PJSC “KREDOBANK”

International Financial Reporting Standards Financial Statements and Independent Auditor’s Report

31 December 2011

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders and Management Board of Public Joint Stock Company Kredobank:

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

Management's Responsibility for the Financial Statements

2 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.

Auditor's Responsibility

3 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.

4 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.

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

Opinion

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

LLC AF PricewaterhouseCoopers (Audit)

29 February 2012

Kyiv, Ukraine

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In thousands of Ukrainian hryvnias	Note	31 December 2011	31 December 2010
ASSETS			
Cash and cash equivalents and mandatory reserves	7	587,242	593,624
Due from other banks	8	44,225	4,235
Loans and advances to customers	9	1,825,160	3,128,171
Investment securities available-for-sale	10	590,991	411,968
Current income tax prepayment		5,001	5,548
Deferred income tax asset	24	156,768	131,658
Intangible assets	11	44,165	29,385
Premises, leasehold improvements and equipment	11	332,052	365,538
Other financial assets	12	60,990	2,166
Other non-financial assets	13	43,379	52,625
TOTAL ASSETS		**3,689,973**	**4,724,918**
LIABILITIES			
Due to other banks	14	92,385	511,749
Customer accounts	15	2,629,837	2,977,342
Other financial liabilities	16	17,695	32,340
Other non-financial liabilities	17	22,242	11,685
Subordinated debt	18	277,870	276,659
TOTAL LIABILITIES		**3,040,029**	**3,809,775**
EQUITY			
Share capital	19	1,918,969	1,918,969
Accumulated deficit		(1,269,368)	(1,003,826)
Other reserves	19	343	-
TOTAL EQUITY		**649,944**	**915,143**
TOTAL LIABILITIES AND EQUITY		**3,689,973**	**4,724,918**

Approved for issue and signed on behalf of the Management Board on 29 February 2012.

Marcin Kuksinowicz
Acting Chairman of the Management Board

V.V. Lototskyy
Chief Accountant

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In thousands of Ukrainian hryvnias	Note	2011	2010
Interest income	20	360,040	556,238
Interest expense	20	(232,278)	(373,684)
Net interest income		**127,762**	**182,554**
Provision for loan impairment	9	(222,365)	(20,319)
(Negative interest margin)/net interest income after provision for loan impairment		**(94,603)**	**162,235**
Fee and commission income	21	108,618	110,329
Fee and commission expense	21	(4,346)	(4,459)
Gains less losses from trading in foreign currencies		7,548	6,758
Foreign exchange translation gains less losses		1,897	3,310
Gains less losses/(losses less gains) from securities at fair value through profit or loss		9,763	(10,478)
Reversal of impairment/(impairment) of investment securities available-for-sale	10	8,152	(5,533)
Impairment of premises and equipment		(32,220)	-
(Provision)/reversal of provision for other financial and non-financial assets		(239)	562
Reversal of provision for credit related commitments		481	2,069
Other operating income	22	8,288	9,464
Administrative and other operating expenses	23	(304,056)	(310,935)
Loss before tax		**(290,717)**	**(36,678)**
Income tax credit/(expense)	24	25,175	(68,580)
Loss for the year		**(265,542)**	**(105,258)**
Other comprehensive income			
Investment securities available for sale:			
- Gains less losses arising during the year		408	-
Income tax recorded directly in other comprehensive income	24	(65)	-
Other comprehensive income for the year		**343**	-
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		**(265,199)**	**(105,258)**

Approved for issue and signed on behalf of the Management Board on 29 February 2012.

Marcin Kukielnowicz
Acting Chairman of the Management Board

V.V. Lototskyy
Chief Accountant

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In thousands of Ukrainian hryvnias	Note	Share capital	Revaluation reserve for investment securities available for sale	Accumulated deficit	Total equity
Balance at 1 January 2010		**1,550,969**	-	**(898,568)**	**652,401**
Loss for the year		-	-	(105,258)	(105,258)
Total comprehensive loss for 2010		-	-	(105,258)	(105,258)
Share issue	19	368,000	-	-	368,000
Balance at 31 December 2010		**1,918,969**	-	**(1,003,826)**	**915,143**
Loss for the year		-	-	(265,542)	(265,542)
Other comprehensive income		-	343	-	343
Total comprehensive loss for 2011		-	343	(265,542)	(265,199)
Balance at 31 December 2011		**1,918,969**	**343**	**(1,269,368)**	**649,944**

Approved for issue and signed on behalf of the Management Board on 29 February 2012.

Marcin Kuksinowicz
Acting Chairman of the Management Board

V.V. Lototskyy
Chief Accountant

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In thousands of Ukrainian hryvnias	Note	2011	2010
Cash flows from operating activities			
Interest received		619,635	473,654
Interest paid		(241,918)	(371,471)
Fees and commissions received		116,780	118,339
Fees and commissions paid		(12,508)	(12,469)
Income received from trading in foreign currencies		7,548	6,758
Other operating income received		7,379	6,667
Staff costs paid		(134,449)	(133,333)
Administrative and other operating expenses paid		(124,671)	(119,733)
Cash flows from/(used in) operating activities before changes in operating assets and liabilities		**237,796**	**(31,588)**
Net decrease in securities at fair value through profit or loss		9,743	548
Net (increase)/decrease in due from other banks		(40,012)	1,808
Net (increase)/decrease in mandatory deposits with the NBU		(6,785)	53,370
Net decrease in loans and advances to customers		771,815	532,009
Net (increase)/decrease in other financial and non-financial assets		(782)	(13,368)
Net decrease in due to other banks		(419,973)	(479,786)
Net decrease in customer accounts		(330,881)	(586,269)
Net (decrease)/increase in other financial and non-financial liabilities		(12,876)	16,307
Net cash from/(used in) operating activities		**208,045**	**(506,969)**
Cash flows from investing activities			
Acquisition of investment securities available-for-sale	10	(1,014,257)	(4,272,786)
Proceeds from disposal and redemption of investment securities available-for-sale	10	840,057	3,925,733
Acquisition of premises and equipment	11	(32,258)	(28,182)
Proceeds from disposal of premises and equipment		2,611	4,833
Acquisition of intangible assets	11	(17,755)	(13,675)
Net cash used in investing activities		**(221,602)**	**(384,077)**
Cash flows from financing activities			
Proceeds from subordinated debt	18	-	120,140
Issue of ordinary shares	19	-	368,000
Redemption of debt securities		-	(300)
Net cash from financing activities		-	**487,840**
Effect of exchange rate changes on cash and cash equivalents		**390**	**(10,117)**
Net decrease in cash and cash equivalents		**(13,167)**	**(413,323)**
Cash and cash equivalents at the beginning of the year		592,809	1,006,132
Cash and cash equivalents at the end of the year	3, 7	**579,642**	**592,809**

Approved for issue and signed on behalf of the Management Board on 29 February 2012.

Marcin Euksinowicz
Acting Chairman of the Management Board

V.V. Lototskyy
Chief Accountant

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1 Introduction

These financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2011 for Public Joint Stock Company "Kredobank" (the "Bank").

The Bank was incorporated and is domiciled in Ukraine. The Bank is a public joint stock company limited by shares and was set up in accordance with Ukrainian regulations. As of 31 December 2011 and 2010 the Bank's immediate parent company was PKO BP S.A. (Poland). The Bank is a part of the PKO BP S.A. Group ("PKO BP S.A Group" or the "Group"). The Group is ultimately controlled by the State Treasury of Poland.

Principal activity. The Bank's principal business activity is commercial and retail banking operations within Ukraine. The Bank was founded in 1990 as a joint stock company. Initially registered by the USSR State Bank, the Bank was re-registered by the National Bank of Ukraine (the "NBU") on 14 October 1991 under the name of West-Ukrainian Commercial Bank. In 2002, the Bank was renamed as Kredyt Bank (Ukraina). In November 2005, the shareholders of the Bank made the decision to change the name to Kredobank. Under the decision of Extraordinary General Shareholders Meeting on 26 November 2009, the Bank changed its name to Public Joint Stock Company "KREDOBANK" in order to bring its activities into compliance with the requirements of the Law of Ukraine On Joint Stock Companies.

The Bank operates under general banking licence issued by the NBU on 27 January 2006. This licence provides the Bank with the right to conduct banking operations, including currency operations. The Bank also possesses licences for securities operations and custodial services from the State Commission for Securities and Stock Market issued on 19 October 2007 (due to change in the Bank's name the licences were re-issued on 25 January 2010). The Bank participates in the State deposit insurance scheme (registration # 51 dated 28 March 2006), which operates according to the Law №2740-III "On Individuals Deposits Guarantee Fund" dated 20 September 2001 (as amended). Individuals Deposits Guarantee Fund guarantees repayment of individual deposits up to UAH 150 thousand (2010: UAH 150 thousand) per individual in case bank liquidation procedure is started.

As at 31 December 2011 the Bank has 1 branch and 130 outlets (2010: 1 branches and 137 outlets) within Ukraine.

Registered address and place of business. The Bank's registered address and place of business is:

Saharova Str., 78
79026 Lviv,
Ukraine.

Presentation currency. These financial statements are presented in Ukrainian hryvnias ("UAH"), unless otherwise stated.

2 Operating Environment of the Bank

Ukraine displays certain characteristics of an emerging market, including but not limited to, the existence of a currency that is not freely convertible outside of Ukraine, restrictive currency controls, relatively high inflation and high interest rates.

The recent global financial crisis has had a severe effect on the Ukrainian economy and the financial situation in the Ukrainian financial and corporate sectors significantly deteriorated since mid-2008. In 2010 and 2011, the Ukrainian economy experienced a moderate recovery of economic growth. The recovery was accompanied by lower refinancing rates and stabilisation of the exchange rate of the Ukrainian hryvnia against major foreign currencies. Money market liquidity levels increased in 2010 and in the first half of 2011, but in the second half of 2011 banking sector again experienced liquidity constraints.

The international sovereign debt crisis, stock market volatility and other risks could have a negative effect on Ukrainian financial and corporate sectors. Management determined loan impairment provisions by considering the economic situation and outlook at the end of the reporting period, and applied the 'incurred loss' model required by the applicable accounting standards. These standards require recognition of impairment losses that arose from past events and prohibit recognition of impairment losses that could arise from future events, no matter how likely those future events are. Refer to Note 4.

2 Operating Environment of the Bank (Continued)

Borrowers of the Bank were adversely affected by the financial and economic environment, which in turn impacted their ability to repay the amounts owed. As a significant part of loans to customers was issued in foreign currencies, UAH depreciation against these currencies had a significant impact on borrowers' ability to service the loans. Deteriorating economic conditions for borrowers were reflected in revised estimates of expected future cash flows in impairment assessments.

The amount of provision for impaired loans is based on management's appraisals of these assets at the end of the reporting period after taking into consideration the cash flows that may result from foreclosure less costs for obtaining and selling the collateral.

The market in Ukraine for many types of collateral, especially real estate, has been severely affected by the volatile global financial markets, resulting in a low level of liquidity for certain types of assets. In some cases the Bank has also experienced unforeseeable delays in recovering collateral. As a result, the actual realisable value on future foreclosure may differ from the value ascribed in estimating allowances for impairment at the end of the reporting period.

The tax, currency and customs legislation within Ukraine is subject to varying interpretations and frequent changes (Note 28). The need for further developments in the bankruptcy laws, formalised procedures for the registration and enforcement of collateral, and other legal and fiscal impediments continue to contribute to the challenges faced by banks operating in Ukraine.

On 2 December 2010, the Ukrainian Parliament adopted the new Tax Code. The Tax Code became effective from 1 January 2011, with the Corporate Profits Tax section coming into effect from 1 April 2011. Among the main changes, the Tax Code provides for the significant reduction of the corporate tax rate: 23% for 1 April -31 December 2011, 21% for 2012, 19% for 2013, and 16% from 2014 onwards.

The Tax Code also introduced new approaches to the determination of revenue and costs, new tax depreciation rules for fixed assets and intangibles, new approach to recognition of foreign exchange differences, which now became more close to the financial accounting rules.

The future economic development of Ukraine is dependent upon external factors and internal measures undertaken by the government to sustain growth, and to change the tax, legal and regulatory environment. Management believes it is taking all necessary measures to support the sustainability and development of the Bank's business in the current business and economic environment.

3 Summary of Significant Accounting Policies

Basis of preparation. These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention, as modified by the initial recognition of financial instruments based on fair value, and by the revaluation of available-for-sale financial assets, and financial instruments categorised as at fair value through profit or loss. The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated (refer to Note 5).

Going concern. Management prepared these financial statements on a going concern basis. Refer to Note 4 for uncertainties related to events and conditions that may cast a significant doubt upon the Bank's ability to continue as a going concern.

Financial instruments - key measurement terms. Depending on their classification financial instruments are carried at fair value or amortised cost as described below.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Fair value is the current bid price for financial assets and current asking price for financial liabilities which are quoted in an active market. For assets and liabilities with offsetting market risks, the Bank may use mid-market prices as a basis for establishing fair values for the offsetting risk positions and apply the bid or asking price to the net open position as appropriate. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange or other institution and those prices represent actual and regularly occurring market transactions on an arm's length basis.

3 Summary of Significant Accounting Policies (Continued)

Valuation techniques such as discounted cash flows models or models based on recent arm's length transactions or consideration of financial data of the investees are used to fair value certain financial instruments for which external market pricing information is not available. Valuation techniques may require assumptions not supported by observable market data. Disclosures are made in these financial statements if changing any such assumptions to a reasonably possible alternative would result in significantly different profit, income, total assets or total liabilities.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Amortised cost is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related items in the statement of financial position.

The effective interest method is a method of allocating interest income or interest expense over the relevant period so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate.

Initial recognition of financial instruments. Derivatives and other financial instruments at fair value through profit or loss are initially recorded at fair value. All other financial instruments are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date that the Bank commits to deliver a financial asset. All other purchases are recognised when the entity becomes a party to the contractual provisions of the instrument.

Derecognition of financial assets. The Bank derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired, or (b) the Bank has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all the risks and rewards of ownership of the assets, or (ii) neither transferring nor retaining substantially all risks and rewards of ownership but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose restrictions on the sale.

Cash and cash equivalents. Cash and cash equivalents are items which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents include unrestricted balances with the NBU and all interbank placements with original maturities of less than three months. Funds restricted for a period of more than three months on origination are excluded from cash and cash equivalents. Cash and cash equivalents are carried at amortised cost.

3 Summary of Significant Accounting Policies (Continued)

Mandatory cash balances with the NBU. Mandatory cash balances with the NBU are carried at amortised cost and represent mandatory reserve deposits placed on separate account with the NBU which are not available to finance the Bank's day to day operations and hence are not considered as part of cash and cash equivalents for the purposes of the statement of cash flows.

Securities at fair value through profit or loss. Securities at fair value through profit or loss are financial assets designated irrevocably, at initial recognition, into this category. Management designates securities into this category only if (a) such classification eliminates or significantly reduces an accounting mismatch that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or (b) a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information on that basis is regularly provided to and reviewed by the Bank's key management personnel.

Securities at fair value through profit or loss are carried at fair value. Interest earned on securities at fair value through profit or loss calculated using the effective interest method is presented in profit or loss for the year as interest income. Dividends are included in dividend income within other operating income when the Bank's right to receive the dividend payment is established and it is probable that the dividends will be collected. All other elements of the changes in the fair value and gains or losses on derecognition are recorded in profit or loss for the year as gains less losses from securities at fair value through profit or loss in the period in which they arise.

Due from other banks. Amounts due from other banks are recorded when the Bank advances money to counterparty banks with no intention of trading the resulting unquoted non-derivative receivable due on fixed or determinable dates. Amounts due from other banks are carried at amortised cost.

Loans and advances to customers. Loans and advances to customers are recorded when the Bank advances money to purchase or originate an unquoted non-derivative receivable from a customer due on fixed or determinable dates and has no intention of trading the receivable. Loans and advances to customers are carried at amortised cost.

Impairment of financial assets carried at amortised cost. Impairment losses are recognised in profit or loss for the year when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If the Bank determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. The primary factors that the Bank considers in determining whether a financial asset is impaired are its overdue status and realisability of related collateral, if any.

The following other principal criteria are also used to determine whether there is objective evidence that an impairment loss has occurred:

- any instalment is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;
- the borrower experiences a significant financial difficulty as evidenced by the borrower's financial information that the Bank obtains;
- the borrower considers bankruptcy or a financial reorganisation;
- there is an adverse change in the payment status of the borrower as a result of changes in the national or local economic conditions that impact the borrower;
- the value of collateral significantly decreases as a result of deteriorating market conditions;
- changes to contract with borrower in respect of extension of maturity, changes in payment schedule and other changes to initial contractual terms in order to avoid worsening of the borrower's solvency.

3 Summary of Significant Accounting Policies (Continued)

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets and the experience of management in respect of the extent to which amounts will become overdue as a result of past loss events and the success of recovery of overdue amounts. Past experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods and to remove the effects of past conditions that do not exist currently.

If the terms of an impaired financial asset held at amortised cost are renegotiated or otherwise modified because of financial difficulties of the borrower or issuer, impairment is measured using the original effective interest rate before the modification of terms.

Impairment losses are always recognised through an allowance account to write down the asset's carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the original effective interest rate of the asset. 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.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account through profit or loss for the year.

Uncollectible assets are written off against the related impairment loss provision after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to impairment loss account in profit or loss for the year.

Repossessed collateral. Repossessed collateral represents financial and non-financial assets acquired by the Bank in settlement of overdue loans. The assets are initially recognised at fair value when acquired and included in premises and equipment, other financial assets or inventories within other assets depending on their nature and the Bank's intention in respect of recovery of these assets and are subsequently remeasured and accounted for in accordance with the accounting policies for these categories of assets.

