

PRIVATBANK GROUP

**International Financial Reporting Standards
Consolidated Financial Statements and
Independent Auditor's Report**

31 December 2010

CONTENTS

INDEPENDENT AUDITOR'S REPORT

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Statement of Financial Position	1
Consolidated Statement of Comprehensive Income	2
Consolidated Statement of Changes in Equity	3
Consolidated Statement of Cash Flows	5

Notes to the Consolidated Financial Statements

1	Introduction	6
2	Operating Environment of the Group	7
3	Summary of Significant Accounting Policies	9
4	Critical Accounting Estimates, and Judgements in Applying Accounting Policies	20
5	Adoption of New or Revised Standards and Interpretations	22
6	New Accounting Pronouncements	24
7	Cash and Cash Equivalents and Mandatory Reserves	28
8	Due from Other Banks	30
9	Loans and Advances to Customers	31
10	Premises, Leasehold Improvements and Equipment and Intangible Assets	38
11	Other Financial Assets	39
12	Due to the NBU and Due to Other Banks and Other Financing Institutions	41
13	Customer Accounts	42
14	Debt Securities in Issue	43
15	Provisions for Liabilities and Charges, Other Financial and Non-financial Liabilities	45
16	Subordinated Debt	46
17	Share Capital	46
18	Other Reserves	47
19	Interest Income and Expense	47
20	Fee and Commission Income and Expense	48
21	Administrative and Other Operating Expenses	48
22	Income Tax	49
23	Segment Analysis	51
24	Financial Risk Management	61
25	Management of Capital	76
26	Contingencies and Commitments	77
27	Derivative Financial Instruments	80
28	Fair Value of Financial Instruments	81
29	Presentation of Financial Instruments by Measurement Category	85
30	Related Party Transactions	87
31	Events After the End of the Reporting Period	89



Independent Auditor's Report

To the Shareholders and Management Board of PrivatBank:

- 1 We have audited the accompanying consolidated financial statements of Public Joint Stock Company Commercial Bank PrivatBank (the "Bank") and its subsidiaries (the "Group") which comprise the consolidated statement of financial position as of 31 December 2010 and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Consolidated Financial Statements

- 2 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

- 3 Our responsibility is to express an opinion on these 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 whether the financial statements are free from material misstatement.
- 4 An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
- 5 We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

- 6 In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2010, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

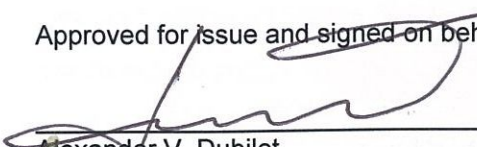
LLC AF "PricewaterhouseCoopers (Audit)"


30 June 2011
Kyiv, Ukraine

PrivatBank Group
Consolidated Statement of Financial Position

<i>In millions of Ukrainian hryvnias</i>	Note	31 December 2010	31 December 2009
ASSETS			
Cash and cash equivalents and mandatory reserves	7	19,266	11,455
Trading securities and other financial assets at fair value through profit or loss		14	18
Due from other banks	8	5,330	4,069
Loans and advances to customers	9	89,694	66,597
Financial derivatives	27	1,678	2,005
Investment securities available-for-sale		573	8
Investment securities held to maturity		588	23
Current income tax prepayment		2	11
Deferred income tax asset	22	30	16
Goodwill		48	54
Intangible assets	10	3	3
Premises, leasehold improvements and equipment	10	2,958	2,935
Other financial assets	11	1,103	1,783
Other assets		629	712
TOTAL ASSETS		121,916	89,689
LIABILITIES			
Due to the NBU	12	7,312	8,310
Due to other banks and other financing institutions	12	3,860	2,319
Customer accounts	13	86,521	57,133
Debt securities in issue	14	6,161	6,112
Current income tax liability		55	10
Deferred income tax liability	22	1,530	1,614
Provisions for liabilities and charges, other financial and non-financial liabilities	15	929	703
Subordinated debt	16	1,379	1,438
TOTAL LIABILITIES		107,747	77,639
EQUITY			
Share capital	17	8,860	8,064
Additional capital	18	-	462
Revaluation reserve for premises	18	518	628
Currency translation reserve	18	341	354
Retained earnings and other reserves		4,326	2,387
Net assets attributable to the equity holders of the Bank		14,045	11,895
Non-controlling interest		124	155
TOTAL EQUITY		14,169	12,050
TOTAL LIABILITIES AND EQUITY		121,916	89,689

Approved for issue and signed on behalf of the Management Board on 30 June 2011.


 Alexander V. Dubilet
 Chairman of the Board


 Lubov I. Korotina
 Chief Accountant

PrivatBank Group
Consolidated Statement of Comprehensive Income

<i>In millions of Ukrainian hryvnias</i>	Note	2010	2009
Interest income	19	15,139	14,549
Interest expense	19	(8,950)	(7,295)
Net interest income		6,189	7,254
Provision for impairment of loans and advances to customers	9	(3,408)	(5,497)
Net interest income after provision for impairment of loans and advances to customers		2,781	1,757
Fee and commission income	20	3,035	2,119
Fee and commission expense	20	(301)	(232)
Gains less losses/(losses less gains) from trading securities and other financial assets at fair value through profit or loss		3	(16)
Gains less losses from financial derivatives	27	776	2,643
Gains less losses from trading in foreign currencies		597	564
Foreign exchange translation gains less losses/(losses less gains)		32	(7)
Reversal of impairment/(impairment) of investment securities available-for-sale		8	(31)
Gains less losses/(losses less gains) from disposals of investment securities available-for-sale		4	(12)
Release of provision/(provision) for credit related commitments	26, 15	41	(14)
Other operating income		155	141
(Losses less gains)/gains less losses arising from early retirement of debt		(4)	51
Administrative and other operating expenses	21	(5,616)	(4,919)
Profit before tax		1,511	2,044
Income tax	22	(71)	(715)
Profit for the year		1,440	1,329
Profit/(loss) is attributable to			
Owners of the Bank		1,610	1,379
Non-controlling interest		(170)	(50)
Profit for the year		1,440	1,329
Other comprehensive income:			
Revaluation of premises	10	59	44
Reversal of impairment through other comprehensive income	10	5	-
Decrease in the fair value of premises	10	(103)	(370)
Exchange differences on translation to presentation currency		(18)	90
Income tax recorded directly in other comprehensive income	22	6	82
Other comprehensive loss for the year		(51)	(154)
Total comprehensive income for the year		1,389	1,175
Total comprehensive income/(loss) is attributed to:			
Owners of the Bank		1,589	1,159
Non-controlling interest		(200)	16
Total comprehensive income for the year		1,389	1,175

PrivatBank Group
Consolidated Statement of Changes in Equity

	Note	Attributable to Owners of the Bank					Non-controlling interest	Total equity	
		Share capital	Additional capital	Revaluation reserve for premises	Currency translation reserve	Retained earnings and other reserves			Total
<i>In millions of Ukrainian hryvnias</i>									
Balance at 1 January 2009		5,939	462	908	330	2,097	9,736	94	9,830
Premises:									
- Revaluation	10	-	-	44	-	-	44	-	44
- Decrease in the fair value	10	-	-	(370)	-	-	(370)	-	(370)
Income tax recorded in equity	22	-	-	82	-	-	82	-	82
Currency translation differences		-	-	-	24	-	24	66	90
Other comprehensive (loss)/income		-	-	(244)	24	-	(220)	66	(154)
Profit for the year		-	-	-	-	1,379	1,379	(50)	1,329
Total comprehensive income for the year		-	-	(244)	24	1,379	1,159	16	1,175
Realised revaluation reserve on premises		-	-	(36)	-	36	-	-	-
Paid-in share capital	17	1,000	-	-	-	-	1,000	-	1,000
Capitalisation of dividends	17	1,125	-	-	-	(1,125)	-	-	-
Disposal of non-controlling interest		-	-	-	-	-	-	65	65
Purchase of non-controlling interest		-	-	-	-	-	-	(20)	(20)
Balance at 31 December 2009		8,064	462	628	354	2,387	11,895	155	12,050

PrivatBank Group
Consolidated Statement of Changes in Equity

	Note	Attributable to Owners of the Bank					Non-controlling interest	Total Equity	
		Share capital	Additional capital	Revaluation reserve for premises	Currency translation reserve	Retained earnings and other reserves			
<i>In millions of Ukrainian hryvnias</i>									
Balance at 31 December 2009		8,064	462	628	354	2,387	11,895	155	12,050
Premises:									
- Revaluation	10	-	-	57	-	-	57	2	59
- Reversal of impairment through other comprehensive income	10	-	-	3	-	-	3	2	5
- Decrease in the fair value	10	-	-	(69)	-	-	(69)	(34)	(103)
Income tax recorded in equity	22	-	-	1	-	-	1	5	6
Currency translation differences		-	-	-	(13)	-	(13)	(5)	(18)
Other comprehensive (loss)/income		-	-	(8)	(13)	-	(21)	(30)	(51)
Profit for the year		-	-	-	-	1,610	1,610	(170)	1,440
Total comprehensive income for the year		-	-	(8)	(13)	1,610	1,589	(200)	1,389
Share grant						497	497	3	500
Capitalisation of dividends	17	1,049	-	-	-	(1,049)	-	-	-
Transfer of effect of hyperinflation	17	(253)	-	-	-	253	-	-	-
Reclassification	18	-	(462)	-	-	462	-	-	-
Disposal of non-controlling interest		-	-	(102)	-	236	134	96	230
Purchase of non-controlling interest		-	-	-	-	(70)	(70)	70	-
Balance at 31 December 2010		8,860	-	518	341	4,326	14,045	124	14,169

PrivatBank Group
Consolidated Statement of Cash Flows

<i>In millions of Ukrainian hryvnias</i>	Note	2010	2009
Cash flows from operating activities			
Interest received		14,029	11,773
Interest paid		(8,820)	(7,825)
Fees and commissions received		3,035	2,119
Fees and commissions paid		(301)	(232)
Losses from trading securities		-	(21)
Incomes received from financial derivatives and receivables arising from derivative		1,999	2,690
Incomes received from trading in foreign currencies		597	564
Other operating income received		155	130
Staff costs paid		(2,599)	(1,737)
Administrative and other operating expenses paid		(2,193)	(3,312)
Income tax paid		(109)	(78)
Cash flow from operating activities before changes in operating assets and liabilities		5,793	4,071
Changes in operating assets and liabilities			
Net increase in mandatory reserve balances		(634)	(1,110)
Net decrease in trading securities and other financial assets at fair value through profit or loss		7	87
Net increase in due from other banks		(1,273)	(1,328)
Net increase in loans and advances to customers		(26,190)	(277)
Net decrease/(increase) in other financial assets		684	(1,632)
Net decrease in other assets		85	616
Net (decrease)/increase in due to the NBU		(998)	4,757
Net increase/(decrease) in due to other banks and other financing institutions		1,566	(4,496)
Net increase in customer accounts		29,642	45
Net increase in provisions for liabilities and charges, other financial and non-financial liabilities		95	50
Net cash from operating activities		8,777	783
Cash flows from investing activities			
Acquisition of investment securities available-for-sale		(561)	(9)
Acquisition of investment securities held to maturity		(565)	(21)
Acquisition of premises, leasehold improvements and equipment	10	(502)	(235)
Proceeds from disposal of premises, leasehold improvements and equipment		48	72
Net cash used in investing activities		(1,580)	(193)
Cash flows from financing activities			
Proceeds from subordinated debt		-	103
Repayment of subordinated debt		(53)	(51)
Issue of ordinary shares	17	-	1,000
Funds contributed by owners of non-controlling interest into share capital of subsidiaries		110	147
Proceeds from debt securities issued		1,746	-
Repayment of debt securities issued		(1,690)	(1,143)
Net cash from financing activities		113	56
Effect of exchange rate changes on cash and cash equivalents		(133)	307
Net increase in cash and cash equivalents		7,177	953
Cash and cash equivalents at the beginning of the year		10,314	9,361
Cash and cash equivalents at the end of the year	7	17,491	10,314

Investing and financing transactions that did not require the use of cash and cash equivalents were excluded from the consolidated statement of cash flows and are disclosed in Note 7.

1 Introduction

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2010 for PrivatBank (the "Bank") and its subsidiaries (together referred to as the "Group" or "PrivatBank Group").

The Bank was incorporated as open joint stock company and is domiciled in Ukraine. In 2009 the Bank changed its legal form to a public joint stock company limited by shares in accordance with changes in Ukrainian legislation. As of 31 December 2010 and 2009 the ultimate major shareholders of the Bank were 2 Ukrainian citizens Mr I.V. Kolomoyskiy and Mr G.B. Bogolyubov who as of 31 December 2010 owned respectively 49.15% (2009: 49.15%) and 49.00% (2009: 49.00%) of the outstanding shares and neither of which individually controlled the Bank.

As of 31 December 2010 and 2009 composition of the Supervisory Board was as follows:

Chairman of the Supervisory Board:	Mr. G.B. Bogolyubov
Members of the Supervisory Board:	Mr. I.V. Kolomoyskiy
	Mr. A.G. Martynov

As of the date of issuing of the consolidated financial statements composition of the Management Board was as follows:

Chairman of the Management Board:	Mr. A.V. Dubilet
Members of the Management Board:	
General Deputy Chairman of the Management Board:	Mr. Y.P. Pikush
First Deputy Chairman of the Management Board:	Mr. V.A. Yatsenko
	Mr. T.Y. Novikov
	Mr. N.A. Volkov
Deputy Chairman of the Management Board:	Mr. Y.V. Kandaurov
	Mrs. L.I. Chmona
	Mrs. T.M. Gurieva
	Mrs. L.A. Shmalchenko
	Mr. O.V. Gorohovskiy
	Mr. V.G. Zavorotniy
	Mr. A.P. Vitiaz
	Mr. S.V. Kryzhanovskiy
	Mr. D.A. Dubilet
Chief Accountant:	Mrs. L.I. Korotina
Head of Financial Monitoring Department:	Mr. I.L. Terekhin

On 7 June 2011 Mr. D.A. Dubilet was introduced to the Management Board.

Principal activity. The Bank's principal business activity is commercial and retail banking operations within Ukraine. The Bank was initially registered as a commercial entity with limited liability, re-organised into a closed joint stock entity in 2000 and into public joint stock company in 2009. The Bank has operated under a full banking licence issued by the National Bank of Ukraine (the "NBU") since March 1992. The Bank participates in the state deposit insurance scheme (registration #113 dated 2 September 1999), which operates according to the Law №2740-III "On Individuals Deposits Guarantee Fund" dated 20 September 2001 (as amended). Individuals Deposits Guarantee Fund guarantees repayment of individual deposits up to UAH 150 thousand (2009: UAH 150 thousand) per individual in case bank liquidation procedure is started.

As of 31 December 2010 the Bank had 34 branches and 3,162 outlets within Ukraine and a branch in Cyprus (2009: 36 branches, 3,102 outlets in Ukraine and a branch in Cyprus). Additionally, as of 31 December 2010 and 2009 the Bank had subsidiary banks in the Russian Federation, Latvia, Georgia and representative offices in Kyiv (Ukraine), Moscow (Russia), Almaty (Kazakhstan), London (United Kingdom) and Beijing (China) and three consolidated special purpose entities in the United Kingdom.

1 Introduction (Continued)

As of 31 December 2010 principal subsidiaries included in the consolidated financial statements, were as follows:

Name	Nature of business	Country of registration	Percentage of legal ownership	
			31 December 2010	31 December 2009
Moscomprivatbank	Banking	Russian Federation	92.34%	92.34%
JSC PrivatBank	Banking	Georgia	61.30%	75.00%
AS PrivatBank	Banking	Latvia	75.02%	50.04%

As a result of an additional capital increase in 2010, the share of the Group in JSC PrivatBank Georgia was decreased from 75.00% to 61.30%. However, the Group continues to have 75.00% of voting rights as of 31 December 2010.

As a result of an additional capital increase in 2009, the share of the Group in AS PrivatBank Latvia was decreased from 95.07% to 50.04% and in 2010 was increased from 50.04% to 75.02%. However, the Group continues to have 98.70% (2009: 95.07%) of voting rights as of 31 December 2010.

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

50, Naberezhna Peremohy Str.,
49094, Dnipropetrovsk,
Ukraine.

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

2 Operating Environment of the Group

Ukraine continues to display certain characteristics of an emerging market. These characteristics include, but are not limited to, the existence of a currency that is not freely convertible outside of Ukraine, restrictive currency controls, and inflation of 9.1% for 2010 (2009: 12.3%).

The recent global financial crisis has had a severe effect on the Ukrainian economy and the financial situation in the Ukrainian financial and corporate sectors significantly deteriorated since mid-2008. In 2010, the Ukrainian economy experienced a moderate recovery of economic growth. The recovery was accompanied by lower refinancing rates, stabilisation of the exchange rate of the Ukrainian hryvnia against major foreign currencies, and increased money market liquidity levels. But there are certain negative circumstances:

- preservation unfavourable market conditions for Ukrainian exporters in world commodity markets and decrease external demand for domestic exports, which limits the rate of recovery of the real sector of Ukrainian economy;
- reducing the liquidity of the budget system in late 2010 due to the underperformance of state budget revenues, which could affect the timeliness of funding spending part of the state and local budgets in the current year;
- increasing government debt and its servicing costs, while maintaining the need for new borrowing and the limited possibilities of the Central Government in implementing them, in connection with the IMF to commit itself;
- preservation of the negative current account balance, which will put pressure on the balance of payments and will likely lead to further growth of the gross external debt;
- limited level of funding from the banking sector hampering the recovery of the real sector.

2 Operating Environment of the Group (Continued)

Management is unable to predict all developments which could have an impact on the banking sector and the wider economy and consequently what effect, if any, they could have on the future financial position of the Group.

As of 31 December 2010 Ukraine's long-term foreign currency ratings were 'B' by Fitch Ratings, 'B2' by Moody's and 'B+' by Standard & Poor's.

The tax, currency and customs legislation within Ukraine is subject to varying interpretations and frequent changes (Note 26). The need for further developments in the bankruptcy laws, formalised procedures for the registration and enforcement of collateral, and other legal and fiscal impediments continue to contribute to the challenges faced by banks operating in Ukraine.

On 2 December 2010, the Ukrainian Parliament adopted the new Tax Code. The Tax Code became effective from 1 January 2011, with the Corporate Profits Tax section coming into effect from 1 April 2011. Among the main changes, the Tax Code provides for the significant reduction of the corporate tax rate: 23% for 1 April - 31 December 2011, 21% for 2012, 19% for 2013, and 16% from 2014 onwards. The Tax Code also introduced new approaches to the determination of revenue and costs, new tax depreciation rules for fixed assets and intangibles, new approach to recognition of foreign exchange differences, which now became more close to the financial accounting rules. Refer to Note 22.

The new tax rules have not yet been tested in practice nor confirmed by interpretation given in courts or by the tax authorities. Therefore, at the moment their interpretation and practical application remains unclear.

The future economic direction of Ukraine is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory and political developments.

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

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

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

Management determined loan impairment provisions by considering the economic situation and outlook at the end of the reporting period and applied the 'incurred loss' model required by the applicable accounting standards. These standards require recognition of impairment losses that arose from past events and prohibit recognition of impairment losses that could arise from future events, no matter how likely those future events are. Refer to Note 4.

Management is unable to predict all developments which could have an impact on the banking sector and wider economy and consequently what effect, if any, they could have on the future financial position of the Group. Management believes it is taking all the necessary measures to support the sustainability and development of the Group's business.

3 Summary of Significant Accounting Policies

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

Consolidated financial statements. Subsidiaries are those companies and other entities (including special purpose entities) in which the Group, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies so as to obtain benefits. The existence and effect of potential voting rights that are presently exercisable or presently convertible are considered when assessing whether the Group controls another entity. Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are deconsolidated from the date that control ceases.

The Group holds less than 50% of voting rights in four fully consolidated entities. The Group has the power to govern the financial and operating policies in these entities through contractual arrangements with other shareholders. The Group retains a significant beneficial interest in their activities which are predominantly financed by the Group, as, in substance, the Group has rights to obtain the majority of the benefits of the SPEs and therefore may be exposed to risks incident to the activities of these SPEs.

The purchase method of accounting is used to account for the acquisition of subsidiaries. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest.

The Group measures non-controlling interest on a transaction by transaction basis, either at: (a) fair value, or (b) the non-controlling interest's proportionate share of net assets of the acquiree.

Goodwill is measured by deducting the net assets of the acquiree from the aggregate of the consideration transferred for the acquiree, the amount of non-controlling interest in the acquiree and fair value of an interest in the acquiree held immediately before the acquisition date. Any negative amount ("negative goodwill") is recognised in profit or loss, after management reassesses whether it identified all the assets acquired and all liabilities and contingent liabilities assumed and reviews appropriateness of their measurement.

The consideration transferred for the acquire is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed, including fair value of assets or liabilities from contingent consideration arrangements but excludes acquisition related costs such as advisory, legal, valuation and similar professional services. Transaction costs incurred for issuing equity instruments are deducted from equity; transaction costs incurred for issuing debt are deducted from its carrying amount and all other transaction costs associated with the acquisition are expensed.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. The Bank and all of its subsidiaries use uniform accounting policies consistent with the Group's policies.

Non-controlling interest is that part of the net results and of the net assets of a subsidiary attributable to interests which are not owned, directly or indirectly, by the Bank. Non-controlling interest forms a separate component of the Group's equity.

Purchases and sales of non-controlling interests. The Group applies the parent company model to account for transactions with non-controlling interest shareholders. Any difference between the purchase consideration and the carrying amount of non-controlling interest acquired is recorded as goodwill or negative goodwill. The Group recognises the difference between sales consideration and carrying amount of non-controlling interest sold as a gain or loss in the consolidated statement of comprehensive income.

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

3 Summary of Significant Accounting Policies (Continued)

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

In other than active markets, the most recent arms length transactions are the basis of current fair values. Recent transaction prices are appropriately adjusted if they do not reflect current fair values, for example because the transaction was a distress sale. Fair value is not the amount that an entity would receive or pay in a forced transaction, involuntary liquidation or distress sale.

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

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition and includes transaction costs. Measurement at cost is only applicable to investments in equity instruments that do not have a quoted market price and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments.

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

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

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

3 Summary of Significant Accounting Policies (Continued)

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

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

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

Cash and cash equivalents. Cash and cash equivalents are items which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. All short term interbank placements, beyond overnight placements, are included in due from other banks. Amounts, which relate to funds that are of a restricted nature, are excluded from cash and cash equivalents. Cash and cash equivalents include cash on hand, unrestricted demand and overnight deposits with central and other banks. Cash and cash equivalents are carried at amortised cost.

Mandatory cash balances with the NBU. Mandatory cash balances with the NBU are carried at amortised cost and are not available to finance the Group's day to day operations and hence are not considered as part of cash and cash equivalents for the purposes of the consolidated statement of cash flows.

