Joint Stock Company
“The State Export-Import Bank of Ukraine”
Consolidated Financial Statements

Year ended 31 December 2011
Together with Independent Auditors’ Report

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INDEPENDENT AUDITORS' REPORT

To the Shareholder and the Board of Directors of
Joint Stock Company "The State Export-Import Bank of Ukraine"

We have audited the accompanying consolidated financial statements of Joint Stock Company "The State Export-Import Bank of Ukraine" and its subsidiaries (the "Bank"), which comprise the consolidated statement of financial position as at 31 December 2011 and the consolidated income statement, consolidated statements of comprehensive income, of changes in equity and of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

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

Opinion

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

Ernst & Young Audit Services LLC

28 April 2012

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2011

(Thousands of Ukrainian hryvnia)

	Notes	*2011*	*2010 (reclassified)*
Assets			
Cash and cash equivalents	6	10,051,840	10,779,310
Amounts due from credit institutions	7	1,852,863	1,242,959
Loans to customers	8	41,855,467	43,681,189
Investment securities:	9		
- designated at fair value through profit and loss		3,221,305	107,796
- available-for-sale		9,855,267	8,861,028
- held-to-maturity		1,372,342	1,641,477
Investment securities pledged under repurchase agreements		-	94,640
Current income tax assets	13	528,500	570,144
Investment property	10	3,088,254	2,380,711
Property and equipment	11	2,232,340	2,204,565
Intangible assets	12	13,050	13,559
Deferred income tax assets	13	163,287	11,771
Other assets	15	290,772	265,359
Total assets		**74,525,287**	**71,854,508**
Liabilities			
Amounts due to the National Bank of Ukraine	16	6,197,074	4,156,617
Amounts due to credit institutions	17	7,664,410	7,379,450
Amounts due to customers	18	29,678,011	27,810,735
Eurobonds issued	19	10,438,526	11,789,395
Other debt securities issued		-	404,340
Current income tax liabilities	13	2,673	7,339
Subordinated debt	20	3,101,995	3,098,955
Provisions	14	307	181
Other liabilities	15	184,027	136,337
Total liabilities		**57,267,023**	**54,783,349**
Equity			
Share capital	21	17,126,718	17,106,742
Revaluation reserve	21	919,600	872,834
Accumulated deficit		(788,054)	(908,417)
Total equity		**17,258,264**	**17,071,159**
Total equity and liabilities		**74,525,287**	**71,854,508**

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

Mykola Udovychenko — Chairman of the Board

Natalia Potemska — Chief Accountant

28 April 2012

CONSOLIDATED INCOME STATEMENT
For the year ended 31 December 2011

(Thousands of Ukrainian hryvnia)

	Notes	2011	2010
Interest income			
Loans to customers		5,808,330	5,534,383
Investment securities other than designated at fair value through profit or loss		1,054,231	719,262
Amounts due from credit institutions		306,104	63,266
Amounts due from the National Bank of Ukraine		38,248	12,205
		7,206,913	6,329,116
Investment securities designated at fair value through profit and loss		89,282	45,636
		7,296,195	6,374,752
Interest expense			
Amounts due to customers		(1,832,478)	(1,941,328)
Eurobonds issued		(1,083,453)	(612,370)
Amounts due to the National Bank of Ukraine		(547,691)	(465,054)
Subordinated debt		(326,647)	(347,984)
Amounts due to credit institutions		(319,248)	(375,019)
Other debt securities issued		(31,956)	(26,119)
		(4,141,473)	(3,767,874)
Net interest income		**3,154,722**	**2,606,878**
Allowance for loan impairment charge	7,8	(2,898,131)	(2,664,413)
Net interest income/ (expense) after allowance for loan impairment		**256,591**	**(57,535)**
Fee and commission income		489,586	459,535
Fee and commission expense		(122,216)	(99,049)
Fees and commissions, net	23	**367,370**	**360,486**
Net losses from investment securities designated at fair value through profit and loss:			
- change in fair value		(7,342)	(9,493)
Net gains/(losses) from available-for-sale investment securities:			
- dealing		107,738	13,041
- reversal of losses/(losses) on impairment		11,830	(11,298)
Net gains from foreign currencies and precious metals:			
- dealing		308,641	272,450
- translation differences		76,623	53,334
Gain on initial recognition of financial liabilities		-	18,224
Gain on restructuring of financial liabilities		-	390,614
Other income		54,474	25,730
Non-interest income		**551,964**	**752,602**
Loss on initial recognition of loans to customers		(5,335)	(20,717)
Personnel expenses	24	(676,383)	(583,842)
Depreciation and amortisation	11,12	(72,936)	(75,564)
Other operating expenses	24	(251,834)	(242,450)
Other impairment and provisions	14	20,047	131,437
Non-interest expense		**(986,441)**	**(791,136)**
Profit before income tax expense		**189,484**	**264,417**
Income tax expense	13	(58,461)	(138,459)
Profit for the year		**131,023**	**125,958**

The accompanying notes on pages 6 – 59 are an integral part of these consolidated financial statements

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2011

(Thousands of Ukrainian hryvnia)

	Notes	2011	2010
Profit for the year		**131,023**	**125,958**
Other comprehensive income:			
Net gains on investment securities available-for-sale reclassified to the income statement		(107,738)	(13,041)
Net gains/ (losses) on investment securities available-for-sale	21	26,993	30,810
Revaluation of property		-	179,128
Reversal of deferred income tax relating to tangible fixed asset revaluations consequent upon enactment of new Tax Code	13, 21	134,677	92,341
Income tax relating to components of other comprehensive income	13, 21	17,542	(49,224)
Other comprehensive income for the year, net of tax		**71,474**	**240,014**
Total comprehensive income for the year		**202,497**	**365,972**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2011

(Thousands of Ukrainian hryvnia)

	Share capital	*Revaluation reserve*	*Accumulated deficit*	*Total equity*
31 December 2009	**10,716,745**	**644,388**	**(1,036,806)**	**10,324,327**
Total comprehensive income for the year	-	240,014	125,958	365,972
Depreciation of revaluation reserve, net of tax (Note 21)	-	(11,568)	11,568	-
Distribution of profit to the shareholder	-	-	(9,137)	(9,137)
Increase in share capital	6,389,997	-	-	6,389,997
31 December 2010	**17,106,742**	**872,834**	**(908,417)**	**17,071,159**
Total comprehensive income for the year	-	71,474	131,023	202,497
Depreciation of revaluation reserve, net of tax (Note 21)	-	(15,156)	15,156	-
Revaluation reserve on property transferred to investment property, net of tax (Note 21)	-	(9,552)	9,552	-
Distribution of profit to the shareholder (Note 21)	-	-	(15,392)	(15,392)
Increase in share capital (Note 21)	19,976	-	(19,976)	-
31 December 2011	**17,126,718**	**919,600**	**(788,054)**	**17,258,264**

The accompanying notes on pages 6 – 59 are an integral part of these consolidated financial statements

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 31 December 2011

(Thousands of Ukrainian hryvnia)

	Notes	*2011*	*2010 (reclassified)*
Cash flows from operating activities			
Interest and commissions received		7,314,293	6,578,217
Interest and commissions paid		(4,034,878)	(3,924,205)
Gains less losses from dealing in foreign currencies and precious metals		308,641	272,450
Other operating income received		53,291	15,783
Personnel expenses paid		(663,002)	(605,268)
Other operating expenses paid		(246,951)	(226,961)
Cash flow from operating activities before changes in operating assets and liabilities		**2,731,394**	**2,110,016**
Net (increase)/decrease in operating assets			
Amounts due from credit institutions		(587,914)	817,618
Deposit with the National Bank of Ukraine		10,211	(260,321)
Loans to customers		(1,293,501)	(3,942,057)
Other assets		(104,931)	96,589
Net increase /(decrease) in operating liabilities			
Amounts due to the National Bank of Ukraine		1,899,256	(3,311,798)
Amounts due to credit institutions		434,939	429,542
Amounts due to customers		1,988,626	8,147,114
Other liabilities		42,711	(11,382)
Net cash flows from operating activities before income tax		**5,120,791**	**4,075,321**
Income tax paid		(20,780)	(18,869)
Net cash flows from operating activities		**5,100,011**	**4,056,452**
Cash flows from investing activities			
Proceeds from sale and redemption of investment securities		16,175,109	6,284,776
Purchase of investment securities		(19,704,782)	(7,970,661)
Dividends received		34	85
Purchases of property, equipment and intangible assets		(111,625)	(82,029)
Proceeds from sale of property and equipment		425	533
Proceeds from sale of investment property		-	812
Net cash flows used in investing activities		**(3,640,839)**	**(1,766,484)**
Cash flows from financing activities			
Distribution of profit to the shareholder		(15,392)	(9,137)
Proceeds from borrowings from credit institutions		2,111,847	513,095
Repayment of borrowings from credit institutions		(2,478,333)	(2,646,405)
Redemption of Eurobonds issued		(3,780,383)	-
Proceeds from Eurobonds issued		2,362,704	5,969,635
Proceeds from other debt securities issued		-	400,000
Redemption of other debt securities issued		(400,000)	(500,000)
Net cash flows (used in)/ from financing activities		**(2,199,557)**	**3,727,188**
Effect of exchange rates changes on cash and cash equivalents		12,915	3,716
Net (decrease)/ increase in cash and cash equivalents		**(727,470)**	**6,020,872**
Cash and cash equivalents, 1 January		**10,779,310**	**4,758,438**
Cash and cash equivalents, 31 December	6	**10,051,840**	**10,779,310**

The accompanying notes on pages 6 – 59 are an integral part of these consolidated financial statements

1. Principal activities

The State Export-Import Bank of Ukraine (EximBank) was founded in 1992. It was registered at the National Bank of Ukraine (the "NBU") on 23 January 1992 and on 18 September 2000 was re-registered as a joint stock company. Currently EximBank operates under a general banking licence #2 renewed by the NBU on 5 October 2011, which provides EximBank with the right to conduct banking operations, including currency operations.

As at 31 December 2011 and 2010, 100% of EximBank's shares were owned by the Cabinet Ministers of Ukraine on behalf of the State of Ukraine.

EximBank's head office is in Kyiv at 127 Gorky St. It has 29 branches and 97 operating outlets (2010: 29 branches and 93 operating outlets) located in Kyiv and other regions of Ukraine and 2 representative offices located in London and New-York. EximBank and its branches form a single legal entity.

Historically, the main focus of EximBank's operations was servicing various export-import transactions. Currently, EximBank's customer base is diversified and includes some large industrial and State owned enterprises. EximBank accepts deposits from the public and makes loans, transfers payments in Ukraine and abroad, exchanges currencies, invests funds and provides cash and settlements, and other banking services to its customers.

One of the activities of EximBank is to facilitate, on behalf of the Ukrainian Government, the administration of loan agreements entered into by the Ukrainian Government with other foreign governments. EximBank acts as an agent, on behalf of the Ukrainian Government, with respect to loans from foreign financial institutions based on the aforementioned agreements. The loan proceeds are advanced to various enterprises within Ukraine based on separate loan agreements between EximBank and Ukrainian enterprises.

A letter from the Cabinet of Ministers dated 4 August 1995, which was subsequently formalised in an agency agreement dated 19 September 1996, confirms that the responsibility of EximBank is to act as an agent of the Ukrainian Government for the above-described activities and consequently the loan obligations and related risks belong to the Government.

These consolidated financial statements comprise EximBank and its subsidiaries (together referred to as the "Bank"). A list of consolidated subsidiaries is as follows:

"Ukreximleasing", a 100% owned subsidiary was founded in 1997 and operates in Ukraine in the leasing business.

"Eximleasing" Ltd, a 100% owned subsidiary was founded in 2006.

2. Basis of preparation

General

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

The Bank is required to maintain its books of account in Ukrainian hryvnia and prepare statements for regulatory purposes in accordance with the "Regulations on the Organisation of Reporting and Publication for Ukrainian Banking Institutions" issued by the National Bank of Ukraine and in accordance with Ukrainian Accounting Standards ("UAS"). These consolidated financial statements are based on the Bank's UAS books and records, as adjusted and reclassified in order to comply with IFRS.

The consolidated financial statements are prepared under the historical cost convention except as disclosed in the accounting policies, such as investment securities available-for-sale, investment securities designated at fair value through profit or loss, buildings and investment property have been measured at fair value.

These consolidated financial statements are presented in thousands of Ukrainian hryvnia ("UAH") unless otherwise indicated.

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

Inflation accounting

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

Change in composition of cash and cash equivalents

While preparing its 2011 consolidated financial statements, the Bank changed its approach to the composition of cash and cash equivalents to exclude current accounts with other credit institutions denominated in gold. The effect of this change on the corresponding figures for the year ended 31 December 2010 is as follows:

	As previously reported	*Effect of change*	*As reclassified*
Consolidated statement of financial position as at 31 December 2010			
Cash and cash equivalents	10,892,912	(113,602)	10,779,310
Amounts due from credit institutions	1,129,357	113,602	1,242,959
Consolidated statement of cash flows for the year ended 31 December 2010			
Net (increase)/decrease in operating assets: Amounts due from credit institutions	837,967	(20,349)	817,618
Net cash flows from operating activities before income tax	4,095,670	(20,349)	4,075,321
Net cash flows from operating activities	4,076,801	(20,349)	4,056,452
Net increase/(decrease) in cash and cash equivalents	6,041,221	(20,349)	6,020,872
Cash and cash equivalents, 1 January	4,851,691	(93,253)	4,758,438
Cash and cash equivalents, 31 December	10,892,912	(113,602)	10,779,310

3. Summary of accounting policies

Changes in accounting policies

During the year, the Bank has adopted the following amended IFRS and new IFRIC Interpretations. The principal effects of these changes are as follows:

IAS 24 "Related party disclosures" (Revised)
The revised IAS 24, issued in November 2009 and effective for annual periods beginning on or after 1 January 2011, simplifies the disclosure requirements for government-related entities and clarifies the definition of a related party. Previously, an entity controlled or significantly influenced by a government was required to disclose information about all transactions with other entities controlled or significantly influenced by the same government. The revised standard requires disclosure about these transactions only if they are individually or collectively significant. The revised IAS 24 is effective for annual periods beginning on or after 1 January 2011. The Bank applied the exemption from the disclosure requirement with respect to transactions, balances and contingencies under related-party transactions with entities also being under control or significant influence of the Government. The disclosure of transactions with related parties prepared in accordance with the new version of IAS 24 is presented in Note 28.

Amendments to IAS 32 "Financial instruments: Presentation": Classification of Rights Issues"
In October 2009, the IASB issued an amendment to IAS 32. Entities shall apply that amendment for annual periods beginning on or after 1 February 2010. The amendment alters the definition of a financial liability in IAS 32 to classify rights issues and certain options or warrants as equity instruments. This is applicable if the rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, in order to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. The amendment had no impact on the Bank's consolidated financial statements.

IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments"
IFRIC Interpretation 19 was issued in November 2009 and is effective for annual periods beginning on or after 1 July 2010. The interpretation clarifies the accounting when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor to extinguish all or part of the financial liability. This Interpretation had no impact on the Bank's consolidated financial statements.

Improvements to IFRSs
In May 2010 the IASB issued the third omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. Most of the amendments are effective for annual periods beginning on or after 1 January 2011. There are separate transitional provisions for each standard. Amendments included in the May 2010 "Improvements to IFRS" had impact on the accounting policies, financial position or performance of the Bank, are described below.

- IFRS 3 Business combinations: limits the scope of the measurement choices that only the components of NCI that are present ownership interests that entitle their holders to a proportionate share of the entity's net assets, in the event of liquidation, shall be measured either at fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets.
- IFRS 7 Financial instruments: Disclosures; introduces the amendments to quantitative and credit risk disclosures. The additional requirements had minor impact.
- Other amendments to IFRS 1, IFRS 3, IAS 1, IAS 27, IAS 34 and IFRIC 13 will have no impact on the accounting policies, financial position or performance of the Bank.