Credit related commitments. The Bank enters into credit related commitments, including commitments to extend loans, letters of credit and financial guarantees. Financial guarantees represent irrevocable assurances to make payments in the event that a customer cannot meet its obligations to third parties and carry the same credit risk as loans. Financial guarantees and commitments to provide a loan are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the commitment, except for commitments to originate loans if it is probable that the Bank will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination. Such loan commitment fees are deferred and included in the carrying value of the loan on initial recognition. At the end of each reporting period, the commitments are measured at the higher of (i) the remaining unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the commitment at the end of each reporting period.

Investment securities available for sale. This classification includes investment securities which the Bank intends to hold for an indefinite period of time and which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. The Bank classifies investments as available-for-sale at the time of purchase.

3 Summary of Significant Accounting Policies (Continued)

Investment securities available-for-sale are carried at fair value. Interest income on available-for-sale debt securities is calculated using the effective interest method and recognised in profit or loss for the year. Dividends on available-for-sale equity instruments are recognised in profit or loss for the year when the Bank's right to receive payment is established and it is probable that the dividends will be collected. All other elements of changes in the fair value are recognised in other comprehensive income until the investment is derecognised or impaired, at which time the cumulative gain or loss is reclassified from other comprehensive income to profit or loss for the year.

Impairment losses are recognised in profit or loss for the year when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of investment securities available-for-sale. A significant or prolonged decline in the fair value of an equity security below its cost is an indicator that it is impaired. The cumulative impairment loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised in profit or loss – is reclassified from other comprehensive income to profit or loss for the year. Impairment losses on equity instruments are not reversed and any subsequent gains are recognised in other comprehensive income. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss for the year.

Sale and repurchase agreements. Sale and repurchase agreements ("repo agreements") which effectively provide a lender's return to the counterparty are treated as secured financing transactions. Securities sold under such sale and repurchase agreements are not derecognised. The securities are not reclassified in the statement of financial position unless the transferee has the right by contract or custom to sell or repledge the securities, in which case they are reclassified as repurchase receivables. The corresponding liability is presented within amounts due to other banks.

Securities purchased under agreements to resell ("reverse repo agreements") which effectively provide a lender's return to the Bank are recorded as due from other banks or loans and advances to customers, as appropriate. The difference between the sale and repurchase price is treated as interest income and accrued over the life of repo agreements using the effective interest method.

Promissory notes purchased. Promissory notes purchased are included in due from other banks or in loans and advances to customers, depending on their substance, and are recorded, subsequently remeasured and accounted for in accordance with the accounting policies for these categories of assets.

Premises, leasehold improvements and equipment. Premises, leasehold improvements and equipment are stated at cost, restated to the equivalent purchasing power of the Ukrainian hryvnia at 31 December 2000 for assets acquired prior to 1 January 2001, less accumulated depreciation and provision for impairment, where required.

Costs of minor repairs and maintenance are expensed when incurred. Costs of replacing major parts or components of premises and equipment items are capitalised and the replaced part is retired.

At the end of each reporting period management assesses whether there is any indication of impairment of premises, leasehold improvements and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in profit or loss for the year. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in profit or loss for the year (within other operating income or expenses).

3 Summary of Significant Accounting Policies (Continued)

Depreciation. Depreciation of premises, leasehold improvements and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives:

	Useful lives in years
Premises	60
Furniture and fixtures	10-15
Motor vehicles	5
Computers and equipment	5-15
Leasehold improvements	over the term of the underlying lease

The residual value of an asset is the estimated amount that the Bank would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The assets’ residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Intangible assets. The Bank’s intangible assets have definite useful life and primarily include capitalised computer software.

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring them to use.

Development costs that are directly associated with identifiable and unique software controlled by the Bank are recorded as intangible assets if an inflow of incremental economic benefits exceeding costs is probable. Capitalised costs include staff costs of the software development team and an appropriate portion of relevant overheads. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred. Capitalised computer software is amortised on a straight line basis over expected useful lives of 15 years.

Operating leases. Where the Bank is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Bank, the total lease payments are charged to profit or loss on a straight-line basis over the period of the lease.

Leases embedded in other agreements are separated if (a) fulfilment of the arrangement is dependent on the use of a specific asset or assets and (b) the arrangement conveys a right to use the asset.

When assets are leased out under an operating lease, the lease payments receivable are recognised as rental income on a straight-line basis over the lease term.

Due to other banks. Amounts due to other banks are recorded when money or other assets are advanced to the Bank by counterparty banks. The non-derivative liability is carried at amortised cost.

Customer accounts. Customer accounts are non-derivative liabilities to individuals, state or corporate customers and are carried at amortised cost.

Debt securities in issue*.* Debt securities in issue include bonds, issued by the Bank. Debt securities are stated at amortised cost. If the Bank purchases its own debt securities in issue, they are removed from the statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains arising from retirement of debt.

Subordinated debt. Subordinated debt represents long-term borrowing agreements that, in case of the Bank's default, would be secondary to the Bank's primary debt obligations. Subordinated debt is carried at amortized cost.

Derivative financial instruments. Derivative financial instruments, including currency swaps are carried at their fair value.

All derivative instruments are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of derivative instruments are included in profit or loss. The Bank does not apply hedge accounting.

Certain derivative instruments embedded in other financial instruments are treated as separate derivative instruments when their risks and characteristics are not closely related to those of the host contract.

Income taxes. Income taxes have been provided for in the financial statements in accordance with Ukrainian legislation enacted or substantively enacted by the end of the reporting period. The income tax charge/(credit) comprises current tax and deferred tax and is recognised in profit or loss for the year except if it is recognised in other comprehensive income or directly in equity because it relates to transactions that are also recognised, in the same or a different period, in other comprehensive income or directly in equity.

3 Summary of Significant Accounting Policies (Continued)

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxable profits or losses are based on estimates if financial statements are authorised prior to filing relevant tax returns. Taxes other than on income are recorded within administrative and other operating expenses.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax balances are measured at tax rates enacted or substantively enacted at the end of the reporting period date which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

Uncertain tax positions. The Bank's uncertain tax positions are reassessed by management at the end of each reporting period. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the end of each reporting period and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognised based on management’s best estimate of the expenditure required to settle the obligations at the end of the reporting period.

Trade and other payables. Trade payables are accrued when the counterparty has performed its obligations under the contract and are carried at amortised cost.

Share capital. Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is recorded as share premium in equity.

Income and expense recognition. Interest income and expense are recorded for all debt instruments on an accrual basis using the effective interest method. This method defers, as part of interest income or expense, all fees paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Fees integral to the effective interest rate include origination fees received or paid by the entity relating to the creation or acquisition of a financial asset or issuance of a financial liability, for example fees for evaluating creditworthiness, evaluating and recording guarantees or collateral, negotiating the terms of the instrument and for processing transaction documents. Commitment fees received by the Bank to originate loans at market interest rates are integral to the effective interest rate if it is probable that the Bank will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination. The Bank does not designate loan commitments as financial liabilities at fair value through profit or loss.

When loans and other debt instruments become doubtful of collection, they are written down to the present value of expected cash inflows and interest income is thereafter recorded for the unwinding of the present value discount based on the asset’s effective interest rate which was used to measure the impairment loss.

All other fees, commissions and other income and expense items are generally recorded on an accrual basis by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

Commissions and fees arising from negotiating, or participating in the negotiation of a transaction for a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses, and which are earned on execution of the underlying transaction, are recorded on its completion.

3 Summary of Significant Accounting Policies (Continued)

Foreign currency translation. The functional currency of the Bank is the currency of the primary economic environment in which the Bank operates. The Bank's functional and presentation currency is the national currency of Ukraine, Ukrainian hryvnias ("UAH").

Monetary assets and liabilities are translated into the Bank's functional currency at the official exchange rate of the NBU at the end of the respective reporting period. Foreign exchange gains and losses resulting from the settlement of transactions and from the translation of monetary assets and liabilities into functional currency at year-end official exchange rates of the NBU are recognised in profit or loss. Translation at year-end rates does not apply to non-monetary items, including equity investments. Effects of exchange rate changes on the fair value of equity securities are recorded as part of the fair value gain or loss.

At 31 December 2011 the principal rate of exchange used for translating foreign currency balances were as follows:

	31 December 2011, UAH	31 December 2010, UAH
1 US dollar (USD)	7.989800	7.961700
1 euro (EUR)	10.298053	10.573138
1 Russian Rouble (RUR)	0.249530	0.261240

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

Staff costs and related contributions. Wages, salaries, contributions to the Ukrainian state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits are accrued in the year in which the associated services are rendered by the employees of the Bank. The Bank has no legal or constructive obligation to make pension or similar benefit payments beyond the payments to the statutory defined contribution scheme.

***Segment reporting*.** Operating segments are reported in a manner consistent with the internal reporting provided to the Board of the Bank being the Bank's chief operating decision maker. Segments whose revenue, result or assets are ten percent or more of all the segments are reported separately. Geographical segments of the Bank have been reported separately within these financial statements based on the ultimate domicile of the counterparty, e.g. based on economic risk rather than legal risk of the counterparty.

Changes in presentation. Where necessary, corresponding figures have been adjusted to conform to the presentation of the current year amounts.

4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies

The Bank makes estimates and assumptions that affect the amounts recognised in the financial statements and the carrying amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Going concern. Management prepared these financial statements on a going concern basis. In making this judgement management considered the Bank's financial position, current intentions, continuing financial support from the parent company, budgeted profitability of future operations and access to financial resources and analysed the impact of the recent financial crisis on future operations of the Bank.

4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies (Continued)

Impairment losses on loans and advances. The Bank regularly reviews its loan portfolios to assess impairment. In determining whether an impairment loss should be recorded in profit or loss for the year, the Bank makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. To the extent that the assessed delay in repayment of principal on 5% of the total loans and advances to customers differs by +/- one month, the provision would be approximately UAH 100 thousand (31 December 2010: UAH 300 thousand) higher or UAH 100 thousand (2010: UAH 300 thousand) lower.

Impairment losses for individually significant loans are based on estimates of discounted future cash flows of the individual loans, taking into account repayments and realisation of any assets held as collateral against the loans. A 10% increase or decrease in the actual loss experience compared to the estimated future discounted cash flows from individually significant loans, which could arise from differences in amounts and timing of the cash flows, would result in an increase or decrease in loan impairment losses of UAH 13,735 thousand (2010: UAH 89,746 thousand), respectively.

Tax legislation. Ukrainian tax, currency and customs legislation is subject to varying interpretations. Refer to Note 28.

Initial recognition of related party transactions. In the normal course of business the Bank enters into transactions with its related parties. IAS 39 requires initial recognition of financial instruments based on their fair values. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analysis. Terms and conditions of related party balances are disclosed in Note 31.

Classification of income and expense on transactions with the parent company. Management applies judgement to determine whether income and expenses arising from transactions with the parent company should be recognised in the statement of changes in equity as transactions with shareholders in respect of capital contributions and distributions or in the income statement as results from operations. The basis for judgement is requirements of applicable accounting standards and economic substance of transaction. As disclosed in Note 9, during 2010 the Bank entered into the guarantee deposit agreement and two guarantee agreements with PKO BP SA whereby PKO BP SA guarantees repayment of loans totalling UAH 38,038 thousand and UAH 595,738 thousand respectively. As a result of these transactions, the Bank reversed part of loan impairment provisions totalling UAH 133,159 thousand taking into account future proceeds from guarantees execution and deposits utilisation in cash flow projections for loans covered by the guarantees. This reversal was recognised in the income statement to reflect requirements of IAS 39. Were the Bank to recognise all such income and expense in the statement of changes in equity as transactions with shareholders, the net loss before tax for 2010 would increase by UAH 133,159 thousand. In December 2011 the Bank sold the rights to 100% of the cash flows arising on a portfolio of fixed rate loans with gross book value of UAH 1,648,790 thousand, including loans covered by the guarantees received from the parent company as described above, to the entity under common control. Carrying value of loans sold as at the date of sale was UAH 1,083,381 thousand. The Bank received UAH 338,167 thousand from the parent company in settlement of the guarantees and UAH 562,456 thousand from the entity under common control as consideration for the loans sold. As a result of these transactions the Bank recognised loss in the amount of UAH 182,758 thousand which is the difference between the carrying value of loans sold and consideration received for the loan portfolios and in settlement of the guarantees.

Deferred income tax asset recognition. The recognised deferred tax asset represents income taxes recoverable through future deductions from taxable profits and is recorded in the statement of financial position. Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable. The future taxable profits and the amount of tax benefits that are probable in the future are based on a medium term business plan prepared by management and extrapolated results thereafter. The business plan is based on management’s expectations that are believed to be reasonable under the circumstances. The Bank is expected to generate the sustainable profits in the future.

4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies (Continued)

Key assumptions in the business plan include expected stabilization in the economy of Ukraine, gradual decline in interest rates (on loans and funding), moderate growth in loan portfolio, reduced loan loss provisions due to the expected improvement in economy and further enhancement of cost-control. Taking into account planned future profits and the fact that current Ukrainian tax legislation does not place limits on the term of utilization of tax losses carried forward, management believes that it is appropriate to recognise the deferred tax asset.

5 Adoption of New or Revised Standards and Interpretations

The following new standards and interpretations became effective for the Bank from 1 January 2011:

***Amendment to IAS 24, Related Party Disclosures* (issued in November 2009 and effective for annual periods beginning on or after 1 January 2011).** IAS 24 was revised in 2009 by: (a) simplifying the definition of a related party, clarifying its intended meaning and eliminating inconsistencies; and by (b) providing a partial exemption from the disclosure requirements for government-related entities. The amendment did not have an impact on these financial statements.

Improvements to International Financial Reporting Standards (issued in May 2010 and effective from 1 January 2011). The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: IFRS 1 was amended (i) to allow previous GAAP carrying value to be used as deemed cost of an item of property, plant and equipment or an intangible asset if that item was used in operations subject to rate regulation, (ii) to allow an event driven revaluation to be used as deemed cost of property, plant and equipment even if the revaluation occurs during a period covered by the first IFRS financial statements and (iii) to require a first-time adopter to explain changes in accounting policies or in the IFRS 1 exemptions between its first IFRS interim report and its first IFRS financial statements; IFRS 3 was amended (i) to require measurement at fair value (unless another measurement basis is required by other IFRS standards) of non-controlling interests that are not present ownership interest or do not entitle the holder to a proportionate share of net assets in the event of liquidation, (ii) to provide guidance on the acquiree's share-based payment arrangements that were not replaced, or were voluntarily replaced as a result of a business combination and (iii) to clarify that the contingent considerations from business combinations that occurred before the effective date of revised IFRS 3 (issued in January 2008) will be accounted for in accordance with the guidance in the previous version of IFRS 3; IFRS 7 was amended to clarify certain disclosure requirements, in particular (i) by adding an explicit emphasis on the interaction between qualitative and quantitative disclosures about the nature and extent of financial risks, (ii) by removing the requirement to disclose carrying amount of renegotiated financial assets that would otherwise be past due or impaired, (iii) by replacing the requirement to disclose fair value of collateral by a more general requirement to disclose its financial effect, and (iv) by clarifying that an entity should disclose the amount of foreclosed collateral held at the reporting date, and not the amount obtained during the reporting period; IAS 1 was amended to clarify the requirements for the presentation and content of the statement of changes in equity; IAS 27 was amended by clarifying the transition rules for amendments to IAS 21, 28 and 31 made by the revised IAS 27 (as amended in January 2008); IAS 34 was amended to add additional examples of significant events and transactions requiring disclosure in a condensed interim financial report, including transfers between the levels of fair value hierarchy, changes in classification of financial assets or changes in business or economic environment that affect the fair values of the entity's financial instruments; and IFRIC 13 was amended to clarify measurement of fair value of award credits. The above amendments resulted in additional or revised disclosures, but had no material impact on measurement or recognition of transactions and balances reported in these financial statements. The financial effect of collateral required to be disclosed by the amendments to IFRS 7 is presented in these financial statements by disclosing collateral values separately for (i) those financial assets where collateral and other credit enhancements are equal to, or exceed, carrying value of the asset ("over-collateralised assets") and (ii) those financial assets where collateral and other credit enhancements are less than the carrying value of the asset ("under-collateralised assets")

Other revised standards and interpretations effective for the current period. IFRIC 19 "Extinguishing financial liabilities with equity instruments", amendments to IAS 32 on classification of rights issues, clarifications in IFRIC 14 "IAS 19 - The limit on a defined benefit asset, minimum funding requirements and their interaction" relating to prepayments of minimum funding requirements and amendments to IFRS 1 "First-time adoption of IFRS", did not have any impact on these financial statements.

6 New Accounting Pronouncements

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2012 or later, and which the Bank has not early adopted.

IFRS 9, Financial Instruments: Classification and Measurement. IFRS 9, issued in November 2009, replaces those parts of IAS 39 relating to the classification and measurement of financial assets. IFRS 9 was further amended in October 2010 to address the classification and measurement of financial liabilities and in December 2011 to (i) change its effective date to annual periods beginning on or after 1 January 2015 and (ii) add transition disclosures. Key features of the standard are as follows:

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity’s business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.
- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity’s business model is to hold the asset to collect the contractual cash flows, and (ii) the asset’s contractual cash flows represent payments of principal and interest only (that is, it has only “basic loan features”). All other debt instruments are to be measured at fair value through profit or loss.
- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.

While adoption of IFRS 9 is mandatory from 1 January 2015, earlier adoption is permitted. The Bank is considering the implications of the standard, the impact on the Bank and the timing of its adoption by the Bank.

IFRS 13, Fair value measurement, (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013), aims to improve consistency and reduce complexity by providing a revised definition of fair value, and a single source of fair value measurement and disclosure requirements for use across IFRSs.

