PUBLIC JOINT STOCK COMPANY
"BANK FOR INVESTMENTS AND SAVINGS"

Financial statements
As at 31st December 2011

Together with Independent Auditor's Report

BDO

CONTENTS

Page

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Independent Auditor's Report

To the shareholders of
Public Joint Stock Company "Bank for investments and savings"

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

Management's responsibility

Management is responsible for preparation and fair presentation of the accompanying financial statements in accordance with International Financial Reporting Standards ("IFRS"). Management's responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements present fairly, in all material aspects, the financial position of the Bank as at 31 December 2011, and its financial results and cash flows for the year then ended in accordance with IFRS.

Kyiv, 21 May 2012

BDO LLC

ідентифікаційний код 20197074 №1

Statement of responsibility for preparation and approval of financial statements for the year ended 31 December 2011

The following statement, which should be read in conjunction with the independent auditors' responsibilities stated in the independent auditors' report, is made with a view to distinguishing the respective responsibilities of management and those of the independent auditors in relation to the financial statements of Public Joint Stock Company "Bank for investments and savings".

Management is responsible for the preparation of the financial statements that present fairly, in all material aspects the financial position of the Bank at 31 December 2011 and results of activities and cash flows year ended 31 December 2011, in accordance with International Financial Reporting Standards ("IFRS").

In preparing the financial statements, management is responsible for:

- Selecting suitable accounting principles and applying them consistently;
- Making reasonable assumptions and estimates;
- Compliance with relevant IFRS and disclosure of all material departures in the Notes to financial statements;
- Preparing the financial statements on a going concern basis, unless it is inappropriate to presume that the Company will continue in business for the foreseeable future.

The Bank Management is responsible for:

- Designing, implementing and maintaining an effective and sound system of the Bank internal controls;
- Maintaining proper accounting records that disclose, with reasonable accuracy at any time, the financial position of the Bank, and which enable them to ensure that the financial statements of the Bank comply with IFRS;
- Guaranteeing compliance of financial accounting to the legislative regulations and accounting standards in force in Ukraine;
- Taking such steps as are reasonably available to them to safeguard the assets of the Bank; and
- Preventing and detecting fraud and other irregularities.

These financial statements for the year ended 31 December 2011 were approved and signed on behalf of the Bank by:

21 May 2012

Acting Chairman of the Board ________________ /V. Ye. Antonyuk/

Chief accountant ________________ /T.O. Verba/

(UAH thousands)

Statement of financial position as at 31 December 2011

	Notes	31 December 2011	31 December 2010
Assets			
Cash and balances with NBU	6	**254,493**	113,121
Due from other banks	7	**557,096**	363,208
Loans and advances to customers	8	**1,454,701**	1,101,080
Securities available-for-sale	9	**18,586**	-
Property and equipment	10	**22,482**	23,163
Intangible assets	11	**430**	576
Deferred tax assets	12	**451**	-
Other assets	13	**1,447**	1,193
		2,309,686	1,602,341
Liabilities			
Due to other banks	14	**497,819**	427,435
Due to clients	15	**1,523,162**	885,816
Other borrowings	16	**757**	858
Current tax liabilities		**389**	378
Deferred tax liabilities	12	**-**	7
Other liabilities	17	**2,198**	56,122
		2,024,325	1,370,616
Equity			
Share capital	18	**250,000**	195,000
Retained earnings		**35,361**	36,725
		285,361	231,725
Total liabilities and equity		**2,309,686**	1,602,341

Acting Chairman of the Board ________________ /V. Ye. Antonyuk/

Chief accountant ________________ /T.O. Verba/

(UAH thousands)

Statement of comprehensive income for the year ended 31 December 2011

	Notes	2011	2010
Interest income	19	**204,426**	183,169
Interest expenses	19	**(137,184)**	(110,787)
Net interest income		**67,242**	72,382
Net fee and commission income	20	**11,853**	13,210
Net trading income from foreign currency transactions		**2,677**	(1,278)
Impairment of loans		**(16,522)**	(16,832)
Other provisions		**600**	(516)
Other operating income	21	**492**	296
Operating income		**66,342**	67,262
Personnel costs	22	**(25,675)**	(20,903)
Depreciation and amortization		**(4,837)**	(4,369)
Other operating and administrative expenses	23	**(33,430)**	(38,447)
Profit before tax		**2,400**	3,543
Income tax	24	**(1,191)**	(834)
Net profit		**1,209**	2,709
Other comprehensive income		**-**	-
Total comprehensive income, *net from income tax*		**1,209**	2,709
Basic and diluted earnings per share (in UAH per share)	25	**5.12**	15.57

Acting Chairman of the Board ________________ /V. Ye. Antonyuk/

Chief accountant ________________ /T.O. Verba/

(UAH thousands)

Statement of changes in equity for the year ended 31 December 2011

	Share capital	Retained earnings	Total equity
Balance as at 31 December 2009	**150,000**	**34,016**	**184,016**
Total comprehensive income	-	2,709	**2,709**
Share issue	45,000	-	**45,000**
Balance as at 31 December 2010	**195,000**	**36,725**	**231,725**
Total comprehensive income	-	1,209	**1,209**
Share issue	55,000	-	**55,000**
Dividends	-	(2,573)	**(2,573)**
Balance as at 31 December 2011	**250,000**	**35,361**	**285,361**

Acting Chairman of the Board ________________ /V. Ye. Antonyuk/

Chief accountant ________________ /T.O. Verba/

(UAH thousands)

Statement of cash flows for the year ended 31 December 2011

	2011	2010
Cash flow from operating activities		
Net profit for the year	**2,400**	3,542
Adjustments for:		
Accrued income	**(8,901)**	3,572
Accrued expenditure	**5,093**	4,891
Amortization charges	**4,837**	4,369
Provision for interest bearing assets	**15,923**	17,348
Other flow of non-cash funds	**(258)**	(14,864)
Operating cash flow before changes in operating assets and liabilities	**19,094**	18,858
(Increase)/decrease in operating assets:		
Mandatory reserve	**95**	9,659
Due from other banks	**(221,538)**	(39,736)
Loans and advances to customers	**(362,961)**	(325,637)
Securities, available for sale	**(17,954)**	
Other assets	**(472)**	14,845
Increase/(decrease) in operating liabilities:	**-**	
Due to other banks	**69,951**	(71,616)
Due to clients	**632,717**	442,666
Other liabilities	**(53,356)**	(5,117)
Cash inflow from operating activities	**65,576**	43,922
Income tax paid	**(1,638)**	(914)
Net cash inflow from operating activities	**63,938**	43,008
Cash flow from investment activities		
Acquisition of fixed assets and intangible assets	**(3,752)**	(1,497)
Net cash flow from/(used in) investment activities	**(3,752)**	(1,497)
Cash flow from financing activity		
Proceeds from share issue	**55,000**	45,000
Other borrowings	**(100)**	(86)
Dividends paid	**(2,573)**	-
Net cash inflow from financial activities	**52,327**	44,914
Net change in cash and cash equivalents	**112,513**	86,425
Cash and cash equivalents at the beginning of year (Note 6)	**216,177**	129,752
Cash and cash equivalents at the end of year (Note 6)	**328,690**	216,177

Acting Chairman of the Board ________________ /V. Ye. Antonyuk/

Chief accountant ________________ /T.O. Verba/

Notes to the financial statements

1. General information about the Bank

Public Joint-Stock Company "Bank for Investments and Savings" (hereinafter the Bank) was registered with the National Bank of Ukraine on 9 August 2005.

Legal address of the Bank is: 83D, Melnykova Street, Kyiv 04119, Ukraine.

The Bank is independent financial institution that is not a member of any consolidated groups and is not a subsidiary of such companies. The Bank's supreme governance body is general meeting of stockholders of PJSC "Bank for Investments and Savings".

The Bank is acting member of the Individuals Guarantee Fund.

The Bank makes banking transactions under the Banking license No.221 dated 24 October 2011 received from the National Bank of Ukraine and general license for foreign exchange transactions No.221 dated 24 October 2011.

As at 31 December 2011 the owners of significant interest in the Bank are solely residents of Ukraine:

Stepan Ivakhiv – 23,3%;

Sergiy Lagur – 15,9%;

Andriy Popov – 15,0%.