The following amendments to standards and interpretations did not have any impact on the accounting policies, financial position or performance of the Bank:

- IFRS 1 First-time Adoption of International Financial Reporting Standards – Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters
- IFRIC 14 Prepayments of a Minimum Funding Requirement

Basis of consolidation

Subsidiaries, which are those entities in which the Bank has an interest of more than one half of the voting rights, or otherwise has power to exercise control over their operations, are consolidated. Subsidiaries are consolidated from the date on which control is transferred to the Bank and are no longer consolidated from the date that control ceases. All intra-Bank transactions, balances and unrealised gains on transactions between Bank companies are eliminated in full; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Bank.

A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction. Losses are attributed to the non-controlling interests even if that results in a deficit balance.

If the Bank loses control over a subsidiary, it derecognises the assets (including goodwill) and liabilities of the subsidiary, the carrying amount of any non-controlling interests, the cumulative translation differences, recorded in equity; recognises the fair value of the consideration received, the fair value of any investment retained and any surplus or deficit in profit or loss and reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss.

Financial assets

Initial recognition

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

Date of recognition

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

Financial assets at fair value through profit or loss

Financial assets designated at fair value through profit or loss at inception are included in the category 'investment securities'. Derivatives are classified as held for trading unless they are designated and effective hedging instruments. Gains or losses on financial assets at fair value through profit or loss are recognised in the consolidated income statement.

Financial asset classified in this category are designated by management on initial recognition when the following criteria are met:

- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on them on a different basis; or
- The assets are part of a group of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
- The financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Bank has the positive intention and ability to hold them to maturity. Investments intended to be held for an undefined period are not included in this classification. Held-to-maturity investments are subsequently measured at amortised cost. Gains and losses are recognised in the consolidated income statement when the investments are impaired, as well as through the amortisation process.

Loans and receivables

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

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial recognition available-for sale financial assets are measured at fair value with gains or losses being recognised in other comprehensive income until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in other comprehensive income is reclassified to the consolidated income statement. However, interest calculated using the effective interest method is recognised in the consolidated income statement.

Investments in equity instruments that do not have a quoted market price in an active market and if their fair value cannot be reliably measured are accounted at cost less any allowance for impairment.

Determination of fair value

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

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

Offsetting

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

Reclassification of financial assets

If a non-derivative financial asset classified as held for trading is no longer held for the purpose of selling in the near term, it may be reclassified out of the fair value through profit or loss category in one of the following cases:

- a financial asset that would have met the definition of loans and receivables above may be reclassified to loans and receivables category if the Bank has the intention and ability to hold it for the foreseeable future or until maturity;
- other financial assets may be reclassified to available-for-sale or held to maturity categories only in rare circumstances.

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

Financial assets are reclassified at their fair value on the date of reclassification. Any gain or loss already recognised in profit or loss is not reversed. The fair value of the financial asset on the date of reclassification becomes its new cost or amortised cost, as applicable.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, amounts due from the NBU, excluding obligatory reserves, amounts due from credit institutions and reverse repurchase agreements that mature within ninety days of the date of origination and are free from contractual encumbrances.

Precious metals

Gold and other precious metals are recorded at the NBU bid prices, which approximate fair values and are quoted at a discount to London Bullion Market rates. Changes in the NBU bid prices are recorded as translation differences in net gains from foreign currencies and precious metals in the consolidated income statement.

Repurchase and reverse repurchase agreements and securities lending

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

Securities lent to counterparties are retained in the financial statements. Securities borrowed are not recorded in the consolidated financial statements, unless these are sold to third parties, in which case the purchase and sale are recorded within gains less losses from trading securities in the consolidated income statement. The obligation to return them is recorded at fair value as a trading liability.

Promissory notes

Promissory notes purchased are included in available-for-sale investment securities, or in amounts due from credit institutions or in loans to customers, depending on their substance and are accounted for in accordance with the accounting policies for these categories of assets.

Derivative financial instruments

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

Derivatives embedded in other financial instruments are treated as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contract, and the host contract is not itself held for trading or designated at fair value through profit or loss.

Borrowings

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

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

Leases

i. Finance – Bank as lessor

The Bank recognises lease receivables at value equal to the net investment in the lease, starting from the date of commencement of the lease term. Finance income is based on a pattern reflecting a constant periodic rate of return on the net investment outstanding. Initial direct costs are included in the initial measurement of the lease receivables.

ii. Operating – Bank as lessee

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

iii. Operating – Bank as lessor

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

Impairment of financial assets

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

Amounts due from credit institutions and loans to customers

For amounts due from credit institutions and loans to customers carried at amortised cost, the Bank first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risks characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

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

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

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

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

Held-to-maturity investments

For held-to-maturity investments the Bank assesses individually whether there is objective evidence of impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated income statement.

If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognised, any amounts formerly charged are credited to the consolidated income statement.

Available-for-sale financial assets

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

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

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as amounts due from credit institutions and loans to customers. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded in the consolidated income statement. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the consolidated income statement, the impairment loss is reversed through the consolidated income statement.

Renegotiated loans

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

The accounting treatment of such restructuring is as follows:

- If the currency of the loan has been changed the old loan is derecognised and a new loan is recognised.

- If the loan restructuring is not caused by the financial difficulties of the borrower but the cash flows were renegotiated on favourable terms for the borrower: the loan is not recognised as impaired. The loan is not derecognised but the new effective interest rate is determined based on the remaining cash flows under the loan agreement until maturity.

- If the loan is impaired after restructuring, the Bank uses the original effective interest rate in respect of new cash flows to estimate the recoverable amount of the loan. The difference between the recalculated present value of the new cash flows taking into account collateral and the carrying amount before restructuring is included in the allowance charges for the period.

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

Asset management

The Bank acts as an asset manager for a number of construction financing funds. The Bank acts as an agent in such arrangements and its responsibility is limited to fiduciary duties, which are commonly applied in the asset management business. Accordingly, the Bank does not recognise liabilities relating to the funds under management, but assesses the need to recognise any provisions related to additional guarantees issued by the Bank with respect to the activities of such funds. Funds under management are not legal entities under the laws of Ukraine. The management of fund activity is effectively delegated to the Bank. The funds keep their current accounts in the Bank to the extent to which the funds are not invested in eligible assets, which meet the investment profile for the fund.

Derecognition of financial assets and liabilities

Financial assets

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

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

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

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

Financial liabilities

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

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

Financial guarantees

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

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

Taxation

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

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

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

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

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

Property and equipment

Equipment is carried at cost or restated cost (for assets acquired prior to 31 December 2000), excluding the costs of day-to-day servicing, less accumulated depreciation and any accumulated impairment. Buildings are measured at fair value less depreciation and impairment charged subsequent to the date of the revaluation.

The carrying values of equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

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

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

An annual transfer from the property revaluation reserve to retained earnings is made for the difference between depreciation based on the revalued carrying amount of the assets and depreciation based on the assets' original cost. Additionally, accumulated depreciation as at the revaluation date is restated proportionally with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount. Upon disposal, any revaluation of property relating to the particular asset being sold is transferred to retained earnings.

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

	Years
Buildings	15-75 years
Furniture, fixtures and other assets	2-25 years
Equipment and computers	2-15 years
Motor vehicles	5 years

Leasehold improvements (restructuring costs for premises under lease contract) are depreciated over a period not exceeding the leasing period.

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

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

Intangible assets

Intangible assets include acquired computer software and licences. Intangible assets acquired separately are measured on initial recognition at cost or restated cost (for assets acquired prior to 31 December 2000). Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic lives of five to ten years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation periods and methods for intangible assets with finite useful lives are reviewed at least at each financial year-end.

Investment property

Investment property is property held to earn rental income or for capital appreciation and which is not occupied by the Bank.

Investment property is initially recognised at cost, including transaction costs, and subsequently re-measured at fair value based on its market value. Market value of the Bank's investment property is obtained from reports of independent and internal appraisers, who hold a recognised and relevant professional qualification and who have recent experience in valuing property in similar locations and categories.

Assets held for sale

The Bank classifies a non-current asset as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the non-current asset must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets and its sale must be highly probable.

The sale qualifies as highly probable if the Bank's management is committed to a plan to sell the non-current asset and an active program to locate a buyer and complete the plan must have been initiated. Further, the non-current asset must have been actively marketed for a sale at price that is reasonable in relation to its current fair value and in addition the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification of the non-current asset as held for sale.

Provisions

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

Retirement and other benefit obligations

The Bank has defined contribution pension plan separate from the State pension system of Ukraine, which requires current contributions by the employer calculated as a percentage of current gross salary payments; such expense is charged in the period the related salaries are earned. The contribution payable to a defined contribution plan is in proportion to the services rendered to the Bank by the employees, age of employees and years working for the Bank and is recorded as an expense under "Personnel expenses". Unpaid contributions are recorded as a liability. In addition, the Bank has no post-retirement benefits or significant other compensated benefits requiring accrual.

Share capital

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

Segment reporting

The Bank's segmental reporting is based on the following operating segments: Retail banking, Corporate banking and Financial institutions and investments.

Contingencies

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

Recognition of income and expense

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

Interest and similar income and expense

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

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

Fee and commission income

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

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

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

- *Fee income from providing transaction services*

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

Dividend income

Revenue is recognised when the Bank's right to receive the payment is established.

Foreign currency translation

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

Differences between the contractual exchange rate of a transaction in a foreign currency and the NBU exchange rate on the date of the transaction are included in gains less losses from dealing in foreign currencies. The official NBU exchange rates at 31 December 2011 and 2010 were UAH 7.9898 and UAH 7.9617 to 1 US dollar and UAH 10.2981 and UAH 10.5731 to 1 euro, respectively.

Future changes in accounting policies

Standards and interpretations issued but not yet effective

IFRS 9 "Financial Instruments"
In November 2009 and 2010, the IASB issued the first phase of IFRS 9 Financial instruments. This Standard will eventually replace IAS 39 Financial Instrument: Recognition and Measurement. IFRS 9 becomes effective for financial years beginning on or after 1 January 2015. The first phase of IFRS 9 introduces new requirements relating to the classification and measurement of financial instruments. In particular, for subsequent measurement, all financial assets are to be classified at amortised cost or at fair value through profit or loss with the irrevocable option for equity instruments not held for trading to be measured at fair value through other comprehensive income. For financial liabilities designated at fair value through profit or loss using the fair value option, IFRS 9 requires the amount of change in fair value attributable to changes in credit risk to be presented in other comprehensive income. The Bank is currently evaluating the impact of the adoption of the new Standard.

IFRS 10 "Consolidated Financial Statements"
IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgement to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in IAS 27.In addition, IFRS 10 introduces specific application guidance for agency relationships. IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12 Consolidation — Special Purpose Entities. It is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted. The Bank is currently evaluating the possible effect of the adoption of IFRS 10 on its financial position and performance.

IFRS 11 "Joint Arrangements"
IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. IFRS 11 supersedes IAS 31 Interests in Joint Ventures and SIC-13 Jointly Controlled Entities—Non-monetary Contributions by Venturers and is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted. The Bank expects that adoption of IFRS 11 will have no effect on its financial position and performance.

IFRS 12 "Disclosure of Interests in Other Entities"
IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. IFRS 12 is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted. Adoption of the standard will require new disclosures to be made in the financial statements of the Bank but will have no impact on its financial position or performance.

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

IAS 27 "Separate Financial Statements" (as revised in 2011)
As a consequence of the new IFRS 10 and IFRS 12, what remains of IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

IAS 28 "Investments in Associates" (as revised in 2011)
As a consequence of the new IFRS 11 and IFRS 12, IAS 28 has been renamed IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

Amendments to IFRS 7 "Financial Instruments: Disclosures"
The Amendments were issued in October 2010 and are effective for annual periods beginning on or after 1 July 2011. The amendment requires additional disclosure about financial assets that have been transferred but not derecognised to enable the user of the Bank's financial statements to understand the relationship with those assets that have not been derecognised and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognised assets to enable the user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognised assets. The amendment affects disclosure only and has no impact on the Bank's financial position or performance.

Amendments to IAS 12 "Income Taxes" – Deferred tax: Recovery of underlying assets
In December 2010, the IASB issued amendments to IAS 12 effective for annual periods beginning on or after 1 January 2012. The amendment clarified the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, it introduces the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in IAS 16 always be measured on a sale basis of the asset. The Bank is currently evaluating the impact of the adoption of these amendments.

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

Amendments to IAS 1 Changes to the Presentation of Other Comprehensive Income
The amendments to IAS 1 Presentation of Financial Statements, effective for annual periods beginning on or after 1 July 2012, change the grouping of items presented in other comprehensive income. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. These amendments will change presentation in the statement of comprehensive income but will have no effect on the Bank's financial position and performance.

Amendment to IFRS 1 Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters
These amendments to IFRS 1, effective for annual periods beginning on or after 1 July 2011, introduce a new deemed cost for entities that have been subject to severe hyperinflation. The Bank expects that these amendments will have no impact on the Bank's financial position.

Amendments to IAS 32/ IFRS 7 Offsetting Financial Assets and Financial Liabilities
The amendments to IAS 32 address inconsistencies in current practice when applying the offsetting criteria in IAS 32 Financial Instruments: Presentation. The amendments clarify 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. The amendments are effective for annual periods beginning on or after 1 January 2014 and are required to be applied retrospectively.

The amendments are part of the IASB's offsetting project. As part of that project, the IASB also separately issued Disclosures—Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7). The new disclosure requirements are intended to help investors and other financial statement users to better assess the effect or potential effect of offsetting arrangements on a company's financial position. This amendment is effective for annual periods beginning on or after 1 January 2013.

The Bank currently evaluates the effect of these amendments on its consolidated financial statements.

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

4. Significant accounting judgements and estimates

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

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

For the purposes of estimating the allowance for loan impairment assessment as at 31 December 2011, the Bank has updated its loan impairment methodology in particular: the Bank improved the procedure of estimating qualifying future cash flows from collateral foreclosure for individually impaired loans. In addition, the Bank decided not to use 'watch list' any longer. If the previously applied methodology had been used, the loan loss allowances as at 31 December 2011 and for the year then ended would have been increased by UAH 75,321 thousand.

Deferred tax asset recognition
As at 31 December 2011, the Bank has recognised a deferred tax asset of UAH 221,231 thousand (2010: UAH 280,975 thousand). The Bank's management believes that within a reasonable period, the Bank will have sufficient taxable profits enabling it to utilise its deferred tax assets.

5. Segment information

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

Retail banking	Includes products offered on standard terms and conditions (as per the tariffs approved in the standard procedures) that do not require an individual approach;
Corporate banking	Includes complex products that require an individual approach and are mainly offered to corporate customers;
Financial institutions and investments	Includes products for securities transactions or for rendering services to financial and investments market participants (interbank operations, stock market, etc.);
Other/unallocated	Other not directly allocated operations.

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

For the purpose of segment reporting, interest is allocated based on a transfer pool rate determined by the Assets and Liabilities Committee based on the Bank's cost of borrowing.

No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Bank's total revenue in 2011 or 2010. Significant transactions and balances with state-owned entities are disclosed in Note 28.

Eximbank and its subsidiaries are located in Ukraine and almost 100% of the consolidated revenue is from Ukraine.

