20 YEARS OF SUSTAINABLE GROWTH

ПУМБ

Highest Credibility of Deposits with FUIB according to Credit-Rating agency *(Bank Deposit Rating grade* (highest deposit strength)

«5»

FUIB is among

TOP-3

Lenders Offering Most Attractive Car Loans *(Vlast Deneg*, July 2011).

No 1 for quality of presence in Facebook (advermap.com.ua)

TOP-5

Most valuable banking brands *(Gvardiya*, July 2011)

No 1 for transparency of financial institutions in Ukraine *(Index of Transparency and Accountability of Companies supported by USAID's Ukraine National Initiatives to Enhance Reforms Project (UNITER)*, September 2011).

Award from Deutsche Bank for Exceptional Payment Processing Quality *(August 2011)*

No 1 for innovativeness. *Most Innovative Bank and Deal of the Year in the Ukrainian Banking Awards (InvestGazeta*, December 2011).

Winner *of the 2011 Best Regular Information Disclosure by Joint Stock Companies and Corporate Bond Issuers* annual contest *(Securities and Stock Market National Commission).*

No 1 for Internet Banking service *PUMB Online (Forbes Ukraine*, September 2011)

№ 1

FUIB is among

TOP-10

Most Friendly Banks in Ukraine *(Correspondent*, October 2011)

2011 Most Dynamically Developing Bank *(RBC-Ukraine)*

No 1 for Attractive Long-Term Car Loans (*Dengi*, July 2011)

No 2 in Information Transparency and Disclosure by Ukrainian Banks *(Credit-Rating agency, the Financial Initiatives Agency and the Financial Sector Development Project (FINREP) of the U.S. Agency for International Development (USAID)).*

No 1 Best CIO 2011, IT infrastructure maturity *(Compyuternoe Obozreniye*, December 2011).

No 1 for Most Attractive Three-year Equipment Purchase Loans *(ProstoBank Consulting).*

No 2 in the Most Electronic Banks rankings *(Investgazeta, June 2011)*

No 1 for information Security. FUIB was the first bank in Ukraine's banking system to confirm its compliance with the PCI Data Security Standards (PCI DSS) (September 2011).

FUIB's Annual Report 2010 is No 2 in the *Ukraine's Best Corporate Media 2011* contest *(Ukrainian Corporate Media Association)*

FUIB is among

TOP-100

Largest Banks in the CIS *(RIA-Analitika*, July 2011).

№ 2

FUIB — First Ukrainian

First Ukrainian International Bank (FUIB) is a large, sustainable, privately owned bank with two-decades of operations in Ukraine's financial market, delivering high quality banking services, consistently enhancing customer service, and attentive to customer needs. FUIB is among Ukraine's TOP 10 banks by financials.

FUIB delivers financial advisory services to both individuals and corporate bodies, satisfies all customer needs and approaches them with efficient value propositions. Today, FUIB is more than ever approachable for customers through a number of social media (Facebook, Twitter, YouTube, etc.) and FUIB's web site *(www.pumb.ua)*, where customers can provide their feedback on customer service.

FUIB has introduced its new communication FUIB – First Ukrainian, broadening its positioning and asserting itself as the banking system leader, customer-oriented, trustworthy and a leading-edge bank both in terms of products and processes, and customer service.

FUIB is more than just a comfortable Bank, but an innovative, leading-edge and strong financial market participant, the Bank Ukraine can be proud of. Customer-oriented also means comfortable. Trustworthy means professional. Leading-edge means the First.

FUIB's team introduces new products and services, implements cutting-edge banking technologies, ensures its reliability and builds the Bank of the future, the Bank Ukraine can be proud of.

The Bank's major shareholder is SCM Finance LLC (92.24%), subsidiary of SCM Group. FUIB's countrywide branch network comprises 169 outlets. The FUIB's team is represented by almost 4000 FTEs. FUIB's serve over 20 thousand corporate customers and over 1.5 million individuals. The Bank's Processing Centre processes payments by over 1.5 million payment cards held by FUIB's customers and those of its 34 partner banks.

Statement of the chairman of the management board

Looking back at the last year we can say that FUIB is implementing successfully its strategy towards the goal – FUIB among Ukraine's TOP 5 financial institutions, which is confirmed by both the Bank's strong performance indicators, and product and service innovations introduced in 2011.

Following its merger with Dongorbank, FUIB strengthened its position in the rankings by assets and entered Ukraine's TOP 10 financial institutions. In Ukraine's banking system the Bank is No 5 by corporate accounts and No 8 by individual accounts under UAS, and one of the leaders in lending. "RBC-Ukraine" information agency recognised FUIB as the most dynamically developing bank in 2011.

FUIB remains a reliable and sustainable bank consistently enhancing its performance results. The Bank enhanced its balance sheet structure through a decrease of loans/customer accounts from 113% to 93.4%, diversified further its portfolios, and demonstrated ROE and ROA among the best in the banking system. FUIB's profit before provisions and taxes grew by 13.6% year on year which shows clear improvements in operational efficiency of the Bank.

During 2011 FUIB was among the leaders in the banking innovation market and was recognised by the most reputable periodicals, *inter alia*, recognition as No 1 and No 2 for user-friendliness of PUMB Online, FUIB's Internet banking service, from *Forbes Ukraine* and *Investgazeta* business periodicals. In the coming year FUIB will approach its customers with more than just new products and services. We will offer a comprehensive product range, and also new service patterns. Building a flexible, leading-edge bank, we will continue introducing banking innovations, enhancing customer service quality and ensuring our responsibility to stakeholders.

FUIB will be No 1 by efficiency in the banking system and will stand out from its peers through impressive customer service as a strong competitor to major financial market participants.

Konstantin Vaysman
chairman
of the Management Board

Statement of the chairman of the supervisory board

During the last year FUIB continued implementing its development strategy aimed at asserting its leadership in the banking industry and completed the key project of 2011 – merger with Dongorbank. The banks' merger was the largest M&A transaction in Ukraine's contemporary history and exemplary in terms of quality and implementation time frame.

Following its merger with Dongorbank in July, FUIB enhanced its balance sheet structure, ensured lower operating expenses and enjoyed economies of scale. The Bank enhanced corporate governance standards, created a uniform risk management system and improved control and reporting quality. Throughout the merger FUIB and Dongorbank ensured their business growth, approached their customers with new propositions and extended their presence to 169 outlets in all regions of Ukraine.

The tightly-knit team, support by shareholders, recognised by customers, and enjoying investor confidence, facilitated FUIB's sustainable growth over 20 years. Now we are halfway to our goal – FUIB to become one of Ukraine's TOP 5 financial institutions by main financials. We will continue building a successful Bank – a leading-edge, efficient, modern bank with the best products and services, and excellent performance results. FUIB will be the Bank that is concerned about sustainable social development, the bank of which Ukraine can be proud.

Loans / Customer Accounts of 93.4% confirms the FUIB's sustainability and reliability

Ilya Arkhipov
chairman
of the Supervisory Board

Key financials

FUIB's 2011 Key Financials (IFRS)*

Balance Sheet as of 2011 year-end, USD mln	2011	2010	Change 2011/2010 USD mln	Change 2011/2010 %
Net assets as of end of reporting period	3,720.9	3,219.1	501.8	15.6%
Gross loan portfolio:	2,422.7	2,207.0	215.7	9.8%
Gross loans to corporate customers	1,816.4	1,623.7	192.7	11.9%
Gross loans to individual customers	606.3	583.3	23.0	3.9%
Gross securities portfolio	522.9	382.2	140.7	36.8%
Customer accounts:	2,531.3	1,939.9	591.4	30.5%
Corporate accounts	1,447.4	948.6	498.8	52.6%
Individual accounts	1,083.9	991.3	92.6	9.3%
Equity	604.9	527.1	77.8	14.8%
Total capital (Tier 1 + Tier 2)	690.2	462.4***		

Statement of Income, USD mln	2011	2010	Change 2011/2010 USD mln	Change 2011/2010 %
Net interest income	122.7	106.1	16.6	15.6%
Net fee and commission income:	50.3	48.7	1.7	3.5
Net commission income	32.5	28.0	4.5	15.9%
Trading and other volatile income	17.9	20.6	(2.8)	(13.4%)
Operating Income	**173.0**	**154.8**	**18.3**	**11.8%**
Operating Expense	(96.9)	(87.8)	(9.1)	10.4%
Profit before provisions and taxes	**76.1**	**67.0**	**9.1**	**13.6%**
Allowance for impairment of assets	(7.7)	24.1	(31.7)	(131.8%)
Net profit	**56.4**	**71.2**	**(14.8)**	**(20.8%)**

* Calculated using management accounting average balance data

Performance indicators	2011	2010	2011/2010
ROA before provisions (Profit before provisions and taxes / Net average assets)	2.3%	2.2%	0.1%
ROE before provisions (Profit before provisions and taxes/ Average capital)	13.6%	13.7%	(0.1%)
ROA (Net profit/Net average assets)	1.7%	2.4%	(0.6%)
ROE (Net profit/Average capital)	10.1%	14.6%	(4.5%)
NIM (Net Interest Income/Average productive assets)	5.2%	4.8%	0.4%
C/I (Operating expenses/Total income)	56.0%	56.7%	(0.7%)

Structural indicators (average balance sheet)	2011	2010	2011/2010
Net loan portfolio /Customer accounts	93.4%	113.4%	(20.0%)
Customer accounts to liabilities	75.5%	65.5%	9.9%
Current accounts to total customer accounts	45.0%	37.1%	7.9%

Asset quality	2011	2010	2011/2010
NPL** / Loans to customers	19.1%	23.0%	(3.9%)
Allowance / Loans to customers	15.1%	17.6%	(2.4%)
Allowance / NPL**	79.4%	76.6%	2.9%

Capital adequacy	2011	2010	2011/2010
CAR (Basel)	26.8%	26.2%***	0.6%
CAR (NBU)	15.9%	18.8%***	(2.9%)

** NPL – loans in arrears over 60 days

*** Without the effect of FUIB & Dongorbank merger

Successful merger between FUIB and Dongorbank

In 2011 the merger between First Ukrainian International Bank (FUIB) and Dongorbank was successfully completed and became the most significant merger between banks in Ukraine's financial system. The merger went smoothly and is within FUIB's Development Strategy that calls for securing FUIB's place among Ukraine's TOP 5 financial institutions by industry standards in 2015. As a result of the merger, FUIB grew significantly and entered Ukraine's TOP 10 financial institutions.

The merger between FUIB and Dongorbank was concluded within a record time frame of just 9 months, and was one of the most successful M&A transactions ever in Ukraine. Following the operational merger on 15 July 2011, on July 18 the Bank's outlets began operating under a common brand, FUIB. The merger process was supervised by the supervisory boards of both FUIB and Dongorbank and a steering committee consisting of all members of the management boards of the merging banks. Also, a project office comprised of Ernst & Young team members, an independent financial adviser and the banks' key employees contributed greatly to the project's success.

During the merger we had to develop and apply a number of unconventional techniques. Among these was the know-how for annexation of the correspondent account with Dongorbank's sort code (MFO) to FUIB sort code. This ensured automatic redirection of funds remitted to Dongorbank's sort code to FUIB's sort code over several months following the operational merger. Due to this initiative, the broadened product range and synchronised fee schedules for transfer of Dongorbank's customers to FUIB went smoothly. The choice of FUIB's IT system as the single IT system for the united bank was another measure that facilitated the successful merger. Data migration from one IT system into the other was carried out by stages, which included five test migrations carried out on non-business days.

The merger between the teams of FUIB and Dongorbank went smoothly due to a key employees' retention programme, and the objective assessment of key employees of both banks performed by an independent HR consulting company. Also, a system was developed for motivating team members participating in the operational merger. To keep team members well informed of the merger implementation process, an Intranet portal was established that contained news, vacancies and feedback. It relieved tensions within the teams and facilitated better teamwork. Due to the tight-knit teamwork during integration, the Bank not only managed to retain its customers, but significantly increased its market share.

Two-Decades of Sustainable Growth

1992

FUIB commenced its banking business activity serving Ukraine's leading manufacturers and earned a reputation as a trustworthy financial institution among Ukrainians.

1995

FUIB was the first Ukrainian bank to install the Midas banking software system recognised by the global banking community, and provided by Misys IBS Ltd (United Kingdom). Also, FUIB received a loan of USD 13 million from the EBRD without a Government of Ukraine sovereign guarantee.

5

FUIB was the first Ukrainian bank to start preparing its financial statements in accordance with international accounting standards and to have them audited by recognised internal auditors (1992). Also, FUIB was one of the first banks in Ukraine's banking system to issue its own payment card (1993) and to develop ClearingCenter, an electronic clearing system facilitating transactions on an unlimited number of correspondent (vostro) accounts in Ukraine's national currency (1996).

1999

FUIB was one of the first banks in Ukraine's banking system to become a certified Third Party Processor, delivering card acquiring services to other banks through its powerful Processing Centre established in 1998 to satisfy the Bank's own business acquisition needs and those of its partner banks. FUIB's Processing Centre was the Bank's competitive advantage that provided a solid foundation for further growth of FUIB's card business and customer service quality enhancement.

10

Over the decade FUIB had consistently built its business, developing new services and products, enhancing its customer service and business efficiency. FUIB was one of the first Ukrainian banks to become a principal member of EUROPAY/MC and VISA international payment systems. Also, in 1997 FUIB was the first bank in Ukraine's banking system to install the ARKSYS electronic payment software system while establishing its own Processing Centre. So far, FUIB is not only the first, but the only bank in Ukraine to install and use ARKSYS.

2004

Over this period FUIB continued enhancing its Processing Centre, IT infrastructure, and balance sheet structure; while its underlying customer service priorities were attention to customer needs and unique propositions. In 2004 FUIB was the first bank in Ukraine's banking system to apply a Backup Centre for online backup of all IT services. Two years earlier, in 2002, FUIB was one of the first banks in Ukraine's banking system to introduce money transfers though ATMs. In 2005 FUIB adopted a change in its strategy, positioning FUIB as a Comfortable Bank aimed at delivering its best to customers and partners.

15

Over 15 years the Bank has consistently enhanced its trustworthiness, transparency and innovativeness. During this period FUIB formed a solid technological basis, won key customers and prepared for further growth. Change in the Bank's share capital structure was another landmark in the Bank's history: in 2005, SCM Finance, a subsidiary of SCM Group, purchased 50% of shares in FUIB from its foreign shareholders, thus increasing the shareholding interest of SCM Group to 99%. FUIB's development strategy for 2006-2010 was aimed at building a universal bank: strengthening corporate business, expansion into the retail banking market, and branch network growth. To be more approachable by customers, during 2006-2008, the bank's network active growth stage, FUIB increased its outlets from 43 to 146.

2011

FUIB's merger with DONGORBANK, successfully completed within a record short time frame, was one of the most significant M&A transactions in Ukraine's banking system. The banks consolidated their balance sheets and branch networks, and beginning on July 18 started operating under a common brand, FIRST UKRAINIAN INTERNATIONAL BANK. As a result of the merger, FUIB entered Ukraine's TOP 10 financial institutions, extended its branch network, and significantly enhanced its balance sheet structure. In 2011 FUIB was the first bank in Ukraine to confirm its compliance with the PCI Data Security Standards (PCI DSS). FUIB significantly extended its product range through a number of innovative services, including iPUMB, mobile Internet banking services for iPhone and iPad users, and a version for users of other mobile phones with Internet access.

20

Today, FUIB is a universal bank delivering an exhaustive range of banking services to individuals and corporate bodies and is among the TOP 10 Ukraine's banks by financials. Over its two-decade history FUIB has built a sustainable business based on cutting-edge innovative products and services, efficient risk management system, transparent and open business processes and high quality customer service. The tight-knit team, flexible market strategy, compliance with international business standards and efficient resource management have facilitated the Bank's two-decades of consistent development and will ensure its future growth.

2015

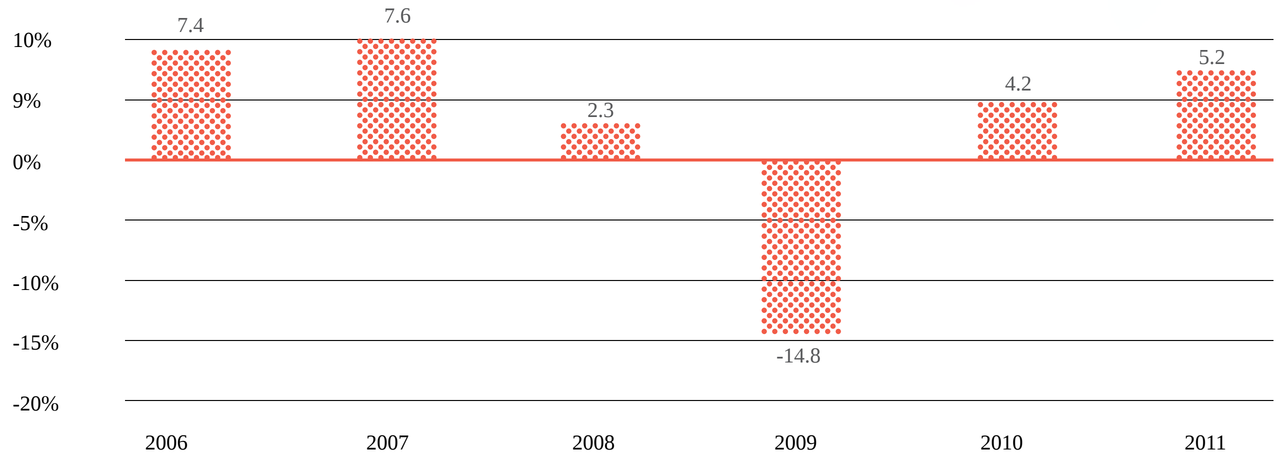
FUIB is gradually becoming a leader in Ukraine's banking industry recognised and operating globally, with an excellent reputation and strong brand recognition, using the most advanced technologies and offering innovative banking products, services and service patterns. FUIB is among Ukraine's TOP 5 banking institutions by financials, and No 1 in efficiency and customer service quality. FUIB involves its team members, partners and customers in social programmes, thereby facilitating settlement of socially crucial issues. FUIB is the bank Ukraine can be proud of.

Operating and financial review

Banking environment

During 2011 Ukraine's economy was sensitive to changes in international markets. Recovery in global industrial production created a favourable environment for Ukrainian exporters in international commodity markets, ensuring 1H2011 real GDP growth of 4.4% YOY.

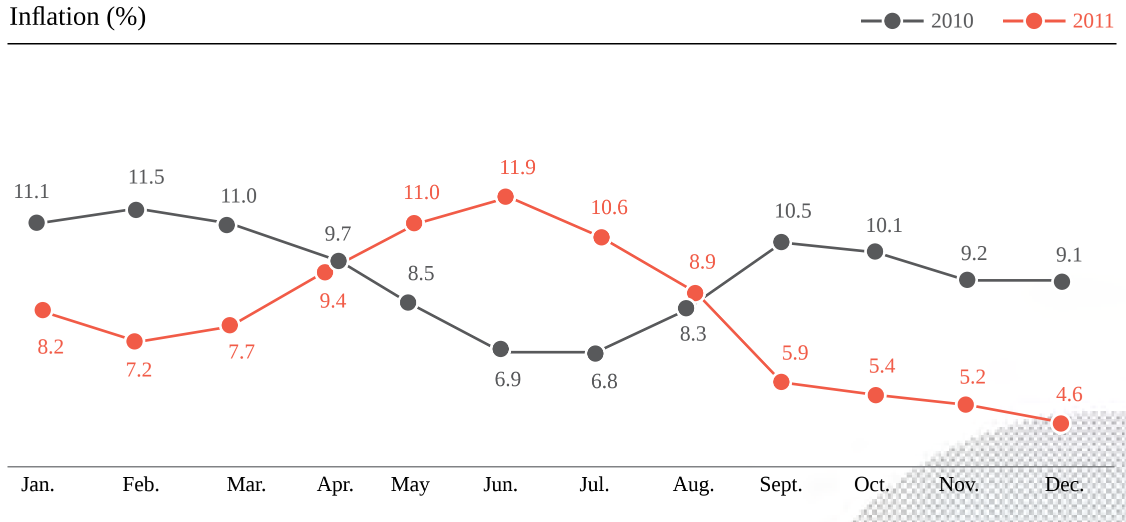
Real GDP growth



Data Source: State Statistics Committee of Ukraine

The 1H2011 commodity and service export proceeds growth of 36.2% YOY and increase in the capital and financial accounts facilitated a balance of payments surplus of USD 1.795 billion, ensuring stability of Ukraine's national currency rate and 8.7% growth in gold and foreign currency reserves over 1H2010 (30.06.2011: UAH 37.6 billion). In 1H2011 inflationary pressure increased and totalled 5.9% versus 3.3% YOY as a result of growth in prices for: transportation services (13.7% up due to a 30.5% increase in petrol prices), housing and public utility services (up 9.5%), and food and non-alcoholic beverages (up 6.1%).

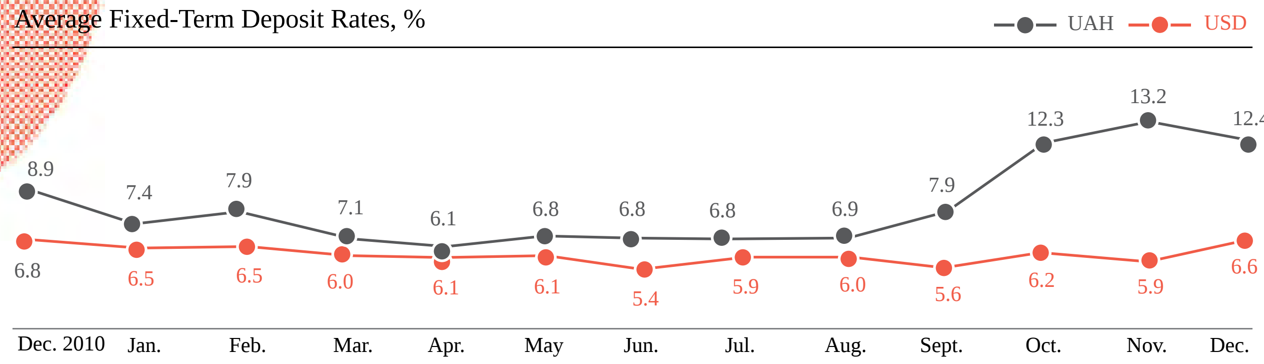
Inflation (%)



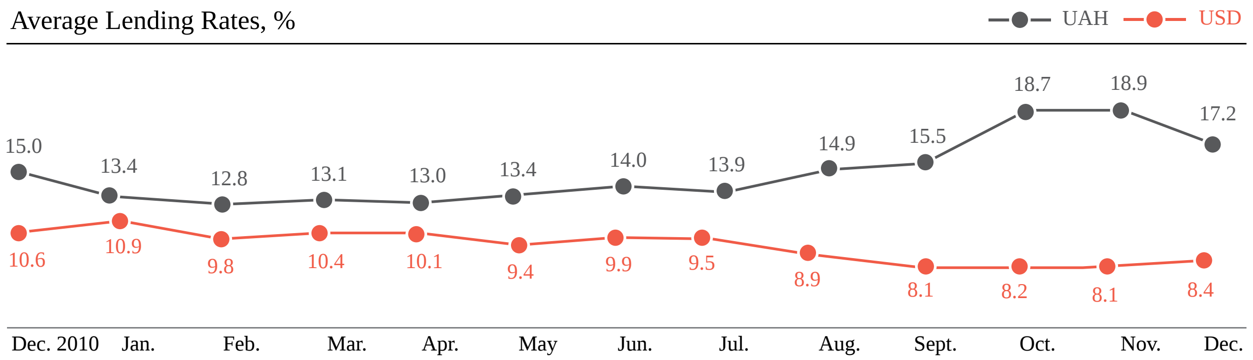
Data Source: State Statistics Committee of Ukraine

Positive economic developments over 1H2011 facilitated further recovery in the banking sector. As the result of growth in incomes of businesses and individuals, customer accounts grew by 13.7% over 1H2011: corporate accounts increased twice as much as retail ones (corporate, 20.2% up; retail, 9.9% up). Excessive liquidity in the banking system resulted in a decline in deposit rates and liberalization of lending rates. In 1H2011 loans to the real economy sector grew by 7.3%; UAH loans to the retail economy sector, by 11.8%. Despite the increase in new loans, the banking system's loan portfolio continued decreasing (0.37% down) as repayments of outstanding loans exceeded new loans. Ukraine's banks' lending business activity mainly focused on high margin consumer loans.