Amendments to IAS 1, Presentation of Financial Statements (issued June 2011, effective for annual periods beginning on or after 1 July 2012), changes the disclosure of items presented in other comprehensive income. The amendments require entities to separate items presented in other comprehensive income into two groups, based on whether or not they may be reclassified to profit or loss in the future. The suggested title used by IAS 1 has changed to ‘statement of profit or loss and other comprehensive income’. The Bank expects the amended standard to change presentation of its financial statements, but have no impact on measurement of transactions and balances.

Disclosures—Offsetting Financial Assets and Financial Liabilities - Amendments to IFRS 7 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2013). The amendment requires disclosures that will enable users of an entity’s financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off.

Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 32 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2014). The amendment added application guidance to IAS 32 to address inconsistencies identified in applying some of the offsetting criteria. This includes clarifying the meaning of ‘currently has a legally enforceable right of set-off’ and that some gross settlement systems may be considered equivalent to net settlement.

6 New Accounting Pronouncements (Continued)

Disclosures—Transfers of Financial Assets – Amendments to IFRS 7 (issued in October 2010 and effective for annual periods beginning on or after 1 July 2011) The amendment requires additional disclosures in respect of risk exposures arising from transferred financial assets. The amendment includes a requirement to disclose by class of asset the nature, carrying amount and a description of the risks and rewards of financial assets that have been transferred to another party, yet remain on the entity's balance sheet. Disclosures are also required to enable a user to understand the amount of any associated liabilities, and the relationship between the financial assets and associated liabilities. Where financial assets have been derecognised, but the entity is still exposed to certain risks and rewards associated with the transferred asset, additional disclosure is required to enable the effects of those risks to be understood.

The Bank does not expect the following new accounting pronouncements to have any material effect on its financial statements:

Recovery of Underlying Assets – Amendments to IAS 12 (issued in December 2010 and effective for annual periods beginning on or after 1 January 2012);

Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters – Amendments to IFRS 1 (issued in December 2010 and effective for annual periods beginning on or after 1 July 2011);

IFRS 11, Joint arrangements, (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013);

IFRS 12, Disclosure of interest in other entities, (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013);

Amended IAS 19, Employee benefits (issued in June 2011, effective for periods beginning on or after 1 January 2013);

IAS 27, Separate financial statements (revised in May 2011, effective for annual periods beginning on or after 1 January 2013);

IAS 28, Investments in associates and joint ventures (revised in May 2011, effective for annual periods beginning on or after 1 January 2013);

IFRIC 20 Stripping costs in the production phase of a surface mine (issued in October 2011, effective for annual periods beginning on or after 1 January 2013);

IFRS 10, Consolidated financial statements (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013).

7 Cash and Cash Equivalents and Mandatory Reserves

In thousands of Ukrainian hryvnias	**2011**	**2010**
Cash on hand	160,191	152,187
Cash balances with the NBU (other than mandatory reserve deposits)	43,107	107,074
Mandatory cash balances with the NBU	7,600	815
Correspondent accounts with other banks	252,530	333,548
Placements with other banks with original maturities of less than three months	67,164	-
Reverse sale and repurchase agreements with other banks with original maturities of less than three months	56,650	-
Total cash and cash equivalents and mandatory reserves	**587,242**	**593,624**

As at 31 December 2011 mandatory reserve balance with the National Bank of Ukraine is calculated on the basis of a simple average over a monthly period (2010: monthly period) and is required to be maintained at the level of 0 to 8 per cent (31 December 2010: 0 to 7 per sent) of certain obligations of the Bank in a hryvnia equivalent. As such, the balance can vary from day-to-day. The Bank's average mandatory reserve for December 2011 was UAH 60,512 thousand (for December 2010: UAH 64,651 thousand). The Bank may satisfy its mandatory reserve requirement with Treasury bills (EURO 2012) in the amount of 50% of their nominal value and a balance on a separate account with the National Bank of Ukraine (2010: Treasury bills (EURO 2012) in the amount of 100% of their nominal value and a deposit placed on a separate account with the National Bank of Ukraine).

7 Cash and Cash Equivalents and Mandatory Reserves (Continued)

As at 31 December 2011 the Bank had to deposit on separate account with the NBU the amount of 70% of mandatory reserve balance for the preceding month (2010: 100% of mandatory reserve balance for the preceding month) excluding amount covered by the Treasury bills (EURO 2012). As at 31 December 2011 the deposit amounts to UAH 7,600 thousand as the Treasury bills (EURO 2012) held by the Bank amount to UAH 70,000 thousand (31 December 2010: UAH 70,000 thousand) and the average mandatory reserve balance for November 2011 is UAH 42,600 thousand (2010: the mandatory reserve amounted to UAH 70,815 thousand). This deposit is subject to interest payments from the NBU at the rate of 30% of the discount rate set by the NBU (2.325% p.a. as at 31 December 2011 and 2.325% p.a. as at 31 December 2010), provided that the Bank is in compliance with the mandatory reserve requirements. As the respective liquid assets are not available to finance the Bank's day-to-day operations, for the purposes of the cash flow statement the mandatory reserve balance kept on a separate account with the NBU is excluded from cash and cash equivalents. As at 31 December 2011 cash and cash equivalents for the purposes of the statement of cash flows were UAH 579,642 thousand (31 December 2010: UAH 592,809 thousand).

During 2011 the Bank was in compliance with the mandatory reserve requirements.

Interest rate analysis of cash and cash equivalents is disclosed in Note 26. Information on related party balances is disclosed in Note 31.

The credit quality of cash and cash equivalents and mandatory reserve balances may be summarised based on Moody's ratings as follows at 31 December 2011:

In thousands of Ukrainian hryvnias	**Cash balances with the NBU, including mandatory reserves**	**Correspondent accounts with other banks**	**Placements with other banks with original maturities of less than three months**	**Reverse sale and repurchase agreements**	**Total**
Neither past due nor impaired					
- National Bank of Ukraine	50,707	-	-	-	50,707
- Aaa – Aa3 rated	-	118,873	-	-	118,873
- A1 - A3 rated	-	130,027	-	-	130,027
- Ba1 - Ba3 rated	-	255	-	-	255
- B1 – B3 rated	-	3,140	-	-	3,140
- Unrated	-	235	67,164	56,650	124,049
Total cash and cash equivalents and mandatory reserves, excluding cash on hand	**50,707**	**252,530**	**67,164**	**56,650**	**427,051**

The credit quality of cash and cash equivalents and mandatory reserve balances may be summarised based on Moody's ratings as follows at 31 December 2010:

In thousands of Ukrainian hryvnias	**Cash balances with the NBU, including mandatory reserves**	**Correspondent accounts with other banks**	**Total**
Neither past due nor impaired			
- National Bank of Ukraine	107,889	-	107,889
- Aa1 – Aa3 rated	-	314,877	314,877
- A1 - A3 rated	-	14,601	14,601
- Baa1 - Baa3 rated	-	2	2
- Ba1 - Ba3 rated	-	25	25
- B1 – B3 rated	-	3,491	3,491
- Unrated	-	552	552
Total cash and cash equivalents and mandatory reserves, excluding cash on hand	**107,889**	**333,548**	**441,437**

8 Due from Other Banks

In thousands of Ukrainian hryvnias	2011	2010
Guarantee deposits	6,018	4,235
Placements with other banks with original maturities of more than three months	38,207	-
Total due from other banks	**44,225**	**4,235**

As at 31 December 2011 guarantee deposits include UAH 6,008 thousand (2010: UAH 4,235 thousand) due from two Ukrainian banks placed as guarantee deposits in US dollars for card settlements and transfers. Such placements are normally non-interest bearing.

Amounts due from other banks are not collateralised. Analysis by credit quality of amounts due from other banks outstanding at 31 December 2011 is presented in the table below. The analysis is based on ratings assigned by one of the international credit rating agencies Moody's.

In thousands of Ukrainian hryvnias	Guarantee deposits	Placements with other banks with original maturities of more than three months	Total
Neither past due nor impaired			
- B3 rated	6,008	-	6,008
- Unrated	10	38,207	38,217
Total due from other banks	**6,018**	**38,207**	**44,225**

Analysis by credit quality of amounts due from other banks outstanding at 31 December 2010 is as follows:

In thousands of Ukrainian hryvnias	Guarantee deposits	Total
Neither past due nor impaired		
- B3 rated	4,235	**4,235**
Total due from other banks	**4,235**	**4,235**

Refer to Note 29 for the estimated fair value of each class of amounts due from other banks. Interest rate analysis of due from other banks is disclosed in Note 26 .

9 Loans and Advances to Customers

In thousands of Ukrainian hryvnias	2011	2010
Corporate loans	1,418,613	3,088,059
Loans to individuals - consumer loans	190,366	220,203
Loans to individuals - mortgage loans	441,216	818,823
Reverse sale and repurchase agreements	34,525	30,022
Less: Provision for loan impairment	(259,560)	(1,028,936)
Total loans and advances to customers	**1,825,160**	**3,128,171**

At 31 December 2011 loans and advances to customers in the amount of UAH 34,525 thousand (2010: UAH 30,022 thousand) are effectively collateralised by securities purchased under reverse sale and repurchase agreements at a fair value of zero (2010: zero), which the Bank has a right to sell or repledge.

As at 31 December 2011 loans and advances to customers in the amount of UAH 23,542 thousand (31 December 2010: UAH 18,706 thousand) were collateralised by customer deposits in the amount of UAH 39,147 thousand (31 December 2010: UAH 47,652 thousand). Refer to Note 15.

9 Loans and Advances to Customers (Continued)

In 2010 the Bank entered into the guarantee deposit agreement with PKO BP SA for the amount of UAH 38,038 thousand pledged as collateral for a number of lending transactions. As at 31 December 2011 amount of guarantee deposits received from PKO BP SA amounts to UAH 13,541 thousand and amount of loans and advances to customers which are collaterized by these deposits equal to UAH 12,179 thousand.

Also in 2010 the Bank received two packages of unconditional irrevocable guarantees from PKO BP SA which were accepted as collateral for lending transactions in the total amount of UAH 595,738 thousand. Calculation of provision for impairment of loans covered by the guarantees, included cash flows expected from execution of the guarantees and utilisation of deposits. As a result, the Bank reversed provisions totalling UAH 133,159 thousand and included this reversal in profit or loss for the year 2010. Refer also to Note 4. During 2011 the Bank sold part of exposures covered by the guarantees to unrelated parties and in December 2011 the Bank sold remaining loans that were covered by the guarantees, to a company under common control, as described below.

In December 2011 the Bank sold the rights to 100% of the cash flows arising on a portfolio of fixed rate loans with gross book value of UAH 1,648,790 thousand, including loans covered by the guarantees received from the parent company as described above, to the entity under common control. Carrying value of loans sold as at the date of sale was UAH 1,083,381 thousand. The Bank received UAH 338,167 thousand from the parent company in settlement of the guarantees and UAH 562,456 thousand from the entity under common control as consideration for the loans sold. As a result of these transactions the Bank recognised loss in the amount of UAH 182,758 thousand which is the difference between the carrying value of loans sold and consideration received for the loan portfolios and in settlement of the guarantees.

In addition, during 2011 the Bank sold to unrelated parties the rights to 100% of the cash flows arising on a portfolio of fixed rate loans with gross book value of UAH 385,716 thousand and net book value of UAH 156,012 thousand. As a result of this transaction the Bank recognized profit of UAH 8,966 thousand.

The amount of movement in provision shown in the table below in respect of loans, sold during the year, includes the amount of provision reversed and loss incurred as a result of the sale.

In 2010 Bank sold to unrelated parties the rights to 100% of the cash flows arising on a portfolio of fixed rate loans with gross book value of UAH 161,312 thousand (including fee and penalties receivable in the amount of UAH 1,466 thousand) and net book value of UAH 24,893 thousand. As a result of this transaction the Bank recognized loss of UAH 1,792 thousand.

Movements in the provision for loan impairment during 2011 are as follows:

In thousands of Ukrainian hryvnias	**Corporate loans**	**Consumer loans**	**Mortgage loans**	**Reverse sale and repurchase agreements**	**Total**
Provision for loan impairment at 1 January 2011	**776,411**	**38,459**	**184,044**	**30,022**	**1,028,936**
Provision/(reversal of provision) for impairment during the year	166,593	(3,702)	55,139	4,503	222,533
Loans sold during the year	(781,501)	(14,573)	(172,831)	-	(968,905)
Amounts written off during the year as uncollectible	(19,514)	(373)	(679)	-	(20,566)
Translation differences	(1,643)	(185)	(610)	-	(2,438)
Provision for loan impairment at 31 December 2011	**140,346**	**19,626**	**65,063**	**34,525**	**259,560**

The provision for loan impairment for the year ended 31 December 2011 differs from the amount recognised in income and expenses for the year due to the repayment of loans of UAH 168 thousand (2010: UAH 1,259 thousand) which were previously written off as uncollectible. These amounts were recorded as the decrease of provision for loan impairment in profit or loss for the year.

9 Loans and Advances to Customers (Continued)

Movements in the provision for loan impairment during 2010 are as follows:

In thousands of Ukrainian hryvnias	Corporate loans	Consumer loans	Mortgage loans	Reverse sale and repurchase agreements	Total
Provision for loan impairment at 1 January 2010	**876,625**	**104,102**	**257,745**	**28,737**	**1,267,209**
Provision/(reversal of provision) for impairment during the year	(73)	12,257	8,109	1,285	21,578
Loans sold during the year	(85,630)	(9,845)	(9,443)	-	(104,918)
Amounts written off during the year as uncollectible	-	(67,363)	(69,056)	-	(136,419)
Translation differences	(14,511)	(692)	(3,311)	-	(18,514)
Provision for loan impairment at 31 December 2010	**776,411**	**38,459**	**184,044**	**30,022**	**1,028,936**

Economic sector risk concentrations within the customer loan portfolio are as follows:

	2011		2010	
In thousands of Ukrainian hryvnias	Amount	%	Amount	%
Individuals	631,582	30	1,039,026	25
Trade	441,442	21	1,044,557	25
Manufacturing	367,471	18	659,357	16
Agriculture and food processing	183,576	9	482,506	12
Sanatoriums and health resorts	101,521	5	97,365	2
Sports and recreation services	99,407	5	128,867	3
Real estate and construction	93,016	5	236,687	6
Other services	69,334	3	116,563	3
Transportation	59,954	3	66,450	1
Mining	27,711	1	93,431	2
Financial services	3,582	-	112,057	3
Hotels	684	-	73,106	2
Other	5,440	-	7,135	-
Total loans and advances to customers (before impairment)	**2,084,720**	**100**	**4,157,107**	**100**

At 31 December 2011 the Bank had 3 borrowers (2010: 10 borrowers), with aggregated loan amounts above UAH 40,000 thousand. The total aggregate amount of these loans was UAH 254,530 thousand (2010: UAH 588,087 thousand), or 12 % of the gross loan portfolio (2010: 14% of the gross loan portfolio).

Information about collateral at 31 December 2011 is as follows:

In thousands of Ukrainian hryvnias	Corporate loans	Consumer loans	Mortgage loans	Reverse sale and repurchase agreements	Total
Unsecured loans	95,751	27,370	24,236	34,525	181,882
Loans collateralised by:					
- cash deposits	32,471	2,695	555	-	35,721
- residential real estate	39,812	829	300,689	-	341,330
- other real estate	919,562	1,602	99,681	-	1,020,845
- other assets	331,017	157,870	16,055	-	504,942
Total loans and advances to customers (before impairment)	**1,418,613**	**190,366**	**441,216**	**34,525**	**2,084,720**

The amount of cash deposits in the table above includes UAH 13,541 thousand (2010: 38,038 thousand) pledged as collateral for a number of lending transactions by the Bank's parent company, PKO BP SA.

9 Loans and Advances to Customers (Continued)

Information about collateral at 31 December 2010 is as follows:

In thousands of Ukrainian hryvnias	Corporate loans	Consumer loans	Mortgage loans	Reverse sale and repurchase agreements	Total
Unsecured loans	386,633	48,797	79,686	30,022	545,138
Loans collateralised by:					
- cash deposits	53,392	3,299	53	-	56,744
- guarantees received from the parent company	546,577	-	49,161	-	595,738
- residential real estate	66,896	2,906	465,013	-	534,815
- other real estate	1,353,445	3,041	196,516	-	1,553,002
- other assets	681,116	162,160	28,394	-	871,670
Total loans and advances to customers (before impairment)	**3,088,059**	**220,203**	**818,823**	**30,022**	**4,157,107**

Other assets mainly include equipment, other movable property and property rights for future real estate. The disclosure above represents the lower of the carrying value of the loan or collateral taken; the remaining part is disclosed within the unsecured exposures. The carrying value of loans was allocated based on liquidity of the assets taken as collateral.

