PRIVATBANK GROUP

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

31 December 2011

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Independent Auditor's Report

To the Shareholders and Management Board of 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 statements of financial position as of 31 December 2011, 2010 and 2009 and the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, 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 consolidated 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 consolidated 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 consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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 2011, 2010 and 2009, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

LLC AF "PricewaterhouseCoopers (Audit)"

Kyiv, Ukraine
16 January 2013

In millions of Ukrainian hryvnias	Note	31 December 2011	31 December 2010	31 December 2009
ASSETS				
Cash and cash equivalents and mandatory reserves	7	21,363	19,266	11,455
Due from other banks	8	4,648	5,330	4,069
Loans and advances to customers	9	107,430	89,694	66,597
Embedded derivatives	27	1,484	1,678	2,005
Investment securities available-for-sale		780	573	8
Investment securities held to maturity		24	588	23
Current income tax prepayment		6	2	11
Deferred income tax asset	22	32	30	16
Goodwill		47	48	54
Premises, leasehold improvements and equipment and intangible assets	10	3,318	2,961	2,938
Other financial assets	11	1,144	1,117	1,801
Other assets		655	629	712
TOTAL ASSETS		**140,931**	**121,916**	**89,689**
LIABILITIES				
Due to the NBU	12	5,825	7,312	8,310
Due to other banks and other financing institutions	12	2,453	3,860	2,319
Customer accounts	13	104,209	86,521	57,133
Debt securities in issue	14	5,600	6,161	6,112
Current income tax liability		60	55	10
Deferred income tax liability	22	1,181	1,530	1,614
Provisions for liabilities and charges, other financial and non-financial liabilities	15	1,000	929	703
Subordinated debt	16	1,418	1,379	1,438
TOTAL LIABILITIES		**121,746**	**107,747**	**77,639**
EQUITY				
Share capital	17	13,545	8,860	8,064
Share premium	17	20	-	-
Additional capital	18	-	-	462
Revaluation reserve for premises	18	571	518	628
Currency translation reserve	18	329	341	354
Retained earnings		4,570	4,326	2,387
Net assets attributable to Bank's owners		**19,035**	**14,045**	**11,895**
Non-controlling interest		**150**	**124**	**155**
TOTAL EQUITY		**19,185**	**14,169**	**12,050**
TOTAL LIABILITIES AND EQUITY		**140,931**	**121,916**	**89,689**

Approved for issue and signed on behalf of the Management Board on 16 January 2013.

Yuriy P. Pikush
General Deputy Chairman of the Board

Lubov I. Korotina
Chief Accountant

In millions of Ukrainian hryvnias	Note	2011	2010	2009
Interest income	19	19,408	15,813	15,966
Interest expense	19	(9,329)	(8,950)	(7,295)
Net interest income		**10,079**	**6,863**	**8,671**
Provision for impairment of loans and advances to customers	9	(5,627)	(3,408)	(4,363)
Net interest income after provision for impairment of loans and advances to customers		**4,452**	**3,455**	**4,308**
Fee and commission income	20	3,191	3,035	2,119
Fee and commission expense	20	(462)	(301)	(232)
Gains less losses from embedded derivatives	27, 28	27	147	128
Gains less losses from trading in foreign currencies		563	597	564
Foreign exchange translation (losses less gains)/gains less losses		(152)	32	(7)
(Impairment)/reversal of impairment of investment securities available-for-sale		(14)	8	(31)
Release of provision/(provision) for credit related commitments	26	-	41	(14)
Other operating income		110	155	141
Other gains less losses/(losses less gains)	27	144	(42)	(13)
Administrative and other operating expenses	21	(6,320)	(5,616)	(4,919)
Profit before tax		**1,539**	**1,511**	**2,044**
Income tax expense	22	(46)	(71)	(715)
Profit for the year		**1,493**	**1,440**	**1,329**
Other comprehensive income:				
Increase in the fair value 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		2	(18)	90
Income tax recorded in other comprehensive income	22	75	6	82
Other comprehensive income/(loss) for the year		**77**	**(51)**	**(154)**
Total comprehensive income for the year		**1,570**	**1,389**	**1,175**
Profit/(loss) is attributable to:				
Owners of the Bank		1,516	1,610	1,379
Non-controlling interest		(23)	(170)	(50)
Profit for the year		**1,493**	**1,440**	**1,329**
Total comprehensive income/(loss) is attributed to:				
Owners of the Bank		1,568	1,589	1,159
Non-controlling interest		2	(200)	16
Total comprehensive income for the year		**1,570**	**1,389**	**1,175**

In millions of Ukrainian hryvnias	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	Total		
Balance at 1 January 2009		**5,939**	**462**	**908**	**330**	**2,097**	**9,736**	**94**	**9,830**
Profit/(loss) for the year		-	-	-	-	1,379	1,379	(50)	1,329
Premises:									
- Increase in fair value	10	-	-	44	-	-	44	-	44
- Decrease in the fair value	10	-	-	(370)	-	-	(370)	-	(370)
Income tax recorded in other comprehensive income	22	-	-	82	-	-	82	-	82
Currency translation differences		-	-	-	24	-	24	66	90
Other comprehensive (loss)/income		-	-	(244)	24	-	(220)	66	(154)
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)	-	-	-
Other changes in interest attributable to non-controlling interest		-	-	-	-	-	-	45	45
Balance at 31 December 2009		**8,064**	**462**	**628**	**354**	**2,387**	**11,895**	**155**	**12,050**

In millions of Ukrainian hryvnias	Note	Attributable to owners of the Bank: Share capital	Additional capital	Revaluation reserve for premises	Currency translation reserve	Retained earnings	Total	Non-controlling interest	Total Equity
Balance at 31 December 2009		**8,064**	**462**	**628**	**354**	**2,387**	**11,895**	**155**	**12,050**
Profit/(loss) for the year		-	-	-	-	1,610	1,610	(170)	1,440
Premises:									
- Increase in fair value	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 other comprehensive income	22	-	-	1	-	-	1	5	6
Currency translation differences		-	-	-	(13)	-	(13)	(5)	(18)
Other comprehensive (loss)/income		-	-	(8)	(13)	-	(21)	(30)	(51)
Total comprehensive income/(loss) 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	-	-	-
Other changes in interest attributable to owners of the Bank and non-controlling interest		-	-	(102)	-	166	64	166	230
Balance at 31 December 2010		**8,860**	**-**	**518**	**341**	**4,326**	**14,045**	**124**	**14,169**

In millions of Ukrainian hryvnias	**Note**	**Attributable to owners of the Bank**						**Non-controlling interest**	**Total equity**
		Share capital	**Share premium**	**Revaluation reserve for premises**	**Currency translation reserve**	**Retained earnings**	**Total**		
Balance at 31 December 2010		**8,860**	**-**	**518**	**341**	**4,326**	**14,045**	**124**	**14,169**
Profit/(loss) for the year		-	-	-	-	1,516	1,516	(23)	1,493
Income tax recorded in other comprehensive income according to the changes in tax legislation	22	-	-	55	-	-	55	20	75
Currency translation differences		-	-	-	(3)	-	(3)	5	2
Other comprehensive income/(loss)		-	-	55	(3)	-	52	25	77
Total comprehensive income for the year		-	-	55	(3)	1,516	1,568	2	1,570
Paid-in share capital	17	3,385	20	-	-	-	3,405	-	3,405
Capitalisation of dividends	17	1,300	-	-	-	(1,300)	-	-	-
Other changes in interest attributable to owners of the Bank and non-controlling interest		-	-	(2)	(9)	28	17	24	41
Balance at 31 December 2011		**13,545**	**20**	**571**	**329**	**4,570**	**19,035**	**150**	**19,185**

In millions of Ukrainian hryvnias	**Note**	**2011**	**2010**	**2009**
Cash flows from operating activities				
Interest received		18,590	14,029	13,190
Interest paid		(9,228)	(8,820)	(7,825)
Fees and commissions received		3,191	3,035	2,119
Fees and commissions paid		(462)	(301)	(232)
Losses from trading securities		-	-	(21)
Income received from embedded derivatives		747	1,999	2,730
Income received /(loss incurred) from derivatives arising from swap, forward and spot transactions		100	(45)	(40)
Income received from trading in foreign currencies		563	597	564
Other operating income received		117	155	130
Staff costs paid		(3,442)	(2,599)	(1,737)
Administrative and other operating expenses paid, except for staff costs paid		(2,639)	(2,193)	(3,312)
Income tax paid		(326)	(109)	(78)
Cash flow from operating activities before changes in operating assets and liabilities		**7,211**	**5,748**	**5,488**
Changes in operating assets and liabilities				
Net increase in mandatory reserve balances		(998)	(634)	(1,110)
Net decrease/(increase) in due from other banks		672	(1,273)	(1,328)
Net increase in loans and advances to customers		(24,068)	(26,190)	(1,694)
Net decrease/(increase) in other financial assets		30	736	(1,545)
Net (increase)/decrease in other assets		(21)	85	616
Net (decrease)/increase in due to the NBU		(1,487)	(998)	4,757
Net (decrease)/increase in due to other banks and other financing institutions		(1,408)	1,566	(4,496)
Net increase in customer accounts		18,759	29,642	45
Net increase in provisions for liabilities and charges, other financial and non-financial liabilities		43	95	50
Net cash (used in)/from operating activities		**(1,267)**	**8,777**	**783**
Cash flows from investing activities				
Acquisition of investment securities available-for-sale		(187)	(561)	(9)
Proceeds from redemption of investment securities held to maturity		564	-	-
Acquisition of investment securities held to maturity		-	(565)	(21)
Acquisition of premises, leasehold improvements and equipment	10	(822)	(502)	(235)
Proceeds from disposal of premises, leasehold improvements and equipment	10	56	48	72
Net cash used in investing activities		**(389)**	**(1,580)**	**(193)**
Cash flows from financing activities				
Proceeds from subordinated debt		19	-	103
Repayment of subordinated debt		(28)	(53)	(51)
Issue of ordinary shares	17	3,405	-	1,000
Cash inflows on transactions with non-controlling interest		41	110	147
Proceeds from debt securities issued		-	1,746	-
Repayment and repurchase of debt securities issued		(497)	(1,690)	(1,143)
Net cash from financing activities		**2,940**	**113**	**56**
Effect of exchange rate changes on cash and cash equivalents		**(185)**	**(133)**	**307**
Net increase in cash and cash equivalents		**1,099**	**7,177**	**953**
Cash and cash equivalents at the beginning of the year		17,491	10,314	9,361
Cash and cash equivalents at the end of the year	7	**18,590**	**17,491**	**10,314**

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

1 Introduction

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards for the three years ended 31 December 2011, 2010 and 2009 for PJSC Commercial Bank PrivatBank (the "Bank") and its subsidiaries (together referred to as the "Group" or "PrivatBank Group").

The Bank was initially registered as a commercial entity with limited liability, re-organised into a closed joint stock entity in 2000. 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 2011, 2010 and 2009 the ultimate major shareholders of the Bank were Mr I.V. Kolomoyskiy and Mr G.B. Bogolyubov who as of 31 December 2011 owned directly and indirectly respectively 46.25% (2010: 44.96%; 2009: 49.15%) and 46.25% (2010: 44,80%; 2009: 49.00%) of the outstanding shares and neither of which individually controlled the Bank. The major shareholders of the Bank do not have a contractual agreement on joint control of the Bank.

As of 31 December 2011 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 31 December 2011 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. T.Y. Novikov
	Mr. N.A. Volkov
	Mr. V.A. Yatsenko
Deputy Chairman of the Management Board:	Mrs. L.I. Chmona
	Mr. D.A. Dubilet
	Mr. O.V. Gorohovskiy
	Mrs. T.M. Gurieva
	Mr. Y.V. Kandaurov
	Mr. S.V. Kryzhanovskiy
	Mrs. L.A. Shmalchenko
	Mr. A.P. Vitiaz
	Mr. V.G. Zavorotniy
Chief Accountant:	Mrs. L.I. Korotina
Head of Financial Monitoring Department:	Mr. I.L. Terekhin

Principal activity. The Bank's principal business activity is commercial and retail banking operations within Ukraine. 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). As at 31 December 2011, 2010 and 2009 Individuals Deposits Guarantee Fund guarantees repayment of individual deposits up to UAH 150 thousand per individual in case bank liquidation procedure is started.

As of 31 December 2011 the Bank had 34 branches and 3,362 outlets within Ukraine and a branch in Cyprus (2010: 34 branches, 3,162 outlets in Ukraine and a branch in Cyprus; 2009: 36 branches, 3,102 outlets in Ukraine and a branch in Cyprus). Additionally, as of 31 December 2011, 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), other small subsidiary companies in Ukraine and three special purpose entities in the United Kingdom.

1 Introduction (Continued)

As of 31 December 2011, 2010 and 2009 principal subsidiaries included in the consolidated financial statements, were as follows:

Name	Nature of business	Country of registration	Percentage of ownership 31 December 2011	31 December 2010	31 December 2009
Moscomprivatbank	Banking	Russian Federation	92.34%	92.34%	92.34%
JSC PrivatBank	Banking	Georgia	50.30%	61.30%	75.00%
AS PrivatBank	Banking	Latvia	75.02%	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 retained its 75.00% of the voting rights as of 31 December 2010. As a result of additional capital increase in 2011, the share of the Group in JSC PrivatBank Georgia was decreased from 61.30% to 50.30%. However, the Group retained its 82.70% of the voting rights as of 31 December 2011.

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 subsequently in 2010 was increased from 50.04% to 75.02% due to additional share issue. However, the Group continues to have 98.70% of voting rights as of 31 December 2011 (31 December 2010: 98.70%; 31 December 2009: 95.07%).

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 4.6% for 2011 (2010: 9.1%; 2009: 12.3%).

As of 31 December 2011 Ukraine's long-term foreign currency ratings were 'B' by Fitch Ratings, 'B2' by Moody's and 'B+' by Standard & Poor's.

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

From August through November 2011 the NBU regulating actions intended to control inflation and sustain UAH exchange rate caused the recurring lack of liquidity in national currency. At the time of scarce liquidity of Ukrainian hryvnia the money market experienced a short-term increase in interest rates. In December 2011 the NBU reconsidered its regulatory effect by relaxing the mandatory reserve requirements set for commercial banks, thus making interest rates go down.

2 Operating Environment of the Group (Continued)

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

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 since mid-2008 till the end of 2009 had a significant impact on borrowers’ ability to service the loans. Deteriorating economic conditions for borrowers were reflected in revised estimates of expected future cash flows in impairment assessments.

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

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

The tax, currency and customs legislation within Ukraine is subject to varying interpretations and frequent changes (Note 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 future economic development of Ukraine is dependent upon external factors and internal measures undertaken by the government to sustain growth, and to change the tax, legal and regulatory environment. Management believes it is taking all necessary measures to support the sustainability and development of the Group’s business in the current business and economic environment.

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.

3 Summary of Significant Accounting Policies (Continued)

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 acquisition 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 acquiree 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 economic entity model to account for transactions with owners of non-controlling interest. Any difference between the purchase consideration and the carrying amount of non-controlling interest acquired is recorded as a capital transaction directly in equity. The Group recognises the difference between sales consideration and carrying amount of non-controlling interest sold as a capital transaction in the consolidated statement of changes in equity.

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

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm’s length transaction. Fair value is the current bid price for financial assets and current asking price for financial liabilities which are quoted in an active market. For assets and liabilities with offsetting market risks, the 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.

3 Summary of Significant Accounting Policies (Continued)

Valuation techniques such as discounted cash flows models or models based on recent arm's length transactions or consideration of financial data of the investees are used to fair value certain financial instruments for which external market pricing information is not available. Valuation techniques may require assumptions not supported by observable market data. Disclosures are made in these 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.

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 settlement date, which is the date that the Group delivers 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.

3 Summary of Significant Accounting Policies (Continued)

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 Central Banks. Mandatory cash balances with the Central Banks 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.

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 categorises 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 categorises 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

3 Summary of Significant Accounting Policies (Continued)

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.

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. The renegotiated asset is then derecognized and a new asset is recognized at its fair value only if the risks and rewards of the asset substantially changed.