Trading securities. Trading securities are financial assets which are either acquired for generating a profit from short-term fluctuations in price or trader's margin, or are securities included in a portfolio in which a pattern of short-term trading exists. The Group classifies securities into trading securities if it has an intention to sell them within a short period after purchase, i.e. within 3 months. The Group may choose to reclassify a non-derivative trading financial asset out of the fair value through profit or loss category if the asset is no longer held for the purpose of selling it in the near term. Financial assets other than loans and receivables are permitted to be reclassified out of fair value through profit or loss category only in rare circumstances arising from a single event that is unusual and highly unlikely to reoccur in the near term. Financial assets that would meet the definition of loans and receivables may be reclassified if the Group has the intention and ability to hold these financial assets for the foreseeable future or until maturity.

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

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

3 Summary of Significant Accounting Policies (Continued)

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

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

For the purposes of credit quality analysis the Group categories loans and advances to corporate clients, SME and private entrepreneurs into large, medium and small borrowers based on the size of the loan exposure:

Large borrowers	Above UAH 100 million
Loans to medium size borrowers	From UAH 1 million to UAH 100 million
Loans to small borrowers	Less than UAH 1 million

For the purposes of credit quality analysis the Group categories loans and advances to individuals based on the size of the loan exposure:

Loans between UAH 1-100 million
Loans less than UAH 1 million

When financial assets are renegotiated and the renegotiated terms and conditions differ substantially from the previous terms, the new asset is initially recognised at its fair value.

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

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

- any instalment is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;
- the borrower experiences a significant financial difficulty as evidenced by the borrower's financial information that the Group obtains;
- the borrower considers bankruptcy or a financial reorganisation;
- there is an adverse change in the payment status of the borrower as a result of changes in the national or local economic conditions that impact the borrower; or
- the value of collateral significantly decreases as a result of deteriorating market conditions.

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

3 Summary of Significant Accounting Policies (Continued)

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets and the experience of management in respect of the extent to which amounts will become overdue as a result of past loss events and the success of recovery of overdue amounts. Past experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods and to remove the effects of past conditions that do not exist currently. Past experience is the basis for the estimation of the loss identification period, in particular the time lag between the actual loss event and identification of the loss event by the Group. This approach ensures that the impact of losses which have not yet been specifically identified is included in the estimation of loan loss impairment.

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

Impairment losses are always recognised through an allowance account to write down the asset's carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the original effective interest rate of the asset. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

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

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

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

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

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

3 Summary of Significant Accounting Policies (Continued)

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

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

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

Investment securities held to maturity. This classification includes quoted non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has both the intention and ability to hold to maturity. Management determines the classification of investment securities held to maturity at their initial recognition and reassesses the appropriateness of that classification at each balance sheet date. Investment securities held to maturity are carried at amortised cost.

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

Goodwill. Goodwill is carried at cost less accumulated impairment losses, if any. The Group tests goodwill for impairment at least annually and whenever there are indications that goodwill may be impaired. Goodwill is allocated to the cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the business combination. Such units or group of units represent the lowest level at which the Group monitors goodwill and are not larger than an operating segment. Gains or losses on disposal of an operation within a cash generating unit to which goodwill has been allocated include the carrying amount of goodwill associated with the operation disposed of, generally measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit which is retained.

Premises, leasehold improvements and equipment. Premises, leasehold improvements and equipment are stated at cost, restated to the equivalent purchasing power of the Ukrainian hryvnia at 31 December 2000 for assets acquired prior to 1 January 2001, or revalued amounts, as described below, less accumulated depreciation and provision for impairment, where required. Cost of premises and equipment of acquired subsidiaries is the estimated fair value at the date of acquisition.

3 Summary of Significant Accounting Policies (Continued)

Premises are subject to revaluation with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Increases in the carrying amount arising on revaluation are credited to other comprehensive income and increase the revaluation surplus in equity. Decreases that offset previous increases of the same asset are recognised in other comprehensive income and decrease the previously recognised revaluation surplus in equity; all other decreases are charged to profit or loss for the year. The revaluation reserve for premises and equipment included in equity is transferred directly to retained earnings when the revaluation surplus is realised on the retirement or disposal of the asset. At the date of revaluation accumulated depreciation is eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

Management has updated the carrying value of premises carried on a revalued basis as of the reporting date using market based evidence and is satisfied that sufficient market based evidence of fair value is available to support the updated fair values.

Construction in progress is carried at cost less provision for impairment where required. Construction in progress is not depreciated until the asset is available for use.

All other items of premises and equipment are stated at cost less accumulated depreciation and impairment losses, if any.

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

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

Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in profit or loss for the year.

Depreciation. Land is not depreciated. Depreciation on other items of premises, leasehold improvements and equipment is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives as follows:

Premises	50 years
Computers	4 -10 years
Furniture and equipment	4-10 years
Motor vehicles	10 years
Other	3-10 years

Leasehold improvements are depreciated over the term of the underlying lease.

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

Intangible assets. The Group's intangible assets other than goodwill have definite useful life and primarily include capitalised computer software.

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

3 Summary of Significant Accounting Policies (Continued)

Development costs that are directly associated with identifiable and unique software controlled by the Group are recorded as intangible assets if an inflow of incremental economic benefits exceeding costs is probable. Capitalised costs include staff costs of the software development team and an appropriate portion of relevant overheads. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred. Capitalised computer software is amortised on a straight line basis over expected useful lives of 5 years.

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

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

Finance lease liabilities. Where the Group is a lessee in a lease which transferred substantially all the risks and rewards incidental to ownership to the Group, the assets leased are capitalised in premises, leasehold improvements and equipment at the commencement of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance lease balance outstanding. The corresponding rental obligations, net of future finance charges, are included in other financial liabilities. The interest cost is charged to profit or loss for the year over the lease period using the effective interest method. The assets acquired under finance leases are depreciated over their useful life or the shorter lease term if the Group is not reasonably certain that it will obtain ownership by the end of the lease term.

Due to other banks and other financing institutions. Amounts due to other banks and other financing institutions are recorded when money or other assets are advanced to the Group by counterparty banks or other financing institutions. The non-derivative liability is carried at amortised cost. If the Group 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 included in gains or losses arising from early retirement of debt.

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

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

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

Derivative financial instruments. Derivative financial instruments, including foreign exchange contracts, forward rate agreements, currency swaps and currency options are carried at their fair value.

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

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

When the fair value of derivative does not change in response to the changes in the foreign exchange rates and other variables and future cash flows from the financial derivative become certain the Group ceased to account for a financial derivative and recognise a receivable within loans and advances to customers.

3 Summary of Significant Accounting Policies (Continued)

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

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

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

Deferred income tax is provided on post acquisition retained earnings and other post acquisition movements in reserves of subsidiaries, except where the Group controls the subsidiary's dividend policy and it is probable that the difference will not reverse through dividends or otherwise in the foreseeable future.

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

Provisions for liabilities and charges. Provisions for liabilities and charges are non-financial liabilities of uncertain timing or amount. They are accrued when the Group has a present legal or constructive obligation as a result of past events, 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 the obligation can be made.

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

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

Additional capital. Additional capital is recorded when a capital contribution is made by the Bank's shareholders other than the share capital issue. Additional capital is reclassified to retained earnings and other reserves on expiry of contracts that gave rise to additional capital.

Share grant. The Group's major shareholders operate a share-based compensation plan for management of the Group. The fair value of the managers' services received in exchange for the share grant is recognised as an expense with corresponding increase in equity. If no vesting conditions are introduced, shares are vest immediately.

3 Summary of Significant Accounting Policies (Continued)

Dividends. Dividends are recorded in equity in the period in which they are declared. Any dividends declared after the end of reporting period and before the financial statements are authorised for issue are disclosed in the subsequent events note. The statutory accounting reports of the Bank are the basis for profit distribution and other appropriations. Ukrainian legislation identifies the basis of distribution as the retained earnings.

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

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

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

All other fees, commissions and other income and expense items are generally recorded on an accrual basis by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided. Loan syndication fees are recognised as income when the syndication has been completed and the Group retains no part of the loan package for itself or retains a part at the same effective interest rate as for the other participants.

Commissions and fees arising from negotiating, or participating in the negotiation of a transaction for a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses, and which are earned on execution of the underlying transaction, are recorded on its completion. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-proportion basis. Asset management fees related to investment funds are recorded rateably over the period the service is provided. The same principle is applied for wealth management, financial planning and custody services that are continually provided over an extended period of time.

Recognition of deferred day one profit and loss. The Group has entered into transactions, where fair value is determined using valuation models for which not all inputs are market observable prices or rates. Such a financial instrument is initially recognised at the transaction price, which is the best indicator of fair value, although the value obtained from the relevant valuation model may differ. The difference between the transaction price and the model value, commonly referred to as "day one profit and loss", is not recognised immediately in the profit or loss.

The timing of recognition of deferred day one profit and loss is determined individually. It is either amortised over the life of the transaction, deferred until the instrument's fair value can be determined using market observable inputs, or realised through settlement. The financial instrument is subsequently measured at fair value, adjusted for the deferred day one profit and loss. Subsequent changes in fair value are recognised immediately in the profit or loss for the year without reversal of deferred day one profits and losses.

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

3 Summary of Significant Accounting Policies (Continued)

Monetary assets and liabilities are translated into each entity's functional currency at the official exchange rate of the NBU at the respective reporting period. Foreign exchange gains and losses resulting from the settlement of transactions and from the translation of monetary assets and liabilities into each entity's functional currency at year-end official exchange rates of the NBU are recognised in profit or loss for the year. Translation at year-end rates does not apply to non-monetary items that are measured at historical cost. Non-monetary items measured at fair value in a foreign currency, including equity instruments, are translated using the exchange rates at the date when the fair value was determined. Effects of exchange rate changes on the fair value of equity securities are recorded as part of the fair value gain or loss.

As the characteristics of the economic environment of Ukraine indicate that hyperinflation has ceased, effective from 1 January 2001 the Bank no longer applies the provisions of IAS 29. Accounting for the effects of hyperinflation prior to 1 January 2001 is detailed further below. The results and financial position of each group entity (the functional currency of none of which is a currency of a hyperinflationary economy) are translated into the presentation currency as follows:

- (i) assets and liabilities for each statement of financial position presented are translated at the closing rate at the end of the respective reporting period;
- (ii) income and expenses are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions);
- (iii) components of equity are translated at the historic rate; and
- (iv) all resulting exchange differences are recognised in other comprehensive income.

When control over a foreign operation is lost, the previously recognised exchange differences on translation to a different presentation currency are reclassified from other comprehensive income to profit or loss for the year as part of the gain or loss on disposal. On partial disposal of a subsidiary without loss of control, the related portion of accumulated currency translation differences is reclassified to non-controlling interest within equity.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

The principal rates of exchange used for translating foreign currency balances were as follows:

	31 December 2010, UAH	31 December 2009, UAH
1 US Dollar (USD)	7.961700	7.985000
1 Euro (EUR)	10.573138	11.448893
1 Russian Ruble (RUB)	0.261240	0.264020
1 Latvian Lat (LVL)	14.895939	16.141115
1 Georgian Lari (GEL)	4.506898	4.765001

Fiduciary assets. Assets held by the Group in its own name, but on the account of third parties, are not reported in the consolidated statement of financial position. For the purposes of disclosure, fiduciary activities do not encompass safe custody functions. Commissions received from fiduciary activities are shown in fee and commission income.

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

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

Segment reporting. Operating segments are reported in a manner consistent with the internal reporting provided to the Group's chief operating decision maker. Segments whose revenue, result or assets are ten percent or more of all the segments are reported separately.

3 Summary of Significant Accounting Policies (Continued)

Changes in presentation. In the consolidated financial statements as of 31 December 2009, Note 10 the Group disclosed carrying amount of premises of UAH 1,843 million had the assets been carried at cost less depreciation by mistake instead of UAH 843 million. The amount was corrected in 2010 consolidated financial statements.

In Note 24, the Group changed maturity of credit related commitments in the undiscounted maturity analysis of financial liabilities from the contractual dates to the earliest period in which the Group can be required to pay. Credit related commitments were disclosed at gross amounts.

In Note 29, in the reconciliation of classes of financial assets with the measurement categories, the Group reclassified other assets in amount of UAH 1,440 million representing receivables arising from financial derivative from assets at fair value through profit or loss to loans and receivables.

4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies

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

Impairment losses on loans and advances. The Group regularly reviews its loan portfolios to assess impairment. In determining whether an impairment loss should be recorded in profit or loss for the year, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. A 10% increase or decrease in actual loss experience compared to the loss estimates used would result in an increase or decrease in loan impairment losses of UAH 571 million or UAH 628 million (2009: UAH 490 million), respectively. Impairment losses for individually significant loans are based on estimates of discounted future cash flows of the individual loans, taking into account repayments and realisation of any assets held as collateral against the loans. A 10% increase or decrease in the actual loss experience compared to the estimated future discounted cash flows from individually significant loans, which could arise from differences in amounts and timing of the cash flows, would result in an increase or decrease in loan impairment losses of UAH 719 million or UAH 731 million (2009: UAH 500 million), respectively.

Impairment losses on loans and advances issued to the group of borrowers. The Group regularly reviews its outstanding loans and advances issued to the oil traders, engaged in wholesale and retail sale of petrol, oil and oil products. Certain of these companies work closely with each other. In determining whether an impairment loss should be recorded in profit or loss for the year, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans issued to oil traders before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in an oil traders group, or regulatory, industry or national economic conditions that correlate with defaults on assets in the oil traders group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

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

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

Fair value of derivatives. The fair values of financial derivatives that are not quoted in active markets are determined by using valuation techniques. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. To the extent practical, models use only observable data, however areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair values.

As of 31 December 2010 the Bank had loans and advances to customers totalling UAH 51,620 million (2009: UAH 36,608 million) issued in UAH with the condition of compensation to be received by the Bank in the event that the official exchange rate of UAH depreciates against USD. The contract to receive compensation was accounted for by the Bank as a financial derivative with the fair value of UAH 1,678 million as of 31 December 2010 (2009: UAH 2,005 million) estimated using a valuation technique. This valuation technique takes into account expected movements in exchange rates, discount factor and credit risk. Changing the assumptions about expected exchange rates may result in a different profit. All contracts mature from 2011 to 2014, inclusive. If the expected UAH/USD exchange rate for these years would be higher/lower by 5%, the fair value of the derivative and the respective consolidated statement of comprehensive income amount would increase by UAH 2,304 million and decrease by UAH 1,671 million (2009: 5%; UAH 1,518 million). If the discount rate used for fair valuation of the derivatives as of 31 December 2010 would be higher/lower by 100 basis points, the fair value of the derivative and the respective consolidated statement of comprehensive income amount would decrease/increase by UAH 10 million (2009: UAH 134 million). If the credit risk of counterparties as of 31 December 2010 would be higher/lower by 10%, the fair value of the derivative and the respective consolidated statement of comprehensive income amount would decrease/increase by UAH 81 million (2009: UAH 200 million). Refer to Note 27.

Tax legislation. Ukrainian and Russian tax, currency and customs legislation is subject to varying interpretations. Refer to Note 26.

Valuation of own use premises. Premises of the Group are stated at fair value based on reports prepared by a valuation company. The basis for their work is sales comparison approach. At the date of revaluation accumulated depreciation was eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset. When performing revaluation certain judgements and estimates are applied by the valuers in determination of the comparison of premises to be used in sales comparison approach. Changes in assumptions about these factors could affect reported fair values. The valuation was based on comparative sales of premises with the price per square meter varying from UAH 757 to UAH 36,140 (2009: UAH 852 to UAH 43,133), depending upon the location of premises. To the extent that the price per square meter differs by +/-5 percent, the fair value of premises would be UAH 75 million higher or UAH 75 million lower (2009: UAH 108 million higher or UAH 108 million lower).

Provision for credit related commitments. The Group regularly reviews its outstanding credit related commitments to any provision to be created for credit related commitments. In determining whether a provision should be recorded in profit or loss for the year, the Group makes judgements as to whether there is any observable data indicating that credit related commitment will be executed and the best estimate of the expenditure required to settle the commitment at the end of the period is lower than the remaining unamortised balance of the amount at initial recognition.

Management uses estimates based on historical loss experience for commitments with credit risk characteristics similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Special Purpose Entities (SPEs). Judgement is also required to determine whether the substance of the relationship between the Group and a special purpose entity indicates that the special purpose entity is controlled by the Group.

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

The Group does not consolidate SPEs that it does not control. As it can sometimes be difficult to determine whether the Group does control an SPE, Management makes judgements about its exposure to the risks and rewards, as well as about its ability to make operational decisions for the SPE in question. In many instances, elements are present that, considered in isolation, indicate control or lack of control over an SPE, but when considered together make it difficult to reach a clear conclusion. In cases where more arguments are in place towards existence of control, the SPE is consolidated.

SPEs consolidated by the Group as at 31 December 2010 are established to serve as an integral part of the Bank's business and their operations are managed by the Bank.

Were the Group not to consolidate the assets, liabilities and the results of these consolidated SPEs, the net effect on the consolidated statement of financial position would be a decrease in net assets by UAH 34 million (2009: a decrease in net assets by UAH 86 million) and increase in profit by UAH 6 million (2009: increase by UAH 78 million).

Deferred income tax asset recognition. The recognised deferred tax asset represents income taxes recoverable through future deductions from taxable profits and is recorded in the consolidated statement of financial position. Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable. The future taxable profits and the amount of tax benefits that are probable in the future are based on a medium term business plan prepared by management and extrapolated results thereafter. The business plan is based on management expectations that are believed to be reasonable under the circumstances. The Group does not recognise a deferred tax asset where it does not expect future taxable profits will be available against which the temporary differences can be utilised.

The tax rate used to recognise the deferred tax asset and liability varies from 16% to 25% and reflects management expectations regarding timing of realisation of temporary differences. If the actual results are such that the realisation is later than forecast, temporary differences will be taxed primarily at 16%.

Share grant. In 2010, majority shareholders of the Group offered the opportunity to purchase shares of PrivatBank to the top managers of the Group with a discount to the nominal value of shares for services provided by top managers to the Group. The amount of UAH 500 million being difference between the fair value of shares as at the date of share grant and cost to purchase of these shares for management was recognised as a remuneration of top management of the Group within the administrative and other operating expenses with respective credit to equity of the Group. If the fair value of shares of PrivatBank as at the date of share grant was higher/lower by 5%, staff costs would increase/decrease by UAH 36 million. In addition, in 2010, majority shareholders of the Group offered the opportunity to purchase shares of PrivatBank to some of the top managers at the same terms for activity non-relating to PrivatBank Group. If the split of shares between those related and non-related to the Bank's activity had been different by +/-10%, staff costs would increased by UAH 100 million or decreased by UAH 100 million.

5 Adoption of New or Revised Standards and Interpretations

(a) Standards effective for annual periods beginning on or after 1 January 2010

The following new standards and interpretations became effective for the Group from 1 January 2010:

IFRIC 17, Distributions of Non-Cash Assets to Owners (effective for annual periods beginning on or after 1 July 2009). The interpretation clarifies when and how distribution of non-cash assets as dividends to the owners should be recognised. An entity should measure a liability to distribute non-cash assets as a dividend to its owners at the fair value of the assets to be distributed. A gain or loss on disposal of the distributed non-cash assets should be recognised in profit or loss when the entity settles the dividend payable.

IFRIC 18, Transfers of Assets from Customers (effective for annual periods beginning on or after 1 July 2009). The interpretation clarifies the accounting for transfers of assets from customers, namely, the circumstances in which the definition of an asset is met; the recognition of the asset and the measurement of its cost on initial recognition; the identification of the separately identifiable services (one or more services in exchange for the transferred asset); the recognition of revenue, and the accounting for transfers of cash from customers.

5 Adoption of New or Revised Standards and Interpretations (Continued)

IAS 27, Consolidated and Separate Financial Statements (revised January 2008; effective for annual periods beginning on or after 1 July 2009). The revised IAS 27 requires an entity to attribute total comprehensive income to the owners of the parent and to the non-controlling interests (previously "minority interests") even if this results in the non-controlling interests having a deficit balance (the previous standard required the excess losses to be allocated to the owners of the parent in most cases). The revised standard specifies that changes in a parent's ownership interest in a subsidiary that do not result in the loss of control must be accounted for as equity transactions. It also specifies how an entity should measure any gain or loss arising on the loss of control of a subsidiary. At the date when control is lost, any investment retained in the former subsidiary has to be measured at its fair value.

IFRS 3, Business Combinations (revised January 2008; effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009). The revised IFRS 3 allows entities to choose to measure non-controlling interests using the previous IFRS 3 method (proportionate share of the acquiree's identifiable net assets) or at fair value. The revised IFRS 3 is more detailed in providing guidance on the application of the purchase method to business combinations. The requirement to measure at fair value every asset and liability at each step in a step acquisition for the purposes of calculating a portion of goodwill has been removed. Instead, in a business combination achieved in stages, the acquirer has to remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognise the resulting gain or loss, if any, in profit or loss for the year. Acquisition-related costs are accounted for separately from the business combination and therefore recognised as expenses rather than included in goodwill. An acquirer has to recognise a liability for any contingent purchase consideration at the acquisition date. Changes in the value of that liability after the acquisition date are recognised in accordance with other applicable IFRSs, as appropriate, rather than by adjusting goodwill. The revised IFRS 3 brings into its scope business combinations involving only mutual entities and business combinations achieved by contract alone.

Group Cash-settled Share-based Payment Transactions - Amendments to IFRS 2, Share-based Payment (effective for annual periods beginning on or after 1 January 2010). The amendments provide a clear basis to determine the classification of share-based payment awards in both consolidated and separate financial statements. The amendments incorporate into the standard the guidance in IFRIC 8 and IFRIC 11, which are withdrawn. The amendments expand on the guidance given in IFRIC 11 to address plans that were previously not considered in the interpretation. The amendments also clarify the defined terms in the Appendix to the standard.

Eligible Hedged Items—Amendment to IAS 39, Financial Instruments: Recognition and Measurement (effective with retrospective application for annual periods beginning on or after 1 July 2009). The amendment clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation should be applied in particular situations.

IFRS 1, First-time Adoption of International Financial Reporting Standards (following an amendment in December 2008, effective for the first IFRS financial statements for a period beginning on or after 1 July 2009). The revised IFRS 1 retains the substance of its previous version but within a changed structure in order to make it easier for the reader to understand and to better accommodate future changes.

Additional Exemptions for First-time Adopters - Amendments to IFRS 1, First-time Adoption of IFRS (effective for annual periods beginning on or after 1 January 2010). The amendments exempt entities using the full cost method from retrospective application of IFRSs for oil and gas assets and also exempt entities with existing leasing contracts from reassessing the classification of those contracts in accordance with IFRIC 4, 'Determining Whether an Arrangement Contains a Lease' when the application of their national accounting requirements produced the same result.