2. Background of activities

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

The recent global financial crisis has had a severe effect on the Ukrainian economy and the financial situation in the Ukrainian financial and corporate sectors significantly deteriorated since mid-2008. In 2010-2011, 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 monetary market liquidity levels.

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

These financial statements reflect current management estimation of possible effect of the economical conditions to operating activities and financial position of the Bank. Future conditions might differ from the management estimations. These financial statements do not include any adjustments that would result under such uncertainty. Such adjustments shall be addressed when become known and can be reliably assessed.

3. Basis of preparation

Statement of compliance

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

Historical cost

The financial statements are prepared on the historical cost basis except for securities, which are stated at fair value.

Functional and presentation currency

The Bank keeps its accounting records in Ukrainian Hryvnya as it is required by national accounting standards. Based on economical substance of transaction and circumstances of operations, the Bank has set Ukrainian Hryvnya as functional currency. The transactions in currencies other than Hryvnya are considered as foreign currency transactions. Presentation currency for financial statements is also Ukrainian Hryvnya. Financial information presented in Ukrainian Hryvnya has been rounded to the nearest thousand (000'UAH).

4. Summary of significant accounting policies

Standards applied

On the whole, the accounting policies adopted are consistent with those of the previous financial year. Certain new IFRSs became effective for the Bank from 1 January 2011. Listed below are those new or amended standards or interpretations which are or in the future could be relevant to the Bank's operations:

IAS 24 *Related Party Disclosures (Amendment)* The amended standard is effective for annual periods beginning on or after 1 January 2011. It clarified the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised standard introduces a partial exemption of disclosure requirements for government related entities.

IAS 32 *Financial Instruments: Presentation – Classification of Rights Issues (Amendment)* The amendment to IAS 32 is effective for annual periods beginning on or after 1 February 2010 and amended the definition of a financial liability in order to classify rights issues (and certain options or warrants) as equity instruments in cases where such rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, or to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency.

IFRIC 14 *Prepayments of a minimum funding requirement (Amendment)* is effective for annual periods beginning on or after 1 January 2011 with retrospective application. The amendment provides guidance on assessing the recoverable amount of a net pension asset. The amendment permits an entity to treat the prepayment of a minimum funding requirement as an asset.

IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments* is effective for annual periods beginning on or after 1 July 2010. The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value. In case that this cannot be reliably measured, the instruments are measured at the fair value of the liability extinguished. Any gain or loss is recognized immediately in profit or loss.

Improvements in IFRS – in May 2010 the IASB has issued the next set of amendments to its standards. Improvements become effective for annual reporting periods beginning from 1 July 2011 or after that date or for annual reporting periods beginning from 1 January 2011 or after that date.

In the opinion of the Bank's management, application of the regulations will not have a material impact upon the Bank's financial statements.

Foreign currency translation

Transactions in foreign currencies are initially recognised in the Bank's functional currency at the exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date. The foreign currency gain or loss is recognised in the statement of comprehensive income as net result from foreign currency transactions. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to hryvnias at the exchange rate at the date that the fair value is determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

(UAH thousands)

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

As at 31 December 2011, 2010 and 2009 the principal exchange rates at the year end determined by the NBU and applied to recalculation into Ukrainian Hryvnya for balances in foreign currencies were as follows:

	2011	2010	2009
US dollar	**7.9898**	7.962	7.985
Euro	**10.298**	10.573	11.449
Russian rouble	**0.250**	0.261	0.264

Cash and balances with NBU

Cash and cash balances with BNU include cash-in-hand and balances held by the Bank at the NBU and in current accounts with correspondent banks. All short-term inter-bank deposits and balances on correspondent accounts in other banks are reported as due from other Banks.

In order to maintain the minimal level of liquidity to secure its commitments execution before clients, the Bank holds obligatory reserve deposit with the correspondent account in the National Bank, which guarantees compliance to the regulation as to the obligatory reserve.

Cash in NBU accounts is carried at amortized cost. Cash balances held in correspondent accounts with other banks are reported at amortized cost less provisions for possible impairment losses related to this type of asset.

Financial assets

The Bank classifies its financial assets in the following categories:

(i) financial assets at fair value through profit or loss;

(ii) loans and receivables;

(iii) financial assets held to maturity;

(iv) financial assets available for sale

The Bank determines the classification of its financial assets at initial recognition. Classification of financial assets at initial recognition depends on the purpose for which they were acquired and their characteristics.

In the course of application of the Bank's accounting policy with respect to definition of financial assets recognized in the financial statements, the management used judgments and estimates the most significant of which are presented below.

Initial recognition of financial instruments

The Bank recognizes financial assets and liabilities on its statement of financial position when it becomes a party to the contractual obligation of the instrument. Regular way purchase and sale of the financial assets and liabilities are recognized using trade date accounting.

Financial assets and liabilities are initially recognized at cost, which is the fair value of the consideration given. Transaction costs that are directly attributable to the acquisition or issue of a financial asset or liability that is not classified as at fair value through profit or loss are added to the amount initially recognised.

Fair value measurement

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

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

Reclassification of financial assets

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

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

Derecognition of financial assets

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

- the rights to receive cash flows from the asset have expired;

- the Bank has transferred its rights to receive cash flows the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party; and

- the Bank cither has transferred substantially all the risks and rewards of the asset, or has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset. If the transferee has no practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the transfer, the entity has retained control.

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

Financial assets at fair value through profit or loss

Financial assets classified as held for trading and those designated at fair value through profit or loss at inception are included in the category investment securities designated at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives are also classified as held for trading unless they are designated and effective hedging instruments. Gains or losses on financial assets at fair value through profit or loss are recognised in profit and loss.

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

• the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on them on a different basis or

• the assets are part of a group of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy or

• the financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

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

Loans to customers

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in active market. They are not entered into with the intention of immediate or short-term resale and are not classified as trading securities or designated as investment securities available-for-sale.

Loans to customers are initially recorded at cost, which is the fair value of the consideration given. Subsequently, they are carried at amortised cost using the effective interest rate method less provision for loan impairment. The amortised cost is based on fair value of the issued loan, calculated with respect to market interest rate on similar loans active as at the date of the loan issue. Gains and losses are recognised in profit and loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Loans to customers are recorded when cash is advanced to borrowers.

Loans in other banks

The Bank accepts the accounting policy applicable to the loans issued to customers and the provision for loan impairment as applicable to funds of the Bank deposited in other banks.

Financial assets available for sale

Financial assets available for sale are non-derivative financial assets that are classified as investment securities which management intend to hold for an indefinite period of time that may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. The Bank's management determined the appropriate classification of financial assets at the time of purchase.

Financial assets available for sale are initially recognized at cost, which is the fair value of concideration given. Transaction cost that are directly attributable to the acquisition f a financial asset are added to the amount initially recognised. Financial assets, available for sale are subsequently remeasured to fair value, based on quoted bid prices. Certain financial assets available for sale for which there is no available independent quotation have been fair valued by the Bank's management on the basis of results of recent sales of similar financial assets to unrelated third parties, consideration of other relevant information such as discounted cash flows and data of investees and application of other valuation methodologies.

Unrealised gains and losses arising from changes in the fair value of financial assets available for sale are recognised in the other comprehensive income. When financial assets available for sale are disposed of, the related accumulated unreleased gains and losses are included in the statement of comprehensive income as gains less losses arising from financial assets at fair value through profit or loss and available for sale, Impairment of previously remeasured assets is reported on equity accounts within the revaluation reserve for financial assets available for sale which was set up earlier.

Interest earned on debt securities available for sale is determined using the effective interest method and reflected in the statement of comprehensive income as interest income. Dividends received on equity investments available for sale are recorded within dividends received when the Bank's right to receive dividends is established and dividends are likely to be received.

Promissory notes purchased

Promissory notes purchased are included in financial assets at fair value through profit or loss, financial assets available for sale, due from other banks or loans to customers, depending on their economic substance and are subsequently premeasured and accounted for in accordance with the accounting policies for these categories of assets.

Impairment of financial assets

The Bank assesses on each reporting date whether there is any objective evidence that the value of a financial asset item or group of items has been impaired. Impairment losses are recognized in the profit or loss as they are incurred as a as a result of one or more events that occurred after the initial recognition of the asset (a loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If an entity determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

(1) Impairment of Due from other banks and Loans to customers

For amounts Due from other banks and Loans to customers carried at amortised cost, the Bank first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant or collectively for financial assets that are not individually significant.