Average Fixed-Term Deposit Rates, %



Average Lending Rates, %

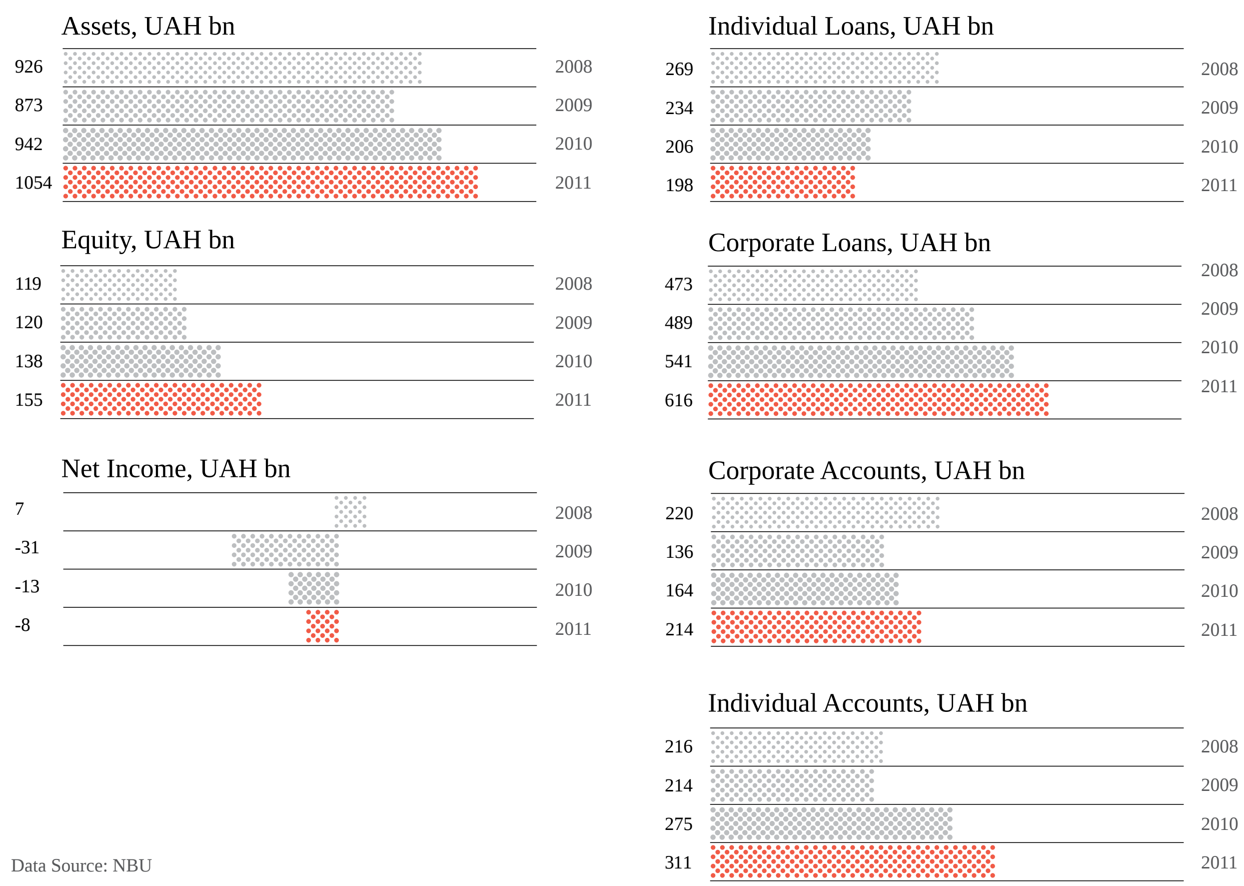


Data source: NBU

In 2H2011 the global economic slowdown entailed by tension in the euro area (Eurozone) slowed down growth in Ukraine's export proceeds (21.7% up YOY). Deterioration in the balance of trade and lower increases in financial and capital accounts, caused by intensified volatility in the financial markets, resulted in a balance of payments deficit of USD 2.45 billion and increased the Ukraine's national currency devaluation pressure. As this deficit was financed by the gold and currency reserves, their 1H2011 growth was offset. Inflation and devaluation prevention measures by the Ministry of Finance and the National Bank of Ukraine, resulted in a record low annual inflation rate (4.6% versus 9.1% YOY). Those measures had an adverse effect on stability of the banking sector and caused growth of the UAH liquidity deficit, significant customer accounts volatility and, as the result, growth in UAH deposit and lending rates, lower lending to the real economy sector of 5.4%, and a greater decline in the retail loan portfolio (3.55% down) in 2H2011.

During 2011 the balance sheet total of Ukraine's banking system grew by 11.9%. As of 31.12.2011, the TOP 20 banks by assets accounted for 70% of Ukraine's banking assets (2010 year-end: 71%).

Indicators of banking system of Ukraine



Data Source: NBU

Despite more active bad loans' write off by banks (UAH 21 billion versus USD 5 billion YOY) asset quality in the banking system remained poor. According to Moody's Investors Service, in 1H2011 the average NPL rate (including loans in arrears over 90 days and refinanced loans) amounted to about 40% of the total loan portfolio. Though in 2011 the banking system failed to generate a positive financial result, it did manage to decrease its losses almost by half YOY to UAH 7.7 billion. The 2011 negative financial result of the Ukraine's banking system occurred mainly due to losses suffered by Ukrsibbank (UAH 3.7 billion) and publicly owned Ukrgazbank (UAH 3.6 billion) and Rodovid bank (UAH 1.4 billion). The total CAR of 18.9% as of January 1 shows that the banking system can withstand negative economic developments.

Main performance results

The Bank's 2011 net interest income of USD 122.7 million was USD 16.6 million (15.6%) up YOY.

Last year was a milestone in FUIB's history that laid a solid foundation for its further sustainable growth. After its successfully completed merger with Dongorbank, FUIB entered Ukraine's TOP 10 banks by key financials and at 2011 year-end held the following positions in Ukraine's banking system (according to the NBU):

№8 by assets

№9 by equity

№7 by 2011 profit

№10 by corporate loan portfolio

№9 by individual loan portfolio

№5 by corporate accounts

№8 by individual accounts

FUIB's 2011 profit before provisions and taxes of USD 76.1 million was USD 9.1 million (13.6%) up YOY due to the growth in income exceeding the growth of operating expenditures. The growth in income is related to both the growth in business volume and an enhanced performance efficiency.

The Bank's 2011 operating income before provisions increased by USD 18.3 million (11.8% up YOY) to USD 173.0 million as a result of FUIB's measures aimed at enhancing the efficiency of assets and introduction of new high-margin products. The Bank's 2011 net interest income of USD 122.7 million was USD 16.6 million (15.6%) up YOY due to the higher decrease of customer time accounts cost against the profitability of the loan portfolio (against the background of the decline in interest rates over 1H2011) and purposeful restraint on growth in time individual accounts to decrease excessive liquidity. The excessive liquidity during 1H2011 was invested in government securities and during 2H2011, in the high-yielding interbank currency market, which, against the background of growth in the cost of resources in the banking market, enabled the Bank to generate additional operating income.

During 2011 the Bank's expenses related to the allowance for interest-generating operations totalled USD 7.7 million:

- recovery of allowance for the corporate loan portfolio of USD +8.6 million;
- allowance for the retail loan portfolio of USD -16.6 million;
- recovery of allowance for off-balance-sheet liabilities of USD +0.4 million;

The Bank's 2011 net fee and commission income of USD 32.5 million was USD 4.5 million (15.9%) up YOY due to growth in card transactions, the dynamic development of documentary operations, broader service range and a flexible pricing policy. The Bank's trading income decreased by USD 2.8 million (13.4%) to USD 17.9 million as a result of foreign currency revaluation and impairment of securities.

Development of personnel remuneration programs and implementation of projects facilitating the Bank's business development within implementation of the FUIB's Development Strategy resulted in an increase in the Bank's 2011 OPEX of USD 9.1 million (10.4%) YOY to USD 96.9 million. The Bank's 2011 profit before provisions and taxes of USD 76.1 million was USD 9.1 million (13.6%) up YOY.

The Bank's 2011 net profit of USD 56.4 million was USD 14.8 million (20.8%) down YOY due to growth in allowances YOY. In 2010, the result from recovery of allowances (expenses towards allowance/recovery of allowance) totalled USD 24.1 million.

During 2011 FUIB's assets grew by 15.6% to USD 3720.9 million. FUIB's growth was financed through an increase in customer accounts. During the year, corporate accounts with the Bank grew by USD 498.8 million (52.6% up) to USD 1447.4 million; and individual accounts by USD 92.6 million (9.3% up) to USD 1083.9 million. Also, the Bank managed to decrease its debt to foreign banks and the NBU by USD 109.0 million and USD 47.2 million respectively.

The funds raised were applied by FUIB towards loans to customers and government securities. Taking advantage of recovery in the lending market and guided by understanding of customer needs, the Bank ensured growth in the corporate loan portfolio of USD 192.7 million (11.9% up) to USD 1816.4 million and in the individual loan portfolio of USD 23.0 million (3.9% up) to USD 606.3 million.

Financial Result of Corporate Business

11.9%

Corporate Loan Portfolio Grew by 11.9% to USD 1.8 Billion

During 2011 FUIB's corporate business ensured growth in the corporate loan portfolio of USD 192.7 million (11.9%) to USD 1816.4 million. Growth in the corporate loan portfolio exceeded growth in the individual loan portfolio; as the result, during the year its share in FUIB's total loan portfolio grew from 73.6% to 75.0%.

During 2011 corporate accounts with FUIB increased by USD 498.8 million (52.6% up) to USD 1447.4 million. As usual, current accounts accounted for the major share of total corporate accounts (74.9% and 79.1% at year-beginning and year-end respectively).

42.5%

of FUIB's net fee and commission

Corporate business' 2011 financial result from active and passive transactions including resource transfer cost (net interest income) totalled USD 68.5 million (50.5% of FUIB's net interest income). Corporate business' 2011 net fee and commission income totalled USD 14.1 million (42.5% of FUIB's net fee and commission). Currency conversion, documentary operations and payment fees accounted for the major share of corporate business' fee and commission income. The result of corporate business' volatile income was negative by USD 0.8 million. Thus, FUIB corporate business 2011 operating income was USD 81.8 million (47.9% of FUIB's operating income).

Corporate business' OPEX (including allocation of overhead expenses) totalled USD 37.1 million (2011 C/I of 45.3%). In 2011 there was a recovery of allowances for credit and off-balance-sheet operations of corporate business by USD 6.1 million. As a result, FUIB's corporate business' 2011 profit totalled USD 50.9 million.

Financial Result of Retail Business

+9.3%

Individual Accounts Grew by 9.3% to USD 1 Billion

15 000 000 USD

Retail business' 2011 net fee and commission income totalled USD 15.0 million

During 2011 FUIB's individual loan portfolio grew by USD 23.0 million (3.9% up) to USD 606.3 million. Individual accounts increased by USD 92.6 million (9.3% up) to USD 1083.9 million. To reduce excessive liquidity during the year, FUIB restricted growth in high-interest time accounts with FUIB.

FUIB's retail business' 2011 net interest income from active and passive transactions (including resource transfer cost) was USD 38.7 million (28.5% of FUIB's total net interest income). Retail business' 2011 net fee and commission income totalled USD 15.0 million (45.4% of FUIB's net fee and commission income). Card transaction fees accounted for the major share of retail business' fee and commission income. Retail business' 2011 volatile incomes totalled USD 0.9 million. Thus, FUIB's retail business' 2011 operating income totalled USD 54.6 million (31.9% of FUIB's operating income).

Retail business' OPEX of USD 55.2 million (including allocation of overhead expenses) and expenses towards allowances of USD 16.0 million resulted in retail business' negative result of USD 16.6 million.

Financial Result of Investment Business

27 300 000 USD

Profit of USD 27.3 Million

Within excessive liquidity management and towards forming secondary liquidity FUIB invested untied funds in local currency government bonds and NBU's certificates of deposit, which resulted in a USD 140.7 million (36.8%) increase in FUIB's securities portfolio to USD 522.9 million. In line with the effective terms, during 2011 debt to foreign banks decreased by USD 109.0 million (27.1%) to USD 402.6 million. Also, the Bank actively performed resource and currency arbitrage transactions in the interbank market.

Investment business' 2011 result from active and passive transactions including resource transfer cost (net interest income) totalled USD 23.4 million (17.3% of FUIB's net interest income). Investment business' 2011 net fee and commission income totalled USD 4.0 million (12.1% of FUIB's net fee and commission income). Currency conversion fees accounted for the major share of the investment business' fee and commission income. Investment business' 2011 volatile income totalled USD 1.9 million. Thus, FUIB's investment business' 2011 operating income totalled USD 29.3 million (17.2% of FUIB's operating income).

Investment business' OPEX (including allocation of overhead expenses) totalled USD 7.2 million (2011 C/I of 24.6%). In 2011 there was a recovery of allowance for investment business' active transactions of USD 5.2 million. As a result, FUIB's investment business' 2011 profit was USD 27.3 million.

12.1%

12.1% of net commission income FUIB

Results by line of business

Corporate business

Aleksey Volchkov,
Deputy Chairman of the Management Board

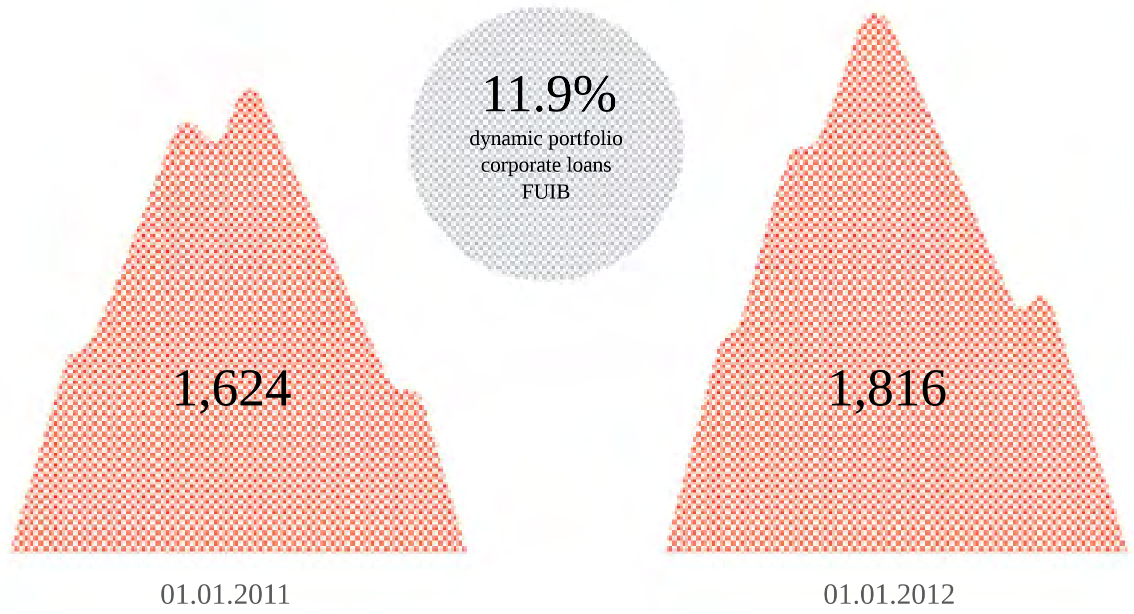
"Having combined the knowledge and experience of the teams of FUIB and Dongorbank, we continued building the business and entered Ukraine's TOP 10 banks by lending and TOP 5 by currency conversion transactions. Having entered into a partner agreement with AKA Bank export and import agency, FUIB provided its customers with long-term loans for major equipment modernisation projects. FUIB's active penetration into the SME segment will facilitate further diversification of our business and will provide our customers with new opportunities."

FUIB

Within its development strategy for years to come, during 2011 FUIB extended cooperation with large businesses and penetrated actively into the SME segment. We focused on loan portfolio growth and development of new services, inter alia, introduction of factoring and further development of documentary business, and penetration into new export and import financing markets.

In 2011 the restructuring of corporate business was completed and a fundamentally different organisational structure was created: large corporate customers (LCC) and small and medium enterprises (SME) business sub-lines were formed. Within the SME segment the credit process was re-engineered, which resulted in more than 30% faster consideration of customers' financing applications. Also, the package of cash and settlement services was improved; so far, about 2500 small businesses enjoy its benefits.

FUIB's Corporate Loan Portfolio Growth

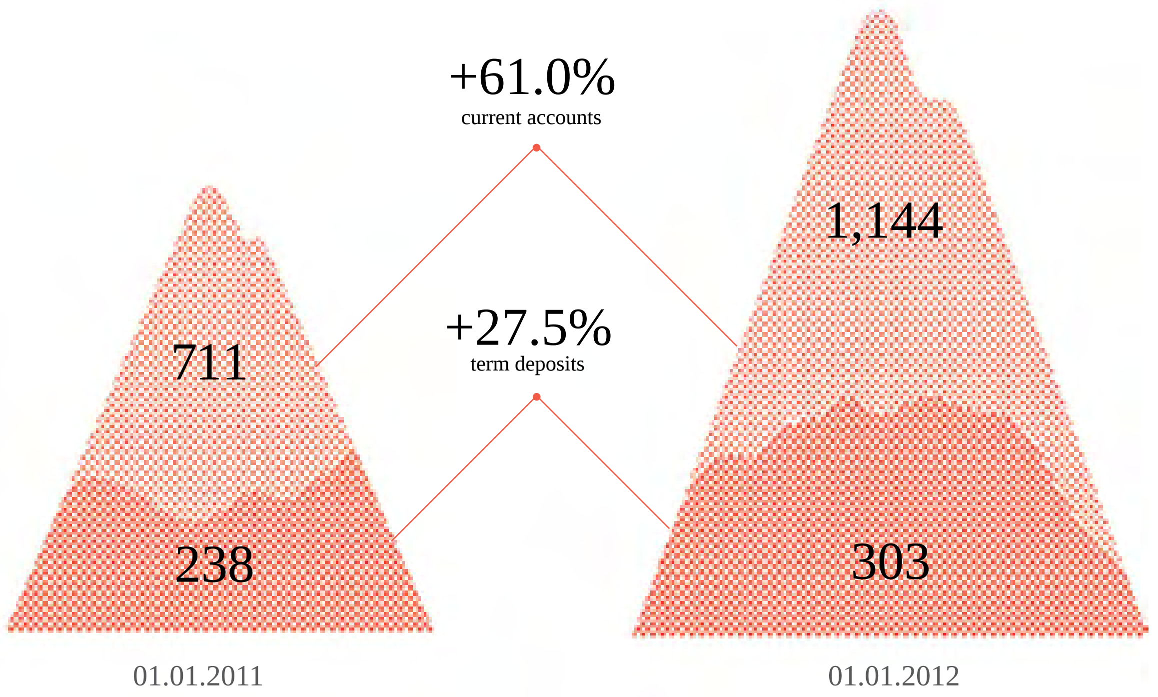


The optimisation of the Bank's credit policy and re-engineering of the credit process facilitated a significant increase in FUIB's active transactions. During the year about 600 loans totalling USD 654 million were given to corporate customers. At 2011 year-end FUIB's corporate loan portfolio totalled USD 1816 million, which is the 10th position in the banking system. Also, on the basis of 2011 performance results, FUIB is among the TOP 10 banks by new loans.

The bank's reasonable interest rate policy together with optimum product propositions ensured over 50% growth in the portfolio of corporate accounts.

Also, due to extended cooperation with both new and already existing corporate customers current corporate accounts increased by 61%.

Corporate accounts portfolio dynamic



Factoring

In September 2011 FUIB introduced a new product – factoring on unique terms. The time frame of the approval/rejection of a factoring application is 5 business days from the delivery date of the required documents. FUIB sets reasonable requirements on the borrower's financial standing and an additional payment period in the form of "waiting period" without penalties for the supplier.

In addition to efficient business processes FUIB's team applies cutting-edge information technologies, enabling it to keep accounting records and analytics of all the documents submitted for factoring, to provide financing promptly to a customer, and to compile and deliver to the supplier and debtor all the required reports.

Trade Finance

Within trade finance business development, in which FUIB has always been one of the leaders in Ukraine's banking market, the Bank entered into a trade finance facilitation partner agreement with AKA Ausfuhrkredit-Geselschaft m.b.H. (AKA Bank, Frankfurt am Main, Germany), which provides for short-term (3-5 years) and long-term (5-10 years) ECA-covered financing for export contracts between FUIB's customers and German suppliers of goods and services. This agreement with AKA is another important step toward further strengthening of trade relations between FUIB's customers and their European partners. This partnership will enable FUIB to give to its customers long-term and affordable loans for major projects, equipment and machinery purchase.

During 2011 new credit facilities were arranged with such banks as Credit Suisse, ING, Deutsche Bank, Landesbank Berlin, Zenith Bank, and Promsvyazbank, which enables the Bank to organise trade finance products' confirmation and funding for significant amounts. During 2011 FUIB issued 830 trade finance instruments for a total amount of USD 239.6 million. The 2011 fee and commission income of USD 3.5 million is 22% up YOY.

The number of FUIB's corporate customers during 2011 grew by 1275 to 22 299.

Among the FUIB's new customers are PE "Master Cable", PE "Dneprokomplekt", Corporation "ACC", LLC "Printing enterprise "Folio Plus", PJSC "Yuzhteploenergomontazh", LLC "Cart Service", Corporation "Ukravto", Corporation "ISTA", Concern "Ukroboronprom", group of companies "Kryazh", HMZhK.

LLC “Klion”

“Over years of cooperation with FUIB in terms of lending we, first of all, became confident in the professional competence and customer orientation of its employees, and the high quality customer service that is consistently enhanced. Also, the Bank helps us in establishing cooperation and provides us with advisory services acting as our financial partner. We deeply appreciate our cooperation, competitive terms of revolving credit facilities to our company and prompt provision of credit funds.”

“Novovolynsk Oil and Fat Plant” LLC

“We are grateful to FUIB for the financing provided to our company in 2011, which helped us to increase our output and sales. We appreciate FUIB’s team members for their professional competence, prompt decision making, wide range of services and, most important, custom-tailored approach to settling issues.”

Corporation “ACC”

“FUIB stands out from other banks in terms of professional competence and quick decision making, flexible customer approach and true partnership relations. We recommend it to our partners as a comfortable and strong bank.”

LCC “Ice Zaporozhye”

“Over years of cooperation with FUIB we became confident in the reliability, promptness and high quality of the Bank’s customer service. Our payroll project with FUIB enabled us to cut expenses for security, transportation and safekeeping of cash. We hope for further mutually beneficial cooperation and strengthening of business relations between our companies in the future.”

LLC “Vinil”

“For us FUIB is an invaluable assistant and partner facilitating implementation of our plans for development of production and penetration into new markets. Proficiency of the Bank’s employees lets us benefit from all the banking products within our business activities.”

National Accumulator Corporation “ISTA”

“FUIB’s professional competence, reliability, service promptness and quality are really worthy of recognition and respect.”

DTEK

“We are grateful to FUIB for years of fruitful cooperation. The impeccable service, systematic approach and compliance with international business standards of business conduct – these are the characteristic features that make FUIB stand out from its peers. The Bank understands customer needs, assists customers in settling irregular issues and provides high quality customer service. We see FUIB as a strategic partner; this is why we will continue developing our partnership relations.”

PJSC “Yuzhteploenergomontazh”

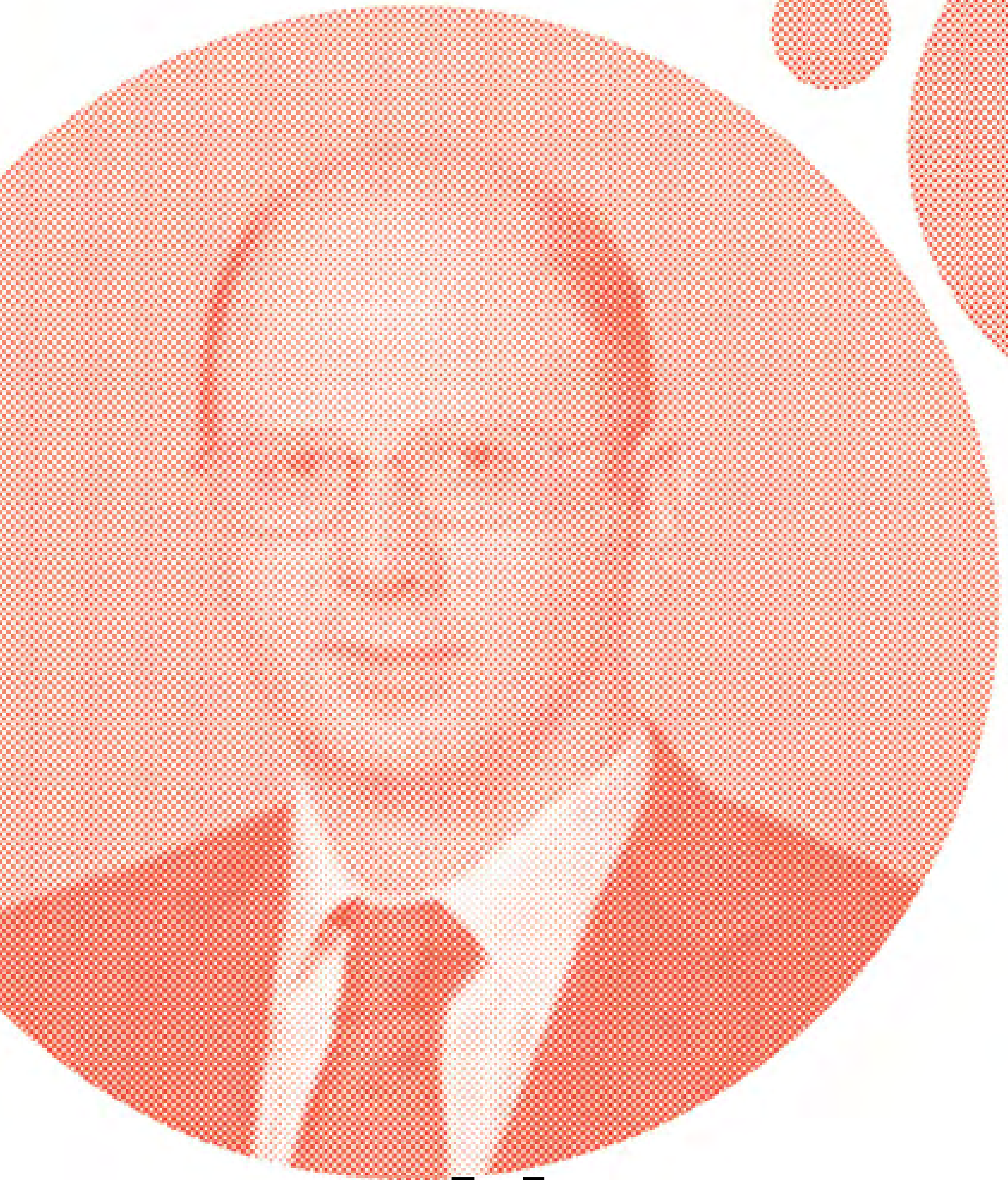
“Over a short period of cooperation, FUIB has become our reliable partner. We enjoy the customer quality service and professional competence of the employees, and appreciate the Bank’s determined efforts to meet customers’ needs and settle irregular issues. For us the reliability, high customer service quality and individual attention to our needs, reliable operation of IT and computer-aided systems, and quick decision making are important and we have them with FUIB.”

Metinvest Holding

“The innovative solutions, prompt service, and individual attention to customers have always been FUIB’s competitive advantages. Due to the professional competence of the Bank’s employees, open and transparent decision making, and well-coordinated teamwork over many years FUIB has been a trusted financial adviser to us. They know what the customer needs and how to meet such needs. FUIB is the bank that cares about its customers.”