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.

3 Summary of Significant Accounting Policies (Continued)

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 the 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.

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.

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.

3 Summary of Significant Accounting Policies (Continued)

Premises, leasehold improvements and equipment. Premises, leasehold improvements and equipment are stated at cost 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.

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; in the latter case, the amount of the surplus realised is the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost. 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.

3 Summary of Significant Accounting Policies (Continued)

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.

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.

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.

3 Summary of Significant Accounting Policies (Continued)

When the fair value of derivatives does not change in response to the changes in the foreign exchange rates the Group reclassifies respective amounts from embedded derivatives to embedded derivatives with expired underlying contracts within other financial assets and continues to carry those contracts at fair value.

Derecognition of financial liabilities. The Group derecognises financial liabilities when it is extinguished, ie when the obligation specified in the contract is discharged or cancelled or expires. An exchange between the Group and lender of debt instruments with substantially different terms is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, a substantial modification of the terms of an existing financial liability or a part of it (whether or not attributable to the financial difficulty) is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss. Terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10 percent different from the discounted present value of the remaining cash flows of the original financial liability. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

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 consolidated 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.

3 Summary of Significant Accounting Policies (Continued)

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 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 vest and the expense is recognized immediately upon the grant.

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 consolidated 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.

3 Summary of Significant Accounting Policies (Continued)

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.

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").

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. The results and financial position of each group entity 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 2011, UAH	**31 December 2010, UAH**	**31 December 2009, UAH**
1 US Dollar (USD)	7.989800	7.961700	7.985000
1 Euro (EUR)	10.298053	10.573138	11.448893
1 Russian Ruble (RUB)	0.249530	0.261240	0.264020
1 Latvian Lat (LVL)	14.732551	14.895939	16.141115
1 Georgian Lari (GEL)	4.818006	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.

3 Summary of Significant Accounting Policies (Continued)

Staff costs and related contributions. Wages, salaries, contributions to the 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.

Change in accounting for gains less losses from embedded derivatives. The Group revised its approach to accounting for the results of embedded derivatives. The comparative information as at and for the years ended 31 December 2009 and 31 December 2010 was revised to reflect this change in approach. This change had no impact on the net profit of the Group for the year ended 31 December 2009 and 2010 shown in the statement of comprehensive income or the carrying amount of derivatives and equity in its statement of financial position of the Group as at 31 December 2009 and 31 December 2010.

Change in accounting for interest income. The Group changed its approach to accounting for income on impaired loans and the allowances for loan impairment. Under the revised approach, the interest income is recognised only to the extent of expected recovery, which in turn decreased the amount of provision against loans to write down their carrying value to expected recoverable amount. The comparative information as at and for the year ended 31 December 2009 was revised to reflect this change in approach. This change had no impact on the net profit of the Group for the year ended 31 December 2009 shown in the statement of comprehensive income or the carrying amount of loans recognised in its statement of financial position as at 31 December 2009.

The effect of these changes on the Group's statements of comprehensive income for the years ended 31 December 2010 and 2009 is shown in the tables below:

In millions of Ukrainian hryvnias	**As previously reported**	**Effect of changes in accounting**	**As reported after the changes**
2010			
Consolidated Statement of Comprehensive Income			
Interest income	15,139	674	15,813
Net interest income	**6,189**	**674**	**6,863**
Provision for impairment of loans and advances to customers	(3,408)	-	(3,408)
Net interest income after provision for impairment of loans and advances to customers	**2,781**	**674**	**3,455**
Gains less losses from embedded derivatives	821	(674)	147

3 Summary of Significant Accounting Policies (Continued)

In millions of Ukrainian hryvnias	As previously reported	Effect of changes in accounting	As reported after the changes
2009			
Consolidated Statement of Comprehensive Income			
Interest income	14,549	1,417	15,966
Net interest income	**7,254**	**1,417**	**8,671**
Provision for impairment of loans and advances to customers	(5,497)	1,134	(4,363)
Net interest income after provision for impairment of loans and advances to customers	**1,757**	**2,551**	**4,308**
Gains less losses from embedded derivatives	2,679	(2,551)	128
Consolidated Statement of Cash Flows			
Interest received	11,773	1,417	13,190
Cash flow from operating activities before changes in operating assets and liabilities	**4,071**	**1,417**	**5,488**
Net increase in loans and advances to customers	(277)	(1,417)	(1,694)
Net cash (used in)/from operating activities	**783**	**-**	**783**

Changes in presentation:

The Group, in monitoring risk concentrations, revised the classification of loans to corporate clients between economic and business sectors. The Group believes that revised classification improves understandability of economic and risk concentrations in corporate loan portfolio. Refer to Note 9. The reclassifications had an impact on information in Note 9 and had no impact on any other captions in the financial statements and related note disclosures.

The Group revised classification of loans and advances to customers and included loans to legal entities issued in the form of reverse sale and repurchase transactions in the corporate loans category. Refer to Note 9. The reclassification had an impact on information in Notes 9, 28 and 29 and had no impact on any other captions in the financial statements and related note disclosures.

The Group in review of segment information excluded from the analysis unallocated amounts being amounts which relate to activities of head office functional departments. Refer to note 23. The presentation had an impact on information in Note 23 and had no impact on any other captions in the financial statements and related note disclosures.

The Group revised classification of trading securities and other financial assets at fair value through profit or loss and disclosed them within other financial assets line in the consolidated statement of financial position. The gains less losses/(losses less gains) from trading securities and other financial assets at fair value through profit or loss were recognized within other gains less losses/(losses less gains) in the consolidated statement of comprehensive income.

The Group revised classification of (losses less gains)/gains less losses from disposals of investment securities available-for-sale and recognized them within other gains less losses/(losses less gains) in the consolidated statement of comprehensive income.

The Group revised classification of gains less losses/(losses less gains) from derivatives arising from swap, forward and spot transactions and recognized them within other gains less losses/(losses less gains) in the consolidated statement of comprehensive income.

The Group revised classification of intangible assets and disclosed them within premises, leasehold improvements and equipment and intangible assets in the consolidated statement of financial position.

3 Summary of Significant Accounting Policies (Continued)

In millions of Ukrainian hryvnias	As originally presented	Reclassification	As reclassified
2011			
Losses less gains from trading securities and other financial assets at fair value through profit or loss	(3)	3	-
Losses less gains from disposals of investment securities available-for-sale	(24)	24	-
Other gains less losses	171	(27)	144
2010			
Trading securities and other financial assets at fair value through profit or loss	14	(14)	-
Other financial assets	1,103	14	1,117
Gains less losses from embedded derivatives	776	45	821
Gains less losses from trading securities and other financial assets at fair value through profit or loss	3	(3)	-
Gains less losses from disposals of investment securities available-for-sale	4	(4)	-
Losses less gains from early retirement of debt	(4)	4	
Other losses less gains	-	(42)	(42)
2009			
Trading securities and other financial assets at fair value through profit or loss	18	(18)	-
Intangible assets	3	(3)	-
Premises, leasehold improvements and equipment and intangible assets	2,935	3	2,938
Other financial assets	1,783	18	1,801
Losses less gains from trading securities and other financial assets at fair value through profit or loss	(16)	16	-
Losses less gains from disposals of investment securities available-for-sale	(12)	12	-
Gains less losses from financial derivatives	2,643	36	2,679
Gains less losses from early retirement of debt	51	(51)	-
Other losses less gains	-	(13)	(13)

The above reclassifications were made by the Management in order to enhance understandability and presentation of the consolidated financial statements.

The Management of the Group considered materiality of above reclassifications and concluded that it is sufficient for the Group to present such information only in this note. The omission of the additional opening statement of financial position is, therefore, in management's view, not material.

Where necessary, corresponding figures as at and for the year ended 31 December 2009 and 31 December 2010 have been adjusted to conform to the presentation of amounts presented as at and for the year ended 31 December 2011.

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 641 million or UAH 641 million (2010: increase or decrease in loan impairment losses of UAH 571 million or UAH 628 million; 2009: increase or decrease in loan impairment losses of 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 758 million or UAH 885 million (2010: increase or decrease in loan impairment losses of UAH 719 million or UAH 731 million; 2009: increase or decrease in loan impairment losses of UAH 500 million), respectively.

Assessment of loans and advances issued to a certain group of borrowers for impairment. The Group regularly reviews its outstanding loans and advances issued to the oil traders who are 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 2011 gross amount of such loans was UAH 39,436 million (2010: UAH 32,104 million; 2009: UAH 21,994 million). 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. 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. The fair value of collateral substantially contributes to the assessment of whether there is an impairment of loans issued to oil traders. Refer to Note 9.

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.

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

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 2011 the Bank had loans and advances to customers totalling UAH 67,715 million (2010: 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 embedded derivative with the fair value of UAH 1,484 million as of 31 December 2011 (2010: UAH 1,678 million; 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 or loss. The major part of loan agreements mature from 2012 to 2014, inclusive (2010: from 2011 to 2014 inclusive; 2009: from 2010 to 2013 inclusive). If the expected UAH/USD exchange rate for these years would be higher/lower by 5%, the fair value of the derivative and profit or loss amount would increase by UAH 3,158 million and decrease by UAH 551 million (2010: 5%; increase by UAH 2,304 million and decrease by UAH 1,671 million; 2009: 5%; increase by UAH 1,518 and decrease by UAH 976 million). The increase in the fair value of embedded derivatives due to exchange rate movement may be potentially offset by deterioration of credit quality and may not be realised. If the discount rate used for fair valuation of the derivatives as of 31 December 2011 would be higher/lower by 100 basis points, the fair value of the derivative and profit or loss amount would decrease/increase by UAH 17 million (2010: 100 basis points; decrease/increase by UAH 10 million; 2009: 100 basis points; decrease/increase by UAH 134 million). If the credit risk of counterparties as of 31 December 2011 would be higher/lower by 10%, the fair value of the embedded derivative and profit or loss amount would decrease/increase by UAH 45 million (2010: 10%; decrease/increase by UAH 81 million; 2009: 10%; decrease/increase by 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.

Provision for credit related commitments. The Group regularly reviews its outstanding credit related commitments to assess whether any provision is required. 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 whether 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.

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 a 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 in 2010 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 increase by UAH 100 million or decrease by UAH 100 million.

5 Adoption of New or Revised Standards and Interpretations

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

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

Improvements to International Financial Reporting Standards (issued in May 2010 and effective from 1 January 2011). The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: IFRS 1 was amended (i) to allow previous GAAP carrying value to be used as deemed cost of an item of property, plant and equipment or an intangible asset if that item was used in operations subject to rate regulation, (ii) to allow an event driven revaluation to be used as deemed cost of property, plant and equipment even if the revaluation occurs during a period covered by the first IFRS consolidated 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 consolidated financial statements; IFRS 3 was amended (i) to require measurement at fair value (unless another measurement basis is required by other IFRS standards) of non-controlling interests that are not present ownership interest or do not entitle the holder to a proportionate share of net assets in the event of liquidation, (ii) to provide guidance on the acquiree's share-based payment arrangements that were not replaced, or were voluntarily replaced as a result of a business combination and (iii) to clarify that the contingent considerations from business combinations that occurred before the effective date of revised IFRS 3 (issued in January 2008) will be accounted for in accordance with the guidance in the previous version of IFRS 3; IFRS 7 was amended to clarify certain disclosure requirements, in particular (i) by adding an explicit emphasis on the interaction between qualitative and quantitative disclosures about the nature and extent of financial risks, (ii) by removing the requirement to disclose carrying amount of renegotiated financial assets that would otherwise be past due or impaired, (iii) by replacing the requirement to disclose fair value of collateral by a more general requirement to disclose its financial effect, and (iv) by clarifying that an entity should disclose the amount of foreclosed collateral held at the reporting date, and not the amount obtained during the reporting period (Refer to Note 9); IAS 1 was amended to clarify the requirements for the presentation and content of the statement of changes in equity; IAS 27 was amended by clarifying the transition rules for amendments to IAS 21, 28 and 31 made by the revised IAS 27 (as amended in January 2008); IAS 34 was amended to add additional examples of significant events and transactions requiring disclosure in a condensed interim financial report, including transfers between the levels of fair value hierarchy, changes in classification of financial assets or changes in business or economic environment that affect the fair values of the entity's financial instruments; and IFRIC 13 was amended to clarify measurement of fair value of award credits. The above amendments resulted in additional or revised disclosures, but had no material impact on measurement or recognition of transactions and balances reported in these consolidated financial statements. The financial effect of collateral required to be disclosed by the amendments to IFRS 7 is presented in these consolidated financial statements by disclosing collateral values separately for (i) those financial assets where collateral and other credit enhancements are equal to, or exceed, carrying value of the asset ("over-collateralised assets") and (ii) those financial assets where collateral and other credit enhancements are less than the carrying value of the asset ("under-collateralised assets").***Other revised standards and interpretations effective for the current period.*** IFRIC 19 "Extinguishing financial liabilities with equity instruments", amendments to IAS 32 on classification of rights issues, clarifications in IFRIC 14 "IAS 19 - The limit on a defined benefit asset, minimum funding requirements and their interaction" relating to prepayments of minimum funding requirements and amendments to IFRS 1 "First-time adoption of IFRS", did not have any impact on these consolidated financial statements.

6 New Accounting Pronouncements

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

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

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

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

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. The Group is currently assessing the impact of the new standard on its consolidated financial statements.

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. The Group is currently assessing the impact of the new standard on its consolidated financial statements.

6 New Accounting Pronouncements (Continued)

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 judgments 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. The Group is currently assessing the impact of the new standard on its consolidated financial statements.

IFRS 13, Fair value measurement, (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013), aims to improve consistency and reduce complexity by providing a revised definition of fair value, and a single source of fair value measurement and disclosure requirements for use across IFRSs. The Group is currently assessing the impact of the standard on its consolidated financial statements.

IAS 27, Separate Financial Statements, (revised in May 2011 and effective for annual periods beginning on or after 1 January 2013), was changed and its objective is now to prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. The guidance on control and consolidated financial statements was replaced by IFRS 10, Consolidated Financial Statements. The Group does not expect the amendment to have any effect on its consolidated financial statements.

IAS 28, Investments in Associates and Joint Ventures, (revised in May 2011 and effective for annual periods beginning on or after 1 January 2013). The amendment of IAS 28 resulted from the Board’s project on joint ventures. When discussing that project, the Board decided to incorporate the accounting for joint ventures using the equity method into IAS 28 because this method is applicable to both joint ventures and associates. With this exception, other guidance remained unchanged. The Group does not expect the amendments to have any material effect on its consolidated financial statements.

Disclosures—Transfers of Financial Assets – Amendments to IFRS 7 (issued in October 2010 and effective for annual periods beginning on or after 1 July 2011). The amendment requires additional disclosures in respect of risk exposures arising from transferred financial assets. The amendment includes a requirement to disclose by class of asset the nature, carrying amount and a description of the risks and rewards of financial assets that have been transferred to another party, yet remain on the entity's balance sheet. Disclosures are also required to enable a user to understand the amount of any associated liabilities, and the relationship between the financial assets and associated liabilities. Where financial assets have been derecognised, but the entity is still exposed to certain risks and rewards associated with the transferred asset, additional disclosure is required to enable the effects of those risks to be understood. The Group does not expect the amendments to have any material effect on its consolidated financial statements.

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

6 New Accounting Pronouncements (Continued)

Amended IAS 19, Employee Benefits (issued in June 2011, effective for periods beginning on or after 1 January 2013), makes significant changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits. The standard requires recognition of all changes in the net defined benefit liability (asset) when they occur, as follows: (i) service cost and net interest in profit or loss; and (ii) remeasurements in other comprehensive income. The Group does not expect the amendments to have any material effect on its consolidated financial statements.

Disclosures—Offsetting Financial Assets and Financial Liabilities - Amendments to IFRS 7 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2013). The amendment requires disclosures that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off. The Group does not expect the amendments to have any material effect on its consolidated financial statements.