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

The following table presents income and profit, certain asset and liabilities information regarding the Bank's operating segments for the year ended 31 December 2011:

	Retail banking	*Corporate banking*	*Financial institutions and investments*	*Other/ unallocated*	*Total*
Third party					
Interest income	186,345	5,684,694	1,425,156	-	7,296,195
Fee and commission income	332,376	140,433	16,777	-	489,586
Other income	2,683	46,624	897	4,270	54,474
Gain from foreign currencies and precious metals	171,378	-	143,644	70,242	385,264
Gain from investment securities available-for-sale	9,611	-	109,957	-	119,568
Release of allowance for impairment of other assets and provisions	-	-	22,385	-	22,385
Inter-segmental revenue	**1,347,599**	**(3,493,389)**	**517,107**	**1,628,683**	**-**
Total revenue	**2,049,992**	**2,378,362**	**2,235,923**	**1,703,195**	**8,367,472**
Interest expenses	(1,209,180)	(1,269,470)	(1,662,823)	-	(4,141,473)
Fee and commission expense	(84,826)	(37,331)	(50)	(9)	(122,216)
Loan impairment charge	(53,534)	(2,844,597)	-	-	(2,898,131)
Loss from change in fair value of investment securities designated at fair value through profit and loss	-	-	(7,342)	-	(7,342)
Loss on initial recognition of loans to customers	-	(5,335)	-	-	(5,335)
Personnel expenses	(306,448)	(145,070)	(45,614)	(179,251)	(676,383)
Depreciation and amortisation	(51,359)	(9,364)	(1,815)	(10,398)	(72,936)
Other operating expense	(192,025)	(3,995)	(11,618)	(44,196)	(251,834)
Charge of impairment of other assets and provisions	(1,046)	(1,027)	-	(265)	(2,338)
Segment results	**151,574**	**(1,937,827)**	**506,661**	**1,469,076**	**189,484**
Income tax expense					(58,461)
Profit for the year					**131,023**
Assets and liabilities					
Segment assets	4,219,738	45,575,284	23,663,164		73,458,186
Unallocated assets				1,067,101	1,067,101
Total assets					**74,525,287**
Segment liabilities	16,652,254	20,755,864	19,829,869		57,237,987
Unallocated liabilities				29,036	29,036
Total liabilities					**57,267,023**
Other segment information					
Capital expenditure	(76,097)	(13,479)	(2,613)	(14,967)	(107,156)

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

The following table presents income and profit and certain asset and liability information regarding the Bank's business segments for the year ended 31 December 2010:

	Retail banking	*Corporate banking*	*Financial institutions and investments*	*Other/ unallocated*	*Total*
Third party					
Interest income	214,765	5,325,854	834,133	-	6,374,752
Fee and commission income	295,567	146,814	17,154	-	459,535
Other income	2,246	16,499	498	6,487	25,730
Gains from foreign currencies and precious metals	152,234	82	128,947	44,521	325,784
Gain on initial recognition of financial liabilities	-	390,614	-	-	390,614
Gain on restructuring of financial liabilities	-	18,224	-	-	18,224
Gains from investment securities available-for-sale	12,311	-	730	-	13,041
Release of allowance for impairment of other assets and provisions	-	102,551	31,062	-	133,613
Inter-segmental revenue	**1,404,151**	**(4,086,475)**	**678,042**	**2,004,282**	**-**
Total revenue	**2,081,274**	**1,914,163**	**1,690,566**	**2,055,290**	**7,741,293**
Interest expenses	(1,353,433)	(1,078,776)	(1,335,665)	-	(3,767,874)
Fee and commission expense	(61,782)	(35,516)	(1,743)	(8)	(99,049)
Loan impairment charge	(45,312)	(2,619,101)	-	-	(2,664,413)
Loss from change in fair value of investment securities designated at fair value through profit and loss	-	-	(9,493)	-	(9,493)
Loss from investment securities available-for-sale	(17)	(631)	(9,926)	(724)	(11,298)
Loss on initial recognition of loans to customers	-	(20,717)	-	-	(20,717)
Personnel expenses	(268,219)	(136,533)	(38,822)	(140,268)	(583,842)
Depreciation and amortisation	(54,963)	(9,737)	(1,763)	(9,101)	(75,564)
Other operating expense	(54,645)	(133,915)	(12,944)	(40,946)	(242,450)
Charge of impairment of other assets and provisions	(42)	-	-	(2,134)	(2,176)
Segment results	**242,861**	**(2,120,763)**	**280,210**	**1,862,109**	**264,417**
Income tax expense					(138,459)
Profit for the year					**125,958**
Assets and liabilities					
Segment assets	4,281,452	45,391,567	21,282,952		70,955,971
Unallocated assets				898,537	898,537
Total assets					**71,854,508**
Segment liabilities	15,512,184	19,841,502	19,404,278		54,757,964
Unallocated liabilities				25,385	25,385
Total liabilities					**54,783,349**
Other segment information					
Capital expenditure	(59,737)	(8,104)	(1,467)	(7,574)	(76,882)

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

6. Cash and cash equivalents

Cash and cash equivalents comprise:

	2011	*2010 (reclassified)*
Cash on hand	792,686	789,258
Current account with the National Bank of Ukraine (other than mandatory reserve)	719,665	919,447
Current accounts with other credit institutions	6,525,178	4,615,701
Overnight deposits with other credit institutions	442,414	4,344,904
Time deposits with credit institutions up to 90 days	70,737	110,000
Deposit certificates of the National Bank of Ukraine up to 90 days	500,034	-
Reverse repurchase agreement with contractual maturity up to 90 days	1,001,126	-
Cash and cash equivalents	**10,051,840**	**10,779,310**

As at 31 December 2011, included in current accounts with other credit institutions is UAH 6,332,851 thousand placed on current accounts with five OECD and CIS banks (2010: UAH 4,246,534 thousand). These banks are the main counterparties of the Bank in performing international settlements. The placements have been made under normal banking terms and conditions.

Overnight deposits represent overnight deposits placed with OECD banks. These placements bear market interest rates. As at 31 December 2011, UAH 432,400 thousand was placed with two OECD banks (2010: UAH 4,205,959 thousand).

At 31 December 2011, the Bank had entered into the reverse repurchase agreement with a Ukrainian bank for UAH 1,001,126 thousand. The subject of these agreements is Ukrainian State bonds with a fair value of UAH 1,001,288 thousand.

7. Amounts due from credit institutions

Amounts due from credit institutions comprise:

	2011	*2010 (reclassified)*
Deposits with the NBU	580,176	590,685
Loans and deposits	1,074,751	545,754
Current accounts with other credit institutions in precious metals	191,800	113,602
Other amounts due from credit institutions	6,136	10,760
	1,852,863	**1,260,801**
Less – Allowance for impairment	-	(17,842)
Due from credit institutions	**1,852,863**	**1,242,959**

As at 31 December 2011, loans and deposits due from credit institutions include UAH 49,776 thousand of security deposits, placed mainly in respect of customers' transactions, such as letters of credit, performance guarantees and transactions with travellers' cheques (2010: UAH 85,932 thousand).

With effect from November 2011, Ukrainian banks were required to keep 70% of the obligatory reserve for the previous month on a separate account with the NBU (2010: 100% of the obligatory reserve). The interest rate for this obligatory reserve is 30% of the official NBU discount rate. As at 31 December 2011, the amount placed by the Bank on this account is UAH 556,861 thousand (2010: UAH 586,447 thousand). With effect from November 2011, Ukrainian banks are allowed to cover 50% the NBU obligatory reserve requirements with the nominal value of certain Ukrainian State bonds (2010: 100%). As at 31 December 2011, Ukrainian State bonds with a carrying value of UAH 265,809 thousand (2010: UAH 267,121 thousand) were used by the Bank to partially cover its NBU obligatory reserve requirements (Note 9). The Bank's ability to withdraw this deposit is restricted by statutory legislation.

With effect from August 2008, Ukrainian banks are required to deposit 20% of amounts attracted from non-residents in foreign currency for a period of less than 183 days on a separate account with the NBU in form of a non-interest bearing cash deposit. As at 31 December 2011, the amount placed by the Bank on this account was UAH 18,239 thousand (2010: UAH 3,721 thousand). The Bank's ability to withdraw this deposit is significantly restricted by statutory legislation.

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

With effect from 2009, Ukrainian banks are required to deposit an amount equivalent to the impairment allowance (determined under UAR) created for loans granted in foreign currencies to borrowers with no foreign currency income on a separate account with the NBU in form of a non-interest bearing cash deposit. As at 31 December 2011, the amount placed by the Bank on this account was UAH 5,076 thousand (2010: UAH 517 thousand). The Bank's ability to withdraw this deposit is significantly restricted by statutory legislation.

The Bank meets the NBU obligatory reserve requirements as at 31 December 2011 and 2010.

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

	Amounts due from credit institutions
1 January 2010	18,821
Charge	(693)
Translation differences	(286)
31 December 2010	**17,842**
Reversal	(17,868)
Translation differences	26
31 December 2011	**-**

8. Loans to customers

Loans to customers comprise:

	2011	***2010***
Commercial loans	50,452,718	49,664,629
Promissory notes	777,551	891,426
Overdrafts	99,435	131,716
Finance lease receivables	11,852	304,808
	51,341,556	**50,992,579**
Less – Allowance for impairment	(9,486,089)	(7,311,390)
Loans to customers	**41,855,467**	**43,681,189**

Allowance for impairment of loans to customers

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

	Commercial loans	***Overdrafts***	***Finance lease receivables***	***Promissory notes***	***Total***
At 1 January 2011	7,206,377	24,389	24,249	56,375	7,311,390
Charge for the year	2,948,380	1,629	(19,843)	(14,167)	2,915,999
Recoveries	100,485	-	-	-	100,485
Amounts written off	(809,452)	-	-	-	(809,452)
Translation differences	(32,876)	-	543	-	(32,333)
At 31 December 2011	**9,412,914**	**26,018**	**4,949**	**42,208**	**9,486,089**
Individual impairment	8,786,561	25,315	4,695	-	8,816,571
Collective impairment	626,353	703	254	42,208	669,518
	9,412,914	**26,018**	**4,949**	**42,208**	**9,486,089**
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	**14,379,248**	**30,584**	**9,385**	**-**	**14,419,217**

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

	Commercial loans	Overdrafts	Finance lease receivables	Promissory notes	Total
At 1 January 2010	4,616,599	32,625	22,193	15,287	4,686,704
Charge for the year	2,626,857	(8,235)	5,396	41,088	2,665,106
Recoveries	10	-	-	-	10
Amounts written off	(5,041)	-	(3,293)	-	(8,334)
Translation differences	(32,048)	(1)	(47)	-	(32,096)
At 31 December 2010	**7,206,377**	**24,389**	**24,249**	**56,375**	**7,311,390**
Individual impairment	6,476,973	22,850	-	1,714	6,501,537
Collective impairment	729,404	1,539	24,249	54,661	809,853
	7,206,377	**24,389**	**24,249**	**56,375**	**7,311,390**
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	**11,946,818**	**30,881**	**-**	**1,714**	**11,979,413**

Individually impaired loans

Interest income on loans, for which individual impairment allowances have been recognised, as at 31 December 2011, amounts to UAH 809,883 thousand (2010: UAH 530,245 thousand).

In accordance with Ukrainian legislation, loans may only be written off with the approval of the Board of Directors and, in certain cases, with the respective decision of the Court.

Collateral and other credit enhancements

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

The main types of collateral obtained are as follows:

- For securities lending and reverse repurchase transactions - cash or securities,
- For commercial lending - charges over real estate properties, inventory and trade receivables,
- For retail lending - mortgages over residential properties and vehicles.

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

As at 31 December 2011, loans to customers with a carrying value of UAH 4,990,483 thousand are pledged as collateral under loans received from the NBU (2010: UAH 6,606,102 thousand) (Note 16).

Concentration of loans to customers

As at 31 December 2011, the Bank has a concentration of loans represented by UAH 16,124,950 thousand due from the ten largest borrowers (31.41% of gross loan portfolio) (2010: UAH 14,450,647 thousand or 28.3%). An allowance of UAH 1,176,472 thousand (2010: UAH 939,653 thousand) has been recognised against these loans.

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

Loans and advances have been extended to the following types of customers:

	2011	*2010*
Private entities	39,078,637	40,245,846
State and municipal entities	11,314,093	9,637,664
Individuals	948,826	1,109,069
	51,341,556	**50,992,579**

Loans are made principally within Ukraine to companies of the following industry sectors:

	2011	*%*	*2010*	*%*
Trade enterprises	9,004,829	17.5	8,625,342	16.9
Agriculture and food processing	8,330,014	16.2	9,821,168	19.3
Construction	5,445,178	10.6	3,634,111	7.1
Extractive industry	4,262,114	8.3	3,769,917	7.4
Engineering	3,716,769	7.2	3,713,969	7.3
Real estate	3,075,624	6.0	3,366,925	6.6
Chemistry	2,865,942	5.6	2,779,378	5.4
Road construction	2,128,029	4.1	2,129,838	4.2
Power utilities	2,065,529	4.0	1,984,831	3.9
Production of rubber and plastic goods	1,739,790	3.4	1,715,963	3.4
Transport & communications	1,626,800	3.2	1,654,078	3.2
Production of construction materials	1,530,100	3.0	1,659,309	3.3
Metallurgy	1,164,772	2.3	1,278,117	2.5
Metal processing	987,800	1.9	930,286	1.8
Individuals	948,826	1.8	1,109,069	2.2
Pulp and paper industry	676,935	1.4	681,027	1.3
Light industry	414,328	0.8	343,667	0.7
Culture and sport	366,085	0.7	229,892	0.4
Wood processing	218,262	0.4	408,603	0.8
Finance	31,706	0.1	517,886	1.0
Other	742,124	1.5	639,203	1.3
	51,341,556	**100**	**50,992,579**	**100**

Included in the corporate lending portfolio are finance lease receivables. They may be analysed as follows:

	2011	*2010*
Gross investment in finance leases, receivable:		
Not later than 1 year	10,958	318,896
Later than 1 year and not later than 5 years	1,378	785
	12,336	319,681
Unearned future finance income on finance leases	(484)	(14,873)
Net investment in finance leases	**11,852**	**304,808**

	2011	*2010*
Net investment in finance leases, receivable:		
Not later than 1 year	10,713	304,097
Later than 1 year and not later than 5 years	1,139	711
Net investment in finance leases	**11,852**	**304,808**

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

9. Investment securities

Investment securities designated at fair value through profit or loss comprise:

	2011	*2010*
Corporate bonds	-	107,796
Ukrainian State bonds	3,221,305	-
Investment securities designated at fair value	**3,221,305**	**107,796**

As at 31 December 2011, investment securities designated at fair value through profit or loss with a carrying value of UAH 761,823 thousand are pledged as collateral under loans received from the NBU (Note 16).

As at 31 December 2011, Ukrainian State bonds designated at fair value are represented by securities issued by the Ministry of Finance of Ukraine which principal will be indexed for the increase between the average interbank UAH/USD exchange rate for the month prior to the month of issuance and the average UAH/USD exchange rate for the month prior to the month of maturity. The Bank decided not to separate the embedded derivative and designated the entire instrument as at fair value through profit or loss.

As at 31 December 2010, included in investment securities designated at fair value through profit and loss (designated at initial recognition) are the investments made by the Bank into corporate bonds. This portfolio is risk managed on a fair value basis and its performance is reported on that basis to key management personnel.
Available-for-sale investment securities comprise:

	2011	*2010*
Corporate shares	6,365	6,355
Corporate bonds	3,504,131	444,680
Ukrainian State bonds	6,344,771	8,409,993
Available-for-sale investments	**9,855,267**	**8,861,028**

As at 31 December 2011, Ukrainian State bonds with a carrying value of UAH 265,809 thousand (2010: UAH 267,121 thousand) are used by the Bank to partially cover its NBU obligatory reserve requirements (Note 7).

As at 31 December 2011, available-for-sale investment securities with a fair value of UAH 2,283,649 thousand are pledged under repurchase agreements with the NBU (Note 16).