Private Enterprise “Dneprokomplekt”

“We are grateful to FUIB for professionalism, quick decision making and informational support to our company, and we hope for mutually beneficial cooperation in 2012.”



“We consistently enhance the customer service assurance system and welcome customer feedback. FUIB’s active presence in social media, the new Internet site and enhanced complaints and propositions management provide us with regular customer feedback, allowing us to consider the opinions of existing and prospective customers.”

Retail business

Konstantin Vaysman,
Chairman of the Management Board

“Last year FUIB’s team made a real breakthrough in developing the retail service system and continued building an innovative bank for over 1.5 million individual customers. This year FUIB’s customers will be able to enjoy new online services via PUMB Online Internet banking and mobile applications, and appreciate new customer service patterns at FUIB’s outlets. Thus, FUIB will make banking service even more convenient, approachable and useful for customers.”

During 2011 FUIB carried out a number of strategic projects in retail business. To intensify our service we developed a regional strategy and sales system that included creation of an organisational structure from the standpoint of the regional sales management and remuneration system, the methodology for setting tasks and upgrading plans for outlets, formation of the key performance indicators and motivation of sales managers. At the regional level the retail business was enhanced by regional sales coordinators and sales managers.

In 2012 FUIB will focus on developing new products and distribution channels. FUIB will continue to develop service packages to more fully satisfy customer needs. The Bank’s team’s goal is to enhance performance of distribution channels, in particular, optimizing locations of outlets and introducing new customer service patterns. FUIB will continue extending functionality of its remote service channels, including PUMB Online Internet and mobile banking services.

Another important project to be implemented in 2012 is the development of an operations facility in retail business that will ensure bulk processing of credit applications in line with the best market practices and the launch of telemarketing. FUIB will enhance its retail business automation in front office functions and implement cutting-edge solutions facilitating quicker processing of credit applications.

Retail business products

Lending Products

In 2011 FUIB resumed its lending activity. Guided by its previous 2006-2008 experience, FUIB developed new principles, approaches and processes of credit application processing. Those approaches were applied to new products that facilitated an increase in our high quality loan portfolio and established a foundation for its active growth in 2012.

Car Lending

In 2011 FUIB introduced a new range of car loans involving the new banking system of credit application processing developed in cooperation with leading banking software suppliers. The credit application processing system is closely integrated with other Bank systems, inter alia, the decision making system, and facilitates high quality credit application processing by all process participants and issuers of loans. In April 2011 the system was launched and applied to car loans. Three months thereafter the Bank was among the leaders in new card loans accounting to about 4% of new card loans in Ukraine's banking system. In 2012 the Bank will increase its share in the car lending market through joint programmes with car dealers and service to additional customer segments and risk profiles.

Deposit Products

Despite negative economic developments and lack of individuals' trust in banks, which drove the decline in individual deposits in autumn 2011, FUIB remained one of the banking system leaders by growth in individual accounts over 2011. Over the reporting year, individual accounts growth exceeded 9.3%; and over September-December 2011 the increase in time deposits with FUIB 1.9 times exceeded the market.

Due to the precisely and thoroughly planned implementation of the merger between FUIB and Dongorbank during 1H2011, FUIB not only retained its customers, but built up its customer base to 1.5 million, with building of its resource base continuing throughout the reporting year.

In 2011 FUIB optimized and broadened its deposit product range. It developed the unique hybrid deposit, Comfortable+, with a minimum balance and flexible use of funds option at an attractive rate. The option of depositing funds with the Bank through PUMB Online, the FUIB's Internet banking service, was also popular among customers as was the Bank's absolutely unique Deposit Constructor product.

In 2012 the Bank is to broaden its product range in all segments. A number of special propositions will focus on specific needs of both mass and affluent customer segments. A reasonable interest rate policy, smooth methodologies and attractive products will ensure that FUIB remains among the leaders in customer deposits in Ukraine's banking system.

Consumer Lending

Throughout 2011 FUIB actively issued consumer loans to its customers, approaching them with a number of attractive consumer lending programmes, privileged terms for affluent and wealthy customers and an innovative approach to credit application consideration involving pre-approval. As a result, the Bank not only met the needs of the broad customer segment, but significantly simplified the loan approval process.

Mortgage and Home Equity Loans

In July 2011 FUIB successfully launched mortgage and home equity loans. These were in considerable customer demand, which resulted in a year-end new mortgage and home equity loans portfolio exceeding UAH 50 million. During 2011 the Bank took measures aimed at smoothing processes and satisfying customer demand. In 2012 FUIB will further develop mortgage lending, broadening the product range and introducing new lending programmes, inter alia, partner programmes.

Card and transactional business

PUMB Online Internet Banking Service

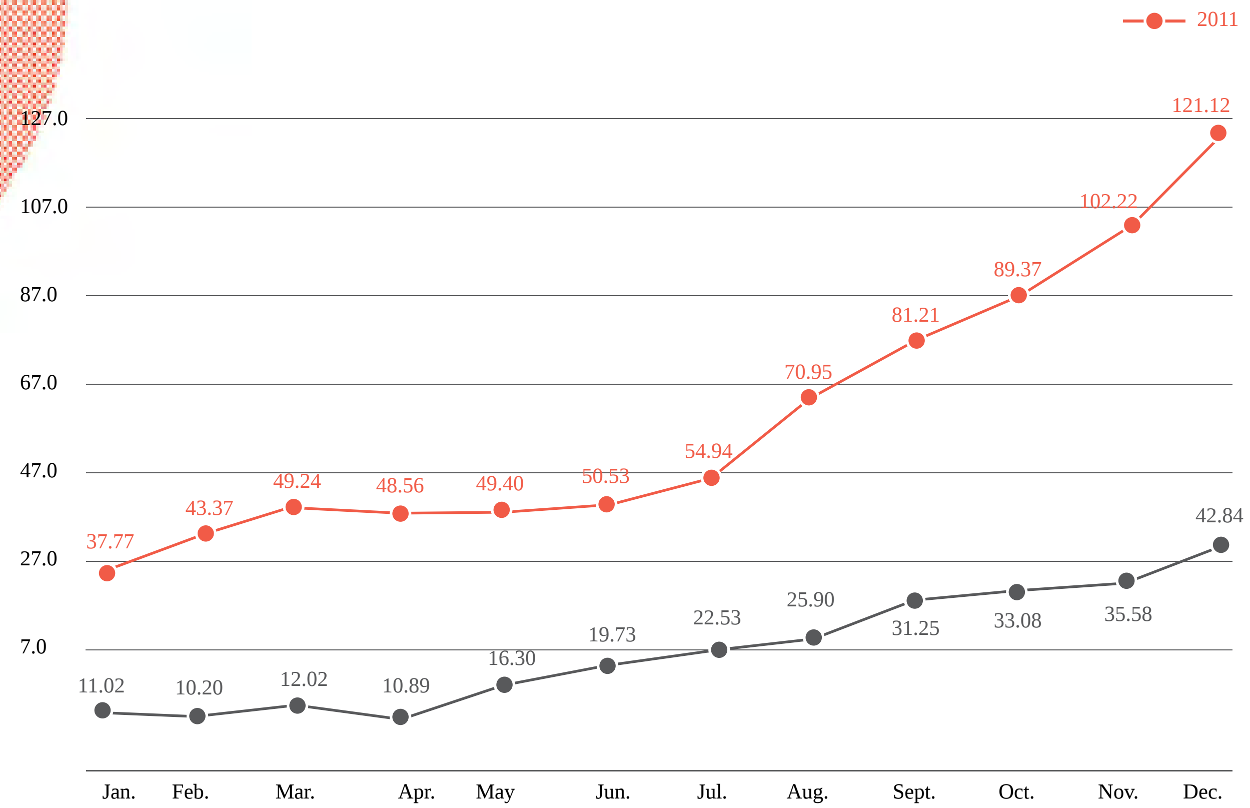
During 2011 FUIB continued developing innovative products and remote service channels. Early in the year PUMB Online was enhanced with the Deposit Constructor function that provides customers with possibility to choose quickly and conveniently the deposit product that meets their needs best. In 1Q2011 the Bank introduced iPUMB application for iPhones, a fully functional mobile banking platform with a wide range of account management functions. Also during the year FUIB continued enhancing functionality of PUMB Online, its Internet banking service, having added money transfer, bill payment, and Google map search for the closest ATMs and outlets functions.

In autumn the technological integration of PUMB Online into the Portmone electronic payment system was completed, enabling customers to effect all banking transactions, including payment for utility services, through electronic channels (PC with the Internet access, tablet PC, mobile phone), i.e. from home or office. FUIB's team takes measures designed to increase the number of payment accepting companies. So far, payments to 20 mobile and Internet service providers are possible (MTC, Life:), Volya-Cable, PeopleNet, Ukrtelecom, etc.). Customers residing in Kyiv may pay utility bills. Also, a cross selling module was introduced, which ensured approaching customers with special propositions during an account management session.

In October the mobile version of PUMB Online was introduced. A special-purpose "light" web version of PUMB Online enables the customer to enjoy all its functions not only when using a smartphone or personal communication device, but any mobile phone with Internet access. FUIB aims for further functionality enhancement of this service and its implementation in other popular mobile platforms.

During 2011 the number of PUMB Online users doubled to 190,000; in December 2011 they performed 120,000 active transactions, i.e. PUMB Online transactions tripled YOY.

Number of PUMB Online Internet Banking Transactions over 2010-2011, ths



Merchant Acquiring

During 2011 FUIB's merchant POS terminal network grew by 1063 terminals (21.5%) and the number of merchant POS terminal transactions doubled YOY to USD 197.1 million. In 2011 FUIB won the tender for merchant acquiring services at Boryspil International airport in Kyiv.

Customer Portfolio Management

The Bank conducted a number of marketing campaigns aimed at activation of cards, increasing the number of card transactions in merchants, and card class upgrades. We also established cooperation with new partner merchants providing FUIB's customers making card payments with discounts, and the possibility to win special and money prizes. More than 150 holders of MasterCard Gold cards issued by FUIB won special prizes in a MasterCard Selective campaign; one holder won a tour to Rome for two persons. Fifty holders of cards issued by FUIB won UAH 500 each in VISA's „Try – You'll enjoy it!" and MasterCard's "Four Seasons" campaigns.

Packages and Card Products

In 2011 FUIB developed package sales to fully satisfy customer needs. In 2012 the package offer will be made to all clients of FUIB. In 2012 the Bank will introduce the new card product, Credit Card with a Grace Period. In 2011 the Bank introduced two new card products, MasterCard Standard Unembossed and MasterCard Standard Unembossed Instant Issue. As planned, in 2012 the Bank will introduce three other premium card products: MasterCard Platinum Selective, Visa Black Platinum, and Visa Infinite.

Affluent customer service

Pursuing the goal of building up its business in the premium customer segment in 2011, the Bank launched the Project for Creating Affluent Customer Service System aimed at enhancing the quality of affluent customer service and meeting their needs. The Bank formed a new team, segmented customers with regard to developments in the Private & Premium Banking market, determined the outlets, where special-purpose personal service areas will be available, and introduced a personnel performance evaluation and remuneration system. In October 2011 the first group of personal managers received training and the pilot project was launched at two outlets in Kyiv (located at: Andreevskaya 2a; Bogdana Khmelnitskogo 19/21, in Leonardo business centre).

In 2012 FUIB is to approach affluent customers with special-purpose premium card packages, attractive investment products and financial advisory services through synergies with the Bank's investment business. As planned, FUIB's team will promote the PUMB Persona affluent customer service model in Ukraine's large cities (Kyiv, Donetsk, Dnipropetrovsk, Kharkiv, Zaporozhia, Luhansk, Kryvyi Rih, Mariupol, Odessa, and Lviv) targeting a doubling of its share in the affluent customer market through personal service value propositions to affluent customers.

Private Banking

Over 2011 FUIB continued building rapport with VIP customers, including those transferred to FUIB following its merger with Dongorbank. Customers' trust in the Bank was strong, which manifested itself in 95% maintenance of the deposit portfolio of the VIP customer segment. FUIB's team devised a strategy for developing Private Banking within 2012-2014. In 2012, in an effort to build comfortable service for VIP customers by the Bank, FUIB will approach such customers with a special-purpose product range and VIP Centres in Kyiv and Donetsk under the brand name *PUMB Premier.*

Processing centre

During 2011 FUIB's Processing Centre strengthened its leadership positions in Ukraine's market, delivering acquisition services and acting as a sponsor to banks applying for membership in the MasterCard Worldwide and Visa International international payment systems. Thus, at the beginning of 2012, FUIB's Processing Centre was delivering card acquisition services to 41 banks in Ukraine, representing growth of 14% growth YOY. During the last year FUIB and its partner banks issued 1,860,382 Visa and MasterCard branded cards (58% up YOY) and installed 2371 ATMs.

During 2011 the number of POS terminals connected to FUIB's Processing Centre grew by almost 40% YOY. At year-end 2011, the network of POS terminals of FUIB and its partner banks consisted of 8364 merchant POS terminals and 1970 cash withdrawal POS terminals.

Customers of FUIB and its partner banks are provided with privileged fees at 4000 ATMs within the Radius ATM network, which in 2011 grew by two banks (PJSC "VTB BANK" and PJSC "UKRSOTSBANK").

During the year FUIB entered into partnership with 6 banks and facilitated membership in the international payment system for three partner banks: JSB "UKOOPSPILKA" and JSC "FINROSTBANK" in MC Worldwide; and JSC "BANK ¾" in Visa International.

New Opportunities and Highest Security for FUIB's Customers

To strengthen security of online payments by cards issued by FUIB and its partner banks in 2011 FUIB implemented 3-D Secure technology and had it certified by Visa International and MasterCard Worldwide. 3-D Secure adds an authentication step for online payments as the Processing Centre generates an online transaction authentication password and sends it to the cardholder's mobile phone number.

Pursuing the goal of delivering new services through Visa International and MasterCard Worldwide in 2011 the Processing Centre started delivering acquisition services to e-merchants and processing Internet card acquisition transactions using 3-D Secure technology.

In 2011, following its thorough audit by an independent auditor, FUIB acquired the Payment Card Industry Data Security Standards (PCI DSS) compliance certificate. PCI DSS was developed by leading payment systems as a uniform standard for all banks throughout the world. PCI DSS certification is an acknowledgement of high-level security measures applied to processing, storage and transmission of card data by FUIB's Processing Centre. In 2011 FUIB was the first bank in Ukraine to confirm its compliance with PCI DSS. Also, in 2011 FUIB updated its processing system software to ITM 4.1 that meets Payment Application Data Security Standards (PA DDS).

In 2012 FUIB's team will concentrate its efforts on enhancing service quality, implementing new technologies and maintaining leadership positions in Ukraine's market, both as a card acquiring service provider and as a sponsor bank. To enhance information security in 2012, FUIB will implement remote ATM key load to strengthen security of card transactions performed at ATMs of FUIB and its partner banks.

Also, in 2012 FUIB will introduce an additional function enabling customers to transfer funds quickly, conveniently and securely to holders of Visa cards (other sources of funds are possible: balance of a banking account or cash). Users will be able to make such transfers in FUIB's premises, at ATMs or special-purpose self-service terminals.

One of the most interesting services for FUIB's partner banks to be implemented in 2012 is FUIB's offer to develop a gateway to FUIB's processing system on the basis of the IBM Enterprise Service Bus (IBM ESB) technology, which would enable them to get access to card accounts and perform customer transactions on such accounts in real time. Thus, our partner banks will get Web service with a specific functionality as determined by the bank.

As planned, in 2012 the Bank will endeavour to introduce at ATMs of FUIB and its partner banks payments for mobile services to MTS Ukraine and Astelit LLC ("Life:)" TM) mobile service providers.

Investment business

We adhere to the best practice and invest in technologies, which will make our services more convenient, quicker and more accessible.

Dmitriy Yurgens,
Deputy Chairman of the Management Board

“We will approach our customers with a complete range of banking services, inter alia, investment banking services, using the uniform concept of account management and a single manager, which is extremely convenient. Some services will be available through PUMB Online, FUIB’s Internet banking service recognised as the most user-friendly.”

In 2011 FUIB completed building its investment business team, having strengthened it with underwriting and assets management experts, broadened the product range and enhanced the quality of investment banking services.

In 2012 FUIB will expand significantly its presence in the investment banking services market by resuming delivery of underwriting services and approaching wealthy customers with securities management and e-trading services. Customers will be free to choose various investment options, for instance, an asset portfolio that is structured and amended in line with the customer’s risk attitude: i.e. it can combine almost “no risk” and less profitable deposits, and “slightly more risky” securities, and “high-risk” financial instruments. Thus, the generated combined income will exceed the income from deposits. When forming the portfolio, customers will be able to enjoy the advisory services of experienced experts, the Bank’s analytics, and one of the best trading platforms in the CIS, which FUIB will present to its customers late in the year.

“We will approach our customers with a complete range of banking services, inter alia, investment banking services, using the uniform concept of account management and single manager, which is extremely convenient. Some services will be available through PUMB Online, FUIB’s Internet banking service recognised as the most user-friendly.”

New Format of FUIB’s Presence in the Investment Banking Services Market in 2012

Existing Format

- **Securities Dealership and Brokerage (securities trading)**
- **Underwriting and Issue of Domestic Debt Securities**
- **Certificates of Deposits**
- **Promissory Notes**

New Format

- **Securities Dealership and Brokerage (securities trading)**
- **Underwriting and Issue of Domestic Debt Securities**
- **Certificates of Deposits**
- **Promissory Notes**
- **Securities Management**
- **Electronic Trading (e-trading)**

Securities transactions

The unrest in financial markets and regulatory restrictions throughout a major part of the year significantly limited the Bank's ability to build up its securities portfolio and generate income from investment banking during 2011. During the year local currency government bonds was the only instrument applied by the Bank in the securities market.

During 2011 the Bank's securities portfolio grew by 37% to UAH 523 million as of 31 December. Interest income from the bond portfolio totalled UAH 36 million.

In November 2011 the Bank resumed issuing certificates of deposit – securities specifying the amount of funds deposited with the bank and the rights of the depositor (certificate holder) to receive after the deposit period expiration the deposit amount and the payable interest, as determined by the certificate issuing bank. In 2012 the Bank will intensify greatly its issue of certificates of deposit.

Structure of the Securities Portfolio

In October 2011 FUIB was one of the joint arrangers of the UAH 1.8 billion bond issue of Ukrzaliznytsia (Ukrainian Railways).

Currency Conversion and Resource Transactions

During 2011 FUIB confirmed its reputation of the market maker in the FX market as one of TOP 3 banks by interbank portfolio.

FUIB's team actively performed FX transactions for the Bank's customers, having built up business volume and income by more than twofold. FUIB successfully managed its own liquidity and efficiently performed arbitrage transactions in the open market. Focusing on direct dealing with large corporate customers, FUIB ensured high profit from those transactions for the reporting year.

Integration between the treasuries of FUIB and Dongorbank in 2011 was a significant event for the Bank that enhanced performance efficiency of the Bank's treasury: treasury transactions grew twice as much, while the team underwent minor growth, which confirms that the Bank's team members involved in dealing are extremely qualified experts.

In 2011 analysis was completed of the requirements of the Bank's treasury for FUIB's future automated banking system, the implementation of which will enhance performance efficiency of the treasury and minimise impact of the human factor on its operations. As planned, control over limits and accounting of treasury transactions, inter alia, will be automated.

Capital Markets and M&A

In 2010 FUIB acted as a financial advisory to SCM Group, delivering deal organising and structuring services in acquisition of 100% of Renaissance Capital Bank. Acquisition of Renaissance Capital Bank by SCM Group was one of the first cross-border deals of FUIB in the M&A market and one of a few M&A deals on Ukraine's post-crisis banking map, which adds significance to this experience. Successful closure of the deal once again confirms the expertise of FUIB's team making the Bank's credit and investment history.

During 2011 FUIB's international borrowings portfolio decreased by USD 109 million or by 27% to USD 294 million as of year-end. The decrease in the portfolio took place through gradual debt repayment within the effective terms of loan agreements, which smoothed the debt repayment curve and minimised the risk of debt load peaks in the future. As liquidity was sufficient and there was no need to place additional instruments among international investors, FUIB's debt repayment load for instruments placed among international investors declined. During 2011 FUIB's subordinated debt grew by USD 57.5 million from USD 27.8 million to USD 85.3 million (as converted into USD). This increase occurred following FUIB's merger with Dongorbank and ensured the increase in the Bank's regulatory capital. The Bank successfully honours that debt alongside the international borrowings portfolio, discharging its obligations to foreign creditors when due and in full. The results of cooperation with creditors testifies to their confidence in FUIB and support of the Bank's development strategy for years to come.

FUIB consistently enhances its standards of interaction with the investment community, aiming to meet international reporting and information disclosure standards, which has been welcomed by local and foreign investors.

Operations facility

Tomasz Wisniewski,
Deputy Chairman of the Management Board, Chief Operating Officer (COO)

"Having joined the FUIB team early in 2012 as the officer in charge of IT, operations and project management, my aim is to facilitate the Bank's sustainable growth through building an efficient and reliable operations facility supporting business development and providing the basis for excellent customer service."

In 2012 FUIB will improve the operations technologies department, consolidating the functions supporting sales and customer service, including structural units in charge of credit analysis and business verification, archives, some front office functions, inter alia, telemarketing and banking transactions.

Development of the operations facility will give the Bank a competitive advantage in reliable operational and technological support facilitating all new initiatives. The operations facility will cooperate closely with the IT Department in initiating developments and enhancements that are necessary from the standpoint of operations. Also, the operational facility will support all sales processes in the Bank and will introduce less time consuming internal and customer service processes, thus ensuring first-rate customer service.

To ensure efficient support for FUIB's operational development in 2012 the Bank will develop a system for managing personnel of the operations facility, including control over their performance and remuneration. Special attention will be devoted to development of a complex system for managing personnel performance quality, automation of business processes and performance efficiency enhancement of operations employees. Centralisation of banking operations along with the introduction of the Bank's universal sort code (MFO) at all outlets will facilitate integration of the efforts and performance optimisation of the operations facility.

Information technologies and information security

IT and information security enhancement is the core activity of the development strategy, as it is aimed at performance enhancement with quicker, convenient and safe customer service, which is the reason for the Bank's heavy invests in new technologies that enable it to outperform the market and anticipate new developments.

Technological Committee

The Technological Committee is the centre for strategic decisions on information technology, information security and IT risk management. The Committee is entrusted with considering issues and making decisions determining the strategy for the Bank's technological development. The Committee is chaired by the Chairman of FUIB's Management Board. The Program Integration Committee is the second project management level; it resolves common problems peculiar to the Bank's day-to-day activity and submits proposals to the Technological Committee and the Management Board.

Program Integration Committee

The Program Integration Committee of the Management Board facilitates implementation of the Bank's strategic goals by evaluating and monitoring implementation of the FUIB's project portfolio (business, process, IT and information security projects). The Committee analyses the scope, KPIs and budget of each project, monitors its implementation and results; and performs portfolio project management. The Program Integration Committee is chaired by the Deputy Chairman of the Management Board – Chief Operating Officer (COO).

Information technologies

FUIB was chosen as winner of 2011 Best CIO, the prestigious annual contest appraising maturity of the company's IT infrastructure and determining the best chief information officers of Ukraine's companies. The contest is held by Compyuternoye Obozreniye magazine and is judged by representatives of IT leaders: "Microsoft Ukraine", Dell, EMC, HP, IBM, IDC and Intel. FUIB won the Banking Sector nomination.

The merger between FUIB and Dongorbank entailed an intense enhancement of the Bank's IT infrastructure to accomplish the efficient transfer of Dongorbank to FUIB's IT system, which was completed successfully. The professional competence and resistance to stress of the IT team of the united bank ensured a smooth and successful operational merger. The Bank enhanced the processing power of its data storage systems through the new high-end IBM System Storage DS8800 that was tested at IBM's Products and Solutions Support Centre (Montpellier, France). As the result, processing power tripled and throughout the operational merger enabled the Bank to avoid discrepancies and enhance the system's fault tolerance and availability.

Data Migration within the Operational Merger between FUIB and Dongorbank

During 2011 IT employees participated actively in implementation of the merger between FUIB and Dongorbank. The procedures for the data migration from Dongorbank's systems to FUIB's IT platform were developed and data migration was successfully completed. FUIB's IT system was analysed and enhanced to support the singe product range of both banks. The project for migration of the application systems (Andromeda, Midas, Arksys, Banktrade, Cardgalaxy) to the new System i-based hardware platform was implemented, which enhanced the processing power of FUIB's IT system to meet the growing business needs and required migration of Dongorbank's data.

- FUIB was the first bank in Ukraine to create a convergent network on the basis of its IT infrastructure within the implementation of the IBM BladeCenter server infrastructure and Cisco Nexus networking platform. The convergent network offers new possibilities of IT infrastructure consolidation and visualisation.
- Within the strategic project for introducing a universal sort code (MFO) at all FUIB outlets, automated migration of data of the Bank's Branch in Zaporizhia was successfully completed: details of 223 800 agreements in the Andromeda application system were amended, balances of accounts were transferred to new accounts in the Andromeda and Midas application systems, and accounts were substituted in the majority of automated systems.
- The Bank created a centralised data backup system for the data stored and processed at FUIB outlets. As the result, the Bank ensured mitigation of risks of data loss or corruption that can lead to disruptions in core business processes of a financial institution.
- The introduction of SAS Enterprise Miner system, aimed at identifying credit risks in large data volumes through modelling, projecting and statistical analysis, facilitated implementation of the operational strategy and achievement of the Bank's strategic goals.
- On the basis of Microsoft's Opalis solution the project for purchase of the loan portfolio from Renaissance Capital bank was carried out. To download the files of Renaissance Capital bank, an innovative solution was applied based on Microsoft's Opalis software platform.
- Last year FUIB developed and introduced a system for automation of the new distribution channel aimed at promoting FUIB products and services through FUIB ATMs. This service activates the most popular customer interaction channel between the Bank's customers and other cardholders using FUIB ATMs.
- Within the package sales project, a flexible system was created for real time calculation of card transaction fees. A fee is calculated on the basis of analysis of previously effected card account transactions.
- FUIB introduced person-to-person global money transfers through CONTACT International Money Transfers and Payments System.
- The Bank enhanced disaster recovery of IT services functions in FUIB's virtual infrastructure on the basis of VMWare Site Recovery Manager solution. As a result, a plan for automated activation of the backup data processing centre was developed that can be launched in case of emergency with the mere click of a button.
- Due to its cooperation with Microsoft in the Enterprise Agreement programme, FUIB reduced costs relating to enhancement and support of the computer environment and enjoyed maximum benefit from investments in information technologies.