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

Amendments to IFRS 1 First-time adoption of International Financial Reporting Standards - Government loans. The amendments, dealing with loans received from governments at a below market rate of interest, give first-time adopters of IFRSs relief from full retrospective application of IFRSs when accounting for these loans on transition. This will give first-time adopters the same relief as existing preparers. The Group does not expect the amendments to have any material effect on its consolidated financial statements.

Amendments to IFRS 10, IFRS 12 and IAS 27 - Investment entities (issued on 31 October 2012 and effective for annual periods beginning 1 January 2014). The amendment introduced a definition of an investment entity as an entity that (i) obtains funds from investors for the purpose of providing them with investment management services, (ii) commits to its investors that its business purpose is to invest funds solely for capital appreciation or investment income and (iii) measures and evaluates its investments on a fair value basis. An investment entity will be required to account for its subsidiaries at fair value through profit or loss, and to consolidate only those subsidiaries that provide services that are related to the entity's investment activities.

Other revised standards and interpretations: The amendments to IFRS 1 "First-time adoption of IFRS", relating to severe hyperinflation and eliminating references to fixed dates for certain exceptions and exemptions, the amendment to IAS 12 "Income taxes", which introduces a rebuttable presumption that an investment property carried at fair value is recovered entirely through sale, and IFRIC 20, "Stripping Costs in the Production Phase of a Surface Mine", which considers when and how to account for the benefits arising from the stripping activity in mining industry, will not have any impact on these consolidated financial statements.

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

7 Cash and Cash Equivalents and Mandatory Reserves

In millions of Ukrainian hryvnias	**2011**	**2010**	**2009**
Cash on hand	3,749	5,088	3,494
Cash balances with the NBU	2,424	2,029	1,677
Cash balances with the Central Bank of Russian Federation	1,507	461	908
Cash balances with the Central Bank of Latvia	492	475	137
Cash balances with the Central Bank of Cyprus	258	213	98
Cash balances with the Central Bank of Georgia	248	49	45
Correspondent accounts and overnight placements with other banks			
- Ukraine	191	2	209
- Other countries	12,494	10,949	4,887
Total cash and cash equivalents and mandatory reserves	**21,363**	**19,266**	**11,455**

As at 31 December 2011, 2010 and 2009 mandatory reserve balance with the National Bank of Ukraine is calculated on the basis of a simple average over a monthly period and should be maintained at the level of 0 to 8 per cent (2010: 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 2011 the Bank’s mandatory reserve average balance was UAH 2,091 million (December 2010: UAH 1,481 million; December 2009: UAH 1,042 million).

As at 31 December 2011 in accordance with the NBU regulations the Bank was required to maintain the balance on accounts with the NBU at the level of 95% (31 December 2010: 100%; 31 December 2009: 90%) of the mandatory reserve balance for the preceding month. The Bank will not be subject to any sanctions if it fails to comply with the requirements less than 30 times within a 3 month period. As at 31 December 2011 it was also required to maintain the balance on the separate account with the NBU at the level not less than 70% of the mandatory reserves balance for the preceding month (31 December 2010: not less than 100% of the mandatory reserves balance for the preceding month; 31 December 2009: not 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 2010: the interest was 2.325%, which was calculated as 30% of the NBU official interest rate; 31 December 2009: the interest was 3.075%, which was calculated as 30% of the NBU official interest rate).

In addition, Ukrainian banks are required to keep other mandatory reserves on a separate account with the NBU for:

- impairment provisions (determined according to the NBU requirements) created for loans granted in foreign currency to borrowers with no foreign currency income;
- foreign currency deposits and loans received from non-residents for a period of less than 183 calendar days.

As at 31 December 2011 this reserve of UAH 56 million (31 December 2010: UAH 128 million; 31 December 2009: no requirement) has been placed on a separate account.

As of 31 December 2011 the mandatory reserve balances of the Bank’s subsidiaries in Russia, Latvia, Cyprus and Georgia that should be kept with respective central banks were UAH 731 million (2010: mandatory reserves in Russia and Georgia were UAH 166 million; 2009: mandatory reserves in Russia and Georgia were UAH 99 million).

7 Cash and Cash Equivalents and Mandatory Reserves (Continued)

As the respective liquid assets are not freely available to finance the Bank's day-to-day operations, for the purposes of the consolidated statement of cash flows, the mandatory reserve balance is excluded from cash and cash equivalents of UAH 2,773 million, that is 95% of the mandatory reserve balance with the NBU and 100% of the mandatory reserve balance with other Central Banks (31 December 2010: UAH 1,775 million, that is 100% of the mandatory reserve balance with the NBU and other Central Banks; 31 December 2009: UAH 1,141 million, that is 100% of the mandatory reserve balance with the NBU and other Central Banks).

As of 31 December 2011, 2010 and 2009 the Group's cash and cash equivalents for the purposes of consolidated statement of cash flows were as follows:

In millions of Ukrainian hryvnias	**2011**	**2010**	**2009**
Total cash and cash equivalents and mandatory reserves	21,363	19,266	11,455
Less mandatory reserves balances	(2,773)	(1,775)	(1,141)
Cash and cash equivalents for the purposes of the consolidated statement of cash flows	**18,590**	**17,491**	**10,314**

As of 31 December 2011 mandatory reserve balances with the NBU of UAH 484 million (31 December 2010: UAH 484 million; 31 December 2009: nil) have been pledged as a collateral for the refinancing loan received from the NBU. Refer to Notes 12 and 26.

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

In millions of Ukrainian hryvnias	**Cash on hand**	**Cash balances with the Central Banks, including mandatory reserves**	**Correspondent accounts and overnight placements with other banks**	**Total**
Neither past due nor impaired				
Cash on hand	3,749	-	-	3,749
Cash balances with the Central Banks	-	4,929	-	4,929
Aaa rated	-	-	2,417	2,417
Aa1 to Aa3 rated	-	-	4,874	4,874
A1 to A3 rated	-	-	449	449
Baa1 to Baa3 rated	-	-	4,393	4,393
Ba1 to Ba3 rated	-	-	26	26
B1 to B3 rated	-	-	20	20
Unrated	-	-	506	506
Total cash and cash equivalents and mandatory reserves	**3,749**	**4,929**	**12,685**	**21,363**

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:

In millions of Ukrainian hryvnias	**Cash on hand**	**Cash balances with the Central Banks, including mandatory reserves**	**Correspondent accounts and overnight placements with other banks**	**Total**
Neither past due nor impaired				
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:

In millions of Ukrainian hryvnias	**Cash on hand**	**Cash balances with the Central Banks, including mandatory reserves**	**Correspondent accounts and overnight placements with other banks**	**Total**
Neither past due nor impaired				
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:

In millions of Ukrainian hryvnias	**2011**	**2010**	**2009**
Non-cash financing activities			
Dividends	(1,300)	(1,049)	(1,125)
Increase in share capital	1,300	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

In millions of Ukrainian hryvnias	**2011**	**2010**	**2009**
Term placements with other banks	4,149	4,893	3,767
Guarantee deposits with other banks	499	437	302
Total due from other banks	**4,648**	**5,330**	**4,069**

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 26.

Amounts due from other banks are not collateralised. Analysis by credit quality of amounts due from other banks outstanding at 31 December 2011 is as follows:

In millions of Ukrainian hryvnias	**Term placements with other banks**	**Guarantee deposits with other banks**	**Total**
Neither past due nor impaired			
- Aaa rated	79	7	86
- Aa2 rated	52	113	165
- Aa3 rated	52	209	261
- A1 rated	145	-	145
- A2 rated	155	170	325
- Baa1 rated	285	-	285
- B1 rated	41	-	41
- Unrated	3,340	-	3,340
Total due from other banks	**4,149**	**499**	**4,648**

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:

In millions of Ukrainian hryvnias	**Term placements with other banks**	**Guarantee deposits with other banks**	**Total**
Neither past due nor impaired			
- 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**

8 Due from Other Banks (Continued)

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

In millions of Ukrainian hryvnias	**Term placements with other banks**	**Guarantee deposits with other banks**	**Total**
Neither past due nor impaired			
- 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 an OECD bank. As of 31 December 2011 the Group pledged its USD denominated term placement with this OECD bank of UAH 2,892 million for USD denominated loan issued by this bank to the Group's customer.

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

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 37,136 million (2010: UAH 21,922 million; 2009: UAH 16,615 million) comprising cash and cash equivalents, due from other banks and financial derivatives. Refer to Notes 7 and 27.

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

In millions of Ukrainian hryvnias	**2011**	**2010**	**2009**
Corporate loans	96,825	80,042	54,728
Loans to individuals - cards	16,817	9,463	7,475
Loans to individuals - mortgage	4,997	5,472	6,461
Loans to individuals - auto	1,454	2,480	3,754
Loans to individuals - consumer	966	628	408
Loans to individuals - other	928	1,590	1,383
Loans to small and medium enterprises (SME)	1,393	2,500	3,833
Less: Provision for loan impairment	(15,950)	(12,481)	(11,445)
Total loans and advances to customers	**107,430**	**89,694**	**66,597**

As of 31 December 2011 interest income of UAH 1,113 million (2010: UAH 930 million; 2009: UAH 723 million) was accrued on loans and advances to customers impaired at the year end.

9 Loans and Advances to Customers (Continued)

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

In millions of Ukrainian hryvnias	Corporate loans	Loans to individuals: Cards	Mortgage	Auto	Consumer	Other	SME	Total
Provision for loan impairment at 1 January 2011	**9,620**	**347**	**1,330**	**425**	**6**	**196**	**557**	**12,481**
Provision/(reversal of provision) for impairment during the year	4,628	660	2	267	36	(71)	296	5,818
Amounts written off during the year as uncollectible	(488)	(383)	(268)	(437)	(30)	(103)	(607)	(2,316)
Currency translation differences	(20)	(6)	(3)	(1)	-	(1)	(2)	(33)
Provision for loan impairment at 31 December 2011	**13,740**	**618**	**1,061**	**254**	**12**	**21**	**244**	**15,950**

The provision for impairment during 2011 differs from the amount presented in profit or loss for the year due to UAH 191 million recoveries of amounts previously written off as uncollectible. The amount of the recovery was credited directly to provisions in the statement of comprehensive income for the year.

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

In millions of Ukrainian hryvnias	Corporate loans	Loans to individuals: Cards	Mortgage	Auto	Consumer	Other	SME	Total
Provision for loan impairment at 1 January 2010	**6,988**	**896**	**1,478**	**682**	**44**	**170**	**1,187**	**11,445**
Provision/(reversal of provision) for impairment during the year	3,153	276	(27)	25	10	136	(43)	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	**9,620**	**347**	**1,330**	**425**	**6**	**196**	**557**	**12,481**

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 provisions in the statement of comprehensive income for the year.

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

In millions of Ukrainian hryvnias	Corporate loans	Loans to individuals: Cards	Mortgage	Auto	Consumer	Other	SME	Total
Provision for loan impairment at 1 January 2009	**4,278**	**1,469**	**808**	**541**	**231**	**68**	**735**	**8,130**
Provision for impairment during the year	2,619	377	639	177	17	101	433	4,363
Amounts written off during the year as uncollectible	(58)	(976)	(12)	(34)	(199)	(7)	(7)	(1,293)
Currency translation differences	149	26	43	(2)	(5)	8	26	245
Provision for loan impairment at 31 December 2009	**6,988**	**896**	**1,478**	**682**	**44**	**170**	**1,187**	**11,445**

9 Loans and Advances to Customers (Continued)

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

	2011		2010		2009	
In millions of Ukrainian hryvnias	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**
Oil trading	39,436	32	32,772	32	23,021	29
Loans to individuals	25,162	20	19,633	19	19,481	25
Agriculture, agriculture machinery and food industry	14,049	11	9,765	10	7,764	10
Ferroalloy trading and production	10,937	9	13,149	13	2,352	3
Manufacturing	10,485	8	3,398	3	2,916	4
Commerce, finance and securities trading	8,756	7	13,313	13	9,925	13
Construction	4,791	4	2,950	3	2,934	4
Ski resort, tourism and football clubs	4,178	4	2,859	3	2,527	3
Air transport	2,394	2	18	-	-	-
Small and medium enterprises (SME)	1,393	2	2,500	2	3,833	5
Other	1,799	1	1,818	2	3,289	4
Total loans and advances to customers (before impairment)	**123,380**	**100**	**102,175**	**100**	**78,042**	**100**

Where necessary, corresponding figures as of 31 December 2010 and 31 December 2009 in the economic and business sector risk concentration disclosure have been adjusted to conform to the 2011 year presentation.

Disclosed in oil trading industry are UAH 39,436 million or 32% of gross loans and advances (2010: UAH 32,104 million or 31%; 2009: UAH 21,994 million or 28%) 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 2011 loans issued to these companies of UAH 39,436 million were collateralised with inventory of oil, gas and oil products of the collateral value of UAH 2,727 million, property rights for advances made by borrowers of UAH 3,480 million and corporate rights for shares in the share capital of borrowers and their guarantors with the collateral value of UAH 31,499 million. Collateral value of corporate rights for shares was determined based on the fair value of petrol stations, petrol storages, oil refineries and gas and oil production fields owned by these borrowers, their shareholders and guarantors. Collateral agreements have been concluded under the UK Law during 2011. The fair value of collateral substantially contributes to the assessment of whether there is an impairment of loans issued to oil traders as of 31 December 2011. As of 31 December 2009 loans issued to companies engaged in wholesale and retail sale of petrol, oil and oil products that work closely with each other were unsecured.

Apart from the loans issued to related parties, disclosed in the Note 30, the Group has loans issued to the entities in which major shareholders of the Bank individually directly or through intermediaries beneficially own less than 50% of the share capital, however that ownership does not allow these entities to be treated as related to the Group in accordance with the IAS 24 “Related party disclosure” (as revised in November 2009).

Mortgage loans are secured by underlying housing real estate. Auto loans are secured by the underlying cars. Loans to small and medium enterprises are secured by underlying commercial real estate, equipment or commercial cars. Credit cards and consumer loans are not secured.

As of 31 December 2011 the total aggregate amount of loans to top 10 borrowers of the Group amounted to UAH 14,774 million (2010: UAH 22,069 million; 2009: UAH 15,319 million) or 12% of the gross loan portfolio (2010: 22%; 2009: 20%).

As of 31 December 2011 the Group had 1 borrower (2010: 11 borrowers; 2009: 11 borrowers) with aggregate loan balances in excess of 10% of the net assets or UAH 1,919 million (2010: UAH 1,417 million; 2009: UAH 1,205 million). The total aggregate amount of these loans was UAH 2,843 million (2010: UAH 23,544 million; 2009: UAH 16,132 million).

9 Loans and Advances to Customers (Continued)

As of 31 December 2011 mortgage loans in the amount of UAH 383 million (2010: UAH 562 million; 2009: UAH 900 million) have been pledged as collateral with respect to the mortgage bonds issued. Please refer to Notes 14 and 26.

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

As of 31 December 2011 loans to two corporate borrowers (2010: three corporate borrowers; 2009: four corporate borrowers) in the amount of UAH 675 million (2010: UAH 1,035 million; 2009: UAH 1,070 million) were pledged as collateral under the NBU refinancing. Please refer to Note 12 and 26.