Objective evidence that due from other banks and loans to customers are impaired includes observable data that comes to the attention of the Bank about one or more of the following events:

- default in any payments due;

- significant financial difficulty of the borrower supported by financial information at the Bank's disposal;

- it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;

- worsening national or local economic environment affecting the borrower;

- breach of contract, such as a default or delinquency in interest or principal payments;

- the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider.

If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, *it* includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

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

The main criterion used for determining objective evidence of loss from impairment of due from other banks and customer accounts representing collectively measured financial assets is availability of observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of the provision account and the amount of the loss is recognized in the profit or loss.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralized 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 recognized, the previously recognised impairment loss is reversed by adjusting the allowance account through profit or loss.

Uncollectible assets are written off against the related allowance for impairment after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined. The carrying value of impaired financial assets is not reduced directly.

Renegotiated loans

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

The accounting treatment of such restructuring is as follows:

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

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

(2) Impairment of financial assets available for sale

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

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

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

Financial liabilities

Financial liabilities are classified as either financial liabilities at fair value through profit or loss, or financial liabilities carried at amortised cost.

Initially, a financial liability is measured by the Bank at its fair value, and in the case of financial liability not at fair value through or loss, transaction costs that are directly attributable to the acquisition or issue of the financial liability.

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

Financial liabilities measured at amortised cost

Financial liabilities carried at amortised cost include due to other banks, customer accounts, debt securities issued. Any related expense is recognized as interest expense using the effective interest rate method.

Due to other banks. Due to other banks are recorded when money or other assets are advanced to the Bank by other banks.

Customer accounts. Customer accounts include non-derivative liabilities to individuals, state or corporate customers.

Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable tight 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.

Property and equipments

Property and equipment are carried at acquisition cost less accumulated depreciation and accumulated impairment losses.

Depreciation is recognised in the profit or loss on a straight-line basis over the estimated useful life of an asset. Estimated useful lives of assets are determined by the Bank to reflect the period over which assets will be used in the course of its business. Capitalised lease costs are amortised over the estimated useful lives of the leased assets not exceeding a respective lease period.

The estimated useful lives of intangible assets, property and equipment, in years, are as follows:

Buildings for own use	30
Vehicles	5
Equipment and computers	4-10
Furniture and office equipment	4-5
Other	12

Depreciation methods, useful lives, and residual values are reassessed on the reporting date.

Capital investments in fixed assets include construction in progress and incomplete improvement expenses. They are accounted for at historical cost net of any accumulated impairment losses. Upon the completion of construction the assets are transferred to property and equipment and recognised at the carrying amount when transferred. Depreciation is not accrued on capital investments.

Costs of fixed assets' repairs are reported in the profit or loss in the period that they are incurred, except for the cases when these costs are capitalised.

Intangible assets

Intangible assets include computer software. Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic lives of 4 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation periods and methods for intangible assets with indefinite useful lives are reviewed at least at each financial year-end.

Impairment of non financial assets

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

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

Taxation

Current income tax is determined in accordance with Ukrainian tax legislation. Income tax expense in the financial statements comprises current tax and changes in deferred tax liabilities.

Income tax expense is recognised in the profit or loss, except to the extent that it relates to items recognised directly through other comprehensive income, in which case it is recognised through other comprehensive income.

Deferred tax is provided using the balance sheet method, providing for temporary differences that arise between the tax base of assets and liabilities and their carrying amounts used for financial reporting purposes. Deferred tax assets are recognised to the extent there is a probability of receiving taxable income in the future against which recognised deferred tax assets will be utilised.

Deferred tax assets and liabilities are provided using tax rates enacted in the period when the respective asset is realised, or the liability is settled, based on regulations in force on the reporting date.

Indirect Ukrainian taxes accrued and paid by the Bank in the normal course of business under effective legislation are included in administrative and other operating expenses in the profit or loss.

Pension and other commitments

The Bank contributes to the state pension system of Ukraine. Current accruals and payment of such contributions on behalf of employees are calculated based on total salary. Contribution expenses are expensed in the profit or loss in the period that a respective salary is accrued by an employee.

The Bank does not operate any other form of pension schemes. Furthermore, the Bank does not have any additional employee benefit programmes, or other compensation programmes, that require additional expenses or accrual in the financial statements.

Operating lease

When the Bank acts as the tenant, the amount of payments under the operating lease agreement is reported by the tenant in the profit or loss using the straight-line method throughout the lease period.

If operating lease is terminated prior to expiration of the lease period, any penalties due to the lessor are reported as expenses for the period when such lease was terminated.

Share capital

Issues of share capital are measured at fair value on the transaction date. Own equity instruments which are reacquired (treasury shares) are deducted from share capital. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Bank's own equity instruments.

Dividends to shares are recognized in equity as deduction in the period when declared. Dividends declared after the reporting date is disclosed in the notes to the financial statements.

Contingent assets and liabilities

Contingent assets are not recognised in the statement of financial position but disclosed when an inflow of economic benefits is probable.

Contingent liabilities are not recognised in the statement of financial position but are disclosed unless the possibility of any outflow in settlement is remote.

Credit related commitments

During the ordinary activities the Bank issues guarantees in kind of letters of credit, guarantees and accepts. Guarantee agreements are initially recognized in the financial statements at their fair value. Subsequently, at each reporting date, the commitments are reviewed and revised to obtain the current best estimate. The current best estimate of expenditure required to settle the existing commitment will be the amount that the Bank would either pay to settle the commitment at the statement of financial position data or transfer to a third party at this date. Any increase in the liability relating to financial guarantees is taken to profit and loss. The premium received is recognised in profit and loss on a straight-line basis over the life of the guarantee.

Provisions

Provisions are accrued when the Bank 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.

Recognition of income and expenses

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

Interest and similar income and expense

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

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

Fee and commission income

The Bank earns fee and commission income from a diverse range of services it provides to its customers. Fee income, in particular, belongs to the following category:

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

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

- Fee income from providing transaction services

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

Earnings per share

The Bank presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which may include the issuance of new shares.

IFRS and IFRIC interpretations not yet effective

The Bank has not applied the following IFRSs and Interpretations of the International Financial Reporting Interpretations Committee (IFRIC) that have been issued but are not yet effective:

IAS 1 *Financial Statement Presentation – Presentation of Items of Other Comprehensive Income*. The amendments to IAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects presentation only and has there no impact on the Bank's financial position or performance. The amendment becomes effective for annual periods beginning on or after 1 July 2012.

IAS 12 "*Income Taxes – Recovery of Underlying Assets*". The amendment clarified the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, it introduces the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in IAS 16 always be measured on a sale basis of the asset. The amendment becomes effective for annual periods beginning on or after 1 January 2012.

Amendments to IAS 19 *"Employee benefits".* According to the amendments changes were made in recognition of actuarial gains and losses and past service cost and the sequestration of pension plans, the definition of 'severance pay" was changed. Actuarial gains and losses can not be transferred to future periods using the method of corridor, or to recognize in profit or loss. The cost of past service will be recognized in the period in which there is a change of conditions of the pension scheme, payments to which the employee has not yet emerged the right now will not be allocated for the entire period of service in the future. It also will be additional disclosure requirements in order to present the characteristics of employee benefit plans of the company, the amounts recognized in the financial statements and risks that arise from defined benefit plans and the plans implemented by several employers. These amendments are effective for annual periods beginning on or after 1 January 2013 or later, with early application.

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

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

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

IFRS 9, *Financial Instruments: Classification and Measurement*. The standard was issued in November 2009. It replaces IAS 39, *Financial Instruments: Recognition and Measurement* as regards classification and measurement of financial instruments. The standard becomes effective for annual reporting periods, beginning on or after 1 January 2015.

IFRS 10, Consolidated Financial Statements provides a single consolidation model that identifies control as the basis for consolidation for all types of entities. The standard sets out requirements for situations when control is difficult to assess, including cases involving potential voting rights, agency relationships, control of specified assets and circumstances in which voting rights are not the dominant factor in determining control. In addition IFRS 10 introduces specific application guidance for agency relationships. The standard also contains accounting requirements and consolidation procedures, which are carried over unchanged from IAS 27. IFRS 10 replaces the consolidation requirements in SIC-12 *Consolidation—Special Purpose Entities* and IAS 27 *Consolidated and Separate Financial Statements*. The GUF does not at present envisage that there will be any effect of the adoption of IFRS 10 to its financial position and performance.