5 Adoption of New or Revised Standards and Interpretations (Continued)

Improvements to International Financial Reporting Standards (issued in April 2009; amendments to IFRS 2, IAS 38, IFRIC 9 and IFRIC 16 are effective for annual periods beginning on or after 1 July 2009; amendments to IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 36 and IAS 39 are effective for annual periods beginning on or after 1 January 2010). The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: clarification that contributions of businesses in common control transactions and formation of joint ventures are not within the scope of IFRS 2; clarification of disclosure requirements set by IFRS 5 and other standards for non-current assets (or disposal groups) classified as held for sale or discontinued operations; requiring to report a measure of total assets and liabilities for each reportable segment under IFRS 8 only if such amounts are regularly provided to the chief operating decision maker; amending IAS 1 to allow classification of certain liabilities settled by entity's own equity instruments as non-current; changing IAS 7 such that only expenditures that result in a recognised asset are eligible for classification as investing activities; allowing classification of certain long-term land leases as finance leases under IAS 17 even without transfer of ownership of the land at the end of the lease; providing additional guidance in IAS 18 for determining whether an entity acts as a principal or an agent; clarification in IAS 36 that a cash generating unit shall not be larger than an operating segment before aggregation; supplementing IAS 38 regarding measurement of fair value of intangible assets acquired in a business combination; amending IAS 39 (i) to include in its scope option contracts that could result in business combinations, (ii) to clarify the period of reclassifying gains or losses on cash flow hedging instruments from equity to profit or loss for the year and (iii) to state that a prepayment option is closely related to the host contract if upon exercise the borrower reimburses economic loss of the lender; amending IFRIC 9 to state that embedded derivatives in contracts acquired in common control transactions and formation of joint ventures are not within its scope; and removing the restriction in IFRIC 16 that hedging instruments may not be held by the foreign operation that itself is being hedged. In addition, the amendments clarifying classification as held for sale under IFRS 5 in case of a loss of control over a subsidiary published as part of the *Annual Improvements to International Financial Reporting Standards*, which were issued in May 2008, are effective for annual periods beginning on or after 1 July 2009.

(b) Amendments to standards adopted before their effective date

The Group adopted the amendment to IAS 1, Presentation of Financial Statements, which was issued in May 2010 as part of the Annual Improvements to International Financial Reporting Standards. The amendment clarifies the requirements for the presentation and content of the consolidated statement of changes in equity. A reconciliation between the carrying amount at the beginning and the end of the period for each component of equity must be presented in the consolidated statement of changes in equity, but its content is simplified by allowing an analysis of other comprehensive income by item for each component of equity to be presented in the notes.

6 New Accounting Pronouncements

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2011 or later and which the Group has not early adopted.

Classification of Rights Issues - Amendment to IAS 32 (issued on 8 October 2009; effective for annual periods beginning on or after 1 February 2010). The amendment exempts certain rights issues of shares with proceeds denominated in foreign currencies from classification as financial derivatives.

Amendment to IAS 24, Related Party Disclosures (issued in November 2009 and effective for annual periods beginning on or after 1 January 2011). IAS 24 was revised in 2009 by: (a) simplifying the definition of a related party, clarifying its intended meaning and eliminating inconsistencies; and by (b) providing a partial exemption from the disclosure requirements for government-related entities.

IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments (effective for annual periods beginning on or after 1 July 2010). This IFRIC clarifies the accounting when an entity renegotiates the terms of its debt with the result that the liability is extinguished through the debtor issuing its own equity instruments to the creditor. A gain or loss is recognised in profit or loss based on the fair value of the equity instruments compared to the carrying amount of the debt.

6 New Accounting Pronouncements (Continued)

Prepayments of a Minimum Funding Requirement – Amendment to IFRIC 14 (effective for annual periods beginning on or after 1 January 2011). This amendment will have a limited impact as it applies only to companies that are required to make minimum funding contributions to a defined benefit pension plan. It removes an unintended consequence of IFRIC 14 related to voluntary pension prepayments when there is a minimum funding requirement.

Limited exemption from comparative IFRS 7 disclosures for first-time adopters - Amendment to IFRS 1 (effective for annual periods beginning on or after 1 July 2010). Existing IFRS preparers were granted relief from presenting comparative information for the new disclosures required by the March 2009 amendments to IFRS 7, *Financial Instruments: Disclosures*. This amendment to IFRS 1 provides first-time adopters with the same transition provisions as included in the amendment to IFRS 7.

IFRS 9, Financial Instruments Part 1: Classification and Measurement. IFRS 9 issued in November 2009 replaces those parts of IAS 39 relating to the classification and measurement of financial assets. IFRS 9 was further amended in October 2010 to address the classification and measurement of financial liabilities. Key features of the standard are as follows:

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

While adoption of IFRS 9 is mandatory from 1 January 2013, earlier adoption is permitted.

Recovery of Underlying Assets – Amendments to IAS 12 (issued in December 2010 and effective for annual periods beginning on or after 1 January 2012). The amendment introduced a rebuttable presumption that an investment property carried at fair value is recovered entirely through sale. This presumption is rebutted if the investment property is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. SIC-21, *Income Taxes – Recovery of Revalued Non-Depreciable Assets*, which addresses similar issues involving non-depreciable assets measured using the revaluation model in IAS 16, *Property, Plant and Equipment*, was incorporated into IAS 12 after excluding from its scope investment properties measured at fair value.

6 New Accounting Pronouncements (Continued)

Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters – Amendments to IFRS 1 (issued in December 2010 and effective for annual periods beginning on or after 1 July 2011) The amendment regarding severe hyperinflation creates an additional exemption when an entity that has been subject to severe hyperinflation resumes presenting or presents for the first time, financial statements in accordance with IFRS. The exemption allows an entity to elect to measure certain assets and liabilities at fair value; and to use that fair value as the deemed cost in the opening IFRS consolidated statement of financial position.

The IASB has also amended IFRS 1 to eliminate references to fixed dates for one exception and one exemption, both dealing with financial assets and liabilities. The first change requires first-time adopters to apply the derecognition requirements of IFRS prospectively from the date of transition, rather than from 1 January 2004. The second amendment relates to financial assets or liabilities where the fair value is established through valuation techniques at initial recognition and allows the guidance to be applied prospectively from the date of transition to IFRS rather than from 25 October 2002 or 1 January 2004. This means that a first-time adopter may not need to determine the fair value of certain financial assets and liabilities at initial recognition for periods prior to the date of transition. IFRS 9 has also been amended to reflect these changes.

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

Improvements to International Financial Reporting Standards (issued in May 2010 and effective from 1 January 2011). The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: IFRS 1 was amended (i) to allow previous GAAP carrying value to be used as deemed cost of an item of property, plant and equipment or an intangible asset if that item was used in operations subject to rate regulation, (ii) to allow an event driven revaluation to be used as deemed cost of property, plant and equipment even if the revaluation occurs during a period covered by the first IFRS financial statements and (iii) to require a first-time adopter to explain changes in accounting policies or in the IFRS 1 exemptions between its first IFRS interim report and its first IFRS financial statements; IFRS 3 was amended (i) to require measurement at fair value (unless another measurement basis is required by other IFRS standards) of non-controlling interests that are not present ownership interest or do not entitle the holder to a proportionate share of net assets in the event of liquidation, (ii) to provide guidance on acquiree's share-based payment arrangements that were not replaced or were voluntarily replaced as a result of a business combination and (iii) to clarify that the contingent considerations from business combinations that occurred before the effective date of revised IFRS 3 (issued in January 2008) will be accounted for in accordance with the guidance in the previous version of IFRS 3; IFRS 7 was amended to clarify certain disclosure requirements, in particular (i) by adding an explicit emphasis on the interaction between qualitative and quantitative disclosures about the nature and extent of financial risks, (ii) by removing the requirement to disclose carrying amount of renegotiated financial assets that would otherwise be past due or impaired, (iii) by replacing the requirement to disclose fair value of collateral by a more general requirement to disclose its financial effect, and (iv) by clarifying that an entity should disclose the amount of foreclosed collateral held at the reporting date and not the amount obtained during the reporting period; IAS 27 was amended by clarifying the transition rules for amendments to IAS 21, 28 and 31 made by the revised IAS 27 (as amended in January 2008); IAS 34 was amended to add additional examples of significant events and transactions requiring disclosure in a condensed interim financial report, including transfers between the levels of fair value hierarchy, changes in classification of financial assets or changes in business or economic environment that affect the fair values of the entity's financial instruments; and IFRIC 13 was amended to clarify measurement of fair value of award credits. The Group does not expect the amendments to have any material effect on its consolidated financial statements, except the amendment to IAS 1, which was early adopted by the Group, as disclosed in Note 5.

6 New Accounting Pronouncements (Continued)

IFRS 10, Consolidated financial statements (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013), replaces all of the guidance on control and consolidation in IAS 27 "Consolidated and separate financial statements" and SIC-12 "Consolidation - special purpose entities". IFRS 10 changes the definition of control so that the same criteria are applied to all entities to determine control. This definition is supported by extensive application guidance.

IFRS 11, Joint arrangements, (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013), replaces IAS 31 "Interests in Joint Ventures" and SIC-13 "Jointly Controlled Entities—Non-Monetary Contributions by Ventures". Changes in the definitions have reduced the number of "types" of joint arrangements to two: joint operations and joint ventures. The existing policy choice of proportionate consolidation for jointly controlled entities has been eliminated. Equity accounting is mandatory for participants in joint ventures.

IFRS 12, Disclosure of interest in other entities, (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013), applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity; it replaces the disclosure requirements currently found in IAS 28 "Investments in associates". IFRS 12 requires entities to disclose information that helps financial statement readers to evaluate the nature, risks and financial effects associated with the entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities. To meet these objectives, the new standard requires disclosures in a number of areas, including significant judgements and assumptions made in determining whether an entity controls, jointly controls or significantly influences its interests in other entities, extended disclosures on share of non-controlling interests in group activities and cash flows, summarised financial information of subsidiaries with material non-controlling interests, and detailed disclosures of interests in unconsolidated structured entities.

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

Amendment to IAS 1, Presentation of financial statements (issued in June 2011 and effective for annual periods beginning on or after 1 July 2012). The amendment requires the entities to separate items presented in other comprehensive income into two groups, based on whether or not they may be recycled to profit or loss in the future. The amendment also changes the title for the statement of comprehensive income to 'statement of profit or loss and other comprehensive income'. The Group is currently assessing the impact of the amended standard on disclosures in its financial statements

Amendment to IAS 19, Employee benefits (issued in June 2011 and effective for annual periods beginning on or after 1 January 2013). The amendment makes significant changes to the recognition and measurement of defined benefit pension expense and termination benefits. The amendment also changes disclosures for all employee benefits. The Group does not expect the amendments to have any material effect on its financial statements.

Unless otherwise described above, the new standards and interpretations are not expected to significantly affect the Group's consolidated financial statements.

7 Cash and Cash Equivalents and Mandatory Reserves

<i>In millions of Ukrainian hryvnias</i>	2010	2009
Cash on hand	5,088	3,494
Cash balances with the NBU	2,029	1,677
Cash balances with the Central Bank of Russian Federation	461	908
Cash balances with the Central Bank of Latvia	475	137
Cash balances with the Central Bank of Cyprus	213	98
Cash balances with the Central Bank of Georgia	49	45
Correspondent accounts and overnight placements with other banks		
- Ukraine	2	209
- Other countries	10,949	4,887
Total cash and cash equivalents and mandatory reserves	19,266	11,455

As at 31 December 2010 mandatory reserve balance with the National Bank of Ukraine is calculated on the basis of a simple average over a monthly period (2009: simple average over a monthly period) and should be maintained at the level of 0 to 7 per cent (2009: 0 to 7 per cent) of certain obligations of the Bank depending on its maturity and currency. As such, mandatory reserve balance with the National Bank of Ukraine can vary from day-to-day. For December 2010 the Bank's mandatory reserve average balance was UAH 1,481 million (December 2009: UAH 1,042 million).

As at 31 December 2010 the regulatory requirement to maintain the amount of obligatory reserve on the Bank's accounts with the NBU has been abolished (31 December 2009: not less than 90% of the mandatory reserve balance for the preceding month). As at 31 December 2010 it was also required to maintain the balance on the separate account with the NBU at the level not less than 100% of the mandatory reserves balance for the preceding month (31 December 2009: less than 50% of the mandatory reserves balance for the preceding month), as a part of the total required level of mandatory reserves; the amount is subject to interest payments from the side of the NBU at a rate of 2.325% (30% of the NBU official interest rate), provided that the Bank is in compliance with the mandatory reserve requirements (31 December 2009: the requirement was 3.075%, which was calculated as 30% of the NBU official interest rate).

Furthermore, Ukrainian banks are required to keep on a separate account with the NBU the amount equal to allowance for loan impairment (determined on the basis of Ukrainian accounting regulation) created for loans granted in foreign currency to borrowers non-residents. The provision rate has been established in amount 20%. As at 31 December 2010 this provision has been placed on the separate account in amount of UAH 128 million (31 December 2009: nil).

As of 31 December 2010 the mandatory reserve balances of the Bank's subsidiaries in Russia and Georgia that should be kept with respective central banks were UAH 166 million (2009: mandatory reserves in Russia and Georgia were UAH 99 million).

As the respective liquid assets are not available to finance the Group's day-to-day operations, except for the mandatory reserves with the Bank of Latvia and the Central Bank of Cyprus, for the purposes of the consolidated statement of cash flows, the mandatory reserve balances relating to the Bank, Russian and Georgian subsidiaries (2009: mandatory reserve balances relating to the Russian and Georgian subsidiaries) are excluded from the cash and cash equivalents. As of 31 December 2010 the Group's cash and cash equivalents for the purposes of consolidated statement of cash flows were as follows:

<i>In millions of Ukrainian hryvnias</i>	2010	2009
Total cash and cash equivalents and mandatory reserves	19,266	11,455
Less mandatory reserves balances	(1,775)	(1,141)
Cash and cash equivalents for the purposes of the consolidated statement of cash flows	17,491	10,314

7 Cash and Cash Equivalents and Mandatory Reserves (Continued)

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

	Cash on hand	Cash balances with the Central Banks, including mandatory reserves	Correspondent accounts and overnight placements with other banks	Total
<i>In millions of Ukrainian hryvnias</i>				
<i>Neither past due nor impaired</i>				
Cash on hand	5,088	-	-	5,088
Cash balances with the Central Banks	-	3,227	-	3,227
Aaa rated	-	-	17	17
Aa1 to Aa3 rated	-	-	9,798	9,798
A1 to A3 rated	-	-	394	394
Baa1 to Baa3 rated	-	-	102	102
Ba1 to Ba3 rated	-	-	11	11
B1 to B3 rated	-	-	132	132
Unrated	-	-	497	497
Total cash and cash equivalents and mandatory reserves	5,088	3,227	10,951	19,266

Analysis by credit quality of cash and cash equivalents and mandatory reserve balances summarised based on Moody's ratings at 31 December 2009 is as follows:

	Cash on hand	Cash balances with the Central Banks, including mandatory reserves	Correspondent accounts and overnight placements with other banks	Total
<i>In millions of Ukrainian hryvnias</i>				
<i>Neither past due nor impaired</i>				
Cash on hand	3,494	-	-	3,494
Cash balances with the Central Banks	-	2,865	-	2,865
Aaa rated	-	-	78	78
Aa1 to Aa3 rated	-	-	3,895	3,895
A1 to A3 rated	-	-	530	530
Baa1 to Baa3 rated	-	-	212	212
Ba1 to Ba3 rated	-	-	2	2
B1 to B3 rated	-	-	36	36
Unrated	-	-	343	343
Total cash and cash equivalents and mandatory reserves	3,494	2,865	5,096	11,455

Investing and financing transactions that did not require the use of cash and cash equivalents and were excluded from the consolidated statement of cash flows are as follows:

<i>In millions of Ukrainian hryvnias</i>	2010	2009
Non-cash financing activities		
Dividends	(1,049)	(1,125)
Increase in share capital	1,049	1,125
Non-cash financing activities	-	-

Geographical, maturity and interest rate analysis of cash and cash equivalents and mandatory reserves is disclosed in Note 24.

8 Due from Other Banks

<i>In millions of Ukrainian hryvnias</i>	2010	2009
Term placements with other banks	4,893	3,767
Guarantee deposits with other banks	437	302
Total due from other banks	5,330	4,069

Term placements with other banks include UAH 354 million (2009: UAH 367 million) of a placement with a local bank that purchased a portfolio of loans from the Group of gross amount of UAH 617 million in December 2007.

Guarantee deposits represent balances placed with other banks as cover for letters of credit and for international payments. These are effectively restricted deposits, which are required to be maintained to complete the related trade finance activity. Refer to Note 27.

Amounts due from other banks are not collateralised. Analysis by credit quality of amounts due from other banks outstanding at 31 December 2010 is as follows:

<i>In millions of Ukrainian hryvnias</i>	Term placements with other banks	Guarantee deposits with other banks	Total
<i>Neither past due nor impaired</i>			
- Aaa rated	92	7	99
- Aa1 rated	318	-	318
- Aa2 rated	-	113	113
- Aa3 rated	406	317	723
- A1 rated	21	-	21
- Baa3 rated	988	-	988
- B1 rated	37	-	37
- Unrated	3,031	-	3,031
Total due from other banks	4,893	437	5,330

Analysis by credit quality of amounts due from other banks outstanding at 31 December 2009 is as follows:

<i>In millions of Ukrainian hryvnias</i>	Term placements with other banks	Guarantee deposits with other banks	Total
<i>Neither past due nor impaired</i>			
- Aaa rated	191	10	201
- Aa1 rated	-	14	14
- Aa3 rated	268	276	544
- A1 rated	-	2	2
- B1 rated	47	-	47
- Unrated	3,261	-	3,261
Total due from other banks	3,767	302	4,069

Unrated amounts of due from other banks represent balances with Ukrainian banks and non-OECD banks.

The primary factor that the Group considers in determining whether a deposit is impaired is its overdue status.

8 Due from Other Banks (Continued)

As an active participant in the banking markets, the Group has a significant concentration of credit risk with other financial institutions. In total, credit risk exposure to financial institutions is estimated to have amounted to gross amount of UAH 21,922 million (2009: UAH 16,615 million) comprising cash and cash equivalents, due from other banks and financial derivatives. Refer to Note 7 and 26.

Refer to Note 28 for the estimated fair value of each class of amounts due from other banks. Geographical, maturity and interest rate analysis of due from other banks is disclosed in Note 24.

9 Loans and Advances to Customers

<i>In millions of Ukrainian hryvnias</i>	2010	2009
Corporate loans	80,423	55,071
Loans to individuals - card	9,567	7,579
Loans to individuals - mortgage	5,665	6,654
Loans to individuals - auto	2,577	3,851
Loans to individuals - consumer	628	408
Loans to individuals - other	1,621	1,414
Loans to small and medium enterprises (SME)	2,721	4,054
Reverse sale and repurchase agreements - corporate (Reverse repo)	107	145
Less: Provision for loan impairment	(13,615)	(12,579)
Total loans and advances to customers	89,694	66,597

As of 31 December 2010 interest income of UAH 2,064 million (2009: UAH 1,857 million) was accrued on loans and advances to customers impaired at the year end.

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

<i>In millions of Ukrainian hryvnias</i>	Corpo- rate loans	Loans to individuals					SME	Reverse repo	Total
		Card	Mortgage	Auto	Consumer	Other			
Provision for loan impairment at 1 January 2010	7,418	1,000	1,671	779	44	201	1,408	58	12,579
Provision/(reversal of provision) for impairment during the year	3,200	276	(27)	25	10	136	(43)	(47)	3,530
Amounts written off during the year as uncollectible	(493)	(820)	(104)	(280)	(46)	(104)	(583)	-	(2,430)
Currency translation differences	(28)	(5)	(17)	(2)	(2)	(6)	(4)	-	(64)
Provision for loan impairment at 31 December 2010	10,097	451	1,523	522	6	227	778	11	13,615

The provision for impairment during 2010 differs from the amount presented in profit or loss for the year due to UAH 122 million recoveries of amounts previously written off as uncollectible. The amount of the recovery was credited directly to the provisions line in profit or loss for the year.

9 Loans and Advances to Customers (Continued)

Movements in the provision for loan impairment during 2009 are as follows:

<i>In millions of Ukrainian hryvnias</i>	Corpo- rate loans	Loans to individuals					SME	Reverse repo	Total
		Card	Mortgage	Auto	Consumer	Other			
Provision for loan impairment at 1 January 2009	4,276	1,469	808	541	231	68	735	2	8,130
Provision for impairment during the year	3,055	481	832	274	17	132	654	52	5,497
Amounts written off during the year as uncollectible	(58)	(976)	(12)	(34)	(199)	(7)	(7)	-	(1,293)
Currency translation differences	145	26	43	(2)	(5)	8	26	4	245
Provision for loan impairment at 31 December 2009	7,418	1,000	1,671	779	44	201	1,408	58	12,579

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

<i>In millions of Ukrainian hryvnias</i>	2010		2009	
	Amount	%	Amount	%
Oil trading	32,772	32	23,021	30
Loans to individuals	20,058	19	19,906	25
Commerce and finance	12,835	12	10,034	12
Agriculture, forestry and food industry	10,039	10	7,993	10
Metallurgy and mining	9,612	9	1,216	1
Securities trading	4,258	4	2,036	2
Manufacturing	3,398	3	2,916	4
Construction	3,033	3	3,021	4
Small and medium enterprises (SME)	2,721	3	4,054	5
Tourism	2,132	2	1,674	2
Transport, storage and communication	560	1	551	1
Other	1,891	2	2,754	4
Total loans and advances to customers (before impairment)	103,309	100	79,176	100

Disclosed in oil trading industry are UAH 32,104 million of loans and advances (2009: UAH 21,994 million) issued to companies engaged in wholesale and retail sale of petrol, oil and oil products. Certain of these companies work closely with each other.

As of 31 December 2010 the total aggregate amount of loans to top 10 borrowers of the Group amounted to UAH 22,069 million (2009: UAH 15,319 million) or 21% of the gross loan portfolio (2009: 19%).

As of 31 December 2010 the Group had 11 borrowers (2009: 11 borrowers) with aggregate loan balances in excess of 10% of the net assets or UAH 1,417 million (2009: UAH 1,205 million). The total aggregate amount of these loans was UAH 23,544 million (2009: UAH 16,132 million).

As of 31 December 2010 mortgage loans in the amount of UAH 562 million (2009: UAH 900 million) have been pledged as collateral with respect to the mortgage bonds issued and auto loans in the amount of UAH 325 million (2009: 394 million) have been pledged as collateral with respect to auto bonds issued. Please refer to Notes 14 and 26.

As of 31 December 2010 loans to 3 corporate borrowers (2009: 4 corporate borrowers) in the amount of UAH 1,035 million (2009: UAH 1,070 million) were pledged as collateral under the NBU refinancing. Please refer to Note 12 and 26.