Held-to-maturity investment securities comprise the following:

	2011		*2010*	
	Nominal value	***Carrying value***	***Nominal value***	***Carrying value***
Municipal bonds	90,000	91,317	200,000	203,252
Corporate bonds	1,244,943	1,299,295	1,414,943	1,478,880
		1,390,612		**1,682,132**
Less – Allowance for impairment (Note 14)		(18,270)		(40,655)
Held-to-maturity investments		**1,372,342**		**1,641,477**

10. Investment property

The movements of investment property are as follows:

	2011	*2010*
Investment property as at 1 January	2,380,711	159,554
Additions	695,613	1,020,543
Transfer from other assets (Note 15)	1,258	-
Transfer from assets held for sale	-	1,204,456
Transfer from property and equipment (Note 11)	11,042	-
Disposals	-	(3,148)
Net losses from fair value adjustment (Note 24)	(370)	(694)
Investment property as at 31 December	**3,088,254**	**2,380,711**

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

During the year 2011, the Bank received real estate objects (building and land) as a part consideration for loan repayment. The Bank decided to hold the property for the purpose of long term capital appreciation and rental growth, rather than sell in the short-term and classified the assets as investment property.

During the year 2011, the Bank revalued its investment property. The valuation was performed by an independent appraiser, who holds a recognised and relevant professional qualification and who has recent experience in valuation of property of similar location and category. The fair value was determined by reference to market-based evidence.

The Bank leased out a portion of its investment property under operating lease. Future minimum receivables under non-cancellable operating leases comprise the following:

	2011	*2010*
Not later than 1 year	22,446	23,528
Later than 1 year and not later than 5 years	33,489	40,653
Late than 5 years	12,428	21,411
Future minimum receivables under non-cancellable operating lease	**68,363**	**85,592**

During the year 2011, the Bank has recognised rental income of UAH 25,860 thousand (2010: UAH 1,988 thousand) included in other income in the consolidated income statement.

11. Property and equipment

The movements of property and equipment were as follows:

	Buildings	*Leasehold improve-ments*	*Computers and equipment*	*Furniture, fixtures and other assets*	*Motor vehicles*	*Construction in progress*	*Total*
Cost or revalued amount							
31 December 2010	**2,308,556**	**11,648**	**250,544**	**154,448**	**17,783**	**132,247**	**2,875,226**
Additions	19	-	22,331	15,328	7,206	62,328	107,212
Disposals	-	(41)	(7,532)	(8,301)	(1,247)	(373)	(17,494)
Transfers to investment property	(14,575)	-	-	-	-	-	(14,575)
Transfers	33,197	584	-	-	-	(33,781)	-
31 December 2011	**2,327,197**	**12,191**	**265,343**	**161,475**	**23,742**	**160,421**	**2,950,369**
Accumulated depreciation							
31 December 2010	**(396,321)**	**(9,044)**	**(163,148)**	**(89,616)**	**(12,532)**		**(670,661)**
Charge for the year	(29,711)	(1,329)	(18,636)	(16,251)	(2,087)		(68,014)
Transfers to investment property	3,533	-	-	-	-		3,533
Disposals	-	41	7,528	8,297	1,247		17,113
31 December 2011	**(422,499)**	**(10,332)**	**(174,256)**	**(97,570)**	**(13,372)**		**(718,029)**
Net book value:							
31 December 2010	**1,912,235**	**2,604**	**87,396**	**64,832**	**5,251**	**132,247**	**2,204,565**
31 December 2011	**1,904,698**	**1,859**	**91,087**	**63,905**	**10,370**	**160,421**	**2,232,340**

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

	Buildings	*Leasehold improve-ments*	*Computers and equipment*	*Furniture, fixtures and other assets*	*Motor vehicles*	*Construction in progress*	*Total*
Cost or revalued amount							
31 December 2009	**1,959,470**	**12,204**	**226,362**	**126,273**	**16,506**	**230,425**	**2,571,240**
Revaluation	233,985	-	-	-	-	-	233,985
Additions	10	-	27,114	29,416	2,978	17,360	76,878
Disposals	-	(961)	(2,932)	(1,241)	(1,701)	(42)	(6,877)
Transfers	115,091	405	-	-	-	(115,496)	-
31 December 2010	**2,308,556**	**11,648**	**250,544**	**154,448**	**17,783**	**132,247**	**2,875,226**
Accumulated depreciation							
31 December 2009	**(314,416)**	**(7,451)**	**(139,701)**	**(77,532)**	**(12,466)**		**(551,566)**
Revaluation	(54,408)	-	-	-	-		(54,408)
Charge for the year	(27,497)	(2,553)	(26,379)	(13,274)	(1,673)		(71,376)
Disposals	-	960	2,932	1,190	1,607		6,689
31 December 2010	**(396,321)**	**(9,044)**	**(163,148)**	**(89,616)**	**(12,532)**		**(670,661)**
Net book value:							
31 December 2009	**1,645,054**	**4,753**	**86,661**	**48,741**	**4,040**	**230,425**	**2,019,674**
31 December 2010	**1,912,235**	**2,604**	**87,396**	**64,832**	**5,251**	**132,247**	**2,204,565**

At 31 December 2011, buildings, leasehold improvements and equipment include assets with a cost or revalued amount of UAH 149,717 thousand which are fully depreciated (2010: UAH 143,360 thousand). These assets are still used by the Bank.

As at 31 December 2011, the Bank had capital commitments for the acquisition of property, plant and equipment of UAH 103,485 thousand (2010: UAH 93,298 thousand).

If the buildings were measured using the cost model, the carrying amounts would be as follows:

	31 December 2011 (revalued)	*31 December 2011 (at cost)*	*31 December 2010 (revalued)*	*31 December 2010 (at cost)*
Cost	2,327,197	992,252	2,308,556	960,290
Accumulated depreciation	(422,499)	(102,683)	(396,321)	(92,387)
Net carrying amount	**1,904,698**	**889,569**	**1,912,235**	**867,903**

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

12. Intangible assets

The movements of intangible assets were as follows:

	Computer software and licenses
Cost	
31 December 2010	**41,731**
Additions	4,413
Disposals	(430)
31 December 2011	**45,714**
Accumulated amortisation	
31 December 2010	**(28,172)**
Charge for the year	(4,922)
Disposals	430
31 December 2011	**(32,664)**
Net book value:	
31 December 2010	**13,559**
31 December 2011	**13,050**

	Computer software and licenses
Cost	
31 December 2009	**36,580**
Additions	5,151
31 December 2010	**41,731**
Accumulated amortisation	
31 December 2009	**(23,984)**
Charge for the year	(4,188)
31 December 2010	**(28,172)**
Net book value:	
31 December 2009	**12,596**
31 December 2010	**13,559**

At 31 December 2011, intangible assets include assets with a cost of UAH 20,102 thousand which are fully amortised (2010: UAH 18,086 thousand). These assets are still used by the Bank.

13. Income tax

The corporate income tax charge comprises:

	2011	*2010*
Current tax charge	57,758	65,141
Deferred tax charge	703	73,318
Income tax expense	**58,461**	**138,459**

As at 31 December 2011, Ukrainian corporate income tax was taxable income less allowable expenses at the rate of 23% (31 December 2010: 25%).

In December 2010, the Ukrainian Parliament adopted the new Tax Code. According to the newly adopted provisions, the corporate income tax rate will be decreased to 21% from 1 January 2012, to 19% from 1 January 2013 and to 16% from 1 January 2014. Deferred tax balances are measured using the tax rates that will be applicable when temporary differences are expected to reverse.

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

Income tax assets and liabilities consist of the following:

	2011	*2010*
Current income tax assets	528,500	570,144
Deferred income tax asset	163,287	11,771
Income tax asset	**691,787**	**581,915**
Current income tax liabilities	2,673	7,339
Income tax liabilities	**2,673**	**7,339**

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

	2011	*2010*
Income before tax	189,484	264,417
Statutory tax rate	23%	25%
Income tax expense at the statutory rate	43,581	66,104
Effect of change in tax rates	3,993	23,477
Income recognised for tax purposes only	-	2,259
Non-deductible expenditures:		
- initial recognition of investment property	(217)	32,140
- salaries and bonuses	3,315	3,003
- consulting and marketing	681	2,415
- utilities	1,671	3,154
- repair and maintenance of property and equipment	1,160	1,279
- charity	269	723
- lease expenses	818	369
- other expenses	3,190	3,536
Income tax expense	**58,461**	**138,459**

Deferred tax assets and liabilities as at 31 December comprise:

		Origination and reversal of temporary differences			***Origination and reversal of temporary differences***		
	2009	*in the income statement*	*in other compre-hensive income*	*2010*	*in the income statement*	*in other compre-hensive income*	*2011*
Tax effect of deductible temporary differences:							
Allowance for loan impairment	258,308	3,589	-	261,897	(77,214)	-	184,683
Assets held for sale	3,187	(3,187)	-	-	-	-	-
Accruals	19,080	(2,616)	-	16,464	2,371	-	18,835
Valuation of financial instruments	13,681	(13,681)	-	-	17,713	-	17,713
Other asset/ liabilities	3,451	(837)	-	2,614	(2,614)	-	-
Deferred tax asset	**297,707**	**(16,732)**	**-**	**280,975**	**(59,744)**	**-**	**221,231**
Tax effect of taxable temporary differences:							
Property, equipment and intangible assets	(255,499)	(4,783)	47,559	(212,723)	38,507	134,677	(39,539)
Investment property	(236)	(17,960)	-	(18,196)	275	-	(17,921)
Valuation of financial instruments	-	(33,843)	(4,442)	(38,285)	20,743	17,542	-
Other assets/ liabilities	-	-	-	-	(484)	-	(484)
Deferred tax liability	**(255,735)**	**(56,586)**	**43,117**	**(269,204)**	**59,041**	**152,219**	**(57,944)**
Net deferred tax asset/ (liability)	**41,972**	**(73,318)**	**43,117**	**11,771**	**(703)**	**152,219**	**163,287**

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

14. Other impairment and provisions

The movements in other impairment and provisions are as follows:

	Investment securities held-to-maturity	*Other assets*	*Guarantees and commitments*	*Total*
31 December 2009	**71,606**	**116,318**	**3,521**	**191,445**
Translation differences	-	(1,698)	(664)	(2,362)
Release	(30,951)	(97,810)	(2,676)	(131,437)
Write-offs	-	(672)	-	(672)
31 December 2010	**40,655**	**16,138**	**181**	**56,974**
Translation differences	-	(90)	(695)	(785)
Charge/(release)	(22,385)	1,517	821	(20,047)
31 December 2011	**18,270**	**17,565**	**307**	**36,142**

Allowances for impairment of assets are deducted from the related assets. Provisions are recognised in liabilities.

15. Other assets and liabilities

Other assets comprise:

	2011	*2010*
Transit accounts in respect of card operations	47,311	22,424
Prepayments	37,622	28,154
Precious metals	22,449	38,170
Inventory	12,198	9,031
Service fee on financial guarantees issued	10,558	18,307
Other accrued income	9,734	6,965
Transit accounts on transactions with customers	7,968	8,730
Collateral held for resale	-	1,258
Other tax assets, except those related to income tax	159,021	147,016
Other	1,476	1,442
	308,337	**281,497**
Less – Allowance for impairment (Note 14)	(17,565)	(16,138)
Other assets	**290,772**	**265,359**

As at 31 December 2011 and 2010, other tax assets, except those related to income tax, mainly consist of a recognised VAT credit related to repossessed investment property (Note 10) which will be set-off against VAT liabilities recognised as a result of the future sale of the investment property.

As at 31 December 2011, prepayments include balances of UAH 1,085 thousand (2010: UAH 2,081 thousand) in respect of the construction of a branch and part of the head office buildings.

During 2011, collateral held for resale was transferred to investment property (Note 10).

Other liabilities comprise:

	2011	*2010*
Transit accounts in respect of card operations	54,013	24,647
Accruals for unused vacation	42,242	36,895
Accrued salary payable	25,449	17,465
Payables to Guarantee Fund of Individuals' Deposits	16,805	13,009
Accrued expenses	11,357	10,692
Fair value of financial guarantees issued	10,499	22,155
Deferred income	7,757	3,118
Transit accounts in respect of operations with customers	5,743	2,822
Derivative financial liabilities	-	778
Accrued pension contribution	691	641
Other	9,471	4,115
Other liabilities	**184,027**	**136,337**

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

16. Amounts due to the National Bank of Ukraine

Amounts due to the National Bank of Ukraine as at 31 December 2011 comprise:

	2011	*2010*
Correspondent account	1,188	-
Repurchase agreements	2,202,795	-
Loans due to the National Bank of Ukraine	3,993,091	4,156,617
Amounts due to the National Bank of Ukraine	**6,197,074**	**4,156,617**

During 2011, the Bank entered into repurchase agreements with the NBU with a carrying value of UAH 2,202,795 thousand as at 31 December 2011. The subject of these agreements is Ukrainian State bonds with a fair value of UAH 2,283,649 thousand (Note 9).

Loans due to the National Bank of Ukraine as at 31 December 2011 comprise:

Origination date	*Maturity date*	*Type of interest rate*	*Interest rate*	*Carrying value*
19 March 2009	12 November 2015	Floating (NBU rate + 0.5%)	8.25%	1,463,383
19 March 2009	12 November 2015	Floating (NBU rate + 0.5%)	8.25%	1,902,584
3 February 2010	24 January 2016	Floating (NBU rate + 2%)	9.75%	627,124
Total due to the NBU				**3,993,091**

Loans due to the National Bank of Ukraine as at 31 December 2010 comprise:

Origination date	*Maturity date*	*Type of interest rate*	*Interest rate*	*Carrying value*
19 March 2009	12 November 2015	Floating (NBU rate + 0.5%)	8.25%	1,510,385
19 March 2009	12 November 2015	Floating (NBU rate + 0.5%)	8.25%	2,019,694
3 February 2010	24 January 2016	Floating (NBU rate + 2%)	9.75%	626,538
Total due to the NBU				**4,156,617**

Loans due to the NBU are secured with loans to customers (Note 8) and investment securities (Note 9).

17. Amounts due to credit institutions

Amounts due to credit institutions comprise:

	2011	*2010*
Current accounts	874,010	413,210
Loans and deposits due to other banks	4,726,935	5,230,567
Loans due to international financial organisations	2,061,471	1,733,694
Other amounts due to credit institutions	1,994	1,979
Amounts due to credit institutions	**7,664,410**	**7,379,450**

As at 31 December 2011, included in current accounts is UAH 586,043 thousand received from five Ukrainian and non-OECD banks (2010: UAH 230,891 thousand received from five Ukrainian banks). The amount was received under normal banking terms and conditions.

As at 31 December 2011, included in amounts due to credit institutions is UAH 1,170,070 thousand received from Ukrainian banks (2010: UAH 1,249,293 thousand).

As at 31 December 2011, loans and deposits due to other banks include UAH 166,894 thousand received from Kreditanstalt fur Wiederaufbau ("KfW") under loan agreements for financing small and medium sized enterprises in Ukraine (2010: UAH 217,656 thousand). The loans are denominated in US dollars have a current interest rate of LIBOR+2.75% and mature in 2014.

As at 31 December 2011, loans and deposits due to other banks and loans due to international financial organisations include UAH 1,413,673 thousand, UAH 204,066 thousand and UAH 181 thousand received from OECD banks, international financial organizations and other foreign banks, respectively, under trade and export financing agreements (2010: UAH 1,656,579 thousand, UAH 101,413 thousand and UAH 271 thousand, respectively). These loans are denominated in US dollars, euros, Swiss francs and Japanese yen and bear fixed and floating interest rates and are matched in maturity with loans to customers issued under the respective trade and export financing programmes.