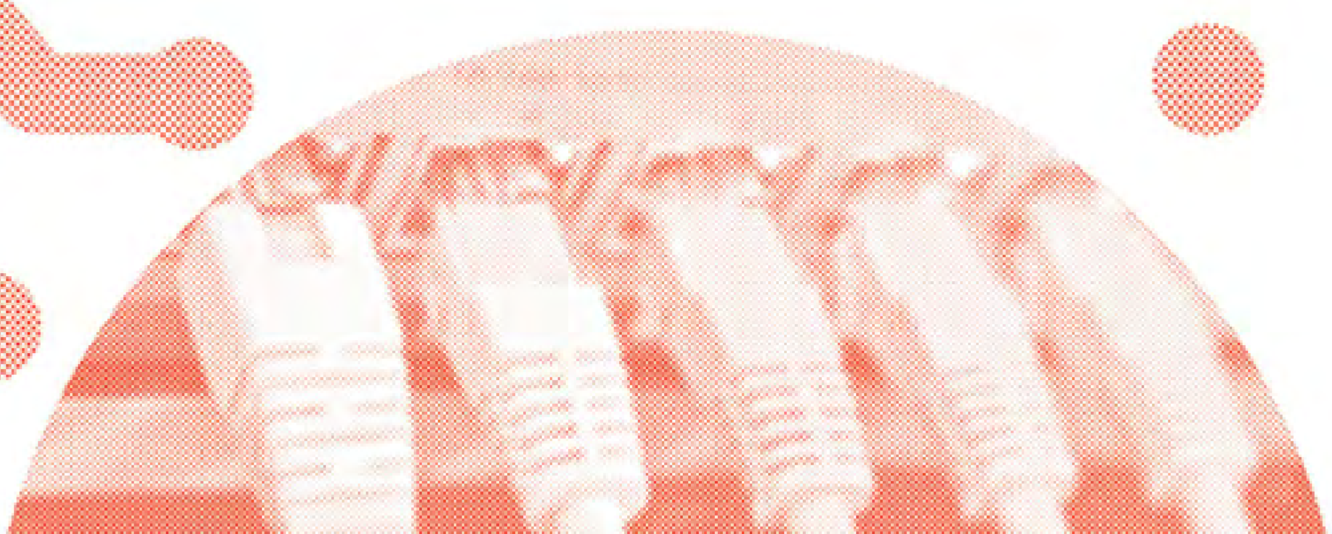
Internet Banking Service
PUMB ONLINE

The Bank aims at significant further enhancement of alternative distribution channels ensuring the highest data security. During 2011 FUIB focused its efforts on enhancing PUMB Online, its Internet banking service.

In 2011 InvestGazeta business weekly announced FUIB the winner of the Most Innovative Bank nomination of Ukrainian Banker Awards for achievements in development of the Bank's online services.

iPUMB

In March 2011, the Bank introduced iPUMB, mobile Internet banking service for iPhone and iPad users in three language versions: Ukrainian, Russian, and English. Another advantage of iPUMB is the function of Google map search for the closest ATMs and outlets of FUIB and its partner banks within Radius ATM network, providing the user with the data as follows: closest FUIB outlets, their business hours, and the fee for cash (UAH or USD) withdrawal from an ATM. Active transactions through iPUMB are based on the same principles as PUMB Online: the Bank sends an SMS with a unique transaction authentication password to the user's mobile phone, which the user should enter in iPUMB to confirm the transaction. It is also important that the data security of iPUMB is equal to that of PUMB Online, which is protected by the flagship SSL certificate by Thawte. iPUMB is Apple-certified and available at App Stores. Each user of PUMB Online can get access to iPUMB without entering into additional agreements: one has only to download iPUMB to his/her iPhone and enter his/her PUMB Online login and password.



Mobile Version of PUMB Online.

In 2011, the Bank introduced a mobile version of PUMB Online, FUIB's Internet banking service, the only fully functional Internet banking service in Ukraine optimised to be used by the majority of mobile phones. A special-purpose "light" web version of PUMB Online enables the customer to enjoy all its functions not only when using a smartphone or personal communication device, but any mobile phone with Internet access. Now, even owners of mobile phones with small screen and low data transmission rate (GPRS/EDGE/WAP) can manage their money conveniently. On the other hand, those who own smartphones (Android, iOS, Symbian, Windows Phone) will appreciate its universal, friendly, convenient and quick touch-optimized user interface. The functionality of the mobile version of PUMB Online is identical to that of PUMB Online: balances of accounts; transaction history; payment for mobile services; other payments; deposit arrangement, increase and withdrawal, etc. The user interface is similar to that of the service's full version but was optimised to reduce transmitted data, which is important when the service is used through a mobile phone. The main menu bar contains the most frequently used transactions: payments for mobile and other services.

Integration between PUMB Online and Portmone

In June 2011, FUIB completed the integration of PUMB Online into Portmone, electronic payment portal, express payment system enabling customers to pay for housing, mobile and landline, Internet, cable television services and make other payments through a PC or mobile phone with Internet access. It was another step toward enhancing the functionality of FUIB's Internet banking service. Now its users can enjoy making express payments comfortably from whenever they are, day or night. With the regular payment option, a customer can schedule payments for various services, inter alia, mobile and Internet services, and they will be made automatically when due, as determined by the customer. The Bank enjoys a healthy growth in active transactions, an increase in its customer base driven by the proposition of new attractive services, and also, higher income.

Forbes Ukraine named PUMB Online the most convenient Internet banking service in Ukraine's banking system. Also, as reported, its interface is among the most user-friendly intuitive interfaces for novice users (September 2011).

Information security

In 2011, FUIB was the first bank in Ukraine's banking system to confirm its compliance with the Payment Card Industry Data Security Standards (PCI DSS). The PCI DSS certification is an acknowledgement of strictest security of card transactions.

- In 2011, the Bank launched the Security Information and Event Management (SIEM) project for automation and standardisation of the process for managing information security incidents.

- The Bank implemented 3-D Secure (Issuing) technology, a technological platform for secure card transactions in the Internet. This solution was integrated with the Bank's IT infrastructure and certified by international payment systems.

- Also, the Bank implemented the technology for e-merchant acquiring business, ensured secure processing of Internet card acquiring transactions using 3-D Secure (acquiring) technology on the basis of the Payguide Acquirer solution certified by international payment systems, which was integrated with the Bank's IT infrastructure. With Payguide Acquirer the Bank had its 3-D Secure technology successfully certified by international payment systems and verified by Visa International.

- The security of FUIB's electronic mail is ensured by iQ.Suite e-mail security solution (anti-spam, data breach control) supplied by Group Technologies, which enables the Bank to reduce costs, optimize the email environment and increase productivity.

- iPUMB and PUMB Online Internet banking service are protected by a digital certificate providing first class security – SSL Web Server Certificate with Extended Validation. This is the flagship SSL certificate by Thawte Company.

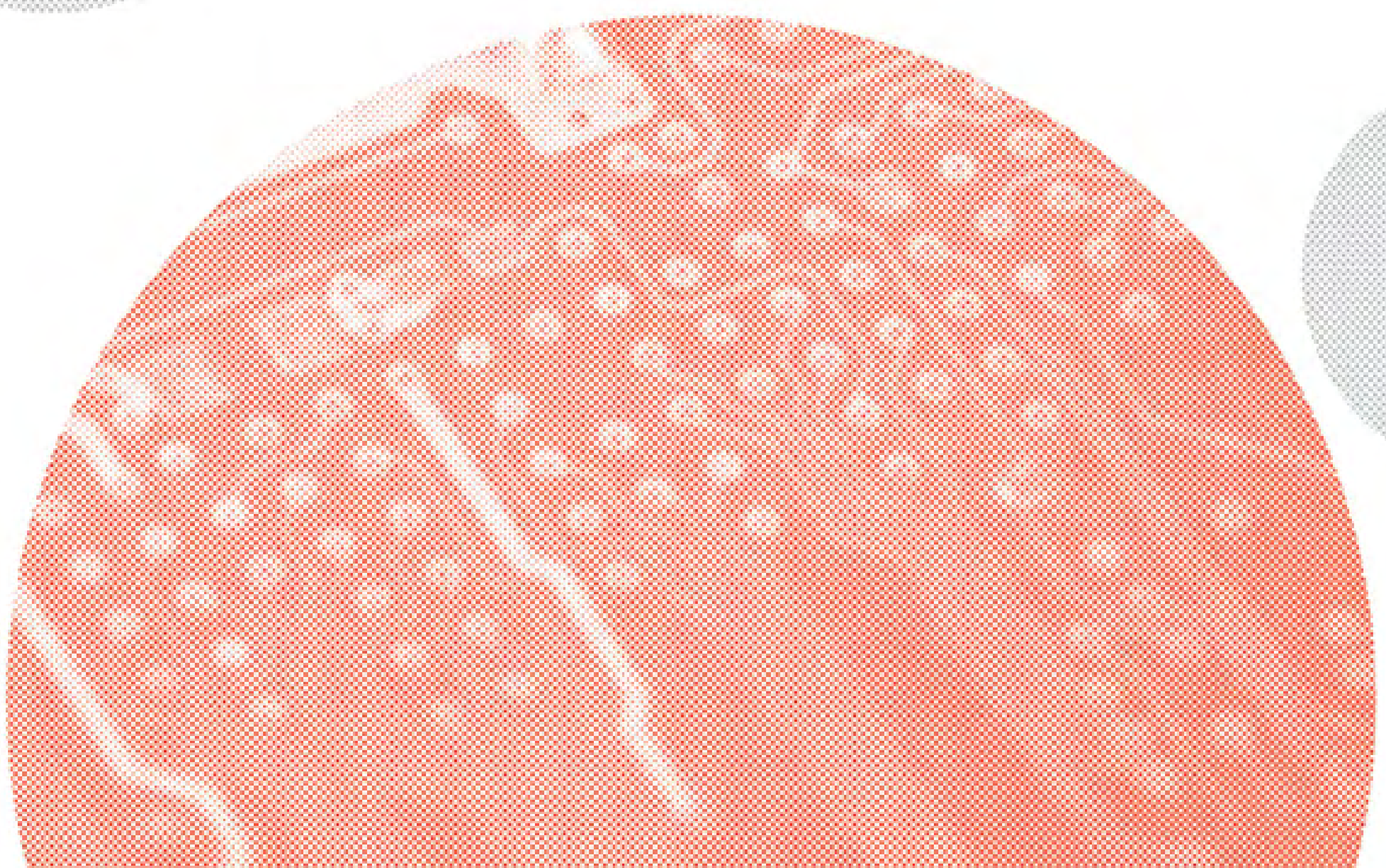
- In 2009, FUIB was the first bank in Ukraine to implement the Aladdin eToken solution to ensure payment security within the EPS of the NBU. At present the NBU recommends Aladdin eToken as the best authentication practice in Ukraine's banking system.

- The security of using FUIB's corporate system from any remote PC is ensured through Check Point Abra innovative technology, which turns the remote PC into a secure virtual workplace allowing users to securely access corporate e-mail, files and applications through a virtual private network (VPN).

- Also, FUIB launched the Security Information and Event Management (SIEM) project for automation and standardisation of the process for managing information security incidents.

Straight Through Processing System

FUIB's Client-Bank centralised system with the Straight Through Processing (STP) module enables the Bank to centralise the system in the data processing centre (DPC), integrate it with other systems, and to the maximum extent possible automate processing of documents forming the automated customer-payment system STP cycle. The maximum payment processing automation ensures minimum errors, decreases the Bank's operating expenses, and enables it to set highly competitive foreign currency payment processing fees. In 2011, FUIB was awarded by Deutsche Bank AG for exceptional quality of USD payment processing. In 2011, the SPT rate was 100%, which means that all payments by FUIB's customers are automatically processed, and payment processing time is up to 5 seconds.



Sustainable development

The Bank's interaction with the community is based on clear understanding of the Bank's social mission and the role it plays on a national scale. The Bank adheres to a philosophy of corporate social responsibility and facilitates resolution of crucial social issues reacting to public needs.

Within its new development stage in 2011 the Bank decided to increase FUIB's corporate social responsibility system that supports sustainable social development, meets international social responsibility standards and best practices. In 2012 the Bank began increasing FUIB's corporate social responsibility system adhering to the UN Global Compact principles.

Corporate Social Responsibility

CSR - is the company's responsibility for the impact of its decisions and activities on the community and environment ensured through transparent and ethical conduct that facilitates sustainable development, including social health and prosperity, takes into account stakeholders' interests, is integrated with the company's activities and is applied in interaction with partners.

Sustainable development has been recognised as a common goal since publication of the Our Common Future report by the United Nations World Commission on Environment and Development (WCED) in 1987. Sustainable development is a pattern of growth in which resource use aims to meet human needs while preserving the environment so that these needs can be met not only in the present, but also for generations to come. Sustainable development consists of three parts: environmental sustainability, economic sustainability and sociopolitical sustainability. These three constituent parts are interdependent, as, for instance, eradication of poverty is impossible without social justice, economic growth and environmental protection.

FUIB's Corporate Social Responsibility System (CSRS) is of a complex nature and is integrated with all the Bank's activities. FUIB considers and settles all issues and problems as interdependent and complex, not as standing alone and independent. Thus, specific decisions aimed at settling any issue should not have an adverse impact on other issues or life cycles of the Bank's products or services, on stakeholders or the value added chain.

- HR Management
- Customer Service Excellence and Consumer Relations
- Risk Management and Sustainable Development
- Sound Business Practices
- Charity and Socially Responsible Investing
- Environmental Protection
- Work Safety

Sustainable Development Principles

Accountability – FUIB bears responsibility for the impact of its activities on the community and environment;

Transparency – FUIB is transparent in its decisions and activities that have impact on the community and environment;

Ethical Conduct – FUIB adheres to the highest principles of business conduct;

Respect for Stakeholders' Interests – FUIB respects its stakeholders, takes into account their interests and reacts to their needs;

Respect for supremacy of law – FUIB adheres to the rule of law;

Compliance with International Norms for Conduct – FUIB complies with international norms of conduct, acting within the law;

Respect for Human Rights – FUIB respects human rights and acknowledges their importance and inalienability.

Risk Management and Sustainable Development

Sergey Chernenko,
Chairman of the Management Board,
Chief Financial Officer (CFO)

"Last year was the year of FUIB's integration with Dongorbank and the Bank's strong growth in line with its development strategy. The efforts of the united team ensured the successful enhancement of Dongorbank's risk management practices to stricter risk management standards, and the projects of strategic importance for the Bank's healthy development were successfully implemented. In 2011 FUIB enhanced its credit process efficiency and operational risk management system, and introduced cash loans to individuals. In 2012 FUIB will enter the successive development stage of introducing risk-based pricing methodology."

During 2011 a great deal of effort was put in integrating with Dongorbank, inter alia, ensuring information integrity and business continuity and enhancing Dongorbank's risk management practices. Also, a number of strategic projects were implemented in FUIB. The credit process optimisation project enabled the Bank to enhance the quality of assessing the probability of default and loss given default, to decrease credit application consideration time frames, and to improve the quality of assessing credit risk through a new ranking model based on qualitative assessment. To ensure the introduction of new individual credit products, inter alia, cash loans, FUIB developed new risk assessment techniques and methods. Following a 9-month testing period, the Bank started actively issuing car loans, increasing its high quality portfolio.

During the reporting year, FUIB completely rebuilt its operational risk management system and introduced the function of risk managers. The Operational Risk Management Committee was established, whose members were entrusted with operational risk management. As the result, the Bank was better informed of actual operational risks, identified areas to be further enhanced or monitored, and developed a program of operational risk mitigation. The findings of the operational risk self-assessment by the heads of the Bank's structural units confirmed the high quality of FUIB's control over operational risks and the willingness of structural unit heads to participate in operational risk management. Also, a plan for further enhancement of operational risk management was drawn up.

Problem Asset Management

In 2011 FUIB developed its problem asset management into a separate business function and managed to enhance asset management quality, process transparency, and management control over debt collection. Successful operations with the problem asset portfolio added to FUIB's confidence in its readiness to purchase problem asset portfolios from other banks. In 2011 FUIB successfully purchased the major share of the problem asset portfolio of "Renaissance Credit" bank, another banking asset of SCM Group. Guided by this invaluable experience, FUIB will be able to develop this activity into a separate business activity.

Credit Risk Management

With support from one of the leading consulting firms, in 2011 FUIB developed and introduced instruments for quantitative assessment of corporate borrower risk: new ranking and loan loss models. Application of these instruments will enable the Bank to develop a pricing system based on the borrower's profile, to determine more precisely the customer risk level, and to enhance the Bank's credit policy.

FUIB's corporate credit policy was enhanced, facilitating the Bank's more flexible operations in various industries and segments, while maintaining the same customer risk profile. Also, the risk models for new credit products, inter alia, factoring, contract financing, financing of agricultural businesses and car loans to individuals, were developed.

As a step toward quicker collateral assessment and mitigation of credit risks peculiar to collateral for credit transactions, FUIB introduced its own certified assessors. Within the risk management system, processes were significantly automated; a system was developed for accumulating detailed data on the Bank's collateral portfolio and its condition; and a project for the centralised monitoring of the individual loan portfolio is soon to be completed.

FUIB consistently enhanced automation of its risk management processes and implemented a system for automated processing of individual credit applications, which facilitated quicker loan approval by the Bank. As a way of achieving risk modelling and projection tasks, the IT system from one of the globally recognised leaders in this industry was introduced alongside the IT system from one of the leading European software developers that structures and automates the processes for working with borrowers at all stages of the loan agreement.

Automation of Individual Debt Collection Process

In 2011 the Bank successfully launched a project for automating the individual debt collection process. The special-purpose software is to be introduced in 1Q2012. Next year all the debt collection processes at FUIB will be automated, which will ensure a differentiated approach to work with bad debts, i.e., will enhance significantly the debt collection function.

During 2011 the efficiency of work with the bad loan portfolio grew 1.6 times YOY (over 2010 it doubled YOY) as the result of a number of initiatives aimed at optimising business processes and introduction of additional instruments. In particular, programs for refinancing unsecured loans and a program for working with borrowers still in debt to the Bank after the collateral has been sold were developed. During 2011 the monthly average normalization of the bad loan portfolio was USD 27 million.

Operational Risk Management

With the aim of improving the efficiency of operational risk management and control, early in 2011 FUIB introduced an enhanced operational risk management system (ORMS) that features timely detection and efficient elimination within the day-to-day activity of the Bank's structural units of actual problems and incidents that are operational risk events. The improved efficiency of operational risk management will enable FUIB to deliver high quality and timely services to its customers, mitigate or prevent direct losses from operational risks, decrease the costs of eliminating the consequences of risk, and facilitate optimisation of the stages of banking processes especially sensitive to negative operational risk factors.

To manage operational risk the Bank established collegial bodies: the Operational Risk Management Committee and four special-purpose sub-committees to manage each of four operational risk factors ("Personnel", "Processes", "Systems", "Environment"). The operational risk management is based on the classic risk management model that includes: a) risk identification and detection, b) risk assessment, c) operational risk monitoring and reporting, d) risk mitigation and control.

Key Principles of the Operational Risk Management System:

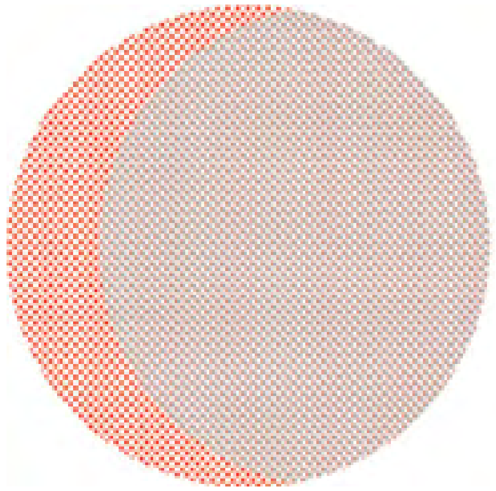
- decentralisation of the operational risk management and control system. At each structural unit the risk officer registers incidents and carries out the initial risk assessment;
- involvement of all the Bank's team members in building up the corporate risk management culture;
- training employees in ORMS and further methodological support when events are registered;
- development of efficient two-way communications with a single entry point for registering events at the risk management level;
- creation of accurate management statements for efficient management decisions;
- mandatory reaction to each event;
- control over efficiency of measures taken and analysis of incident histories.

Human resource management (HRM)

Yelena Dyatlova,
Deputy Chairman of the Management Board in charge of Human Resources

"Facilitating its sustainable development and implementing its leadership strategy FUIB is committed to be the best employer in banking."

With business globalisation and rapid development of the financial services sector, HR Management has transformed into a strategic partner facilitating achievement of FUIB's goals. The human resource (personnel) is the main driving force behind the Bank's sustainable development. Over many years we invested in and build up our team, which ensured our continuing dynamic growth.

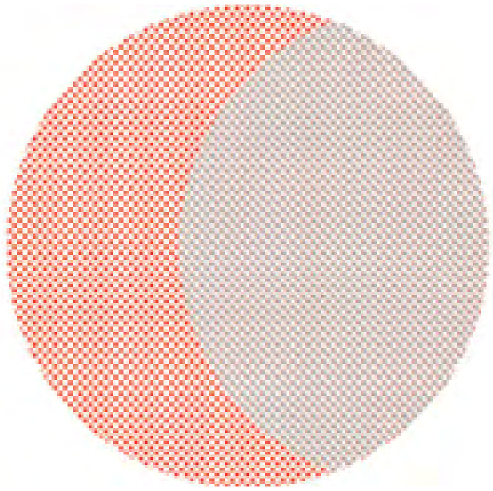


Past

In 2011 FUIB strengthened its team as a part of its merger with Dongorbank, one of the most significant mergers in Ukraine's banking system. Within a record short time frame, the Bank gave training on FUIB's standards, products, and software to new additions to our team and ensured their adaptation to their new workplace. As the result of the merger, our team grew by 601 FTEs.

In line with its development strategy FUIB consistently enhances its team with the best of the best from the external labour market. During 2011 the Bank recruited 931 FTEs. Our team members are highly experienced and extremely competent experts and officers.

Pursuing a transparent and open personnel remuneration and development policy, we developed and introduced a procedure for graded personnel performance appraisal, taking into consideration annual performance and personal contribution towards achievements. At the first implementation stage, heads of structural units and outlets were appraised and the Bank's talent pool was determined.

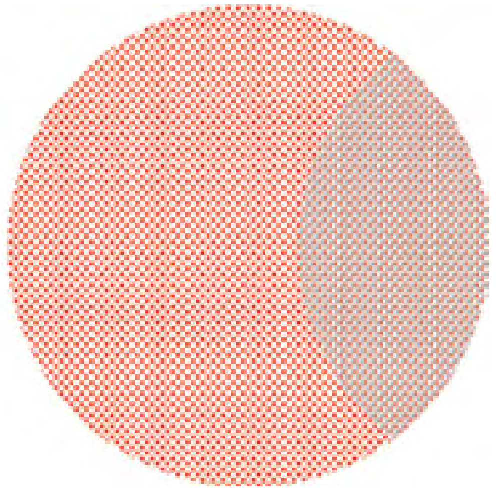


Present

We continue developing the talent search, retention and development culture. At present we focus our attention on FUIB's talent pool and and demonstrate a preference for the Bank's current team members when filling new vacancies. During 2011, 628 Bank team members were transferred to other positions and offices; of these transfers, 112 were promotions.

FUIB introduced the Personnel Performance Management and the Pay by Results systems that facilitate development of the potential of team members at all managerial levels toward their involvement in and contribution to implementation of the Bank's long term strategy.

For FUIB to grow and develop, its team members should radically develop personally and professionally. The Bank's personnel training system is based on a complex approach to personnel development and consists of training courses and programmes (10%), coaching and tutoring (20%), and participation in the Bank's projects and initiatives and sharing of experience (70%). Thus, during 2011 FUIB gave training in all aspects of banking business to more than 2000 employees, doubling our accomplishment over the previous year.



Future

Within the talent management strategy, we aim to form a substantial talent pool by 2014 and fill 80% of managerial vacancies with Bank team members. FUIB strives to be the best employer in banking, which is why we recruit not only immensely experienced experts, but also young and promising graduates with deep knowledge and potential for professional development.

We see our future in leading-edge technologies and innovations. In 2012 FUIB will automate its HR processes on the basis of the Human Resource Information System (HRIS), which will enable us to use recruitment modules, remote learning and personnel performance appraisal systems.

To Inspire Team Members
To Encourage Achievements
To Nurture Talents

Customer Service Excellence and Consumer Relations

In line with its mission FUIB focuses on customer needs within international banking service quality standards. In developing our products we aim to meet customer expectations and needs in each customer segment. Following approval of its new Development Strategy in 2010, the Bank established the Strategic Marketing Department, introduced new customer segmentation, reorganised its retail, corporate and investments businesses, bringing servicing by segments into focus.

Pursuing the purpose of improving the customer service quality assurance system, in November 2011 the Bank established the Customer Service Assurance Division aimed at enhancing customer service quality to strengthen FUIB's good reputation among its customers. The customer service assurance framework includes assessing customer service quality in customer interaction channels (Mystery Shopping), and assessing the quality of product and services through customer expectations management based on customer satisfaction with FUIB's products and services. The Bank will conduct regular internal customer satisfaction surveys (CSI), support and enhance customer complaints management, and introduce pre-launch testing of products and services.

In December 2011 FUIB developed and approved Customer Service Standards for Outlets and the Call Centre to ensure consistency of customer service by the all Bank employees. This includes adaptation of new employees to the workplace, uniform understanding of customer service standards, and enhanced customer service quality management in customer interaction channels.