9 Loans and Advances to Customers (Continued)

Breakdown of loans and advances to customers by type of collateral taken as of 31 December 2010 is as follows:

<i>In millions of Ukrainian hryvnias</i>	Corpo- rate loans	Loans to individuals					SME	Reverse repo	Total
		Card	Mortgage	Auto	Consumer	Other			
Unsecured loans	57,789	9,567	438	232	32	1,057	360	-	69,475
Loans collateralised by:									
- cash deposits	874	-	1	-	-	3	7	-	885
- residential real estate	184	-	4,796	1	3	295	685	-	5,964
- other real estate	1,908	-	402	-	1	160	742	-	3,213
- tradable securities	3,783	-	10	-	-	1	-	107	3,901
- equipment	1,819	-	-	-	81	6	101	-	2,007
- guarantees	450	-	12	213	-	25	661	-	1,361
- transport vehicles	1,251	-	-	33	-	3	69	-	1,356
- auto (cars)	125	-	4	2,097	-	64	78	-	2,368
- other assets	12,240	-	2	1	511	7	18	-	12,779
Total loans and advances to customers (before impairment)	80,423	9,567	5,665	2,577	628	1,621	2,721	107	103,309

Breakdown of loans and advances to customers by type of collateral taken as of 31 December 2009 is as follows:

<i>In millions of Ukrainian hryvnias</i>	Corpo- rate loans	Loans to individuals					SME	Reverse repo	Total
		Card	Mortgage	Auto	Consumer	Other			
Unsecured loans	35,483	7,579	912	678	21	661	1,050	-	46,384
Loans collateralised by:									
- cash deposits	7,167	-	1	-	-	156	17	-	7,341
- residential real estate	214	-	5,112	-	4	81	708	-	6,119
- other real estate	1,930	-	537	-	10	143	914	-	3,534
- tradable securities	3,222	-	27	-	-	17	5	145	3,416
- equipment	1,473	-	-	-	58	6	128	-	1,665
- guarantees	655	-	59	6	-	27	101	-	848
- transport vehicles	945	-	-	48	-	17	663	-	1,673
- auto (cars)	467	-	5	3,119	-	12	384	-	3,987
- other assets	3,515	-	1	-	315	294	84	-	4,209
Total loans and advances to customers (before impairment)	55,071	7,579	6,654	3,851	408	1,414	4,054	145	79,176

Other assets held as collateral mainly include iron ore and agricultural products (2009: gas, oil, iron ore and agricultural products). Included in unsecured loans to corporate clients are mainly loans and advances to customers secured with property rights for future cash proceeds from the sales contracts.

This disclosure represents the lower of the carrying value of the loan or collateral taken; the remaining part is disclosed within the unsecured exposures. The carrying value of loans was allocated based on the liquidity of the assets taken as collateral.

In 2011, unsecured loans with the carrying value of UAH 34,505 million were collateralised with inventory, property rights for shares of borrowers and their guarantors with the fair value of UAH 33,622 million. Refer to Note 31. In addition, assets of the collateral value of UAH 8,035 million (2009: UAH 9,275 million) of the Group's borrowers and counterparts were pledged with the NBU directly as a collateral in respect of the NBU refinancing loans received by the Group. Refer to Notes 12.

9 Loans and Advances to Customers (Continued)

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

	Corpo- rate loans	Loans to individuals				SME	Reverse repo	Total
<i>In millions of Ukrainian hryvnias</i>		Card	Mortgage	Auto	Consumer	Other		
<i>Neither past due nor impaired</i>								
- Large borrowers with credit history with the Group over two years	35,494	-	-	-	-	439	-	- 35,933
- Large new borrowers with credit history with the Group less than 2 years	18,271	-	-	-	-	-	-	- 18,271
- Loans to medium size borrowers	5,063	-	-	-	-	432	162	78 5,735
- Loans to small borrowers	227	-	-	-	-	-	811	2 1,040
- Loans between UAH 1-100 million	-	11	312	-	-	-	-	- 323
- Loans less than UAH 1 million	-	8,611	2,093	1,426	598	127	-	- 12,855
- Loans renegotiated in 2010	920	-	91	28	-	51	44	- 1,134
Total neither past due nor impaired	59,975	8,622	2,496	1,454	598	1,049	1,017	80 75,291
<i>Past due but not impaired</i>								
- less than 30 days overdue	322	303	228	99	8	27	109	- 1,096
- 30 to 90 days overdue	67	138	133	43	4	23	71	- 479
Total past due but not impaired	389	441	361	142	12	50	180	- 1,575
<i>Loans individually determined to be impaired (gross)</i>								
- Not overdue	17,049	13	172	-	-	123	-	- 17,357
- less than 30 days overdue	1,188	1	12	-	-	-	-	- 1,201
- 30 to 90 days overdue	273	1	28	29	-	-	-	- 331
- 90 to 180 days overdue	169	129	146	99	8	19	79	- 649
- 180 to 360 days overdue	176	145	320	182	2	76	191	25 1,117
- over 360 days overdue	1,204	215	2,130	671	8	304	1,254	2 5,788
Total individually impaired loans (gross)	20,059	504	2,808	981	18	522	1,524	27 26,443
Less impairment provisions	(10,097)	(451)	(1,523)	(522)	(6)	(227)	(778)	(11) (13,615)
Total loans and advances to customers	70,326	9,116	4,142	2,055	622	1,394	1,943	96 89,694

9 Loans and Advances to Customers (Continued)

Analysis by credit quality of loans outstanding at 31 December 2009 is as follows:

	Corpo- rate loans	Loans to individuals					SME	Reverse repo	Total
<i>In millions of Ukrainian hryvnias</i>		Card	Mortgage	Auto	Consumer	Other			
<i>Neither past due nor impaired</i>									
- Large borrowers with credit history with the Group over two years	19,336	-	-	-	-	233	-	-	19,569
- Large new borrowers with credit history with the Group less than 2 years	7,867	-	-	-	-	-	-	-	7,867
- Loans to medium size borrowers	6,670	-	-	-	-	668	247	30	7,615
- Loans to small borrowers	371	-	-	-	-	-	1,405	12	1,788
- Loans between UAH 1-100 million	-	27	455	-	-	-	-	-	482
- Loans less than UAH 1 million	-	6,045	2,402	2,230	330	195	-	-	11,202
- Loans renegotiated in 2009	2,927	-	254	104	-	13	164	-	3,462
Total neither past due nor impaired	37,171	6,072	3,111	2,334	330	1,109	1,816	42	51,985
<i>Past due but not impaired</i>									
- less than 30 days overdue	247	19	443	302	7	26	275	-	1,319
- 30 to 60 days overdue	147	109	183	90	4	33	132	-	698
Total past due but not impaired	394	128	626	392	11	59	407	-	2,017
<i>Loans individually determined to be impaired (gross)</i>									
- Not overdue	13,799	16	272	4	2	2	2	89	14,186
- less than 30 days overdue	623	7	40	3	-	-	-	-	673
- 30 to 90 days overdue	1,066	3	30	3	-	-	6	-	1,108
- 90 to 180 days overdue	375	506	306	211	8	23	169	-	1,598
- 180 to 360 days overdue	1,539	491	1,905	667	16	219	1,216	14	6,067
- over 360 days overdue	104	356	364	237	41	2	438	-	1,542
Total individually impaired loans (gross)	17,506	1,379	2,917	1,125	67	246	1,831	103	25,174
Less impairment provisions	(7,418)	(1,000)	(1,671)	(779)	(44)	(201)	(1,408)	(58)	(12,579)
Total loans and advances to customers	47,653	6,579	4,983	3,072	364	1,213	2,646	87	66,597

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

The primary factors that the Group considers in determining whether a loan is impaired are its overdue status, a significant financial difficulty as evidenced by the borrower's financial information and realisability of related collateral, if any. As a result, the Group presents above an ageing analysis of loans that are individually determined to be impaired.

9 Loans and Advances to Customers (Continued)

Neither past due nor impaired, but renegotiated loans represent the carrying amount of loans that would otherwise be past due or impaired whose terms have been renegotiated. Past due but not impaired loans, except for card loans to individuals, represent collateralised loans where the fair value of collateral covers the overdue interest and principal repayments. The amount reported as past due but not impaired is the whole balance of such loans, not only the individual instalments that are past due.

The Group believes that loan and advances to large and small size borrowers with longer credit history are of a higher credit quality than the rest of the loan portfolio.

The fair value of collateral in respect of loans past due but not impaired and in respect of loans individually determined to be impaired at 31 December 2010 was as follows:

<i>In millions of Ukrainian hryvnias</i>	Corporate	Loans to individuals				SME	Total
	loans	Mortgage	Auto	Consumer	Other		
<i>Fair value of collateral - loans past due but not impaired</i>							
- cash deposits	9	-	-	-	-	1	10
- residential real estate	3	376	-	-	23	85	487
- other real estate	69	28	-	-	24	71	192
- tradable securities	-	2	-	-	2	-	4
- equipment	25	-	-	2	-	19	46
- guarantees	-	-	-	-	-	5	5
- transport vehicles	57	-	2	-	-	28	87
- auto (cars)	14	-	140	-	4	28	186
- other assets	14	-	-	13	-	5	32
Total fair value of collateral - loans past due but not impaired	191	406	142	15	53	242	1,049
<i>Fair value of collateral - individually impaired loans</i>							
- cash deposits	318	1	-	-	-	-	319
- residential real estate	75	2,213	-	2	159	393	2,842
- other real estate	828	224	-	-	96	236	1,384
- tradable securities	155	9	-	-	-	-	164
- equipment	1,099	-	-	1	8	126	1,234
- guarantees	56	6	-	-	-	20	82
- transport vehicles	149	-	5	-	3	118	275
- auto (cars)	13	-	400	-	20	99	532
- other assets	1,075	-	-	7	6	32	1,120
Total fair value of collateral - individually impaired loans	3,768	2,453	405	10	292	1,024	7,952

9 Loans and Advances to Customers (Continued)

The fair value of collateral in respect of loans past due but not impaired and in respect of loans individually determined to be impaired at 31 December 2009 was as follows:

<i>In millions of Ukrainian hryvnias</i>	Corporate loans	Loans to individuals				SME	Total
		Mortgage	Auto	Consumer	Other		
<i>Fair value of collateral - loans past due but not impaired</i>							
- cash deposits	5	-	-	-	-	-	5
- residential real estate	18	489	-	-	18	93	618
- other real estate	74	47	-	5	10	119	255
- tradable securities	-	1	-	-	-	-	1
- equipment	58	-	1	-	-	26	85
- guarantees	-	-	-	-	2	-	2
- transport vehicles	87	-	14	-	1	83	185
- auto (cars)	29	8	350	-	1	42	430
- other assets	11	-	-	12	-	5	28
Total fair value of collateral - loans past due but not impaired	282	545	365	17	32	368	1,609
<i>Fair value of collateral - individually impaired loans</i>							
- cash deposits	6	-	-	-	3	-	9
- residential real estate	68	1,711	-	-	31	175	1,985
- other real estate	1,045	446	-	18	50	233	1,792
- tradable securities	-	-	-	-	2	-	2
- equipment	542	-	22	-	3	60	627
- guarantees	-	-	-	-	17	-	17
- transport vehicles	115	-	17	-	9	208	349
- auto (cars)	298	13	514	-	3	106	934
- other assets	248	-	-	28	4	24	304
Total fair value of collateral - individually impaired loans	2,322	2,170	553	46	122	806	6,019

Fair value of residential real estate at the end of the reporting period was estimated by indexing the values determined by the Group's internal credit department staff at the time of loan inception for the average changes in residential real estate prices by city and region. Fair value of other real estate and other assets was determined by the Group's credit department using the Group's internal guidelines.

Refer to Note 28 for the estimated fair value of each class of loans and advances to customers. Geographical, maturity and interest rate analysis of loans and advances to customers is disclosed in Note 24. Information on related party balances is disclosed in Note 30.

10 Premises, Leasehold Improvements and Equipment and Intangible Assets

	Note	Premises	Leasehold improve- ments	Computers	Motor vehicles	Furniture, equipment, intangible assets and other	Total
<i>In millions of Ukrainian hryvnias</i>							
Cost or valuation at 1 January 2009		2,172	150	1,283	106	690	4,401
Accumulated depreciation and amortisation		(28)	(103)	(492)	(37)	(252)	(912)
Carrying amount at 1 January 2009		2,144	47	791	69	438	3,489
Additions		36	11	92	7	112	258
Disposals		(41)	(4)	(13)	(2)	(10)	(70)
Depreciation and amortisation charge	21	(44)	(28)	(235)	(14)	(79)	(400)
Impairment charge to profit or loss		(32)	-	-	-	-	(32)
Reversal of impairment through profit		4	-	-	-	-	4
Decrease in the fair value		(370)	-	-	-	-	(370)
Revaluation		44	-	-	-	-	44
Effect of translation to presentation currency		7	1	4	1	2	15
Carrying amount at 31 December 2009		1,748	27	639	61	463	2,938
Cost or valuation at 31 December 2009		1,799	123	1,249	105	765	4,041
Accumulated depreciation and amortisation		(51)	(96)	(610)	(44)	(302)	(1,103)
Carrying amount at 31 December 2009		1,748	27	639	61	463	2,938
Additions		229	20	100	37	116	502
Disposals		(1)	(2)	(16)	(5)	(15)	(39)
Depreciation and amortisation charge	21	(35)	(23)	(163)	(8)	(90)	(319)
Impairment charge to profit or loss		(77)	-	-	-	-	(77)
Reversal of impairment through profit		4	-	-	-	-	4
Decrease in the fair value		(103)	-	-	-	-	(103)
Reversal of impairment through other comprehensive income		5	-	-	-	-	5
Revaluation		59	-	-	-	-	59
Effect of translation to presentation currency		(3)	-	(3)	(1)	(2)	(9)
Carrying amount at 31 December 2010		1,826	22	557	84	472	2,961
Cost or valuation at 31 December 2010		1,910	141	1,322	132	863	4,368
Accumulated depreciation and amortisation		(84)	(119)	(765)	(48)	(391)	(1,407)
Carrying amount at 31 December 2010		1,826	22	557	84	472	2,961

10 Premises, Leasehold Improvements and Equipment and Intangible Assets (Continued)

Premises have been revalued at fair value at 31 December 2010 and at 31 December 2009. The valuations were carried out by a firm of valuers who hold professional qualification and who have recent experience in valuation of assets of similar location and category. The basis of valuation of premises was observable market prices in an active market and discounted cash flow techniques in the cases where there was no market-based evidence of fair value because of the specialised nature of the item of premises and the item is rarely sold. The main assumption used is the comparability of premises, for which selling prices were taken.

Included in the above carrying amount is UAH 721 million (2009: UAH 837 million) representing revaluation surplus relating to premises of the Group. As of 31 December 2010 a cumulative deferred tax liability of UAH 203 million (2009: UAH 209 million) was calculated with respect to this valuation adjustment and has been recorded directly to equity. At 31 December 2010 the carrying amount of premises would have been UAH 1,059 million (2009: UAH 843 million) had the assets been carried at cost less depreciation.

Included in the above category "Premises" are assets held under finance lease with the carrying amount of UAH 71 million (2009: UAH 60 million). Included in the above category "Computers" are assets held under finance lease with the carrying amount of UAH 6 million (2009: UAH 27 million).

As of 31 December 2010 the gross carrying amount of fully depreciated premises, leasehold improvements and equipment that are still in use was UAH 20 million (2009: UAH 134 million).

As of 31 December 2010 premises carried at UAH 960 million (2009: UAH 1,212 million) have been pledged to the NBU as collateral with respect to the refinancing loan. Refer to Note 12 and 26.

11 Other Financial Assets

<i>In millions of Ukrainian hryvnias</i>	2010	2009
Receivables arising from financial derivative	773	1,440
Receivables from operations with customers	196	182
Plastic cards receivables	109	130
Accrued income receivable	68	26
Other	110	109
Less: Provision for impairment	(153)	(104)
Total other financial assets	1,103	1,783

11 Other Financial Assets (Continued)

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

<i>In millions of Ukrainian hryvnias</i>	Receivables arising from financial derivative	Receivables from operations with customers	Plastic cards receivables	Accrued income receivable	Other	Total
<i>Neither past due nor impaired</i>						
- Large customers with credit history over two years	773	-	-	-	17	790
- Medium companies	-	13	-	53	1	67
- Small companies	-	23	3	15	34	75
- Large OECD banks	-	-	9	-	1	10
- Non-OECD banks	-	-	73	-	24	97
- Balances renegotiated during the year	-	-	8	-	19	27
Total neither past due nor impaired	773	36	93	68	96	1,066
<i>Receivables individually determined to be impaired (gross)</i>						
- Overdue	-	160	16	-	14	190
Total receivables individually determined to be impaired	-	160	16	-	14	190
Less impaired provision	-	(123)	(16)	-	(14)	(153)
Total other financial assets	773	73	93	68	96	1,103

11 Other Financial Assets (Continued)

Analysis by credit quality of other financial receivables outstanding at 31 December 2009 is as follows:

<i>In millions of Ukrainian hryvnias</i>	Receivables arising from financial derivative	Receivables from operations with customers	Plastic cards receivables	Accrued income receivable	Other	Total
<i>Neither past due nor impaired</i>						
- Large customers with credit history over two years	1,440	-	-	-	22	1,462
- Small companies	-	57	52	26	-	135
- Large OECD banks	-	-	9	-	3	12
- Non-OECD banks	-	-	52	-	26	78
- Balances renegotiated during the year	-	-	1	-	44	45
Total neither past due nor impaired	1,440	57	114	26	95	1,732
<i>Receivables individually determined to be impaired (gross)</i>						
- Not overdue	-	61	-	-	-	61
- less than 30 days overdue	-	20	-	-	-	20
- 30 to 90 days overdue	-	8	-	-	-	8
- 90 to 180 days overdue	-	8	-	-	-	8
- 180 to 360 days overdue	-	3	-	-	-	3
- over 360 days overdue	-	25	16	-	14	55
Total receivables individually determined to be impaired	-	125	16	-	14	155
Less impairment provision	-	(74)	(16)	-	(14)	(104)
Total other financial assets	1,440	108	114	26	95	1,783

The primary factors that the Group considers in determining whether a receivable is impaired are its overdue status. As a result, the Group presents above an ageing analysis of other financial assets that are individually determined to be impaired.

Refer to Note 28 for the disclosure of the fair value of each class of other financial assets. Geographical, maturity and interest rate analysis of other financial assets is disclosed in Note 24. Information on related party balances is disclosed in Note 30.

12 Due to the NBU and Due to Other Banks and Other Financing Institutions

Due to the NBU at 31 December 2010 and 31 December 2009:

<i>In millions of Ukrainian hryvnias</i>	2010	2009
Term borrowings from the NBU	7,312	8,310
Total due to the NBU	7,312	8,310

In October 2008 the Bank received a refinancing loan from the National Bank of Ukraine to support the Bank's liquidity. The refinancing loan of UAH 3,410 million was initially carried at fixed interest rate of 15% p.a. and initial maturity in October 2009. In October 2009 the NBU prolonged the existing refinancing loan. In December 2009 the NBU increased the exposure to UAH 8,310 million. Refinancing loans from the NBU carry fixed interest rates of 15% to 16.5% p.a. with maturities from September 2010 to October 2015.

12 Due to the NBU and Due to Other Banks and Other Financing Institutions (Continued)

In January 2010 the NBU increased interest rate under refinancing loan to 17.3% and in March 2010 decreased the interest rate from 17.3% to NBU discount rate (since 10 August 2010: 7.75%) + 2% in respect of the whole amount of loan outstanding of UAH 8,310 million.

As of 31 December 2010 loans and advances to customers with the carrying amount of UAH 1,035 million (2009: UAH 1,070 million), premises of the Group with the carrying value of UAH 960 million (2009: UAH 1,212 million) and assets of the Bank's borrowers with the collateral value of UAH 8,035 million (2009: UAH 9,275 million) were pledged as collateral in respect of the NBU refinancing loans. Refer to Notes 9, 10 and 26.

Due to the other banks and other financing institutions at 31 December 2010 and 31 December 2009:

<i>In millions of Ukrainian hryvnias</i>	2010	2009
Correspondent accounts and overnight placements of other banks	2,341	181
Term placements of other commercial banks	1,385	2,115
Long-term loans under the credit lines from other financing institutions	130	22
Pledge deposits of other banks	4	1
Total due to other banks and other financial institutions	3,860	2,319

Term placements of other commercial banks represent placements of commercial banks in USD and EUR with maturities from January 2011 to April 2017.

Geographical, maturity and interest rate analysis of due to the NBU and other banks and other financial institutions is disclosed in Note 24.

Refer to Note 28 for the disclosure of the fair value of each class of amounts due to the NBU and other banks and other financing institutions.

13 Customer Accounts

<i>In millions of Ukrainian hryvnias</i>	2010	2009
Individuals		
- Term deposits	52,635	32,035
- Current/demand accounts	10,532	7,121
Legal entities		
- Term deposits	12,389	9,869
- Current/settlement accounts	10,965	8,108
Total customer accounts	86,521	57,133

13 Customer Accounts (Continued)

Economic sector concentrations within customer accounts are as follows:

<i>In millions of Ukrainian hryvnias</i>	2010		2009	
	Amount	%	Amount	%
Individuals	63,167	73	39,156	69
Trade	9,062	10	4,944	9
Manufacturing	5,474	6	5,299	9
Services	2,330	3	1,804	3
Transport and communication	1,209	1	784	1
Machinery	864	1	928	2
Agriculture	783	1	865	2
Other	3,632	4	3,353	5
Total customer accounts	86,521	100	57,133	100

At 31 December 2010 the aggregate balances of top 10 customers of the Group amount to UAH 7,097 million (2009: UAH 6,171 million) or 8% (2009: 11%) of total customer accounts.

At 31 December 2010 included in customer accounts are deposits of UAH 43 million (2009: UAH 338 million) held as collateral for irrevocable commitments under import letters of credit, guarantees issued by the Group of gross amount of UAH 43 million (2009: UAH 1,530 million). Refer to Note 26.

At 31 December 2010 included in customer accounts are deposits of UAH 885 million (2009: UAH 7,341 million) held as collateral for loans and advances to customers, issued by the Group. Refer to Note 9.

Fair value of each class of customer accounts is disclosed in Note 28. Geographical, maturity and interest rate analysis of customer accounts is disclosed in Note 24. Information on related party balances is disclosed in Note 30.

14 Debt Securities in Issue

<i>In millions of Ukrainian hryvnias</i>	2010	2009
Eurobonds	4,999	3,757
Private placements of bonds	557	1,290
Mortgage bonds	477	745
Auto bonds	127	319
Promissory notes	1	1
Total debt securities in issue	6,161	6,112

In February 2007 the Group issued USD denominated Eurobonds with a par value of USD 500 million (UAH 2,525 million at the exchange rate at the date of the issue) maturing in February 2012. The bonds carry a coupon rate of 8% per annum and yield to maturity of 23.57% (2009: 23.57%). The Eurobonds are listed on the Swiss Stock Exchange.

14 Debt Securities in Issue (Continued)

In February 2007 the Group issued USD denominated Residential Mortgage Backed Floating Rate Notes (referred to as Mortgage bonds) with a par value of USD 180 million (UAH 909 million at the exchange rate at the date of the issue). The notes were issued in three series. The main features of the issues are described in the table below.

Notes	Principal amount, USD million	Initial interest rate	Step-up date	Interest rate after step-up date	Maturity date	Issue price
Class A	134	LIBOR + 2.1%	April 2014	LIBOR + 4.2%	December 2031	100%
Class B	37	LIBOR + 3.75%	April 2014	LIBOR + 7.5%	December 2031	100%
Class C	9	10%	-	-	December 2031	100%

The class C series bonds were repurchased by the Group according to the terms of issue.

In May 2010 the Latvian subsidiary of the Group had redemption of EUR denominated Mortgage bonds with a par value of UAH 67 million maturing in May 2010.