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

Loans due to international financial organisations include loans from the International Bank for Reconstruction and Development (the "IBRD") under the Export Development Project of UAH 93,374 thousand (2010: UAH 140,078 thousand). Proceeds from these loans are used to provide financing for eligible Ukrainian borrowers. These loans are denominated in US dollars or euros, have a coupon interest rate of LIBOR+0.5% with repricing twice a year and have a current interest rate of LIBOR+0.28% and mature in 2013. This debt is subject to various covenants and restrictions as described in Note 22.

As at 31 December 2011, loans due to international financial organisations include loans from the International Bank for Reconstruction and Development (the "IBRD") under the Second Export Development Project of UAH 812,530 thousand (2010: UAH 693,406 thousand) (total amount of this loan facility is USD 154,500 thousand). Proceeds from this loan are used to provide medium and long term financing for eligible Ukrainian borrowers and distributed through eligible Ukrainian commercial banks. This loan is denominated in US dollars, has a coupon interest rate of LIBOR+0.39% (at the date of signing the agreement) with repricing twice a year and have a current interest rate of LIBOR+0.53%. The loans mature in 2026.

Loans due to international financial organisations include loans from the European Bank for Reconstruction and Development (the EBRD) under the programme for energy efficiency of UAH 618,354 thousand (2010: UAH 403,291 thousand). The loans are denominated in US dollars, bear a floating interest rate of LIBOR+2.5% and LIBOR+5.5% and mature by 2014.

For the purpose of cash flow statement presentation, the Bank segregates funds attracted from credit institutions into operating and financing activities. Funds attracted from Ukrainian banks are included in operating activity and from other banks – in financing activity.

18. Amounts due to customers

Amounts due to customers comprise:

	2011	*2010*
Current accounts		
- Budget funds	3,213,330	3,390,755
- Legal entities	5,624,167	5,906,813
- Individuals	1,284,816	1,212,275
- Due to funds under the Bank's management (see below)	12,674	12,357
	10,134,987	**10,522,200**
Time deposits		
- Budget funds	579	763
- Legal entities	7,384,625	6,148,704
- Individuals	12,157,820	11,139,068
	19,543,024	**17,288,535**
Due to customers	**29,678,011**	**27,810,735**
Held as security against letters of credit (Note 22)	430,865	374,985
Held as security against guarantees and avals (Note 22)	354,461	397,160
Held as security against undrawn loan commitments (Note 22)	1,916	70,415
Held as security against loans to customers	726,569	552,902

As at 31 December 2011, legal entities current accounts of UAH 1,504,329 thousand (26.8% of legal entities current accounts) were due to ten clients (2010: UAH 1,974,197 thousand or 33.4%).

As at 31 December 2011, individuals' current accounts of UAH 12,955 thousand (6.5% of individuals' current accounts) were due to the ten largest clients (2010: UAH 16,196 thousand or 8.5%).

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

As at 31 December 2011, time deposits due to legal entities include UAH 2,640,846 thousand (35.8% of time deposits due to legal entities) attracted from five legal entities (2010: UAH 2,489,385 thousand or 40.5%).

As at 31 December 2011, time deposits due to individuals include UAH 682,897 thousand (5.6% of time deposits due to individuals) thousand attracted from ten individuals (2010: UAH 739,077 thousand or 6.6%).

In accordance with Ukrainian legislation, the Bank is obliged to repay time deposits of individuals upon demand of a depositor. In the event that a term deposit is repaid upon demand of the depositor prior to maturity, interest is paid based on the interest rate for demand deposits, unless a different interest rate is specified in the agreement.

Funds under the Bank's management

The Bank acts as a fund manager for construction-financing funds. Amounts due to funds under the Bank's management are summarised as follows:

	2011	*2010*
At 1 January	**12,357**	**25,784**
Funds attracted from individuals	100,884	95,684
Invested funds	(100,567)	(109,111)
At 31 December	**12,674**	**12,357**

An analysis of customer accounts by economic sector follows:

	2011	%	*2010*	%
Individuals	13,442,636	45.3	12,351,343	44.4
Budget	3,213,909	10.8	3,391,518	12.2
Trade enterprises	2,063,637	6.9	1,482,461	5.3
Finance	1,544,843	5.2	1,113,285	4.0
Transport and communications	1,530,136	5.2	1,765,876	6.3
Agriculture and food processing	1,343,394	4.5	950,849	3.4
Real estate	1,327,831	4.5	1,149,589	4.1
Investment activity	1,100,000	3.7	1,670,000	6.0
Engineering	803,004	2.7	802,058	2.9
Construction	800,982	2.7	725,082	2.6
Chemistry	482,303	1.6	145,701	0.5
Power utilities	323,599	1.1	72,155	0.2
Extractive industry	300,845	1.0	750,159	2.7
Health protection	146,984	0.5	154,429	0.6
Metallurgy	138,725	0.5	108,955	0.4
Personal services	136,021	0.5	110,519	0.4
Production of construction materials	94,260	0.3	108,336	0.4
Culture and sport	92,254	0.3	100,436	0.4
Education	77,671	0.3	75,681	0.3
Metal processing	76,781	0.3	75,646	0.3
Other	638,196	2.1	706,657	2.6
Amounts due to customers	**29,678,011**	**100**	**27,810,735**	**100**

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

19. Eurobonds issued

	31 December 2011		*31 December 2010*	
	Nominal value	***Carrying value***	***Nominal value***	***Carrying value***
October 2005 issue	1,880,240	1,909,038	1,873,627	1,900,062
September 2006 issue	-	-	2,786,595	2,851,739
November 2006 issue	-	-	988,962	1,014,224
April 2010 issue	3,994,900	4,034,914	3,980,850	4,015,579
October 2010 issue	1,997,450	2,017,457	1,990,425	2,007,791
February 2011 issue	2,385,050	2,477,117	-	-
Eurobonds issued		**10,438,526**		**11,789,395**

In October 2005, the Bank obtained a loan of USD 250,000 thousand from Credit Suisse First Boston International (carrying value of UAH 1,909,038 thousand as at 31 December 2011 (2010: UAH 1,900,062 thousand). This loan was funded by 6.80% loan participation notes ("Eurobonds") issued by, but without recourse to, Credit Suisse First Boston International, for the sole purpose of funding this loan to the Bank. The loan matures in October 2012. Interest payments are made semi-annually in arrears on 4 April and 4 October of each year, commencing on 4 April 2006.

In April 2010, the Bank, through BIZ Finance PLC, issued Eurobonds in the form of loan participation notes with a par value of USD 100,000 (UAH 792,580 at the exchange rate at the date of issue). The bonds carry a fixed coupon rate of 8.375% p.a. and mature in April 2015.

In October 2010, the Bank, through BIZ Finance PLC, issued Eurobonds in the form of loan participation notes with a par value of USD 100,000 (UAH 791,160 at the exchange rate at the date of issue). The bonds carry a fixed coupon rate of 8.375% p.a. and mature in April 2015 and were consolidated and form a single series with the notes issued in April 2010.

In February 2011, the Bank, through BIZ Finance PLC, issued Eurobonds in the form of deposit linked notes with a par value of UAH 1,250 thousand with a total nominal value for the issue of UAH 2,385,050 thousand. The bonds carry a fixed coupon rate of 11% p.a. and mature in February 2014.

All Eurobonds issued are subject to various covenants and restrictions (Note 22).

20. Subordinated debt

In February 2006, the Bank obtained a loan of USD 95,000 thousand (UAH 759,031 thousand) from Credit Suisse International (carrying value of UAH 766,689 thousand as at 31 December 2011 (2010: UAH 769,839 thousand). This loan was funded by 8.4% loan participation notes issued by on a limited recourse basis to Credit Suisse International, for the sole purpose of funding a subordinated loan to the Bank. The interest rate was changed to 5.79% in February 2011 according to the terms of the loan. The loan matures in February 2016, interest payments are made semi-annually in arrears on 9 February and 9 August of each year, commencing on 9 August 2006.

In November 2006, the Bank obtained a further loan of USD 30,000 thousand (UAH 239,694 thousand) from Credit Suisse International (carrying value of UAH 242,112 thousand as at 31 December 2011 (2010: UAH 244,936 thousand). This loan was funded by 8.4% loan participation notes, which were consolidated and form a single series with the notes issued in February 2006. The interest rate was changed to 5.79% in February 2011 according to the terms of the loan.

In May 2009, the Bank obtained a loan amounting to USD 250,000 thousand (UAH 1,997,450 thousand) from the EBRD (carrying value of UAH 2,093,194 thousand as at 31 December 2011 (2010: UAH 2,084,180 thousand)). This loan bears interest at 13.21% p.a. The loan matures in May 2019 with an interest rate change in 2014. Interest payments are made semi-annually in arrears on 28 July and 28 January of each year, commencing on 28 July 2009.

Subordinated debts are subject to various covenants and restrictions (Note 22).

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21. Equity

As at 31 December 2011, the Bank's authorised issued share capital comprised 11,414,901 (2010: 11,414,901) ordinary shares, with a nominal value of UAH 1,437.9 per share (2010: 1,436.15). All shares have equal voting rights. As at 31 December 2011, 11,414,901 shares were fully paid and registered (2010: all shares were fully paid and registered).

These consolidated financial statements reflect the amount of paid-in share capital stated at cost, which is restated using the consumer price index for the contributions made before 31 December 2000. The share capital of the Bank was contributed in Ukrainian hryvnia.

The movements in share capital were as follows:

	Number of shares	*Nominal amount, UAH'000*	*Restated cost, UAH'000*
31 December 2009	**6,965,507**	**10,003,513**	**10,716,745**
Shares issued	4,449,394	6,389,997	6,389,997
31 December 2010	**11,414,901**	**16,393,510**	**17,106,742**
Shares issued	-	19,976	19,976
31 December 2011	**11,414,901**	**16,413,486**	**17,126,718**

In May 2011, according to the Resolution of the Cabinet of Ministers of Ukraine dated 2 February 2011, Eximbank's share capital was increased by UAH 19,976 thousand through capitalisation of part of the profit for 2009 determined under UAR.

In June 2011, according to the Law of Ukraine No. 2857-VI, dated 23 December 2010 "On the State budget of Ukraine for 2011", the Bank distributed profits of UAH 15,392 thousand to the shareholder.

The accumulated deficit shown in these consolidated financial statements arises as a result of capitalising profits from previous years (as shown in the financial statements prepared according to UAR) and profits for previous years according to IFRS which have been retained.

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

Movements in revaluation reserves

Movements in reserve were as follows:

	Property revaluation reserve	*Unrealised gains/(losses) on investment securities available-for-sale*	*Revaluation reserve*
31 December 2009	**646,734**	**(2,346)**	**644,388**
Revaluation of property	179,128	-	179,128
Depreciation of revaluation reserve, net of tax	(11,568)	-	(11,568)
Realised gains on investment securities available-for-sale reclassified to the income statement	-	(13,041)	(13,041)
Unrealised losses reclassified to the income statement on impairment	-	12,000	12,000
Net unrealised gains on available-for-sale investments	-	18,810	18,810
Reversal of income tax relating to tangible fixed asset revaluations consequent upon enactment of the new Tax Code	92,341	-	92,341
Tax effect of revaluation of property and net gains on investment securities available-for-sale	(44,782)	(4,442)	(49,224)
31 December 2010	**861,853**	**10,981**	**872,834**
Depreciation of revaluation reserve, net of tax	(15,156)	-	(15,156)
Revaluation reserve upon property transferred to investment property, net of tax	(9,552)	-	(9,552)
Realised gains on investment securities available-for-sale reclassified to the income statement	-	(107,738)	(107,738)
Net unrealised gains on available-for-sale investments		26,993	26,993
Reversal of deferred income tax relating to tangible fixed asset revaluations consequent upon enactment of the new Tax Code	134,677	-	134,677
Tax effect of net losses on investment securities available-for-sale	-	17,542	17,542
31 December 2011	**971,822**	**(52,222)**	**919,600**

Nature and purpose of revaluation reserves

Property revaluation reserve

The revaluation reserve for property and equipment is used to record increases in the fair value of buildings and decreases to the extent that such decrease relates to an increase on the same asset previously recognised in equity.

Unrealised gains/ (losses) on investment securities available-for-sale

This reserve records changes in fair value of available-for-sale investments.

The Bank's distributable reserves are determined by the amount of its reserves as disclosed in the accounts prepared in accordance with UAR. As at 31 December 2011, the Bank has distributable reserves amounting to UAH 88,121 thousand (2010: UAH 51,308 thousand). The amount of non-distributable reserves was UAH 1,187,842 thousand (2010: UAH 1,087,097 thousand). Non-distributable reserves are represented by a statutory revaluation reserve and a general reserve fund, which is created to cover general banking risks, including future losses and other unforeseen risks or contingencies.

22. Commitments and contingencies

Operating environment

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

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

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

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

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

Legal

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

Tax and other regulatory compliance risks

Ukrainian legislation and regulations regarding taxation and other operational matters, including currency exchange control and custom regulations, continue to evolve. Legislation and regulations are not always clearly written and are subject to varying interpretations by local, regional and national authorities, and other Governmental bodies. Instances of inconsistent interpretations are not unusual. Management believes that its interpretation of the relevant legislation is appropriate and that the Bank has complied with all regulations and paid or accrued all taxes and withholdings that are applicable.

At the same time it is a risk that transactions and interpretations that have not been challenged in the past may be challenged by the authorities in the future, although this risk significantly diminishes with the passage of time. It is not practical to determine the amount of unasserted claims that may manifest, if any, or the likelihood of any unfavourable outcome.

Financial commitments and contingencies

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

	2011	*2010*
Letters of credit	613,034	814,815
Guarantees	2,932,580	3,014,104
Avals on promissory notes	143,501	126,623
Undrawn loan commitments	203,452	343,680
	3,892,567	**4,299,222**
Less – Provisions (Note 14)	(307)	(181)
Financial commitments and contingencies (before deducting collateral)	**3,892,260**	**4,299,041**
Less – cash held as security against letters of credit, avals and guarantees, and undrawn loan commitments (Note 18)	(787,242)	(842,560)
Financial commitments and contingencies	**3,105,018**	**3,456,481**

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

As at 31 December 2011, the Bank issued letters of credit of UAH 466,556 thousand to four Ukrainian companies partially secured by cash deposits of UAH 149,715 thousand (2010: UAH 758,074 thousand in favour of four Ukrainian companies, which were not secured by a cash deposit). As at 31 December 2011, the Bank issued guarantees of UAH 2,274,222 thousand in favour of four Ukrainian companies that are partially secured by cash deposits of UAH 144,439 thousand (2010: UAH 2,126,160 thousand in favour of four Ukrainian companies secured by cash deposits of UAH 182,391 thousand).

Financial covenants

The Bank is a party to various arrangements with other credit institutions, which contain financial covenants relating to the financial performance and general risk profile of the Bank. Under such covenants, the Bank is required to maintain a minimum international risk based capital adequacy ratio of 10%, to limit credit exposure to a single borrower and to ensure a certain level of operating activity. These financial covenants may restrict the Bank's ability to execute certain business strategies and enter into other significant transactions in the future.