Analysis by credit quality of loans outstanding at 31 December 2011 is as follows:

In thousands of Ukrainian hryvnias	Corporate loans	Consumer loans	Mortgage loans	Reverse sale and repurchase agreements	Total
Neither past due nor impaired					
- High grade	492,998	123,601	186,699	-	803,298
- Standard grade	65,765	11,911	31,204	-	108,880
- Sub-standard grade	21,717	8,646	38,823	-	69,186
Total neither past due nor impaired	**580,480**	**144,158**	**256,726**	**-**	**981,364**
Past due but not impaired					
- less than 30 days overdue	3,308	876	2,281	-	6,465
- 30 to 90 days overdue	6 895	6 605	15 858	-	29 358
- 91 to 180 days overdue	4 941	94	6 599	-	11 634
- 181 to 360 days overdue	2 324	51	1 777	-	4 152
- over 360 days overdue	666	29	479	-	1 174
Total past due but not impaired	**18,134**	**7,655**	**26,994**	**-**	**52,783**
Loans individually and collectively determined to be impaired (gross)					
- not yet past due	624,297	808	46,693	-	671,798
- less than 30 days overdue	20,399	512	1,735	-	22,646
- 30 to 90 days overdue	43,020	-	9,889	-	52,909
- 91 to 180 days overdue	36,476	5,420	15,828	-	57,724
- 181 to 360 days overdue	12,249	5,862	22,875	3,529	44,515
- over 360 days overdue	83,558	25,951	60,476	30,996	200,981
Total individually and collectively impaired loans (gross)	**819,999**	**38,553**	**157,496**	**34,525**	**1,050,573**
Less impairment provisions	**(140,346)**	**(19,626)**	**(65,063)**	**(34,525)**	**(259,560)**
Total loans and advances to customers	**1,278,267**	**170,740**	**376,153**	**-**	**1,825,160**

The Bank classifies loans and advances to customers by credit quality in accordance with classification prescribed by the NBU regulations. Current and not impaired loans are split by the Bank into the following credit risk categories:

9 Loans and Advances to Customers (Continued)

High grade. This category represents loans classified under NBU regulations as standard grade. This category includes exposures with insignificant credit risk which is characterised by strong financial position of the borrower and good loan servicing.

Standard grade. This category represents loans classified under NBU regulations as loans under control. This category includes exposures with insignificant credit risk which however may increase as a result of unfavourable conditions; these are exposures to borrowers with good financial standing and good repayment history or borrowers with strong financial position and payment history with delays not exceeding 90 days.

Sub-standard loans. This category includes exposures with significant credit risk which is characterised by weak or unsatisfactory financial position of the borrower and good loan servicing or good financial position of the borrower and poor loan servicing.

Analysis by credit quality of loans outstanding at 31 December 2010 is as follows:

In thousands of Ukrainian hryvnias	**Corporate loans**	**Consumer loans**	**Mortgage loans**	**Reverse sale and repurchase agreements**	**Total**
Neither past due nor impaired					
- High grade	182,140	110,010	245,960	-	538,110
- Standard grade	72,225	18,519	39,702	-	130,446
- Sub-standard grade	29,210	9,622	31,490	-	70,322
- Loans renegotiated in 2010	43,160	1,963	7,444	-	52,567
Total neither past due nor impaired	**326,735**	**140,114**	**324,596**	**-**	**791,445**
Past due but not impaired					
- less than 30 days overdue	7,258	1,990	3,327	-	12,575
- 30 to 90 days overdue	178,070	10,814	24,793	-	213,677
Total past due but not impaired	**185,328**	**12,804**	**28,120**	**-**	**226,252**
Loans individually and collectively determined to be impaired (gross)					
- not yet past due	773,637	619	49,640	-	823,896
- less than 30 days overdue	6,384	-	694	-	7,078
- 30 to 90 days overdue	162,010	171	21,349	-	183,530
- 91 to 180 days overdue	96,266	9,220	29,253	-	134,739
- 181 to 360 days overdue	366,184	16,286	56,888	19,574	458,932
- over 360 days overdue	1,171,515	40,989	308,283	10,448	1,531,235
Total individually and collectively impaired loans (gross)	**2,575,996**	**67,285**	**466,107**	**30,022**	**3,139,410**
Less impairment provisions	**(776,411)**	**(38,459)**	**(184,044)**	**(30,022)**	**(1,028,936)**
Total loans and advances to customers	**2,311,648**	**181,744**	**634,779**	**-**	**3,128,171**

The Bank applied the portfolio provisioning methodology prescribed by IAS 39, *Financial Instruments: Recognition and Measurement*, and created portfolio provisions for impairment losses that were incurred but have not been specifically identified with any individual loan by the end of the reporting period. The Bank's policy is to classify each loan as 'neither past due nor impaired' until specific objective evidence of impairment of the loan is identified. The impairment provisions may exceed the total gross amount of individually impaired loans as a result of this policy and the portfolio impairment methodology.

9 Loans and Advances to Customers (Continued)

Past due but not impaired loans primarily include collateralised loans where the fair value of collateral covers the overdue interest and principal repayments. The amount reported as past due but not impaired is the whole balance of such loans, not only the individual instalments that are past due.

The financial effect of collateral is presented by disclosing collateral values separately for (i) those assets where collateral and other credit enhancements are equal to or exceed carrying value of the asset (“over-collateralised assets”) and (ii) those assets where collateral and other credit enhancements are less than the carrying value of the asset (“under-collateralised assets”). The effect of collateral at 31 December 2011:

	Over-collateralised assets		Under-collateralised assets	
In thousands of Ukrainian hryvnias	**Carrying value of the assets**	**Fair value of collateral**	**Carrying value of the assets**	**Fair value of collateral**
Corporate loans	1,138,033	2,007,470	140,234	95,124
Mortgage loans	289,519	666,642	86,634	66,685
Consumer loans	101,748	182,189	68,992	44,503
Total	**1,529,300**	**2,856,301**	**295,860**	**206,312**

The effect of collateral at 31 December 2010:

	Over-collateralised assets		Under-collateralised assets	
In thousands of Ukrainian hryvnias	**Carrying value of the assets**	**Fair value of collateral**	**Carrying value of the assets**	**Fair value of collateral**
Corporate loans	1,735,998	3,561,283	575,650	419,303
Mortgage loans	423,655	841,028	211,124	165,552
Consumer loans	89,930	174,584	91,814	54,219
Total	**2,249,583**	**4,576,895**	**878,588**	**639,074**

The fair value of collateral is the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm’s length transaction. This amount does not include possible costs of debt recovery through the foreclosure. Net collateral value after court expenses, disposal costs and other costs related to debt recovery through the foreclosure may differ from its fair value.

The fair value of residential real estate collateral at the end of the reporting period was estimated by indexing the values determined by the Bank’s internal credit department staff at the time of loan inception for the average changes in residential real estate prices by city and region. The fair value of other real estate and other assets was determined by the Bank’s credit department by considering the condition and location of the assets accepted as collateral.

Refer to Note 29 for the estimated fair value of each class of loans and advances to customers. Interest rate analysis of loans and advances to customers is disclosed in Note 26. Information on related party balances is disclosed in Note 31.

10 Investment Securities Available-for-Sale

In thousands of Ukrainian hryvnias	**2011**	**2010**
Ukrainian government bonds	590,961	411,938
Total debt securities	590,961	411,938
Corporate shares	30	30
Total investment securities available-for-sale	**590,991**	**411,968**

10 Investment Securities Available-for-Sale (Continued)

Analysis by credit quality of debt securities outstanding at 31 December 2011 is as follows:

In thousands of Ukrainian hryvnias	Ukrainian government bonds	Corporate bonds	Total
Neither past due nor impaired			
- Ukrainian government	590,961	-	590,961
Total neither past due nor impaired	**590,961**	**-**	**590,961**
Debt securities individually determined to be impaired (gross)			
- overdue over 360 days	-	11,623	11,623
Total individually impaired debt securities (gross)	**-**	**11,623**	**11,623**
Less impairment provision	**-**	**(11,623)**	**(11,623)**
Total debt securities available-for-sale	**590,961**	**-**	**590,961**

Analysis by credit quality of debt securities outstanding at 31 December 2010 is as follows:

In thousands of Ukrainian hryvnias	Ukrainian government bonds	Corporate bonds	Total
Neither past due nor impaired			
- Ukrainian government	411,938	-	411,938
Total neither past due nor impaired	**411,938**	**-**	**411,938**
Debt securities individually determined to be impaired (gross)			
- less than 30 days overdue	-	3,503	3,503
- 181 to 360 days overdue	-	6,957	6,957
- overdue over 360 days	-	11,608	11,608
Total individually impaired debt securities (gross)	**-**	**22,068**	**22,068**
Less impairment provision	**-**	**(22,068)**	**(22,068)**
Total debt securities available-for-sale	**411,938**	**-**	**411,938**

The primary factor that the Bank considers in determining whether a debt security is impaired is its overdue status. As a result, the Bank presents above an ageing analysis of debt securities that are individually determined to be impaired. The debt securities are not collateralised.

The movements in investment securities available for sale are as follows:

In thousands of Ukrainian hryvnias	Note	2011	2010
Carrying amount at 1 January		**411,968**	**51,386**
Impairment of investment securities available-for-sale		8,152	(5,533)
Interest income accrued	20	43,522	34,076
Interest income received		(46,853)	(15,014)
Purchases		1,014,257	4,272,786
Disposals		(840,057)	(3,925,733)
Exchange differences relating to debt securities		2	-
Carrying amount at 31 December		**590,991**	**411,968**

Interest rate analysis of investment securities available for sale is disclosed in Note 26.

11 Premises, Leasehold Improvements, Equipment and Intangible Assets

In thousands of Ukrainian hryvnias	Note	Premises and leasehold improve-ments	Computer and equipment	Furniture and fixtures	Motor vehicles	Construc-tion in progress	Total premises, leasehold improve-ments and equipment	Com-puter software licences	Total
Cost at 1 January 2010		174,238	149,929	75,511	11,634	108,049	519,361	41,695	**561,056**
Accumulated depreciation		(32,834)	(69,313)	(32,764)	(6,371)	-	(141,282)	(15,481)	**(156,763)**
Carrying amount at 1 January 2010		**141,404**	**80,616**	**42,747**	**5,263**	**108,049**	**378,079**	**26,214**	**404,293**
Additions		-	16,708	2,298	552	8,624	28,182	13,675	41,857
Transfers		66,303	-	-	-	(66,303)	-	-	-
Disposals		(863)	(390)	(782)	-	-	(2,035)	-	(2,035)
Depreciation charge	23	(8,431)	(21,213)	(6,838)	(2,206)	-	(38,688)	(10,504)	(49,192)
Carrying amount at 31 December 2010		**198,413**	**75,721**	**37,425**	**3,609**	**50,370**	**365,538**	**29,385**	**394,923**
Cost at 31 December 2010		237,402	165,797	73,911	11,817	50,370	539,297	60,637	**599,934**
Accumulated depreciation		(38,989)	(90,076)	(36,486)	(8,208)	-	(173,759)	(31,252)	**(205,011)**
Carrying amount at 31 December 2010		**198,413**	**75,721**	**37,425**	**3,609**	**50,370**	**365,538**	**29,385**	**394,923**
Additions		-	20,833	5,116	2,174	4,135	32,258	17,755	50,013
Transfers		30,288	-	-	-	(30,288)	-	-	-
Disposals		(598)	(340)	(736)	(26)	-	(1,700)	(3)	(1,703)
Depreciation charge	23	(7,659)	(15,196)	(6,994)	(1,976)	-	(31,825)	(2,972)	(34,797)
Impairment charge to profit or loss		(20,001)	-	-	-	(12,218)	(32,219)	-	(32,219)
Carrying amount at 31 December 2011		**200,443**	**81,018**	**34,811**	**3,781**	**11,999**	**332,052**	**44,165**	**376,217**
Cost at 31 December 2011		244,394	184,285	75,995	13,097	11,999	529,770	78,361	608,131
Accumulated depreciation		(43,951)	(103,267)	(41,184)	(9,316)	-	(197,718)	(34,196)	(231,914)
Carrying amount at 31 December 2011		**200,443**	**81,018**	**34,811**	**3,781**	**11,999**	**332,052**	**44,165**	**376,217**

Construction in progress consists mainly of construction and refurbishment of branch premises. Upon completion, assets are transferred to premises.

As at 31 December 2011 the gross carrying amount of fully depreciated premises, leasehold improvements and equipment that are still in use was UAH 63,535 thousand (2010: UAH 42,042 thousand) and the gross carrying value of fully amortised intangible assets that are still in use was UAH 9,299 thousand (2010: UAH 8,974 thousand). During 2011 management reviewed useful lives of premises, leasehold improvements, equipment and intangible assets and adjusted them where appropriate.

12 Other Financial Assets

In thousands of Ukrainian hryvnias	2011	2010
Receivables from operations with customers and banks	60,370	1,687
Receivables from operations with securities	8,688	8,688
Accrued income receivable	2,742	4,591
Receivables from operations with plastic cards	121	386
Less: Provision for other financial assets	(10,931)	(13,186)
Total other financial assets	**60,990**	**2,166**

Receivables from operations with customers and banks includes recevables from a related party in the amount of UAH 58,546 thousand relating to the sale of the rights to 100% of the cash flows arising on a portfolio of fixed rate loans. This receivables mature on 28 March 2012.

Movements in the provision for impairment of other financial assets during 2011 are as follows:

In thousands of Ukrainian hryvnias	Receivables from operations with securities	Accrued income receivable	Receivables from operations with customers and banks	Total
Provision for impairment at 1 January 2011	**8,688**	**3,494**	**1,004**	**13,186**
Provision for impairment during the year	-	440	4	444
Amounts written off during the year as uncollectible	-	(2,699)	-	(2,699)
Provision for impairment at 31 December 2011	**8,688**	**1,235**	**1,008**	**10,931**

Movements in the provision for impairment of other financial assets during 2010 are as follows:

In thousands of Ukrainian hryvnias	Receivables from operations with securities	Accrued income receivable	Receivables from operations with customers and banks	Total
Provision for impairment at 1 January 2010	**8,935**	**4,440**	**1,000**	**14,375**
(Reversal of provision)/provision for impairment during the year	(247)	(936)	4	(1,179)
Amounts written off during the year as uncollectible	-	(10)	-	(10)
Provision for impairment at 31 December 2010	**8,688**	**3,494**	**1,004**	**13,186**

12 Other Financial Assets (Continued)

Analysis by credit quality of other financial assets at 31 December 2011 is as follows:

In thousands of Ukrainian hryvnias	Receivables from operations with securities	Accrued income receivable	Receivables from operations with customers and banks	Receivables from operations with plastic cards	Total
Neither past due nor impaired					
- Collected or settled after the end of the reporting period	-	1,302	816	121	2,239
- Not due at the date of authorisation of the financial statements for issue	-	-	58,546	-	58,546
Total neither past due nor impaired	**-**	**1,302**	**59,362**	**121**	**60,785**
Receivables individually determined to be impaired (gross)					
- less than 30 days overdue	-	228	-	-	228
- 31 to 90 days overdue	-	38	-	-	38
- over 360 days overdue	8,688	1,174	1,008	-	10,870
Total individually impaired (gross)	**8,688**	**1,440**	**1,008**	**-**	**11,136**
Less impairment provision	**(8,688)**	**(1,235)**	**(1,008)**	**-**	**(10,931)**
Total other financial receivables	**-**	**1,507**	**59,362**	**121**	**60,990**

Analysis by credit quality of other financial assets at 31 December 2010 is as follows:

In thousands of Ukrainian hryvnias	Receivables from operations with securities	Accrued income receivable	Receivables from operations with customers and banks	Receivables from operations with plastic cards	Total
Neither past due nor impaired					
- Collected or settled after the end of the reporting period	-	916	679	386	1,981
Total neither past due nor impaired	-	916	679	386	**1,981**
Receivables individually determined to be impaired (gross)					
- less than 30 days overdue	46	271	-	-	317
- 31 to 90 days overdue	-	46	-	-	46
- 181 to 360 days overdue	-	-	7	-	7
- over 360 days overdue	8,642	3,358	1,001	-	13,001
Total individually impaired (gross)	**8,688**	**3,675**	**1,008**	**-**	**13,371**
Less impairment provision	**(8,688)**	**(3,494)**	**(1,004)**	**-**	**(13,186)**
Total other financial receivables	**-**	**1,097**	**683**	**386**	**2,166**

The primary factors that the Bank considers in determining whether a receivable is impaired are its overdue status and realisability of related collateral, if any. As a result, the Bank presents above an ageing analysis of receivables that are individually determined to be impaired. Other receivables are not collateralised.

Information on related party balances is disclosed in Note 31.

13 Other Non-financial Assets

In thousands of Ukrainian hryvnias	2011	2010
Repossessed collateral	18,501	26,718
Prepayments for goods and construction in progress	6,970	9,590
Prepayment for services	6,706	7,346
Prepaid expenses	5,290	3,426
Prepaid taxes other than income tax	4,050	4,626
Receivables from settlements with employees and other	4,787	3,732
Inventory	989	1,315
Provision for impairment of other non-financial assets	(3,914)	(4,128)
Total other non-financial assets	**43,379**	**52,625**

Repossessed collateral represents real estate assets acquired by the Bank in settlement of overdue loans. The Bank expects to dispose of the assets in the foreseeable future. The assets were initially recognised at fair value when acquired.

14 Due to Other Banks

In thousands of Ukrainian hryvnias	2011	2010
Correspondent accounts and overnight placements of other banks	7,102	2,941
Term placements and loans from other banks	85,283	508,808
Total due to other banks	**92,385**	**511,749**

As at 31 December 2011, term deposits and loans include UAH 24,955 thousand (2010: UAH 387,575 thousand) received from PKO BP S.A (Poland) and correspondent accounts and overnight placements of other banks include UAH 3,366 thousand (2010: UAH 1,589 thousand) of balances on accounts of PKO BP S.A (Poland).

As at 31 December 2011, term deposits and loans include loans of UAH 44,726 thousand (2010: UAH 67,128 thousand) received from the EBRD for financing loan facilities to customers.

Refer to Note 29 for the disclosure of the fair value of each class of amounts due to other banks. Interest rate analysis of due to other banks is disclosed in Note 26. Information on related party balances is disclosed in Note 31.