IFRS 11 Joint Arrangements improves the accounting for joint arrangements by introducing a principle-based approach that requires a party to a joint arrangement to recognise its rights and obligations arising from the arrangement. The classification of a joint arrangement is determined by assessing the rights and obligations of the parties arising from that arrangement. There are only two types of arrangements provided in the standard - joint operation and joint venture. IFRS 11 also eliminates proportionate consolidation as a method to account for joint arrangements. IFRS 11 supersedes IAS 31 Interests in Joint Ventures and SIC-13 Jointly Controlled Entities—Non-monetary Contributions by Venturers. The GUF does not at present envisage that there will be any effect of the adoption of IFRS 11 to its financial position and performance.

IFRS 12 Disclosure of Interests in Other Entities is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates and unconsolidated structured entities. IFRS 12 is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted. The GUF does not at present envisage that there will be any effect of the adoption of IFRS 12 to its financial position and performance.

IFRS 13 Fair Value Measurement defines fair value, and sets out in a single IFRS a framework for measuring fair value and requires disclosures about fair value measurements. The standard applies when other IFRSs require or permit fair value measurements. It does not introduce any new requirements to measure an asset or a liability at fair value, change what is measured at fair value in IFRSs or address how to present changes in fair value. The adoption of IFRS 13 may have an effect on the measurement of the GUF's assets and liabilities accounted for at fair value. Currently the GUF is evaluating the possible effect of the adoption of IFRS 13 to its financial position and performance.

The Bank Management assesses the effect of listed above standards and interpretations to the Bank's financial statements when those are applied.

5. Accounting estimates and judgments in applying accounting policies

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

In particular, information about significant areas of estimation uncertainty is as follows:

Impairment of loans and advances.

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

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

Factors taken in consideration when estimating impairment on loans assessed collectively include historical loss experience, portfolio delinquency rates and overall economic condition. Note 8 include a information on sensitivity of the carrying amount of loans and advances and amounts of recognized provisions to impairment. If the actual repayments were less than the management estimates, the Bank would be required to record additional impairment expense.

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values.

Recognition of the interbank loans and deposits

The Bank's accounting policies allow offsetting of assets and liabilities (i.e. loans due from and deposits due to the same banks) only when there is legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. Although settlement of loans and deposits is typically done on the same day, loans due from and deposits due to the same banks are settled by receiving and paying separate amounts, thus exposing the Bank to credit risk for the full amount of the asset or liquidity risk for the full amount of the liability. These risk exposures may be significant even though relatively brief. Due to this the Bank did not consider such transactions as foreign currency exchange swaps and did not perform set-off for gross amounts receivable and payable.

(UAH thousands)

6. Cash and balances with NBU

As at 31 December 2011 and 2010 cash and balances with NBU can be presented as follows:

	31 December 2011	31 December 2010
Cash on hand	**27,676**	46,007
Balances with NBU accounts	**206,634**	46,836
Obligatory reserve	**20,183**	20,278
Total cash and balances with NBU	**254,493**	113,121

Ukrainian banks are required to keep 70% of the mandatory reserve for the previous month on a separate account with the NBU. Balance of mandatory provisions charged according to established norms for the respective period, is allocated with NBU correspondent account.

In order to cover mandatory reserves charged with NBU separate account, banks may account for purpose bonds allocated by the Ministry of Finance of Ukraine in amount of 50% of their nominal value.

As at 31 December 2011 State bonds issued by the Ministry of Finance of Ukraine, at a par value of 8,000 thousand UAH (Note 9), were used by the Bank to cover the NBU obligatory reserve.

For the purposes of reporting in cash flow statement cash and cash equivalents include:

	31 December 2011	31 December 2010
Cash on hand	**27,676**	46,007
Balances with NBU accounts	**206,634**	46,836
Balances with other banks accounts (Note 7)	**94,380**	123,334
Total cash and cash equivalents	**328,690**	216,177

7. Due from other banks

As at 31 December 2011 and 2010 due from other banks comprised as follows:

	31 December 2011	31 December 2010
Balances with other banks accounts	**94,380**	123,334
Deposits in other banks	**45,486**	224,376
Loans to other banks	**416,610**	15,923
Guarantee funds in other banks	**2,154**	1,526
Accrued income	**128**	57
	558,758	365,216
Provision for impairment	**(1,662)**	(2,008)
	557,096	363,208

(UAH thousands)

As at 31 December 2011 there were interbank loans and deposits made by the Bank for UAH 455,096 thousand (2010: UAH 240,298 thousand) secured against loans and interbank deposits placed at the Bank by the same institutions in amount equivalent to UAH 471,150 thousand (2010: UAH 239,116 thousand).

Changes in provisions for covering losses related to due from other banks during 2011 and 2010 are the following:

	2011	2010
Balance at the beginning of the year	**2,008**	3,143
Charge/(reversal) of provision	**(346)**	(1,135)
Balance at the year-end	**1,662**	2,008

Analysis of credit quality of funds with other banks as at 31 December 2011 is as follows:

	Correspondent accounts	**Interbank loans**	**Interbank deposits and guarantee funds in other banks**	**Total**
Current and unimpaired:				
Other banks accounts	94,380	-	-	**94,380**
In 20 largest banks	-	-	-	-
In other Ukrainian banks	-	416,610	47,640	**464,250**
Total current and unimpaired	94,380	416,610	47,640	**558,630**
Provision for impairment	(3)	(665)	(994)	**(1,662)**
Accrued income	45	83	-	**128**
	94,422	**416,028**	**46,646**	**557,096**

Analysis of credit quality of funds with other banks as at 31 December 2010 is as follows:

	Correspondent accounts	**Interbank loans**	**Interbank deposits and guarantee funds in other banks**	**Total**
Current and unimpaired:				
Other banks accounts	123,334	-	-	**123,334**
In 20 largest banks	-	-	-	**-**
In other Ukrainian banks	-	224,375	17,449	**241,824**
Total current and unimpaired	**123,334**	**224,375**	**17,449**	**365,158**
Provision for impairment	(23)	(1,242)	(743)	**(2,008)**
Accrued income	53	5	-	**58**
	123,364	**223,138**	**16,706**	**363,208**

(UAH thousands)

8. Loans and advances to customers

Loans and advances to customers comprised:

	31 December 2011	31 December 2010
Corporate loans	**1,497,355**	1,120,137
Loans to small business	**5,968**	3,889
Less the provision for impairment of loans to legal entities	**(68,900)**	(50,867)
Total loans to legal entities	**1,434,423**	1,073,159
Consumer loans	**18,990**	28,920
Mortgage loans	**1,638**	858
Less the provision for impairment of loans	**(350)**	(1,857)
Total loans to individuals	**20,278**	27,921
Total loans to customers	**1,454,701**	1,101,080

Changes in estimations of probability of loan repayment might affect the amount of recognized losses from impairment. For instance, if the net present value of estimated cash flows is different by plus\minus one percent, the impairment of loans as at 31 December 2011 will be less/more by approximately UAH 15,239 thousand (2010: UAH 11,538 thousand).

