued	59,916	-	-	-	59,916
Deferred tax liabilities	1,228	-	-	-	1,228
Subordinated debt	50,510	-	-	-	50,510
Provisions	-	-	-	-	-
Other liabilities	58,690	1,946	162	154	60,952
Total liabilities	6,884,094	1,959,534	721,832	49,500	9,614,960
Net long (short) recognised position	(816,138)	402,422	(577,464)	18,025	
Unrecognised position:					
Nominal amount of financial assets	1,270,989	7,682	755,056	15,733	2,049,460
Nominal amount of financial liabilities	-	(1,735,969)	(307,036)	-	(2,043,305)
Commitments and contingencies	(140,337)	(18,697)	(2,980)	-	(162,014)
Net long (short) unrecognised position	1,130,652	(1,746,984)	445,040	15,733	
Net long (short) recognised and unrecognised position	314,514	(1,344,562)	(132,424)	33,758	

The tables below indicate the currencies to which the Bank had significant exposure at 31 December on its non-trading monetary assets and liabilities and its forecasted cash flows. The analysis includes the effect of a reasonably possible movement of the currency rate against hryvnia, with all other variables held constant on profit and loss (due to the fair value of currency sensitive non-trading monetary assets and liabilities). The effect on equity does not differ from the effect on profit and loss. A negative amount in the table reflects a potential net increase in loss or decrease of equity, while a positive amount reflects a net potential decrease in loss or increase of equity.

Currency	Increase in currency rate in % 2011	Effect on loss before tax 2011	Increase in currency rate in % 2010	Effect on loss before tax 2010
USD	10.00%	(37,664)	10.00%	(134,456)
EUR	10.00%	(11,781)	10.00%	(13,242)

Currency	Decrease in currency rate in % 2011	Effect on loss before tax 2011	Decrease in currency rate in % 2010	Effect on loss before tax 2010
USD	-10.00%	37,664	10.00%	(134,456)
EUR	-10.00%	11,781	10.00%	(13,242)

The accompanying notes on pages 5 to 41 are an integral part of these financial statements.

(thousands of Ukrainian hryvnia unless otherwise indicated)

29. Fair values of financial instruments

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

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

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

At 31 December 2011	Level 1	Level 2	Level 3	Total
Financial assets	-	4,499	-	4,499
Derivative financial instruments				
Investment securities available-for-sale	202,588	3,056,227	3,507	3,262,323
	202,588	3,060,726	3,507	3,266,822
Financial liabilities				
Derivative financial instruments	-	21,372	-	21,372
	-	21,372	-	21,372
At 31 December 2010	Level 1	Level 2	Level 3	Total
Financial assets				
Derivative financial instruments	-	7,779	-	7,779
Investment securities available-for-sale	2,157,207	218,207	3,507	2,378,921
	2,157,207	225,986	3,507	2,386,700
Financial liabilities				
Derivative financial instruments	-	1,324	-	1,324
	-	1,324	-	1,324

Level 3 available-for-sale financial assets include a number of debt securities issued by Ukrainian enterprises which are listed but not quoted on an active market. Management applied valuation technique which includes, amongst other, significant adjustments to observable inputs. Therefore, these securities are classified as the level 3 in these financial statements.

Financial instruments recorded at fair value

The following is a description of the determination of fair value for financial instruments which are recorded at fair value using valuation techniques. These incorporate the Bank's estimate of assumptions that a market participant would make when valuing the instruments.

Derivatives

Derivatives valued using a valuation technique with market observable inputs are mainly interest rate swaps, currency swaps and forward foreign exchange contracts. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate curves.

Investment securities available-for-sale

Investment securities available-for-sale valued using a valuation technique or pricing models primarily consist of unquoted equity and debt securities. These securities are valued using models which sometimes only incorporate data observable in the market and at other times use both observable and non-observable data. The non-observable inputs to the models include assumptions regarding the future financial performance of the investee, its risk profile, and economic assumptions regarding the industry and geographical jurisdiction in which the investee operates.

Movements in level 3 financial instruments measured at fair value

The following table shows a reconciliation of the opening and closing amount of Level 3 financial assets and liabilities which are recorded at fair value:

The accompanying notes on pages 5 to 41 are an integral part of these financial statements.