23. Fees and commissions, net

Fees and commissions comprise:

	2011	*2010*
Fee and commission income		
Cash and settlement operations	294,562	265,766
Guarantees and letters of credit	123,361	124,495
Operations with banks	47,311	38,928
Credit servicing commission	13,141	14,189
Other	11,211	16,157
	489,586	**459,535**
Fee and commission expenses		
Cash and settlement operations	(82,351)	(60,746)
Guarantees and letters of credit	(37,020)	(34,962)
Currency conversion	(2,572)	(1,271)
Other	(273)	(2,070)
	(122,216)	**(99,049)**
Fees and commissions, net	**367,370**	**360,486**

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

24. Personnel and other operating expenses

Personnel and other operating expenses comprise:

	2011	*2010*
Salaries and bonuses	542,739	471,560
Employment taxes	133,644	112,282
Personnel expenses	**676,383**	**583,842**
Expenses related to Guarantee Fund of Individuals' Deposits	64,257	48,075
Repair and maintenance expenses	41,157	40,538
Occupancy and rent	32,957	27,904
Security	17,857	16,387
Marketing and advertising	16,869	15,971
Expenses for cash collection	13,206	11,618
Electronic and data processing costs	11,976	11,896
Operating taxes	6,696	11,104
Business travel and related expenses	5,851	4,392
Communications	5,093	4,845
Legal and consultancy	4,518	13,600
Expenses related to representative offices	4,351	4,709
Charity	1,229	2,894
Loss on fair value adjustment for investment property (Note 10)	370	694
Other	25,447	27,823
Other operating expenses	**251,834**	**242,450**

Expenses on payment to the non-state pension fund comprised UAH 7,612 thousand (2010: UAH 7,316 thousand).

25. Risk management

Introduction

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

The Bank adheres to the following key risk management principles:

- centralisation of liquidity, interest and currency risk management at the Head Office level;
- unification of analysis and monitoring procedures for credit projects, assessment of the creditworthiness of each borrower and establishment of credit rating and rules for creating allowance for loan impairment across all branches of the Bank;
- clear definition of the roles of all participants in the risk management process and the interrelations among those participants;
- definition of risk limits for transaction volumes: by Bank or Branch Officer, limits on exposures to single borrowers, limits on exposures to related parties, credit portfolio concentration limits (by industry, counterparty banks, separate transactions/ balance sheet items, etc.);
- ensuring continuous risk monitoring and control and compliance with all established limits;
- avoidance of conflicts of interest;
- ensuring internal control over compliance with policies and procedures.

The risk management process includes four stages: identification of risk, its sources and risk areas; estimation of the level of risk; minimisation of risk or limitation of risk at an acceptable levels; on-going monitoring of positions at risk.

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

Risk management structure

The Supervisory Board is generally responsible for establishment and approval of objectives in the sphere of risk management and management of capital. In addition, the Bank has separate independent bodies responsible for managing and monitoring risks. The following bodies are responsible for the risk management process at the Bank: Management Board, Assets and Liabilities Committee ("ALCO"), Credit Committee, Retail Business Committee, Securities Division, Treasury Division, Risk Management Division, Audit and Revision Division.

Supervisory Board

The Supervisory Board is responsible for the overall risk management approach and for approving the risk strategies and principles.

Management Board

The Management Board has the overall responsibility for the development of the risk strategy and implementing of principles, frameworks, policies and limits within the Bank. Fundamental risk issues are managed and monitored by relevant risk decisions based on quarterly reports of the Risk Management Division, ALCO, Credit Committee and Retail Business Committee. The Management Board approves the Bank's risk management policy for the next year on an annual basis.

Assets and Liabilities Committee ("ALCO")

The ALCO has the overall responsibility for the implementing of principles, frameworks, policies and limits regarding liquidity and market risks within the Bank and ensuring that liquidity and market risks are within the specified ranges approved by the Management Board. The ALCO reports to the Management Board.

Credit Committee and Retail Business Committee

The Credit Committee and Retail Business Committee have the overall responsibility for implementing principles, frameworks, policies and limits regarding credit risk within the Bank and ensuring that credit risk indicators are within the specified ranges approved by the Management Board. These committees report to the Management Board.

Treasury and Securities Divisions

Treasury is responsible for the management of the Bank's liquidity position via money market operations, while Securities Division is responsible for management of the Bank's liquidity position via capital market operations. The Treasury Division and Securities Division report to the Management Board.

Risk Management Division

Risk Management Division is responsible for control, monitoring, analysis and reporting of key risk indicators connected with the Bank's activities. In addition, Risk Management Division elaborates and supervises implementation of risk management methodologies, norms and procedures, estimates the risk of all banking products and structured transactions. The Risk Management Division reports to the Management Board.

Audit and Inspection Division

The risk management processes are audited on a regular basis by Audit and Inspection Division, which examines both the adequacy of procedures and the Bank's compliance with those procedures. Audit findings, conclusions and recommendations are submitted to the Management Board and the Supervisory Board.

Risk measurement and risk reporting systems

The Bank's risks are measured using methods which reflect both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment. The Bank also runs worse case scenarios that would arise in the event that extreme events which are unlikely to occur do, in fact, occur. The Bank carries out back-testing of the models and checks their adequacy.

Risks are monitored and controlled primarily based on limits established by the Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept, with additional emphasis on selected industries. In addition, the Bank monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risks types and activities.

Information regarding the balance-sheet structure, capital adequacy, compliance with limits and indicators established by the ALCO, and covenants under contractual obligations of the Bank is submitted to the ALCO on a monthly basis. The Management Board receives a comprehensive risk report once a quarter which is designed to provide all the necessary information to assess and conclude on the risks of the Bank.

For all levels of the Bank's management, various risk reports are prepared in order to provide comprehensive, relevant and up-to-date information to all of the Bank's units.

Risk Mitigation

The Bank does not use derivatives to manage risks arising from changes in interest rates, foreign exchange rates, credit risk and liquidity risk since a market for such financial instruments does not yet exist in Ukraine.

The Bank extensively uses collateral to minimise credit risk (see below for more detail).

Excessive risks concentration

Concentration arises when a number of counterparts are engaged in similar business activities, or activities in the same geographic region, or have similar economic characteristics, which determine their ability to meet contractual obligations that are equally affected by the changes in economic, political or other environment. Concentration indicates the relative sensitivity of the Bank's performance to the developments affecting a particular industry or geographical area.

In order to avoid excessive concentrations of risks, the Bank's internal policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified risks concentration is duly controlled and managed.

Credit risk

The Banks considers credit risk as the probability of untimely and/or insufficient receipt of funds from customers (counterparties) under their commitments.

Credit risk management is primarily aimed at ensuring fulfilment of commitments by the Bank's customers (counterparties) in form, volume and time periods adequate for maintaining liquidity, yield and capital adequacy ratios within the limits acceptable for the Bank.

While managing credit risk, the Bank is considering a combination of the following:

- structural (strategic) management – acceptable level of loan portfolio structure and volume (on balance sheet and off balance sheet) in short, medium and long term horizon taking into consideration estimated and unpredictable changes in the financial and economic environment;
- ongoing (operational) management - acceptable quality and volume of individual loans and commitments taking into consideration estimated and unpredictable changes in the financial and economic environment;
- structural (strategic) and ongoing (operational) management of the allowance for impairment effect on the Bank's capital adequacy ratio in short, medium and long term horizon taking into consideration estimated and unpredictable changes in quality of the individual loans, credit portfolios and total credit portfolio.

The Bank manages and controls credit risk based on the following principles:

- setting targets (optimal and acceptable for the Bank), critical (undesirable, but manageable) and threshold (requiring urgent measures) values of the key credit risk exposures;
- providing loans or loan related commitments solely in accordance with the approved Credit policy and the Bank's internal regulations;
- creation and maintaining allowances and provisions for loan related operations in volumes, which are not lower than the Bank's best estimates;

- constant monitoring of the actual values of the key credit risk exposures at the level of individual loans/commitments, credit portfolios and total credit portfolio;
- taking efficient measures if the actual values of credit risk exposures approach their critical and/or threshold values.

Key credit risk exposures, their target, critical and threshold values are updated at least annually and approved by the Management Board of the Bank.

Individual credit risk

Individual credit risk is a risk which can be attributed to a particular transaction or counterparty.

Individual credit risk is managed through: loan and customer (or counterparty) classification via the system of internal credit ratings determined on the basis of the customer's (counterparties') creditworthiness and an evaluation of their loan repayment quality; evaluation and monitoring of collateral value and liquidity; setting credit risk limits and monitoring compliance with the limits; creation of adequate allowance for asset's impairment.

The Bank's lending policy determines the type of collateral required for a particular transaction, industry or customer. The primary types of collateral include: guarantees of primary banks, deposits with the Bank, real estate property and pledges of equipment or vehicles. The Bank requires obligatory insurance of collateral to be provided by the customer.

In order to limit individual credit risk, the Bank sets the following limits: maximum volume of credit transactions (loans, securities, receivables) per single counterparty (or Bank of related counterparties), including financial commitments and contingencies; maximum volume of credit transactions (loans, securities, receivables) for one insider, including financial commitments and contingencies.

Portfolio credit risk

Portfolio credit risk is the risk typical for a group of credit transactions (loans, securities, receivables) and group of counterparties with similar credit characteristics.

Portfolio credit risk management is exercised through: industry classification on the basis of an internal system of industry ratings, which characterises the systematic risk of the industry; monitoring of the credit portfolio structure (by category of customers, industries and credit ratings of customers and loans); establishment of concentration limits and appropriate monitoring and control thereof; diversification of credit portfolio (both by industry and customer category).

Diversification of credit portfolio (both by industry and customer category) is provided through establishment of the following limits: by industry; by maximum total volume of "large" loans (which constitute 10% or more of the regulatory capital of the Bank as to each counterparty or Bank of related counterparties); by maximum total volume of loans to insiders; by credit portfolio concentration per category of customers; by total indebtedness of 5 largest customers; by total indebtedness of 10 largest customers; by total indebtedness of 20 largest customers.

Credit-related commitment risks

The Bank issues guarantees to its customers, under which the Bank may be required to make payments on behalf of the relevant customers. Such payments are collected from customers under the terms of the letters of credit. These guarantees expose the Bank to risks similar to credit risks, and are mitigated by similar control procedures and principles.

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

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

For more detail on the maximum exposure to credit risk for each class of financial instrument, references shall be made to the specific notes.

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

Credit quality by class of financial assets

In the table below loans to banks and customers of high grade are those having a minimal level of credit risk or very well collateralised. Other borrowers with good financial position and good debt service are included in the standard grade. Sub-standard grade comprises loans below standard grade but not individually impaired. For amounts due from foreign credit institutions high grade is equivalent to Fitch BBB- rating and above, sub-standard – below BBB- but above CCC+, standard – CCC+ and below.

31 December 2011	***Notes***	***Neither past due nor impaired*** *High grade*	*Standard grade*	*Sub-standard grade*	***Past due or individually impaired***	***Total***
Amounts due from foreign credit institutions	7	241,576	-	5,289	-	246,865
Amounts due from Ukrainian credit institutions	7	580,176	744,162	281,660	-	1,605,998
Investment securities:	9					
At fair value through profit or loss		3,221,305	-	-	-	3,221,305
Available-for-sale		6,344,771	203,636	3,300,495	-	9,848,902
Held-to-maturity		197,709	-	1,101,586	91,317	1,390,612
Loans to corporate customers:	8					
Commercial loans		3,040,379	17,509,752	13,784,984	15,168,786	49,503,901
Overdrafts		6,821	57,426	4,595	30,584	99,426
Finance lease receivables		-	-	2,467	9,385	11,852
Promissory notes		1,020	9,647	766,884	-	777,551
		3,048,220	17,576,825	14,558,930	15,208,755	50,392,730
Loans to individuals	8	183,819	312,961	137,424	314,622	948,826
Total		**13,817,576**	**18,837,584**	**19,385,384**	**15,614,694**	**67,655,238**

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

31 December 2010	Notes	Neither past due nor impaired: High grade	Standard grade	Sub-standard grade	Past due or individually impaired	Total
Amounts due from foreign credit institutions	7	209,755	-	-	-	209,755
Amounts due from Ukrainian credit institutions	7	591,224	158,376	301,446	-	1,051,046
Investment securities:	9					
At fair value through profit or loss		-	-	107,796	-	107,796
Available-for-sale		8,596,828	72,268	185,577	-	8,854,673
Held-to-maturity		370,795	203,252	904,833	203,252	1,682,132
Investment securities pledged under repurchase agreements		94,640	-	-	-	94,640
Loans to corporate customers:	8					
Commercial loans		6,461,480	18,487,967	11,360,558	12,245,648	48,555,653
Overdrafts		5,631	52,277	42,913	30,881	131,702
Finance lease receivables		-	-	304,729	-	304,729
Promissory notes		-	784,917	104,796	1,713	891,426
		6,467,111	19,325,161	11,812,996	12,278,242	49,883,510
Loans to individuals	8	227,855	445,073	123,522	312,619	1,109,069
Total		**16,558,208**	**20,204,130**	**13,436,170**	**12,794,113**	**62,992,621**

It is the Bank's policy to maintain accurate and consistent risk ratings across the credit portfolio. The rating system is supported by a variety of financial analytics, combined with processed market information to provide the main inputs for the measurement of counterparty risk. All internal risk ratings are tailored to the various categories and are derived in accordance with the Bank's rating policy. The attributable risk ratings are assessed and updated regularly.

The ageing analysis of past due but not impaired loans is provided below.

31 December 2011	*Less than 30 days*	*31 to 60 days*	*61 to 90 days*	*More than 90 days*	*Total*
Loans to customers:					
Loans to corporate customers	988,020	64,560	294	15,784	1,068,658
Loans to individuals	23,066	3,019	7,484	1,933	35,502
Total	**1,011,086**	**67,579**	**7,778**	**17,717**	**1,104,160**

31 December 2010	*Less than 30 days*	*31 to 60 days*	*61 to 90 days*	*More than 90 days*	*Total*
Loans to customers:					
Loans to corporate customers	357,456	154,818	18,692	488	531,454
Loans to individuals	20,395	46,891	12,708	-	79,994
Total	**377,851**	**201,709**	**31,400**	**488**	**611,448**

Of the total aggregate amount of gross past due but not individually impaired loans to customers, the fair value of collateral that the Bank held as at 31 December 2011 is UAH 362,631 thousand (2010: UAH 10,962 thousand).

Impairment assessment

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

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

Geographical concentration

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

	2011			
	Ukraine	***OECD countries***	***CIS and other non-OECD countries***	***Total***
Assets:				
Cash and cash equivalents	3,065,987	6,807,391	178,462	10,051,840
Due from credit institutions	1,605,998	241,576	5,289	1,852,863
Loans to customers	41,855,191	228	48	41,855,467
Investment securities:				
- designated at fair value through profit or loss	3,221,305	-	-	3,221,305
- available-for-sale	9,855,267	-	-	9,855,267
- held-to-maturity	1,372,342	-	-	1,372,342
Other assets (monetary)	59,481	-	1	59,482
	61,035,571	**7,049,195**	**183,800**	**68,268,566**
Liabilities:				
Amounts due to the National Bank of Ukraine	6,197,074	-	-	6,197,074
Due to credit institutions	1,170,070	5,835,864	658,476	7,664,410
Due to customers	28,128,543	1,292,886	256,582	29,678,011
Eurobonds issued	-	10,438,526	-	10,438,526
Subordinated debt	-	3,101,995	-	3,101,995
Other liabilities (monetary)	162,630	3,138	-	165,768
	35,658,317	**20,672,409**	**915,058**	**57,245,784**
Net position	**25,377,254**	**(13,623,214)**	**(731,258)**	**11,022,782**
Commitments and contingencies (Note 22)	**3,101,617**	**2,003**	**1,398**	**3,105,018**

	2010			
	Ukraine	***OECD countries***	***CIS and other non-OECD countries***	***Total***
Assets:				
Cash and cash equivalents	1,847,715	8,683,704	247,891	10,779,310
Due from credit institutions	1,033,204	163,775	45,980	1,242,959
Loans to customers	43,673,968	349	6,872	43,681,189
Investment securities:				
- designated at fair value through profit or loss	107,796	-	-	107,796
- available-for-sale	8,861,028	-	-	8,861,028
- held-to-maturity	1,641,477	-	-	1,641,477
Securities pledged under repurchase agreements	94,640	-	-	94,640
Other assets (monetary)	41,730	-	-	41,730
	57,301,558	**8,847,828**	**300,743**	**66,450,129**
Liabilities:				
Amounts due to the National Bank of Ukraine	4,156,617	-	-	4,156,617
Due to credit institutions	1,251,272	6,126,777	1,401	7,379,450
Due to customers	25,718,126	1,863,158	229,451	27,810,735
Eurobonds issued	-	11,789,395	-	11,789,395
Other debt securities issued	-	404,340	-	404,340
Subordinated debt	-	3,098,955	-	3,098,955
Other liabilities (monetary)	105,439	1,498	12	106,949
	31,231,454	**23,284,123**	**230,864**	**54,746,441**
Net position	**26,070,104**	**(14,436,295)**	**69,879**	**11,703,688**
Commitments and contingencies (Note 22)	**3,452,997**	**2,887**	**597**	**3,456,481**

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

Liquidity risk

The Bank considers liquidity risk as the risk of an inability to finance growth of the Bank's assets and to fulfil its own obligations when they fall due.