In March 2010 the Group had redemption of UAH denominated bonds issued in March 2007 with a par value of UAH 500 million maturing in March 2012. The bonds were issued under the terms of a private placement.

In March 2010 the Group had redemption of UAH denominated bonds issued in March 2007 with a par value of UAH 500 million maturing in March 2010. The bonds were issued under the terms of a private placement.

In July 2010 the Group had redemption of UAH denominated bonds issued in July 2007 with a par value of UAH 250 million maturing in July 2010. The bonds were issued under the terms of a private placement.

In May 2008 the Group issued USD denominated Asset Backed Floating Rate Notes (referred to as Auto bonds) backed by car loans issued by the Group with a par value of USD 110 million (UAH 536 million at the exchange rate at the date of issue). The notes were issued in three series. The main features of the issues are described in the table below.

Notes	Principal amount, USD million	Initial interest rate	Step-up date	Interest rate after step-up date	Maturity date	Issue price
Class A	86	3 months LIBOR + 5.5%	May 2011	3-months LIBOR + 6.88%	November 2018	100%
Class B	19	3 months LIBOR + 7.5%	May 2011	3-months LIBOR + 9.38%	November 2018	100%
Class C	5	12%	-	-	November 2018	100%

As of 31 December 2010 Auto bonds with the total nominal value of USD 30 million or UAH 239 million at the exchange rate applicable as of 31 December 2010 (2009: USD 37 million or UAH 295 million at the exchange rate applicable as of 31 December 2009) were repurchased by the Group and removed from the consolidated statement of financial position, including all class C bonds repurchased according to the terms of the issue.

As of 31 December 2010 Mortgage bonds with the total nominal value of USD 17 million or UAH 135 million at the exchange rate applicable as of 31 December 2010 (2009: USD 9 million or UAH 72 million at the exchange rate applicable as of 31 December 2009) were repurchased by the Group and removed from the consolidated statement of financial position, including all class C bonds repurchased according to the terms of the issue.

14 Debt Securities in Issue (Continued)

Mortgage bonds issued of carrying value of UAH 477 million (2009: UAH 745 million) are effectively collateralised by loans and advances to customers in the amount of UAH 562 million (2009: UAH 900 million). Auto bonds issued of carrying value of UAH 127 million (2009: UAH 319 million) are effectively collateralised by loans and advances to customers in the amount of UAH 325 million (2009: UAH 394 million). Refer to Note 9 and 26.

In September 2010 the Group issued USD denominated Eurobonds with a par value of USD 200 million (UAH 1,583 million at exchange rate at the date of issue) maturing in September 2015. The bonds carry a coupon rate of 9.375% per annum and yield to maturity of 8.55%. The Eurobonds are listed on the London Stock Exchange.

As at 31 December 2010 the Group had UAH denominated bonds issued in November 2010 with a par value of UAH 300 million maturing in May 2012. The bonds were issued under the terms of a private placement.

As at 31 December 2010 the Group had UAH denominated bonds issued in December 2010 with a par value of UAH 250 million maturing in November 2013. The bonds were issued under the terms of a private placement.

The fair value of each class of debt securities in issue is disclosed in Note 28. Geographical, maturity and interest rate analyses of debt securities in issue are disclosed in Note 24.

15 Provisions for Liabilities and Charges, Other Financial and Non-financial Liabilities

Provisions for liabilities and charges, other financial and non-financial liabilities comprise the following:

<i>In millions of Ukrainian hryvnias</i>	Note	2010	2009
<i>Other financial liabilities</i>			
Funds in the course of settlement		249	62
Account payable		128	102
Liability for finance lease		67	110
Financial derivatives	27	21	19
Provision for credit related commitments	26	2	43
Other		65	82
Total other financial liabilities		532	418
<i>Provision for liabilities and charges and other liabilities</i>			
Unused vacation reserve		193	172
Accrued salaries and bonuses		129	19
Provision for legal cases		11	21
Other		64	73
Total provisions for liabilities and charges and other non-financial liabilities		397	285
Total provisions for liabilities and charges, other financial and non-financial liabilities		929	703

Refer to Note 28 for the disclosure of the fair value of each class of other financial liabilities. Geographical, maturity and interest rate analyses of other financial liabilities are disclosed in Note 24. Information on related party balances is disclosed in Note 30.

16 Subordinated Debt

<i>In millions of Ukrainian hryvnias</i>	2010	2009
Subordinated debt provided by legal entities	1,379	1,425
Subordinated debt provided by individuals	-	13
Total subordinated debt	1,379	1,438

Subordinated debt represents long term borrowing agreements, which, in case of the Group's default, would be secondary to the Group's other obligations, including deposits and other debt instruments. In accordance with the Law of Ukraine on Banks and Banking Activities and the NBU regulations, subordinated debt cannot be withdrawn from the Bank for at least five years from the date of receipt.

The debts rank after all other creditors in case of liquidation. Refer to Note 25.

Included in subordinated debt, provided by legal entities, are USD denominated subordinated debts issued in February 2006 with a par value of USD 150 million (UAH 758 million at par at the exchange rate at the date of issue) at 8.75% per annum payable quarterly with contractual maturity in February 2016 and USD denominated subordinated debt issued in March 2005 in the amount of UAH 30 million at the exchange rate at the date of issue at par at 10% per annum payable monthly with contractual maturity in March 2010. Under subordinated debt issued in February 2006 the Group had a call option exercisable in February 2011 at par. The Group did not exercise this call option. Refer to Note 31.

Subordinated debt provided by individuals represents subordinated debt issued in USD, EUR and UAH during July 2004 – April 2005 with interest rates from 10% to 12% per annum payable monthly and contractual maturity from January to April 2010 and was repaid at maturity.

Refer to Note 28 for the disclosure of the fair value of subordinated debt. Geographical, maturity and interest rate analysis of subordinated debt is disclosed in Note 24. Information on related party balances is disclosed in Note 30.

17 Share Capital

<i>In millions of UAH except for number of shares</i>	Number of outstanding shares, in millions	Nominal amount	Inflation adjusted amount
At 1 January 2009	42.28	5,685	5,939
New shares issued	6.21	1,000	1,000
Increase in the nominal amount of the shares through capitalization of dividends		1,125	1,125
At 31 December 2009	48.49	7,811	8,064
Increase in the nominal amount of the shares through capitalization of dividends		1,049	1,049
Transfer of effect of hyperinflation		-	(253)
At 31 December 2010	48.49	8,860	8,860

The nominal registered amount of the Bank's issued share capital at 31 December 2010 is UAH 8,860 million (2009: prior to restatement of capital contributions made before 1 January 2001 to the purchasing power of the Ukrainian hryvnia UAH 7,811 million).

In March 2010 the shareholders made a decision to increase the nominal amount of the Bank's issued shares from UAH 161.08 per share to UAH 182.72 per share. The increase was followed by an increase in the share capital by capitalisation of dividends in the amount of UAH 1,049 million.

17 Share Capital (Continued)

The Group decided to transfer the effect of hyperinflation recognised in the previous years in amount of UAH 253 million from the share capital to the retained earnings without any change of the net assets of the Group. This decision was approved by the shareholders meeting in June 2010.

In April 2009 the shareholders made a decision to increase the nominal amount of the Bank's issued shares from UAH 134.45 per share to UAH 161.08 per share. The increase was followed by an increase in the share capital by capitalisation of dividends in the amount of UAH 1,125 million.

In July 2009, the Bank issued an additional 6,208,100 ordinary shares with nominal amount of UAH 161.08 per share totalling UAH 1,000 million.

The total authorised number of ordinary shares is 48.49 million shares (2009: 48.49 million shares) with a par value of UAH 182.72 per share (2009: UAH 161.08 per share). All issued ordinary shares are fully paid.

Each ordinary share carries one vote.

18 Other Reserves

Revaluation reserve for available-for-sale securities is reclassified to profit or loss for the year when realised through sale or impairment. Revaluation reserve for premises is transferred to retained earnings when realised through depreciation, sale or other disposal. Currency translation reserve is reclassified to profit or loss for the year when realised through disposal of a subsidiary by sale, liquidation, repayment of share capital or abandonment of all, or part of, that subsidiary.

The Group decided to transfer additional capital recognised in the previous years in amount of UAH 462 million from the additional capital to the retained earnings without any change of the net assets of the Group due to the expiry of underlying contracts. The decision was approved by the shareholders meeting in June 2010.

19 Interest Income and Expense

<i>In millions of Ukrainian hryvnias</i>	2010	2009
Interest income		
Loans and advances to legal entities	9,897	8,399
Loans and advances to individuals	4,912	5,846
Due from other banks	263	291
Other	67	13
Total interest income	15,139	14,549
Interest expense		
Term deposits of individuals	5,595	3,956
Term deposits of legal entities	1,063	794
Due to the NBU	979	1,091
Current/settlement accounts	611	480
Debt securities in issue	445	358
Due to other banks and other financing institutions	139	413
Subordinated debt	99	176
Other	19	27
Total interest expense	8,950	7,295
Net interest income	6,189	7,254

Information on interest income and expense from transactions with related parties is disclosed in Note 30.

20 Fee and Commission Income and Expense

<i>In millions of Ukrainian hryvnias</i>	2010	2009
Fee and commission income		
Settlement transactions	1,662	790
Cash collection and cash transactions	1,261	1,238
Guarantees issued	27	25
Transactions with securities	19	20
Foreign exchange	3	13
Other	63	33
Total fee and commission income	3,035	2,119
Fee and commission expense		
Cash and settlement transactions	249	190
Other	52	42
Total fee and commission expense	301	232
Net fee and commission income	2,734	1,887

Information on fee and commission income from transactions with related parties is disclosed in Note 30.

21 Administrative and Other Operating Expenses

<i>In millions of Ukrainian hryvnias</i>	Note	2010	2009
Staff costs		2,730	2,171
Share grant	30	500	-
Rent		475	541
Depreciation and amortisation of premises, leasehold improvements and equipment and intangible assets	10	319	400
Utilities and office supplies		245	208
Contributions to Individual Deposits Guarantee Fund		215	171
Mail and telecommunication		201	215
Maintenance of premises, leasehold improvements and equipment		171	135
Security		153	144
Advertising and marketing		76	72
Taxes other than on income		74	112
Transportation		69	68
Insurance expenses		9	443
Other		379	239
Total administrative and other operating expenses		5,616	4,919

Included in staff costs are statutory pension contributions of UAH 567 million (2009: UAH 442 million) and social security contributions of UAH 71 million (2009: UAH 71 million). Pension contributions are made into the State pension fund which is a defined contribution plan.

Information on administrative and other operating expenses from transactions with related parties is disclosed in Note 30.

22 Income Tax

Income tax expense recorded in the consolidated statement of comprehensive income comprises the following:

<i>In millions of Ukrainian hryvnias</i>	2010	2009
Current tax	163	70
Deferred tax	(92)	645
Income tax expense for the year	71	715

In 2010 the income tax rate applicable to the majority of the Group's income was 25% (2009: 25%). The income tax rate applicable to the majority of income of subsidiaries ranges from 15% to 30% (2009: from 15% to 30%). Reconciliation between the expected and the actual taxation charge is provided below.

<i>In millions of Ukrainian hryvnias</i>	2010	2009
Profit before tax	1,511	2,040
Theoretical tax charge at statutory rate (2010: 25%; 2009: 25%)	378	510
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Effect from change rate of tax in Ukraine	(312)	-
- Income which is exempt from taxation	(110)	-
- Non-deductible expenses	175	145
- Unrecognised deferred tax assets	(60)	60
Income tax expense for the year	71	715

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

During the year ended 31 December 2010 a deferred tax asset of UAH 6 million (2009: deferred tax asset of UAH 82 million) has been recorded directly in other comprehensive income in respect of the revaluation of the Group's premises.

22 Income Tax (Continued)

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

	31 December 2009	(Charged)/ credited to profit or loss	Charged directly to other compre- hensive income	31 December 2010
<i>In millions of Ukrainian hryvnias</i>				
Tax effect of deductible temporary differences				
Accrued expenses and other liabilities	90	(26)	-	64
Deferral of transaction costs at initial recognition	39	(29)	-	10
Loan impairment provision	176	(176)	-	-
Gross deferred tax asset	305	(231)	-	74
Less offsetting with deferred tax liability	(229)	185	-	(44)
Less: unrecognised deferred tax asset	(60)	60	-	-
Recognised deferred tax asset	16	14	-	30
Tax effect of taxable temporary differences				
Accrued income	(697)	97	-	(600)
Fair value of derivative financial instruments	(501)	84	-	(417)
Prepaid expenses and other assets	(278)	115	-	(163)
Premises, leasehold improvements and equipment	(247)	96	6	(145)
Loan impairment provision	-	(136)	-	(136)
Trading securities and investment securities available-for-sale	(120)	7	-	(113)
Gross deferred tax liability	(1,843)	263	6	(1,574)
Less offsetting with deferred tax asset	229	(185)	-	44
Recognised deferred tax liability	(1,614)	78	6	(1,530)

22 Income Tax (Continued)

In the context of the Group's current structure and Ukrainian tax legislation, tax losses and current tax assets of different group companies may not be offset against current tax liabilities and taxable profits of other group companies and, accordingly, taxes may accrue even where there is a consolidated tax loss. Therefore, deferred tax assets and liabilities are offset only when they relate to the same taxable entity and the same taxation authority.

	31 December 2008	(Charged)/ credited to profit or loss	Charged directly to other compre- hensive income	31 December 2009
<i>In millions of Ukrainian hryvnias</i>				
Tax effect of deductible temporary differences				
Loan impairment provision	26	150	-	176
Accrued expenses and other liabilities	105	(15)	-	90
Deferral of transaction costs at initial recognition	(85)	124	-	39
Gross deferred tax asset	46	259	-	305
Less offsetting with deferred tax liability	51	(280)	-	(229)
Less: unrecognised deferred tax asset	-	(60)	-	(60)
Recognised deferred tax asset	97	(81)	-	16
Tax effect of taxable temporary differences				
Accrued income	(44)	(653)	-	(697)
Fair value of derivative financial instruments	(635)	134	-	(501)
Prepaid expenses and other assets	(84)	(194)	-	(278)
Premises, leasehold improvements and equipment	(408)	79	82	(247)
Trading securities and investment securities available-for-sale	90	(210)	-	(120)
Gross deferred tax liability	(1,081)	(844)	82	(1,843)
Less offsetting with deferred tax asset	(51)	280	-	229
Recognised deferred tax liability	(1,132)	(564)	82	(1,614)

23 Segment Analysis

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

23 Segment Analysis (Continued)

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

The Group is organised on the basis of four main business segments:

- Retail banking – representing private banking services, private customer current accounts, savings, deposits, investment savings products, custody, credit and debit cards, consumer loans and mortgages, derivative products.
- Corporate banking – representing direct debit facilities, current accounts, deposits, overdrafts, loan and other credit facilities, foreign currency and derivative products.
- Investment banking – representing financial instruments trading, structured financing, corporate leasing, merger and acquisitions advice.
- Treasury – representing interbank loans, deposits, foreign currency exchange operations, arrangement of funding in the international markets, asset and liabilities management, issue of senior bonds and assets backed securities, project financing, negotiation of limits for trade financing with financial institutions.

Transactions between the business segments are on normal commercial terms and conditions. Funds are ordinarily reallocated between segments, resulting in funding cost transfers disclosed in operating income. Interest charged for these funds is based on the Group's cost of capital. There are no other material items of income or expense between the business segments. Segment assets and liabilities comprise operating assets and liabilities, being the majority of the balances sheet, but excluding taxation. Internal charges and transfer pricing adjustments have been reflected in the performance of each business segment.

Included in other are assets, liabilities, revenues and expenses that are not allocated to any of the above segments.

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

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

Segment financial information reviewed by the CODM does not include information of the Group's subsidiaries. Regular review of these subsidiary banks is delegated to the local management teams. The CODM obtains financial statements of the Bank's subsidiaries. Management considered that information on subsidiary banks is available less frequently in concluding that segments exclude details of the subsidiaries.

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

The CODM reviews financial information of the Bank prepared based on Ukrainian accounting standards adjusted to meet the requirements of NBU reporting rules and before consolidation of subsidiaries. Such financial information differs in certain aspects from International Financial Reporting Standards:

- funds are generally reallocated between segments at internal interest rates set by the treasury department, which are determined by reference to market interest rate benchmarks, contractual maturities for loans and observed actual maturities of customer accounts balances;
- income taxes are not allocated to segments;
- loan loss provisions are recognised based on the statutory accounting rules;
- loans and advances to customers are written-off based on statutory requirements;
- fair value of derivative is not recognised in statutory accounts;
- managing its open currency position the Group enters into SWAP transactions that are recognised at cost;
- commission income related to lending is recognised immediately rather than deferred using the effective interest method; and
- consolidation of subsidiaries.

23 Segment Analysis (Continued)

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

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

<i>In millions of Ukrainian hryvnias</i>	Retail banking	Corporate banking	Investment banking	Treasury	Total reportable segments	Other	Total
Cash and cash equivalents and mandatory reserves	4,417	-	-	6,558	10,975	-	10,975
Trading securities	-	-	84	-	84	-	84
Due from other banks	-	-	-	10,449	10,449	-	10,449
Loans and advances to customers	13,707	71,763	-	-	85,470	-	85,470
Investment securities available-for-sale	-	9	44	31	84	-	84
Investment securities held to maturity	-	-	-	708	708	-	708
Investment in subsidiaries	-	-	1,025	-	1,025	-	1,025
Intangible assets	5	1	-	1	7	2	9
Premises, leasehold improvements and equipment	928	228	5	173	1,334	460	1,794
Other financial assets	152	30	13	2,279	2,474	-	2,474
Other assets	88	36	-	7	131	32	163
Non-current assets held for sale	-	-	-	-	-	41	41
Total reportable segment assets	19,297	72,067	1,171	20,206	112,741	535	113,276
Due to the NBU	-	-	-	7,312	7,312	-	7,312
Due to other banks and other financing institutions	-	-	1	12,992	12,993	-	12,993
Customer accounts	53,804	21,006	613	-	75,423	-	75,423
Debt securities in issue	-	1	-	556	557	-	557
Current income tax liability	-	-	-	-	-	36	36
Deferred income tax liability	-	-	-	-	-	138	138
Other financial liabilities	150	260	(11)	3,259	3,658	-	3,658
Other non-financial liabilities	10	5	16	2	33	8	41
Subordinated debt	-	-	-	1,235	1,235	-	1,235
Total reportable segment liabilities	53,964	21,272	619	25,356	101,211	182	101,393
Capital expenditure	6	1	-	1	8	3	11

23 Segment Analysis (Continued)

	Retail banking	Corporate banking	Investment banking	Treasury	Total reportable segments	Other	Total
<i>In millions of Ukrainian hryvnias</i>							
2010							
External revenues	5,713	11,621	55	3,805	21,194	-	21,194
Revenues from other segments	4,130	(6,540)	(184)	2,669	75	(75)	-
Total revenues	9,843	5,081	(129)	6,474	21,269	(75)	21,194
Total revenues comprise:							
- Interest income	7,066	4,480	(184)	5,920	17,282	(75)	17,207
- Fee and commission income	2,385	537	53	385	3,360	-	3,360
- Other operating income	392	64	2	169	627	-	627
Total revenues	9,843	5,081	(129)	6,474	21,269	(75)	21,194
Interest expense	(5,533)	(1,057)	(7)	(4,808)	(11,405)	-	(11,405)
Provision for loan impairment	(592)	(3,485)	-	(233)	(4,310)	-	(4,310)
Reversal of impairment of investment securities available-for-sale	-	-	2	-	2	-	2
Gains less losses on derecognition of available-for-sale securities	-	-	19	-	19	-	19
Release of provision for credit related commitments	-	26	-	-	26	-	26
Fee and commission expense	(153)	-	(24)	(374)	(551)	-	(551)
Losses less gains from trading securities	-	-	(21)	-	(21)	-	(21)
Gains less losses from trading in foreign currencies	-	-	-	443	443	-	443
Administrative and other operating expenses	(1,918)	(576)	(8)	(360)	(2,862)	(833)	(3,695)
Depreciation and amortization charge	(111)	(27)	(1)	(21)	(160)	(55)	(215)
Segment result	1,536	(38)	(169)	1,121	2,450	(963)	1,487
Income tax							(117)
Profit for the year							1,370

Capital expenditure represents additions to non-current assets other than financial instruments, deferred tax assets, post-employment benefit assets and rights arising under insurance contracts.