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

	Corporate	**Loans to individuals**					**SME**	**Total**
In millions of Ukrainian hryvnias	**loans**	**Cards**	**Mortgage**	**Auto**	**Consumer**	**Other**		
Neither past due nor impaired								
- Large borrowers with credit history with the Group over two years	22,685	-	-	-	-	370	-	23,055
- Large new borrowers with credit history with the Group less than 2 years	41,724	-	-	-	-	-	-	41,724
- Loans to medium size borrowers	7,079	-	-	-	-	149	71	7,299
- Loans to small borrowers	655	-	-	-	-	-	452	1,107
- Loans between UAH 1-100 million	-	5	239	25	-	-	-	269
- Loans less than UAH 1 million	-	14,988	1,898	701	911	301	-	18,799
Total neither past due nor impaired	**72,143**	**14,993**	**2,137**	**726**	**911**	**820**	**523**	**92,253**
Past due but not impaired								
- less than 30 days overdue	109	884	158	74	25	33	56	1,339
- 30 to 90 days overdue	114	340	139	58	13	10	45	719
Total past due but not impaired	**223**	**1,224**	**297**	**132**	**38**	**43**	**101**	**2,058**
Loans individually determined to be impaired (gross)								
- Not overdue	22,142	-	14	-	-	-	-	22,156
- less than 30 days overdue	1,096	-	10	-	-	-	-	1,106
- 30 to 90 days overdue	490	1	24	-	-	-	-	515
- 90 to 180 days overdue	53	249	87	55	12	10	37	503
- 180 to 360 days overdue	203	193	141	61	3	8	92	701
- over 360 days overdue	475	157	2,287	480	2	47	640	4,088
Total individually impaired loans (gross)	**24,459**	**600**	**2,563**	**596**	**17**	**65**	**769**	**29,069**
Less impairment provisions	(13,740)	(618)	(1,061)	(254)	(12)	(21)	(244)	(15,950)
Total loans and advances to customers	**83,085**	**16,199**	**3,936**	**1,200**	**954**	**907**	**1,149**	**107,430**

9 Loans and Advances to Customers (Continued)

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

In millions of Ukrainian hryvnias	Corporate loans	Loans to individuals: Cards	Mortgage	Auto	Consumer	Other	SME	Total
Neither past due nor impaired								
- Large borrowers with credit history with the Group over two years	35,831	-	-	-	-	439	-	36,270
- Large new borrowers with credit history with the Group less than 2 years	18,271	-	-	-	-	-	-	18,271
- Loans to medium size borrowers	5,699	-	-	-	-	432	162	6,293
- Loans to small borrowers	254	-	-	-	-	-	855	1,109
- Loans between UAH 1-100 million	-	11	312	-	-	-	-	323
- Loans less than UAH 1 million	-	8,611	2,184	1,454	598	178	-	13,025
Total neither past due nor impaired	**60,055**	**8,622**	**2,496**	**1,454**	**598**	**1,049**	**1,017**	**75,291**
Past due but not impaired								
- 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**
Loans individually determined to be impaired (gross)								
- Not overdue	16,635	10	160	-	-	116	-	16,921
- less than 30 days overdue	1,159	1	11	-	-	-	-	1,171
- 30 to 90 days overdue	266	1	26	26	-	-	-	319
- 90 to 180 days overdue	165	102	136	89	8	18	68	586
- 180 to 360 days overdue	196	115	298	164	2	71	163	1,009
- over 360 days overdue	1,177	171	1,984	605	8	286	1,072	5,303
Total individually impaired loans (gross)	**19,598**	**400**	**2,615**	**884**	**18**	**491**	**1,303**	**25,309**
Less impairment provisions	(9,620)	(347)	(1,330)	(425)	(6)	(196)	(557)	(12,481)
Total loans and advances to customers	**70,422**	**9,116**	**4,142**	**2,055**	**622**	**1,394**	**1,943**	**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 to individuals					SME	Total
In millions of Ukrainian hryvnias	loans	Cards	Mortgage	Auto	Consumer	Other		
Neither past due nor impaired								
- Large borrowers with credit history with the Group over two years	20,889	-	-	-	-	233	-	21,122
- Large new borrowers with credit history with the Group less than 2 years	7,995	-	-	-	-	-	-	7,995
- Loans to medium size borrowers	7,942	-	-	-	-	668	247	8,857
- Loans to small borrowers	387	-	-	-	-	-	1,569	1,956
- Loans between UAH 1-100 million	-	27	455	-	-	-	-	482
- Loans less than UAH 1 million	-	6,045	2,656	2,334	330	208	-	11,573
Total neither past due nor impaired	**37,213**	**6,072**	**3,111**	**2,334**	**330**	**1,109**	**1,816**	**51,985**
Past due but not impaired								
- less than 30 days overdue	247	19	443	302	7	26	275	1,319
- 30 to 90 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**
Loans individually determined to be impaired (gross)								
- Not overdue	13,503	15	254	4	2	2	2	13,782
- less than 30 days overdue	606	6	37	3	-	-	-	652
- 30 to 90 days overdue	1,036	3	28	3	-	-	5	1,075
- 90 to 180 days overdue	365	468	286	193	8	20	149	1,489
- 180 to 360 days overdue	1,510	454	1,779	609	16	191	1,069	5,628
- over 360 days overdue	101	329	340	216	41	2	385	1,414
Total individually impaired loans (gross)	**17,121**	**1,275**	**2,724**	**1,028**	**67**	**215**	**1,610**	**24,040**
Less impairment provisions	(6,988)	(896)	(1,478)	(682)	(44)	(170)	(1,187)	(11,445)
Total loans and advances to customers	**47,740**	**6,579**	**4,983**	**3,072**	**364**	**1,213**	**2,646**	**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.

In 2011 the Group recognised a loss of UAH 26 million as a result of the renegotiation of loans and advances to customers that would otherwise become past due or impaired and the loss was directly debited to provisions in the statement of comprehensive income (2010: loss UAH 41 million; 2009: nil).

9 Loans and Advances to Customers (Continued)

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.

Past due but not impaired loans, represent collateralised loans where the fair value of collateral covers the overdue interest and principal repayments, except for card loans and consumer loans for which impairment is recognised starting from 90 days past due. 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 loans 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 financial effect of collateral is presented by disclosing collateral values separately for (i) those assets where collateral and other credit enhancements are equal to or exceed carrying value of the asset ("over-collateralised assets") and (ii) those assets where collateral and other credit enhancements are less than the carrying value of the asset ("under-collateralised assets"). The tables below exclude cards and consumer loans, issues of which do not require any collateral.

The effect of collateral at 31 December 2011:

	Over-collateralised assets		**Under-collateralised assets**	
In millions of Ukrainian hryvnias	Carrying value of the assets	Fair value of collateral	Carrying value of the assets	Fair value of collateral
Corporate loans	68,054	81,072	15,031	5,717
Loans to individuals - mortgage	2,128	4,505	1,808	1,738
Loans to individuals - auto	61	118	1,139	483
Loans to individuals - other	114	339	793	75
Loans to small and medium enterprises (SME)	316	1,016	833	298

The effect of collateral at 31 December 2010:

	Over-collateralised assets		**Under-collateralised assets**	
In millions of Ukrainian hryvnias	Carrying value of the assets	Fair value of collateral	Carrying value of the assets	Fair value of collateral
Corporate loans	15,377	19,101	55,045	6,667
Loans to individuals - mortgage	694	1,751	3,448	1,835
Loans to individuals - auto	194	261	1,861	602
Loans to individuals - other	91	215	1,303	157
Loans to small and medium enterprises (SME)	560	1,364	1,383	741

As at 31 December 2011 loans issued to the corporate borrowers other than those engaged in oil trading of UAH 31,521 million were collateralised with corporate rights for shares in the share capital of these borrowers and their guarantors with the collateral value of UAH 46,818 million. Collateral agreements are concluded under the UK Law. The fair value of collateral substantially contributes to the assessment of whether there is an impairment of loans issued.

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

In millions of Ukrainian hryvnias	Note	Premises	Leasehold improvements	Computers	Motor vehicles	Furniture, equipment, intangible assets and other	Total
Carrying amount at 1 January 2009		**2,144**	**47**	**791**	**69**	**438**	**3,489**
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)
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
Impairment charge through other comprehensive income		(370)	-	-	-	-	(370)
Increase in the fair value		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)
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
Increase in the fair value		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)
Additions		166	11	354	76	213	820
Disposals		(9)	(1)	(30)	(4)	(12)	(56)
Depreciation and amortisation charge	21	(47)	(23)	(170)	(11)	(152)	(403)
Effect of translation to presentation currency		(5)	2	-	-	(1)	(4)
Carrying amount at 31 December 2011		**1,931**	**11**	**711**	**145**	**520**	**3,318**
Cost or valuation at 31 December 2011		2,060	152	1,631	202	1,061	5,106
Accumulated depreciation and amortisation		(129)	(141)	(920)	(57)	(541)	(1,788)

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 valuation was carried out by a firm of valuers who hold a suitable 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 (2010: UAH 721 million; 2009: UAH 837 million) representing revaluation surplus relating to premises of the Group. As of 31 December 2011 a cumulative deferred tax liability of UAH 128 million (2010: 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 2011 the carrying amount of premises would have been UAH 1,128 million (2010: 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 67 million (2010: UAH 71 million; 2009: UAH 60 million).

As of 31 December 2011 the gross carrying amount of fully depreciated premises, leasehold improvements and equipment that are still in use was UAH 128 million (2010: UAH 20 million; 2009: UAH 134 million).

As of 31 December 2011 premises carried at UAH 954 million (2010: 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

In millions of Ukrainian hryvnias	**2011**	**2010**	**2009**
Embedded derivatives with expired underlying contracts	535	773	1,440
Receivables from operations with customers	242	196	182
Finance lease receivables	214	32	-
Plastic cards receivables	114	109	130
Financial derivatives arising from swap, forward and spot transactions	65	9	1
Trading securities and other financial assets at fair value through profit or loss	-	14	18
Other	101	137	134
Less: Provision for impairment	(127)	(153)	(104)
Total other financial assets	**1,144**	**1,117**	**1,801**

As of 31 December 2011 finance lease receivables were disclosed separately within other financial assets and correspondingly numbers as of 31 December 2010 were changed to conform to the current year presentation.

11 Other Financial Assets (Continued)

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

In millions of Ukrainian hryvnias	**Receivables arising from embedded derivatives with expired underlying contracts**	**Receivables from operations with customers**	**Finance lease recei-vables**	**Plastic cards receivables**	**Financial derivatives arising from swap, forward and spot transactions**	**Other**	**Total**
Neither past due nor impaired							
- Large customers with credit history over two years	535	-	-	-	-	4	539
- Medium borrowers	-	-	-	-	-	15	15
- Small borrowers	-	99	214	15	-	50	378
- Large OECD banks	-	-	-	-	20	10	30
- Non-OECD banks	-	-	-	96	45	22	163
Total neither past due nor impaired	**535**	**99**	**214**	**111**	**65**	**101**	**1,125**
Receivables individually determined to be impaired (gross)							
- Overdue	-	143	-	3	-	-	146
Total receivables individually determined to be impaired	**-**	**143**	**-**	**3**	**-**	**-**	**146**
Less impairment provision	-	(113)	-	(3)	-	(11)	(127)
Total other financial assets	**535**	**129**	**214**	**111**	**65**	**90**	**1,144**

11 Other Financial Assets (Continued)

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

In millions of Ukrainian hryvnias	Receivables arising from embedded derivatives with expired underlying contracts	Receivables from operations with customers	Finance lease recei-vables	Plastic cards receivables	Financial derivatives arising from swap, forward and spot transactions	Trading securities and other financial assets at fair value through profit or loss	Other	Total
Neither past due nor impaired								
- Large customers with credit history over two years	773	-	-	-	-	-	17	790
- Medium companies	-	13	-	-	-	-	54	67
- Small companies	-	23	32	11	-	14	36	116
- Large OECD banks	-	-	-	9	-	-	1	10
- Non-OECD banks	-	-	-	73	9	-	15	97
Total neither past due nor impaired	**773**	**36**	**32**	**93**	**9**	**14**	**123**	**1,080**
Receivables individually determined to be impaired (gross)								
- Overdue	-	160	-	16	-	-	14	190
Total receivables individually determined to be impaired	**-**	**160**	**-**	**16**	**-**	**-**	**14**	**190**
Less impairment provision	-	(123)	-	(16)	-	-	(14)	(153)
Total other financial assets	**773**	**73**	**32**	**93**	**9**	**14**	**123**	**1,117**

11 Other Financial Assets (Continued)

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

In millions of Ukrainian hryvnias	**Receivables arising from embedded derivatives with expired underlying contracts**	**Receivables from operations with customers**	**Plastic cards receivables**	**Financial derivatives arising from swap, forward and spot transactions**	**Trading securities and other financial assets at fair value through profit or loss**	**Other**	**Total**
Neither past due nor impaired							
- Large customers with credit history over two years	1,440	-	-	-	-	22	1,462
- Small companies	-	57	52	-	18	26	153
- Large OECD banks	-	-	9	-	-	3	12
- Non-OECD banks	-	-	52	1	-	25	78
- Balances renegotiated during the year	-	-	1	-	-	44	45
Total neither past due nor impaired	**1,440**	**57**	**114**	**1**	**18**	**120**	**1,750**
Receivables individually determined to be impaired (gross)							
- 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**	**1**	**18**	**120**	**1,801**

The primary factors that the Group considers in determining whether a receivable 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 receivables that are individually determined to be impaired. The rights to the leased assets revert to the Group in the event of default by the lessee.

Finance lease receivables of UAH 208 million (2010: UAH 32 million; 2009: nil) and UAH 6 million (2010: nil; 2009: nil) relate to lease agreements of auto and real estate, respectively.

Where necessary, corresponding figures as of 31 December 2010 and 31 December 2009 have been adjusted to conform to the 2011 year presentation.

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 2011, 2010 and 2009:

In millions of Ukrainian hryvnias	2011	2010	2009
Term borrowings from the NBU	5,825	7,312	8,310
Total due to the NBU	**5,825**	**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 initially carried fixed interest rates of 15% to 16.5% p.a. with maturities from September 2010 to October 2015.

In January 2010 the NBU increased the interest rate under the refinancing loan from 15-16.5% 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. Refer to Note 31.

Assets pledged under the NBU refinancing loan are as follows:

In millions of Ukrainian hryvnias	Note	2011	2010	2009
Mandatory reserve balance with the NBU	7	484	484	-
Loans and advances to customers	9	675	1,035	1,070
Premises	10	954	960	1,212
Assets owned by related and third parties		5,734	8,035	9,275

Due to the other banks and other financing institutions at 31 December 2011, 2010 and 2009:

In millions of Ukrainian hryvnias	2011	2010	2009
Term placements of other commercial banks	1,401	1,385	2,115
Long-term loans under the credit lines from other financing institutions	774	130	22
Correspondent accounts and overnight placements of other banks	268	2,341	181
Pledge deposits of other banks	10	4	1
Total due to other banks and other financial institutions	**2,453**	**3,860**	**2,319**

Term placements of other commercial banks represent placements of commercial banks in USD and EUR with maturities from February 2012 to April 2017 (2010: placements of commercial banks in USD and EUR with maturities from January 2011 to April 2017; 2009: placements of commercial banks in UAH, USD and EUR with maturities from January 2010 to April 2017).

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

13 Customer Accounts

In millions of Ukrainian hryvnias	**2011**	**2010**	**2009**
Individuals			
- Term deposits	66,536	52,635	32,035
- Current/demand accounts	12,967	10,532	7,121
Legal entities			
- Term deposits	9,147	12,389	9,869
- Current/settlement accounts	15,559	10,965	8,108
Total customer accounts	**104,209**	**86,521**	**57,133**

Economic sector concentrations within customer accounts are as follows:

	2011		**2010**		**2009**	
In millions of Ukrainian hryvnias	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**
Individuals	79,503	76	63,167	73	39,156	69
Trade	9,207	9	9,062	11	4,944	9
Manufacturing	4,764	5	5,474	6	5,299	9
Services	3,478	3	2,330	3	1,804	3
Agriculture	2,618	3	783	1	865	2
Transport and communication	1,458	1	1,209	1	784	1
Machinery	477	1	864	1	928	2
Other	2,704	2	3,632	4	3,353	5
Total customer accounts	**104,209**	**100**	**86,521**	**100**	**57,133**	**100**

At 31 December 2011 the aggregate balances of top 10 customers of the Group amount to UAH 9,576 million (2010: UAH 7,097 million; 2009: UAH 6,171 million) or 9% (2010: 8%; 2009: 11%) of total customer accounts.

At 31 December 2011 included in customer accounts are deposits of UAH 30 million (2010: UAH 44 million; 2009: UAH 44 million) held as collateral for irrevocable commitments under import letters of credit and guarantees issued by the Group. Refer to Note 26.

At 31 December 2011 included in customer accounts are deposits of UAH 2,445 million (2010: UAH 885 million; 2009: UAH 7,341 million) held as collateral for loans and advances to customers, issued by the Group.