The Mystery Shopping/Call programme was launched in December 2011. The measurements of customer service and selling volume obtained will be used as the baseline for further surveys that will be held regularly. The findings of such surveys will serve the purpose of identifying the areas needing improvement, tailoring of existing products, and reengineering of processes and systems. In 2011 FUIB launched a package selling project aimed at selling packages providing customers for the package fee with the broadest range of products and services taking into account customer needs and financial standing. The behaviour profiles of over 700 thousand customers in the Bank's customer base were analysed, and their segmentation was carried out taking into account their life styles, incomes and a number of other customer needs. Since early 2011, all the Bank's products have been developed with regard to the aspects above.

In 2010 FUIB segmented customers into customer groups and reorganised the business lines, bringing selling by segments into focus. Also, the corporate business analysed customer needs and new customer segmentation, which resulted in a profound transformation of the organisational structure. The organisational structure optimization will let the Bank better satisfy customer needs and operate actively in new segments – middle, small and micro businesses. In line with its Development Strategy FUIB aims to strengthen its positions in all corporate business segments, focusing on middle corporate customers and, in the near term, SME. Implementing the Bank's new Development Strategy the retail business actively enhances product range, efficiency of distribution channels and customer service quality. Reorganisation of its organisational structure will facilitate healthy development of the Bank's retail business in terms of business growth and customer service quality, outperforming its peers. Investing in development of new products and enhancing customer service quality FUIB will significantly grow in new segments, confirming its status as the most dynamically developing Bank recognised by the growing number of FUIB's individual customers totalling 1.5 million.

FUIB introduces products aimed at meeting customer needs

- In 2011 FUIB approached its customers using iPhones and iPads with its fully functional mobile Internet banking service on the basis of iPUMB mobile application, which allows users to manage accounts and effect transactions in three language versions: Ukrainian, Russian, and English. Another advantage of iPUMB is the map search for closest outlets and ATMs of FUIB and its partner banks within the Radius ATM Network. iPUMB is Apple-certified and is available at an App Store. Each user of PUMB Online can get access to iPUMB without entering into additional agreements: one should only download iPUMB to his/her iPhone.
- In 2011 the Bank introduced the mobile version of PUMB Online, FUIB's Internet banking service. The special-purpose "light" web version of PUMB Online enables the customer to enjoy all its functions not only when using a smartphone or personal communication device, but any mobile phone with Internet access. The user interface was optimized to reduce transmitted data, which is important when the service is used through a mobile phone. To access the system one should use the mobile phone's Internet browser to enter https://online.pumb.ua and the customer will be redirected to its mobile version that is available at https://online.pumb.ua/mobile.
- Functionality of PUMB Online was extended with the fee-free immediate payment for mobile services provided by Kyivstar, MTS and Life.
- Also, now one can use PUMB Online to pay for mobile and landline, television, and Internet services. The Bank takes measures aimed at facilitating payments for utility services seeking cooperation with new partners.

Meeting customer expectations

FUIB's Customer Scope project is soon to be completed. The project methodology developed will be applied to measure the quality of business processes and customer service. The findings of the first project implementation stage in 2011 ("Pilot Survey of Car Loans") show that customer satisfaction with FUIB's car loans score is 4.5 out of 5, which exceeds the customer satisfaction score of our competitors participating in the pilot survey.

In 2011 the Bank launched the Customer Complaints and Propositions Management Project aimed at receiving customer complaints and propositions through various customer interaction channels (Call Centre, Internet, outlets, customer feedback book, and feedback through social networks) that enable the Bank not only to hear the customer, but also to do its best to settle each customer inquiry, eliminate the reasons for such complaint, and provide assistance, if necessary. Reacting to complaints and eliminating their reasons, the Bank will be able to ensure their decline in the future.

Also, over the reporting period the Bank launched a program aimed at developing and enhancing standards of customer service, uniform and premises, merchandising and communication within its outlets.

We plan to enhance the standards, to receive customer feedback through polls and complaints and propositions management, and to conduct regular Mystery Shopping/Call and CSI surveys. All the findings will be applied both to tailor our currently applied practices and to identify those areas that require improvement in line with customer needs and desires, in particular, improvement of existing products, and reengineering of processes and systems.

Charity and Socially Responsible Investing

Responsible and proactive care of the community and environment is among the underlying principles of FUIB's development strategy.

Responsible and proactive care of the community and environment is among the underlying principles of FUIB's development strategy. During 2011 the Bank carried out a number of social projects aimed at:

- medical and health facilities;
- veterans of World War II, disadvantaged individuals;
- development of culture and education.

Fund Raising for "Nadezda" Donetsk Children's Oncohematological Centre

Every year FUIB gives funds to the Charity Foundation for helping "Nadezda" [Hope] Donetsk Children's Oncohematological Centre. The funds provided by our team members over 2011 were applied towards purchasing special-purpose medical equipment and medications.

Charity Actions to Honour Children's Day and St. Mykolay's Day

On 19 December, to honour St. Mykolay's Day FUIB carried out the annual charity action. The Bank's team members gave financial help to 1370 kids in 18 orphanages. Also, our team purchased such necessities as warm clothing and blankets, toys, consumer electronics, fruit and sweets. Within the charity action timed to Children's Day we raised and gave to 1400 kids in 18 baby houses and orphanages about a dozen trunks with clothing, footwear, food and other necessities of life.

Financial Help to Council of World War II Veterans and Regional Service Centre for Pensioners and Lonely Unemployable Individuals

Every month since 1997, FUIB has given funds to the Council of World War II Veterans of the Voroshilovskyi District of Donetsk. During 2011, the funds provided by the Bank were applied towards satisfying the urgent needs of the Council and helping veterans. Also, the Bank provided regular monthly financial help to the Regional Social Service Centre for Pensioners and Lonely Unemployable Individuals of the Voroshilovskyi District of Donetsk.

Charity Kiddie Matinees in the FUIB's Headquarters in Donetsk

On the threshold of the New Year FUIB held kiddie matinees in its Headquarters in Donetsk for kids of the Bank's team members, customers, partners and kids from low-income and large families. FUIB has been holding New Year matinees for over 15 years. In 2011 over 1300 kids attended eight New Year matinees organised by FUIB.

Support to Vadim Pisarev Choreographic School

In 2011 due to FUIB's financial help to the Vadim Pisarev Choreographic School, gifted kids and kids from low-income families were given a chance to attend this choreographic school. Among its graduates are leading ballet dancers of Ukrainian and foreign ballet theatres, and winners of prestigious ballet contests.

Corporate governance

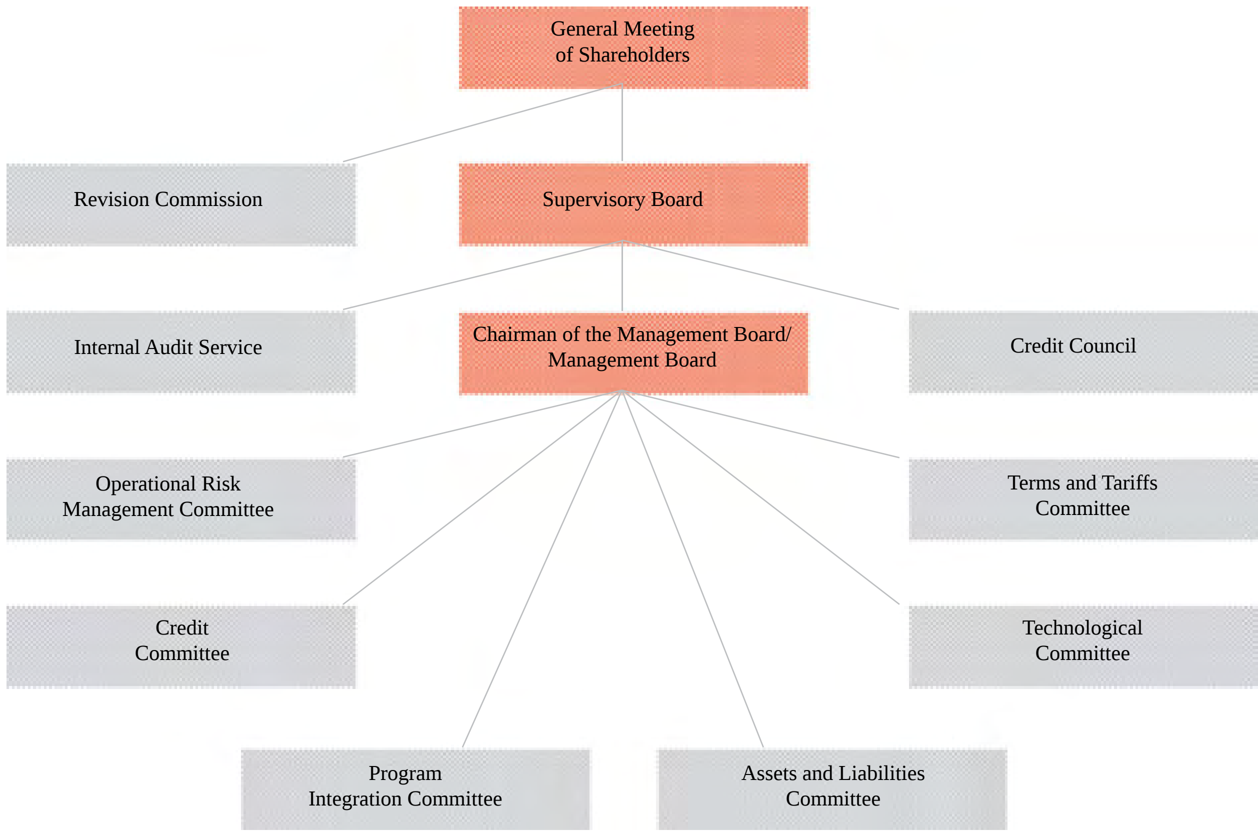
FUIB has built an efficient corporate governance system that is within the laws of Ukraine and follows internationally recognised practices. The existing FUIB corporate governance system facilitates optimum, efficient and appropriate use of the Bank's resources, enhances the Bank's business performance, and serves the interests of FUIB's shareholders, customers, team members and other interested parties.

The General Meeting of Shareholders is the Bank's supreme governing body. The Supervisory Board is appointed by and accountable to the General Meeting of Shareholders. It ensures protection of the rights of the Bank's shareholders and within its competence under the FUIB's Articles of Association and the laws of Ukraine controls and supervises the activity of the Management Board. The Management Board is the body managing the Bank's day-to-day activity and fulfilling tasks set by the shareholders and the Supervisory Board. The Audit Committee exercises control over compliance by the Bank with the law. The Internal Audit Service, the controlling body of the Supervisory Board, assists the Bank's governing bodies in ensuring efficient operations by the Bank. Each year FUIB's financial statements are audited by an independent auditor not affiliated with the Bank or its shareholders.

As the leader in information disclosure by joint stock companies, FUIB consistently enhances transparency and openness of its business. For shareholders and investors to make informed decisions, the Bank discloses and makes public when due exhaustive and accurate information on its business activity, inter alia, its financial standing and performance results.

Information on the FUIB's corporate governance is available at *www.pumb.ua* in *About the Bank/Corporate Governance.*

FUIB's Corporate Governance Structure



General Meeting of Shareholders

The General Meeting of Shareholders (the "General Meeting") is the Bank's supreme governing body that passes resolutions on the major issues of FUIB's business activity. During 2011 FUIB held one Annual General Meeting (the "AGM") and two Extraordinary General Meetings (the "EGM"). The issues relating to the consolidation with Dongorbank were the major issues of the agendas of the EGMs.

- The AGM on 20 April 2011 approved FUIB's 2010 Annual Report and the independent auditor's report on FUIB's 2010 Annual Report, report of the Audit Committee, distribution of the Bank's profit for 2010; considered the reports of the Supervisory Board and Audit Committee on the Bank's performance results for 2010; approved the amended and restated Articles of Association, the Regulation on the General Meeting of Shareholders, the Regulation on the Supervisory Board; and appointed new personnel composition of the Supervisory Board.
- The EGM on 15-16 July 2011 approved the Transfer Deed due to reorganisation of Dongorbank through consolidation with FUIB, approved the balance sheet of FUIB as the successor to Dongorbank, increased the Bank's share capital and issued shares in the Bank for the amount of Dongorbank's share capital, and approved terms and procedure for exchange of shares.
- The EGM on 21 October 2011 approved the amended and restated Articles of Association (the "Articles"), persons authorised to authenticate the Articles, to facilitate agreement of the Articles by the National Bank of Ukraine and their public registration; and appointed the personnel composition of the Supervisory Board, the Audit Committee, and the Management Board of FUIB as the successor to all rights and obligations of Dongorbank.

Audit Committee (Revision Comission)

The Audit Committee is accountable to the General Meeting and controls the Bank's financial business activity; inter alia, compliance by the Bank with the law of Ukraine and regulations of the National Bank of Ukraine. The Audit Committee considers reports of the Bank's internal and external auditors and develops respective proposals to the General Meeting. Also, it submits to the General Meeting or the Supervisory Board the proposals as to those issues within the scope of authority of the Audit Committee relating to the Bank's financial security and stability and protection of interests of the Bank's customers; performs inspections of the Bank's financial and business activity on the results for the fiscal year as instructed by the General Meeting, the Supervisory Board, or as requested by the shareholder(s) holding (jointly) at least ten per cent (10%) of votes. It has the right to add the issues to the agenda of the General Meeting and request calling the EGM. Information on the Audit Committee is available at *www.pumb.ua* in *About the Bank/Corporate Governance.*

Supervisory Board

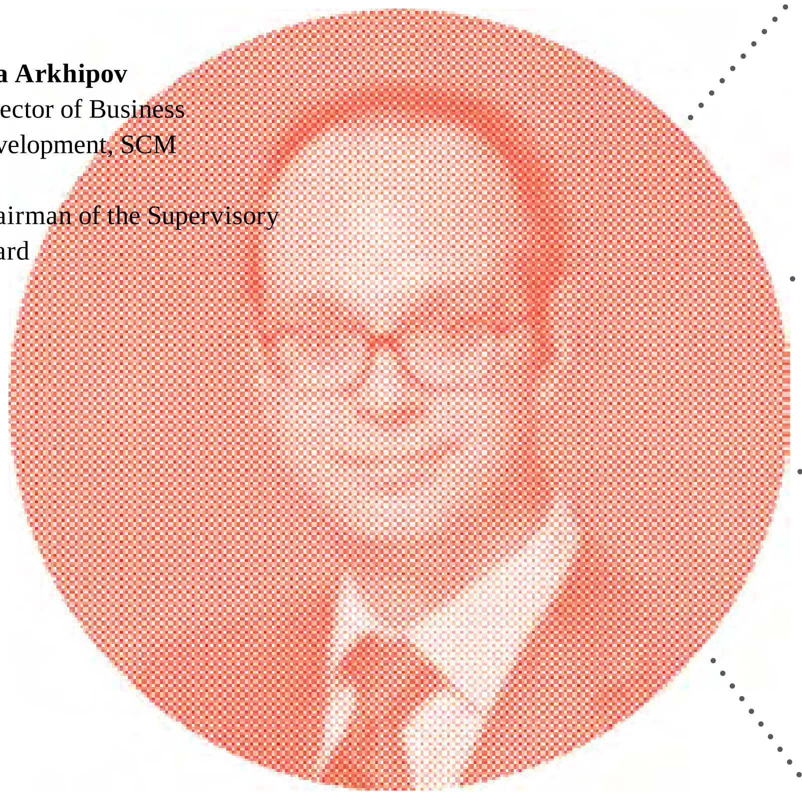
The Supervisory Board ensures protection of the rights of the Bank's shareholders and within its competence under the FUIB's Articles of Association and laws of Ukraine controls and supervises the activity of the Management Board.

The Credit Council

The Credit Council is a collegial body appointed by the Supervisory Board that monitors (analyses and controls) the Bank's loan portfolio, resolves as to lending transactions by the Bank, controls and approves the amount of provisions for credit-related commitments as required under IFRS, resolves as to terms and measures relating to debt collection (NPLs), analyses the effect of the loan portfolio on the Bank's profitability, controls the activities and functions of the Credit Committee and accredits insurance companies.

Working Groups of the Supervisory Board

To assist the Supervisory Board in 2011 the Working Group on Audit and Risks and Working Group on Appointments and Remuneration were formed. The Working Group on Audit and Risks controls formation of the complete and accurate financial statements, reliability and effectiveness of the internal control system and the risk management function of the Bank. The Working Group on Appointments and Remuneration ensures hiring experienced and skilled employees and their motivation. The Working Group on strategy, marketing and brand management reviews the issues related to the bank's development strategy, reputation and brand management of FUIB.

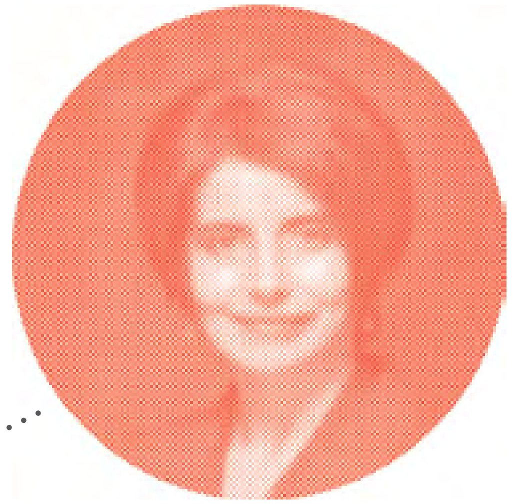


Ilya Arkhipov
Director of Business Development, SCM

Chairman of the Supervisory Board

Oleg Popov
Chief Executive Officer, SCM

Member of the Supervisory Board



Anna Dugadko
Manager of Business Development, SCM

Member of the Supervisory Board

Sergey Kurilko
Deputy Director, Voropayev and Partners legal firm

Member of the Supervisory Board

Natalia Izosimova
Managing Director, Foundation for Effective Governance

Member of the Supervisory Board

Natalya Kosenko
Deputy Chairman of the Management Board

Konstantin Vaysman
Chairman of the Management Board

Tomasz Wisniewski
Deputy Chairman of the Management Board,

Chief Operating Officer (COO)

Yelena Dyatlova
Deputy Chairman of the Management Board

Aleksey Volchkov
Deputy Chairman of the Management Board

Konstantin Shkolyarenko
Deputy Chairman of the Management Board

Sergey Chernenko
First Deputy Chairman of the Management Board,

Chief Financial Officer (CFO)

Dmitriy Yurgens
Deputy Chairman of the Management Board

Management Board

The Management Board is the Bank's collegial governing body managing its day-to-day activity, ensuring formation of the funds as required by the Bank's constitution and efficiency of the Bank's performance as provided for by the principles and procedures stipulated by the law of Ukraine, the Bank's Articles, and resolutions of the General Meeting and Supervisory Board.

Over 2011 the Management Board held 55 meetings. Information on FUIB's Management Board is available at *www.pumb.ua* in *About the Bank/Corporate Governance.*

Committees of the Management Board

The committees of FUIB’s Management Board are the Credit Committee, the Operational Risk Management Committee, the Program Integration Committee, and the Technological Committee. To enhance control and the Bank’s performance efficiency the Management Board formed the Assets and Liabilities Committee, and the Terms and Tariffs Committee Committee. Information on the Committees of the Management Board is available at *www.pumb.ua* in *About the Bank/Corporate Governance.*

Internal Control and Audit

Internal control includes efficient risk management and forms the basis for achieving the goals of the Bank’s strategy, preventing the loss of resources, ensuring accuracy and completeness of financial statements and management accounts, protecting the Bank’s reputation and complying with the laws of Ukraine and the Bank’s policies and procedures.

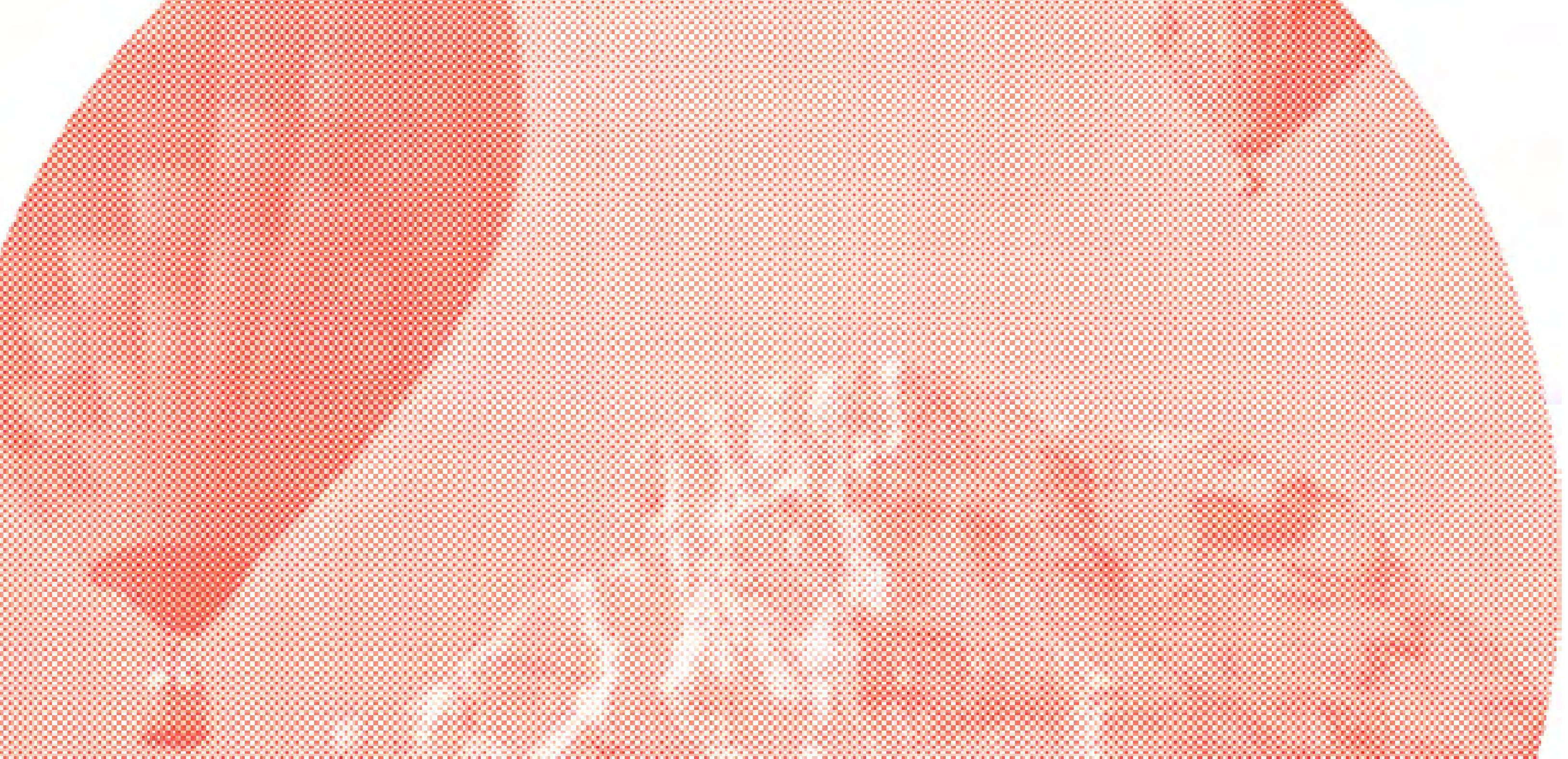
The internal control system ensures monitoring, assessment and restraint of risks peculiar to the Bank’s operations at three control levels: level 1, linear control; level 2, risk management control; level 3, internal audits. To comply with the best risk management practices FUIB consistently enhances its internal control system ensuring mitigation of possible losses in its activity, protection of the Bank’s reputation, high quality customer service and protection of customer interests.

To implement recommendations of the Basel Committee on Banking Supervision that formulated and introduced uniform international standards in banking in 2011, the Bank established the Compliance Control Unit within its Legal Department. The Compliance Control Unit is in charge of the compliance function at the Bank – independent activity within level 2 of the internal control system aimed at identification, analysis, assessment, prevention, mitigation and elimination of risks of regulatory sanctions, financial losses, reputational losses driven by violations of the law, the Bank’s internal regulations (policies, procedures, regulations, rules), fair competition standards and conflicts of interest. Information on the compliance control function is available at *www.pumb.ua* in *About the Bank/Corporate Governance.*

Internal control at level 3 is exercised by the Internal Audit Service (the “IAS”) directly subordinated and accountable to the Bank’s Supervisory

Board, which ensures its independence. The IAS interacts closely with the Working Group on Audit and Risks formed by the Supervisory Board early in 2011. The IAS gives to the Bank’s management its independent and objective guarantees and advice through systematised and consistent assessment and efficiency enhancement of the risk management processes, control system and corporate governance. Each year, the IAS gives to the Supervisory Board its unbiased overall assessment of the internal control system based on the findings of audits and consultations over the reporting year.

The IAS adheres to the International Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors. The IAS’s Development Strategy and the Internal Auditing Quantity Assurance Program for 2010-2013 provide for consistent enhancement of the IAS’s activity, introduction of the special-purpose AutoAudit software (supplied by Thomson Reuters Governance, Risk & Compliance (GRC)), qualification enhancement of internal auditors, enhanced interaction with audited structural units and other measures aimed at increasing the IAS’s usefulness to the Bank’s business.



FUIB's Share Capital

The Bank's share capital is three billion two hundred ninety-four million four hundred ninety-two thousand and four hundred Ukrainian hryvnias (UAH 3 294 492 400.00) divided into fourteen million three hundred twenty-three thousand eight hundred and eighty (14 323 880) uncertificated ordinary inscribed shares valued at two hundred and thirty hryvnias (UAH 230.00) each.