23 Segment Analysis (Continued)

Segment information for the reportable segments for the year ended 31 December 2009 is set out below:

	Retail banking	Corporate banking	Investment banking	Treasury	Total reportable segments	Other	Total
<i>In millions of Ukrainian hryvnias</i>							
Cash and cash equivalents and mandatory reserves	2,822	198	-	3,266	6,286	-	6,286
Trading securities	-	-	105	-	105	-	105
Due from other banks	140	-	158	8,172	8,470	-	8,470
Loans and advances to customers	12,345	49,302	22	-	61,669	-	61,669
Investment securities available-for-sale	-	9	50	-	59	-	59
Investment securities held to maturity	-	-	-	372	372	-	372
Investment in subsidiaries	-	-	796	-	796	-	796
Intangible assets	2	1	-	1	4	1	5
Premises, leasehold improvements and equipment	682	242	6	15	945	362	1,307
Other financial assets	231	31	10	6,036	6,308	-	6,308
Other assets	61	57	-	6	124	16	140
Non-current assets held for sale	-	-	-	-	-	44	44
Total reportable segment assets	16,283	49,840	1,147	17,868	85,138	423	85,561
Due to the NBU	-	-	-	8,310	8,310	-	8,310
Due to other banks and other financing institutions	-	-	-	7,193	7,193	-	7,193
Customer accounts	35,935	12,905	414	741	49,995	-	49,995
Debt securities in issue	-	1	-	1,289	1,290	-	1,290
Current income tax liability	-	-	-	-	-	9	9
Deferred income tax liability	-	-	-	-	-	42	42
Other financial liabilities	1,221	486	60	5,356	7,123	-	7,123
Other non-financial liabilities	8	12	2	1	23	5	28
Subordinated debt	-	61	-	1,239	1,300	-	1,300
Total reportable segment liabilities	37,164	13,465	476	24,129	75,234	56	75,290
Capital expenditure	102	36	1	2	141	54	195

23 Segment Analysis (Continued)

	Retail banking	Corporate banking	Investment banking	Treasury	Total reportable segments	Other	Total
<i>In millions of Ukrainian hryvnias</i>							
2009							
External revenues	6,106	10,982	69	2,779	19,936	-	19,936
Revenues from other segments	2,161	(5,678)	(143)	2,370	(1,290)	1,290	-
Total revenues	8,267	5,304	(74)	5,149	18,646	1,290	19,936
Total revenues comprise:							
- Interest income	5,909	4,391	(142)	4,868	15,026	1,290	16,316
- Fee and commission income	2,106	859	66	126	3,157	-	3,157
- Other operating income	252	54	2	155	463	-	463
Total revenues	8,267	5,304	(74)	5,149	18,646	1,290	19,936
Interest expense	(4,103)	(966)	(6)	(3,868)	(8,943)	-	(8,943)
Provision for loan impairment	(752)	(4,309)	-	145	(4,916)	-	(4,916)
Impairment of investment securities available-for-sale	-	-	(12)	-	(12)	-	(12)
Release of provision for credit related commitments	-	254	-	-	254	-	254
Fee and commission expense	(102)	-	(59)	(482)	(643)	-	(643)
Losses less gains from trading securities	-	-	(430)	-	(430)	-	(430)
Gains less losses from trading in foreign currencies	-	-	-	192	192	-	192
Gains less losses from disposals of investment securities available-for-sale	-	-	11	-	11	-	11
Administrative and other operating expenses	(2,193)	(763)	(56)	(82)	(3,094)	(951)	(4,045)
Depreciation and amortization charge	(135)	(48)	(1)	(3)	(187)	(71)	(258)
Segment result	982	(528)	(627)	1,051	878	268	1,146
Income tax							(96)
Profit for the year							1,050

23 Segment Analysis (Continued)

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

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

<i>In millions of Ukrainian hryvnias</i>	2010	2009
Total revenues for reportable segments	21,269	18,646
(a), (i) Recognition of financial derivatives and receivables arising from financial derivative	(750)	(1,560)
(b) Consolidation adjustments	(1,856)	(1,258)
(c) Reclassification of forex gains less losses	-	(275)
(d) Other adjustments	(119)	(34)
(e) Unallocated (expenses)/revenues	(75)	1,290
(f) Provision for impairment	(140)	-
Total consolidated revenues	18,329	16,809

Reconciliation of reportable profit or loss:

<i>In millions of Ukrainian hryvnias</i>	2010	2009
Total reportable segment result	2,450	878
(a), (i) Recognition of financial derivatives and receivables arising from financial derivative	79	1,083
(b) Consolidation adjustments	(813)	(341)
(d) Other adjustments	157	201
(e) Unallocated (expenses)/revenues	(963)	268
(f) Release of/(provision for) impairment of loans and advances to customers	1,090	(115)
(k) Release of provision for credit related commitments	11	70
(l) Share grant	(500)	-
Profit before tax	1,511	2,044

Reconciliation of reportable assets:

<i>In millions of Ukrainian hryvnias</i>	2010	2009
Total reportable segment assets	112,741	85,138
(a), (i) Recognition of financial derivatives and receivables arising from financial derivative	1,923	1,943
(b) Consolidation adjustments	8,797	8,793
(d) Other adjustments	(489)	(444)
(e) Unallocated assets	535	423
(f) Release of provision for impairment of loans and advances to customers	1,840	602
(g) SWAP operations at fair value	(3,431)	(6,766)
Total consolidated assets	121,916	89,689

23 Segment Analysis (Continued)

Reconciliation of reportable liabilities:

<i>In millions of Ukrainian hryvnias</i>	2010	2009
Total reportable segment liabilities	101,211	75,234
(b) Consolidation adjustments	9,032	8,118
(d) Other adjustments	(604)	(513)
(e) Unallocated liabilities	182	56
(g) SWAP operations at fair value	(3,428)	(6,766)
(j) Deferred income tax liability	1,354	1,510
Total consolidated liabilities	107,747	77,639

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

<i>In millions of Ukrainian hryvnias</i>	Interest income	Fee and commission income	Gains less losses from financial derivatives
Total amount for all reportable segment	17,282	3,360	-
(a) Recognition of financial derivatives	(750)	-	776
(b) Consolidation adjustments	(2,300)	390	-
(d) Other adjustments	(63)	-	-
(e) Unallocated expenses	(75)	-	-
(h) Reclassifications	1,045	(715)	-
As reported under IFRS	15,139	3,035	776

Reconciliation of material items of expense for the year ended 31 December 2010 is as follows:

<i>In millions of Ukrainian hryvnias</i>	Interest expense	Provision for impairment of loans and advances to customers	Administrative and other operating expenses
Total amount for all reportable segment	(11,405)	(4,310)	(3,022)
(b) Consolidation adjustments	2,440	(299)	(1,480)
(d) Other adjustments	(30)	148	300
(e) Unallocated expenses	-	-	(888)
(l) Share grant	-	-	(500)
(f) Release of /(provision for) impairment	-	1,140	(26)
(h) Reclassifications	45	(87)	-
As reported under IFRS	(8,950)	(3,408)	(5,616)

23 Segment Analysis (Continued)

Reconciliation of material items of income for the year ended 31 December 2009 is as follows:

<i>In millions of Ukrainian hryvnias</i>	Interest income	Fee and commission income	Gains less losses from financial derivatives
Total amount for all reportable segment	15,026	3,157	-
(a) Recognition of financial derivatives	(1,560)	-	2,643
(b) Consolidation adjustments	(1,525)	277	-
(d) Other adjustments	(34)	-	-
(e) Unallocated revenues	1,290	-	-
(h) Reclassifications	1,352	(1,315)	-
As reported under IFRS	14,549	2,119	2,643

Reconciliation of material items of expense for the year ended 31 December 2009 is as follows:

<i>In millions of Ukrainian hryvnias</i>	Interest expense	Provision for impairment of loans and advances to customers	Administrative and other operating expenses
Total amount for all reportable segment	(8,943)	(4,916)	(3,281)
(b) Consolidation adjustments	1,470	(255)	(874)
(d) Other adjustments	142	27	20
(e) Unallocated expenses	-	-	(1,022)
(f) Impairment charge	-	(115)	-
(h) Reclassifications	36	(238)	238
As reported under IFRS	(7,295)	(5,497)	(4,919)

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

<i>In millions of Ukrainian hryvnias</i>	Cash and cash equivalents and mandatory reserves	Due from other banks	Loans and advances to customers	Financial derivatives	Other financial assets
Total amount for all reportable segment	10,975	10,449	85,470	-	2,474
(a) Recognition of financial derivatives	-	-	(528)	1,678	-
(b) Consolidation adjustments	3,379	1,347	3,148	-	168
(d) Other adjustments	(706)	-	36	-	-
(f) Release of provision for impairment	198	313	1,246	-	84
(g) SWAP operations at fair value	-	(1,168)	-	-	(2,263)
(h) Reclassifications	5,420	(5,611)	322	-	(133)
(i) Recognition of receivable arising from financial derivative	-	-	-	-	773
As reported under IFRS	19,266	5,330	89,694	1,678	1,103

23 Segment Analysis (Continued)

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

<i>In millions of Ukrainian hryvnias</i>	Due to other banks and other financing institutions	Customer accounts	Debt securities in issue	Provisions for liabilities and charges, other financial and non-financial liabilities	Subordinated debt
Total amount for all reportable segment	12,993	75,423	557	3,699	1,235
(b) Consolidation adjustments	(2,180)	10,777	(104)	351	149
(d) Other adjustments	(47)	(755)	(33)	218	(5)
(g) SWAP operations at fair value	(1,165)	-	-	(2,263)	-
(h) Reclassifications	(5,741)	1,076	5,741	(1,076)	-
As reported under IFRS	3,860	86,521	6,161	929	1,379

Reconciliation of material assets at 31 December 2009 is as follows:

<i>In millions of Ukrainian hryvnias</i>	Cash and cash equivalents and mandatory reserves	Due from other banks	Loans and advances to customers	Financial derivatives	Other financial assets
Total amount for all reportable segment	6,286	8,470	61,668	-	6,308
(a) Recognition of financial derivatives	-	-	(1,503)	2,005	-
(b) Consolidation adjustments	2,847	834	4,142	-	194
(d) Other adjustments	(497)	-	26	-	56
(f) Release of provision for impairment	-	274	329	-	-
(g) SWAP operations at fair value	-	(748)	-	-	(6,018)
(h) Reclassifications	2,819	(4,761)	1,935	-	(197)
(i) Recognition of receivable arising from financial derivative	-	-	-	-	1,440
As reported under IFRS	11,455	4,069	66,597	2,005	1,783

Reconciliation of material liabilities at 31 December 2009 is as follows:

<i>In millions of Ukrainian hryvnias</i>	Due to other banks and other financing institutions	Customer accounts	Debt securities in issue	Provisions for liabilities and charges, other financial and non-financial liabilities	Subordinated debt
Total amount for all reportable segment	7,193	49,995	1,290	7,151	1,300
(b) Consolidation adjustments	(11)	6,684	718	448	141
(d) Other adjustments	7	41	(17)	39	(3)
(g) SWAP operations at fair value	(749)	-	-	(6,018)	-
(h) Reclassifications	(4,121)	413	4,121	(917)	-
As reported under IFRS	2,319	57,133	6,112	703	1,438

The reconciling items are attributable to the following:

(a), (i) – Financial derivatives are accounted for at fair value. Receivables arising from financial derivatives are measured at amortised cost less impairment. In statutory accounts results from operations with financial derivatives are accounted for when cash is received within interest income.

23 Segment Analysis (Continued)

- (b) – Segment reporting is prepared before consolidation of subsidiaries.
- (c), (h) – Reclassifications are done based on the economic substance of transactions. The Bank presented debt securities issued separately in IFRS financial statements.
- (e) – Unallocated balances represent balances which were not included in the reportable segments.
- (f) – In Segment reporting the Bank analyses provision for impairment created in accordance with the National Bank of Ukraine requirements.
- (g) – The Bank presented SWAP operations on gross basis in its financial statements prepared in accordance with the NBU rules.
- (j) – Deferred tax liability calculated based on IFRS carrying amounts of assets and liabilities.
- (k) – Provision for credit related commitments calculated based on historical loss experience.
- (l) – Share grant is recognised only in IFRS financial statements.

(e) Analysis of revenues by products and services

The Group's revenues are analysed by products and services in Notes 19 (interest income), Note 20 (fee and commission income).

(f) Geographical information

Revenues for each individual country for which the revenues are material are reported separately as follows:

<i>In millions of Ukrainian hryvnias</i>	2010	2009
Ukraine	16,207	14,684
Other countries	2,122	2,125
Total consolidated revenues	18,329	16,809

The analysis is based on domicile of the customer. Revenues from off-shore companies of Ukrainian customers are reported as revenues from Ukraine. Revenues comprise interest income, fee and commission income and other operating income.

The Bank does not analyze the capital expenditure, current and deferred income tax in segment reporting.

(g) Major customers

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

24 Financial Risk Management

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

24 Financial Risk Management (Continued)

Risk Management Bodies

Risk management policy, monitoring and control are conducted by a number of bodies of the Group under the supervision of the credit committee (the "Credit Committee") and the recently created Security Committee. Other bodies responsible for risk management within the Group include the Treasury, Risk-Management Division, Internal Control and Fraud-Management Division, the Finance and Risk Division including the Financial Risks Department. The Group also has a system of internal controls which is supervised and monitored by its Internal Audit Department and Financial Monitoring Department.

Credit Committee

The Credit Committee, which is composed of the Chairman of the Bank, its Deputies, the Head of the Dnipropetrovsk regional branch, the Head of the Finance and Risk Division, Head of Risk-Management Division, Head of Internal Control and Fraud-Management Division, meets bi-weekly and is responsible for setting credit policy, approving loans over the prescribed lending limits and the limits for counterparty banks, monitoring loan performance and the quality of the Group's loan portfolio and reviewing large loan projects and the lending policies of the Bank's branches. The Credit Committee also monitors the interest rates set for a range of currencies by the Group's main competitors and the overall market situation and determines the Group's pricing policy on the basis of the above. In addition, due to the importance of liquidity risk management, the Credit Committee is also responsible for preparing and formulating management decisions with regard to increasing the Group's funding base.

Security Committee

The Security Committee is primarily responsible for reducing transaction risk, including assisting management in preventing fraud; enhancing the security of the Group's staff and its information systems, including the implementation of the Group's personnel security policy; and improving the Group's ability to resist internal and external threats to its systems, including threats to the Group's IT security. The Security Committee meets monthly and the members in attendance vary depending on the topic of the meeting. In 2009 Security Committee was renamed to Internal Control Committee, the functions of the Committee remained the same.

Treasury

Day-to-day asset and liability management is done by the Treasury. The Treasury is responsible for overseeing the Group's assets and liabilities and liquidity and interest rate sensitivity analysis based on instructions and guidelines from the Financial Risks Department and its own assessments. The Treasury is responsible for the operational aspects of asset and liability management.

Financial Risks Department

The Financial Risks Department calculates and monitors the Bank's compliance with the mandatory ratios set by the NBU, the requirement to maintain mandatory reserves on the Bank's correspondent account with the NBU and its internal liquidity ratios (in accordance with the Bank's internal Methodology for Liquidity Risk Assessment and Control). In carrying out these functions, the Financial Risks Department works with the Treasury, its back office, and depositary and credit service officers of the head office business divisions and the Credit Committee.

In order to monitor and control liquidity within the Bank and its branches and sub-branches, the Financial Risks Department prepares daily reports on the maximum liquidity gap by matching assets and liabilities with different maturities and currencies as well as providing daily forecasts of the Group's balances on its correspondent account with the NBU to ensure the Bank's compliance with the mandatory reserve requirement and with the instant, current and short-term liquidity ratios set by the NBU. The liquidity reports are maintained in an electronic database that is accessible by the Treasury and is used for purposes of liquidity management. In addition, the Financial Risks Department prepares guidelines for head office business divisions seeking to raise long-term funds and/or reviews decisions of the Credit Committee on the implementation of programmes to increase the Bank's funding base in order to ensure that the Group's short- and long-term liquidity requirements are met.

24 Financial Risk Management (Continued)

Risk-Management Division

The Risk-Management Division analyses the creditworthiness of counterparty banks, calculates provisions for the Group's active operations and limits for counterparty banks, monitors problem assets in the loan portfolio under credit programs, monitors compliance with interbank transaction limits, sets the lending authority limits of branch and sub-branch heads. It also determines the strategy and basic methodological approaches in the Group's risk management system and oversees its compliance with the requirements established by the NBU as well as the Group's internal guidelines.

Internal Control and Fraud-Management Division

The Internal Control and Fraud-Management Division reviews and checks the results of work performed by the divisions of the Group and assists in formulating management decisions on enhancing transactional security and reducing risk based on data derived from this verification process. In particular, the Internal Control and Fraud-Management Division develops methodologies for detecting suspicious and fraudulent transactions and for reducing errors in statistical analysis of data from the Group's accounting software and other sources, and verifies risk assumptions based on the results of such analyses.

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

The Group's maximum exposure to credit risk is reflected in the carrying amounts of financial assets on the consolidated statement of financial position. For guarantees and commitments to extend credit, the maximum exposure to credit risk is the amount of the commitment. Refer to Note 26. The credit risk is mitigated by collateral and other credit enhancements.

The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, including those borrowers in the oil trading business.

The general principles of the Group's credit policy are outlined in the formal Group's Credit Policy. The formal and unified Group's Credit Manual regulates every significant aspect of the lending operations of the Group and outlines procedures for analysing the financial position of borrowers, or group of borrowers and the valuation of any proposed collateral and specifies the requirements for loan documentation and the procedures for the monitoring of loans.

The Group has collateral policy based on a thorough review and assessment of the value of collateral. A substantial portion of the Group's loan portfolio generally includes acceleration clauses in case of deterioration of the financial position of the borrower. Credit products are, except in very unusual circumstances, only made available to customers that hold accounts with the Group. This policy provides the dual benefits of additional security for the credit products and additional business for the Group in other areas of corporate banking services.

The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to a single borrower, or groups of affiliated borrowers. Such risks are monitored on a revolving basis and subject to an annual or more frequent review. Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and principal payment obligations and by changing the lending limits where appropriate. Exposure to credit risk is also managed, in part, by obtaining collateral and corporate and personal guarantees.

Basic information on the level of credit risk, including reports on the loan portfolio and the volume of problem assets broken down by credit programme and manager, is posted on the Group's internal website. This information is updated weekly and can be viewed both as of the current date and over a period of time. There are specific sections of the Group's website dedicated to problem assets for both corporate and retail clients and the portfolio of corporate loans.

24 Financial Risk Management (Continued)

Credit Committee on a monthly basis reviews the effectiveness of the credit policies for each business division and analysis information on the levels of non-performing loans.

Loan Approval Procedure

The lending policies and credit approval procedures of the Group are based on strict guidelines in accordance with the NBU regulations. The Group also has detailed regulations for collateral assessment, which is conducted by Group's trained specialists on collateral.

The Bank sets lending authority limits to limit risks to the Group arising from lending activities. Lending authority limits for senior managers of branches (comprising heads of branches, general and first deputy heads) are set twice per year by Risk-Management Division in the head office and approved by an order of the Bank together with proxies authorizing the relevant heads to make lending decisions. The lending authority limit of a branch or sub-branch head depends on the amount of own funds of a branch or subbranch, overall rating of a branch or sub-branch and its integrated lending activity efficiency rating.

Lending authority limits for junior managers (heads of departments and divisions) are set by the head of the relevant branch or sub-branch and apply to a particular individual.

If the amount of a proposed loan does not exceed the lending authority limit of a head of a branch or subbranch, the decision on granting the loan is taken by the credit committee of a branch. If the amount exceeds this limit, lending authority is granted from the head office in accordance with the Bank's credit procedures.

Off-Balance Sheet Policy

Credit risk for off-balance sheet financial instruments is defined as the possibility of sustaining a loss as a result of another party to a financial instrument failing to perform in accordance with the terms of the contract. The Group uses the same credit policies in respect of conditional obligations as it does for financial instruments accounted for in the consolidated statement of financial position, which include credit approval procedures, risk control limits and monitoring procedures.

Loan Monitoring

The Group's IT systems allow the Management monitoring of loans' performance on-line.

The Group reassesses the credit risk on each loan on an ongoing basis by (i) monitoring the financial and market position of the borrower and (ii) assessing the sufficiency of collateral for the loan. The financial and market position of the borrower is regularly reviewed and, on the basis of such review, the internal credit rating of the borrower may be revised. The review is based on the flow of funds into the customer's accounts, its most recent financial statements and other business and financial information submitted by the borrower or otherwise obtained by the Group.

The current market value of collateral is monitored regularly to assess its sufficiency with respect to the loan in question. The review of collateral is performed by independent appraisal companies. The frequency of such reviews depends on the security provided and the degree of volatility of the asset's market price.

Problem loans are identified on a daily basis based on signs of debt servicing deterioration. The Group carries out analyses of problem loans by collecting information about such loans, investigating the causes of problems and working out measures for their early redemption. On the basis of the findings of such analyses, a report is submitted to the Bank's Board regarding the problem loans in the Group's loan portfolio and the level of acceptable credit risk. To improve the quality of the loan portfolio, the Group applies a policy of on-line blocking the ability of a sub-branch or manager responsible for a particular lending programme to grant further loans if the percentage of non-performing loans issued by a particular sub-branch or manager exceeds the maximum permitted level of problem assets until this level decreases.

24 Financial Risk Management (Continued)

Management maintains individual records of significant number of Ukrainian retail customers, which constitutes the largest credit bureau in Ukraine, allowing the Group to mitigate credit risks by targeting borrowers, who have a good credit history.

Problem Loan Recovery

The Credit Committee has developed a systematic approach involving a comprehensive set of procedures intended to enable the Group to realise the highest possible level of repayment on nonperforming loans.

If a borrower does not perform its obligations under a loan agreement, it is the responsibility of the relevant credit officer to take initial actions to determine whether the cause of late payments is administrative or credit-related in nature. At this stage, the officers loan inspectors contact the borrower, request repayment and check the availability of any collateral. Loan inspector calls borrowers to remind them of their repayment obligation several days before the scheduled repayment date, and after such date to demand repayment (during day-time and night-time). If such measures do not result in the repayment of the loan and the non-performance exceeds 90 days, the loan is classified as a "problem loan". The Risk-Management Division, which is able to identify all problem loans in the Group, issues a banking order each month to transfer problem loans from the relevant credit unit's books to a specialised unit within Security Division (the "Security Service").

The Security Service is responsible for all loans issued by the Group classified as "problem loans", excluding loans where the total debt amounts to less than UAH 1,000 (which continue to be processed by the monitoring unit). The Security Service obtains and reviews all documentation relating to the borrower, performs an official internal investigation to identify the reasons for the problem, draws up a plan of action for the repayment of the debt and reviews the collateral (which may entail organising protection). In a number of enforcement actions the Group initiates court proceedings. The Security Service will often engage in negotiations with the borrower over a problem loan either concurrently with, or prior to, initiating court proceedings the collateral for sale at auction, to attach the borrower's account(s) with another bank or to take possession of property under a mortgage or transport facilities. If collateral is available, and upon satisfactory results of an analysis of whether the borrower is undergoing purely temporary business difficulties and of that borrower's willingness and capacity to repay its debt, negotiations usually aim at debt restructuring and include requirements to obtain additional collateral, personal guarantees by shareholders and management, increased interest rates and revised repayment schedules.

Other legal actions available to the Group include executive proceedings for the enforcement of debt and bankruptcy proceedings. In the event of any criminal action on the part of the borrower, irrespective of the borrower's readiness to repay its debt, the Group involves the relevant state authorities. The Credit Committee meets monthly to review the status of non-performing loans.

The Group maintains a policy that problem loans are not refinanced without convincing evidence that they will be repaid or reliably secured.

Related Party Lending

The Group conducts its business with related parties on a commercial basis. Each loan request from a related party is subject to the same credit approval procedures as are applied to any other loan applicant.

Lending to borrowers oil traders

Loans to oil traders are subject to the same credit procedures as are applied to any other loans.

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

24 Financial Risk Management (Continued)

Currency risk. Currency risk is the risk that the value of financial instruments owned by the Group will fluctuate due to changes in foreign exchange rates. The Group's major currency positions are in Ukrainian hryvnia, U.S. dollars and Euros. In respect of currency risk, Management sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily.

The Group's policy in respect of open currency positions is restricted under Ukrainian law to certain thresholds and strictly monitored by the NBU on a daily basis. In order to hedge its currency risk, the Group enters into arrangements with other banks pursuant to which the Group makes term deposits with other banks and accepts term deposits for the same term from the same counterparty banks in a different currency.

The Group also enters into currency options in the Group's loan agreements with some customers requiring the customers to pay compensation in case of depreciation of the Ukrainian hryvnia relative to the U.S. dollar. Refer to Note 27.

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

<i>In millions of Ukrainian hryvnias</i>	At 31 December 2010				At 31 December 2009			
	Monetary financial assets	Monetary financial liabilities	Swaps, spots and forwards	Net balance sheet position	Monetary financial assets	Monetary financial liabilities	Swaps, spots and forwards	Net balance sheet position
Ukrainian hryvnias	64,283	45,610	(846)	17,827	48,528	34,111	(634)	13,783
US Dollars	37,368	41,642	(3,941)	(8,215)	27,151	30,883	(4,303)	(8,035)
Euros	12,345	13,982	2,232	595	6,881	7,552	4,433	3,762
Other	4,159	4,552	2,543	2,150	3,382	3,124	486	744
Total	118,155	105,786	(12)	12,357	85,942	75,670	(18)	10,254

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

Amounts disclosed in respect of derivatives represent the fair value, at the end of the reporting period, of the respective currency that the Group agreed to buy (positive amount) or sell (negative amount) before netting of positions and payments with the counterparty. The amounts by currency are presented gross as stated in Note 27. The net total represents the fair value of the currency derivatives.