The main purpose of liquidity risk management is to ensure the unconditional ability of the Bank to fulfil its obligations when they fall due by maintaining acceptable (manageable) liquidity gaps.

While managing liquidity risk, the Bank is considering a combination of the following:

- structural (short and long-term) assets and liabilities management focused on ensuring appropriate liquidity levels in the short and long-term time horizon;
- current (short-term) assets and liabilities management focused on ensuring appropriate level of instant and current liquidity taking into consideration estimated and unpredictable cash flow changes.

Liquidity risk management is based on acceptable levels of maturity gaps (by currency) and on the following principles:

- setting target (optimal and acceptable to the Bank), critical (undesirable but manageable) and threshold (requiring urgent measures) levels of key liquidity risk indicators;
- permanent monitoring of actual key liquidity risk indicators;
- use of adequate corrective actions if actual key liquidity risk indicators approach their critical and/or threshold levels.

Key liquidity risk indicators, their respective targets, critical and threshold levels are updated at least annually and approved by the Management Board of the Bank.

Assessment of the liquidity position

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

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

	2011, %	*2010, %*
N4 "Instant Liquidity Ratio" (vault cash and balances on nostro accounts with banks / balances on customers' current accounts) (minimum required by the NBU – 20%)	70.51	93.09
N5 "Current Liquidity Ratio" (vault cash, balances on nostro accounts with banks, banking metals, claims on banks maturing within with residual maturity of up to 31 days, bills and bonds with residual maturity of up to 31 days/ balances on customers' current accounts, term deposits, debt obligations and commitments with residual maturity of up to 31 days) (minimum required by the NBU – 40%)	49.00	83.26
N6 "Short-Term Liquidity Ratio" (vault cash, balances on nostro accounts with banks, banking metals, claims on banks with residual maturity of up to 1 year, bills and bonds with residual maturity of up to 1 year / balances on customers' current accounts, term deposits, debt obligations and commitments with residual maturity of up to 1 year) (minimum required by the NBU – 60%)	86.62	103.01

Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Bank's financial liabilities at 31 December based on contractual undiscounted repayment obligations. Less than 3 month liabilities are those that are due on the earliest date. However, the Bank expects that many customers will not demand repayment on the earliest date when the Bank could be required to make a respective repayment and the table does not reflect the expected cash flows calculated by the Bank on the basis of information on deposit repayment in previous periods.

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

Financial liabilities As at 31 December 2011	***Less than 3 months***	***3 to 12 months***	***1 to 5 years***	***Over 5 years***	***Total***
Amounts due to the NBU	2,276,526	288,777	5,673,528	-	8,238,831
Amounts due to credit institutions	1,751,658	1,293,253	3,344,156	2,784,246	9,173,313
Amounts due to customers	19,079,097	8,755,727	2,691,510	41,086	30,567,420
Eurobonds issued	131,178	2,641,452	10,026,220	-	12,798,850
Subordinated debt	163,389	160,497	2,257,143	2,746,639	5,327,668
Other liabilities	81,610	-	-	-	81,610
Total undiscounted financial liabilities	**23,483,458**	**13,139,706**	**23,992,557**	**5,571,971**	**66,187,692**

Financial liabilities As at 31 December 2010	***Less than 3 months***	***3 to 12 months***	***1 to 5 years***	***Over 5 years***	***Total***
Amounts due to the NBU	100,647	307,531	5,789,393	633,870	6,831,441
Amounts due to credit institutions	1,317,801	1,068,094	3,645,227	2,826,675	8,857,797
Amounts due to customers	16,284,892	7,702,249	4,398,863	49,590	28,435,594
Eurobonds issued	145,409	4,547,791	9,723,592	-	14,416,792
Other debt securities issued	8,877	423,079	-	-	431,956
Subordinated debt	174,347	159,212	1,283,659	4,025,271	5,642,489
Gross settled derivative financial instruments:					
- Contractual amounts payable	140,123	-	-	-	140,123
- Contractual amounts receivable	(139,345)	-	-	-	(139,345)
Other liabilities	60,316	-	-	-	60,316
Total undiscounted financial liabilities	**18,093,067**	**14,207,956**	**24,840,734**	**7,535,406**	**64,677,163**

The table below shows the contractual expiry by maturity of the Bank's financial commitments and contingencies.

	Less than 3 months	***3 to 12 months***	***1 to 5 years***	***Over 5 years***	***Total***
2011	496,028	1,576,933	1,757,317	61,982	3,892,260
2010	640,272	948,975	2,672,528	37,447	4,299,222

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

Market risk

The Bank considers market risk as the aggregate of interest rate risk and currency risk, i.e. inability to secure excess of income (including interest income) over expenses (including interest expenses) by currency in volumes required to fulfil the Bank's obligations and to maintain liquidity and capital adequacy risks within the range acceptable to the Bank.

Market risk management is performed by systematic combination of:

- interest risk management;
- foreign currency risk management.

Market risk management is aimed at securing the excess of income (including interest income) over expenses (including interest expenses) by currency in volumes required to fulfil the Bank's obligations and to maintain liquidity risk and capital adequacy risk within the range acceptable to the Bank and is carried out by:

- setting target (optimal and acceptable to the Bank), critical (undesirable but manageable) and threshold (requiring urgent measures) levels of key market risk indicators;
- permanent monitoring of actual values of key market risk indicators;
- taking efficient measures if the actual values of key market risk indicators approach their critical and/or threshold levels.

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

Key market risk indicators, their targets, critical and threshold levels are updated at least annually and approved by the Management Board of the Bank.

Interest rate risk

Interest rate risk is considered by the Bank as the inability to secure excess of interest income over interest expenses in volumes required to fulfil the Bank's interest payment obligations and to maintain liquidity and capital adequacy risks within the range acceptable to the Bank. The Bank considers the mismatch of interest receipts and interest payments by volumes or dates to be the main source of interest rate risk.

The Bank considers interest rate risk management as an integral part of the Bank's operations including the effect of negative impact by internal and external factors.

Interest rate risk management is performed by systematic combination of:

- structural (strategic) and current (operational) management of interest-bearing assets aimed at achieving acceptable structure and volume of interest income in short, middle and long-term time horizon taking into consideration estimated and unpredictable changes in interest rates;
- structural (strategic) and current (operational) management of interest-bearing liabilities aimed at achieving acceptable structure and volume of interest expenses in short, middle and long-term time horizon taking into consideration estimated and unpredictable changes in interest rates.

Interest rate risk management is aimed at securing the excess of interest income over interest expenses in volumes sufficient to fulfil the Bank's interest payment obligations and to maintain liquidity and capital adequacy risks within the range acceptable to the Bank. Interest rate risk management is performed via:

- setting target (optimal and acceptable to the Bank), critical (undesirable but manageable) and threshold (requiring urgent measures) levels of key interest rate risk indicators;
- permanent monitoring of actual values of key interest rate risk indicators;
- taking efficient measures if the actual values of key interest rate risk indicators approach their critical and/or threshold levels.

Key interest rate risk indicators, their respective targets, critical and threshold levels are updated at least annually and approved by the Management Board of the Bank.

The table below demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Bank's consolidated income statement.

The sensitivity of the consolidated income statement to the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities held at 31 December 2011.

			2011		
Currency	***Base for interest rate***	***Increase in basis points***	***Effect on profit before income tax expense***	***Decrease in basis points***	***Effect on profit before income tax expense***
UAH	NBU	+100	10,056	-100	(9,579)
USD	LIBOR	+75	(4,149)	-75	1,099
USD	NBU	+100	193	-100	(189)
EUR	LIBOR	+75	1,944	-75	(1,944)
EUR	Euribor	+75	4,154	-75	(4,097)
EUR	NBU	+100	286	-100	(286)
Other	LIBOR	+75	1,105	-75	(1,156)
Other	Euribor	+75	5	-75	(1)
Total			**13,594**		**(16,153)**

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

	2010				
Currency	***Base for interest rate***	***Increase in basis points***	***Effect on profit before income tax expense***	***Decrease in basis points***	***Effect on profit before income tax expense***
UAH	NBU	+100	5,740	-100	(5,306)
USD	LIBOR	+75	1,545	-75	(1,740)
USD	Euribor	+75	(77)	-75	-
USD	NBU	+100	322	-100	(322)
EUR	LIBOR	+75	1,434	-75	(1,434)
EUR	Euribor	+75	4,658	-75	(4,834)
EUR	NBU	+100	160	-100	(160)
Other	LIBOR	+75	1,074	-75	(1,147)
Other	Euribor	+75	5	-75	(5)
Total			**14,861**		**(14,948)**

The sensitivity of equity is calculated by revaluing fixed rate available-for-sale financial assets at 31 December 2011 for the effects of the assumed changes in interest rates. The effect on equity for securities included to the first and second levels of the fair value hierarchy is calculated based on modified duration with the following assumptions of variation of interest rates: +/- 300 b.p. for corporate bonds, , +/- 200 b.p. for Ukrainian State bonds in UAH and +/- 100 b.p. for Ukrainian State bonds denominated in USD. The effect on equity for securities of the third level of the hierarchy is calculated based on the assumption of +/- 20 % interest rate variation and that there are parallel shifts in the yield curve. The total effect at 31 December on the Bank's equity is: UAH (413,271) thousand/ UAH 395,923 thousand.

The sensitivity of net gains/(losses) from investment securities designated at fair value through profit and loss is calculated by revaluing fixed rate financial instruments designated at fair value through profit and loss at 31 December for the effects of the assumed changes in interest rates based on modified duration. The effect of the +/- 100 b.p. variation of the interest rate applied for Ukrainian state bonds on the Bank's profit is UAH (141,242) thousand/ UAH 141,242 thousand (2010: nil).

Currency risk

The Bank considers currency risk as the inability to secure excess of foreign currency cash inflow over foreign currency cash outflow (by currency) in amounts required to maintain liquidity and capital adequacy risks within the range acceptable to the Bank. The Bank considers the inconsistency of fluctuations in foreign currency exchange rates to be the main source of currency risk.

Currency risk management is performed by systematic combination of:

- structure (strategic) and current (operational) management of assets by currency aimed at achieving an acceptable structure and amount of foreign currency cash inflow in short, medium and long term time horizon taking into consideration estimated and unpredictable changes in foreign currency exchange rates;
- structure (strategic) and current (operational) liabilities management aimed at achieving an acceptable structure and amount of foreign currency cash outflow in short, medium and long term time horizon taking into consideration estimated and unpredictable changes in foreign currency exchange rates.

Currency risk management is aimed at securing the excess of foreign currency cash inflow over foreign currency cash outflow at the level acceptable for the Bank and necessary for maintaining liquidity and capital adequacy risks within the range acceptable to the Bank, and is performed via:

- setting targets (optimal and acceptable to the Bank), critical (undesired but manageable) and threshold (urgent measures) values of key currency risk indicators;
- continuous monitoring of actual values of key currency risk indicators;
- taking efficient measures if the actual values of key currency risk indicators approach their critical and/or threshold values.

Key currency risk indicators, their targets critical and threshold values are updated at least annually and approved by the Management Board of the Bank.

The tables below indicate the currencies to which the Bank has significant exposure at 31 December 2011 on its non-trading monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against hryvnia, with all other variables held constant on the consolidated income statement (due to the fair value of currency sensitive non-trading monetary assets and liabilities). The effect on equity does not differ from the effect on the consolidated income statement. A negative amount in the table reflects a potential net reduction in consolidated income statement or equity, while a positive amount reflects a net potential increase.

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

	2011		*2010*	
Currency	***Change in currency rate***	***Effect on profit before income tax expense***	***Change in currency rate***	***Effect on profit before income tax expense***
USD/UAH	+40.00%	(1,183,815)	+40.00%	(1,654,595)
EUR/UAH	+40.00%	(267,163)	+40.00%	(59,123)
Total		**(1,450,978)**		**(1,713,718)**
USD/UAH	-30.00%	1,831,857	-30.00%	1,240,946
EUR/UAH	-30.00%	200,372	-30.00%	44,342
Total		**2,032,229**		**1,285,288**

Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. In the event that the internal control system fails to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Bank cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Bank is able to manage the risks. Controls system includes efficient segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

26. Fair values of financial instruments

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

Set out below is a comparison by class of the carrying amounts and fair values of the Bank's financial instruments that are not carried at fair value in the consolidated statement of financial position. The table does not include the fair values of non-financial assets and non-financial liabilities.

	2011			*2010*		
	Carrying value	***Fair value***	***Unrecognised gain/(loss)***	***Carrying value***	***Fair value***	***Unrecognised gain/(loss)***
Assets						
Cash and cash equivalents	10,051,840	10,051,840	-	10,779,310	10,779,310	-
Due from other banks	1,852,863	1,852,863	-	1,242,959	1,242,959	-
Loans to customers	41,855,467	39,158,476	(2,696,991)	43,681,189	43,184,204	(496,985)
Securities held to maturity	1,372,342	1,372,342	-	1,641,477	1,641,477	-
Other assets	59,482	59,482	-	41,730	41,730	-
Liabilities						
Amounts due to the NBU	6,197,074	6,197,074	-	4,156,617	4,156,617	-
Due to other banks	7,664,410	7,664,410	-	7,379,450	7,379,450	-
Due to customers	29,678,011	29,612,523	65,488	27,810,735	26,844,659	966,076
Eurobonds issued	10,438,526	9,370,403	1,068,123	11,789,395	12,189,230	(399,835)
Other debt securities issued	-	-	-	404,340	404,340	-
Subordinated debt	3,101,995	2,850,706	251,289	3,098,955	3,093,945	5,010
Other liabilities	81,610	81,610	-	60,316	60,316	-
Total unrecognised change in unrealised fair value			**(1,312,091)**			**74,266**

The following describes the methodologies and assumptions used to determine fair values for those financial instruments, which are not recorded at fair value in the financial statements.

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

Assets for which fair value approximates carrying value

For financial assets and financial liabilities that are liquid or having a short term maturity (less than three months) it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits, savings accounts without a specific maturity and variable rate financial instruments.

Fixed rate financial instruments

The fair value of fixed rate financial assets and liabilities carried at amortised cost are estimated by comparing market interest rates when they were first recognised with current market rates offered for similar financial instruments. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and maturity. For quoted debt issued the fair values are calculated based on quoted market prices. For those notes issued where quoted market prices are not available, a discounted cash flow model is used based on a current interest rate yield curve appropriate for the remaining term to maturity.

Financial instruments reported at fair value

The Bank applies the following hierarchal structure of evaluation methods for measurement of and disclosure of information about fair value of financial assets that includes variations of fair value due to certain alternative assumptions used in the evaluation model:

- Level 1: fair value is measured directly on the basis of financial instrument market quotations in the active markets.
- Level 2: in respect of financial instruments for which market quotations are not available, their fair value is measured through evaluation models based on assumptions confirmed by observed market prices and rates effective on the reporting date, i.e. directly or indirectly based on market observations;
- Level 3: for financial instruments, which fair value cannot be measured on the basis of market quotations and evaluation models based on market observations, the Bank uses evaluation models with initial data that have considerable effect on the reported fair value of financial instruments that are not based on market observations. Such approach is adequate for investments in non-listed equity and debt securities.