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

In millions of Ukrainian hryvnias	**2011**	**2010**	**2009**
Eurobonds	4,785	4,999	3,757
Private placements of bonds	560	557	1,290
Mortgage bonds	254	477	745
Auto bonds	-	127	319
Promissory notes	1	1	1
Total debt securities in issue	**5,600**	**6,161**	**6,112**

14 Debt Securities in Issue (Continued)

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 9.31% (2010: 9.16%; 2009: 23.57%). The Eurobonds are listed on the Swiss Stock Exchange. Refer to Note 31.

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 11.1%. The Eurobonds are listed on the London Stock Exchange.

As at 31 December 2011 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 2011 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.

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.

As of 31 December 2011 Mortgage bonds with the total nominal value of USD 9 million or UAH 72 million at the exchange rate applicable as of 31 December 2011 (2010: 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.

Mortgage bonds mature and are being repaid in line with the maturity of the underlying loans to customers.

Mortgage bonds issued of carrying value of UAH 254 million (2010: UAH 477 million; 2009: UAH 745 million) are effectively collateralised by loans and advances to customers of UAH 383 million (2010: UAH 562 million; 2009: UAH 900 million). Refer to Notes 9 and 26.

In September 2011 the Group redeemed the remaining part of USD denominated Auto bonds issued in May 2008 with a par value of USD 110 million maturing in November 2018.

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:

In millions of Ukrainian hryvnias	Note	2011	2010	2009
Other financial liabilities				
Funds in the course of settlement		116	249	62
Liability for finance lease		107	67	110
Financial derivatives arising from swap transactions	27	103	21	19
Account payable		81	128	102
Other		94	67	125
Total other financial liabilities		**501**	**532**	**418**
Provision for liabilities and charges and other liabilities				
Unused vacation reserve		236	193	172
Accrued salaries and bonuses		184	129	19
Other		79	75	94
Total provisions for liabilities and charges and other non-financial liabilities		**499**	**397**	**285**
Total provisions for liabilities and charges, other financial and non-financial liabilities		**1,000**	**929**	**703**

Where necessary, corresponding figures as of 31 December 2010 and 31 December 2009 have been adjusted to conform to the current year presentation.

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

In millions of Ukrainian hryvnias	**2011**	**2010**	**2009**
Subordinated debt provided by legal entities	1,405	1,379	1,425
Subordinated debt provided by individuals	13	-	13
Total subordinated debt	**1,418**	**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.

In February 2011 in accordance with the terms and conditions of USD denominated subordinated debt with a par value of USD 150 million the step-up interest rate was set at 5.799% per annum.

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

In millions of UAH except for number of shares	Number of outstanding shares, in millions	Nominal amount	Inflation adjusted amount
At 1 January 2009	**42.28**	**5,686**	**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**
Increase in the nominal amount of the shares through capitalization of dividends	-	1,300	1,300
New shares issued	16.15	3,385	3,385
At 31 December 2011	**64.64**	**13,545**	**13,545**

The nominal registered amount of the Bank's issued share capital at 31 December 2011 is UAH 13,545 million (2010: UAH 8,860 million; 2009: UAH 7,811 million). The total authorised number of ordinary shares is 64.64 million shares (2010: 48.49 million shares; 2009: 48.49 million shares) with a par value of UAH 209.53 per share (2010: UAH 182.72 per share; 2009: UAH 161.08 million). All issued ordinary shares are fully paid. Each ordinary share carries one vote.

In September 2011, the Bank registered an additional 16,154,900 ordinary shares with nominal amount of UAH 209.53 per share totalling UAH 3,385 million which were purchased by a company owned equally by two major shareholders. This share issue was paid in full by this company by a contribution of USD 427 million which at the date of the transaction constituted UAH 3,405 million which exceeded the nominal amount of shares issued by UAH 20 million. The respective surplus was recognised as share premium.

In June 2011 the shareholders made a decision to increase the nominal amount of the Bank's issued shares from UAH 182.72 per share to UAH 209.53 per share. The increase was followed by the increase in the share capital by capitalisation of dividends of UAH 1,300 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.

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.

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

In millions of Ukrainian hryvnias	**2011**	**2010**	**2009**
Interest income			
Loans and advances to legal entities	12,006	10,571	10,462
Loans and advances to individuals	6,993	4,912	5,201
Due from other banks	177	263	291
Other	232	67	12
Total interest income	**19,408**	**15,813**	**15,966**
Interest expense			
Term deposits of individuals	6,181	5,595	3,956
Current/settlement accounts	875	611	480
Term deposits of legal entities	876	1,063	794
Due to the NBU	643	979	1,091
Debt securities in issue	420	445	358
Due to other banks and other financing institutions	195	139	413
Subordinated debt	121	99	176
Other	18	19	27
Total interest expense	**9,329**	**8,950**	**7,295**
Net interest income	**10,079**	**6,863**	**8,671**

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

20 Fee and Commission Income and Expense

In millions of Ukrainian hryvnias	**2011**	**2010**	**2009**
Fee and commission income			
Settlement transactions	2,045	1,662	790
Cash collection and cash transactions	1,018	1,261	1,238
Other	128	112	91
Total fee and commission income	**3,191**	**3,035**	**2,119**
Fee and commission expense			
Cash and settlement transactions	418	249	190
Other	44	52	42
Total fee and commission expense	**462**	**301**	**232**
Net fee and commission income	**2,729**	**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

In millions of Ukrainian hryvnias	**Note**	**2011**	**2010**	**2009**
Staff costs, except for the share grant		3,540	2,730	2,171
Rent		530	475	541
Depreciation and amortisation of premises, leasehold improvements and equipment and intangible assets	10	403	319	400
Contributions to Individual Deposits Guarantee Fund		330	215	171
Utilities and household expenses		284	245	208
Maintenance of premises, leasehold improvements and equipment		269	171	135
Mail and telecommunication		220	201	215
Security		126	153	144
Taxes other than on income		116	74	112
Advertising and marketing		97	76	72
Share grant		-	500	-
Other		405	457	750
Total administrative and other operating expenses		**6,320**	**5,616**	**4,919**

Included in staff costs is unified social contribution of UAH 858 million (2010: statutory pension contributions of UAH 567 million and social security contributions of UAH 71 million; 2009: statutory pension contributions of UAH 442 million and social security contributions of 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 Taxes

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

In millions of Ukrainian hryvnias	**2011**	**2010**	**2009**
Current tax	322	163	70
Deferred tax	(276)	(92)	645
Income tax expense for the year	**46**	**71**	**715**

In 2011 the income tax rate applicable to the majority of the Group's income was 23% (2010: 25%; 2009: 25%). The income tax rate applicable to the majority of income of subsidiaries ranges from 15% to 30% (2010: from 15% to 30%; 2009: from 15% to 30%). Reconciliation between the expected and the actual taxation charge is provided below.

In millions of Ukrainian hryvnias	**2011**	**2010**	**2009**
Profit before tax	**1,539**	**1,511**	**2,044**
Theoretical tax charge at statutory rate (2011: 23%; 2010: 25%; 2009: 25%)	354	378	511
Tax effect of items which are not deductible or assessable for taxation purposes:			
- Effect from change in rate of tax in Ukraine	(324)	(312)	-
- Income which is exempt from taxation	(60)	(110)	-
- Non-deductible expenses	30	175	144
- Unrecognised deferred tax assets	46	(60)	60
Income tax expense for the year	**46**	**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 2011 and 31 December 2010.

In 2011 the Group reassessed the timing of reversal of some temporary differences recognized as of 31 December 2010 and their later than originally estimated timing of reversal implied that they would reverse at a lower tax rate than previously expected therefore resulting in the decrease of previously recognized deferred tax asset due to declining tax rates. In addition, differences originated in 2011 and taxed or deducted at 23% will be reversed in the future at lower tax rates. The corresponding effect was presented in line "Effect from change of tax rate in Ukraine" in the reconciliation above.

During the year ended 31 December 2011 a deferred tax asset of UAH 75 million (2010: UAH 6 million; 2009: UAH 82 million) has been recorded directly in other comprehensive income in respect of the revaluation of the Group's premises.

22 Income Taxes (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:

In millions of Ukrainian hryvnias	**31 December 2010**	**(Charged)/ credited to profit or loss**	**Credited directly to other compre-hensive income**	**31 December 2011**
Tax effect of deductible temporary differences				
Accrued expenses and other liabilities	64	(37)	-	27
Deferral of transaction costs at initial recognition	10	(7)	-	3
Gross deferred tax asset	**74**	**(44)**	**-**	**30**
Recognition of deferred tax asset which was previously unrecognised	-	46	-	46
Less offsetting with deferred tax liability	(44)		-	(44)
Recognised deferred tax asset	**30**	**2**	**-**	**32**
Tax effect of taxable temporary differences				
Accrued income	(339)	117	-	(222)
Loan impairment provision	(397)	3	-	(394)
Prepaid expenses and other assets	(163)	84	-	(79)
Fair value of derivative financial instruments	(417)	39	-	(378)
Premises, leasehold improvements and equipment	(145)	(44)	75	(114)
Trading securities and investment securities available-for-sale	(113)	75	-	(38)
Gross deferred tax liability	**(1,574)**	**274**	**75**	**(1,225)**
Less offsetting with deferred tax asset	44		-	44
Recognised deferred tax liability	**(1,530)**	**274**	**75**	**(1,181)**

22 Income Taxes (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.

In millions of Ukrainian hryvnias	**31 December 2009**	**(Charged)/ credited to profit or loss**	**Charged directly to other compre-hensive income**	**31 December 2010**
Tax effect of deductible temporary differences				
Accrued expenses and other liabilities	90	(26)	-	64
Deferral of transaction costs at initial recognition	39	(29)	-	10
Gross deferred tax asset	**129**	**(55)**	**-**	**74**
Less offsetting with deferred tax liability	(53)	9	-	(44)
Less: unrecognised deferred tax asset	(60)	60	-	-
Recognised deferred tax asset	**16**	**14**	**-**	**30**
Tax effect of taxable temporary differences				
Accrued income	(413)	74	-	(339)
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)
Trading securities and investment securities available-for-sale	(120)	7	-	(113)
Loan impairment provision	(108)	(289)	-	(397)
Gross deferred tax liability	**(1,667)**	**87**	**6**	**(1,574)**
Less offsetting with deferred tax asset	53	(9)	-	44
Recognised deferred tax liability	**(1,614)**	**78**	**6**	**(1,530)**

22 Income Taxes (Continued)

In millions of Ukrainian hryvnias	**1 January 2009**	**(Charged)/ credited to profit or loss**	**Charged directly to other compre-hensive income**	**31 December 2009**
Tax effect of deductible temporary differences				
Accrued expenses and other liabilities	105	(15)	-	90
Deferral of transaction costs at initial recognition	(85)	124	-	39
Gross deferred tax asset	**20**	**109**	**-**	**129**
Less offsetting with deferred tax liability	77	(130)	-	(53)
Less: unrecognised deferred tax asset	-	(60)	-	(60)
Recognised deferred tax asset	**97**	**(81)**	**-**	**16**
Tax effect of taxable temporary differences				
Accrued income	(44)	(369)	-	(413)
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)
Loan impairment provision	26	(134)	-	(108)
Gross deferred tax liability	**(1,055)**	**(694)**	**82**	**(1,667)**
Less offsetting with deferred tax asset	(77)	130	-	53
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**.**

(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 performed at internal interest rates set by the treasury department. 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.

(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 and head office functional departments. 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. Head office functional departments do not earn revenues or earn revenues that are only incidental to the activities of the Group and is not considered by the CODM as an operating segment.

(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 the NBU accounting rules and before consolidation of subsidiaries. Such financial information differs in certain aspects from the 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 are not recognised in statutory accounts;
- managing its open currency position the Group enters into swap transactions that are recognised at cost; and
- consolidation of subsidiaries.

For each business segment the CODM reviews interest income adjusted for intersegment result.

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 2011 is set out below:

In millions of Ukrainian hryvnias	Retail banking	Corporate banking	Investment banking	Treasury	Total reportable segments
Cash and cash equivalents and mandatory reserves	2,949	-	-	15,554	18,503
Trading securities	-	-	123	-	123
Due from other banks	-	-	-	4,202	4,202
Loans and advances to customers	17,869	82,952	-	-	100,821
Investment securities available-for-sale	-	-	82	-	82
Investment securities held to maturity	-	-	-	72	72
Investment property	-	-	2	-	2
Investment in subsidiaries	-	-	980	-	980
Intangible assets	6	1	-	1	8
Premises, leasehold improvements and equipment	1,094	248	4	209	1,555
Other financial assets	322	16	12	17,517	17,867
Other assets	64	29	-	2	95
Total reportable segment assets	**22,304**	**83,246**	**1,203**	**37,557**	**144,310**
Due to the NBU	-	-	-	5,825	5,825
Due to other banks and other financing institutions	-	-	6	10,095	10,101
Customer accounts	68,868	22,804	503	-	92,175
Debt securities in issue	-	1	-	560	561
Other financial liabilities	353	195	-	17,617	18,165
Other non-financial liabilities	15	7	14	3	39
Subordinated debt	-	-	-	1,226	1,226
Total reportable segment liabilities	**69,236**	**23,007**	**523**	**35,326**	**128,092**

23 Segment Analysis (Continued)

In millions of Ukrainian hryvnias	Retail banking	Corporate banking	Investment banking	Treasury	Total reportable segments
2011					
External revenues	8,495	13,015	60	398	21,968
Revenues from other segments	4,443	(6,830)	(135)	2,707	185
Total revenues	**12,938**	**6,185**	**(75)**	**3,105**	**22,153**
Total revenues comprise:					
- Interest income	8,737	5,438	(135)	2,932	16,972
- Fee and commission income	3,619	663	59	172	4,513
- Other operating income	582	84	1	1	668
Total revenues	**12,938**	**6,185**	**(75)**	**3,105**	**22,153**
Interest expense	(6,263)	(976)	(7)	(1,601)	(8,847)
Provision for loan impairment	(2,080)	(4,200)	-	(29)	(6,309)
Impairment of investment securities available-for-sale	-	-	7	-	7
Release of provision for credit related commitments	-	-	1	(6)	(5)
Fee and commission expense	-	52	-	-	52
Losses less gains from trading securities	(294)	-	(19)	(360)	(673)
Gains less losses from trading in foreign currencies	-	-	38	-	38
Gains less losses from disposals of investment securities available-for-sale	235	187	-	8	430
Administrative and other operating expenses	(2,669)	(604)	(9)	(526)	(3,808)
Depreciation and amortization charge	(164)	(37)	(1)	(32)	(234)
Segment result	**1,703**	**607**	**(65)**	**559**	**2,804**

23 Segment Analysis (Continued)

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

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

23 Segment Analysis (Continued)

In millions of Ukrainian hryvnias	**Retail banking**	**Corporate banking**	**Investment banking**	**Treasury**	**Total reportable segments**
2010					
External revenues	5,713	11,621	55	881	18,270
Revenues from other segments	4,130	(6,540)	(184)	2,669	75
Total revenues	**9,843**	**5,081**	**(129)**	**3,550**	**18,345**
Total revenues comprise:					
- Interest income	7,066	4,480	(184)	2,996	14,358
- Fee and commission income	2,385	537	53	385	3,360
- Other operating income	392	64	2	169	627
Total revenues	**9,843**	**5,081**	**(129)**	**3,550**	**18,345**
Interest expense	(5,533)	(1,057)	(7)	(1,884)	(8,481)
Provision for loan impairment	(592)	(3,485)	-	(233)	(4,310)
Reversal of impairment of securities available-for-sale	-	-	2	-	2
Gains less losses on derecognition of available-for-sale securities	-	-	19	-	19
Release of provision for credit related commitments	-	26	-	-	26
Fee and commission expense	(153)	-	(24)	(374)	(551)
Losses less gains from trading securities	-	-	(21)	-	(21)
Gains less losses from trading in foreign currencies	-	-	-	443	443
Administrative and other operating expenses	(1,918)	(576)	(8)	(360)	(2,862)
Depreciation and amortization charge	(111)	(27)	(1)	(21)	(160)
Segment result	**1,536**	**(38)**	**(169)**	**1,121**	**2,450**

23 Segment Analysis (Continued)

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

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

23 Segment Analysis (Continued)

In millions of Ukrainian hryvnias	Retail banking	Corporate banking	Investment banking	Treasury	Total reportable segments
2009					
External revenues	6,176	10,998	69	704	17,947
Revenues from other segments	2,161	(5,678)	(143)	2,370	(1,290)
Total revenues	**8,337**	**5,320**	**(74)**	**3,074**	**16,657**
Total revenues comprise:					
- Interest income	5,909	4,391	(143)	2,879	13,036
- Fee and commission income	2,106	859	66	126	3,157
- Other operating income	322	70	3	69	464
Total revenues	**8,337**	**5,320**	**(74)**	**3,074**	**16,657**
Interest expense	(4,103)	(966)	(6)	(1,793)	(6,868)
Provision for loan impairment	(752)	(4,309)	-	145	(4,916)
Impairment of investment securities available-for-sale	-	-	(12)	-	(12)
Release of provision for credit related commitments	-	254	-	-	254
Fee and commission expense	(102)	-	(59)	(482)	(643)
Losses less gains from trading securities	-	-	(430)	-	(430)
Gains less losses from trading in foreign currencies	-	-	-	192	192
Gains less losses from disposals of investment securities available-for-sale	-	-	11	-	11
Administrative and other operating expenses	(2,193)	(763)	(56)	(82)	(3,094)
Depreciation and amortization charge	(135)	(48)	(1)	(3)	(187)
Segment result	**1,052**	**(512)**	**(627)**	**1,051**	**964**

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.