15 Customer Accounts

In thousands of Ukrainian hryvnias	2011	2010
Legal entities		
- Current/settlement accounts	645,241	512,279
- Term deposits	200,910	421,146
Individuals		
- Current/demand accounts	311,132	288,237
- Term deposits	1,472,554	1,755,680
Total customer accounts	**2,629,837**	**2,977,342**

15 Customer Accounts (Continued)

Economic sector concentrations within customer accounts are as follows:

In thousands of Ukrainian hryvnias	2011 Amount	2011 %	2010 Amount	2010 %
Individuals	1,783,686	68	2,043,916	69
Trade	197,675	8	164,658	6
Manufacturing	189,691	7	197,068	7
Other services	114,474	5	143,045	5
Financial services	106,145	4	143,466	5
Real estate	61,800	2	98,091	3
Agriculture	34,681	1	37,683	1
Transport and communication	25,898	1	47,301	2
Other	115,787	4	102,114	2
Total customer accounts	**2,629,837**	**100**	**2,977,342**	**100**

At 31 December 2011 the Bank had 15 customers (2010: 7 customers) with balances above UAH 10,000 thousand. The aggregate balance on accounts of these customers was UAH 227,577 thousand (2010: UAH 255,161 thousand) or 9% (2010: 7%) of total customer accounts.

At 31 December 2011 included in customer accounts are deposits of UAH 3,498 thousand (2010: UAH 4,037 thousand) held as collateral for irrevocable commitments under import letters of credit. Refer to Note 28.

As at 31 December 2011 included in customer accounts are deposits totalling UAH 39,147 thousand (2010: UAH 47,652 thousand) held as collateral for loans granted to customers totalling UAH 23,542 thousand (2010: UAH 18,706 thousand). Refer to Note 9.

Refer to Note 29 for the disclosure of the fair value of each class of customer accounts. Interest rate analysis of customer accounts is disclosed in Note 26. Information on related party balances is disclosed in Note 31.

16 Other Financial Liabilities

Other financial liabilities comprise of the following:

In thousands of Ukrainian hryvnias	Note	2011	2010
Other accrued liabilities		11,651	10,594
Transit accounts		4,895	20,759
Provision for credit related commitments	28	472	955
Other		677	32
Total other financial liabilities		**17,695**	**32,340**

Provision for credit related commitments represents specific provisions created for losses incurred on financial guarantees and letters of credit provided to borrowers whose financial conditions deteriorated.

Refer to Note 29 for disclosure of the fair value of each class of other financial liabilities.

17 Other Non-financial Liabilities

Other non-financial liabilities comprise of the following:

In thousands of Ukrainian hryvnias	2011	2010
Accrued employee benefit costs	16,852	7,421
Amounts payable to Individuals’ Deposits Guarantee Fund	2,580	2,839
Taxes payable other than on income	147	224
Other	2,663	1,201
Total other non-financial liabilities	**22,242**	**11,685**

18 Subordinated debt

In thousands of Ukrainian hryvnias	Effective interest rate 2011	Carrying value 2011	Carrying value 2010
USD 20,000 floating rate due 2017	1-month Libor + 3.75%	157,899	157,149
USD 15,000 floating rate due 2018	1-month Libor + 3.75%	119,971	119,510
Total subordinated debt		**277,870**	**276,659**

During 2010 the Bank received from PKO BP S.A (Poland) subordinated debt in the amount of USD 15,000 thousand (UAH 120,140 thousand at the exchange rate at the date of receipt) at 1-month LIBOR+6.5% per annum. The agreement was registered by the National Bank of Ukraine on 9 February 2010. The debt matures on 5 February 2018.

During 2009 the Bank received from PKO BP S.A (Poland) subordinated debt in the amount of USD 20,000 thousand (UAH 159,806 thousand at the exchange rate at the date of receipt) at 1-month LIBOR+6.5% per annum. The agreement was registered by the National Bank of Ukraine on 9 November 2009. The debt matures on 6 November 2017.

On 18 May 2010 interest rate on both loans was changed to 1-month LIBOR + 3.75%. This represented substantial change in terms of the original financial liability and was accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability at fair value. The Bank considered that revised terms of subordinated debt are consistent with the market rates and therefore no gain or loss was recorded on initial recognition of the liability.

The debt ranks after all other creditors in case of liquidation.

Refer to Note 29 for the disclosure of the fair value of subordinated debt. Interest rate analysis of subordinated debt is disclosed in Note 26. Information on related party balances is disclosed in Note 31.

19 Share Capital

In thousands of Ukrainian hryvnias except for number of shares	Number of outstanding shares	Nominal amount	Total
At 1 January 2010	**155,096,946,916**	**1,550,969**	**1,550,969**
New shares issued	36,800,000,000	368,000	368,000
At 31 December 2010	**191,896,946,916**	**1,918,969**	**1,918,969**
At 31 December 2011	**191,896,946,916**	**1,918,969**	**1,918,969**

The nominal registered amount of the Bank’s issued share capital is UAH 1,918,969 thousand (2010: UAH 1,918,969 thousand).

19 Share Capital (Continued)

In February 2010, the shareholders of the Bank approved an issue of 36,800,000,000 ordinary shares. This share issue was registered by the State Commission of Securities and Stock Market and by the NBU on 26 January 2010 and 14 September 2010, respectively.

At 31 December 2011, the Bank's authorised share capital comprised 191,896,946,916 (2010: 191,896,946,916) ordinary shares, with a nominal value UAH 0.01 per share. All ordinary shares have equal voting rights. As at 31 December 2011 all ordinary shares issued were fully paid and registered.

The Bank's shareholders structure is presented as follows:

Shareholder	**2011**	**2010**
PKO BP S.A	99.57%	99.57%
Other (resident and non-resident shareholders)	0.43%	0.43%
Total	**100.00%**	**100.00%**

20 Interest Income and Expense

In thousands of Ukrainian hryvnias	**Note**	**2011**	**2010**
Interest income			
Loans and advances to legal entities		132,136	157,319
Interest income on impaired financial assets		109,677	265,365
Loans and advances to individuals		71,024	98,244
Debt securities	10	43,522	34,076
Due from other banks		3,681	1,220
Other		-	14
Total interest income		**360,040**	**556,238**
Interest expense			
Term deposits of individuals		162,908	262,139
Term deposits of legal entities		45,393	81,458
Term placements of other banks		12,369	18,154
Subordinated debt		11,489	11,814
Amounts due to the National Bank of Ukraine		119	110
Debt securities in issue		-	9
Total interest expense		**232,278**	**373,684**
Net interest income		**127,762**	**182,554**

Information on interest income and expense from transactions with related parties is disclosed in Note 31.

21 Fee and Commission Income and Expense

In thousands of Ukrainian hryvnias	2011	2010
Fee and commission income		
Cash and settlement transactions	91,060	94,119
Purchase and sale of foreign currency	14,449	14,313
Guarantees issued	913	858
Other	2,196	1,039
Total fee and commission income	**108,618**	**110,329**
Fee and commission expense		
Cash and settlement transactions	1,559	1,703
Guarantees received	1,014	-
Transactions with securities	304	353
Other	1,469	2,403
Total fee and commission expense	**4,346**	**4,459**
Net fee and commission income	**104,272**	**105,870**

Information on fee and commission expense from transactions with related parties is disclosed in Note 31.

22 Other Operating Income

In thousands of Ukrainian hryvnias	2011	2010
Reversal of accrued expenses for professional services charged in 2010	3,000	-
Agency fees received from insurance companies	2,246	1,151
Sublease rental income	1,439	903
Gain on disposal of premises and equipment	1,108	2,978
Fines and penalties received	46	3,592
Other	449	840
Total other operating income	**8,288**	**9,464**

23 Administrative and Other Operating Expenses

In thousands of Ukrainian hryvnias	Note	2011	2010
Staff costs		144,009	135,777
Depreciation and amortisation of premises, leasehold improvements, equipment and intangible assets	12	34,797	49,192
Operating lease expense for premises		27,250	33,009
Utilities		17,383	17,556
Repairs and maintenance		10,674	9,604
Contributions to Individuals Deposit Guarantee Fund		10,285	12,245
Communication		10,280	11,140
Security services		9,579	11,869
Taxes other than on income		4,364	3,204
Professional services		2,931	3,935
Business trips		2,047	984
Advertising and marketing services		1,347	619
Charity		30	63
Other		29,080	21,738
Total administrative and other operating expenses		**304,056**	**310,935**

Included in staff costs are state pension fund contributions of UAH 31,028 thousand (2010: UAH 29,073 thousand) and other social security contributions of UAH 3,250 thousand (2010: UAH 3,163 thousand).

24 Income Taxes

(a) Components of income tax expense / (benefit)

Income tax expense /(benefit) recorded in profit or loss for the year comprises the following:

In thousands of Ukrainian hryvnias	2011	2010
Current tax	-	-
Deferred tax	(25,175)	68,580
Income tax (credit)/expense for the year	**(25,175)**	**68,580**

(b) Reconciliation between the tax expense and profit or loss multiplied by applicable tax rate

The income tax rate applicable to the majority of the Bank's income is 23% (2010: 25%). A reconciliation between the expected and the actual taxation charge is provided below.

In thousands of Ukrainian hryvnias	2011	2010
Loss before tax	**(290,717)**	**(36,678)**
Theoretical tax credit at statutory rate (2011: 23%; 2010: 25%)	(66,865)	(9,170)
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Income recognised for tax purposes only	60	1,440
- Non-deductible loan loss provisioning expense	15,741	34,169
- Debt forgiveness expenses not deductible for taxation purposes	6,568	1,526
- Other non-deductible expenses	4,770	2,820
Effect of reduction in tax rate enacted in 2010 with effect from 1 April 2011	-	25,078
Effect of change in expected term of utilization of tax losses carried forward	56,211	-
Non-taxable income	(58,194)	-
Tax losses correction as a result of State Tax Administration inspection	4,771	-
Effect of other changes in tax legislation	11,763	12,717
Income tax (credit)/expense for the year	**(25,175)**	**68,580**

On 2 December 2010, the Ukrainian Parliament adopted the new Tax Code. The Tax Code became effective from 1 January 2011, with the Corporate Profits Tax section coming into effect from 1 April 2011. Among the main changes, the Tax Code provides for the significant reduction of the corporate tax rate: 23% for 1 April - 31 December 2011, 21% for 2012, 19% for 2013, and 16% from 2014 onwards. The impact of the change in tax rate presented above represents the effect of applying the reduced tax rates to deferred tax balances at 31 December 2010.

During 2011 the Bank updated its medium-term business plan and as a result revised expectations in respect of utilisation of tax losses carried forward. As a result the amount of deferred tax asset was changed. The impact of the change in expected term of utilization of tax losses carried forward presented above represents the respective reduction in carrying value of deferred tax balances as at 31 December 2011.

(c) Deferred taxes analysed by type of temporary difference

Differences between IFRS and statutory taxation regulations in Ukraine give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below.

24 Income Taxes (Continued)

In thousands of Ukrainian hryvnias	31 December 2010	Credited/ (charged) to profit or loss	Credited/ (charged) to other comprehen-sive income	31 December 2011
Tax effect of deductible/(taxable) temporary differences				
Premises and equipment:	40,938	(4,468)	-	36,470
Loan impairment provision	(85,119)	75,676	-	(9,443)
Unamortised origination fees	2,794	(1,883)	-	911
Fair valuation of securities	(2,445)	(11,091)	(65)	(13,601)
Accrued expenses and other liabilities	2,727	868	-	3,595
Tax losses carried forward	170,141	(33,493)	-	136,648
Other	2,622	(434)	-	2,188
Net deferred tax asset	**131,658**	**25,175**	**(65)**	**156,768**
Recognised deferred tax asset	219,222			179,812
Recognised deferred tax liability	(87,564)			(23,044)
Net deferred tax asset	**131,658**			**156,768**

In thousands of Ukrainian hryvnias	31 December 2009	Credited/ (charged) to profit or loss	31 December 2010
Tax effect of deductible/(taxable) temporary differences			
Premises and equipment:	1,188	39,750	40,938
Loan impairment provision	16,000	(101,119)	(85,119)
Unamortised origination fees	(2,395)	5,189	2,794
Fair valuation of securities	(1,091)	(1,354)	(2,445)
Accrued expenses and other liabilities	3,134	(407)	2,727
Tax losses carried forward	180,580	(10,439)	170,141
Other	2,822	(200)	2,622
Net deferred tax asset	**200,238**	**(68,580)**	**131,658**
Recognised deferred tax asset	203,724		219,222
Recognised deferred tax liability	(3,486)		(87,564)
Net deferred tax asset	**200,238**		**131,658**

25 Segment Analysis

Operating segments are components that engage in business activities that may earn revenues or incur expenses, whose operating results are regularly reviewed by the chief operating decision maker (CODM) and for which discrete financial information is available. The CODM is the person or group of persons who allocates resources and assesses the performance for the entity. The functions of CODM are performed by the Management Board of the Bank.

(a) Description of products and services from which each reportable segment derives its revenue

The Bank is organised on the basis of three main business segments:

- Retail banking – representing private banking services, private customer current accounts, savings, deposits, investment savings products, credit and debit cards, consumer loans and mortgages.
- Corporate banking – representing direct debit facilities, current accounts, deposits, overdrafts, loan and other credit facilities and foreign currency operations.
- Treasury and investment banking – representing financial instruments trading, structured financing, operations with foreign currency and banknotes.

25 Segment Analysis (Continued)

(b) Factors that management used to identify the reportable segments

The Bank’s segments are strategic business units that focus on different customers. They are managed separately because each business unit requires different marketing strategies and service level.

(c) Measurement of operating segment profit or loss, assets and liabilities

The Management Board reviews financial information prepared based on Ukrainian accounting standards adjusted to meet the requirements of internal reporting. Such financial information differs in certain aspects from International Financial Reporting Standards:

(i) funds are generally reallocated between segments at internal interest rates set by the treasury department, which are determined by reference to market interest rate benchmarks, contractual maturities for loans and observed actual maturities of customer accounts balances;

(ii) income taxes are not allocated to segments;

(iii) loan provisions are recognized based on the NBU requirements rather than based on the incurred loss model prescribed in IAS 39; and

(iv) commission income related to lending is partially recognized immediately rather than deferred using the effective interest method.

The CODM evaluates performance of each segment based on profit before tax.

Reports include information on transfer (internal) results of reportable segments. Transfer result is calculated as difference between transfer income and transfer expense of each segment calculated at transfer prices set by major currencies and maturities. For corporate and retail segment transfer income is formed as estimated income from sale of attracted resources to Treasury and investment segment at transfer prices for such resources; transfer expenses are formed as estimated expenditure for purchase of resources from Treasury and investment segment at transfer prices for resources placed.

Calculation of transfer prices and transfer income/expense is performed in accordance with “Methodology for defining and applying transfer prices of resources in KREDOBANK system” approved by the decision of the Management Board (№ 41/2008 dated 18 December 2008).

(d) Information about reportable segment profit or loss, assets and liabilities

Segment information for the reportable segments for the year ended 31 December 2011 is set out below:

In thousands of Ukrainian hryvnias	**Retail banking**	**Corporate banking**	**Treasury and Investment banking**	**Unallocated**	**Elimina-tions**	**Total**
Reportable segment assets	489,371	1,372,983	1,240,753	691,010	**-**	**3,794,117**
Reportable segment liabilities	1,804,823	844,711	373,663	50,172	**-**	**3,073,369**
Capital expenditure	-	-	-	(24,218)	**-**	**(24,218)**

Capital expenditure represents additions to non-current assets other than financial instruments and deferred tax assets.

25 Segment Analysis (Continued)

In thousands of Ukrainian hryvnias	Retail banking	Corporate banking	Treasury and Investment banking	Unallo-cated	Elimina-tions	Total
2011						
External revenues:						
- Interest income	85,187	219,861	48,244	-	-	353,292
- Fee and commission income	47,980	69,323	699	-	-	118,002
- Other operating income	4,749	9,309	-	339,089	-	353,147
Revenues from other segments						
- Interest income	206,332	63,660	262,151	-	(532,143)	-
Total revenues	**344,248**	**362,153**	**311,094**	**339,089**	**(532,143)**	**824,441**
Interest expense	(227,753)	(241,517)	(295,919)	-	532,143	(233,046)
Reversal of provision/(provision) for loan impairment	246,601	862,045	(5,245)	-	-	1,103,401
Reversal of impairment of investment securities available for sale	-	-	26,072	-	-	26,072
Provision for credit related commitments	(1)	(1,388)	(74)	-	-	(1,463)
Depreciation and amortisation	-	-	-	(36,189)	-	(36,189)
Fee and commission expense	(6,839)	(2,941)	(1,860)	-	-	(11,640)
Gains less losses from trading in foreign currencies	6,492	-	-	1,818	-	8,310
Foreign exchange translation gains less losses	-	-	-	1,912	-	1,912
Gains less losses from disposals of investment securities available for sale	-	-	79	-	-	79
Administrative and other operating expenses	(207,605)	(1,102,547)	(14,912)	(264,658)		(1,589,722)
Segment result	**155,143**	**(124,195)**	**19,235**	**41,972**	-	**92,155**

Segment information for the reportable segments for the year ended 31 December 2010 is set out below:

In thousands of Ukrainian hryvnias	Retail banking	Corporate banking	Treasury and Investment banking	Unallocated	Elimina-tions	Total
Reportable segment assets	671,760	2,083,521	1,019,369	675,065	**-**	**4,449,715**
Reportable segment liabilities	2,049,617	930,905	788,503	56,168	**-**	**3,825,193**
Capital expenditure	-	-	-	(50,370)	**-**	**(50,370)**

25 Segment Analysis (Continued)

In thousands of Ukrainian hryvnias	Retail banking	Corporate banking	Treasury and Investment banking	Unallo-cated	Elimina-tions	Total
2010						
External revenues:						
- Interest income	139,824	374,084	41,597	-	-	555,505
- Fee and commission income	30,434	87,691	655	-	-	118,780
- Other operating income	2,751	3,437	-	479	-	6,667
Revenues from other segments						
- Interest income	315,584	109,782	555,513	-	(980,879)	-
Total revenues	**488,593**	**574,994**	**597,765**	**479**	**(980,879)**	**680,952**
Interest expense	(394,639)	(503,816)	(456,108)	-	980,879	(373,684)
Provision for loan impairment	36,392	(259,014)	(1,304)	-	-	(223,926)
Impairment of investment securities available for sale	-	-	(21,494)	-	-	(21,494)
Reversal of provision for credit related commitments	118	2,129	-	-	-	2,247
Depreciation and amortisation	-	-	-	(34,779)	-	(34,779)
Fee and commission expense	(4,793)	(4,175)	(2,319)	-	-	(11,287)
Gains less losses from trading in foreign currencies	6,551	-	-	(234)	-	6,317
Foreign exchange translation gains less losses	-	-	-	3,309	-	3,309
Gains less losses from disposals of investment securities available for sale	-	-	991	-	-	991
Administrative and other operating expenses	(143,073)	(18,199)	-	(265,224)	-	(426,496)
Segment result	**(10,851)**	**(208,081)**	**117,531**	**(296,449)**	-	**(397,850)**

(e) Reconciliation of reportable segment revenues, profit or loss, assets and liabilities

In thousands of Ukrainian hryvnias	2011	2010
Total revenues for reportable segments	**824,441**	**680,952**
Reclassification of compensation for guarantee agreements cancelation to provision for loan impairment	(338,167)	-
Netting off similar operations	(8,162)	(8,010)
Other	(1,902)	3,089
Total revenues	**476,946**	**676,031**

25 Segment Analysis (Continued)

Total revenues comprise interest income, fee and commission income and other operating income.