(thousands of Ukrainian hryvnia unless otherwise indicated)

	At 1 January 2011	Total gain/(loss) recorded in profit or loss	Purchases	Sales	Settlements	Transfers from level 1 and level 2	At 31 December 2011
Investment securities							
– available-for-sale	3,507	-	-	-	-	-	3,507

	At 1 January 2010	Total gain/(loss) recorded in profit or loss	Purchases	Sales	Settlements	Transfers from level 1 and level 2	At 31 December 2010
Investment securities							
– available-for-sale	109,372	95,845	60	(201,770)	-	-	3,507

Impact on fair value of level 3 financial instruments measured at fair value of changes to key assumptions

The following table shows the impact on the fair value of level 3 instruments of using reasonably possible alternative assumptions:

	2011		2010	
	Carrying amount	Effect of reasonably possible alternative assumptions	Carrying amount	Effect of reasonably possible alternative assumptions
Financial assets				
Investment securities – available-for-sale	3,507	(3,507)	3,507	(3,507)

Fair value of financial assets and liabilities not carried at fair value

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

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

Due from and due to banks comprise short term placements and borrowings. Due to short term life of those financial instruments and corresponding of actual interest rates to those prevailing money market interest rates for similar financial instruments the carrying amount of due from banks balances approximate their fair value.

To determine fair value expected cash flows are discounted at market rates prevailing as at the reporting date for similar instruments.

	Carrying value 2011	Fair value 2011	Carrying value 2010	Fair value 2010
Financial assets				
Loans to customers	9,365,189	9,260,617	3,872,421	3,855,294
Financial liabilities				
Amounts due to customers	5,602,209	5,637,242	5,229,710	5,272,457
Subordinated debt	50,435	50,435	50,510	50,510
Debt securities issued	20,382	19,834	59,916	62,032

The accompanying notes on pages 5 to 41 are an integral part of these financial statements.

(thousands of Ukrainian hryvnia unless otherwise indicated)

30. 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. See Note 28 for the Bank's contractual undiscounted repayment obligations.

	2011				2010			
	Within one year	More than one year	No maturity	Total	Within one year	More than one year	No maturity	Total
Cash and cash equivalents	1,637,546	-	-	1,637,546	1,563,085	-	-	1,563,085
Precious metals	77,315	-	-	77,315	28,312	-	-	28,312
Derivative financial assets	4,499	-	-	4,499	7,779	-	-	7,779
Amounts due from credit institutions	247,294	-	-	247,294	68,980	-	-	68,980
Loans to customers	6,456,794	2,908,395	-	9,365,189	1,396,458	2,475,963	-	3,872,421
Investment securities available-for-sale	806,096	2,456,227	-	3,262,323	441,935	1,936,986	-	2,378,921
Investment securities pledged under repurchase agreements	-	-	-	-	-	-	-	-
Investment property	-	-	10,266	10,266	-	-	11,637	11,637
Property, equipment and intangible assets	-	-	693,917	693,917	-	-	696,538	696,538
Current income tax assets	-	313	-	313	-	313	-	313
Other assets	26,600	-	-	26,600	21,598	-	-	21,598
Total	9,256,144	5,364,935	704,183	15,325,262	3,528,147	4,413,262	708,175	8,649,584
Amounts due to the National bank of Ukraine	1,159,281	3,584,600	-	4,744,281	59,740	3,841,935	-	3,901,675
Amounts due to credit institutions	1,417,186	56,276	-	1,473,462	294,948	16,021	-	310,969
Derivative financial liabilities	21,372	-	-	21,372	1,324	-	-	1,324
Amounts due to customers	5,272,001	330,208	-	5,602,209	4,799,344	430,366	-	5,229,710
Debt securities issued	358	20,024	-	20,382	1,284	58,632	-	59,916
Deferred income tax liabilities	-	-	-	-	-	1,228	-	1,228
Subordinated debt	435	50,000	-	50,435	510	50,000	-	50,510
Provisions	4,630	-	-	4,630	10,083	-	-	10,083
Other liabilities	50,432	-	-	50,432	60,952	-	-	60,952
Total	7,926,095	4,041,108	-	11,967,203	5,228,185	4,398,182	-	9,626,367
Net	1,330,049	1,323,827	704,183	3,358,059	(1,700,038)	15,080	708,175	(976,783)

As at 31 December 2011, loans to customers within one year include UAH 425,788 thousand of the overdue loans (2010: UAH 528,605 thousand).

As at 31 December 2011, the Bank was in breach of certain financial covenants. According to the terms of the respective loan agreements, the lenders may at their option, by notice to the Bank, declare all or any portion of the loan and accrued interest either due and payable on demand or immediately due and payable. The carrying value of loans from other credit institutions where the Bank was in breach of certain financial covenants is UAH 99,417 thousand as at 31 December 2011 and are presented as due within one year in the table above.

As at the date of these financial statements the lenders did not require early implementation of obligations under the relevant loan agreement.