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

	Corporate loans	**Loans to entrepre-neurs-individuals**	**Individuals - consumer loans**	**Individuals -mortgage consumer loans**	**Total**
Balance at the beginning of the year	**50,778**	**89**	**1,857**	**-**	**52,724**
Charge/(reversal) of provision	18,031	1	(1,264)	100	**16,868**
Provisions, used to cover write-off	-	-	(341)	-	**(341)**
Exchange difference	1	-	(1)	(1)	**(1)**
Balance at the year-end	**68,810**	**90**	**251**	**99**	**69,250**

(UAH thousands)

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

	Corporate loans	Loans to entrepre-neurs-individuals	Individuals - consumer loans	Individuals -mortgage consumer loans	Total
Balance at the beginning of the year	**35,101**	**167**	**2,316**	**-**	**37,584**
Charge/(reversal) of provision	16,027	(78)	202	-	**16,151**
Provisions, used to cover write-off	(350)	-	(659)	-	**(1,009)**
Exchange difference	-	-	(2)	-	**(2)**
Balance at the year-end	**50,778**	**89**	**1,857**	**-**	**52,724**

Loans and advances are provided to the clients operating in Ukraine in the following branches of economy:

	31 December 2011	31 December 2010
Wholesale and retail trade	**781,743**	681,489
Loans to individuals	**20,628**	29,778
Manufacturing industry	**142,424**	96,780
Agriculture	**90,455**	55,633
Real estate	**120,011**	127,966
Other	**368,690**	162,158
Less the provision for impairment of loans	**(69,250)**	(52,724)
	1,454,701	1,101,080

The credit quality analysis as at 31 December 2011 is shown below:

	Current and unimpaired	Overdue and unimpaired	Impaired	Total
Corporate loans	1,082,163	-	415,192	**1,497,355**
Loans to entrepreneurs-individuals	5,879	-	89	**5,968**
Total loans to legal entities	**1,088,042**	**-**	**415,281**	**1,503,323**
Provision for impairment of loans to legal entities				**(68,900)**
Total loans to legal entities				**1,434,423**
Consumer loans	1,615	-	17,375	**18,990**
Mortgage loans	758	-	880	**1,638**
Total loans to individuals	**2,373**	**-**	**18,255**	**20,628**
Provisions for impairment of loans to individuals				**(350)**
Total loans to individuals				**20,278**
Total loans to customers				**1,454,701**

(UAH thousands)

The credit quality analysis as at 31 December 2010 is shown below:

	Current and unimpaired	Overdue and unimpaired	Impaired	Total
Corporate loans	692,628	-	427,509	**1,120,137**
Loans to entrepreneurs-individuals	3,800	-	89	**3,889**
Total loans to legal entities	**696,428**	**-**	**427,598**	**1,124,026**
Provision for impairment of loans to legal entities				**(50,867)**
Total loans to legal entities				**1,073,159**
Consumer loans	27,882	197	841	**28,920**
Mortgage loans	858	-	-	**858**
Total loans to individuals	**28,740**	**197**	**841**	**29,778**
Provisions for impairment of loans to individuals				**(1,857)**
Total loans to individuals				**27,921**
Total loans to customers				**1,101,080**

Information regarding the pledge received as collateral as at 31 December 2011:

	Corporate loans	Loans to entrepre-neurs-individuals	Individuals - consumer loans	Individuals - mortgage loans	Total
Blank loans	96,033	-	1,153	-	**97,186**
Collateral loans:					**-**
Residential real estate	15,959	26	838	758	**17,581**
Other real estate	522,389	3,434	-	880	**526,703**
Deposits	580,208	-	16,731	-	**596,939**
Other property	282,766	2,508	268	-	**285,542**
Total loans to customers	**1,497,355**	**5,968**	**18,990**	**1,638**	**1,523,951**

Information regarding the pledge received as collateral as at 31 December 2010:

	Corporate loans	Loans to entrepre-neurs-individuals	Individuals - consumer loans	Individuals - mortgage loans	Total
Blank loans	74,998	-	442	-	**75,440**
Collateral loans:					**-**
Residential real estate	1,650	-	796	858	**3,304**
Other real estate	468,469	3,800	11,838	-	**484,107**
Deposits	334,602	-	15,071	-	**349,673**
Other property	240,418	89	773	-	**241,280**
Total loans to customers	**1,120,137**	**3,889**	**28,920**	**858**	**1,153,804**

The tables show loans amount secured by the pledge, not fair value of the pledge.

The Bank gives loans on the territory of Ukraine. The ability of lessees to settle liabilities depends on the number of factors, including general financial position of separate lessees and the state of Ukrainian economy.

In case the borrower is not able to repay his debts, the Bank, acting within the framework of effective legislation and terms of loan agreement, can apply the following methods as to the property pledged:

- acceptance of pledge or mortgage item to the Bank’s ownership against the repayment of the existing debt;

- sale of pledge or mortgage item by the Bank to the third party on behalf of the debtor.

Only in case when it is not possible to reclaim the debt in out of court order, the Bank appeals to court with a claim of debt recovery and pledge (mortgage) collection, since the court examination takes long period of time and further execution is related to professionalism of executive service, i.e. is not dependent upon the Bank’s actions to full extent.

9. Securities available-for-sale

As at 31 December 2011 and 2010 securities available for sale were as follows:

	31 December 2011	31 December 2010
Ukrainian government bonds	**18,586**	-
	18,586	-

For most instruments, the volumes of transactions on the domestic stock market in Ukraine are insignificant. Therefore, the presented value may differ from the value that could be received as a result of the transactions performed in more developed markets.

(UAH thousands)

10. Property and equipment

	Building	Machinery and equipment	Vehicles	Fixtures and fittings	Other fixed assets	Capital invest-ments	Total
Original cost as at 1 January 2010	17,776	5,372	1,289	1,852	5,238	368	**31,895**
Accumulated depreciation	(1,052)	(2,205)	(624)	(625)	(1,728)	-	**(6,234)**
Balance as at 1 January 2010	**16,724**	**3,167**	**665**	**1,227**	**3,510**	**368**	**25,661**
Acquisitions	322	1,472	-	644	989	(179)	**3,248**
Disposals	(1,880)	(21)	-	(2)	(8)	(8)	**(1,919)**
Accrued depreciation	(339)	(1,228)	(258)	(384)	(1,618)	-	**(3,827)**
Balance as at 31 December 2010	**14,827**	**3,390**	**407**	**1,485**	**2,873**	**181**	**23,163**
Original cost as at 31 December 2010	16,218	6,823	1,289	2,494	6,219	181	**33,224**
Accumulated depreciation	(1,391)	(3,433)	(882)	(1,009)	(3,346)	-	**(10,061)**
Balance as at 31 December 2010	**14,827**	**3,390**	**407**	**1,485**	**2,873**	**181**	**23,163**
Acquisitions	-	2,445	301	347	700	128	**3,921**
Disposals	-	(15)	(13)	-	(14)	-	**(42)**
Accrued depreciation	(547)	(1,445)	(240)	(577)	(1,751)	-	**(4,560)**
Balance as at 31 December 2011	**14,280**	**4,375**	**455**	**1,255**	**1,808**	**309**	**22,482**
Original cost as at 31 December 2011	16,218	9,193	1,436	2,844	6,865	309	**36,865**
Accumulated depreciation	(1,938)	(4,818)	(981)	(1,589)	(5,057)	-	**(14,383)**

As at 31 December 2011 and 2010 property, plant and equipment were not pledged by the Bank as collateral.

As at 31 December 2011 original cost of property and equipment depreciated completely was UAH 4,002 thousand (2010: UAH 1,469 thousand).

(UAH thousands)

11. Intangible assets

	Other intangible assets
Original cost as at 1 January 2010	**1,165**
Accumulated amortization	(500)
Balance as at 1 January 2010	**665**
Acquisition	200
Disposal	(33)
Accrued depreciation	(256)
Balance as at 31 December 2010	**576**
Original cost as at 31 December 2010t	1,332
Accumulated amortization	(756)
Balance as at 31 December 2010	**576**
Acquisition	131
Accrued depreciation	(277)
Balance as at 31 December 2011	**430**
Original cost as at 31 December 2011t	1,463
Accumulated amortization	(1,033)

12. Deferred tax assets/(liabilities)

Information on components of deferred tax assets and liabilities can be presented as follows:

	31 December 2011	31 December 2010
Securities available-for-sale	**(132)**	-
Property, equipment and intangible assets	**341**	(7)
Other liabilities	**242**	-
Net deferred tax assets/(liabilities)	**451**	(7)

Changes in amount of net deferred tax assets and liabilities for the reporting periods can be presented as follows:

	2011	2010
Balance at the beginning of the period	**(7)**	(465)
Changes of temporary differences reported in profit or loss	**458**	458
Balance at the end of period	**451**	(7)

The Bank recognizes deferred tax assets by those temporary differences, which as expected will be used in short-term periods and the management expects to receive taxable income in future, against which the recognized deferred tax assets can be realized.