In millions of Ukrainian hryvnias	2011	2010	2009
Total revenues for reportable segments	**22,153**	**18,345**	**16,657**
(a), (h) Recognition of embedded derivatives and embedded derivatives with expired underlying contracts	(846)	(76)	991
(b) Consolidation adjustments	1,946	1,068	731
(c) Other adjustments	(358)	(259)	(1,443)
(d) Unallocated (expenses)/revenues	(186)	(75)	1,290
Total consolidated revenues	**22,709**	**19,003**	**18,226**

Reconciliation of reportable profit or loss:

In millions of Ukrainian hryvnias	2011	2010	2009
Total reportable segment result	**2,804**	**2,450**	**964**
(a), (h) Recognition of embedded derivatives and embedded derivatives with expired underlying contracts	(820)	79	1,083
(b) Consolidation adjustments	23	(813)	(341)
(c) Other adjustments	51	168	185
(d) Unallocated (expenses less revenues)/revenues less expenses	(1,236)	(963)	268
(e) Release of provision /(provision for) for impairment of loans and advances to customers	717	1,090	(115)
(j) Share grant	-	(500)	-
Profit before tax	**1,539**	**1,511**	**2,044**

Reconciliation of reportable assets:

In millions of Ukrainian hryvnias	2011	2010	2009
Total reportable segment assets	**144,310**	**112,741**	**85,138**
(a), (h) Recognition of embedded derivatives and embedded derivatives with expired underlying contracts	1,631	1,923	1,943
(b) Consolidation adjustments	10,582	8,797	8,793
(c) Other adjustments	(943)	(489)	(444)
(d) Unallocated assets	566	535	423
(e) Release of provision for impairment of loans and advances to customers	2,706	1,840	602
(g) Swap and spot operations at fair value	(17,921)	(3,431)	(6,766)
Total consolidated assets	**140,931**	**121,916**	**89,689**

23 Segment Analysis (Continued)

Reconciliation of reportable liabilities:

In millions of Ukrainian hryvnias	2011	2010	2009
Total reportable segment liabilities	**128,092**	**101,211**	**75,234**
(b) Consolidation adjustments	10,764	9,032	8,118
(c) Other adjustments	(400)	(604)	(513)
(d) Unallocated liabilities	40	182	56
(g) Swap and spot operations at fair value	(17,921)	(3,428)	(6,766)
(i) Deferred income tax liability	1,171	1,354	1,510
Total consolidated liabilities	**121,746**	**107,747**	**77,639**

Reconciliation of significant items of income for the year ended 31 December 2011 is as follows:

In millions of Ukrainian hryvnias	Interest income	Fee and commission income	Gains less losses from embedded derivatives
Total amount for all reportable segment	**16,972**	**4,513**	**-**
(a), (h) Recognition of embedded derivatives and embedded derivatives with expired underlying contracts	(846)	-	27
(b) Consolidation adjustments	1,343	522	-
(c) Other adjustments	719	(945)	-
(d) Unallocated expenses less revenues	(186)	-	-
(f) Reclassifications	1,406	(899)	-
As reported under IFRS	**19,408**	**3,191**	**27**

Reconciliation of significant items of expense for the year ended 31 December 2011 is as follows:

In millions of Ukrainian hryvnias	Interest expense	Provision for impairment of loans and advances to customers	Administrative and other operating expenses
Total amount for all reportable segment	**(8,847)**	**(6,309)**	**(4,042)**
(b) Consolidation adjustments	(614)	(406)	(1,270)
(c) Other adjustments	132	106	(5)
(d) Unallocated expenses	-	-	(1,050)
(e) Release of provision for impairment	-	574	40
(f) Reclassifications	-	408	7
As reported under IFRS	**(9,329)**	**(5,627)**	**(6,320)**

23 Segment Analysis (Continued)

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

In millions of Ukrainian hryvnias	Interest income	Fee and commission income	Gains less losses from embedded derivatives
Total amount for all reportable segment	**14,358**	**3,360**	**-**
(a), (h) Recognition of embedded derivatives and embedded derivatives with expired underlying contracts	(76)	-	147
(b) Consolidation adjustments	624	390	-
(c) Other adjustments	(63)	-	-
(d) Unallocated expenses	(75)	-	-
(f) Reclassifications	1,045	(715)	-
As reported under IFRS	**15,813**	**3,035**	**147**

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

In millions of Ukrainian hryvnias	Interest expense	Provision for impairment of loans and advances to customers	Administrative and other operating expenses
Total amount for all reportable segment	**(8,481)**	**(4,310)**	**(3,022)**
(b) Consolidation adjustments	(484)	(299)	(1,480)
(c) Other adjustments	(30)	148	300
(d) Unallocated expenses	-	-	(888)
(j) Share grant	-	-	(500)
(e) Impairment charge	-	1,140	(26)
(f) Reclassifications	45	(87)	-
As reported under IFRS	**(8,950)**	**(3,408)**	**(5,616)**

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

In millions of Ukrainian hryvnias	Interest income	Fee and commission income	Gains less losses from embedded derivatives
Total amount for all reportable segment	**13,036**	**3,157**	**-**
(a), (h) Recognition of embedded derivatives and embedded derivatives with expired underlying contracts	991	-	128
(b) Consolidation adjustments	465	277	-
(c) Other adjustments	(1,168)	-	-
(d) Unallocated revenues	1,290	-	-
(f) Reclassifications	1,352	(1,315)	-
As reported under IFRS	**15,966**	**2,119**	**128**

23 Segment Analysis (Continued)

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

In millions of Ukrainian hryvnias	Interest expense	Provision for impairment of loans and advances to customers	Administrative and other operating expenses
Total amount for all reportable segment	**(6,868)**	**(4,916)**	**(3,281)**
(b) Consolidation adjustments	(605)	(255)	(874)
(c) Other adjustments	142	27	20
(d) Unallocated expenses	-	-	(1,022)
(e) Impairment charge	-	1,019	-
(f) Reclassifications	36	(238)	238
As reported under IFRS	**(7,295)**	**(4,363)**	**(4,919)**

Reconciliation of significant assets at 31 December 2011 is as follows:

In millions of Ukrainian hryvnias	Cash and cash equivalents and mandatory reserves	Due from other banks	Loans and advances to customers	Embedded derivatives	Other financial assets
Total amount for all reportable segment	**18,503**	**4,202**	**100,821**	**-**	**17,867**
(a) Recognition of embedded derivatives	-	-	(387)	1,484	-
(b) Consolidation adjustments	4,076	772	4,285	-	122
(c) Other adjustments	(658)	-	(202)	-	(115)
(e) Release of provision for impairment	235	309	1,852	-	308
(g) Swap and spot operations at fair value	-	(521)	-	-	(17,400)
(f) Reclassifications	(793)	(114)	1,061	-	(173)
(h) Recognition of embedded derivatives with expired underlying contracts	-	-	-	-	535
As reported under IFRS	**21,363**	**4,648**	**107,430**	**1,484**	**1,144**

Reconciliation of significant liabilities at 31 December 2011 is as follows:

In millions of Ukrainian hryvnias	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	Subor-dinated debt
Total amount for all reportable segment	**10,101**	**92,175**	**561**	**18,204**	**1,226**
(b) Consolidation adjustments	(1,332)	12,233	(706)	343	197
(c) Other adjustments	(28)	(530)	(17)	179	(5)
(g) Swap and spot operations at fair value	(526)	-	-	(17,395)	-
(f) Reclassifications	(5,762)	331	5,762	(331)	-
As reported under IFRS	**2,453**	**104,209**	**5,600**	**1,000**	**1,418**

23 Segment Analysis (Continued)

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

In millions of Ukrainian hryvnias	**Cash and cash equivalents and mandatory reserves**	**Due from other banks**	**Loans and advances to customers**	**Embedded derivatives**	**Other financial assets**
Total amount for all reportable segment	**10,975**	**10,449**	**85,470**	**-**	**2,474**
(a) Recognition of embedded derivatives	-	-	(528)	1,678	-
(b) Consolidation adjustments	3,379	1,347	3,148	-	168
(c) Other adjustments	(706)	-	36	-	-
(e) Release of provision for impairment	198	313	1,246	-	84
(g) Swap and spot operations at fair value	-	(1,168)	-	-	(2,263)
(f) Reclassifications	5,420	(5,611)	322	-	(119)
(h) Recognition of embedded derivatives with expired underlying contract	-	-	-	-	773
As reported under IFRS	**19,266**	**5,330**	**89,694**	**1,678**	**1,117**

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

In millions of Ukrainian hryvnias	**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**	**Subor-dinated 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
(c) Other adjustments	(47)	(755)	(33)	218	(5)
(g) Swap and spot operations at fair value	(1,165)	-	-	(2,263)	-
(f) Reclassifications	(5,741)	1,076	5,741	(1,076)	-
As reported under IFRS	**3,860**	**86,521**	**6,161**	**929**	**1,379**

23 Segment Analysis (Continued)

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

In millions of Ukrainian hryvnias	**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 embedded derivatives	-	-	(1,503)	2,005	-
(b) Consolidation adjustments	2,847	834	4,142	-	194
(c) Other adjustments	(497)	-	26	-	56
(e) Release of provision for impairment	-	274	329	-	-
(g) Swap and spot operations at fair value	-	(748)	-	-	(6,018)
(f) Reclassifications	2,819	(4,761)	1,935	-	(179)
(h) Recognition of embedded derivatives with expired underlying contract	-	-	-	-	1,440
As reported under IFRS	**11,455**	**4,069**	**66,597**	**2,005**	**1,801**

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

In millions of Ukrainian hryvnias	**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**	**Subor-dinated 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
(c) Other adjustments	7	41	(17)	39	(3)
(g) Swap and spot operations at fair value	(749)	-	-	(6,018)	-
(f) 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), (h) – Embedded derivatives and embedded derivatives with expired underlying contract are accounted for at fair value for IFRS purposes. In statutory accounts results from operations with embedded derivatives and embedded derivatives with expired underlying contract are accounted for when cash is received within interest income.

(b) – Segment reporting is prepared before consolidation of subsidiaries.

(d) – Unallocated balances, revenues and results represent amounts which relate to activities of head office functional departments and are not included in the reportable segments.

(e) – Adjustments of provisions for impairment are related to the difference between the methodology applied to calculate provisions for loan impairment under the NBU accounting rules used for preparation of management reporting and the methodology used for IFRS reporting. The provision under the NBU accounting rules is calculated based mainly on formal criteria depending on the financial position of the borrower, quality of debt service and collateral, whereas the provision under IFRS requirement is calculated based on incurred loss model.

23 Segment Analysis (Continued)

(f) – Reclassifications are done based on the economic substance of transactions. The Bank presented debt securities issued separately in IFRS financial statements.

(g) – The Bank presented swap and spot operations on a gross basis in its segment reporting prepared in accordance with the NBU rules.

(i) – In Segment reporting the CODM doesn't analyse taxation.

(j) – 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:

In millions of Ukrainian hryvnias	**2011**	**2010**	**2009**
Ukraine	20,747	16,881	16,101
Other countries	1,962	2,122	2,125
Total consolidated revenues	**22,709**	**19,003**	**18,226**

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.

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 Internal Control Committee. Other bodies responsible for risk management within the Group include the Treasury, Risk-Management Division 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.

24 Financial Risk Management (Continued)

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.

Internal Control Committee

The Internal Control 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 Internal Control Committee meets monthly and the members in attendance vary depending on the topic of the meeting.

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.

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.

24 Financial Risk Management (Continued)

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.

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.

24 Financial Risk Management (Continued)

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.

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 high possible level of repayment on nonperforming loans.

24 Financial Risk Management (Continued)

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.

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.

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.

24 Financial Risk Management (Continued)

The table below summarises the Group's exposure to foreign currency exchange rate risk as at 31 December 2011:

	At 31 December 2011			
In millions of Ukrainian hryvnias	**Monetary financial assets**	**Monetary financial liabilities**	**Swaps, spots and forwards**	**Net balance sheet position**
US Dollars	44,586	45,735	(11,541)	(12,690)
Euros	3,932	14,955	10,517	(506)
Other	6,658	6,376	806	1,088
Total	**55,176**	**67,066**	**(218)**	**(12,108)**

The table below summarises the Group's exposure to foreign currency exchange rate risk as at 31 December 2010:

	At 31 December 2010			
In millions of Ukrainian hryvnias	**Monetary financial assets**	**Monetary financial liabilities**	**Swaps, spots and forwards**	**Net balance sheet position**
US Dollars	37,368	41,642	(3,941)	(8,215)
Euros	12,345	13,982	2,232	595
Other	4,159	4,552	2,543	2,150
Total	**53,872**	**60,176**	**834**	**(5,470)**

The table below summarises the Group's exposure to foreign currency exchange rate risk as at 31 December 2009:

	At 31 December 2009			
In millions of Ukrainian hryvnias	**Monetary financial assets**	**Monetary financial liabilities**	**Swaps, spots and forwards**	**Net balance sheet position**
US Dollars	27,151	30,883	(4,303)	(8,035)
Euros	6,881	7,552	4,433	3,762
Other	3,382	3,124	486	744
Total	**37,414**	**41,559**	**616**	**(3,529)**

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.

24 Financial Risk Management (Continued)

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.

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:

	At 31 December 2011		At 31 December 2010		At 31 December 2009	
In millions of Ukrainian hryvnias	**Impact on profit or loss**	**Impact on equity**	**Impact on profit or loss**	**Impact on equity**	**Impact on profit or loss**	**Impact on equity**
US Dollar strengthening by 5% (2010: strengthening by 5%; 2009: strengthening by 5%)	326	326	(7)	(7)	(179)	(179)
US Dollar weakening by 5% (2010: weakening by 5%; 2009: weakening by 5%)	1,046	1,046	1,828	1,828	496	496
Euro strengthening by 5% (2010: strengthening by 5%; 2009: strengthening by 5%)	(25)	(25)	30	30	188	188
Euro weakening by 5% (2010: weakening by 5%; 2009: weakening by 5%)	25	25	(30)	(30)	(188)	(188)
Other strengthening by 5% (2010: strengthening by 5%; 2009: strengthening by 5%)	54	54	108	108	37	37
Other weakening by 5% (2010: weakening by 5%; 2009: weakening by 5%)	(54)	(54)	(108)	(108)	(37)	(37)

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.

24 Financial Risk Management (Continued)

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.

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.