In thousands of Ukrainian hryvnias	2011	2010
Total reportable segment result	**92,155**	**(397,850)**
Differences in depreciation rates and impairment of fixed assets for IFRS purposes	(30,045)	(11,947)
Reinstatement of loans previously written off	-	(9,279)
Adjustment for fair value of securities	929	4,391
Adjustment for fair value of other assets	(7,430)	(4,432)
Additional accrual of provision for unused vacations of the Bank's employees	(45)	2,931
Adjustment for provision for credit related commitments	1,943	(179)
Adjustment of provision for loan impairment	(350,115)	378,621
Other	1,891	1,066
Loss before tax	**(290,717)**	**(36,678)**

In thousands of Ukrainian hryvnias	2011	2010
Total reportable segment assets	**3,794,117**	**4,449,715**
Adjustment of provision for loan impairment	55,484	405,614
Adjustment for deferred tax assets	107,869	84,235
Differences in depreciation rates	13,650	3,909
Impairment of fixed assets	(32,220)	-
Adjustment for revaluation of premises	(206,419)	(206,555)
Adjustment to fair value of other assets	(13,676)	(7,731)
Accounting for operations on a net basis and reclassification	(31,372)	(9,240)
Other	2,540	4,971
Total assets	**3,689,973**	**4,724,918**

In thousands of Ukrainian hryvnias	2011	2010
Total reportable segment liabilities	**3,073,369**	**3,825,193**
Adjustment for balances on clients' accounts	(21,170)	(10,617)
Netting operations with similar substance	(7,341)	-
Adjustment for fair value of other assets	(4,059)	(5,544)
Other	(770)	743
Total liabilities	**3,040,029**	**3,809,775**

25 Segment Analysis (Continued)

Reconciliation of material items of income or expenses for the year ended 31 December 2011 is as follows:

In thousands of Ukrainian hryvnias	**Total amount for all reportable segments**	**Adjustment of provision for loan impairment**	**Adjustment for fair value of securities**	**Impairment of fixed assets**	**Reclassification of result from assets selling to provision for impairment**	**Other**	**As reported under IFRS**
Material income or expenses for year ended 31 December 2011							
External revenues:							
- Interest income	**353,292**	-	-	-	-	6,748	**360,040**
- Fee and commission income	**118,002**	-	-	-	-	(9,384)	**108,618**
- Other operating income	**353,147**	-	-	-	(338,167)	(6,692)	**8,288**
Interest expense	**(233,046)**	-	-	-	-	768	**(232,278)**
Provision for loan impairment	**1,103,401**	(350,115)	(4,503)	-	(970,901)	(247)	**(222,365)**
Reversal of impairment of investment securities available for sale	**26,072**	-	(16,298)	-	(1,689)	67	**8,152**
(Provision)/reversal of provision for credit related commitments	**(1,463)**	-	-	-	-	1,944	**481**
Depreciation and amortisation	**(36,189)**	-	-	-	-	1,392	**(34,797)**
Fee and commission expense	**(11,640)**	-	-	-	-	7,294	**(4,346)**
Gains less losses from securities at fair value through profit or loss	**-**	-	21,730	-	(12,000)	33	**9,763**
Gains less losses from trading in foreign currencies	**8,310**	-	-	-	-	(762)	**7,548**
Foreign exchange translation gains less losses	**1,912**	-	-	-	-	(15)	**1,897**
Gains less losses from disposals of investment securities available for sale	**79**	-	-	-	-	(79)	**-**
Administrative and other operating expenses	**(1,589,722)**	-	-	(32,220)	1,322,756	(2,532)	**(301,718)**

The reconciling items are attributable to the following:

(i) the Bank analyses in Segment reporting provision for impairment created in accordance with the NBU requirements;

(ii) provision for impairment of investment securities available for sale was split between loans to customers, investment securities available for sale and securities at fair value through profit or loss for IFRS reporting purposes;

(iii) impairment of fixed assets was recognized for IFRS reporting purposes;

(iv) results from sale of loans and securities were recorded on a net basis for IFRS reporting purposes.

25 Segment Analysis (Continued)

Reconciliation of material items of income or expenses for the year ended 31 December 2010 is as follows:

In thousands of Ukrainian hryvnias	Total amount for all reportable segments	Adjustment of provision for loan impairment	Adjustment for fair value of securities	Difference in depreciation rates	Transfer of results from loan sales	Other	As reported under IFRS
Material income or expenses for year ended 31 December 2010							
External revenues:							
- Interest income	**555,505**	-	-	-	-	733	**556,238**
- Fee and commission income	**118,780**	-	-	-	-	(8,451)	**110,329**
- Other operating income	**6,667**	-	-	2,466	-	331	**9,464**
Interest expense	**(373,684)**	-	-	-	-	-	**(373,684)**
Provision for loan impairment	**(223,926)**	378,620	-	-	(164,698)	(10,315)	**(20,319)**
Impairment of investment securities available for sale	**(21,494)**	-	15,961	-	-	-	**(5,533)**
Provision for credit related commitments	**2,247**	-	-	-	-	(178)	**2,069**
Depreciation and amortisation	**(34,779)**	-	-	(14,413)	-	-	**(49,192)**
Fee and commission expense	**(11,287)**	-	-	-	-	6,828	**(4,459)**
Gains less losses from securities at fair value through profit or loss	**-**	-	(11,469)	-	-	991	**(10,478)**
Gains less losses from trading in foreign currencies	**6,317**	-	-	-	-	441	**6,758**
Foreign exchange translation gains less losses	**3,309**	1	-	-	-	-	**3,310**
Gains less losses from disposals of investment securities available for sale	**991**	-	-	-	-	(991)	**-**
Administrative and other operating expenses	**(426,496)**	-	-	-	164,698	617	**(261,181)**

The reconciling items are attributable to the following:

(i) the Bank analyses in Segment reporting provision for impairment created in accordance with the NBU requirements;

(ii) provision for impairment of investment securities available for sale was split between investment securities available for sale and securities at fair value through progit or loss for IFRS reporting purposes;

(iii) premises and equipment are depreciated at different rates for the purposes of Segment reporting;

(iv) result from sale of loans was reclassified from other operating expenses to provision for loan impairment.

25 Segment Analysis (Continued)

Reconciliation of material assets and liabilities at 31 December 2011 is as follows:

In thousands of Ukrainian hryvnias	**Total amount for all reportable segments**	**Adjustment of provision for loan impairment**	**Adjustment for deferred taxes**	**Adjustment for revaluation and impairment of premises**	**Cut-off adjustment for cash**	**Reclassification of placements with other banks with original maturity less than 3 months**	**Other**	**As reported under IFRS**
Assets at 31 December 2011	**3,794,117**	**55,484**	**107,869**	**(238,639)**	**(17,247)**	**-**	**(11,611)**	**3,689,973**
Cash and cash equivalents and mandatory reserves	**480,491**	184	-	-	(17,247)	123,814	-	587,242
Loans and advances to customers	**1,776,625**	48,535	-	-	-	-	-	1,825,160
Premises, leasehold improvements, equipment and intangible assets	**601,205**	-	-	(238,639)	-	-	13,651	376,217
Other reportable segment assets	**935,796**	6,765	107,869	-	-	(123,814)	(25,262)	901,354
Liabilities at 31 December 2011	**3,073,369**	**-**	**-**	**-**	**(17,247)**	**-**	**(16,093)**	**3,040,029**
Due to other banks	**92,385**	-	-	-	-	-	**-**	92,385
Customer accounts	**2,645,469**	-	-	-	(17,247)	-	1,615	2,629,837
Subordinated debt	**277,870**	-	-	-	-	-	-	277,870
Other reportable segment liabilities	**57,645**	-	-	-	-	-	(17,708)	39,937
Capital expenditure for 2011	**(24,218)**	**-**	**-**	**12,218**	**-**	**-**	**-**	**(12,000)**

The reconciling items are attributable to the following:

(i) the Bank analyses in Segment reporting provision for impairment created in accordance with the NBU requirements;

(ii) certain deferred tax assets were not recognized for the purposes of Segment reporting;

(iii) for the purposes of Segment reporting premises are measured at revalued amounts and impairment of premises was recognised under IFRS;

(iv) actual cash and cash equivalents balance as at balance sheet date is recognised for IFRS reporting purposes;

(v) placements with other banks with original maturities less than three months reclassified to cash and cash equivalents under IFRS.

25 Segment Analysis (Continued)

Reconciliation of material assets and liabilities at 31 December 2010 is as follows:

In thousands of Ukrainian hryvnias	**Total amount for all reportable segments**	**Adjustment of provision for loan impairment**	**Adjustment for deferred taxes**	**Differences in depreciation rates**	**Adjustment for revaluation of premises**	**Adjustment to fair value of other assets**	**Other**	**As reported under IFRS**
Assets at 31 December 2010	**4,449,715**	**405,614**	**84,235**	**3,909**	**(206,555)**	**(7,731)**	**(4,269)**	**4,724,918**
Cash and cash equivalents and mandatory reserves	604,248	177	-	-	-	-	(10,801)	593,624
Loans and advances to customers	2,724,275	403,896	-	-	-	-	-	3,128,171
Premises, leasehold improvements, equipment and intangible assets	589,866	-	-	3,909	(206,555)	-	7,703	394,923
Other reportable segment assets	531,326	1,541	84,235	-	-	(7,731)	(1,171)	608,200
Liabilities at 31 December 2010	**3,825,193**	**-**	**-**	**-**	**-**	**(5,544)**	**(9,874)**	**3,809,775**
Due to other banks	511,749	-	-	-	-	-	-	511,749
Customer accounts	2,979,559	-	-	-	-	-	(2,217)	2,977,342
Subordinated debt	276,659	-	-	-	-	-	-	276,659
Other reportable segment liabilities	57,226	-	-	-	-	(5,544)	(7,657)	44,025
Capital expenditure for 2010	**(50,370)**	**-**	**-**	**-**	**-**	**-**	**-**	**(50,370)**

The reconciling items are attributable to the following:

(i) the Bank analyses in Segment reporting provision for impairment created in accordance with the NBU requirements;

(ii) certain deferred tax assets were not recognized for the purposes of Segment reporting;

(iii) premises and equipment are depreciated at different rates for the purposes of Segment reporting;

(iv) for the purposes of Segment reporting premises are measured at revalued amounts;

(v) for the purposes of Segment reporting other assets are not revalued to lower of cost and net realisable value .

(f) Analysis of revenues by products and services

The Bank's revenues are analysed by products and services in Note 20 (interest income), Note 21 (fee and commission income) and in Note 22 (other operating income).

(g) Geographical information

Ukraine represents the only geographical segment, as majority of revenues and assets are attributable to Ukraine. The Bank has no material revenues from outside Ukraine and all its non-current assets other than financial instruments are attributable to Ukraine. Please refer also to Note 26 for geographical analysis of the Bank's assets and liabilities.

(h) Major customers

The Bank does not have customers with the revenues exceeding 10 % of the total revenue of the Bank.

26 Financial Risk Management

The risk management function within the Bank is carried out in respect of financial risks, operational risks and legal risks. Financial risk comprises market risk (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The primary objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risks stays within these limits. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures to minimise operational and legal risks.

Credit risk. The Bank takes on exposure to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Exposure to credit risk arises as a result of the Bank's lending and other transactions with counterparties giving rise to financial assets.

The Bank's maximum exposure to credit risk is reflected in the carrying amounts of financial assets on the statement of financial position. For guarantees and commitments to extend credit, the maximum exposure to credit risk is the amount of the commitment. Refer to Note 28. The credit risk is mitigated by collateral and other credit enhancements as disclosed in Note 9.

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers. Limits on the level of credit risk by product and industry sector are approved regularly by management. Such risks are monitored on a revolving basis and subject to an annual or more frequent review.

The Bank established authorized corporate bodies which are responsible for approving credit limits for individual borrowers:

- Supervisory Board reviews and approves credit applications above USD 2.5 million and loans restructuring above USD 5 million.
- Management Board reviews and approves credit applications up to USD 2.5 million and loans restructuring up to USD 5 million.
- Credit Committee of the Bank and Small Credit Committee of the Bank review and approve credit applications up to UAH 10 million, and the Credit committee on restructuring – up to USD 5 million. Credit Committee and Small Credit Committee of the Bank meet usually two times per week, and the Credit committee on restructuring meets usually once a week.
- The individual right to approve new credit decisions with the limits below UAH 1.5 million is granted separately to the Deputies of the Chairman of the Board, the directors of departments of the Head Office and the directors of independent branches.

Loan applications originated by the relevant client relationship managers are passed on to the relevant credit committee for approval of credit limit. Exposure to credit risk is also managed, in part, by obtaining collateral and corporate and personal guarantees.

In order to monitor credit risk exposures, regular reports are produced by the credit department's officers based on a structured analysis focusing on the customer's business and financial performance. Any significant exposures against customers with deteriorating creditworthiness are reported to and reviewed by the Management Board.

The Bank's credit monitoring department reviews ageing analysis of outstanding loans and follows up on past due balances. Management therefore considers it appropriate to provide ageing and other information about credit risk as disclosed in Notes 9, 10 and 12.

Credit risk for off-balance sheet financial instruments is defined as the possibility of sustaining a loss as a result of another party to a financial instrument failing to perform in accordance with the terms of the contract. The Bank uses the same credit policies in assuming conditional obligations as it does for on-balance sheet financial instruments, through established credit approvals, risk control limits and monitoring procedures.

26 Financial Risk Management (Continued)

The report on the analysis of the credit profile of the Bank, and also the detailed analysis of the level of credit risk per the credit profile in general and per branches of crediting is presented to management bodies of the Bank on a monthly basis.

Market risk. The Bank takes on exposure to market risks. Market risks arise from open positions in: (a) currency, (b) interest rate and (c) equity products, all of which are exposed to general and specific market movements. Management sets limits on the value of risk that may be accepted, which is monitored on a daily basis. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

Currency risk. In respect of currency risk, management sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily. Currency risk results from the Bank having open positions in different currencies. Such positions are calculated as differences between assets and liabilities in the same currency as of the reporting date. The Bank evaluates, monitors and sets limits for long and short foreign exchange open positions by currency using hryvnia as its base currency. Open position limits are set at the level established by the NBU regulations calculated as a percentage of open currency position of regulatory capital of the Bank. Compliance with these limits is monitored by Market and Liquidity Risk Department on a daily basis. The Market and Liquidity Risk Department reports on a weekly basis to Asset, Liability and Tariffs Management Committee (ALTCO).

The table below summarises the Bank's exposure to foreign currency exchange rate risk at the end of the reporting period:

	At 31 December 2011			**At 31 December 2010**		
In thousands of Ukrainian hryvnias	**Monetary financial assets**	**Monetary financial liabilities**	**Net position**	**Monetary financial assets**	**Monetary financial liabilities**	**Net position**
Ukrainian hryvnias	1,912,244	1,748,003	164,241	1,997,181	1,867,869	129,312
US Dollars	862,599	918,037	(55,438)	1,726,607	1,544,628	181,979
Euros	320,664	338,140	(17,476)	402,699	372,776	29,923
British pounds	993	929	64	1,071	1,131	(60)
Russian Roubles	3,590	3,532	58	4,331	4,083	248
Other	8,488	9,146	(658)	8,245	7,603	642
Total	**3,108,578**	**3,017,787**	**90,791**	**4,140,134**	**3,798,090**	**342,044**

Derivatives presented above are monetary financial assets or monetary financial liabilities presented separately in order to show the Bank's gross exposure.