(UAH thousands)

13. Other assets

Other assets are summarized as follows:

	31 December 2011	31 December 2010
Prepayments for fixed and other assets	**589**	468
Deferred expenses	**539**	220
Settlements for services	**101**	50
Materials	**35**	35
Accrued income	**112**	331
Other assets	**71**	89
	1,447	1,193

14. Due to other banks

As at 31 December 2011 and 2010 due to other banks comprises:

	31 December 2011	31 December 2010
Loans received from NBU	**-**	114,000
Interbank loans and deposits from Ukrainian banks	**497,361**	265,116
Current accounts other banks	**-**	48,294
Accrued interest expenses	**458**	25
	497,819	427,435

15. Due to clients

As at 31 December 2011 and 2010 due to clients can be presented as follows:

	31 December 2011	31 December 2010
Current accounts:		
Current accounts, legal entities	**438,123**	62,538
Current accounts, individuals	**38,996**	45,416
	477,119	107,954
Deposits with fixed period		
Deposits with fixed period, legal entities	**319,101**	171,441
Deposits with fixed period, individuals	**726,942**	606,421
	1,046,043	777,862
	1,523,162	885,816

Customer accounts included accrued expenses on term deposits from commercial customers in amount of UAH 2,363 thousand (2010: UAH 1,997 thousand), individuals in amount of UAH 10,982 thousand (2010: UAH 6,841 thousand) and accrued expenses on current account from commercial customers in amount of UAH 0 thousand (2010: UAH 0 thousand), individuals in amount of UAH 567 thousand (2010: UAH 445 thousand).

(UAH thousands)

Customer accounts pledged as collateral for liabilities on loans, guarantees and letters of credit as at 31 December 2011amounted to UAH 596,939 thousand, (2010: UAH 349,673 thousand).

Economic sector concentrations within customer accounts are as follows:

	31 December 2011	31 December 2010
State bodies	**766**	593
Manufacturing	**30,681**	2,935
Real estate	**1,050**	1,846
Trade	**228,282**	74,341
Agriculture	**3,088**	345
Individuals	**765,938**	651,837
Other	**493,357**	153,919
Total due to clients	**1,523,162**	885,816

16. Other borrowings

As at 31st December 2011 and 2010 other borrowings was as follows:

	31 December 2011	31 December 2010
State Mortgage Institution	**757**	858
	757	858

The Bank has attracted funds from the State Mortgage Institution with maturity term of up to September 2016, interest rate – 13.5%.

17. Other liabilities

As at 31 December 2011 and 2010 other liabilities of the Bank included:

	31 December 2011	31 December 2010
Provision for vocations	**1,152**	-
Settlements with Deposit Guarantee Fund	**957**	445
Accrued interest expenses	**33**	2
Provision for contingent liabilities	**12**	612
Deferred income	**12**	6
Tax settlements, except for income tax	**9**	13
Unregistered contributions to share capital	**-**	55,000
Other liabilities	**23**	44
	2,198	56,122

(UAH thousands)

18. Share capital

As at the reporting date the registered and paid up share capital of the Bank was UAH 250,000 thousand divided into 250,000 ordinary shares with a nominal value of UAH 1,000 each.

The Bank's shareholders' capital was paid by the shareholders in Ukrainian Hryvnya. All shares have equal voting rights. The owners of shares have the right to receive dividends and allocations in the event of rights issues and scrip issues.

Changes in the Share capital of the Bank during the reporting year were as follows:

	Number of shares	Carrying amount 000'UAH
31 December 2009	**150,000**	**150,000**
New shares issue	45,000	45,000
31 December 2010	**195,000**	**195,000**
New shares issue	55,000	55,000
31 December 2011	**250,000**	**250,000**

During 2011 the Bank issued 55,000 ordinary shares, thus, resulting in increase of share capital by UAH 55,000 thousand.

19. Net interest income

Information about net interest income was as follows:

	2011	2010
Interest income		
Loans and advances to legal entities	**181,523**	168,035
Loans and advances to individuals	**3,157**	2,668
Due from banks	**18,984**	12,466
Securities available for sale	**762**	-
	204,426	183,169
Interest expenses		
Accounts of legal entities	**(22,333)**	(19,303)
Accounts of individuals	**(86,002)**	(57,660)
Due from other banks	**(28,849)**	(33,824)
	(137,184)	(110,787)
Net interest income	**67,242**	72,382

(UAH thousands)

20. Net commission income

Net commission income of the Bank was presented as follows:

	2011	2010
Commission income		
Cash and settlement servicing	**5,994**	9,218
Security transactions	**7**	5
Foreign currency transactions	**7,161**	6,109
Other	**245**	486
Total commission income	**13,407**	15,818
Commission expense		
Cash and payments servicing	**(1,510)**	(2,573)
Other transactions	**(44)**	(35)
Total commission expenses	**(1,554)**	(2,608)
Net commission income	**11,853**	13,210

21. Other operating income

Other operating income comprised:

	2011	2010
Penalties received	**320**	71
Income from operating lease	**132**	126
Other income	**40**	99
	492	296

22. Personnel costs

Personnel costs for the year ended 31 December 2011 and 2010 are:

	2011	2010
Salary	**18,543**	15,393
Pension and social funds	**5,919**	4,956
Other personnel expenses	**1,213**	554
	25,675	20,903

The Bank makes contributions to respective state social funds charged at statutory rates effective in the reporting years. These charges are stated in the profit or loss when the respective salary costs were incurred.

(UAH thousands)

23. Other operating and administrative expenses

Other operating and administrative expenses were:

	2011	2010
Marketing and advertising	**12,127**	138
Premises lease and maintenance	**9,027**	7,996
Deposit insurance fund	**3,543**	1,707
Repair	**1,772**	980
Security	**1,429**	1,043
Taxes, except for income tax	**1,334**	5,385
Communication	**1,055**	1,193
Office expenses	**1,004**	673
Consulting and other professional services	**944**	3,709
Charity	**223**	-
Travel expenses	**169**	91
Computer data processing	**157**	131
Other	**646**	15,401
	33,430	38,447

24. Income tax expense

Income tax expense for the year ended 31 December 2011 and 2010 included:

	2011	2010
Current tax	**1,649**	1,292
Changes in deferred taxes	**(458)**	(458)
	1,191	834

Reconciliation of standard tax rate to effective tax rate:

	2011	2010
Income before tax	**2,400**	3,543
Conditional amount of taxable profit at the effective rate	**564**	886
Effect of non-taxable difference, 26.1.5% (2010: 1.5 %)	**627**	(52)
Income tax expenses, effective rate 49.6 % (2010: 23.5%)	**1,191**	834

25. Earnings per share

Basic earnings per share are calculated by dividing total net profit after tax by the weighted average number of shares in issue during the reporting period.

The Bank does not have any instruments outstanding to third parties (such as share options) which would dilute the basic income per share.

	31 December 2011	31 December 2010
Net income for the year (000'UAH)	**1,209**	2,709
Average weighted number of ordinary shares in issue (thousand pieces)	**236**	174
Basic and diluted income per share (UAH)	**5.12**	15.57

26. Contingent liabilities

Legal proceedings

During its ordinary activity the Bank acts as a respondent under claims to courts with respect to the Bank. Based on its own assessment, as well as recommendations of internal and external professional lawyers the Bank management believes that results of these legal actions will not lead to significant losses for the Bank and, correspondently, it did not accrue reserve on such actions over the liabilities reported in the financial statements.

Tax legislation

Ukraine currently has a number of laws related to various taxes and levies imposed by both state and local authorities. Applicable taxes include, but are not limited to, value added tax, income tax, a number of turnover-based taxes, and payroll and social taxes. Laws relating to these taxes are subject to frequent changes, regulations are often unclear or non-existent, and few precedents have been established. Often there are differing opinions regarding legal interpretation among and within government ministries and organisations (like the State Tax Administration and its various inspectorates), thus creating uncertainties and areas of conflict. Tax declarations, together with other areas of legal compliance (e.g. customs and currency control matters), are subject to review and investigation by a number of authorities which have the legal right to impose extremely severe fines and penalties. These uncertainties create a tax risk in Ukraine substantially more significant than typically found in countries with more developed and tested taxation systems.

The management believes that the Bank's operations fully comply with all effective legislation regulating its activities and that the Bank has accrued all necessary taxes. When there is an uncertainty with respect to taxes payable, accrual is made (or otherwise) based on the Bank's management's judgement of the situation taking into account all information and circumstances.

In December 2010 Ukraine adopted a new Tax Code, which comes into force in 2011, and part regarding the tax on corporate profits—since April 2011. New Tax Code provides for a certain convergence of business and tax accounting. To calculate income tax, the following income tax rates will be used:

Before 1 April 2011 – 25 %;

From 1 April 2011 to 31 December 2011 – 23 %;

From 1 January 2012 to 31 December 2012 – 21 %;

From 1 January 2013 to 31 December 2013 – 19 %;

From 1 January 2014 – 16 %.