In millions of Ukrainian hryvnias	**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 2011						
Total financial assets	31,994	18,532	63,998	22,342	7	136,873
Total financial liabilities	27,992	28,490	47,853	15,671	-	120,006
Net interest sensitivity gap at 31 December 2011	**4,002**	**(9,958)**	**16,145**	**6,671**	**7**	**16,867**
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 2011, if interest rates at that date had been 200 basis points lower/higher (2010: 200 basis points lower/higher; 2009: 200 basis points lower/higher) with all other variables held constant, profit for the year would have been UAH 137 million (2010: UAH 188 million; 2009: UAH 3 million) higher, mainly as a result of lower interest expense on variable interest liabilities. Other components of other comprehensive income would have been UAH 15 million (2010: UAH 12 million; 2009: nil) lower/higher, mainly as a result of a decrease/increase in the fair value of fixed rate financial assets classified as available-for-sale.

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:

	2011				2010				2009			
In % p.a.	**USD**	**UAH**	**Euro**	**Other**	**USD**	**UAH**	**Euro**	**Other**	**USD**	**UAH**	**Euro**	**Other**
Assets												
Correspondent accounts and overnight deposits with other banks	0	0	0	1	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	-	2	1	0	-	0	-	0	-	0	-	0
Other debt securities at fair value through profit or loss	-	-	-	-	-	-	-	-	-	-	-	7
Due from other banks	4	0	3	1	6	0	3	3	5	1	3	0
Loans and advances to legal entities	11	12	11	5	13	14	10	10	14	19	10	30
Loans and advances to individuals	15	28	9	32	16	28	9	40	15	29	9	44
Debt investment securities held to maturity	8	-	-	2	8	-	-	5	-	-	-	-
Liabilities												
Due to the NBU	-	10	-	-	-	10	-	-	-	16	-	-
Correspondent accounts and overnight deposits of other banks	4	7	0	0	6	3	1	0	3	-	-	3
Term placements of other banks	9	-	8	10	1	-	3	9	1	-	3	7
Long-term loans under the credit lines from international financial institutions	-	-	4	-	-	-	3	3	-	-	4	-
Customer accounts												
- current accounts of customers	4	5	2	0	5	1	6	1	2	-	4	4
- term deposits of legal entities	7	4	7	5	9	10	10	7	11	14	11	11
- term deposits of individuals	8	14	7	8	9	17	8	11	12	21	12	15
Debt securities in issue	8	13	3	-	-	14	3	-	8	7	6	-
Subordinated debt	6	-	-	1	8	-	-	10	8	11	10	10
Other financial liabilities	11	-	-	-	8	-	-	-	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 (2010: no material impact; 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 2011 is set out below:

In millions of Ukrainian hryvnias	Ukraine	OECD	Non OECD	Total
Assets				
Cash and cash equivalents and mandatory reserves	5,406	12,113	3,844	21,363
Due from other banks	304	4,104	240	4,648
Loans and advances to customers	93,121	1,251	13,058	107,430
Embedded derivatives	1,484	-	-	1,484
Investment securities available-for-sale	7	73	700	780
Investment securities held to maturity	-	-	24	24
Other financial assets	928	57	159	1,144
Total financial assets	**101,250**	**17,598**	**18,025**	**136,873**
Non-financial assets	**3,147**	**25**	**886**	**4,058**
Total assets	**104,397**	**17,623**	**18,911**	**140,931**
Liabilities				
Due to the NBU	5,825	-	-	5,825
Due to other banks and other financing institutions	316	1,725	412	2,453
Customer accounts	82,080	1,326	20,803	104,209
Debt securities in issue	73	5,527	-	5,600
Other financial liabilities	178	39	284	501
Subordinated debt	17	1,221	180	1,418
Total financial liabilities	**88,489**	**9,838**	**21,679**	**120,006**
Non-financial liabilities	**1,619**	**1**	**120**	**1,740**
Total liabilities	**90,108**	**9,839**	**21,799**	**121,746**
Net balance sheet position	**14,289**	**7,784**	**(2,888)**	**19,185**
Credit related commitments (Note 26)	**1,028**	**15**	**735**	**1,778**

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 financial assets and liabilities at 31 December 2010 is set out below:

In millions of Ukrainian hryvnias	Ukraine	OECD	Non OECD	Total
Assets				
Cash and cash equivalents and mandatory reserves	6,284	10,325	2,657	19,266
Due from other banks	354	4,742	234	5,330
Loans and advances to customers	72,380	2,453	14,861	89,694
Embedded 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	111	1,117
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**

24 Financial Risk Management (Continued)

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

In millions of Ukrainian hryvnias	Ukraine	OECD	Non OECD	Total
Assets				
Cash and cash equivalents and mandatory reserves	4,773	4,732	1,950	11,455
Due from other banks	452	3,617	-	4,069
Loans and advances to customers	51,730	1,758	13,109	66,597
Embedded 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	185	1,801
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 63% at 31 December 2011 (2010: 43%; 2009: 57%) with the minimum required limit of 20% (2010: 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 77% at 31 December 2011 (2010: 75%; 2009: 80%) with the minimum required limit of 40% (2010: 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 124% at 31 December 2011 (2010: 112%; 2009: 45%) with the minimum required limit of 60% (2010: 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 tables below show liabilities at the reporting dates 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 2011 is as follows:

In millions of Ukrainian hryvnias	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	172	338	1,468	4,957	-	6,935
Due to other banks and other financing institutions	951	126	958	986	152	3,173
Customer accounts	27,469	25,065	46,660	8,953	124	108,271
Debt securities in issue	-	3,833	381	1,928	50	6,192
Subordinated debt	9	46	81	1,680	-	1,816
Other financial liabilities	300	6	23	43	360	732
Gross settled swaps and forwards	19,861	-	-	-	-	19,861
Total contractual future payments for financial obligations	**48,762**	**29,414**	**49,571**	**18,547**	**686**	**146,980**
Credit related commitments, gross (Note 26)	**1,810**	**-**	**-**	**-**	**-**	**1,810**

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

In millions of Ukrainian hryvnias	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**

24 Financial Risk Management (Continued)

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

In millions of Ukrainian hryvnias	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 2011:

In millions of Ukrainian hryvnias	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	21,363	-	-	-	-	21,363
Due from other banks	343	621	3,155	529	-	4,648
Loans and advances to customers	9,608	17,521	59,331	20,970	-	107,430
Embedded derivatives	50	63	915	456	-	1,484
Investment securities available-for-sale	72	-	92	609	7	780
Investment securities held to maturity	-	-	-	24	-	24
Other financial assets	524	174	368	78	-	1,144
Total financial assets	**31,960**	**18,379**	**63,861**	**22,666**	**7**	**136,873**
Liabilities						
Due to the NBU	124	248	1,115	4,338	-	5,825
Due to other banks and other financing institutions	415	97	969	972	-	2,453
Customer accounts	26,966	24,028	45,040	8,175	-	104,209
Debt securities in issue	-	3,767	305	1,528	-	5,600
Other financial liabilities	367	5	16	113	-	501
Subordinated debt	1	27	-	1,390	-	1,418
Total financial liabilities	**27,873**	**28,172**	**47,445**	**16,516**	**-**	**120,006**
Net liquidity gap at 31 December 2011	**4,087**	**(9,793)**	**16,416**	**6,150**	**7**	**16,867**
Cumulative liquidity gap at 31 December 2011	**4,087**	**(5,706)**	**10,710**	**16,860**	**16,867**	
Credit related commitments, gross (Note 26)	**1,810**	**-**	**-**	**-**	**-**	**1,810**

24 Financial Risk Management (Continued)

The analysis by expected maturities may be summarised as follows at 31 December 2010:

In millions of Ukrainian hryvnias	**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
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
Embedded 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	14	1,117
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, gross (Note 26)	**2,022**	**-**	**-**	**-**	**-**	**2,022**

24 Financial Risk Management (Continued)

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

In millions of Ukrainian hryvnias	**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
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
Embedded 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	386	306	1,063	38	8	1,801
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, gross (Note 26)	**1,653**	**-**	**-**	**-**	**-**	**1,653**

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.

24 Financial Risk Management (Continued)

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 2011 was UAH 19,185 million (2010: 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:

In millions of Ukrainian hryvnias	**2011**	**2010**	**2009**
Net assets unadjusted for accruals, provisions and taxes	15,402	11,395	8,390
Plus subordinated debt	1,198	1,194	1,210
Less investments into subsidiaries	(980)	(1,025)	(796)
Other	(2)	(2)	(2)
Total regulatory capital	**15,618**	**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:

In millions of Ukrainian hryvnias	**2011**	**2010**	**2009**
Tier 1 capital			
Share capital	13,565	8,860	8,064
Disclosed reserves	4,720	4,450	2,542
Cumulative translation reserve	329	341	354
Less: goodwill and intangible assets	(50)	(51)	(57)
Total tier 1 capital	**18,564**	**13,600**	**10,903**
Tier 2 capital			
Asset revaluation reserves	571	518	628
Additional capital	-	-	462
Subordinated debt	1,198	1,194	1,198
Total tier 2 capital	**1,769**	**1,712**	**2,288**
Total capital	**20,333**	**15,312**	**13,191**
Capital adequacy ratio (%)	**16.08%**	**14.85%**	**17.59%**

Subordinated debt of Latvian subsidiary in the amount of UAH 117 million (2010: 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.

25 Management of Capital (Continued)

The Group and the Bank have complied with all externally imposed capital requirements as of 31 December 2011, 31 December 2010, 31 December 2009 and during respective years except as described below.

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 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.

Capital expenditure commitments. At 31 December 2011 the Group has contractual capital expenditure commitments in respect of construction of premises, purchase of computers, furniture and equipment totalling UAH 78 million (2010: 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 2011, 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 2011, 2010 and 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.

26 Contingencies and Commitments (Continued)

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the 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:

In millions of Ukrainian hryvnias	Note	2011	2010	2009
Guarantees issued		1,167	981	914
Import letters of credit		559	986	616
Irrevocable commitments to extend credit		84	55	123
Less: Cash covered letters of credit		(30)	(44)	(44)
Less: Provision for credit related commitments	15	(2)	(2)	(43)
Total credit related commitments		**1,778**	**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 insignificant at 31 December 2011, 31 December 2010 and 31 December 2009.

As of 31 December 2011 irrevocable commitments under letters of credit and guarantees issued by the Group of gross amount of UAH 30 million (2010: UAH 44 million; 2009: UAH 44 million) are secured by UAH 30 million (2010: UAH 44 million; 2009: UAH 44 million). Refer to Note 13.

Credit related commitments are denominated in currencies as follows:

In millions of Ukrainian hryvnias	2011	2010	2009
Ukrainian Hryvnias	442	352	376
US Dollars	900	1,158	454
Euro	380	402	606
Other currencies	56	64	130
Total	**1,778**	**1,976**	**1,566**

As of 31 December 2011 the Group had undrawn credit limits on credit cards of UAH 13,834 million (2010: UAH 10,219 million; 2009: UAH 4,387 million) that are available to credit cardholders. These credit limits are revocable. The Group on a regular basis monitors activity on the cards and based on the frequency and pattern of withdrawals and repayments done by borrowers is able to reduce limits on credit cards unilaterally. Provision for undrawn credit limits on credit cards was not significant as of 31 December 2011, 31 December 2010 and 31 December 2009.

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:

In millions of Ukrainian hryvnias	2011 Nominal value	2010 Nominal value	2009 Nominal value
Shares of Ukrainian companies	5,886	3,999	3,836
Domestic corporate bonds	2,541	2,379	1,879
Investment certificates	1,671	65	48

26 Contingencies and Commitments (Continued)

Funds under trust management. Funds under trust management represent assets managed and held by the Group on behalf of customers. The Group earns commission income for holding such assets. The Group is not subject to interest, credit, liquidity and currency risk with respect of these assets in accordance with the agreements concluded with the customers. Loans are granted on behalf of customers who have remitted a deposit as collateral for the loans. As of 31 December 2011 assets under trust management amounted to UAH 437 million (2010: UAH 398 million, 2009: UAH 65 million).

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

	Note	2011		2010		2009	
In millions of Ukrainian hryvnias		**Asset pledged and reserved**	**Related liability/ commitment**	**Asset pledged and reserved**	**Related liability/ commitment**	**Asset pledged and reserved**	**Related liability/ commitment**
Gross receivables under swap, forward and spot agreements	27	19,803	19,841	5,641	5,653	7,450	7,468
Loans and advances to customers	9, 14	383	254	887	604	1,294	1,064
Mandatory reserve balances with the NBU, premises, loans and advances to customers	7, 9, 10, 12	2,113	5,825	2,479	7,312	2,282	8,310
Total		**22,299**	**25,920**	**9,007**	**13,569**	**11,026**	**16,842**

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.

As disclosed in Note 8, balances due from other banks totalling UAH 499 million (2010: 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 2,773 million (2010: 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.

	2011		2010		2009	
In millions of Ukrainian hryvnias	**Contracts with positive fair value**	**Contracts with negative fair value**	**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 (+)	4,129	2	160	315	998	490
- USD payable on settlement (-)	(201)	(15,471)	(851)	(3,565)	(641)	(5,150)
- Euros receivable on settlement (+)	128	14,056	962	1,585	244	5,126
- Euros payable on settlement (-)	(3,634)	(33)	(315)	-	(883)	(54)
- UAH receivable on settlement (+)	120	60	-	-	-	-
- UAH payable on settlement (-)	-	-	(264)	(582)	(173)	(461)
- RUR receivable on settlement (+)	-	1,307	-	2,302	483	-
- Other currencies receivable on settlement (+)	-	1	317	-	52	57
- Other currencies payable on settlement (-)	(477)	(25)	-	(76)	(79)	(27)
Net fair value of foreign exchange swaps, forwards and spots	**65**	**(103)**	**9**	**(21)**	**1**	**(19)**

At 31 December 2011, the Group had outstanding obligations from unsettled spot transactions with foreign currencies of UAH 18,805 million (2010: 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 2011 the Group incurred gain of UAH 100 million (2010: a loss of UAH 45 million; 2009: a loss of UAH 36 million) resulting from foreign exchange spots, forwards and swaps that is accounted for in other gains less losses/(losses less gains) of the consolidated statement of comprehensive income.

In addition, as disclosed in Note 4, as of 31 December 2011 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 1,484 million (2010: UAH 1,678 million; 2009: UAH 2,005 million). This embedded derivative is represented by a currency option maturing in up to 3 years. The strike price was from UAH 7.93 to UAH 7.99 per USD 1 (2010: UAH 7.89 to UAH 8.01 per USD 1; 2009: UAH 7.7 to UAH 8.5 per USD 1). In addition, the Group accounted for embedded derivatives with expired underlying contracts within other financial assets and carried at fair value of UAH 535 million (2010: UAH 773 million; 2009: UAH 1,440 million). Refer to Notes 11 and 28.