The above analysis includes only monetary assets and liabilities. Investments in equities and non-monetary assets are not considered to give rise to any material currency risk

The following table presents sensitivities of profit or loss and equity to reasonably possible changes in exchange rates applied at the end of the reporting period relative to the Bank's functional currency, with all other variables held constant:

	At 31 December 2011		**At 31 December 2010**	
In thousands of Ukrainian hryvnias	**Impact on profit or loss**	**Impact on equity**	**Impact on profit or loss**	**Impact on equity**
US Dollar strengthening by 15% (2010: strengthening by 15%)	(8,316)	(8,316)	27,297	27,297
US Dollar weakening by 15% (2010: weakening by 15%)	8,316	8,316	(27,297)	(27,297)
Euro strengthening by 15% (2010: strengthening by 15%)	(2,621)	(2,621)	4,488	4,488
Euro weakening by 15% (2010: weakening by 15%)	2,621	2,621	(4,488)	(4,488)
Russian Rouble strengthening by 15% (2010: strengthening by 15%)	9	9	37	37
Russian Rouble weakening by 15% (2010: weakening by 15%)	(9)	(9)	(37)	(37)
Other currencies strengthening by 15% (2010: strengthening by 15%)	(89)	(89)	116	116
Other currencies weakening by 15% (2010: weakening by 15%)	89	89	(116)	(116)
Total	**-**	**-**	**-**	**-**

26 Financial Risk Management (Continued)

The exposure was calculated only for monetary balances denominated in currencies other than the functional currency of the Bank.

Interest rate risk. The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. Management monitors on a daily basis and sets limits on the level of mismatch of interest rate repricing that may be undertaken.

The table below summarises the Bank's exposure to interest rate risks. The table presents the aggregated amounts of the Bank's financial assets and liabilities at carrying amounts, categorised by the earlier of contractual interest repricing or maturity dates.

In thousands of Ukrainian hryvnias	**Demand and less than 1 month**	**From 1 to 6 months**	**From 6 to 12 months**	**Over 1 year**	**Non-monetary**	**Total**
31 December 2011						
Total financial assets	827,973	494,804	411,717	1,374,084	30	3,108,608
Total financial liabilities	(1,679,504)	(884,551)	(389,143)	(64,589)	-	(3,017,787)
Net interest sensitivity gap at 31 December 2011	**(851,531)**	**(389,747)**	**22,574**	**1,309,495**	**30**	**90,821**
31 December 2010						
Total financial assets	682,830	498,901	302,941	2,655,462	30	4,140,164
Total financial liabilities	(1,805,131)	(1,428,812)	(461,895)	(102,252)	-	(3,798,090)
Net interest sensitivity gap at 31 December 2010	**(1,122,301)**	**(929,911)**	**(158,954)**	**2,553,210**	**30**	**342,074**

At 31 December 2011, if interest rates on financial instruments denominated in USD at that date had been 200 basis points higher/lower with all other variables held constant, loss for the year would have been UAH 4,238 thousand higher/lower (2010: UAH 8,956 thousand higher/lower if interest rates had been 200 basis points higher/lower), mainly as a result of higher/lower interest expense on variable interest liabilities.

At 31 December 2011, if interest rates on financial instruments denominated in EUR at that date had been 200 basis points higher/lower with all other variables held constant, loss for the year would have been UAH 109 thousand higher/lower (2010: UAH 188 thousand higher/lower if interest rates had been 200 basis points higher/lower), mainly as a result of higher/lower interest expense on variable interest liabilities.

26 Financial Risk Management (Continued)

The Bank monitors interest rates for its financial instruments. The table below summarises interest rates based on reports reviewed by key management personnel:

	2011				2010			
% per annum	**UAH**	**USD**	**Euro**	**Other**	**UAH**	**USD**	**Euro**	**Other**
Assets								
Cash and cash equivalents	0%	0%	0%	0%	0%	0%	0%	0%
Due from other banks	18%	1%	0%	-	2%	0%	-	-
Loans and advances to customers	14%	10%	9%	-	12%	9%	10%	-
Debt investment securities available-for-sale	14%	9%	-	-	14%	-	-	-
Liabilities								
Due to other banks	16%	3%	3%	-	11%	2%	2%	-
Customer accounts								
- current and settlement accounts	3%	0%	0%	-	3%	1%	0%	-
- term deposits	14%	3%	2%	-	14%	7%	4%	-
Subordinated debt	-	4%	-	-	-	4%	-	-

The sign "-" in the table above means that the Bank does not have the respective assets or liabilities in the corresponding currency.

Other price risk. The Bank is exposed to prepayment risk through providing fixed rate loans, including mortgages, which give the borrower the right to early repay the loans. The Bank's current year loss and equity at the end of the current reporting period would not have been significantly impacted by changes in prepayment rates because such loans are carried at amortised cost and the prepayment right is at or close to the amortised cost of the loans and advances to customers.

26 Financial Risk Management (Continued)

Geographical risk concentrations. The geographical concentration of the Bank's assets and liabilities at 31 December 2011 is set out below:

In thousands of Ukrainian hryvnias	**Ukraine**	**OECD**	**Non-OECD**	**Total**
Assets				
Cash and cash equivalents and mandatory reserves	335,628	248,906	2,708	587,242
Due from other banks	44,225	-	-	44,225
Loans and advances to customers	1,825,128	-	32	1,825,160
Investment securities available-for-sale	590,991	-	-	590,991
Other financial assets	60,987	1	2	60,990
Total financial assets	**2,856,959**	**248,907**	**2,742**	**3,108,608**
Non-financial assets	**580,917**	**448**	**-**	**581,365**
Total assets	**3,437,876**	**249,355**	**2,742**	**3,689,973**
Liabilities				
Due to other banks	8,742	83,643	-	92,385
Customer accounts	2,556,635	60,821	12,381	2,629,837
Other financial liabilities	17,695	-	-	17,695
Subordinated debt	-	277,870	-	277,870
Total financial liabilities	**2,583,072**	**422,334**	**12,381**	**3,017,787**
Non-financial liabilities	**22,240**	**-**	**2**	**22,242**
Total liabilities	**2,605,312**	**422,334**	**12,383**	**3,040,029**
Net position	**832,564**	**(172,979)**	**(9,641)**	**649,944**
Credit related commitments	**21,569**	**-**	**-**	**21,569**

Assets, liabilities and credit related commitments have been classified based on the country in which the counterparty is located. Balances with Ukrainian counterparties actually outstanding to/from offshore companies of these Ukrainian counterparties are allocated to the caption "Ukraine". Cash on hand, premises, leasehold improvements and equipment have been allocated based on the country in which they are physically held.

26 Financial Risk Management (Continued)

The geographical concentration of the Bank’s assets and liabilities at 31 December 2010 is set out below:

In thousands of Ukrainian hryvnias	Ukraine	OECD	Non-OECD	Total
Assets				
Cash and cash equivalents and mandatory reserves	260,355	329,481	3,788	593,624
Due from other banks	4,235	-	-	4,235
Loans and advances to customers	3,128,161	-	10	3,128,171
Investment securities available-for-sale	411,968	-	-	411,968
Other financial assets	2,158	7	1	2,166
Total financial assets	**3,806,877**	**329,488**	**3,799**	**4,140,164**
Non-financial assets	**584,369**	**385**	**-**	**584,754**
Total assets	**4,391,246**	**329,873**	**3,799**	**4,724,918**
Liabilities				
Due to other banks	37,352	474,397	-	511,749
Customer accounts	2,900,752	62,427	14,163	2,977,342
Other financial liabilities	32,340	-	-	32,340
Subordinated debt	-	276,659	-	276,659
Total financial liabilities	**2,970,444**	**813,483**	**14,163**	**3,798,090**
Non-financial liabilities	**11,682**	**1**	**2**	**11,685**
Total liabilities	**2,982,126**	**813,484**	**14,165**	**3,809,775**
Net position	**1,409,120**	**(483,611)**	**(10,366)**	**915,143**
Credit related commitments	**16,043**	-	-	**16,043**

Liquidity risk. Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Bank is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan drawdowns, guarantees and from margin and other calls on cash-settled derivative instruments. The Bank does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. Liquidity risk is managed by the Asset/Liability Committee of the Bank.

The Bank seeks to maintain a stable funding base primarily consisting of amounts due to other banks, corporate and retail customer deposits, debt securities and subordinated debt. The Bank invests the funds in portfolios of liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

26 Financial Risk Management (Continued)

The liquidity management of the Bank requires considering the level of liquid assets necessary to settle obligations as they fall due; maintaining access to a range of funding sources; maintaining funding contingency plans; and monitoring balance sheet liquidity ratios against regulatory requirements. The Bank calculates liquidity ratios on a daily basis in accordance with the requirement of the National Bank of Ukraine. These ratios are:

- Instant liquidity ratio (N4), which is calculated as the ratio of highly-liquid assets to liabilities payable on demand. The ratio was 48% at 31 December 2011, with the required ratio being not less than 20% (the ratio was 72% at 31 December 2010, with the required ratio being not less than 20%).

- Current liquidity ratio (N5), which is calculated as the ratio of liquid assets to liabilities maturing within 31 calendar days. The ratio was 54% at 31 December 2011, with the required ratio being not less than 40% (the ratio was 54% at 31 December 2010, with the required ratio being not less than 40%).

- Short-term liquidity ratio (N6), which is calculated as the ratio of liquid assets to liabilities with original maturity of up to one year. The ratio was 65% at 31 December 2011, with the required ratio being not less than 60% (the ratio was 65% at 31 December 2010, with the required ratio being not less than 60%).

The Treasury Department receives information about the liquidity profile of the financial assets and liabilities. The Treasury Department then provides for an adequate portfolio of short-term liquid assets, largely made up of liquid securities, deposits with banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Bank as a whole.

The table below shows liabilities at 31 December 2011 by their remaining contractual maturity. The amounts disclosed in the maturity table are the contractual undiscounted cash flows, including gross loan commitments and financial guarantees. Such undiscounted cash flows differ from the amount included in the statement of financial position because the amount in the statement of financial position is based on discounted cash flows.

The table below shows maturity analysis of non-derivative financial assets at their carrying amounts and based on their contractual maturities except for assets that are readily saleable in case it would be necessary to meet cash outflows on financial liabilities. Such financial assets are included in the maturity analysis based on their expected date of disposal. Impaired loans are included at their carrying amounts net of impairment provisions and based on the expected timing of cash inflows.

When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the end of the reporting period. Foreign currency payments are translated using the spot exchange rate at the end of the reporting period.

26 Financial Risk Management (Continued)

The maturity analysis of financial instruments at 31 December 2011 is as follows:

In thousands of Ukrainian hryvnias	**Demand and less than 1 month**	**From 1 to 6 months**	**From 6 to 12 months**	**From 12 months to 5 years**	**Over 5 years**	**Total**
Assets						
Cash and cash equivalents and mandatory reserves	587,242	-	-	-	-	587,242
Due from other banks	6,018	18,307	19,900	-	-	44,225
Loans and advances to customers	42,506	135,039	310,432	850,141	487,042	1,825,160
Investment securities available-for-sale	449	251,802	90,512	248,198	30	590,991
Other financial assets	2,444	58,546	-	-	-	60,990
Total	**638,659**	**463,694**	**420,844**	**1,098,339**	**487,072**	**3,108,608**
Liabilities						
Due to other banks	59,096	2,203	1,428	31,302	-	94,029
Customer accounts	1,303,507	853,452	340,674	117,714	141,726	2,757,073
Subordinated debt	1,892	4,682	5,637	45,091	287,590	344,892
Other financial liabilities	17,261	88	167	179	-	17,695
Credit related commitments	327	7,735	11,561	1,946	-	21,569
Total potential future payments for financial obligations	**1,382,083**	**868,160**	**359,467**	**196,232**	**429,316**	**3,235,258**
Liquidity gap arising from financial instruments	**(743,424)**	**(404,466)**	**61,377**	**902,107**	**57,756**	**(126,650)**

Liquidity requirements to support calls under guarantees and standby letters of credit are considerably less than the amount of the commitment disclosed in the above maturity analysis because the Bank does not generally expect the third party to draw funds under the agreement.

26 Financial Risk Management (Continued)

The maturity analysis of financial instruments at 31 December 2010 is as follows:

In thousands of Ukrainian hryvnias	**Demand and less than 1 month**	**From 1 to 6 months**	**From 6 to 12 months**	**From 12 months to 5 years**	**Over 5 years**	**Total**
Assets						
Cash and cash equivalents and mandatory reserves	593,624	-	-	-	-	593,624
Due from other banks	1,140	-	3,095	-	-	4,235
Loans and advances to customers	424,732	237,822	337,630	1,214,292	913,695	3,128,171
Investment securities available-for-sale	19,943	145,320	52,849	193,826	30	411,968
Other financial assets	2,166	-	-	-	-	2,166
Total	**1,041,605**	**383,142**	**393,574**	**1,408,118**	**913,725**	**4,140,164**
Liabilities						
Due to other banks	108,815	3,882	4,673	210,592	238,241	566,203
Customer accounts	1,358,882	1,025,649	381,304	230,380	192,490	3,188,705
Subordinated debt	1,879	4,650	5,599	44,791	300,443	357,362
Other financial liabilities	31,426	233	450	231	-	32,340
Credit related commitments	1,928	5,960	2,671	5,484	-	16,043
Total potential future payments for financial obligations	**1,502,930**	**1,040,374**	**394,697**	**491,478**	**731,174**	**4,160,653**
Liquidity gap arising from financial instruments	**(461,325)**	**(657,232)**	**(1,123)**	**916,640**	**182,551**	**(20,489)**

As disclosed in Note 28, as at 31 December 2011 and 31 December 2010 the Bank breached certain financial covenants set by loan agreements with EBRD, therefore all loans from EBRD were classified on demand in the above analysis.

Customer accounts are classified in the above analysis based on contractual maturities. However, in accordance with Ukrainian Civil Code, individuals have a right to withdraw their deposits prior to maturity if they forfeit their right to accrued interest.

26 Financial Risk Management (Continued)

The Bank does not use the above undiscounted maturity analysis to manage liquidity. Instead, the Bank monitors expected maturities, which may be summarised as follows at 31 December 2011:

In thousands of Ukrainian hryvnias	**Demand and less than 1 month**	**From 1 to 6 months**	**From 6 to 12 months**	**From 12 months to 5 years**	**Over 5 years**	**Total**
At 31 December 2011						
Financial assets	618,763	463,694	420,844	1,118,235	487,072	3,108,608
Financial liabilities	1,324,034	833,315	334,552	153,265	372,621	3,017,787
Net liquidity gap based on expected maturities	**(705,271)**	**(369,621)**	**86,292**	**964,970**	**114,451**	**90,821**
At 31 December 2010						
Financial assets	1,041,605	383,142	393,574	1,408,118	913,725	4,140,164
Financial liabilities	1,568,927	908,053	346,116	364,935	610,059	3,798,090
Net liquidity gap based on expected maturities	**(527,322)**	**(524,911)**	**47,458**	**1,043,183**	**303,666**	**342,074**

As disclosed in Note 28, as at 31 December 2011 and 31 December 2010 the Bank breached certain financial covenants set by loan agreements with EBRD. Although the lender has the right to require early repayment of these loans, the Bank does not expect that such a request would be received. Therefore these loans were classified in the table above according to their expected maturity.

The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Bank. It is unusual for banks ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Bank and its exposure to changes in interest and exchange rates.

Management believes that in spite of a substantial portion of customer accounts being on demand, diversification of these deposits by number and type of depositors, and the past experience of the Bank would indicate that these customer accounts provide a long-term and stable source of funding for the Bank.

27 Management of Capital

The Bank's objectives when managing capital are: (i) to comply with the capital requirements set by the National Bank of Ukraine, (ii) to safeguard the Bank's ability to continue as a going concern, and (iii) to maintain a sufficient capital base to achieve a capital adequacy ratio based on the Basel Accord of at least 8%. The Bank considers total capital under management to be equity as shown in the statement of financial position. The amount of capital that the Bank managed as of 31 December 2011 was UAH 649,601 thousand (2010: UAH 915,143 thousand). Compliance with capital adequacy ratios set by the National Bank of Ukraine is monitored monthly with reports outlining their calculation reviewed and signed by the Bank's Chairman of the Board and Chief Accountant. Other objectives of capital management are evaluated annually

27 Management of Capital (Continued)

Under the current capital requirements set by the National Bank of Ukraine banks have to maintain a ratio of regulatory capital to risk weighted assets ("statutory capital ratio") above a prescribed minimum level. Regulatory capital is based on the Bank's reports prepared under Ukrainian accounting standards and comprises:

In thousands of Ukrainian hryvnias	**2011**	**2010**
Primary capital	368,257	449,521
Additional capital	368,257	424,127
Diversion	(248)	-
Total regulatory capital	**736,266**	**873,648**

As a result of changes in approach to calculation of open foreign currency position of the bank, namely excluding from the calculation provision for impairment of assets and credit related commitments, starting from 23 April 2009 on a daily basis the Bank was in breach of long open foreign currency position limit set by the NBU. To eliminate this breach the Bank developed Programme for bringing its open foreign currency position into compliance with the NBU requirements. Upon completion of this Programme, since 30 December 2011 the Bank is in compliance with long open foreign currency position limit set by the NBU.

The Bank is also subject to minimum capital requirements established by covenants stated in loan agreements, including capital adequacy levels calculated in accordance with the requirements of the Basel Accord, 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. The composition of the Bank's capital calculated in accordance with Basel Accord is as follows:

In thousands of Ukrainian hryvnias	**2011**	**2010**
Tier 1 capital		
Share capital	1,918,969	1,918,969
Accumulated deficit	(1,269,368)	(1,003,826)
Total tier 1 capital	**649,601**	**915,143**
Tier 2 capital		
Subordinated debt	277,870	276,659
Revaluation reserve	343	-
Total tier 2 capital	**278,213**	**276,659**
Total capital	**927,814**	**1,191,802**

The Bank has complied with all externally imposed capital requirements as at 31 December 2011. Refer also to Note 28.

28 Contingencies and Commitments

***Legal proceedings*.** From time to time and in the normal course of business, claims against the Bank may be received. On the basis of its own estimates and both internal and external professional advice management is of the opinion that no material losses will be incurred in respect of claims and accordingly no provision has been made in these financial statements.

At 31 December 2011, the Bank was engaged in litigation proceedings with one of its borrowers who filed a claim against the Bank for damages totalling UAH 185,450 thousand. No provision has been made as on the basis of its own estimates and external professional advice, the Bank's management believes that it is not likely that any significant loss will eventuate.