Fair value of option derivative embedded in loans and advances to customers (refer to Note 27) was included in the table above together with host instruments into UAH denominated financial assets. The above analysis includes only monetary assets and liabilities. Investments in equities and non-monetary assets are not considered to give rise to any material currency risk.

24 Financial Risk Management (Continued)

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

<i>In millions of Ukrainian hryvnias</i>	At 31 December 2010		At 31 December 2009	
	Impact on profit or loss	Impact on equity	Impact on profit or loss	Impact on equity
US Dollar strengthening by 5% (2009: strengthening by 5%)	(7)	(7)	(179)	(179)
US Dollar weakening by 5% (2009: weakening by 5%)	1,828	1,828	496	496
Euro strengthening by 5% (2009: strengthening by 5%)	30	30	188	188
Euro weakening by 5% (2009: weakening by 5%)	(30)	(30)	(188)	(188)
Other strengthening by 5% (2009: strengthening by 5%)	108	108	37	37
Other weakening by 5% (2009: weakening by 5%)	(108)	(108)	(37)	(37)
Total	1,821	1,821	317	317

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

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

The Group is exposed to interest rate risk, principally as a result of lending at fixed interest rates, in amounts and for periods, which differ from those of term borrowings at fixed interest rates. In practice, interest rates are generally fixed on a short-term basis. Also, interest rates that are contractually fixed on both assets and liabilities could be revised to reflect current market conditions.

The Board sets limits on the level of mismatch of interest rates on assets and liabilities sensitive to interest rates, which is monitored regularly. In the absence of any available hedging instruments, the Group normally seeks to match its interest rate positions.

The Finance and Risk Division and the Credit Committee are both responsible for interest rate risk management. The Finance and Risk Division establishes the principal policies and approaches to interest rate risk management and the Credit Committee conducts weekly monitoring and revision of interest rates for various currencies within certain time limits and product categories. The Group regularly monitors interest rate risk by means of interest rate gap analysis, which is based on ordering assets and liabilities sensitive to interest rates into a number of time bands. Fixed interest rate assets and liabilities are arranged by the time remaining until maturity, while assets and liabilities with a variable interest rate are arranged by the nearest possible term of repricing. The net sensitivity gap between assets and liabilities in a given time band represents the volume sensitive to changes of market interest rates. The product of this difference and the presumed change of interest rates represents the approximate changes of net interest income. A negative net sensitivity gap in a given time band, which means that interest-bearing liabilities exceed interest-earning assets in that time band, represents a risk of a decline in net interest income in the event of increases in market interest rates. A positive net sensitivity gap in a given time band, which means that interest-bearing assets exceed interest-earning liabilities in that time band, represent a risk of a decline in net interest income in the event of a decline in market interest rates.

24 Financial Risk Management (Continued)

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

<i>In millions of Ukrainian hryvnias</i>	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	More than 1 year	Non-monetary	Total
31 December 2010						
Total financial assets	29,542	7,474	51,650	29,498	82	118,246
Total financial liabilities	27,476	19,441	44,749	14,099	-	105,765
Net interest sensitivity gap at 31 December 2010	2,066	(11,967)	6,901	15,399	82	12,481
31 December 2009						
Total financial assets	28,780	5,533	23,673	27,956	16	85,958
Total financial liabilities	24,445	10,326	25,606	15,293	60	75,730
Net interest sensitivity gap at 31 December 2009	4,335	(4,793)	(1,933)	12,663	(44)	10,228

All of the Group's debt instruments reprice within 5 years.

At 31 December 2010, if interest rates at that date had been 200 basis points lower (2009: 200 basis points lower) with all other variables held constant, profit for the year would have been UAH 188 million (2009: UAH 3 million) higher, mainly as a result of lower interest expense on variable interest liabilities.

If interest rates had been 200 basis points higher (2009: 200 basis points higher), with all other variables held constant, profit would have been UAH 188 million (2009: UAH 3 million) lower, mainly as a result of higher interest expense on variable interest liabilities.

24 Financial Risk Management (Continued)

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

<i>In % p.a.</i>	2010				2009			
	USD	UAH	Euro	Other	USD	UAH	Euro	Other
Assets								
Correspondent accounts and overnight deposits with other banks	4	0	2	0	0	0	2	2
Correspondent accounts with NBU, Central Bank of Russian Federation and Central Bank of Latvia, Central Bank of Cyprus and Central Bank of Georgia	-	0	-	0	-	0	-	0
Other debt securities at fair value through profit or loss	-	-	-	-	-	-	-	7
Due from other banks	6	0	3	3	5	1	3	0
Loans and advances to legal entities	13	14	10	10	14	19	10	30
Loans and advances to individuals	16	28	9	40	15	29	9	44
Debt investment securities held to maturity	8	-	-	5	-	-	-	-
Other financial assets	-	-	-	-	3	-	3	0
Liabilities								
Due to the NBU	-	10	-	-	-	16	-	-
Correspondent accounts and overnight deposits of other banks	6	3	1	0	3	-	-	3
Term placements of other banks	1	-	3	9	1	-	3	7
Long-term loans under the credit lines from international financial institutions	-	-	3	3	-	-	4	-
Customer accounts								
- current accounts of customers	5	1	6	1	2	-	4	4
- term deposits of legal entities	9	10	10	7	11	14	11	11
- term deposits of individuals	9	17	8	11	12	21	12	15
Debt securities in issue	-	14	3	-	8	7	6	-
Subordinated debt	8	-	-	10	8	11	10	10
Other financial liabilities	8	-	-	0	11	-	-	1

The sign “-” in the table above means that the Group does not have the respective assets or liabilities in the corresponding currency.

The Group is exposed to prepayment risk through providing fixed or variable rate loans, including mortgages, which give the borrower the right to early repay the loans. The Group's current year profit and equity at the end of the reporting period would not have been significantly impacted by changes in prepayment rates because such loans are carried at amortised cost and the prepayment right is at or close to the amortised cost of the loans and advances to customers (2009: no material impact).

24 Financial Risk Management (Continued)

Geographical risk concentrations. The geographical concentration of the Group's financial assets and liabilities at 31 December 2010 is set out below:

<i>In millions of Ukrainian hryvnias</i>	Ukraine	OECD	Non OECD	Total
Assets				
Cash and cash equivalents and mandatory reserves	6,284	10,325	2,657	19,266
Trading securities and other financial assets at fair value through profit or loss	-	-	14	14
Due from other banks	354	4,742	234	5,330
Loans and advances to customers	72,380	2,453	14,861	89,694
Financial derivatives	1,678	-	-	1,678
Investment securities available-for-sale	98	308	167	573
Investment securities held to maturity	400	-	188	588
Other financial assets	923	83	97	1,103
Total financial assets	82,117	17,911	18,218	118,246
Non-financial assets	2,888	9	773	3,670
Total assets	85,005	17,920	18,991	121,916
Liabilities				
Due to the NBU	7,312	-	-	7,312
Due to other banks and other financing institutions	263	2,938	659	3,860
Customer accounts	64,877	4,721	16,923	86,521
Debt securities in issue	10	6,078	73	6,161
Other financial liabilities	238	46	248	532
Subordinated debt	2	1,230	147	1,379
Total financial liabilities	72,702	15,013	18,050	105,765
Non-financial liabilities	1,900	-	82	1,982
Total liabilities	74,602	15,013	18,132	107,747
Net balance sheet position	10,403	2,907	859	14,169
Credit related commitments (Note 26)	861	10	1,105	1,976

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

24 Financial Risk Management (Continued)

The geographical concentration of the Group's assets and liabilities at 31 December 2009 is set out below:

<i>In millions of Ukrainian hryvnias</i>	Ukraine	OECD	Non OECD	Total
Assets				
Cash and cash equivalents and mandatory reserves	4,773	4,732	1,950	11,455
Trading securities and other financial assets at fair value through profit or loss	-	-	18	18
Due from other banks	452	3,617	-	4,069
Loans and advances to customers	51,730	1,758	13,109	66,597
Financial derivatives	2,005	-	-	2,005
Investment securities available-for-sale	7	-	1	8
Investment securities held to maturity	23	-	-	23
Other financial assets	1,553	63	167	1,783
Total financial assets	60,543	10,170	15,245	85,958
Non-financial assets	3,167	14	550	3,731
Total assets	63,710	10,184	15,795	89,689
Liabilities				
Due to the NBU	8,310	-	-	8,310
Due to other banks and other financing institutions	169	1,962	188	2,319
Customer accounts	41,859	3,952	11,322	57,133
Debt securities in issue	46	5,884	182	6,112
Other financial liabilities	122	29	267	418
Subordinated debt	14	1,284	140	1,438
Total financial liabilities	50,520	13,111	12,099	75,730
Non-financial liabilities	1,815	-	94	1,909
Total liabilities	52,335	13,111	12,193	77,639
Net balance sheet position	11,375	(2,927)	3,602	12,050
Credit related commitments (Note 26)	979	14	573	1,566

Other risk concentrations. Management monitors and discloses concentrations of credit risk by obtaining reports listing exposures to borrowers with aggregated loan balances in excess of 10% of net assets. Refer to Notes 8 and 9.

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

24 Financial Risk Management (Continued)

The Group has developed specific approaches to liquidity issues based on medium-term (i.e., three to twelve months), short-term (i.e., two to fifteen weeks) and current (i.e., up to fourteen days) time periods. With respect to medium-term liquidity, the Treasury, in co-ordination with the Financial Risks Department, performs an analysis of the Group's payments calendar over this period and considers contingency options available to the Group in the event that unfavourable developments or crisis situations occur.

Decisions on short-term liquidity management are taken by the Treasury. These decisions are based on an analysis of the volatility of various assets and liabilities. Estimates are made after application of internally developed models as to the volume and likelihood of unexpected withdrawals of funds and the probability that additional funding might be required. In order to minimise unanticipated changes in funding, the Group separately analyses the possible consequences of the withdrawal of a large amount of funds by major customers. Client managers and senior Group management work closely with major customers to coordinate plans with regard to movement of funds.

Decisions with respect to current liquidity management are taken by the head of Treasury. Reports on actions taken are made to the Credit Committee. The Group's payments calendar for each upcoming 14-day period is analysed, and decisions taken on the attraction of short-term interbank deposits, the immediate sale of securities from the Treasury portfolio, and other facilities available to the Group. The Treasury implements decisions on a real-time basis.

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

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

- Instant liquidity ratio (N4), which is calculated as the ratio of highly-liquid assets to liabilities payable on demand. The ratio was 43% at 31 December 2010 (2009: 57%) with the minimum required limit of 20% (2009: 20%).
- Current liquidity ratio (N5), which is calculated as the ratio of liquid assets to liabilities maturing within 31 calendar days. The ratio was 75% at 31 December 2010 (2009: 80%) with the minimum required limit of 40% (2009: 40%).
- Short-term liquidity ratio (N6), which is calculated as the ratio of liquid assets to liabilities with original maturity of up to one year. The ratio was 112% at 31 December 2010 (2009: 45%) with the minimum required limit of 60% (2009: 20%).

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

The daily liquidity position is monitored and regular liquidity stress testing under a variety of scenarios covering both normal and more severe market conditions is performed by the Treasury Department.

The table below shows liabilities at 31 December 2010 by their remaining contractual maturity. The amounts disclosed in the maturity table are the contractual undiscounted cash flows, including gross finance lease obligations (before deducting future finance charges), prices specified in deliverable forward agreements to purchase financial assets for cash, contractual amounts to be exchanged under gross settled currency swaps, and gross loan commitments. Such undiscounted cash flows differ from the amount included in the consolidated statement of financial position because amounts disclosed in consolidated statement of financial position are based on discounted cash flows.

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

24 Financial Risk Management (Continued)

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

<i>In millions of Ukrainian hryvnias</i>	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 12 months to 5 years	Over 5 years	Total
Liabilities						
Due to the NBU	184	360	1,586	6,948	-	9,078
Due to other banks and other financing institutions	2,094	587	639	176	325	3,821
Customer accounts	25,449	18,275	44,207	3,201	97	91,229
Debt securities in issue	9	27	133	6,122	82	6,373
Subordinated debt	5	54	55	324	1,370	1,808
Other financial liabilities	470	1	8	31	234	744
Gross settled SWAPs and forwards	5,653	-	-	-	-	5,653
Total contractual future payments for financial obligations	33,864	19,304	46,628	16,802	2,108	118,706
Credit related commitments, gross (Note 26)	2,022	-	-	-	-	2,022

The maturity analysis of financial liabilities at 31 December 2009 is as follows:

<i>In millions of Ukrainian hryvnias</i>	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 12 months to 5 years	Over 5 years	Total
Liabilities						
Due to the NBU	122	232	2,030	8,950	1,495	12,829
Due to other banks and other financing institutions	433	244	13	1,147	684	2,521
Customer accounts	30,148	6,269	20,604	1,636	118	58,775
Debt securities in issue	18	740	619	5,333	236	6,946
Subordinated debt	1	66	54	294	1,441	1,856
Other financial liabilities	318	3	37	60	-	418
Gross settled SWAPs and forwards	7,468	-	-	-	-	7,468
Total contractual future payments for financial obligations	38,508	7,554	23,357	17,420	3,974	90,813
Credit related commitments, gross (Note 26)	1,653	-	-	-	-	1,653

Payments in respect of gross settled swaps and forwards will be accompanied by related cash inflows which are disclosed at their present values in Note 27. Customer accounts are classified in the above analysis based on contractual maturities. However, in accordance with Ukrainian Civil Code, individuals have a right to withdraw their deposits prior to maturity if they forfeit their right to accrued interest.

24 Financial Risk Management (Continued)

The Group does not use the above undiscounted maturity analysis to manage liquidity. Instead, the Group monitors expected maturities, which may be summarised as follows at 31 December 2010:

<i>In millions of Ukrainian hryvnias</i>	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	Over 1 year	No stated maturity	Total
Assets						
Cash and cash equivalents and mandatory reserves	19,266	-	-	-	-	19,266
Trading securities and other financial assets at fair value through profit or loss	-	-	-	-	14	14
Due from other banks	3,279	922	775	354	-	5,330
Loans and advances to customers	4,467	6,132	52,016	27,079	-	89,694
Financial derivatives	520	769	285	104	-	1,678
Investment securities available-for-sale	9	2	53	441	68	573
Investment securities held to maturity	426	-	137	25	-	588
Other financial assets	264	407	392	40	-	1,103
Total financial assets	28,231	8,232	53,658	28,043	82	118,246
Liabilities						
Due to the NBU	124	248	1,115	5,825	-	7,312
Due to other banks and other financing institutions	1,968	70	523	1,299	-	3,860
Customer accounts	24,688	17,418	42,539	1,876	-	86,521
Debt securities in issue	7	16	140	5,998	-	6,161
Other financial liabilities	453	9	3	67	-	532
Subordinated debt	2	41	-	1,336	-	1,379
Total financial liabilities	27,242	17,802	44,320	16,401	-	105,765
Net liquidity gap at 31 December 2010	989	(9,570)	9,338	11,642	82	12,481
Cumulative liquidity gap at 31 December 2010	989	(8,581)	757	12,399	12,481	
Credit related commitments (Note 26)	1,976	-	-	-	-	1,976

24 Financial Risk Management (Continued)

The analysis by expected maturities may be summarised as follows at 31 December 2009:

<i>In millions of Ukrainian hryvnias</i>	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	Over 1 year	No stated maturity	Total
Assets						
Cash and cash equivalents and mandatory reserves	11,455	-	-	-	-	11,455
Trading securities and other financial assets at fair value through profit or loss	10	-	-	-	8	18
Due from other banks	1,869	806	929	465	-	4,069
Loans and advances to customers	11,118	4,729	22,669	28,081	-	66,597
Financial derivatives	574	336	1,005	90	-	2,005
Investment securities available-for-sale	-	-	-	-	8	8
Investment securities held to maturity	3	-	20	-	-	23
Other financial assets	376	306	1,063	38	-	1,783
Total financial assets	25,405	6,177	25,686	28,674	16	85,958
Liabilities						
Due to the NBU	-	-	998	7,312	-	8,310
Due to other banks and other financing institutions	371	234	42	1,672	-	2,319
Customer accounts	23,632	8,887	23,351	1,263	-	57,133
Debt securities in issue	11	689	435	4,977	-	6,112
Other financial liabilities	284	7	25	66	36	418
Subordinated debt	1	101	-	1,336	-	1,438
Total financial liabilities	24,299	9,918	24,851	16,626	36	75,730
Net liquidity gap at 31 December 2009	1,106	(3,741)	835	12,048	(20)	10,228
Cumulative liquidity gap at 31 December 2009	1,106	(2,635)	(1,800)	10,248	10,228	
Credit related commitments (Note 26)	1,566	-	-	-	-	1,566

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

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

Liquidity requirements to support calls under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Group does not generally expect the third party to draw funds under the agreement. The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

25 Management of Capital

The Group's objectives when managing capital are (i) to comply with the capital requirements set by the National Bank of Ukraine, (ii) to safeguard the Group's ability to continue as a going concern and (iii) to maintain a sufficient capital base to achieve a capital adequacy ratio based on the Basel Accord of at least 8%. The Group considers total capital under management to be equity as shown in the consolidated statement of financial position. The amount of capital that the Group managed as of 31 December 2010 was UAH 14,169 million (2009: UAH 12,050 million). Compliance with capital adequacy ratios set by the National Bank of Ukraine is monitored monthly with reports outlining their calculation reviewed and signed by the Bank's Chairman and Chief Accountant. Other objectives of capital management are evaluated annually.

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

<i>In millions of Ukrainian hryvnias</i>	2010	2009
Net assets unadjusted for accruals, provisions and taxes	11,395	8,390
Plus subordinated debt	1,194	1,210
Less investments into subsidiaries	(1,025)	(796)
Other	(2)	(2)
Total regulatory capital	11,562	8,802

The Group and the Bank are also subject to minimum capital requirements established by covenants stated in loan agreements, including capital adequacy levels calculated in accordance with the requirements of the Basel Accord, as defined in the International Convergence of Capital Measurement and Capital Standards (updated April 1998) and Amendment to the Capital Accord to incorporate market risks (updated November 2005), commonly known as Basel I. The composition of the Group's capital calculated in accordance with Basel Accord is as follows:

<i>In millions of Ukrainian hryvnias</i>	2010	2009
Tier 1 capital		
Share capital	8,860	8,064
Disclosed reserves	4,450	2,542
Cumulative translation reserve	341	354
Less: goodwill and intangible assets	(51)	(57)
Total tier 1 capital	13,600	10,903
Tier 2 capital		
Asset revaluation reserves	518	628
Additional capital	-	462
Subordinated debt	1,194	1,198
Total tier 2 capital	1,712	2,288
Total capital	15,312	13,191

Subordinated debt of Latvian subsidiary in amount of UAH 103 million (2009: UAH 103 million) is not included within Tier 2 capital due to the absence of any limitations in accordance with Latvian legislation.

The Group and the Bank have complied with all externally imposed capital requirements as of 31 December 2010 and 31 December 2009 and during respective years.

25 Management of Capital (Continued)

In November 2010 the Central bank of the Russian Federation issued to the Russian subsidiary of the Group a notice regarding non-compliance with capital adequacy ratio N1 as at 30 November 2010. This was caused by a change of calculation methodology and change of risk coefficients, used when weighting the loans, granted to the Cyprian branch of the Group from 20% to 150%. The Russian subsidiary was not in compliance with N1 ratio during November 2010 and the Central bank of Russian Federation introduced a limitation on the attraction of individual customer's funds for a period from 30 November 2010 to 30 May 2011. This limitation applies to the quantity of opened customer accounts that should not exceed the quantity as of 30 November 2010. In accordance with the Central Bank of the Russian Federation regulation, starting from 30 November 2010 calculation of capital ratio N1 is performed with an increased risk coefficient for the loans granted to the Cyprus branch of the Group (from 20% to 150%). As at 31 December 2010 the Russian subsidiary of the Group is in compliance with all limitations of the Central Bank of the Russian Federation. Starting from 15 December 2010 calculation of capital ratio N1 was changed in accordance with the Central Bank's requirements. On 25 May 2011 the Central Bank of the Russian Federation changed its order and abolished all limitations imposed.

26 Contingencies and Commitments

Legal proceedings. From time to time and in the normal course of business, claims against the Group are received. On the basis of its own estimates and both internal and external professional advice the Management is of the opinion that no material losses will be incurred in respect of claims.

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

The Ukrainian tax authorities may be taking a more assertive and sophisticated approach in their interpretation of the legislation and tax examinations. Combined with a possible increase in tax collection efforts to respond to budget pressures, the above may lead to an increase in the level and frequency of scrutiny by the tax authorities and it is possible that transactions and activities that have not been challenged in the past may be challenged.

As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

Ukrainian transfer pricing legislation provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of all controllable transactions, provided that the transaction price differs from market price.

Controllable transactions include transactions with related parties, as determined under the Corporate Profit Tax (CPT) Law, whose definition is significantly different from IFRS, all transactions with non-residents (irrespective whether performed between related or unrelated parties) and transactions with non-standard CPT payers.

There is no formal guidance as to how these rules should be applied in practice. The procedure for assessing additional tax liabilities using transfer pricing rules requires the tax authorities to obtain a court decision approving the tax amount. It is not clear at the moment when (or if) new or more detailed transfer pricing regulations will be introduced. It is possible with the evolution of the interpretation of the transfer pricing rules in Ukraine and the changes in the approach of the Ukrainian tax authorities, that transfer prices could potentially be challenged. The impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the entity.

26 Contingencies and Commitments (Continued)

The Group includes companies incorporated outside of Ukraine. Tax liabilities of the Group are determined on the assumption that these companies are not subject to Ukrainian profits tax because they do not have a permanent establishment in Ukraine. Ukrainian tax laws do not provide detailed rules on taxation of foreign companies within a Ukrainian group. It is possible that with the evolution of the interpretation of these rules and the changes in the approach of the Ukrainian tax authorities, the non-taxable status of some or all of the foreign companies of the Group in Ukraine may be challenged. The impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the entity.

Ukrainian tax legislation does not provide definitive guidance in certain areas. From time to time, the Group adopts interpretations of such uncertain areas that reduce the overall tax rate of the Group. As noted above, such tax positions may come under heightened scrutiny. The impact of any challenge by the tax authorities cannot be reliably estimated; however, it may be significant to the financial condition and/or the overall operations of the entity.

The Group's Management believes that its interpretation of the relevant legislation is appropriate and the Group's tax position will be sustained. Accordingly, as of 31 December 2010 no provision for potential tax liabilities had been recorded (2009: no provision).

Capital expenditure commitments. At 31 December 2010 the Group has contractual capital expenditure commitments in respect of computers, furniture and equipment totalling UAH 44 million (2009: UAH 17 million). The Group believes that future net income and funding will be sufficient to cover this and any similar such commitments.

Operating lease commitments. As of 31 December 2010 and 2009 the Group had no commitments under non-cancellable operating leases.

Compliance with covenants. The Group is subject to certain covenants related primarily to its foreign borrowings. In particular, the Bank is required to maintain certain level of share capital, a certain capital adequacy ratio, certain level of regulatory ratios. Non-compliance with such covenants may result in negative consequences for the Group including growth in the cost of borrowings and declaration of default. The Group was in compliance with covenants as of 31 December 2010 and 31 December 2009.