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:

	2011		2010		2009	
In millions of Ukrainian hryvnias	**Fair value**	**Carrying value**	**Fair value**	**Carrying value**	**Fair value**	**Carrying value**
FINANCIAL ASSETS						
Cash and cash equivalents and mandatory reserves						
Cash on hand	3,754	3,754	5,088	5,088	3,494	3,494
Cash balances with Central Banks	4,929	4,929	3,227	3,227	2,865	2,865
Correspondent accounts and overnight placements with other banks	12,680	12,680	10,951	10,951	5,096	5,096
Due from other banks						
Term placements with other banks	4,149	4,149	4,893	4,893	3,767	3,767
Guarantee deposits with other banks	499	499	437	437	302	302
Loans and advances to customers						
Corporate loans	82,184	83,085	70,778	70,422	46,994	47,740
Loans to individuals - card	16,158	16,199	9,116	9,116	6,579	6,579
Loans to individuals - mortgage	4,113	3,936	4,482	4,142	4,595	4,983
Loans to individuals - auto	1,378	1,200	2,220	2,055	3,054	3,072
Loans to individuals - consumer	1,039	954	631	622	356	364
Loans to individuals - other	1,015	907	1,537	1,394	1,195	1,213
Loans to small and medium enterprises (SME)	1,000	1,149	2,279	1,943	2,501	2,646
Investment securities available-for-sale						
Unquoted shares carried at cost less impairment	7	7	68	68	8	8
Investment securities held to maturity						
Government bonds	-	-	535	535	24	23
Corporate bonds	24	24	58	53	-	-
Other financial assets						
Finance lease receivables	214	214	32	32	-	-
Receivables from operations with customers	129	129	73	73	108	108
Plastic cards receivables	111	111	93	93	114	114
Other	90	90	123	123	120	120
TOTAL FINANCIAL ASSETS, CARRIED AT COST OR AMORTISED COST	**133,473**	**134,016**	**116,621**	**115,267**	**81,172**	**82,494**

28 Fair Value of Financial Instruments (Continued)

	2011		2010		2009	
In millions of Ukrainian hryvnias	**Fair value**	**Carrying value**	**Fair value**	**Carrying value**	**Fair value**	**Carrying value**
FINANCIAL LIABILITIES						
Due to the NBU						
Due to the NBU	5,825	5,825	7,312	7,312	8,310	8,310
Due to other banks and other financing institutions						
Term placements of other banks	1,401	1,401	1,385	1,385	2,115	2,115
Long-term loans under the credit lines from other financing institutions	774	774	130	130	22	22
Correspondent accounts and overnight placements of other banks	268	268	2,341	2,341	181	181
Pledge deposits of other banks	10	10	4	4	1	1
Customer accounts						
Term deposits of individuals	66,793	66,536	52,922	52,635	32,035	32,035
Current/settlement accounts of other legal entities	15,559	15,559	10,965	10,965	8,108	8,108
Current/demand accounts of individuals	12,967	12,967	10,532	10,532	7,121	7,121
Term deposits of other legal entities	9,116	9,147	12,370	12,389	9,869	9,869
Debt securities in issue						
Eurobonds	4,425	4,785	4,952	4,999	2,856	3,757
Private placements of bonds	560	560	557	557	1,299	1,290
Mortgage bonds	254	254	477	477	745	745
Auto bonds	-	-	127	127	319	319
Promissory notes	1	1	1	1	1	1
Other financial liabilities						
Funds in the course of settlement	116	116	249	249	62	62
Liability for finance lease	107	107	67	67	110	110
Accounts payable	81	81	128	128	102	102
Other	94	94	67	67	125	125
Subordinated debt						
Subordinated debt	1,404	1,418	1,327	1,379	1,001	1,438
TOTAL FINANCIAL LIABILITIES, CARRIED AT COST OR AMORTISED COST	**119,755**	**119,903**	**105,913**	**105,744**	**74,382**	**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:

In millions of Ukrainian hryvnias	2011 Quoted price in an active market (Level 1)	2011 Valuation technique with inputs observable in markets (Level 2)	2011 Valuation technique with significant non-observable inputs (Level 3)	2010 Quoted price in an active market (Level 1)	2010 Valuation technique with inputs observable in markets (Level 2)	2010 Valuation technique with significant non-observable inputs (Level 3)	2009 Quoted price in an active market (Level 1)	2009 Valuation technique with inputs observable in markets (Level 2)	2009 Valuation technique with significant non-observable inputs (Level 3)
FINANCIAL ASSETS									
Investment securities available-for-sale									
Government bonds	746	-	-	449	-	-	-	-	-
Corporate bonds	-	14	-	-	29	-	-	-	-
Banking bonds	-	13	-	-	27	-	-	-	-
Embedded derivatives	-	-	1,484	-	-	1,678	-	-	2,005
Other financial assets									
Embedded derivatives with expired underlying contracts	-	-	535	-	-	773	-	-	1,440
Financial derivatives arising from swap, forward and spot transactions	-	-	65	-	-	9	-	-	1
Government bonds	-	-	-	-	-	-	10	-	-
Corporate shares	-	-	-	-	-	14	-	-	8
TOTAL FINANCIAL ASSETS CARRIED AT FAIR VALUE	**746**	**27**	**2,084**	**449**	**56**	**2,474**	**10**	**-**	**3,454**
FINANCIAL LIABILITIES									
Other financial liabilities									
Financial derivatives arising from swap, forward and spot transactions	-	-	103	-	-	21	-	-	19
TOTAL FINANCIAL LIABILITIES CARRIED AT FAIR VALUE	**-**	**-**	**103**	**-**	**-**	**21**	**-**	**-**	**19**

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 2011, 2010 and 2009 is as follows:

In millions of Ukrainian hryvnias	**Embedded derivatives**
Fair value at 1 January 2009	**2,551**
Initial recognition of derivative	3,468
Cash received	(2,730)
Reclassification to embedded derivative with expired underlying contract	(1,441)
Gains less losses from embedded derivatives	157
Fair value at 31 December 2009	**2,005**
Initial recognition of derivative	948
Cash received	(1,089)
Reclassification to embedded derivative with expired underlying contract	(365)
Gains less losses from embedded derivatives	179
Fair value at 31 December 2010	**1,678**
Initial recognition of derivative	387
Cash received	(747)
Reclassification to embedded derivative with expired underlying contract	(96)
Gains less losses from embedded derivatives	262
Fair value at 31 December 2011	**1,484**
Cumulative revaluation gains less losses recognised in profit or loss for the current and prior years for assets held at 31 December 2011	**704**

Embedded 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 262 million (2010: gain of UAH 179 million; 2009: gain of UAH 157 million). In addition, the Group recognised a loss on embedded derivative with expired underlying contracts of UAH 235 million (2010: loss of UAH 32 million; 2009: loss of UAH 29 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.

28 Fair Value of Financial Instruments (Continued)

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

	2011	2010	2009
Loans and advances to customers			
Corporate loans	10% to 16% p.a.	12% to 27% p.a.	12% to 27% p.a.
Loans to individuals - mortgage	11% to 15% p.a.	15% to 30% p.a.	15% to 30% p.a.
Loans to individuals - auto	10% to 27% p.a.	11% to 21% p.a.	11% to 21% p.a.
Loans to individuals - consumer	12% to 44% p.a.	12% to 54% p.a.	12% to 54% p.a.
Loans to individuals - card	23% to 36% p.a.	12% to 60% p.a.	12% to 60% p.a.
Loans to individuals - other	12% to 14% p.a.	14% to 36% p.a.	14% to 36% p.a.
Loans to small and medium enterprises (SME)	14% to 32% p.a.	18% to 32% p.a.	18% to 32% p.a.
Customer accounts			
Term deposits of individuals	4% to 17% p.a.	4% to 17% p.a.	4% to 21% p.a.
Term deposits of legal entities	4% to 15% p.a.	4% to 15% p.a.	4% to 17% 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 2011:

In millions of Ukrainian hryvnias	**Loans and receivables**	**Available-for-sale assets**	**Assets at FVTPL held for trading**	**Held to maturity**	**Total**
ASSETS					
Cash and cash equivalents and mandatory reserves	21,363	-	-	-	21,363
Due from other banks					
Term placements with other banks	4,149	-	-	-	4,149
Guarantee deposits with other banks	499	-	-	-	499
Loans and advances to customers					
Corporate loans	83,085	-	-	-	83,085
Loans to individuals - cards	16,199	-	-	-	16,199
Loans to individuals - mortgage	3,936	-	-	-	3,936
Loans to individuals - auto	1,200	-	-	-	1,200
Loans to individuals - consumer	954	-	-	-	954
Loans to individuals - other	907	-	-	-	907
Loans to small and medium enterprises (SME)	1,149	-	-	-	1,149
Embedded derivatives	-	-	1,484	-	1,484
Investment securities available-for-sale					
Government bonds	-	746	-	-	746
Corporate bonds	-	14	-	-	14
Banking bonds	-	13	-	-	13
Unquoted shares	-	7	-	-	7
Investment securities held-to-maturity					
Banking bonds	-	-	-	24	24
Other financial assets					
Embedded derivatives with expired underlying contracts	-	-	535	-	535
Finance lease receivables	214				214
Receivables from operations with customers	129	-	-	-	129
Plastic cards receivables	111	-	-	-	111
Financial derivatives arising from swap, forward and spot transactions	-	-	65	-	65
Other	90	-	-	-	90
TOTAL FINANCIAL ASSETS	**133,985**	**780**	**2,084**	**24**	**136,873**
NON-FINANCIAL ASSETS					**4,058**
TOTAL ASSETS					**140,931**

As of 31 December 2011 and 31 December 2010 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 2010:

In millions of Ukrainian hryvnias	Loans and receivables	Available-for-sale assets	Assets at FVTPL held for trading	Held to maturity	Total
ASSETS					
Cash and cash equivalents and mandatory reserves	19,266	-	-	-	19,266
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	70,422	-	-	-	70,422
Loans to individuals - cards	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
Embedded 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					
Embedded derivatives with expired underlying contracts	-	-	773	-	773
Plastic cards receivables	93	-	-	-	93
Receivables from operations with customers	73	-	-	-	73
Finance lease receivables	32	-	-	-	32
Trading securities and other financial assets at fair value through profit or loss	-	-	14	-	14
Financial derivatives arising from swap, forward and spot transactions	-	-	9	-	9
Other	123	-	-	-	123
TOTAL FINANCIAL ASSETS	**114,611**	**573**	**2,474**	**588**	**118,246**
NON-FINANCIAL ASSETS					**3,670**
TOTAL ASSETS					**121,916**

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:

In millions of Ukrainian hryvnias	**Loans and receivables**	**Available-for-sale assets**	**Assets at FVTPL held for trading**	**Held to maturity**	**Total**
ASSETS					
Cash and cash equivalents and mandatory reserves	11,455	-	-	-	11,455
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	47,740	-	-	-	47,740
Loans to individuals - cards	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
Embedded 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					
Embedded derivatives with expired underlying contracts	-	-	1,440	-	1,440
Plastic cards receivables	114	-	-	-	114
Receivables from operations with customers	108	-	-	-	108
Trading securities and other financial assets at fair value through profit or loss	-	-	18	-	18
Financial derivatives arising from swap, forward and spot transactions	-	-	1	-	1
Other	120	-	-	-	120
TOTAL FINANCIAL ASSETS	**82,463**	**8**	**3,464**	**23**	**85,958**
NON-FINANCIAL ASSETS					**3,731**
TOTAL ASSETS					**89,689**

As of 31 December 2011, 2010 and 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.

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.

The ultimate major shareholders of the Bank are Mr. I.V. Kolomoyskiy and Mr. G.B. Bogolyubov, neither of whom individually controls the Bank nor have a contractual arrangement to jointly control the Bank.

At 31 December 2011, 31 December 2010 and 31 December 2009, the outstanding balances with related parties were as follows:

	2011			2010			2009		
In millions of Ukrainian hryvnias	**Significant shareholders**	**Management**	**Companies under control of major shareholders**	**Significant shareholders**	**Management**	**Companies under control of major shareholders**	**Significant shareholders**	**Management**	**Companies under control of major shareholders**
Gross amount of loans and advances to customers (contractual interest rate: 2011: UAH - 13%, USD - 12%, EUR - 12%; 2010: UAH - 14%, USD - 14%, EUR - 13%; 2009: UAH - 14%, USD - 14%, EUR -13%)	-	4	8,462	-	15	10,866	-	21	6,147
Impairment provisions for loans and advances to customers at 31 December	-	-	(3,693)	-	-	(2,594)	-	-	(2,288)
Loans and advances to customers written off as uncollectable	-	-	(17)	-	-	(83)	-	-	-
Embedded derivatives	-	-	60	-	-	251	-	-	225
Other financial assets	-	-	46	-	-	175	-	-	2
Other assets	-	-	217	-	1	278	-	-	414
Customer accounts (contractual interest rate: 2011: UAH - 6%, USD - 2%, EUR - 10%; 2010: UAH - 8%, USD - 1%, EUR - 13%; 2009: UAH - 1%, USD - 8%, EUR - 13%)	283	69	3,614	112	86	2,133	455	102	2,129
Other financial liabilities	-	-	-	-	-	-	-	-	10
Subordinated debt (contractual interest rate: 2011: UAH - 6%, RUR - 1%; 2010: UAH - 6%, RUR - 1%; 2009: UAH - 6%, RUR - 1%)	-	-	156	-	-	140	-	-	125

30 Related Party Transactions (Continued)

The income and expense items with related parties for 2011, 2010 and 2009 were as follows:

	2011			2010			2009		
In millions of Ukrainian hryvnias	**Significant shareholders**	**Management**	**Companies under control of major shareholders**	**Significant shareholders**	**Management**	**Companies under control of major shareholders**	**Significant shareholders**	**Management**	**Companies under control of major shareholders**
Interest income	12	-	1,299	1	3	1,017	-	9	1,287
Interest expense	(113)	(4)	(259)	(102)	(5)	(324)	(67)	(5)	(144)
Provision for loan impairment	-	-	(1,099)	-	-	(223)	-	-	(1,029)
Fee and commission income	2	-	52	-	-	47	-	-	65
Losses less gains from embedded derivatives	-	-	(171)	-	-	(214)	-	-	(104)
Other operating income	-	-	10	-	-	9	-	-	6
Administrative and other operating expenses, excluding management remuneration	-	-	(33)	-	(35)	(12)	-	(2)	(452)

At 31 December 2011, 31 December 2010 and 31 December 2009, other rights and obligations with related parties were as follows:

	2011			2010			2009		
In millions of Ukrainian hryvnias	**Significant shareholders**	**Management**	**Companies under control of major shareholders**	**Significant shareholders**	**Management**	**Companies under control of major shareholders**	**Significant shareholders**	**Management**	**Companies under control of major shareholders**
Guarantees issued	-	-	15	-	-	5	-	-	7
Import letters of credit	-	-	-	-	-	2	-	-	70
Less: Provision for credit related commitments	-	-	-	-	-	(2)	-	-	(33)
Total credit related commitments	**-**	**-**	**15**	**-**	**-**	**5**	**-**	**-**	**44**

30 Related Party Transactions (Continued)

Aggregate amounts lent to and repaid by related parties during 2011, 2010 and 2009 were:

	2011			2010			2009		
In millions of Ukrainian hryvnias	**Significant shareholders**	**Management**	**Companies under control of major shareholders**	**Significant shareholders**	**Management**	**Companies under control of major shareholders**	**Significant shareholders**	**Management**	**Companies under control of major shareholders**
Amounts lent to related parties during the period	1,529	51	10,932	80	23	13,487	-	18	8,020
Amounts repaid by related parties during the period	1,529	50	15,664	80	29	8,644	-	34	8,700

In October 2010, the Group partially disposed an interest in the Georgia subsidiary to a related party for UAH 77 million. Difference between the purchase consideration and the carrying amount of non-controlling interest in the amount of UAH 45 million was recorded as a capital transaction directly in equity.

In 2011, the remuneration of the members of the Management Board comprised salaries, discretionary bonuses, pension contributions and other short-term benefits totalling UAH 31 million (2010: UAH 33 million; 2009: UAH 16 million), including contributions into the State pension fund of UAH 1 million (2010: UAH 1 million; 2009: UAH 1 million) and social security contributions of UAH 0.1 million (2010: UAH 0.1 million; 2009: UAH 0.1 million).

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

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 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 million relates to the key management personnel remuneration. As a result of this transaction management of the Group owns 9.99% of shares of PrivatBank.

31 Events After the End of the Reporting Period

In February 2012 the Group redeemed the remaining part of Eurobonds with par value of USD 399 million.

In February 2012 Moscomprivatbank share capital was increased by the contribution of the owners of a non-controlling interest, which are related parties to the Group. The share of the Group was thereby diluted from 92.34% to 59.33%.

In March 2012 the NBU changed the official discount rate from 7.75% to 7.5%.

31 Events After the End of the Reporting Period (Continued)

On 12 April 2012 the shareholders took a decision to increase the share capital of the Bank by UAH 1,352 million up to nominal value of UAH 14,897 million via capitalisation of dividends attributable to the shareholders of the Bank for the year ended 31 December 2011.

In April, July, August and December 2012 the Bank issued UAH denominated private placement bonds in total amount of UAH 6,330 million with maturity in 2015.

In November 2012 Moscomprivatbank (Russian Federation) share capital was increased by the Bank by UAH 231 million. The share of the Group increased from 59.33% to 70.04%.

In November 2012 the NBU prolongated the refinancing loan of UAH 4,630 million from 1 June 2015 till 31 December 2016 without increasing of the interest rate.