Tax legislation. Ukrainian tax and customs legislation is subject to varying interpretations and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Bank may be challenged by the relevant authorities.

The Ukrainian tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged. As a result, significant additional taxes, penalties and interest may be assessed.

28 Contingencies and Commitments (Continued)

Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

The State Tax Inspection of Lviv City challenged inclusion in the Bank's tax return of tax losses totalling UAH 771,437 thousand carried forward from 2010 and prior years. The Bank appealed against this decision to the State Tax Administration of Lviv oblast and the State Tax Administration of Ukraine. Both appeals have been rejected and the Bank filed a claim to Lviv District Administrative Court.

In the event if the Bank's claim is not satisfied, the Bank would need to derecognise respective deferred tax asset of UAH 123,430 thousand. However, the Bank's management believes that the risk of unfavourable decision of the Court on this case is remote and therefore the Bank continued to recognize respective deferred tax asset.

Capital expenditure commitments. At 31 December 2011 the Bank has contractual capital expenditure commitments in respect of premises and equipment totalling UAH 252 thousand (2010: UAH 2,155 thousand).

The Bank has already allocated the necessary resources in respect of these commitments. The Bank believes that future net income and funding will be sufficient to cover this and any similar such commitments.

Operating lease commitments. Where the Bank is the lessee, the future minimum lease payments under non-cancellable operating leases are as follows:

In thousands of Ukrainian hryvnias	**2011**	**2010**
Not later than 1 year	19 787	20,975
Later than 1 year and not later than 5 years	10 850	18,206
Later than 5 years	1 947	3,533
Total operating lease commitments	**32 584**	**42,714**

Compliance with covenants. The Bank is subject to certain covenants related primarily to loans from other banks. Non-compliance with such covenants may result in negative consequences for the Bank including growth in the cost of borrowings and declaration of default.

There are certain financial covenants under agreements with European Bank for Reconstruction and Development. In particular, the Bank is required to maintain a certain level of capital to risk weighted assets ratio, highly liquid assets to demand deposits ratio, liquid assets to short-term liabilities ratio, open credit exposure ratio, maximum exposure to related parties to capital ratio, aggregate related party exposure ratio, share of problem loans to gross loans not more than 5% and to be in compliance with the NBU prudential requirements.

As at 31 December 2011 the Bank reduced ratio of loans past due over 30 days to gross loans to 16.24% (2010: this ratio was 47.5%), but it is still higher than required ratio under agreements with EBRD.

This non-compliance with loan covenants gives the EBRD legal right to demand early repayment of the loans. As at the date of issue of these financial statements the Bank had not received from EBRD neither requirement to early repay the loans nor a waiver from this requirement.

Credit related commitments. The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer can not meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate or cash deposits and therefore carry less risk than a direct borrowing.

28 Contingencies and Commitments (Continued)

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments, if the unused amounts were to be drawn down. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Bank monitors the term to maturity of credit related commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments. Outstanding credit related commitments are as follows:

In thousands of Ukrainian hryvnias	**Note**	**2011**	**2010**
Guarantees issued		20,854	17,066
Import letters of credit		4,685	3,969
Less: Provision for credit related commitments	16	(472)	(955)
Less: Cash covered credit related commitments	15	(3,498)	(4,037)
Total credit related commitments		**21,569**	**16,043**

Credit related commitments are denominated in currencies as follows:

In thousands of Ukrainian hryvnias	**2011**	**2010**
Ukrainian hryvnias	3,957	6,680
US Dollars	-	1,230
Euros	17,612	7,972
Other	-	161
Total	**21,569**	**16,043**

As at 31 December 2011 all commitments to extend credit are revocable and amounted to UAH 155,832 thousand (2010: UAH 118,170 thousand).

The total outstanding contractual amount of commitments to extend credit, import letters of credit, and guarantees does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded. The fair value of credit related commitments was UAH 472 thousand at 31 December 2011 (2010: UAH 955 thousand).

29 Fair Value of Financial Instruments

(a) Fair values of financial instruments carried at amortised cost.

Fair values of financial instruments carried at amortised cost are as follows:

In thousands of Ukrainian hryvnias	2011 Carrying amount	2011 Fair value	2010 Carrying amount	2010 Fair value
Financial assets				
Cash and cash equivalents and mandatory reserves	**587,242**	**587,242**	**593,624**	**593,624**
- Cash on hand	160,191	160,191	152,187	152,187
- Balances with the NBU	43,107	43,107	107,074	107,074
- Mandatory reserves with the NBU	7,600	7,600	815	815
- Correspondent accounts and overnight deposits with other banks	252,530	252,530	333,548	333,548
- Placements with other banks with original maturities of less than three months	67,164	67,164	-	-
- Reverse sale and repurchase agreements with other banks with original maturities of less than three months	56,650	56,650	-	-
Due from other banks	**44,225**	**44,225**	**4,235**	**4,235**
- Guarantee deposits	6,018	6,018	4,235	4,235
- Placements with other banks with original maturities of more than three months	38,207	38,207	**-**	**-**
Loans and advances to customers	***1,825,160***	***1,559,069***	***3,128,171***	***2,662,423***
- Corporate loans	1,278,267	1,145,223	2,311,649	2,211,278
- Loans to individuals - consumer loans	170,740	150,262	181,744	143,417
- Loans to individuals – mortgage loans	376,153	263,584	634,778	307,728
Other financial assets	**60,990**	**60,990**	**2,166**	**2,166**
Receivables from operations with clients and banks	59,362	59,362	683	683
Accrued income	1,507	1,507	1,097	1,097
Receivables from operations with plastic cards	121	121	386	386
TOTAL FINANCIAL ASSETS CARRIED AT AMORTISED COST	**2,517,617**	**2,251,526**	**3,728,196**	**3,262,448**

In thousands of Ukrainian hryvnias	2011 Carrying amount	2011 Fair value	2010 Carrying amount	2010 Fair value
Due to other banks	**92,385**	**91,893**	**511,749**	**483,793**
- Correspondent accounts of other banks	7,102	7,102	2,941	2,941
- Term placements and loans of other banks	85,283	84,791	508,808	480,852
Customer accounts	**2,629,837**	**2,563,451**	**2,977,342**	**2,910,149**
- Current/settlement accounts of legal entities	645,241	645,241	512,279	512,279
- Term deposits of other legal entities	200,910	200,820	421,146	421,147
- Current/demand accounts of individuals	311,132	311,132	288,237	288,237
- Term deposits of individuals	1,472,554	1,406,258	1,755,680	1,688,486
Other financial liabilities	**17,695**	**17,695**	**32,340**	**32,340**
Other accrued liabilities	11,651	11,651	10,594	10,594
Transit accounts	4,895	4,895	20,759	20,759
Provision for credit related commitments	472	472	955	955
Other	677	677	32	32
Subordinated debt	**277,870**	**277,870**	**276,659**	**276,659**
TOTAL FINANCIAL LIABILITIES CARRIED AT AMORTISED COST	**3,017,787**	**2,950,909**	**3,798,090**	**3,702,941**

29 Fair Value of Financial Instruments (Continued)

(b) Analysis by fair value hierarchy of financial instruments carried at fair value.

For financial instruments carried at fair value, the level in the fair value hierarchy into which the fair values are categorised are as follows:

In thousands of Ukrainian hryvnias	2011 Quoted price in an active market (Level 1)	2011 Valuation technique with inputs observable in markets (Level 2)	2011 Valuation technique with significant non-observable inputs (Level 3)	2010 Quoted price in an active market (Level 1)	2010 Valuation technique with inputs observable in markets (Level 2)	2010 Valuation technique with significant non-observable inputs (Level 3)
FINANCIAL ASSETS						
Investment securities available for sale						
- Ukrainian Government bonds	-	590,961	-	-	411,938	-
- Corporate bonds	-	-	30	-	-	30
TOTAL FINANCIAL ASSETS CARRIED AT FAIR VALUE	**-**	**590,961**	**30**	**-**	**411,938**	**30**

(c) Reconciliation of movements in instruments belonging to the level 3 of the fair value hierarchy.

A reconciliation of movements in Level 3 of the fair value hierarchy by class of instruments for the year ended 31 December 2011 is as follows:

In thousands of Ukrainian hryvnias	Securities at fair value through profit or loss – Corporate bonds	Investment securities available for sale – Corporate bonds and shares
Fair value at 1 January 2011	**-**	**30**
Gains or losses recognised in profit or loss for the year*	9,763	8,774
Sales	(9,763)	(8,774)
Fair value at 31 December 2011	**-**	**30**
Cumulative revaluation gains less losses recognised in profit or loss for the current or prior years for assets held at 31 December 2011	**(3,059)**	**(11,623)**

* Gains or losses recognised in profit or loss for the year include interest income and fair value losses less gains.

(d) The methods and assumptions applied in determining fair values.

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by an active quoted market price. Where quoted market prices are not available, the Bank used valuation techniques. Certain valuation techniques required assumptions that were not supported by observable market data. Changing any such used assumptions to a reasonably possible alternative would not result in significantly different profit, income, total assets or total liabilities.

The fair value of floating rate instruments that are not quoted in an active market was estimated to be equal to their carrying amount. The fair value of unquoted fixed interest rate instruments was estimated based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Discount rates used depend on currency, maturity of the instrument and credit risk of the counterparty and were as follows:

29 Fair Value of Financial Instruments (Continued)

	2011	2010
Loans and advances to customers		
Corporate loans	8.27% - 19.06% p. a.	7.85%-18.95% p. a.
Loans to individuals - consumer loans	9.88% - 27.58% p. a.	19.5%-27% p. a.
Loans to individuals – mortgage loans	9.88% - 17.07% p. a.	14%-21% p. a.
Due to other banks		
- Correspondent accounts and overnight placements of other banks	0 % p. a.	0 % p. a.
- Term placements and loans of other banks	2.87%-16% p. a.	2.3%-3.5% p. a.
Customer accounts		
- Term deposits of legal entities	7.12%-15.83% p. a.	7.0%-16.5% p. a.
- Term deposits of individuals	7.12%-17.39% p. a.	7.0%-16.7% p. a.

30 Presentation of Financial Instruments by Measurement Categories

For the purposes of measurement, IAS 39, *Financial Instruments: Recognition and Measurement*, classifies financial assets into the following categories: (a) loans and receivables; (b) available-for-sale financial assets; (c) financial assets held to maturity and (d) financial assets at fair value through profit or loss ("FVTPL"). Financial assets at fair value through profit or loss have two subcategories: (i) assets designated as such upon initial recognition, and (ii) those classified as held for trading. The following table provides a reconciliation of financial assets with these measurement categories as of 31 December 2011:

In thousands of Ukrainian hryvnias	**Loans and receivables**	**Available-for-sale assets**	**Total**
ASSETS			
Cash and cash equivalents and mandatory reserves	587,242	-	587,242
Due from other banks			
- Guarantee deposits	6,018	-	6,018
- Placements with other banks	38,207	-	38,207
Loans and advances to customers			
- Corporate loans	1,278,267	-	1,278,267
- Loans to individuals - consumer loans	170,740	-	170,740
- Loans to individuals – mortgage loans	376,153	-	376,153
Investment securities available-for-sale	-	590,991	590,991
Other financial assets	60,990	-	60,990
TOTAL FINANCIAL ASSETS	**2,517,617**	**590,991**	**3,108,608**

The following table provides a reconciliation of financial assets with these measurement categories as of 31 December 2010:

In thousands of Ukrainian hryvnias	**Loans and receiv-ables**	**Available-for-sale assets**	**Total**
ASSETS			
Cash and cash equivalents and mandatory reserves	593,624	-	593,624
Due from other banks			
- Guarantee deposits	4,235	-	4,235
Loans and advances to customers			
- Corporate loans	2,311,648	-	2,311,648
- Loans to individuals - consumer loans	181,744	-	181,744
- Loans to individuals – mortgage loans	634,779	-	634,779
Investment securities available-for-sale	-	411,968	411,968
Other financial assets	2,166	-	2,166
TOTAL FINANCIAL ASSETS	**3,728,196**	**411,968**	**4,140,164**

As of 31 December 2011 and 31 December 2010 all of the Bank's financial liabilities were carried at amortised cost.

31 Related Party Transactions

Parties are generally considered to be related if the parties are under common control or one party has the ability to control the other party or can exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

At 31 December 2011, the outstanding balances with related parties were as follows:

In thousands of Ukrainian hryvnias	Parent company	Entities under common control	Key management personnel
Correspondent accounts with other banks	1,930	-	-
Gross amount of loans and advances to customers (contractual interest rate: in UAH – 9.0 – 17.2%; in USD – 2.8%)	-	-	366
Impairment provisions for loans and advances to customers at 31 December	-	-	(38)
Other assets	448	58,546	-
Correspondent accounts and overnight placements of other banks	3,366	-	-
Term placements and loans from other banks (contractual interest rate: in USD – 3.27%, in PLN – 4.35%)	24,955	-	-
Customer accounts (contractual interest rate: in UAH – 0.01 – 13.5%; in EUR – 0.1%; in USD – 0.1 – 5.0%; in PLN – 0.1 – 0.5%)	-	5,007	966
Subordinated debt (contractual interest rate: in USD – 4.0202%)	277,870	-	-

The income and expense items with related parties for 2011 were as follows:

In thousands of Ukrainian hryvnias	Parent company	Entities under common control	Key management personnel
Interest income	-	3 069	6
Interest expense	(20,225)	(18)	(158)
Reversal of provision for loan impairment	-	4,995	(24)
Fee and commission income	1	103	19
Fee and commission expense	(1,795)	(1,629)	-

In addition, as described in Notes 4 and 9, in December 2011 the Bank sold the rights to 100% of the cash flows arising on a portfolio of fixed rate loans with gross book value of UAH 1,648,790 thousand, including loans covered by the guarantees received from the parent company, to the entity under common control. Carrying value of loans sold as at the date of sale was UAH 1,083,381 thousand. The Bank received UAH 338,167 thousand from the parent company in settlement of the guarantees and UAH 562,456 thousand from the entity under common control as consideration for the loans sold. As a result of these transactions the Bank recognised loss in the amount of UAH 182,758 thousand which is the difference between the carrying value of loans sold and consideration received for the loan portfolios and in settlement of the guarantees. The loan portfolio sold included also loan outstanding from the company under common control with the gross amount of UAH 31,648 thousand and impairment provision of UAH 4,995 thousand as at 31 December 2010.

At 31 December 2011, other rights and obligations with related parties were as follows:

In thousands of Ukrainian hryvnias	Parent company	Entities under common control	Key management personnel
Cash deposits received as collateral	13,541	-	415
Loan commitments received	401,809	-	-
Loan commitments granted	-	-	41

31 Related Party Transactions (Continued)

Aggregate amounts lent to and repaid by related parties during 2011 were:

In thousands of Ukrainian hryvnias	**Parent company**	**Entities under common control**	**Key management personnel**
Amounts repaid by related parties during the period	-	-	102

At 31 December 2010, the outstanding balances with related parties were as follows:

In thousands of Ukrainian hryvnias	**Parent company**	**Entities under common control**	**Key management personnel**
Correspondent accounts with other banks	68	-	-
Gross amount of loans and advances to customers (contractual interest rate: in UAH – 11.0 - 25.0%; in USD – 5.0 - 17.3%)	-	31,648	264
Impairment provisions for loans and advances to customers at 31 December	-	(4,995)	(14)
Other assets	385	-	-
Correspondent accounts and overnight placements of other banks	1,589	-	-
Term placements and loans from other banks (contractual interest rate: in EUR – 2.04 -2.29%; in USD – 2.04-2.79%, in PLN – 3.75%)	387,575	-	-
Customer accounts (contractual interest rate: in UAH – 11.5 – 19.25%; in EUR – 2.2 – 4.5%; in USD – 4.25 – 9.75)	-	9	2,810
Subordinated debt (contractual interest rate: in USD – 4.0075%)	276,659	-	-

The income and expense items with related parties for 2010 were as follows:

In thousands of Ukrainian hryvnias	**Parent company**	**Entities under common control**	**Key management personnel**
Interest income	2	2,305	26
Interest expense	25,050	(1)	(198)
Provision for loan impairment	-	(2,771)	-
Fee and commission income	-	20	9
Fee and commission expense	(1,594)	(628)	(1)

In addition, as disclosed in Notes 4 and 9, during 2010 the Bank reversed part of loan impairment provisions totalling UAH 133,159 thousand taking into account future proceeds from guarantees execution in cash flow projections for loans covered by the guarantees received from the parent company. This reversal was recognised in the statement of comprehensive income.

31 Related Party Transactions (Continued)

At 31 December 2010, other rights and obligations with related parties were as follows:

In thousands of Ukrainian hryvnias	**Parent company**	**Entities under common control**	**Key management personnel**
Guarantees received	595,738	7,500	-
Cash deposits received as collateral	38,038	-	-
Loan commitments received	719,220	-	-
Collateral received	-	30,099	-

Aggregate amounts lent to and repaid by related parties during 2010 were:

In thousands of Ukrainian hryvnias	**Parent company**	**Entities under common control**	**Key management personnel**
Amounts lent to related parties during the period	-	-	-
Amounts repaid by related parties during the period	-	-	165

Key management compensation is presented below:

	2011		**2010**	
In thousands of Ukrainian hryvnias	**Expense**	**Accrued liability**	**Expense**	**Accrued liability**
Short-term benefits:				
- Salaries	13,688	2,502	9,387	2,740
Post-employment benefits:				
- State pension and social security costs	463	176	359	38
Total	**14,151**	**2,678**	**9,746**	**2,778**

Short-term benefits fall due wholly within twelve months after the end of the period in which management rendered the related services.