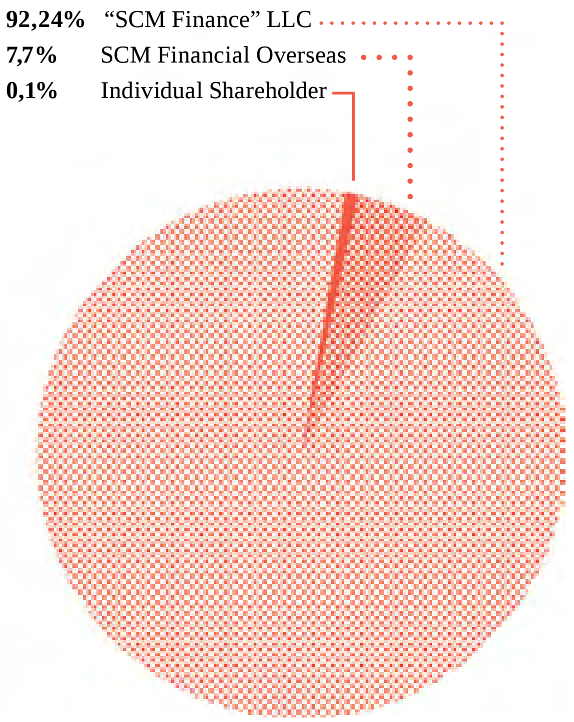
In 2011, due to reorganisation of Dongorbank through consolidation with FUIB, FUIB's share capital of two billion five hundred twenty-two million eight hundred forty-two thousand four hundred Ukrainian hryvnias (UAH 2 522 842 400.00) was increased by the amount of the Dongorbank's share capital of seven hundred seventy-one million six hundred fifty thousand Ukrainian hryvnias (UAH 771 650 000.00) totalling three billion two hundred ninety-four million four hundred ninety-two thousand four hundred Ukrainian hryvnias (UAH 3 294 492 400.00).

FUIB's Shareholding Structure

"SCM Finance" LLC is a subsidiary of System Capital Management (JSC SCM). Both companies are incorporated in Ukraine.

SCM is the managing company for SCM Group that owns and controls over 100 businesses in mining and metals, power generation and distribution, telecommunications, banking, insurance, media as well as in retail and real estate. Formed in 2000, over the years SCM grew from a regional company into a leading financial and industrial group. Its headquarters is located in Donetsk, Ukraine.

FUIB's Shareholders
(on 31.12.2011)



FUIB Financial Statements and Independent Auditor's Report

in accordance with the International Financial Reporting Standards

31 December 2011

Contents

INDEPENDENT AUDITOR'S REPORT

To the Shareholders and Management Board of PUBLIC JOINT STOCK COMPANY "FIRST UKRAINIAN INTERNATIONAL BANK":

1 We have audited the accompanying financial statements of PUBLIC JOINT STOCK COMPANY "FIRST UKRAINIAN INTERNATIONAL BANK" (the "Bank") which comprise the statement of financial position as of 31 December 2011 and the statements of income, comprehensive income, changes in equity and cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

LLC AF PricewaterhouseCoopers (Audit)

21 March 2012
Kyiv, Ukraine

LLC Audit Firm "PricewaterhouseCoopers (Audit)", 75 Zhylyanska Street, Kyiv 01032, Ukraine
T: +380 44 490 6777, F: +380 44 490 6738, www.pwc.com/ua

Statement of Financial Position as at 31 December 2011 (in thousands of US dollars)

	Notes	2011	2010
Assets			
Cash on hand and in transit	6	78,964	75,660
Balance with the National Bank of Ukraine	7	263,271	139,598
Due from other banks	8	585,358	619,144
Loans to customers	9	2,055,754	1,819,005
Investment securities available for sale	10	522,909	382,230
Current income tax assets		38	-
Other assets	12	37,252	17,933
Property and equipment	11	158,534	150,531
Investment property	11	8,845	9,816
Intangible assets	11	7,465	5,160
Deferred tax asset	28	2,498	-
Total assets		**3,720,888**	**3,219,077**
Liabilities			
Due to the National Bank of Ukraine	13	127,182	174,414
Due to other banks	14	65,228	72,929
Customer accounts	15	2,531,250	1,939,886
Eurobonds issued	16	245,230	243,804
Bonds issued	17	14	14
Other borrowed funds	18	48,320	158,749
Current income tax liabilities		-	6,059
Other liabilities	19	13,428	10,242
Subordinated debt	20	85,305	84,430
Deferred tax liability	28	-	1,439
Total liabilities		**3,115,957**	**2,691,966**
Equity			
Share capital	22	428,966	333,560
Share premium		7,109	7,134
Merger reserve	22	4,288	101,224
Revaluation reserve for premises		77,258	57,318
Revaluation reserve for investment securities available for sale		5,024	3,288
Currency translation reserve		(280,715)	(278,676)
Other reserves	22	259,000	257,142
Retained earnings		104,001	46,121
Total equity		**604,931**	**527,111**
Total liabilities and equity		**3,720,888**	**3,219,077**

Signed on behalf of the Management Board on 21 March 2012.

K. M. Vaysman (Chairman of the Management Board)

O. M. Moshkalova (Chief Accountant)

Statement of Income for the Year Ended 31 December 2011 (in thousands of US dollars)
Statement of Comprehensive Income for the Year Ended 31 December 2011 (in thousands of US dollars)

	Notes	2011	2010
Interest income	3,24	301,289	332,366
Interest expense	24	(178,610)	(226,257)
Net interest income	24	**122,679**	**106,109**
Allowance for loan impairment	3,8,9	(8,074)	24,517
Net interest income after allowance for loan impairment		**114,605**	**130,626**
Fee and commission income	25	48,216	39,497
Fee and commission expense	25	(15,751)	(11,486)
Net fee and commission income	25	**32,465**	**28,011**
Net gains from dealing in foreign currencies		3,649	1,819
Foreign exchange translation result		(1,216)	2,009
Net (losses) / gains from investment securities available for sale		(144)	910
Reversal of provision/(provision) for credit related commitments	31	418	(437)
Gains less losses / (losses less of gains) on revaluation of investment property		1,336	(2,344)
(Impairment)/reversal of impairment of investment securities available for sale	10	(2,379)	10,188
Gains less losses from financial derivatives		12,757	5,782
Other income	26	3,877	2,275
Operating income		**165,368**	**178,839**
Operating expenses	27	(96,894)	(87,765)
Profit before income tax expense		**68,474**	**91,074**
Income tax expense	28	(12,093)	(19,862)
Net profit for the year		**56,381**	**71,212**

	Notes	2011	2010
Net profit for the year		**56,381**	**71,212**
Other comprehensive income:			
Revaluation of investment securities available-for- sale		2,253	4,791
Reclassification adjustment for (losses)/ gains included in the income statement		144	(910)
Income tax effect	28	(482)	(792)
Total other comprehensive income on investment securities available for sale		**1,915**	**3,089**
Revaluation of premises	11	5,064	1,993
Income tax effect on revaluation of premises	28	(815)	(497)
Income tax effect of changes in tax legislation	28	17,314	896
Total other comprehensive income on revaluation of premises		**21,563**	**2,392**
Currency translation differences		(2,039)	1,287
Other comprehensive income for the year, net of tax		**21,439**	**6,768**
Total comprehensive income for the year, net of tax		**77,820**	**77,980**

Statement of Cash Flows for the Year Ended 31 December 2011 (in thousands of US dollars)

	2011	2010
Cash flows from operating activities:		
Interest income received	289,264	323,109
Interest expense paid	(167,335)	(216,603)
Fee and commission income received	47,918	39,639
Fee and commission expense paid	(15,793)	(11,446)
Income received from trading in foreign currencies	3,649	1,819
Gains less losses from financial derivatives	11,202	1,409
Other income received	1,508	939
Operating expenses paid	(87,123)	(68,569)
Income tax paid	(6,106)	(11,207)
Cash flows from operating activities before changes in operating assets and liabilities	**77,184**	**59,090**
Net (increase)/decrease in operating assets:		
Mandatory reserve balance with the National Bank of Ukraine	(15,460)	9,072
Due from other banks	(4,332)	72,482
Loans to customers	(250,789)	123,964
Other assets	(12,090)	12,927
Net increase/(decrease) in operating liabilities:		
Due to the National Bank of Ukraine	(46,756)	(71,942)
Due to other banks	(7,509)	5,990
Customer accounts	591,112	584,502
Other liabilities	3,191	4,552
Net cash from operating activities	**334,551**	**800,637**
Cash flows from investing activities		
Purchase of property and equipment and intangible assets	(16,251)	(9,688)
Proceeds from sale of property and equipment	116	31
Purchase of investment securities available for sale	(1,290,146)	(2,441,668)
Proceeds from sale and redemption of investment securities available for sale	1,166,417	2,095,397
Net cash used in investing activities	**(139,864)**	**(355,928)**
Cash flows from financing activities		
Redemption of bonds issued	-	(485)
Redemption of other borrowed funds	(119,510)	(149,310)
Net cash used in financing activities	**(119,510)**	**(149,795)**
Effect of exchange rate changes on cash and cash equivalents	(3,866)	(7,846)
Net increase in cash and cash equivalents	**71,311**	**287,068**
Cash and cash equivalents at the beginning of the year	731,070	444,002
Cash and cash equivalents at the end of the year (Note 6)	**802,381**	**731,070**

Investing transactions that did not require the use of cash and cash equivalents were excluded from the statement of cash flows and are disclosed in Note 6.

Statement of Changes in Equity for the Year Ended 31 December 2011 (in thousands of US dollars)

	Share capital	**Merger reserve**	**Share premium**	**Revaluation reserve for investment securities available for sale**	**Revaluation reserve for premises**	**Currency translation reserve**	**Other reserve**	**Retained earnings / (accumulated deficit)**	**Total equity**
Balance at 1 January 2010 as previously reported	**332,587**	**-**	**7,114**	**34**	**45,617**	**(279,807)**	**258,317**	**11,792**	**375,654**
Effect of application of predecessor value method (Note 3)	-	100,928	-	157	10,094	(156)	156	(37,702)	73,477
Balance at 1 January 2010 under predecessor value method	**332,587**	**100,928**	**7,114**	**191**	**55,711**	**(279,963)**	**258,473**	**(25,910)**	**449,131**
Net profit for the year	-	-	-	-	-	-	-	71,212	71,212
Other comprehensive income for the year	-	-	-	3,089	2,392	1,287	-	-	6,768
Total comprehensive income for the year	-	-	-	3,089	2,392	1,287	-	71,212	77,980
Depreciation transfer on revalued premises	-	-	-	-	(947)	-	-	947	-
Translation to presentation currency	973	296	20	8	162	-	(1,331)	(128)	-
Balance at 31 December 2010	**333,560**	**101,224**	**7,134**	**3,288**	**57,318**	**(278,676)**	**257,142**	**46,121**	**527,111**
Net profit for the year	-	-	-	-	-	-	-	56,381	56,381
Other comprehensive income / (loss) for the year	-	-	-	1,915	21,563	(2,039)	-	-	21,439
Total comprehensive income for the year	-	-	-	1,915	21,563	(2,039)	-	56,381	77,820
Share issue	96,585	(96,585)	-	-	-	-	-	-	-
Depreciation transfer on revalued premises	-	-	-	-	(1,499)	-	-	1,499	-
Translation to presentation currency	(1,179)	(351)	(25)	(179)	(124)	-	1,858	-	-
Balance at 31 December 2011	**428,966**	**4,288**	**7,109**	**5,024**	**77,258**	**(280,715)**	**259,000**	**104,001**	**604,931**

1. Principal Activities

PUBLIC JOINT STOCK COMPANY "FIRST UKRAINIAN INTERNATIONAL BANK" (the "Bank") was established on 20 November 1991 and commenced operations in April 1992. The Bank provides a full range of banking services, including taking deposits and granting loans, investing in securities, transfer of payments in Ukraine and abroad, exchange of currencies and issuance and processing of payment cards.

The Bank participates in state deposits insurance scheme starting from 2 September 1999 (registration certificate #102 dated 29 September 2009), which operates according to the Law #2740-III "On Individuals Deposits Guarantee Fund". Individuals Deposits Guarantee Fund guarantees repayment of individual deposits up to UAH 150 thousand, or USD 19 thousand (2010: UAH 150 thousand, or USD 19 thousand).

The registered office of the Bank is located at: 2-a Universytetska Street, Donetsk, Ukraine. As at 31 December 2011, it had 10 branches throughout Ukraine. The Bank had 3,872 employees as at 31 December 2011 (2010: 3,252 employees).

On general shareholders' meeting held on 10th November 2010, shareholders of PUBLIC JOINT STOCK COMPANY "FIRST UKRAINIAN INTERNATIONAL BANK" and shareholders of Public Joint Stock Company "Dongorbank" (PJSC "Dongorbank") made a decision regarding the legal combination of the two banks merging PJSC "Dongorbank" into the Bank. Balances on accounts of PJSC "Dongorbank" were transferred to the Bank's accounting system on 15 July 2011. As a result of the legal combination, shares of PJSC "Dongorbank" were exchanged for the Bank's shares of additional issue on the basis of 230 shares per 1 share of the Bank (Note 22).

The Bank's shareholders as at 31 December 2011 are "SCM FINANCE" (92.2% of share capital), SCM FINANCIAL OVERSEAS LIMITED (7.7% of share capital) and a private shareholder (0.1% of share capital) (31 December 2010: "SCM FINANCE" (89.9% of share capital), SCM FINANCIAL OVERSEAS LIMITED (10% of share capital) and a private shareholder (0.1% of share capital)). The ultimate controlling party of the Bank is a Ukrainian citizen, Mr. R.L. Akhmetov.

2. Operating Environment of the Bank

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

The Ukrainian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. The ongoing global financial crisis has resulted in considerable instability in the capital markets, significant deterioration in the liquidity of banks, much tighter credit conditions where credit is available, and significant devaluation of the national currency against major currencies. Borrowers of the Bank were adversely affected by the financial and economic environment, which in turn impacted their ability to repay the amounts owed. As a significant part of loans to customers was issued in foreign currencies, UAH depreciation against these currencies in 2008-2009 had a significant impact on borrowers' ability to service the loans.

In 2010 and 2011 the Ukrainian economy experienced a moderate recovery of economic growth. The recovery was accompanied by lower refinancing interest rates and stabilisation of the exchange rate of the Ukrainian hryvnia against major foreign currencies. Despite the increased money market liquidity levels in 2010 and in the first half of 2011, the banking sector encountered liquidity difficulties in the second half of 2011.

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

In December 2010 the Ukrainian Parliament adopted the new Tax Code (Note 28). The new Tax Code became effective from 1 January 2011, with the Corporate Profits Tax section coming into effect from 1 April 2011. Among other changes, the Tax Code provides for the significant reduction of the corporate tax rate: 23% for 1 April - 31 December 2011, 21% for 2012, 19% for 2013, and 16% from 2014 onwards.

The Tax Code introduced new approaches to the determination of revenue and costs, new tax depreciation rules for fixed assets and intangibles, new approach to recognition of foreign exchange differences, which became close to the financial accounting rules. However, the new tax rules have not yet been tested in practice nor confirmed by interpretation given in courts or by the tax authorities. Therefore, at the moment their interpretation and practical application remains unclear.

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

Notes to the Financial Statements for the Year Ended 31 December 2011 (in thousands of US dollars)

3. Basis of Preparation

General
The financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention except recognition of financial instruments at fair value, revaluation of investment property, premises, derivative financial instruments and available for sale investments measured at fair value. These policies have been consistently applied to all the periods presented, unless otherwise stated.

The Bank's functional currency is the Ukrainian hryvnia. However, these financial statements are presented in thousand of US dollars ("USD") unless otherwise indicated. Refer to Note 4.

Changes in accounting for interest income
In 2011 the Bank changed its approach to accounting for income on impaired loans and the allowances for loan impairment. Under this approach, the interest income is recognised only to the extent of expected recovery, which in turn decreased the amount of provision against loans to write down their carrying value to expected recovery. Comparative information as at and for the year ended 31 December 2010 was restated to reflect this change in approach. Management believes that the new approach provides more accurate and meaningful information on interest income to users of the financial statements. This change had no impact on the net profit of the Bank for the year ended 31 December 2010 shown in the statement of income or the carrying amount of loans recognised in its statement of financial position as at 31 December 2010.

The effect of these changes on the Bank's statement of income for the year ended 31 December 2010 is shown in the table below:

Statement of income	As previously reported	Effect of changes in accounting	As reported after the changes
Interest income	279,085	(37,612)	241,473
Net interest income	126,223	(37,612)	88,611
Allowance for loan impairment	(21,259)	37,612	16,353

Opening statement of financial position at the beginning of the earliest comparative period presented and related information in the notes.

The revised IAS 1 which became effective from 1 January 2009 requires presenting a statement of financial position as of the beginning of the earliest comparative period presented ('opening statement of financial position'), when an accounting policy is applied or adjustments and changes in presentation of the financial statements are made retrospectively. Therefore, when changes are applied retrospectively, the financial statements normally include three statements of financial position, two of each of the other statements, and related notes.

3. Basis of Preparation (Continued)

In 2011 the Bank restated comparatives that had no impact on the statement of financial position, as described above. IAS 1 suggests that the opening statement of financial position be presented even if the changes have an impact only on the other primary statements. The third statement of financial position as at 1 January 2010 has not been presented in these financial statements as the changes had no impact on the statement of financial position. In these circumstances, management of the Bank considered whether omitting the opening statement of financial position at 1 January 2010 would represent a material omission of information. In management's opinion, the omission of the opening statement of financial position, where the change in approaches to presentation of information does not affect any item of the statement of financial position (and that fact is disclosed), is not material and is therefore permitted. Management considered that materiality of an omission is measured against its ability to influence the economic decisions of the users of the financial statements.

In 2011, the Bank improved presentation of segment information to be more valuable for users of the financial statements in analysis of business performance: breakdowns of assets and liabilities and interest income by products were added; also, the items of operating expenses, which had been previously presented separately, were aggregated into one line.

Predecessor values method of accounting for business combination
Since PJSC "Dongorbank" and the Bank were entities within SCM Group ultimately controlled by Mr. R. L. Akhmetov, the combination of the banks was defined as an acquisition of businesses under common control. The combination transaction is accounted for in the Bank's financial statements under the predecessor values method in accordance with the accounting policies of the Bank (Note 4). Upon combination, assets, liabilities and equity items (except for share capital) as well as the operating result of PJSC "Dongorbank" were recognised at the carrying value in the financial statements of PJSC "Dongorbank" in accordance with IFRS requirements (at the carrying value recorded for PJSC "Dongorbank" in the consolidated financial statements of SCM Group). Amounts of PJSC "Dongorbank" are recorded in the Bank's financial statements from the earliest reporting period presented as if the businesses had been combined from the beginning of this period.

After the combination, the financial statements were prepared in accordance with the accounting policies of the Bank. Consequently, the accounting policies of the both banks were brought into consistency.

3. Basis of Preparation (Continued)

The effect of business combination is shown in the table below:

Statement of financial position (in thousands of US dollars)	Bank before business combination as reported as at 31 December 2010	Effect of business combination		Bank after business combination as at 31 December 2010
		Amounts of PJSC "Dongorbank" according to consistent accounting policies	Effect of intergroup balances and transactions	
Assets				
Cash balances	49,922	25,738	-	75,660
Balance with the National Bank of Ukraine	75,557	64,041	-	139,598
Due from other banks	336,766	436,717	(154,339)	619,144
Loans to customers	1,408,679	410,326	-	1,819,005
Investment securities available for sale	213,665	168,565	-	382,230
Other assets	12,604	5,329	-	17,933
Property and equipment	115,259	35,272	-	150,531
Investment property	4,692	5,124	-	9,816
Intangible assets	5,031	129	-	5,160
Total assets	**2,222,175**	**1,151,241**	**(154,339)**	**3,219,077**
Liabilities				
Due to the National Bank of Ukraine	174,414	-	-	174,414
Due to other banks	160,713	66,555	(154,339)	72,929
Customer accounts	1,005,812	934,074	-	1,939,886
Eurobonds issued	243,804	-	-	243,804
Bonds issued	14	-	-	14
Other borrowed funds	158,749	-	-	158,749
Current income tax liability	5,940	119	-	6,059
Other liabilities	9,075	1,167	-	10,242
Subordinated debt	27,844	56,586	-	84,430
Deferred tax liability	1,032	407	-	1,439
Total liabilities	**1,787,397**	**1,058,908**	**(154,339)**	**2,691,966**
Equity				
Share capital	333,560	-	-	333,560
Share premium	7,134	-	-	7,134
Merger reserve	-	101,224	-	101,224
Revaluation reserve for premises	45,700	11,618	-	57,318
Revaluation reserve for investment securities available for sale	2,744	544	-	3,288
Currency translation reserve	(278,676)	-	-	(278,676)
Other reserve	257,142	-	-	257,142
Retained earnings	67,174	(21,053)	-	46,121
Total equity	**434,778**	**92,333**	**-**	**527,111**
Total liabilities and equity	**2,222,175**	**1,151,241**	**(154,339)**	**3,219,077**

3. Basis of Preparation (Continued)

The Bank's statement of income for the year ended 31 December 2010 before and after the business combination is presented below. The effect of changes in accounting for income on impaired loans and the allowances for loan impairment for figures of PJSC "Dongorbank" is shown in the table below as "Effect of changes in accounting for interest income".

Statement of income (in thousands of US dollars)	Bank before business combination	Effect of business combination			Bank after business combination
		Amounts of PJSC "Dongorbank" according to consistent accounting policies	Effect of intergroup balances and trans-actions	Effect of changes in account-ting for interest income	
Interest income	241,473	106,095	(202)	(15,000)	332,366
Interest expense	(152,862)	(73,597)	202		(226,257)
Net interest income	**88,611**	**32,498**	**-**	**(15,000)**	**106,109**
Allowance for loan impairment	16,353	(6,836)	-	15,000	24,517
Net interest income after allowance for loan impairment	**104,964**	**25,662**	**-**	**-**	**130,626**
Fee and commission income	30,452	10,361	(1,316)	-	39,497
Fee and commission expense	(10,876)	(1,926)	1,316	-	(11,486)
Net fee and commission income	**19,576**	**8,435**	**-**	**-**	**28,011**
Net gains from dealing in foreign currencies	901	918	-	-	1,819
Foreign exchange translation result	2,614	(605)	-	-	2,009
Net gains / (losses) from investment securities available for sale	937	(27)	-	-	910
Provision for credit related commitments	(437)	-	-	-	(437)
Losses less gains on revaluation of investment property	(2,290)	(54)	-	-	(2,344)
Reversal of impairment of investment securities available for sale	9,593	595	-	-	10,188
Gains less losses from financial derivatives	3,946	1,836	-	-	5,782
Other income	1,225	1,050	-	-	2,275
Operating income	**141,029**	**37,810**	**-**	**-**	**178,839**
Operating expenses	(69,543)	(18,222)	-	-	(87,765)
Profit before income tax expense	**71,486**	**19,588**	**-**	**-**	**91,074**
Income tax expense	(17,089)	(2,773)	-	-	(19,862)
Net profit for the year	**54,397**	**16,815**	**-**	**-**	**71,212**

3. Basis of Preparation (Continued)

Notes to the Financial Statements for the Year Ended 31 December 2011 (in thousands of US dollars)

The Bank's statement of comprehensive income for the year ended 31 December 2010 before and after the business combination is presented below.

	Bank before business combination	Effect of business combination	Bank after business combination
Net profit for the year	**54,397**	**16,815**	**71,212**
Other comprehensive income:			
Revaluation of investment securities available for sale	4,300	491	4,791
Reclassification adjustment for losses less gains on investment securities available for sale included in the income statement	(937)	27	(910)
Income tax effect	(663)	(129)	(792)
Total other comprehensive income on investment securities available for sale	**2,700**	**389**	**3,089**
Revaluation of premises	-	1,993	1,993
Income tax effect on revaluation	-	(497)	(497)
Income tax effect of changes in tax legislation	896	-	896
Total other comprehensive income on revaluation of premises	**896**	**1,496**	**2,392**
Currency translation differences	1,131	156	1,287
Other comprehensive income for the year, net of tax	**4,727**	**2,041**	**6,768**
Total comprehensive income for the year	**59,124**	**18,856**	**77,980**

Inflation accounting
The Ukrainian economy was regarded as being hyperinflationary for the ten-year period ended 31 December 2000. As such, the Bank has applied IAS 29 "Financial reporting in hyper-inflationary economies". The effect of applying IAS 29 is that non-monetary items were restated using the Consumer Price Index to measuring units current at 31 December 2000, and these restated values were used as a basis for accounting in subsequent accounting periods.

4. Summary of Significant Accounting Policies

The Bank adopted the following amended IFRS and IFRIC Interpretations during the reporting year. Amendment to IAS 24, Related Party Disclosures (issued in November 2009 and effective for annual periods beginning on or after 1 January 2011)

IAS 24 was revised by:
- simplifying the definition of a related party, clarifying its intended meaning and eliminating inconsistencies; and
- providing a partial exemption from the disclosure requirements for government-related entities.

The amendment had no material impact on the financial statements of the Bank.

Improvements to International Financial Reporting Standards (issued in May 2010 and effective from 1 January 2011)

IFRS 7 was amended to clarify certain disclosure requirements, in particular:
- by adding an explicit emphasis on the interaction between qualitative and quantitative disclosures about the nature and extent of financial risks,
- by removing the requirement to disclose carrying amount of renegotiated financial assets that would otherwise be past due or impaired,
- by replacing the requirement to disclose fair value of collateral by a more general requirement to disclose its financial effect, and
- by clarifying that an entity should disclose the amount of collateral held at the reporting date, and not the amount obtained during the reporting period.

IAS 1 was amended to clarify the requirements for the presentation and content of the statement of changes in equity.

Improvements were further introduced in IFRS 1, IFRS 3, IAS 27, IAS 34 and IFRIC 13.

These amendments had no material impact on the Bank's financial statements, however, they resulted in certain changes in disclosures. The financial effect of collateral required to be disclosed by the amendments to IFRS 7 is presented in these financial statements by disclosing collateral values separately for:

- those financial assets where collateral and other credit enhancements are equal to, or exceed, carrying value of the asset ("over-collateralised assets") and
- those financial assets where collateral and other credit enhancements are less than the carrying value of the asset ("under-collateralised assets").

4. Summary of Significant Accounting Policies (Continued)

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

Financial assets

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

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

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

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

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

4. Summary of Significant Accounting Policies (Continued)

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

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

Date of recognition
All regular way purchases and sales of financial assets are recognised on the settlement date i.e. the date that an asset is delivered to or by the Bank. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Measurement at the reporting date
Financial assets at fair value through profit or loss and financial assets available for sale are measured at fair value, and other financial assets are measured at amortised cost.