(UAH thousands)

Operating lease

When the Bank is a lessee, future minimum lease payments related to non-cancelled operating lease as at 31 December 2011 and 2010 are the following:

	31 December 2011	31 December 2010
Up to 1 year	**1,264**	2,753
From 1 to 5 years	**7,313**	3,828
Over 5 years	**-**	-
	8,577	6,581

Credit liabilities

Potential liabilities of the Bank resulted from its activity as at 31 December 2011 and 2010 are the following:

	31 December 2011	31 December 2010
Credit liabilities	**35,786**	12,249
Guarantees	**5,751**	8,356
	41,537	20,605

27. Related party transactions

For the purposes of these financial statements, parties are considered to be related if one party has the ability to control the other party, is under common control, 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.

As at 31 December 2011 indebtedness on related party transactions included:

	Shareholders	**Key management personnel**	**Other related party**
Assets			
Loans and advances to customers (Note 8)	**-**	**-**	**7,562**
Liabilities			
Due to clients (Note 15)	**196,200**	**1,513**	**499,878**

As at 31 December 2010 indebtedness on related party transactions included:

	Shareholders	**Key management personnel**	**Other related party**
Assets			
Loans and advances to customers (Note 8)	-	-	2,096
Liabilities			
Due to clients (Note 15)	408,331	3,752	11,353

(UAH thousands)

During 2011 the Bank's related party transactions included:

	Shareholders	Key management personnel	Other related party
Interest income (Note 19)	**-**	**-**	**614**
Interest expenses (Note 19)	**(24,577)**	**(3,676)**	**(23,138)**
Commission income (Note 20)	**54**	**16**	**28**

During 2010 the Bank's related party transactions included:

	Shareholders	Key management personnel	Other related party
Interest income (Note 19)	-	-	322
Interest expenses (Note 19)	(39,002)	(689)	(7,576)
Commission income (Note 20)	41	5	11

Interest rates on transactions with related parties did not differ materially from interest rates applicable on similar transactions with non-related parties.

Remuneration of the key management personnel of the Bank for the year 2011 comprised 18,684 thousand UAH (2010: 17,009 thousand UAH).

28. Capital management

The Bank's capital management has the following objectives: to observe the capital requirements established by the NBU; to ensure the Bank's ability to operate as a going concern and maintain capital base at the level required to sustain capital adequacy ratio at 8% recommended by the Basle Accord.

Bank's policy as to the capital management lies in the following:

- recognition and maintenance of adequate scope of equity;
- managing adequacy of basic and regulative capitals, using methodology of limitation of deposits into active operations;
- diversification of active operations;
- making proposals as to the capital increase arrangements;
- redirecting the business into services that require less equity.

The control over the Bank's compliance with the capital adequacy ratio set by the NBU is exercised daily based on the calculation of the amount of its equity and risk weighted assets. In accordance with the current capital requirements set by NBU, the banks should maintain the ratio of capital to risk weighted assets (capital adequacy ratio) above the prescribed minimum level which equals 10 %. As at 31 December 2011, the Bank's capital adequacy ratio was 16.5 % (2010: 20.7 %).

Capital adequacy ratio calculated according to adapted in international practice methodology, in compliance with Basle Accord requirements comprised 17.7 % as at 31 December 2011 (2010: 19.3 %).

29. Fair value of financial instruments

Fair value is the amount at which a financial instrument could be exchanged between knowledgeable, willing parties other than in a forced sale or liquidation, and is best evidenced by an active quoted market price.

The estimated fair values of financial instruments have been determined by the Bank using available market information, where it exists, and appropriate valuation methodologies. Management has used all available information in estimating the fair value of financial instruments.

- due from and to other banks

Due to their short tenor, the fair value of assets with maturity up to one month approximately equals their carrying-value. Interest rates applied to more long-term deposits reflect market rates and, hence, the fair value approximates to the carrying amount.

- securities

The carrying value of the securities available-for-sale is an adequate estimate of their fair value. Interest rates on interest-bearing securities are assumed to reflect fair market rates and, accordingly, the fair value of these instruments approximates to their carrying value.

- loans and advances to customers

The fair value of the credit portfolio as a whole is determined by segmenting the portfolio and determining the characteristics and risks associated with each segment. Provisions for potential credit losses are assessed with regards to the risk premiums applied to each portfolio segment taking into account such factors as the current economic situation, where the borrower operates, the financial condition of each borrower, and the quality and value of collateral. Management regards the current provisioning levels for the Bank's loan assets as fairly reflecting overall credit risk.

Loans are mainly extended on the basis of market rates. Therefore current outstanding balances are generally reflective of fair value. The carrying amount, calculated as amortised cost, is a reasonable approximation to the fair value.

- due to customers

Due to their short tenor, the fair value of deposits with maturity up to one month equates approximately to the carrying amount. Interest rates applied to more long-term deposits reflect market rate. Hence, the fair value is close to the carrying amount.

30. Risk management

The goal of financial risk management in the Bank is to ensure profitable operations by taking into account a moderate level of risks. Risk management system in the Bank is designed so that it involves all management levels: the Supervisory Board determines the Bank development strategy, including on risk management; the Bank's Board carries out operating management of the Bank's operations, including consideration of maintaining the moderate level of risks; Analysis and Risk Management Department ensures direct analysis, monitoring and control of the risks which effects on the Bank's indicators are the most perceptible.

In addition, collegial bodies (Loan Committee, Asset and Liability Management Committee, Tariff Committee, Tender Committee) have been established and are permanently functioning in the Bank, which task includes also operational decisions on tactical objectives of the risk management.

The level of the Bank's risk management system is in full accordance with the volumes and complexity of the transactions made. Since 2008 the Bank uses up to-date analytical module "Asset and Liability Analyzer", enabling to receive automatically management reporting for managing the principal risk types and make promptly required decisions on minimizing the adverse affect of risks on the Bank's financial ratios.

(UAH thousands)

Among the financial risks that are managed by the Bank on a systematic basis (daily) the traditional ones should be singled out: credit risk, market risk (interest rate, currency and price risks) and liquidity risk.

Credit risk

Credit risk is the risk that a borrower fails to repay the loan and interest thereon. Minimization of this risk is achieved through clear credit procedures for credit operations and deliberate techniques implemented by the Bank that are used in , borrower solvency analysis, as well as through lending primarily under the liquid security (real estate, property rights for cash deposits of banks and other).

In addition, the Bank has set limits to the powers of departments within which the Credit commissions of the departments may lend own customers. All non-limit credit operations shall be approved by the Credit Commission of the Head office.

During the year 2011 the Bank has actualized the majority of regulations related to the credit risk management (in particular, the Provision on stress-testing of risk positions for PJSC “Bank for Investments and Savings” has been developed).

Maximum credit risk is summarized as follows:

	31 December 2011	31 December 2010
Statement of financial position items		
Balances with NBU	**226,817**	67,114
Loans and advances to banks	**557,096**	363,208
Loans and advances to customers	**1,454,701**	1,101,080
Securities available-for-sale	**18,586**	-
Other assets	**1,447**	1,193
	2,258,647	1,532,595
Off-balance sheet items		
Credit liabilities	**35,786**	12,249
Guarantees	**5,751**	8,356
	41,537	20,605

Liquidity risk

Liquidity risk is the risk that the Bank will not be able to discharge its liabilities to the clients and counterparties on a timely basis and in full. Minimization of this risk is achieved through balancing by the Bank of own structure of assets and liabilities by repayment/maturity dates (including basic currencies in which the Bank makes the transactions).

Among the methods used by the Bank in liquidity risk management, the following should be singled: GAP analysis and fixing of the limits to maximum possible gaps of liquidity; using of payment schedule; adherence to the liquidity ratios (including mandatory economic norms of the NBU and mandatory reserve norms); diversification of assets and liabilities; maintaining an emergency plan in active state; stress testing of the Bank’s liquidity positions under various scenarios of development of financial markets.