(thousands of Ukrainian hryvnia unless otherwise indicated)

31. Related party disclosures

The Bank grants loans and advances to customers, attracts deposits and performs other transactions with related parties in the ordinary course of business. Parties are considered to be related if one party has the ability directly or indirectly through one or more intermediaries to control the other party or exercises significant influence over the party when making financial and operational decisions. Terms on transactions with related parties are established on a daily basis and may differ from the market terms. Related parties comprise the shareholders of the Bank, companies which are under common control with the Bank, key management personnel and their close family members, companies that are controlled or significantly influenced by the shareholders, by key management personnel or by their close family members.

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

	2011			2010		
	State controlled entities	Other related parties	Key manage- ment personnel	State controlled entities	Other related parties	Key manage- ment personnel
Current accounts with the National Bank of Ukraine	293,412	-	-	174,882	-	-
Current accounts with other credit institutions	15,211	-	-	3,307	-	-
Ukrainian State bonds (included in cash and cash equivalents)	-	-	-	256,570	-	-
Obligatory reserve with the National Bank of Ukraine	199	-	-	45	-	-
Loans outstanding at 31 December, gross	5,628,612	-	97	611,362	-	130
Less allowance for impairment	(5,580)	-	(2)	(417)	-	(11)
Investment securities available-for-sale – Ukrainian State bonds	2,940,728	-	-	2,093,735	-	-
Investment securities pledged under repurchase agreements	-	-	-	-	-	-
Amounts due to the National Bank of Ukraine	4,744,281	-	-	3,901,675	-	-
Amounts due to credit institutions	1,179,186	-	-	164,176	-	-
Deposits	84,600	418	1,176	33,455	4,056	1,107
Current accounts	336,385	-	1	273,893	65	78
Commitments and guarantees issued	-	-	-	-	-	1,194
Interest income on loans	530,323	-	13	208,751	4	18
Interest income on investment securities available-for-sale	281,901	-	-	260,909	-	-
Interest expense on amounts due to the National Bank of Ukraine	344,558	-	-	366,422	-	-
Interest expense on amounts due to credit institutions	52,679	-	-	20,286	-	-
Interest expense on deposits	8,827	20	73	5,828	31	23
Other operating expenses	-	15,636	-	-	17,232	9

Compensation of key management personnel is comprised of the following:

	2011	2010
Salaries and bonuses	7,315	6,941
Employment taxes	2,692	2,554
Payments to non-state pension fund	36	81
Total key management personnel compensation	10,043	9,576

Information regarding increase of share capital in 2011 is presented in Note 21.

(thousands of Ukrainian hryvnia unless otherwise indicated)

32. Capital adequacy

The Bank defines as capital those items defined by statutory regulation and the Basle Accord as capital for credit institutions. The Bank's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also reconsidered and the Bank recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

The regulator, the NBU, sets and monitors capital requirements for the Bank as a whole. The Bank overall and its individual banking operations are directly supervised by the local regulator.

Under the current capital requirements set by the NBU, banks have to maintain a ratio of capital to risk weighted assets (statutory capital ratio) above the prescribed minimum level. If the banks do not maintain or sufficiently increase its capital base in line with the increase in its risk weighted assets, there is a risk of non-compliance with the NBU capital adequacy regulations, which could lead to the imposition of sanctions by the NBU. This can have a material adverse effect on results of operations and financial condition. As at 31 December 2011 and 2010, the minimum level required by the NBU is 10.0%. The Bank was in compliance with the statutory capital ratio during the years ended 31 December 2011 and 2010.

The Bank is also subject to minimum capital requirements under borrowing arrangements established by covenants, including capital adequacy levels calculated in accordance with the requirements of the Basle Accord of 1988, as defined in the International Convergence of Capital Measurement and Capital Standards (updated April 1998) and Amendment to the Capital Accord to incorporate market risks (updated November 2005), commonly known as Basel I. As at 31 December 2011 and 2010, the minimum level required by Basel I is 8.0%.

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

	2011	2010
Tier 1 capital	3,175,008	(1,277,456)
Tier 2 capital	202,551	-
Total capital	3,377,559	(1,277,456)
Risk weighted assets	10,479,793	6,260,459
Tier 1 capital ratio	30.30%	(19.61%)
Total capital ratio	32.23%	(19.61%)

The Bank is in compliance with the capital ratio calculated in accordance with the Basle Accord as at 31 December 2011.

33. Subsequent events

Subsequent to 31 December 2011, from 23 March 2012 was decreased the NBU discount rate that equals 7.5% annual.

Sergiy Mamedov

Chairman of the Board

Nataliya Khrustalyova

Chief Accountant

24 May 2012