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

4. Summary of Significant Accounting Policies (Continued)

Classification of financial assets

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

Investment securities available for sale
Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified as financial assets at fair value through profit or loss, held-to-maturity financial assets or loans and receivables. After initial recognition available-for-sale financial assets are measured at fair value with gains or losses being recognised in other comprehensive income until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in other comprehensive income is included in the profit or loss. Interest calculated using the effective interest method is recognised in the statement of income.

Cash and cash equivalents
Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes. For an investment to qualify as a cash equivalent it must be readily convertible to a known amount of cash and be subject to an insignificant risk of changes in value. Cash and cash equivalents include balances on correspondent accounts and overnight deposits due from other banks, cash on hand and in transit and balances with the National Bank of Ukraine (NBU), excluding mandatory reserve balances. Mandatory cash balances with the NBU are carried at amortised cost and represent mandatory reserve deposits which are not available to finance the Bank's day to day operations and hence are not considered as part of cash and cash equivalents for the purposes of the statement of cash flows.

Sale and repurchase agreements
Sale and repurchase agreements ("repo agreements") are treated as secured financing transactions. Securities sold under sale and repurchase agreements are retained in the statement of financial position. The securities are not reclassified in the statement of financial position unless the transferee has the right by contract or custom to sell or re-pledge the securities, in which case they are reclassified as securities pledged under sale and repurchase agreements.

The corresponding liability is presented within amounts due to other banks or other borrowed funds. Securities purchased under agreements to resell ("reverse repo") are recorded as amounts due from credit institutions or loans to customers as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of repo agreements using the effective yield method.

4. Summary of Significant Accounting Policies (Continued)

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

Promissory notes
Promissory notes are included in investment securities available for sale or in loans to customers, depending on their substance and are recognised and subsequently remeasured and accounted in accordance with the accounting policies for these categories of assets.

Impairment of financial assets

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

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

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

4. Summary of Significant Accounting Policies (Continued)

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

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

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

Available-for-sale financial investments
For available-for-sale financial investments, the Bank assesses at each statement of financial position 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 statement of income – is removed from other comprehensive income and recognised in the statement of income. Impairment losses on equity investments are not reversed through the statement of income; increases in their fair value after impairment are recognised directly in other comprehensive income.

In the case of debt instruments classified as available for sale, impairment is assessed based on the same criteria as 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. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in

the statement of income, the impairment loss is reversed through the statement of income.

4. Summary of Significant Accounting Policies (Continued)

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. 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 effective interest rate.

Derecognition of financial assets
The Bank derecognises financial assets (or, where applicable, a part of a financial asset or part of a group of similar financial assets) when (i) the contractual rights to the cash flows from the financial asset expire or (ii) the Bank transfers its contractual rights to receive the cash flows of the financial asset, or retains the contractual rights to receive the cash flows of the financial asset, but assumes a contractual obligation to pay these cash flows of the financial asset and (iii) the Bank either (a) transfers substantially all the risks and rewards of ownership of the financial asset, or (b) neither transferred nor retained substantially all risks and rewards of ownership of the financial asset but has not retained control of this asset. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose restrictions on the sale.

Financial liabilities

Initial recognition
Financial liabilities in the scope of IAS 39 are classified as either financial liabilities at fair value through profit or loss or other financial liabilities, as appropriate. When financial liabilities are recognised initially, they are measured at fair value, less, in the case of liabilities not at fair value through profit or loss, directly attributable transaction costs. The Bank determines the classification of its financial liabilities upon initial recognition.

Classification of financial liabilities

Borrowings
Issued financial instruments or their components are classified as liabilities, where the substance of the contractual arrangements results in the Bank having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than for a fixed amount of cash or another financial asset for a fixed number of the Bank's own equity instruments. Such instruments include liabilities due to the National Bank of Ukraine, due to other banks, customer accounts, subordinated debt, Eurobonds issued, bonds issued and other borrowed funds. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in the statement of income when the borrowings are derecognised, expense is recognised through the amortisation process.

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

4. Summary of Significant Accounting Policies (Continued)

Financial guarantees
Financial guarantees represent irrevocable assurances to make payments in the event that a customer cannot meet its obligations to third parties and carry the same credit risk as loans. Financial guarantees are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the commitment. At each statement of financial position date, the financial guarantees are measured at the higher of (i) the unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the commitment at the statement of financial position date. Any increase in the liability relating to financial guarantees is taken to the statement of income.

Other credit related commitments
In the normal course of business, the Bank enters into other credit related commitments including loan commitments and letters of credit. When a loss is considered probable, provisions are recorded against other credit related commitments.

Measurement at the reporting date
Financial liabilities at fair value through profit or loss are measured at fair value, and other financial liabilities are measured at amortised cost.

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

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

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

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

Precious metals
The Bank has a practice of taking delivery of precious metals and selling them within a short period after delivery, for the purpose of generating a profit from short-term fluctuations in price or dealer's margin. Precious metals are carried at fair value with gains or losses recognised in profit or loss.

4. Summary of Significant Accounting Policies (Continued)

Property and equipment
Property and equipment, other than premises, acquired after 31 December 2000 are stated at cost, less accumulated depreciation and any accumulated impairment, where required. Property and equipment, other than premises, acquired prior to 31 December 2000 are stated at cost, restated to the equivalent purchasing power of the Ukrainian hryvnia at 31 December 2000 less accumulated depreciation and any accumulated impairment, where required.

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

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

When an item of premises is revalued, any accumulated depreciation is restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount.

The revaluation reserve is transferred directly to retained earnings when the surplus is realised, i.e. either on the retirement or disposal of the asset, or as the asset is used by the Bank; in the latter case, the amount of the surplus realised is the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost.

Construction in progress is carried at cost, less provision for any impairment in value. Upon completion, assets are transferred to premises or leasehold improvements at their carrying value. Construction in progress is not depreciated until the asset is available for use.

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in profit or loss for the year. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

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

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

Notes to the Financial Statements for the Year Ended 31 December 2011 (in thousands of US dollars)

4. Summary of Significant Accounting Policies (Continued)

Depreciation is calculated on a straight line basis over the estimated useful lives of the assets using the following annual rates:

Premises	2%-5%	
Leasehold improvements	20%	or over the term of lease if shorter than 5 years
Computers and other equipment	20-33%	

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

Intangible assets
All of the Bank's intangible assets have a definite useful life and include capitalised computer software and licences.

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Development costs that are directly associated with identifiable and unique software controlled by the Bank are recorded as intangible assets if inflow of incremental economic benefits exceeding costs is probable. Capitalised costs include staff costs of the software development team and an appropriate portion of relevant overheads. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred. Capitalised computer software and licences are amortised on a straight line basis over expected useful lives of 3 to 10 years.

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

Investment property is initially recognised at cost and subsequently measured at fair value, which reflects market conditions at the reporting date. Gains and losses resulting from changes in the fair value of investment property are recorded in the statement of income in losses less gains on revaluation of investment property in the year in which they arise.

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

Share capital
Ordinary shares are classified as equity. Share premium represents the excess of contributions over the nominal value of the shares issued. Gains and losses arising on the sale of treasury shares are shown as adjustments to share premium.

Foreign currency translation
The Ukrainian hryvnia is the Bank's functional currency as it is the currency of the primary economic environment in which the Bank operates. Transactions in other currencies are treated as transactions in foreign currencies. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the official exchange rate of the NBU at the end of the respective reporting period. Gains and losses resulting from the translation of foreign currency transactions are recognised in the statement of income as foreign exchange translation results. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

4. Summary of Significant Accounting Policies (Continued)

The Bank uses the US dollar as the currency in which it presents its financial statements, which means that statement of financial position items are translated into US dollars at the exchange rate ruling at the year end. Income statement items are translated at the exchange rate at the date of the transaction. Equity items other than the net profit or loss for the year that is included in the balance of retained earnings are translated at the closing rate ruling at the date of each statement of financial position presented. All exchange differences resulting from translation of statement of financial position items and income statement items are recognised in other comprehensive income.

The US dollar ("USD") has been selected as the presentation currency for the Bank for the following reasons:

- a significant portion of the transactions of the Bank are denominated in USD;
- the USD is the currency in which the Management of the Bank manages business risks and exposures, and measures the performance of its business.

As at 31 December 2011, the exchange rate of the Ukrainian hryvnia as established by the NBU was UAH 7.9898 to 1 US dollar (2010: UAH 7.9617) and UAH 10.298053 to 1 euro (2010: UAH 10.573138).

Recognition of income and expenses

Interest and similar income and expense
Interest income and expense are recorded in the statement of income for all financial instruments measured at amortised cost and interest bearing securities classified as available for sale at the effective interest method. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment option) but does not consider future credit losses. The calculation includes all fees paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

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
Fees, commissions and other income and expense items, including fees for issuance of guarantees, are generally recorded on an accrual basis by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided. Commitment fees for loans or borrowings which are probable of being drawn down, are deferred (together with related direct costs) and recorded as an adjustment to the effective interest on the loan or borrowings. Commissions and fees arising from negotiating, or participating in the negotiation of a transaction for a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses, are recorded on completion of the underlying transaction.

4. Summary of Significant Accounting Policies (Continued)

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

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxes, other than on income, are recorded within operating expenses.

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

Fiduciary activities
Assets and liabilities held by the Bank in its own name, but on the account of third parties, are not reported on the statement of financial position. Commissions received from such business are shown in fee and commission income within the statement of income.

Provisions for contingencies
Provisions are recognised 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.

Retirement and other employee benefit obligations
The Bank pays the unified social tax and contributes to the social insurance funds to the state budget in respect of its employees. The Bank's contributions are expensed as incurred. The Bank has no other post-retirement benefit plans.

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

4. Summary of Significant Accounting Policies (Continued)

The Bank presents assets subject to operating leases in the statement of financial position according to the nature of the asset. Lease income from operating leases is recognised in the income statement on a straight-line basis over the lease term as other income. The direct costs incurred in modernisation are added to the carrying amount of the leased asset. The Bank has assessed the terms of its land leases regarding the finance lease criteria stated by amendments to IAS 17 and concluded that criteria are not met.

Segment reporting
Operating segments are reported in a manner consistent with the internal reporting provided to the Bank's Management Board that is defined as chief operating decision maker. Segments whose revenue, result or assets are ten percent or more of all the segments are reported separately. The analysis of geographical information is based on domicile of the customer. Revenues from off-shore companies of Ukrainian customers are reported as revenues from Ukraine.

Combination of businesses under common control
Combinations of businesses under common control are accounted for using the predecessor values method. Under this method, amounts are presented in the financial statements after the business combination as combined amounts of the two entities from the beginning of the earliest period presented. Assets and liabilities of an acquired entity are recognised in the financial statements of a combined entity similarly to consolidation of the corresponding items of a subsidiary in the financial statements of a parent company after eliminating all intergroup balances and transactions. Any difference between the combined amounts and consolidated amounts of assets and liabilities determined under the predecessor values method is recognised as changes in equity in a separate reserve. No goodwill arises on the combination of businesses under common control accounted for under the predecessor values method.

Amendments of the financial statements after issue.

The Bank's shareholders have the power to amend the financial statements after issue.

New Accounting Pronouncements

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

IFRS 9, Financial Instruments Part 1: Classification and Measurement

IFRS 9 issued in November 2009 replaces those parts of IAS 39 relating to the classification and measurement of financial assets. IFRS 9 was further amended in October 2010 to address the classification and measurement of financial liabilities and in December 2011 to:

- change its effective date to annual periods beginning on or after 1 January 2015; and
- add transition disclosures.

4. Summary of Significant Accounting Policies (Continued)

Key features of the standard are as follows:

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

While adoption of IFRS 9 is mandatory from 1 January 2015, earlier adoption is permitted.

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

Amendments to IAS 1, Presentation of Financial Statements (issued in June 2011, effective for annual periods beginning on or after 1 July 2012), changes the disclosure of items presented in other comprehensive income. The amendments require entities to separate items presented in other comprehensive income into two groups, based on whether or not they may be reclassified to profit or loss in the future. The suggested title used by IAS 1 has changed to 'statement of profit or loss and other comprehensive income'.

4. Summary of Significant Accounting Policies (Continued)

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

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

Recovery of Underlying Assets – Amendments to IAS 12 (issued in December 2010 and effective for annual periods beginning on or after 1 January 2012). The amendment introduced a rebuttable presumption that an investment property carried at fair value is recovered entirely through sale. This presumption is rebutted if the investment property is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. The Bank does not expect the amendment to have any material effect on its financial statements.

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

Management is considering the impact of the new standards, amendments and interpretations on the financial statements of the Bank.

Other new standards were issued, including IFRS 10, Consolidated Financial Statements, IFRS 11, Joint Arrangements, IFRS 12, Disclosure of Interest in Other Entities. These new standards will not have any impact on these financial statements.

Other revised standards and interpretations: the amendments to IFRS 1 "First-time adoption of IFRS", relating to severe hyperinflation and eliminating references to fixed dates for certain exceptions and exemptions, the amendments to IAS 19 "Employee Benefits", IAS 27 "Separate Financial Statements", IAS 28 "Investments in Associates and Joint Ventures", and IFRIC 20 "Stripping Costs in the Production Phase of a Surface Mine", will not have any impact on these financial statements.

5. Critical Accounting Estimates and Judgements in Applying Accounting Policies

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

Impairment losses on loans and advances
The Bank regularly reviews its loan portfolios to assess impairment. In determining whether an impairment loss should be recorded in profit or loss for the year, the Bank makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

The Bank regularly assesses assets pledged as collateral for the individually impaired loans to estimate the amount of losses likely to be incurred. The amount of the future cash flow from sale of assets is influenced by the value of the assets held by the Bank as collateral and the expected term of the assets' sale. A simultaneous 10% decrease in the value of assets held by the Bank as collateral on loans and 50% increase in the expected term of assets' sale would result in an increase in impairment losses of USD 33,584 thousand (2010: USD 30,917 thousand) on loans individually determined to be impaired. A 10% increase in the value of assets held by the Bank as collateral on loans impaired would result in a decrease of expected loss of USD 19,995 thousand (2010: USD 22,309 thousand).

Expected loss on corporate loans with the collectively assessed allowances for impairment may be influenced by the probability of borrower's default (PD) and cure rate (CR), representing the statistics of the recovery of impaired loans. A simultaneous 10% increase in PD and 10% decrease in CR would result in an increase in impairment losses of USD 1,265 thousand (2010: USD 2,620 thousand). A simultaneous 10% decrease in PD and increase in CR would result in a decrease in impairment losses of USD 1,148 thousand (2010: USD 826 thousand).

Expected loss on collectively assessed retail loans may be influenced by the probability of borrower's default (PD) and recovery rate (RR). A simultaneous 10% increase in PD and 10% decrease in RR would result in an increase in impairment losses of USD 6,684 thousand (2010: USD 8,093 thousand). A simultaneous 10% decrease in PD and increase in RR would result in a decrease in impairment losses of USD 11,244 thousand (2010: USD 12,812 thousand).

5. Critical Accounting Estimates and Judgements in Applying Accounting Policies (Continued)

Fair value of own use premises and investment property
As stated in Note 4, the premises and the investment property of the Bank are subject to revaluation on a regular basis. Such revaluations are based on the results of work of independent appraiser. The basis for their work is the sales comparisons approach, with the price per square meter varying from USD 698 to USD 6,639 depending upon the location of premises, which is further confirmed by the income capitalization approach. When performing the revaluation certain judgments and estimates are applied by the appraisers in determination of the comparable premises to be used in the sales comparison approach, the useful life of the assets revalued, the capitalization rate to be applied for the income capitalization approach. To the extent that the price per square meter differs in the range of 5%, the fair value of own use premises would be USD 6,905 thousand higher or lower respectively, and the fair value of investment property would be USD 442 thousand higher or lower respectively.

Related party transactions
In the normal course of business the Bank enters into transactions with its related parties. IAS 39 requires initial recognition of financial instruments based on their fair values. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for such judgement is the pricing for similar types of transactions with unrelated parties and effective interest rate analysis. Terms of related party transactions are disclosed in Note 32.

Notes to the Financial Statements for the Year Ended 31 December 2011 (in thousands of US dollars)

6. Cash and Cash Equivalents

For the purpose of the cash flow statement cash and cash equivalents comprised the following:

	2011	2010
Cash on hand and in transit	78,964	75,660
Current account with the National Bank of Ukraine (Note 7)	233,136	110,934
Current account with the National Bank of Ukraine – mandatory reserve balance (Note 7)	(16,645)	-
Current accounts and overnight deposits with other banks (Note 8)	506,982	544,484
Current accounts and overnight deposits with other banks – interest income accrued (Note 8)	(56)	(8)
Total cash and cash equivalents	**802,381**	**731,070**

Issue of the Bank's ordinary shares in exchange for ordinary shares of PJSC "Dongorbank" did not require the use of cash and cash equivalents, and was excluded from the statement of cash flows.

7. Balance with the National Bank of Ukraine

	2011	2010
Current account with the National Bank of Ukraine, including:	233,136	110,934
- part of mandatory reserve balance	16,645	-
Restricted account	26,857	28,015
Restricted account (other mandatory reserve)	3,278	649
Total balance with the National Bank of Ukraine	**263,271**	**139,598**

In accordance with the NBU requirements, the Bank is required to maintain the mandatory reserve balance with the NBU, which is computed as a percentage of certain of the Bank's liabilities for the prior period of provisioning. Mandatory reserve balance for December 2011 amounted to USD 66,579 thousand (2010: USD 67,730 thousand). As at 31 December 2011, 70% of the mandatory reserve balance for the previous month (2010: 100% of the mandatory reserve balance for the previous month) should be maintained on a separate account with the NBU, with interest accrued at 30% of the official discount rate of the NBU, being 2.325% as at 31 December 2011 (2010: 30% of the official discount rate of the NBU, being 2.325%). As at 31 December 2011 the amount of interest accrued on the account balance was USD 52 thousand (2010: USD 25 thousand). In accordance with the NBU requirements, Ukrainian banks may satisfy their mandatory reserve requirements with balances placed on a separate account with the NBU and treasury bills issued for the purpose of financing preparation of Ukraine to EURO 2012 football tournament in the amount of 50% of their par value (2010: balance on a separate account with the NBU and EURO 2012 treasury bills in the amount of 100% of their par value). As at 31 December 2011, the value of treasury bills used by the Bank as a part of mandatory reserve requirements was USD 19,800 thousand (2010: USD 39,740 thousand).

In addition to the placement on a separate account with the NBU, the Bank is required to maintain an opening balance on the current account with the NBU on a daily basis amounting to 25% of the mandatory reserve balance.

Therefore, as at 31 December 2011, 95% of the mandatory reserve balance (2010: 100% of the mandatory reserve balance) is not available for the Bank's day-to-day operations and is excluded from cash and cash equivalents for the purpose of the cash flow statement.

In addition, with effect from 2009, Ukrainian banks are required to keep other mandatory reserves on a separate account with the NBU for:

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

Notes to the Financial Statements for the Year Ended 31 December 2011 (in thousands of US dollars)

8. Due from Other Banks

	2011	2010
Current accounts and overnight deposits with other banks		
- OECD countries	472,354	518,277
- Domestic	27,595	9,944
- Non-OECD countries	7,033	16,263
Total current accounts and overnight deposits with other banks	**506,982**	**544,484**
including interest income accrued	56	8
Term deposits with other banks, including:		
- Domestic	31,172	34,836
- OECD countries	22,283	15,573
- Non-OECD countries	40	-
Reverse sale and repurchase agreements	25,785	25,198
Allowance for impairment	(904)	(947)
Total term deposits with other banks	**78,376**	**74,660**
Total due from other banks	**585,358**	**619,144**

Placements are made with Ukrainian and foreign banks. Analysis by credit quality of due from other banks outstanding at 31 December 2011 is as follows:

	Current accounts and overnight deposits with other banks	Term deposits with other banks	Reverse sale and repurchase agreements	Total
Neither past due nor impaired				
– AA- to AA+ rated	101,594	-	-	101,594
– A- to A+ rated	368,900	22,283	-	391,183
– BBB- to BBB+ rated	3,694	-	-	3,694
– BB- to BB+ rated	3,337	-	-	3,337
– B- to B+ rated	12,568	18,548	-	31,116
– Unrated	16,889	11,760	25,785	54,434
Total neither past due nor impaired	**506,982**	**52,591**	**25,785**	**585,358**
Balances individually determined to be impaired				
– over 360 days overdue	-	904	-	904
Total individually impaired	-	904	-	904
Less allowance for impairment	-	(904)	-	(904)
Total due from other banks	**506,982**	**52,591**	**25,785**	**585,358**

The credit ratings are based on the ratings assigned by the international rating agencies Fitch, Moody's and S&P. Counterparties disclosed in the above table as "unrated" mainly include Ukrainian banks, considered to be mid-size or small banks in terms of the amount of total assets.

8. Due from Other Banks (Continued)

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

	Current accounts and overnight deposits with other banks	Term deposits with other banks	Reverse sale and repurchase agreements	Total
Neither past due nor impaired				
– AA- to AA+ rated	55,476	8,355	-	63,831
– A- to A+ rated	351,773	7,218	-	358,991
– BBB- to BBB+ rated	3,575	-	-	3,575
– BB- to BB+ rated	12,474	-	-	12,474
– B- to B+ rated	10,079	28,859	-	38,938
– CCC- to CCC+ rated	-	-	3,335	3,335
– Unrated	111,107	5,029	21,864	138,000
Total neither past due nor impaired	**544,484**	**49,461**	**25,199**	**619,144**
Balances individually determined to be impaired				
– over 360 days overdue	-	947	-	947
Total individually impaired	-	**947**	**-**	**947**
Less allowance for impairment	-	(947)	-	(947)
Total due from other banks	**544,484**	**49,461**	**25,199**	**619,144**

As at 31 December 2011 the fair value of investment securities available for sale received as collateral under reverse sale and repurchase agreements amounts to USD 29,196 thousand (31December 2010: USD 25,385 thousand).

Movements in the allowance for impairment of due from other banks during the year are as follows:

	2011	2010
	Term deposits with other banks	Term deposits with other banks
Balance as at 1 January	**947**	**1,114**
Release of allowance	-	(167)
Assets written off during the year as uncollectible	(39)	-
Exchange rate impact	(4)	-
Balance as at 31 December	**904**	**947**

Notes to the Financial Statements for the Year Ended 31 December 2011 (in thousands of US dollars)

8. Due from Other Banks (Continued)

During 2011, the Bank placed with and received short-term funds from Ukrainian banks in various currencies. As at 31 December 2011, the Bank placed an equivalent of USD 569,583 thousand as deposits with Ukrainian banks and received an equivalent of USD 568,549 thousand from the same Ukrainian banks in different currencies (2010: placed an equivalent of USD 231,480 thousand and received an equivalent of USD 227,424 thousand). These deposits were treated as currency swaps for the purpose of these financial statements and were reported on a net basis at USD 3,077 thousand in other assets and at USD 2,043 thousand in other liabilities (2010: USD 4,343 thousand in other assets and at USD 287 thousand in other liabilities) (Notes 12, 19 and 21).

As at 31 December 2011, term deposits placed with other banks in OECD and non-OECD countries of USD 22,322 thousand (2010: in OECD countries of USD 15,573 thousand) represented security deposits against import letters of credit and guarantees issued by the Bank in favour of its clients.

9. Loans to Customers

	2011	2010
Corporate loans	1,816,157	1,613,050
Reverse sale and repurchase agreements	260	10,649
Less allowance for impairment	(213,895)	(251,111)
Total corporate loans	**1,602,522**	**1,372,588**
Loans to individuals:		
Mortgage loans	419,010	441,097
Car loans	90,786	115,019
Consumer loans	91,594	16,655
Other loans	4,878	10,497
Less allowance for loan impairment	(153,036)	(136,851)
Total loans to individuals	**453,232**	**446,417**
Total loans to customers	**2,055,754**	**1,819,005**

Included in gross loans to customers as at 31 December 2011 were loans of USD 2,383,640 thousand (2010: USD 2,152,577 thousand) with fixed interest rates and loans of USD 39,045 thousand (2010: USD 54,390 thousand) with floating interest rates.

Notes to the Financial Statements for the Year Ended 31 December 2011 (in thousands of US dollars)

9. Loans to Customers (Continued)

Movements in allowance for loan impairment

Movements in the allowance for impairment of the loan portfolio during the year ended 31 December 2011 were as follows:

	Corporate loans	Reverse sale and repurchase agreements	Mortgage loans	Car loans	Consumer loans	Other loans to individuals	Total
Allowance for impairment of loan portfolio at 1 January 2011	**245,235**	**5,876**	**116,808**	**9,299**	**7,381**	**3,363**	**387,962**
Provision/(reversal of provision) during the year	228	(5,616)	19,010	4,634	(4,306)	(2,700)	11,250
Loans written off during the year as uncollectable	(28,052)	-	-	(25)	-	(1)	(28,078)
Reversal of provision at the disposal of loan	(3,176)	-	-	-	-	-	(3,176)
Effect of translation to presentation currency	(600)	-	(246)	(94)	(48)	(39)	(1,027)
Allowance for impairment of loan portfolio at 31 December 2011	**213,635**	**260**	**135,572**	**13,814**	**3,027**	**623**	**366,931**

In 2011, the Bank sold a corporate loan to legal entity, at carrying amount of loan before the impairment provision. As a result of this transaction, the impairment provision, recognised in amount of USD 3,176 thousand before sale of loan, was reversed. Part of consideration for the loan is recognised as the receivable with the final repayment date in 2015. Refer to Note 12.