(UAH thousands)

The Bank's liquidity position as at 31 December 2011 is stated below:

	Up to 1 month	1 to 3 months	3 months to 1 year	Over 1 year	Total
Assets					
Cash and balances with NBU	254,493	-	-	-	**254,493**
Due from other banks	525,952	31,144	-	-	**557,096**
Loans and advances to customers	364,018	529,102	338,199	223,382	**1,454,701**
Securities available-for-sale	-	632	-	17,954	**18,586**
Property and equipment	-	-	-	22,482	**22,482**
Intangible assets	-	-	-	430	**430**
Deferred tax assets	-	-	-	451	**451**
Other assets	625	16	806	-	**1,447**
Total assets	**1,145,088**	**560,894**	**339,005**	**264,699**	**2,309,686**
Liabilities					
Due to other banks	466,925	30,894	-	-	**497,819**
Due to clients	619,254	568,002	296,323	39,583	**1,523,162**
Other borrowings	-	-	-	757	**757**
Current tax liabilities	-	-	389		**389**
Other liabilities	1,001	12	1,185	-	**2,198**
Total liabilities	**1,087,180**	**598,908**	**297,897**	**40,340**	**2,024,325**
Net position	**57,908**	**(38,014)**	**41,108**	**224,359**	**285,361**

(UAH thousands)

The Bank's liquidity position as at 31 December 2010 is stated below:

	Up to 1 month	1 to 3 months	3 months to 1 year	Over 1 year	Total
Assets					
Cash and balances with NBU	113,121	-	-	-	113,121
Due from other banks	351,340	11,868	-	-	363,208
Loans and advances to customers	475,429	208,915	208,940	207,796	1,101,080
Property and equipment				23,163	23,163
Intangible assets				576	576
Other assets	850	16	-	327	1,193
Total assets	**940,740**	**220,799**	**208,940**	**231,862**	**1,602,341**
Liabilities					
Due to other banks	301,490	125,945	-	-	427,435
Due to clients	183,382	126,841	570,574	5,019	885,816
Other borrowings	-	-	-	858	858
Current tax liabilities			378		378
Deferred tax liabilities				7	7
Other liabilities	55,510	612	-	-	56,122
Total liabilities	**540,382**	**253,398**	**570,952**	**5,884**	**1,370,616**
Net position	**400,358**	**(32,599)**	**(362,012)**	**225,978**	**231,725**

Market risk

Market risk is the risk of unforeseen losses of the Bank arising from adverse changes in interest rates, foreign exchange rates, share prices, etc. Under the classification of the Basel Committee, the market risks comprise currency risk, interest rate risk and price risk. Market risk management under the above classification is performed centrally by the Analysis and Risk Management Department using advanced methods of measuring, assessment and control over their level. The reports on market risk are read over by the Asset and Liability Management Committee that subsequently makes decisions on adjustment of risk positions taking into account expected/forecast levels of exchange rates, interest rates, securities prices.

The Bank's operations are mostly affected by currency and interest rate risks, whereas price risk does not exist actually because the Bank did not actually make transactions with securities in 2011.

a) currency risk

Currency risk is the risk related to existing or potential effects of adverse fluctuations in the exchange rates and banking metal values on the Bank's proceeds. Minimization of this risk is achieved through the foreign exchange transactions made by the Bank solely within the currency position limits.

Among the methods used by the Bank in currency risk management, the following should be singled: VAR methodology; fixing of limits to maximum possible amounts of currency position; currency risks hedges; stress testing under various scenarios of development of financial markets.

(UAH thousands)

As at 31 December 2011 the Bank’s currency positions were:

	UAH	USD	Euro	Other	Total
Assets					
Cash and balances with NBU	238,629	9,666	6,106	92	**254,493**
Due from other banks	115,896	271,606	140,696	28,898	**557,096**
Loans and advances to customers	518,915	858,844	76,942	-	**1,454,701**
Securities available-for-sale	18,586	-	-	-	**18,586**
Property and equipment	22,482	-	-	-	**22,482**
Intangible assets	430	-	-	-	**430**
Deferred tax assets	451	-	-	-	**451**
Other assets	1,384	51,553	-	-	**52,937**
Total assets	**916,773**	**1,191,669**	**223,744**	**28,990**	**2,361,176**
Liabilities					
Due to other banks	148,654	244,270	75,945	28,950	**497,819**
Due to clients	476,549	951,682	94,926	5	**1,523,162**
Other borrowings	757	-	-	-	**757**
Current tax liabilities	389	-	-	-	**389**
Other liabilities	2,196	2	51,490	-	**53,688**
Total liabilities	**628,545**	**1,195,954**	**222,361**	**28,955**	**2,075,815**
Net position	**288,228**	**(4,285)**	**1,383**	**35**	**285,361**

In order to record the currency position Other assets and other liabilities were increased by 51,490 UAH to report the gross amount under the currency conversation agreement. The financial statements report the net amount under this transaction.

(UAH thousands)

As at 31 December 2010 the Bank’s currency positions were:

	UAH	USD	Euro	Other	Total
Assets					
Cash and balances with NBU	86,441	23,398	3,160	122	**113,121**
Due from other banks	25,707	256,936	78,179	2,386	**363,208**
Loans and advances to customers	802,479	287,926	10,675	-	**1,101,080**
Property and equipment	23,163	-	-	-	**23,163**
Intangible assets	576	-	-	-	**576**
Other assets	1,168	25	-	-	**1,193**
Total assets	**939,534**	**568,285**	**92,014**	**2,508**	**1,602,341**
Liabilities					
Due to other banks	305,888	73,253	48,294	-	**427,435**
Due to clients	365,367	470,109	50,031	309	**885,816**
Other borrowings	858	-	-	-	**858**
Current tax liabilities	378	-	-	-	**378**
Deferred tax liabilities	7	-	-	-	**7**
Other liabilities	55,765	-	357	-	**56,122**
Total liabilities	**728,263**	**543,362**	**98,682**	**309**	**1,370,616**
Net position	**211,271**	**24,923**	**(6,668)**	**2,199**	**231,725**

Depending on the revenue stream of the borrower, the appreciation of the currencies against the Ukrainian hrivna may adversely affect the borrowers’ repayment ability and therefore increases the likelihood of future loan losses.

Strength of the following currencies by 10 % towards functional currency as at 31 December 2011 and 2010 would have increased/(decreased) profit and loss and equity of the Bank by the amounts stated below should other variables remain unchangeable:

	31 December 2011	31 December 2010
Net income/(loss)		
Strengthening of US dollar	**(5,578)**	2,492
Weakening of U.S. dollar	**5,578**	(2,492)
Strengthening of Euro	**5,287**	(667)
Weakening of Euro	**(5,287)**	667

(UAH thousands)

b) interest rate risk

Interest rate risk is the risk related to existing or potential effects of adverse fluctuations in the interest rates on the Bank’s proceeds. Minimization of this risk is achieved through balancing the assets and liabilities that are sensitive to changes in the interest rate.

Among the methods used by the Bank in interest rate risk management, the following should be singled: GAP analysis and fixing of the limits to maximum possible gaps between the assets and liabilities that are sensitive to changes in the interest rate; managing of the structure of assets and liabilities using indicators of spread, net interest margin, profitability/value of individual items of interest- bearing assets/liabilities (by currency); implementing a deliberate price policy to maximize net interest income; stress testing under various scenarios of development of financial markets.

The following information relates to the average weighted interest rates on 2011 and 2010 for assets and liabilities that were subject to interest accrual:

	31 December 2011			31 December 2010		
	UAH	**EURO**	**USD**	UAH	EURO	USD
Assets						
Loans and advances to banks	**12.2%**	**3.8%**	**2.0%**	22.4%	1.2%	-
Loans and advances to customers	**16.2%**	**10.6%**	**9.9%**	18.6%	14.9%	7.0%
Debt securities, available-for-sale	**4.9%**	**-**	**-**	-	-	-
Liabilities						
Due to other banks	**13.0%**	**3.1%**	**1.3%**	12.8%	3.2%	-
Due to clients						
- current accounts	**1.6%**	**0.1%**	**0.6%**	3.6%	1.2%	1.0%
- deposits	**17.2%**	**9.9%**	**8.0%**	17.9%	11.5%	9.5%

At the end of 2011 the base rate of the NBU was 7.75 % per annum (2010: 7.75 %).

Estimated repayment or revaluation dates do not differ significantly from the dates fixed in the agreements. As such, the disclosure of detailed information on revaluation or repayment dates is not expedient.

Geographic risk

The Bank is not exposed to geographic risk taking into account the fact that the Bank operates in Ukraine, except for opening correspondent accounts in foreign banks.