The following table presents evaluation methods used for measurement of fair value of financial instruments at fair value through profit or loss or other comprehensive income:

31 December 2011	***Level 1***	***Level 2***	***Level 3***	***Total***
Investment securities designed at fair value through profit or loss	3,221,305	-	-	**3,221,305**
Available-for-sale investment securities	2,588,086	6,399,275	867,906	**9,855,267**
Total assets	**5,809,391**	**6,399,275**	**867,906**	**13,076,572**

31 December 2010	***Level 1***	***Level 2***	***Level 3***	***Total***
Investment securities designed at fair value through profit or loss	-	-	107,796	**107,796**
Available-for-sale investment securities	140,030	-	8,720,998	**8,861,028**
Investment securities pledged under repurchase agreements	-	-	94,640	**94,640**
Total assets	**140,030**	**-**	**8,923,434**	**9,063,464**
Financial liabilities				
Derivative financial liabilities	**-**	**778**	**-**	**778**

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

Investment securities designated at fair value through profit or loss and available-for-sale investment securities

Securities designated at fair value through profit or loss and investment securities available-for-sale valued using a valuation technique or pricing models primarily consist of unquoted equity and debt securities. These securities are valued using models which incorporate only data, which is not based on the market observations. The non-observable inputs to the models include assumptions regarding the future financial performance of the investee, its risk profile, and economic assumptions regarding the industry and geographical jurisdiction in which the investee operates, level of enterprise goodwill, its management and founders/ shareholders.

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

Movements in level 3 financial instruments measured at fair value

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

		Total gain/ (loss) recorded in					
	At 1 January 2011	profit or loss	other comprehensive income	Purchases	Settlements	Transfers to Level 1 and 2	As 31 December 2011
Investment securities designed at fair value through profit or loss	107,796	5,157[a]	-	-	(112,953)[c]	-	-
Available-for-sale investment securities	8,720,998	122,275 [b]	(89,021)	6,389,071	(3,931,674) [d]	(10,343,743)	867,906
Investment securities pledged under repurchase agreements	94,640	(6,398)	-	-	(88,242)[e]	-	-
Total assets	**8,923,434**	**121,034**	**(89,021)**	**6,389,071**	**(4,132,869)**	**(10,343,743)**	**867,906**

		Total gain/ (loss) recorded in					
	At 1 January 2010	profit or loss	other comprehensive income	Purchases	Settlements	Transfers to Level 3	As 31 December 2010
Investment securities designed at fair value through profit or loss	575,040	36,143[a]	-	-	(503,387)[c]	-	107,796
Available-for-sale investment securities	803,030	152,260[b]	350	12,294,185	(4,580,274)[d]	51,447	8,720,998
Investment securities pledged under repurchase agreements	-	-	-	94,640	-	-	94,640
Total assets	**1,378,070**	**188,403**	**350**	**12,388,825**	**(5,083,661)**	**51,447**	**8,923,434**

[a] UAH 9,608 thousand of gain is included within interest income from investment securities designated at fair value through profit or loss and UAH 4,451 thousand of loss is included in net gains/ (losses) from change in fair value of investment securities designated at fair value through profit or loss (2010: UAH 45,636 thousand of gain is included within interest income from investment securities designated at fair value through profit or loss and UAH 9,493 thousand of loss is included in net gains/ (losses) from change in fair value of investment securities designated at fair value through profit or loss).

[b] UAH 92,049 thousand of gain is included within interest income from investment securities other than designated at fair value through profit or loss and UAH 30,226 thousand of gains is included in net gains/ (losses) available-for-sale investment securities (2010: UAH 139,289 thousand of gain is included within interest income from investment securities other than designated at fair value through profit or loss and UAH 12,971 thousand of gains is included in net gains/ (losses) available-for-sale investment securities)

[c] UAH 112,953 thousand of settlements comprise: UAH 112,953 thousand of sales (2010: UAH 66,087 thousand and UAH 437,300 thousand of redemptions).

[d] UAH 3,931,674 thousand of settlements comprise: UAH 3,712,698 thousand of sales (2010: UAH 3,995,919) and UAH 218,976 thousand of redemptions (2010: UAH 584,355 thousand).

[e] UAH 88,242 thousand is represented by redemption of securities at maturity.

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

During 2011, the Bank transferred certain financial instruments available-for-sale from level 3 to level 1 of the fair value hierarchy. The carrying amount of the total assets transferred was UAH 4,724,879 thousand. The reason for the transfers from level 3 to level 1 is that the market for some securities has become active, and since the transfer these instruments have been valued using quoted prices in an active market.

During 2011, the Bank transferred certain financial instruments available-for-sale from level 3 to level 2 of the fair value hierarchy. The carrying amount of the total assets transferred was UAH 5,618,864 thousand. The reason for the transfers from level 3 to level 2 is that the market for some securities has become active, and since the transfer these instruments have been valued using quoted prices in an active market for similar assets.

Gains or losses on level 3 financial instruments included in the profit or loss for the period comprise:

	2011		
	Realised gains	***Unrealised losses***	***Total***
Total gains and losses included in the profit or loss for the year	125,485	(4,451)	121,034

	2010		
	Realised gains	***Unrealised losses***	***Total***
Total gains and losses included in the profit or loss for the year	197,896	(9,493)	188,403

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

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

	31 December 2011	
	Carrying value	***Influence of possible alternative assumptions***
Available-for-sale investment securities	867,906	(84,876)

	31 December 2010	
	Carrying value	***Influence of possible alternative assumptions***
Investment securities designed at fair value through profit or loss	107,796	(18,374)
Available-for-sale investment securities	8,720,998	(50,922)
Investment securities pledged under repurchase agreements	94,640	(1,331)

In order to determine reasonably possible alternative assumptions the Bank adjusted key unobservable model inputs as follows:

- For equities, the Bank adjusted the assumptions as to the possibility of bankruptcy or losses that were used to determine the credit component in fair value. The adjustment made was to increase the assumption up to 100% subject to individual characteristics of the investee;
- For debt securities, the Bank adjusted the probability of changes in interest rate assumption applied for discounting cash flows from debt securities within the range of +/- 20% of the level as at the end of the reporting period.

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

27. Maturity analysis of assets and liabilities

The table below shows an analysis of assets and liabilities according to when they are expected to be recovered or settled. See Note 25 "Risk management" for the Bank's contractual undiscounted repayment obligations.

	2011			*2010*		
	Within one year	***More than one year***	***Total***	***Within one year***	***More than one year***	***Total***
Assets						
Cash and cash equivalents	10,051,840	-	10,051,840	10,779,310	-	10,779,310
Due from credit institutions	905,742	947,121	1,852,863	822,706	420,253	1,242,959
Loans to customers	12,676,059	29,179,408	41,855,467	16,197,209	27,483,980	43,681,189
Investment securities:						
- designated at fair value through profit or loss	71,305	3,150,000	3,221,305	14,025	93,771	107,796
- available-for-sale	2,106,820	7,748,447	9,855,267	278,013	8,583,015	8,861,028
- held-to-maturity	55,669	1,316,673	1,372,342	171,099	1,470,378	1,641,477
Investment securities pledged under repurchase agreements	-	-	-	-	94,640	94,640
Current tax assets	528,500	-	528,500	570,144	-	570,144
Investment property	-	3,088,254	3,088,254	-	2,380,711	2,380,711
Property and equipment	-	2,232,340	2,232,340	-	2,204,565	2,204,565
Intangible assets	-	13,050	13,050	-	13,559	13,559
Deferred tax assets	-	163,287	163,287	-	11,771	11,771
Other assets	290,772	-	290,772	265,359	-	265,359
Total	**26,686,707**	**47,838,580**	**74,525,287**	**29,097,865**	**42,756,643**	**71,854,508**
Liabilities						
Amounts due to the National Bank of Ukraine	2,203,983	3,993,091	6,197,074	-	4,156,617	4,156,617
Amounts due to other banks	2,792,756	4,871,654	7,664,410	2,095,136	5,284,314	7,379,450
Due to customers	27,243,816	2,434,195	29,678,011	23,912,785	3,897,950	27,810,735
Eurobonds issued	2,108,389	8,330,137	10,438,526	3,987,925	7,801,470	11,789,395
Other debt securities issued	-	-	-	404,340	-	404,340
Subordinated debt	136,393	2,965,602	3,101,995	146,149	2,952,806	3,098,955
Current tax liabilities	2,673	-	2,673	7,339	-	7,339
Provisions	307	-	307	181	-	181
Other liabilities	184,027	-	184,027	136,337	-	136,337
Total	**34,672,344**	**22,594,679**	**57,267,023**	**30,690,192**	**24,093,157**	**54,783,349**
Net	**(7,985,637)**	**25,243,901**	**17,258,264**	**(1,592,327)**	**18,663,486**	**17,071,159**

The maturity analysis does not reflect the historical stability of current accounts. Their liquidation has historically taken place over a longer period than indicated in the tables above. These balances are included in amounts due within one year in the tables above. Also included in due to customers are term deposits of individuals. In accordance with Ukrainian legislation, the Bank is obliged to repay such deposits within five days upon the demand of a depositor. However, the Bank does not expect that many customers will request repayment at dates earlier than their maturity and expects that many deposits will be rolled-over. These balances are included above in accordance with their contractual maturity.

28. Related party disclosures

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

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

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

Transactions and balances with related parties comprise transactions with Ukrainian government-related entities (both directly and indirectly controlled by and under significant influence of the Government) and key management personnel.

The outstanding balances of key management personnel as at 31 December 2011 and 2010, and related income and expense for the years ended 31 December 2011 and 2010 are as follows:

	31 December 2011	*31 December 2010*
	Key management personnel	*Key management personnel*
***Loans to customers*, gross**	236	2,280
Less: allowance for impairment	-	(32)
***Loans to customers*, net**	**236**	**2,248**
Current accounts	3,580	1,494
Time deposits	19,701	14,766
Amounts due to customers	**23,281**	**16,260**

	For the years ended 31 December	
	2011	*2010*
	Key management personnel	*Key management personnel*
Interest income on loans	195	72
Interest expense on customers' deposits	(871)	(2,899)
Commission income	51	31
Translation differences	78	(335)

The aggregate remuneration and other benefits paid to key management personnel for the twelve-month period ended 31 December 2011 is UAH 27,034 thousand (UAH 378 thousand payment to non-state pension fund) (twelve-month period ended 31 December 2010: UAH 31,077 thousand (UAH 543 thousand payment to non-state pension fund).

In the normal course of business, the Bank enters into contractual agreements with the Government of the Ukraine and entities controlled or significantly influenced by it. The Bank provides the government-related entities with a full range of banking service including, but not limited to, lending, deposit-taking, issue of guarantees, operation with securities, cash and settlement transaction.

Balances of government-related entities which are significant in terms of the carrying amount as at 31 December 2011 are disclosed below:

Client	*Sector*	*Cash and cash equivalents*	*Amounts due from credit institutions*	*Loans to customers*	*Amounts due to customers*	*Amounts due to NBU*	*Guarantees issued*
Client 1	State and municipal entities	-	-	-	2,935,037	-	-
Client 2	Finance	1,219,699	580,176	-	-	6,197,074	-
Client 3	Finance	1,001,126	-	-	-	-	-
Client 4	Finance	-	-	-	572,880	-	-
Client 5	Finance	-	77,853	-	-	-	-
Client 6	Extractive industry	-	-	4,199,855	-	-	-
Client 7	Extractive industry	-	-	-	-	-	45,542
Client 8	Trade enterprises	-	-	-	484,418	-	1,070,119
Client 9	Trade enterprises	-	-	849,999	-	-	-
Client 10	Trade enterprises	-	-	-	-	-	577,729

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

Client	*Sector*	*Cash and cash equivalents*	*Amounts due from credit institutions*	*Loans to customers*	*Amounts due to customers*	*Amounts due to NBU*	*Guarantees issued*
Client 11	Trade enterprises	-	-	-	169,295	-	-
Client 12	Power utilities	-	-	1,159,425	279,613	-	-
Client 13	Power utilities	-	-	704,573	-	-	-
Client 14	Road construction	-	-	2,081,968	-	-	-
Client 15	Engineering	-	-	438,953	-	-	359,180
Client 16	Transport & communications	-	-	-	493,998	-	-
Client 17	Transport & communications	-	-	-	192,818	-	-
Client 18	Chemistry	-	-	-	327,758	-	-

Balances of government-related entities which are significant in terms of the carrying amount as at 31 December 2010 are disclosed below:

Client	*Sector*	*Cash and cash equivalents*	*Amounts due from credit institutions*	*Loans to customers*	*Amounts due to customers*	*Amounts due to NBU*	*Guarantees issued*
Client 1	State and municipal entities	-	-	-	3,088,001	-	-
Client 19	State and municipal entities	-	-	-	184,211	-	-
Client 2	Finance	919,447	590,685	-	-	4,156,617	-
Client 5	Finance	-	159,361	-	-	-	-
Client 6	Extractive industry	-	-	3,301,898	638,843	-	-
Client 14	Road construction	-	-	2,101,929	-	-	-
Client 12	Power utilities	-	-	1,063,351	-	-	-
Client 13	Power utilities	-	-	700,880	-	-	-
Client 8	Trade enterprises	-	-	-	-	-	747,413
Client 10	Trade enterprises	-	-	-	-	-	619,347
Client 16	Transport & communications	-	-	-	475,100	-	-
Client 17	Transport & communications	-	-	-	314,765	-	-
Client 20	Transport & communications	-	-	-	-	-	39,633
Client 15	Engineering	-	-	-	-	-	370,806
Client 21	Construction	-	-	-	175,584	-	-

As at 31 December, the Bank's investments in debt securities issued by the government or the government-related corporate entities were as follows:

	2011	*2010*
Investment securities held-to-maturity	1,372,342	1,641,477
Investment securities as available-for-sale	6,474,197	8,607,529
Investment securities designated at fair value through profit or loss	3,221,305	-
Investment securities pledged under repurchase agreements	-	94,640

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

29. Capital

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

During 2011, the Bank had complied in full with all its externally imposed capital requirements.

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

The Bank manages its capital structure and makes adjustments to it in line with observed and expected changes in business environment and the risk characteristics of its activities.

NBU capital adequacy ratio

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

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

	2011	*2010*
Main capital	15,654,654	15,666,181
Additional capital	3,974,333	3,725,025
Less: deductions from capital	-	-
Total capital	**19,628,987**	**19,391,206**
Risk weighted assets	**64,517,183**	**44,801,436**
Capital adequacy ratio	30.42%	43.28%

Regulatory capital comprises Tier 1 capital (Main capital) consisting of paid-in registered share capital plus reserves less expected losses, intangible assets, accumulated deficit and losses of current period and Tier 2 capital (Additional capital), consisting of credit risk provisions, asset revaluation reserve, current profit, subordinated capital (in the amount not exceeding 100% of Tier 1 capital) and retained earnings. For Regulatory capital calculation purposes the qualifying Tier 2 capital amount is limited to 100% of Tier 1 capital.

Capital adequacy ratio under Basel Capital Accord 1988

As at 31 December, the Bank's Regulatory capital and capital adequacy ratio, computed in accordance with the Basel Capital Accord 1988 were as follows:

	2011	*2010*
Tier 1 capital	16,338,664	16,198,325
Tier 2 capital	3,716,030	3,858,471
Total capital	**20,054,694**	**20,056,796**
Risk weighted assets	**64,761,242**	**60,431,003**
Tier 1 capital ratio	25.23%	26.80%
Total capital ratio	30.97%	33.19%