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

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

26 Contingencies and Commitments (Continued)

<i>In millions of Ukrainian hryvnias</i>	Note	2010	2009
Guarantees issued		981	914
Import letters of credit		986	616
Irrevocable commitments to extend credit		55	123
Less: Cash covered letters of credit		(44)	(44)
Less: Provision for credit related commitments	15	(2)	(43)
Total credit related commitments		1,976	1,566

The total outstanding contractual amount of undrawn credit lines, letters of credit, and guarantees does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded. The fair value of credit related commitments was UAH 2 million at 31 December 2010 (2009: UAH 43 million).

As of 31 December 2010 irrevocable commitments under letters of credit and guarantees issued by the Group of gross amount of UAH 43 million (2009: UAH 1,530 million) are secured by UAH 43 million (2009: UAH 338 million). Refer to note 13.

Credit related commitments are denominated in currencies as follows:

<i>In millions of Ukrainian hryvnias</i>	2010	2009
Ukrainian Hryvnias	352	376
US Dollars	1,158	454
Euro	402	606
Other currencies	64	130
Total	1,976	1,566

Fiduciary assets. These assets are not included in the Group's consolidated statement of financial position as they are not assets of the Group. Nominal values disclosed below are normally different from the fair values of respective securities. The fiduciary assets held by the Group on behalf of its customers fall into the following categories:

<i>In millions of Ukrainian hryvnias</i>	2010 Nominal value	2009 Nominal value
Shares of Ukrainian companies	3,999	3,836
Domestic corporate bonds	2,379	1,879
Investment certificates	65	48

Assets pledged and restricted. The Group had assets pledged as collateral with the following carrying value:

<i>In millions of Ukrainian hryvnias</i>	Note	2010		2009	
		Asset pledged	Related liability/ commitment	Asset pledged	Related liability/ commitment
Gross receivables under swap, forward and spot agreements	27	5,641	5,653	7,450	7,468
Loans and advances to customers	9, 14	887	604	1,294	1,064
Premises, loans and advances to customers	9, 10, 12	1,995	7,312	2,282	8,310
Total		8,523	13,569	11,026	16,842

26 Contingencies and Commitments (Continued)

Gross receivables under swap, forward and spot agreements presented above are recognised on a net basis in the consolidated statement of financial position, giving rise to a derivative financial asset or liability within other financial assets or other financial liabilities, respectively (2009: other financial liabilities).

As disclosed in Note 8, balances due from other banks totalling UAH 437 million (2009: UAH 302 million) have been pledged as cover for letters of credit and international payments.

In addition, mandatory reserve balances in the amount of UAH 1,775 million (2009: UAH 1,141 million) represent mandatory reserve deposits which are not available to finance the Group's day to day operations as disclosed in Note 7.

27 Derivative Financial Instruments

Foreign exchange and other derivative financial instruments entered into by the Group are generally traded in an over-the-counter market with professional market counterparties on standardised contractual terms and conditions. Derivatives have potentially favourable (assets) or unfavourable (liabilities) conditions as a result of fluctuations in market interest rates, foreign exchange rates or other variables relative to their terms. The aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

The table below sets out fair values, at the end of the reporting period, of currencies receivable or payable under foreign exchange forward contracts entered into by the Group and presented within other financial assets and other financial liabilities. The table reflects gross positions before the netting of any counterparty positions (and payments) and covers the contracts with settlement dates after the respective end of the reporting period. The contracts are short term in nature.

<i>In millions of Ukrainian hryvnias</i>	2010		2009	
	Contracts with positive fair value	Contracts with negative fair value	Contracts with positive fair value	Contracts with negative fair value
Foreign exchange swaps, forwards and spots: fair values, at the end of the reporting period date, of				
- USD receivable on settlement (+)	160	315	998	490
- USD payable on settlement (-)	(851)	(3,565)	(641)	(5,150)
- Euros receivable on settlement (+)	962	1,585	244	5,126
- Euros payable on settlement (-)	(315)	-	(883)	(54)
- UAH payable on settlement (-)	(264)	(582)	(173)	(461)
- RUR receivable on settlement (+)	-	2,302	483	-
- Other currencies receivable on settlement (+)	317	-	52	57
- Other currencies payable on settlement (-)	-	(76)	(79)	(27)
Net fair value of foreign exchange swaps, forwards and spots	9	(21)	1	(19)

At 31 December 2010, the Group had outstanding obligations from unsettled spot transactions with foreign currencies of UAH 2,265 million (2009: UAH 6,020 million). The net fair value of unsettled spot transactions is insignificant.

During the year ended 31 December 2010 the Group incurred loss of UAH 45 million (2009: UAH 36 million) resulting from foreign exchange forwards and swaps.

In addition, as disclosed in Note 4, as of 31 December 2010 the Group had outstanding derivatives embedded in loans issued to customers which were separated from the host instrument and carried at fair value of UAH 1,678 million (2009: UAH 2,005 million). During the year ended 31 December 2010 the Group recognised a gain of UAH 821 million (2009: UAH 2,679 million) in respect of change in fair value of a financial derivative that arises on the issue of UAH denominated loans with the condition of compensation in the case of UAH devaluation against USD. This embedded derivative is represented by a currency option maturing in up to 3 years. The strike price was from UAH 7.5 to UAH 8.6 per USD 1 (2009: UAH 7.7 to UAH 8.5 per USD 1).

28 Fair Value of Financial Instruments

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

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

<i>In millions of Ukrainian hryvnias</i>	2010		2009	
	Fair value	Carrying value	Fair value	Carrying value
FINANCIAL ASSETS				
<i>Cash and cash equivalents and mandatory reserves</i>				
Cash on hand	5,088	5,088	3,494	3,494
Cash balances with Central Banks	3,227	3,227	2,865	2,865
Correspondent accounts and overnight placements with other banks	10,951	10,951	5,096	5,096
<i>Due from other banks</i>				
Term placements with other banks	4,893	4,893	3,767	3,767
Guarantee deposits with other banks	437	437	302	302
<i>Loans and advances to customers</i>				
Corporate loans	70,778	70,326	46,907	47,653
Loans to individuals - card	9,116	9,116	6,579	6,579
Loans to individuals - mortgage	4,482	4,142	4,595	4,983
Loans to individuals - auto	2,220	2,055	3,054	3,072
Loans to individuals - consumer	631	622	356	364
Loans to individuals - other	1,537	1,394	1,195	1,213
Loans to small and medium enterprises (SME)	2,279	1,943	2,501	2,646
Reverse sale and repurchase agreements - corporate	96	96	87	87
<i>Investment securities available-for-sale</i>				
Unquoted shares	68	68	8	8
<i>Investment securities held to maturity</i>				
Government bonds	535	535	24	23
Corporate bonds	58	53	-	-
<i>Other financial assets</i>				
Receivables arising from financial derivative	773	773	1,440	1,440
Receivables from operations with customers	73	73	108	108
Plastic cards receivables	93	93	114	114
Accrued income receivable	68	68	26	26
Other	87	87	95	95
TOTAL FINANCIAL ASSETS	117,490	116,040	82,613	83,935

28 Fair Value of Financial Instruments (Continued)

<i>In millions of Ukrainian hryvnias</i>	2010		2009	
	Fair value	Carrying value	Fair value	Carrying value
FINANCIAL LIABILITIES				
<i>Due to the NBU</i>				
Due to the NBU	7,312	7,312	8,310	8,310
<i>Due to other banks and other financing institutions</i>				
Correspondent accounts and overnight placements of other banks	2,341	2,341	181	181
Term placements of other banks	1,385	1,385	2,115	2,115
Long-term loans under the credit lines from other financing institutions	130	130	22	22
Pledge deposits of other banks	4	4	1	1
<i>Customer accounts</i>				
Term deposits of individuals	52,922	52,635	32,035	32,035
Current/demand accounts of individuals	10,532	10,532	7,121	7,121
Term deposits of other legal entities	12,370	12,389	9,869	9,869
Current/settlement accounts of other legal entities	10,965	10,965	8,108	8,108
<i>Debt securities in issue</i>				
Eurobonds	4,952	4,999	2,856	3,757
Private placements of bonds	557	557	1,299	1,290
Mortgage bonds	477	477	745	745
Auto bonds	127	127	319	319
Promissory notes	1	1	1	1
<i>Other financial liabilities</i>				
Funds in the course of settlement	249	249	62	62
Provision for credit related commitment	2	2	43	43
Liability for finance lease	59	67	110	110
Accounts payable	127	128	102	102
Other	64	65	83	82
<i>Subordinated debt</i>				
Subordinated debt	1,327	1,379	1,001	1,438
TOTAL FINANCIAL LIABILITIES	105,903	105,744	74,383	75,711

28 Fair Value of Financial Instruments (Continued)

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

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

	2010			2009		
	Quoted price in an active market (Level 1)	Valuation technique with inputs observable in markets (Level 2)	Valuation technique with significant non-observable inputs (Level 3)	Quoted price in an active market (Level 1)	Valuation technique with inputs observable in markets (Level 2)	Valuation technique with significant non-observable inputs (Level 3)
In millions of Ukrainian hryvnias						
FINANCIAL ASSETS						
<i>Trading securities and other financial assets at fair value through profit or loss</i>						
Government bonds	-	-	-	10	-	-
Corporate shares	-	-	14	-	-	8
<i>Investment securities available-for-sale</i>						
Government bonds	449	-	-	-	-	-
Corporate bonds	-	29	-	-	-	-
Banking bonds	-	27	-	-	-	-
<i>Financial derivatives</i>	-	-	1,678	-	-	2,005
<i>Other financial assets</i>	-	-	9	-	-	1
TOTAL FINANCIAL ASSETS CARRIED AT FAIR VALUE	449	56	1,701	10	-	2,014

28 Fair Value of Financial Instruments (Continued)

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

A reconciliation of movements in Level 3 of the fair value hierarchy of the financial derivatives for the year ended 31 December 2010 and 31 December 2009 is as follows:

<i>In millions of Ukrainian hryvnias</i>	Financial derivatives
Fair value at 1 January 2009	2,551
Gains less losses recognised in profit or loss for the year (Note 27)	2,679
Cash received	(2,730)
Amortisation of gain to interest income	(495)
Fair value at 31 December 2009	2,005
Gains less losses recognised in profit or loss for the year (Note 27)	821
Cash received	(646)
Amortisation of gain to interest income	(502)
Fair value at 31 December 2010	1,678
Cumulative revaluation gains less losses recognised in profit or loss for the current and prior years for assets held at 31 December 2010	3,749

Financial derivatives are classified into level 3 instruments because these instruments require management to make assumptions about credit risk of the counterparty which are not supportable by observable market data.

The sensitivity to valuation assumptions is disclosed in the Note 4.

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by an active quoted market price. Where quoted market prices are not available, the Group used valuation techniques. Certain valuation techniques required assumptions that were not supported by observable market data. The total net fair value gain estimated using valuation techniques that was recognised in profit or loss amounts to UAH 776 million (2009: loss of UAH 2,643 million).

The fair value of floating rate instruments that are not quoted in an active market was estimated to be equal to their carrying amount. The fair value of unquoted fixed interest rate instruments was estimated based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity.

Discount rates used depend on currency, maturity of the instrument and credit risk of the counterparty and were as follows:

	2010	2009
Loans and advances to customers		
Corporate loans	12% to 27% p.a.	12% to 27% p.a.
Loans to individuals - mortgage	15% to 30% p.a.	15% to 30% p.a.
Loans to individuals - auto	11% to 21% p.a.	11% to 21% p.a.
Loans to individuals - consumer	12% to 54% p.a.	12% to 54% p.a.
Loans to individuals - card	12% to 60% p.a.	12% to 60% p.a.
Loans to individuals - other	14% to 36% p.a.	14% to 36% p.a.
Loans to small and medium enterprises (SME)	18% to 32% p.a.	18% to 32% p.a.
Reverse sale and repurchase agreements - corporate	2% to 20% p.a.	12% to 24% p.a.

29 Presentation of Financial Instruments by Measurement Category

For the purposes of measurement, IAS 39, *Financial Instruments: Recognition and Measurement*, classifies financial assets into the following categories: (a) loans and receivables; (b) available-for-sale financial assets; (c) financial assets held to maturity and (d) financial assets at fair value through profit or loss ("FVTPL"). Financial assets at fair value through profit or loss have two subcategories: (i) assets designated as such upon initial recognition, and (ii) those classified as held for trading. The following table provides a reconciliation of financial assets with these measurement categories as of 31 December 2010:

	Loans and receivables	Available- for-sale assets	Assets at FVTPL- held for trading	Held to maturity	Total
<i>In millions of Ukrainian hryvnias</i>					
ASSETS					
Cash and cash equivalents and mandatory reserves	19,266	-	-	-	19,266
Trading securities and other financial assets at fair value through profit or loss	-	-	14	-	14
Due from other banks					
Term placements with other banks	4,893	-	-	-	4,893
Guarantee deposits with other banks	437	-	-	-	437
Loans and advances to customers					
Corporate loans	70,326	-	-	-	70,326
Loans to individuals - card	9,116	-	-	-	9,116
Loans to individuals - mortgage	4,142	-	-	-	4,142
Loans to individuals - auto	2,055	-	-	-	2,055
Loans to individuals - consumer	622	-	-	-	622
Loans to individuals - other	1,394	-	-	-	1,394
Loans to small and medium enterprises (SME)	1,943	-	-	-	1,943
Reverse sale and repurchase agreements - corporate	96	-	-	-	96
Financial derivatives	-	-	1,678	-	1,678
Investment securities available-for-sale					
Government bonds	-	449	-	-	449
Corporate bonds	-	29	-	-	29
Banking bonds	-	27	-	-	27
Unquoted shares	-	68	-	-	68
Investment securities held-to-maturity					
Government bonds	-	-	-	535	535
Corporate bonds	-	-	-	53	53
Other financial assets					
Receivables arising from financial derivative	773	-	-	-	773
Receivables from operations with customers	73	-	-	-	73
Plastic cards receivables	93	-	-	-	93
Accrued income receivable	68	-	-	-	68
Other	96	-	-	-	96
TOTAL FINANCIAL ASSETS	115,393	573	1,692	588	118,246
NON-FINANCIAL ASSETS					3,670
TOTAL ASSETS					121,916

As of 31 December 2010 and 31 December 2009 all of the Group's financial liabilities except for derivatives were carried at amortised cost. Derivatives belong to the fair value through profit or loss measurement category.

29 Presentation of Financial Instruments by Measurement Category (Continued)

The following table provides a reconciliation of classes of financial assets with these measurement categories as of 31 December 2009:

	Loans and receivables	Available- for-sale assets	Assets at FVTPL- held for trading at FVTPL	Held to maturity	Total
<i>In millions of Ukrainian hryvnias</i>					
ASSETS					
Cash and cash equivalents and mandatory reserves	11,455	-	-	-	11,455
Trading securities and other financial assets at fair value through profit or loss	-	-	18	-	18
Due from other banks					
Term placements with other banks	3,767	-	-	-	3,767
Guarantee deposits with other banks	302	-	-	-	302
Loans and advances to customers					
Corporate loans	47,653	-	-	-	47,653
Loans to individuals - card	6,579	-	-	-	6,579
Loans to individuals - mortgage	4,983	-	-	-	4,983
Loans to individuals - auto	3,072	-	-	-	3,072
Loans to individuals - consumer	364	-	-	-	364
Loans to individuals - other	1,213	-	-	-	1,213
Loans to small and medium enterprises (SME)	2,646	-	-	-	2,646
Reverse sale and repurchase agreements - corporate	87	-	-	-	87
Financial derivatives	-	-	2,005	-	2,005
Investment securities available-for-sale					
Unquoted shares	-	8	-	-	8
Investment securities held-to-maturity					
Government bonds	-	-	-	23	23
Other financial assets					
Receivables arising from financial derivative	1,440	-	-	-	1,440
Plastic cards receivables	114	-	-	-	114
Receivables from operations with customers	108	-	-	-	108
Accrued income receivable	26	-	-	-	26
Other	95	-	-	-	95
TOTAL FINANCIAL ASSETS	83,904	8	2,023	23	85,958
NON-FINANCIAL ASSETS					3,731
TOTAL ASSETS					89,689

30 Related Party Transactions

Parties are generally considered to be related if the parties are under common control or one party has the ability to control the other party or can exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form. At 31 December 2010 and 31 December 2009, the outstanding balances with related parties were as follows:

	2010			2009		
	Share - holders	Manage- ment	Companies under control of major shareholders	Share - holders	Manage- ment	Companies under control of major shareholders
<i>In millions of Ukrainian hryvnias</i>						
Gross amount of loans and advances to customers (contractual interest rate: 2010: UAH - 13%, USD - 12%, EUR - 12%; 2009: UAH - 14%, USD - 14%, EUR - 13%)	-	15	10,990	-	21	6,147
Impairment provisions for loans and advances to customers at 31 December	-	-	(2,594)	-	-	(2,288)
Loans and advances to customers written off as uncollectable	-	-	(83)	-	-	-
Financial derivatives	-	-	251	-	-	225
Other financial assets	-	-	175	-	-	2
Other assets	-	1	278	-	-	414
Customer accounts (contractual interest rate: 2010: UAH - 6%, USD - 2%, EUR - 10%; 2009: UAH - 8%, USD - 1%, EUR - 13%)	112	86	2,532	455	102	2,129
Other financial liabilities	-	-	-	-	-	10
Subordinated debt (contractual interest rate: 2010: UAH - 6%, RUR - 1%; 2009: UAH - 6%, RUR - 1%)	-	-	140	-	-	125

The income and expense items with related parties for 2010 and 2009 were as follows:

	2010			2009		
	Share - holders	Manage- ment	Companies under control of major shareholders	Share - holders	Manage- ment	Companies under control of major shareholders
<i>In millions of Ukrainian hryvnias</i>						
Interest income	1	3	1,017	-	9	1,287
Interest expense	(102)	(5)	(324)	(67)	(5)	(144)
Provision for loan impairment	-	-	(223)	-	-	(1,029)
Fee and commission income	-	-	47	-	-	65
Losses less gains from financial derivatives	-	-	(214)	-	-	(104)
Other operating income	-	-	9	-	-	6
Administrative and other operating expenses, excluding management remuneration	-	(35)	(12)	-	(2)	(452)

30 Related Party Transactions (Continued)

At 31 December 2010 and 31 December 2009, other rights and obligations with related parties were as follows:

	2010			2009		
	Share-holders	Manage-ment	Companies under control of major shareholders	Share-holders	Manage-ment	Companies under control of major shareholders
<i>In millions of Ukrainian hryvnias</i>						
Guarantees issued	-	-	5	-	-	7
Import letters of credit	-	-	2	-	-	70
Less: Provision for credit related commitments	-	-	(2)	-	-	(33)
Total credit related commitments	-	-	5	-	-	44

Aggregate amounts lent to and repaid by related parties during 2010 and 2009 were:

	2010			2009		
	Share-holders	Manage-ment	Companies under control of major shareholders	Share-holders	Manage-ment	Companies under control of major shareholders
<i>In millions of Ukrainian hryvnias</i>						
Amounts lent to related parties during the period	80	23	13,487	-	18	8,020
Amounts repaid by related parties during the period	80	29	8,644	-	34	8,700

In October 2010, new minority shareholder of JSC PrivatBank, Georgia contributed to the share capital of JSC PrivatBank the amount equivalent of UAH 77 million. As a result of this the Group's share in JSC PrivatBank was diluted from 75.00% to 61.30% and non-controlling interest was increased by UAH 55 million.

Also in May 2011, the Group increased the share capital of PrivatBank AS, Latvia on the amount equivalent to UAH 70 million. As a result of this non-controlling interest was increased by UAH 70 million.

As a result of the decrease of share in several other subsidiaries during 2011 the revaluation reserve for premises was decreased by UAH 102 million, retained earnings were increased by UAH 214 million and share of non-controlling interest was increased by UAH 41 million.

In October 2009 the Group partially disposed an interest in the Latvian subsidiary to a related party in amount of UAH 60 million.

In 2010, the remuneration of the members of the Board of Directors comprised salaries, discretionary bonuses, pension contributions and other short-term benefits totalling UAH 33 million (2009: UAH 16 million), including contributions into the State pension fund of UAH 1 million (2009: UAH 1 million) and social security contributions of UAH 0.1 million (2009: UAH 0.1 million). In 2009 this amount consists of expenses included in PrivatBank Group consolidated statement of comprehensive income and expenses incurred by the Group's related party on behalf of the Group, which are not reimbursable to the related party and therefore have not been reflected in the PrivatBank Group consolidated statement of comprehensive income.

30 Related Party Transactions (Continued)

In addition, in 2010 majority shareholders of the Group offered the opportunity to purchase about 2 million shares of PrivatBank to key management personnel and other managers of the Group with a discount to the nominal value of shares for services provided by top managers to PrivatBank Group. No vesting conditions were in place. The fair value of share grant of UAH 500 million being the difference between the fair value of shares and cost to purchase these shares for management was recognised as a remuneration of top management of the Group for the services provided to the Group within the administrative and other operating expenses. The Group determined the fair value of shares as at the date of share grant using a valuation technique by estimating the price of these equity instruments that would have been set in an arm's length transaction between knowledgeable, willing parties. The significant inputs into the valuation technique were net assets of the Group and price / book value ratio of publicly traded banks adjusted for the factors and assumptions that knowledgeable, willing market participants would consider in setting the price. As at the date of share grant exercise price was about UAH 114 per share. Out of this amount, UAH 337,035 million relates to the key management personnel remuneration. After this transaction management of the Group will own 9.99% of shares of PrivatBank (as at 31 December 2009: 1.61%).

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

31 Events After the End of the Reporting Period

In February 2011 interest rate on USD denominated subordinated debt with a par value of USD 150 million was changed from 8.75% to 5.75% per annum. The Group accounted for this transaction as an extinguishment of old instrument and recognition of a new one and recognised a gain in the amount of UAH 124 million.

In 2011 unsecured loans with the carrying value of UAH 34,505 million were collateralised with inventory, property rights for shares of borrowers and their guarantors with the fair value of UAH 33,622 million.

On 21 January 2011 amendments to the Credit institution Law of the Republic of Latvia became effective, granting the Financial and Capital Market Commission of the Republic Latvia (the "Regulator") rights to potentially revoke a banking license if voting rights of the bank's shareholders with significant shareholding have been blocked by the Regulator for more than six months. Voting rights of minority of Latvian subsidiary of the Group have been blocked by the Regulator on 15 January 2010. The six-months period for addressing it expires six months from 21 January 2011. Minority has the same shareholders as the Group. In May 2011 majority shareholders of the Group purchased shares of Latvian subsidiary from the minority, at the result of what its share diluted to less than 10%.

In January-June 2011 the Bank repaid a refinancing loan from the National Bank of Ukraine in amount UAH 743 million and interest accrued for this period in amount UAH 341 million.

On 1 June 2011 the shareholders took a decision to increase the Bank's share capital by UAH 1,300 million up to nominal value of UAH 10,160 million. The share capital was increased by capitalising dividends attributable to the shareholders of the Bank for the year ended 31 December 2009.