9. Loans to Customers (Continued)

Analysis of the allowance for impairment of the loan portfolio by class and provisioning rate as at 31 December 2011 is as follows:

	Corporate loans	Reverse sale and repurchase agreements	Mortgage loans	Car loans	Consumer loans	Other loans to individuals	Total
Allowance recognised for loans individually determined to be impaired	184,081	260	80,880	524	-	-	265,745
Allowance recognised for loans collectively determined to be impaired	24,320	-	53,147	12,721	1,838	596	92,622
Allowance recognised on portfolio basis for loans without specific sign of impairment	5,234	-	1,545	569	1,189	27	8,564
Total recognised allowance for loan impairment	**213,635**	**260**	**135,572**	**13,814**	**3,027**	**623**	**366,931**
Gross amount of loans individually determined to be impaired, before deducting any impairment allowance	383,175	260	177,437	931	-	-	561,803
Gross amount of loans collectively determined to be impaired, before deducting any impairment allowance	48,451	-	107,292	22,952	3,097	617	182,409
Gross amount of loans without specific sign of impairment, before deducting any impairment allowance	1,384,531	-	134,281	66,903	88,497	4,261	1,678,473
Gross amount of loans before deducting any impairment allowance	**1,816,157**	**260**	**419,010**	**90,786**	**91,594**	**4,878**	**2,422,685**
Provisioning rate for individually impaired loans	48%	100%	46%	56%	-	-	47%
Provisioning rate for collectively impaired loans	50%	-	50%	55%	59%	97%	51%
Provisioning rate for loans without specific sign of impairment	0%	-	1%	1%	1%	1%	1%

Notes to the Financial Statements for the Year Ended 31 December 2011 (in thousands of US dollars)

9. Loans to Customers (Continued)

Movements in the allowance for impairment of the loan portfolio during the year ended 31 December 2010 were as follows:

	Corporate loans	Reverse sale and repurchase agreements	Mortgage loans	Car loans	Consumer loans	Other loans to individuals	Total
Allowance for impairment of loan portfolio at 1 January 2010	**268,096**	**4,832**	**103,275**	**9,881**	**15,467**	**14,083**	**415,634**
Provision/(reversal of provision) during the year	(19,444)	1,045	13,451	(597)	(8,084)	(10,721)	(24,350)
Loans written off during the year as uncollectable	(345)	-	-	-	-	-	(345)
Effect of translation to presentation currency	(3,072)	(1)	82	15	(2)	1	(2,977)
Allowance for impairment of loan portfolio at 31 December 2010	**245,235**	**5,876**	**116,808**	**9,299**	**7,381**	**3,363**	**387,962**

9. Loans to Customers (Continued)

Analysis of the allowance for impairment of the loan portfolio by class and provisioning rate as at 31 December 2010 is as follows:

	Corporate loans	Reverse sale and repurchase agreements	Mortgage loans	Car loans	Consumer loans	Other loans to individuals	Total
Allowance recognised for loans individually determined to be impaired	215,273	5,876	77,585	983	7,102	2,610	309,429
Allowance recognised for loans collectively determined to be impaired	19,157	-	37,846	7,891	275	745	65,914
Allowance recognised on portfolio basis for loans without specific sign of impairment	10,805	-	1,377	425	4	8	12,619
Total recognised allowance for loan impairment	**245,235**	**5,876**	**116,808**	**9,299**	**7,381**	**3,363**	**387,962**
Gross amount of loans individually determined to be impaired, before deducting any impairment allowance	405,106	6,099	171,962	4,132	14,242	4,124	605,665
Gross amount of loans collectively determined to be impaired, before deducting any impairment allowance	39,837	-	98,299	28,082	285	877	167,380
Gross amount of loans without specific sign of impairment, before deducting any impairment allowance	1,168,107	4,550	170,836	82,805	2,128	5,496	1,433,922
Gross amount of loans before deducting any impairment allowance	**1,613,050**	**10,649**	**441,097**	**115,019**	**16,655**	**10,497**	**2,206,967**
Provisioning rate for individually impaired loans	53%	96%	45%	24%	50%	63%	51%
Provisioning rate for collectively impaired loans	48%	-	39%	28%	96%	85%	39%
Provisioning rate for loans without specific sign of impairment	1%	0%	1%	1%	0%	0%	1%

9. Loans to Customers (Continued)

Collateral and other credit enhancements

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

The main types of collateral obtained are as follows:

- for securities lending and reverse repurchase transactions: cash or securities;
- for commercial lending: charges over real estate property, inventory and trade receivables, rights to claim from deposit;
- for retail lending: property rights for movable and immovable property, rights to claim from deposit.

The Bank also obtains guarantees from parent companies of its borrowers for loans to their subsidiaries.

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

As at 31 December 2011, loans collateralised by customer deposits with the Bank amounted to USD 49,021 thousand (2010: USD 40,572 thousand) (Note 15).

9. Loans to Customers (Continued)

Credit quality of the loan portfolio

The credit quality of loans is managed by using the Bank's internal credit ratings. It is the Bank's policy to maintain accurate and consistent risk ratings across the credit portfolio. This facilitates focused management of the applicable risks and the comparison of credit exposures across all lines of business, geographic regions and products. The rating system is supported by a variety of financial analytics, combined with processed market information to provide the main inputs for the measurement of counterparty risk. All internal risk ratings are tailored to the various categories and are derived in accordance with the Bank's rating policy. The attributable risk ratings are assessed and updated regularly.

The description of internal credit ratings used by the Bank for corporate borrowers is provided below.

High rating is assigned to the entities with the expanding of operating activity, stable financial position (sufficient share capital, low dependency of external sources of financing), high efficiency of business model. The entities with high rating are either the market leaders or have stable market position. Management and organisational structure are strong. The risk of the decrease in credit quality of the borrower is minimal, credit history is excellent.

Standard rating is assigned to the entities with stable volumes of operating activity, with performance effectiveness at industry average level or above. The dependency of external sources of financing is not critical. The entities with standard rating have stable market position at the regional and national level. Management and organisational structure are adequate. The risk of default is insignificant. Credit history is positive, with insignificant technical delays in repayment of borrowings.

Below standard rating is assigned to the entities with unstable or decreasing operational activities, low business efficiency, high dependency of external sources of financing. Market position is not stable, the decrease or loss of market share is possible. The risk of default should be considered in case of the decrease of available operating cash flows. Credit history may contain significant delays in repayment of borrowings.

The description of internal credit ratings used by the Bank for retail borrowers is provided below.

High rating is assigned to the borrowers with strong financial position. Credit quality and solvency are more than sufficient for the loan servicing. Risk of the decrease in credit quality is minimal.

Standard rating is assigned to the borrowers with stable financial position. Credit quality and solvency are sufficient for the loan servicing. The risk of default is insignificant.

Below standard rating is assigned to the borrowers with unstable or worsening financial position. Credit quality and solvency are marginally sufficient for the loan servicing. The risk of default should be considered in case of any negative impact of external factors on the cash flows available for the repayment of credit exposure.

Notes to the Financial Statements for the Year Ended 31 December 2011 (in thousands of US dollars)

9. Loans to Customers (Continued)

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

	Corporate loans	Reverse sale and repurchase agreements	Mortgage loans	Car loans	Consumer loans	Other loans to individuals	Total
Neither past due nor impaired							
high rating	508,027	-	84,073	42,440	15,551	1,917	652,008
standard rating	547,214	-	32,119	19,094	68,593	2,186	669,206
below standard rating	312,919	-	7,765	1,114	10	18	321,826
Total neither past due nor impaired	**1,368,160**	**-**	**123,957**	**62,648**	**84,154**	**4,121**	**1,643,040**
Past due but not impaired							
- less than 30 days overdue	10,725	-	7,541	2,807	4,323	102	25,498
- 30 to 90 days overdue	3,543	-	2,783	1,448	20	38	7,832
- 91 to 180 days overdue	1,982	-	-	-	-	-	1,982
- more than 360 days overdue	121	-	-	-	-	-	121
Total past due but not impaired	**16,371**	**-**	**10,324**	**4,255**	**4,343**	**140**	**35,433**
Loans determined to be impaired individually or collectively							
- less than 30 days overdue	194,506	-	74,849	117	-	-	269,472
- 30 to 90 days overdue	6,580	-	3,306	8	1,567	-	11,461
- 91 to 180 days overdue	22,185	-	6,816	860	815	32	30,708
- 181 to 360 days overdue	18,851	-	17,559	2,035	172	9	38,626
- more than 360 days overdue	189,504	260	182,199	20,863	543	576	393,945
Loans determined to be impaired individually or collectively	**431,626**	**260**	**284,729**	**23,883**	**3,097**	**617**	**744,212**
Less allowance for impairment	**(213,635)**	**(260)**	**(135,572)**	**(13,814)**	**(3,027)**	**(623)**	**(366,931)**
Total loans to customers	**1,602,522**	**-**	**283,438**	**76,972**	**88,567**	**4,255**	**2,055,754**

9. Loans to Customers (Continued)

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

	Corporate loans	Reverse sale and repurchase agreements	Mortgage loans	Car loans	Consumer loans	Other loans to individuals	Total
Neither past due nor impaired							
high rating	209,199	-	99,091	52,551	1,687	2,620	365,148
standard rating	306,734	-	49,220	28,155	430	1,936	386,475
below standard rating	596,384	4,550	19,802	1,729	11	926	623,402
Total neither past due nor impaired	**1,112,317**	**4,550**	**168,113**	**82,435**	**2,128**	**5,482**	**1,375,025**
Past due but not impaired							
- less than 30 days overdue	53,757	-	1,334	370	-	14	55,475
- 30 to 90 days overdue	2,033	-	768	-	-	-	2,801
- 91 to 180 days overdue	-	-	621	-	-	-	621
Total past due but not impaired	**55,790**	**-**	**2,723**	**370**	**-**	**14**	**58,897**
Loans determined to be impaired individually or collectively							
- less than 30 days overdue	150,416	-	78,947	5,144	14,251	115	248,873
- 30 to 90 days overdue	10,653	-	5,975	2,807	2	54	19,491
- 91 to 180 days overdue	20,231	604	5,977	1,915	2	11	28,740
- 181 to 360 days overdue	38,044	-	18,755	4,301	14	648	61,762
- more than 360 days overdue	225,599	5,495	160,607	18,047	258	4,173	414,179
Loans determined to be impaired individually or collectively	**444,943**	**6,099**	**270,261**	**32,214**	**14,527**	**5,001**	**773,045**
Less allowance for impairment	**(245,235)**	**(5,876)**	**(116,808)**	**(9,299)**	**(7,381)**	**(3,363)**	**(387,962)**
Total loans to customers	**1,367,815**	**4,773**	**324,289**	**105,720**	**9,274**	**7,134**	**1,819,005**

Notes to the Financial Statements for the Year Ended 31 December 2011 (in thousands of US dollars)

9. Loans to Customers (Continued)

Concentration of loans to customers
As at 31 December 2011, the Bank's 20 largest borrowers, with aggregate loan amounts of USD 653,533 thousand, represented 27% of the gross loan portfolio (2010: 20 largest borrowers, with aggregate loan amounts of USD 525,483 thousand, represented 24% of the gross loan portfolio).

The loan portfolio of the Bank by economic sector is as follows:

	2011	2010
Individuals	606,268	583,268
Trade and agency services	506,680	588,607
Property development	366,186	207,381
Food industry and agriculture	338,575	249,095
Metallurgy	131,310	160,780
Transport, communication and infrastructure	104,148	114,812
Machine building	100,194	96,835
Woodworking	66,561	28,193
Non-banking financial institutions	58,881	49,889
Mining	46,765	18,495
Chemical	20,798	68,985
Other	76,319	40,627
Total loans to customers (gross amount)	**2,422,685**	**2,206,967**

The Bank's lending activities are conducted in Ukraine. The ability of borrowers to repay their debt is dependent on a number of factors including the overall financial health of the borrower and the Ukrainian economy.

As at 31 December 2011, included in loans to customers were loans with the carrying value of USD 115,554 thousand (2010: USD 255,495 thousand) placed as collateral for loans received from the NBU (Note 13).

As at 31 December 2011, included in loans to customers were loans with the carrying value of USD 8,552 thousand (2010: USD 7,833 thousand) placed as collateral for due to other banks (Note 14).

The financial effect of collateral is presented by disclosing collateral values separately for:

- assets where collateral and other credit enhancements are equal to, or exceed, carrying value of the asset ("over-collateralised assets"); and
- assets where collateral and other credit enhancements are less than the carrying value of the asset ("under-collateralised assets").

9. Loans to Customers (Continued)

Effect of collateral as at 31 December 2011 is as follows:

	Over-collateralised assets		Under-collateralised assets	
	Carrying value net ofal lowance	Fair value of collateral	Carrying value net of allowance	Fair value of collateral
Corporate loans	1,281,774	2,561,489	320,748	211,421
Reverse sale and repurchase agreements	-	-	-	-
Mortgage loans	173,829	284,214	109,609	96,479
Car loans	36,519	67,226	40,453	26,723
Consumer loans	22	45	88,545	-
Other loans (overdrafts)	-	-	4,255	-

Effect of collateral as at 31 December 2010 is as follows:

	Over-collateralised assets		Under-collateralised assets	
	Carrying value net of allowance	Fair value of collateral	Carrying value net of allowance	Fair value of collateral
Corporate loans	1,108,375	2,324,333	259,440	170,042
Reverse sale and repurchase agreements	4,773	5,070	-	-
Mortgage loans	170,649	269,132	153,640	93,085
Car loans	23,984	37,493	81,736	53,848
Consumer loans	7,222	9,067	2,052	-
Other loans (overdrafts)	1,963	3,918	5,171	725

Notes to the Financial Statements for the Year Ended 31 December 2011 (in thousands of US dollars)

10. Investment Securities Available for Sale

	2011	2010
Ukrainian Government debt securities	259,343	351,322
Deposit certificates issued by the NBU	250,087	12,576
Corporate bonds	12,596	17,447
Total debt securities	**522,026**	**381,345**
Shares	883	885
Total investment securities available for sale	**522,909**	**382,230**

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

	Ukrainian Government debt securities	Deposit certificates issued by the NBU	Corporate bonds	Total
Neither past due nor impaired				
– B- to B+ rated	259,343	250,087	-	509,430
– Unrated	-	-	12,374	12,374
Total neither past due nor impaired	259,343	250,087	12,374	521,804
Individually impaired				
- more than 360 days overdue	-	-	222	222
Total individually impaired securities	-	-	222	222
Total debt securities	**259,343**	**250,087**	**12,596**	**522,026**

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

	Ukrainian Government debt securities	Deposit certificates issued by the NBU	Corporate bonds	Total
Neither past due nor impaired				
– B- to B+ rated	351,322	12,576	-	363,898
– Unrated	-	-	8,074	8,074
Total neither past due nor impaired	**351,322**	**12,576**	**8,074**	**371,972**
Individually impaired				
- less than 30 days overdue	-	-	9,373	9,373
Total individually impaired securities	-	-	9,373	9,373
Total debt securities	**351,322**	**12,576**	**17,447**	**381,345**

The credit ratings for Ukrainian Government debt securities and deposit certificates issued by the NBU are based on sovereign country rating, and for corporate bonds – on ratings assigned by international rating agencies Fitch, Moody's and S&P.

10. Investment Securities Available for Sale (Continued)

The primary factor that the Bank considers in determining whether a debt security is impaired is its overdue status. Based on this factor, the Bank presents above an ageing analysis of debt securities that are individually determined to be impaired.

As at 31 December 2011, the Ukrainian Government debt securities include state treasury bonds with the final maturity dates from 7 March 2012 to 25 August 2015 and the effective interest rates from 8% to 14% p.a.

As at 31 December 2011, deposit certificates issued by the NBU include deposit certificates maturing on 4 January 2012 and carrying effective interest rate of 3% p.a.

As at 31 December 2011, corporate bonds include bonds issued by corporate entities with the final maturity dates from 9 March 2012 to 9 February 2015 and overdue bonds. The corporate bonds carry effective interest rates from 5% to 13% p.a.

In 2011 the Bank recognised the impairment of debt securities in the amount of USD 2,379 thousand (2010: reversed the impairment in the amount of USD 10,188 thousand).

Notes to the Financial Statements for the Year Ended 31 December 2011 (in thousands of US dollars)

11. Property and Equipment, Investment Property and Intangible Assets

	Premises	Lease-hold improve-ments	Computers and other equipment	Capital investments in property and equipment	Total property and equipment	Intan-gible assets	Total
Cost or valuation at 1 January 2010	152,131	4,391	41,536	3,474	201,532	8,090	209,622
Accumulated depreciation and amortisation	(20,542)	(2,299)	(25,006)	-	(47,847)	(4,931)	(52,778)
Carrying amount at 1 January 2010	**131,589**	**2,092**	**16,530**	**3,474**	**153,685**	**3,159**	**156,844**
Additions	10	10	4,915	661	5,596	4,074	9,670
Disposals/write-offs	(4)	(30)	(19)	(6)	(59)	-	(59)
Transfers	637	153	-	(790)	-	-	-
Transfers to investment property	(2,398)	-	-	(119)	(2,517)	-	(2,517)
Transfers from investment property	1,433	-	-	-	1,433	-	1,433
Revaluation	1,993	-	-	-	1,993	-	1,993
Impairment charge to profit or loss	(371)	-	-	-	(371)	-	(371)
Reversal of impairment through profit or loss	453	-	-	-	453	-	453
Depreciation and amortisation charge	(3,423)	(694)	(6,119)	-	(10,236)	(1,607)	(11,843)
Effect of translation to presentation currency	525	(35)	(95)	159	554	(466)	88
Carrying amount at 31 December 2010	**130,444**	**1,496**	**15,212**	**3,379**	**150,531**	**5,160**	**155,691**
Cost or valuation at 31 December 2010	153,956	4,491	45,799	3,379	207,625	11,625	219,250
Accumulated depreciation and amortisation	(23,512)	(2,995)	(30,587)	-	(57,094)	(6,465)	(63,559)
Carrying amount at 31 December 2010	**130,444**	**1,496**	**15,212**	**3,379**	**150,531**	**5,160**	**155,691**
Additions	223	206	9,098	2,243	11,770	4,144	15,914
Disposals/write-offs	(61)	(120)	(352)	(14)	(547)	(290)	(837)
Transfers	4,037	3	-	(4,040)	-	-	-
Transfers to investment property	(1,944)	-	-	-	(1,944)	-	(1,944)
Transfers from investment property	4,204	-	-	-	4,204	-	4,204
Revaluation	5,064	-	-	-	5,064	-	5,064
Impairment charge to profit or loss	(1,345)	-	-	-	(1,345)	-	(1,345)
Reversal of impairment through profit or loss	988	-	-	-	988	-	988
Depreciation and amortisation charge	(3,053)	(672)	(5,930)	-	(9,655)	(1,530)	(11,185)
Effect of translation to presentation currency	(465)	(7)	(52)	(8)	(532)	(19)	(551)
Carrying amount at 31 December 2011	**138,092**	**906**	**17,976**	**1,560**	**158,534**	**7,465**	**165,999**
Cost or valuation at 31 December 2011	167,083	3,901	52,053	1,560	224,597	14,306	238,903
Accumulated depreciation and amortisation	(28,991)	(2,995)	(34,077)	-	(66,063)	(6,841)	(72,904)
Carrying amount at 31 December 2011	**138,092**	**906**	**17,976**	**1,560**	**158,534**	**7,465**	**165,999**

11. Property and Equipment, Investment Property and Intangible Assets (Continued)

As at 31 December 2011, the Bank's own premises, furniture, equipment and ATMs, with a net book value of USD 104,634 thousand (2010: USD 106,692 thousand), were insured against risks of natural disasters, robbery, fire and unlawful acts of third parties.

As at 31 December 2011, the Bank's premises with a carrying value of USD 94,838 thousand (2010: USD 88,013 thousand) and investment property with a carrying value of USD 2,372 thousand (2010: USD 2,982 thousand) were pledged as collateral for loans received from the NBU (Note 13).

As at 31 December 2011, the carrying amount of premises would have been USD 59,522 thousand (2010: USD 55,413 thousand) had these assets been measured using the cost model. The amount reconciles to the carrying value of the premises as follows:

	31 December 2011	31 December 2010
Premises at revalued amount in the statement of financial position	138,092	130,444
Revaluation reserve presented in equity, net of tax	(77,258)	(57,318)
Deferred tax on revaluation	(1,312)	(17,713)
Premises at cost less accumulated depreciation and impairment	**59,522**	**55,413**

The Bank's premises and investment property were independently valued as at 1 December 2011 for the purposes of these financial statements. The valuation was carried out by independent appraisers. The basis used for the appraisal was the sales comparison approach. This approach was confirmed by the income capitalisation approach. For the sensitivity analysis of the fair value of premises, refer to Note 5.

Investment property movements are as follows:

	2011	2010
Fair value of investment property at 1 January	**9,816**	**10,997**
Additions	-	41
Transfer to owner-occupied premises	(4,204)	(1,433)
Transfer from owner-occupied premises	1,944	2,517
Fair value gain/(loss)	1,336	(2,344)
Effect of translation to presentation currency	(47)	38
Fair value of investment property at 31 December	**8,845**	**9,816**

The rental income received in respect of investment property for the year ended 31 December 2011 amounted to USD 883 thousand (2010: USD 780 thousand) (Note 26). The operating and maintenance expenses related to investment property for the year ended 31 December 2011 were USD 321 thousand (2010: USD 280 thousand).

The fair value gains less losses on investment property of USD 1,336 thousand (2010: losses less gains of USD 2,344 thousand) were recognised in the statement of income.

Notes to the Financial Statements for the Year Ended 31 December 2011 (in thousands of US dollars)

12. Other Assets

	2011	2010
Financial assets		
Settlements on card operations	4,565	2,821
Derivative financial assets (Note 8, 21)	4,255	4,366
Receivables on loans sold	2,912	-
Receivables on transactions with securities	1,102	2,532
Other financial assets	1,180	1,027
Allowance for impairment	(1,268)	(2,752)
Total financial assets	**12,746**	**7,994**
Non-financial assets		
Prepayments for property, equipment and intangible assets	3,899	6,891
Precious metals	4,656	3,421
Receivables on purchase of precious metals	2,891	849
Repossessed collateral		
– real estate properties accepted in settlement of loans	7,827	1,251
– other assets accepted in settlement of loans	249	249
Other	5,083	1,928
Allowance for impairment	(99)	(4,650)
Total non-financial assets	**24,506**	**9,939**
Total other assets	**37,252**	**17,933**

Repossessed collateral represents assets acquired by the Bank in settlement of overdue loans. The Bank expects to dispose of the assets in the foreseeable future. The assets do not meet the definition of non-current assets held for sale, and are classified as inventories in accordance with IAS 2, Inventories. The assets were initially recognised at fair value when acquired.

Movements in allowance for impairment of other financial assets during the year were as follows:

	2011	2010
Balance as at 1 January	**2,752**	**1,384**
(Release of allowance) / charge for the year	(1,469)	1,372
Assets written off during the year as uncollectible	(9)	-
Effect of translation to presentation currency	(6)	(4)
Balance as at 31 December	**1,268**	**2,752**

12. Other Assets (Continued)

Movements in allowance for impairment of other non-financial assets during the year were as follows:

	2011	2010
Balance as at 1 January	**4,650**	**148**
(Release) / charge for the year	(4,496)	4,681
Assets written off during the year as uncollectable	-	(136)
Effect of translation to presentation currency	(55)	(43)
Balance as at 31 December	**99**	**4,650**

Notes to the Financial Statements for the Year Ended 31 December 2011 (in thousands of US dollars)

13. Due to the National Bank of Ukraine

As at 31 December 2011, the Bank had two loans due to the National Bank of Ukraine.

On 10 December 2008, the Bank obtained a refinancing loan of UAH 520,000 thousand (USD 69,986 thousand at UAH/USD exchange rate at the date of receipt). The loan had interest at 18.5% p.a. and final maturity date in December 2009. In December 2009, the maturity of the loan was extended until December 2012 with a change in interest rate to the official discount rate of the NBU + 2% p.a., that represents 9.75% p.a. as at the reporting date. As at 31 December 2011, the loan was repaid in full (as at 31 December 2010: outstanding loan had the carrying value of USD 20,405 thousand).

In January 2009, the Bank obtained a liquidity support loan of UAH 500,000 thousand (USD 64,935 thousand at UAH/USD exchange rate at the date of receipt). The loan had interest at 18.5% p.a. and final maturity date in December 2009. In December 2009, the maturity of the loan was extended until December 2012 with a change in interest rate to the official discount rate of the NBU + 2% p.a., that represents 9.75% p.a. as at the reporting date. As at 31 December 2011, the carrying amount of this loan was USD 43,805 thousand (2010: USD 50,241 thousand).

In March 2009, the Bank obtained a further liquidity support loan of UAH 1,336,900 thousand (USD 171,306 thousand at UAH/USD exchange rate at the date of receipt). The loan had interest at 16.5% p.a. and final maturity in March 2010. In December 2009, maturity of the loan was extended to April 2013 with a change in interest rate to the official discount rate of the NBU + 2% p.a., that represents 9.75% p.a. as at the reporting date. As at 31 December 2011, the carrying amount of this loan was USD 83,377 thousand (2010: USD 103,768 thousand).

The mentioned changes in December 2009, resulting in substantial modification in terms of arrangements, were treated as derecognition of the initial financial instruments and recognition of new financial instruments.

These loans are secured by loans to the Bank's customers with a carrying amount of USD 115,554 thousand (Note 9) and the Bank's premises and investment property with a fair value of USD 94,838 thousand and USD 2,372 thousand respectively (Note 11) (2010: the loans were secured by loans with a carrying amount of USD 255,495 thousand and the Bank's premises and investment property with a fair value of USD 88,013 thousand and USD 2,982 thousand respectively).

14. Due to Other Banks

	2011	2010
Current accounts of other banks		
- Domestic	25,190	32,151
- Non-OECD countries	51	38
Total current accounts of other banks	**25,241**	**32,189**
Term deposits of other banks		
- Domestic	39,987	40,117
Total term deposits of other banks	**39,987**	**40,117**
Repurchase agreements with other banks		
- Domestic	-	623
Total due to other banks	**65,228**	**72,929**

As at 31 December 2011, included in term deposits of other banks were USD 66 thousand (2010: USD 66 thousand) held as collateral for commitments under import letters of credit and guarantees (Note 31).

As disclosed in Note 9, long-term placements of other banks of USD 8,546 thousand (2010: USD 7,853 thousand) were secured by loans and advances to customers of USD 8,552 thousand (2010: USD 7,833 thousand).

15. Customer Accounts

	2011	2010
Legal entities		
- Current accounts	1,144,345	710,943
- Term deposits	303,034	237,642
Individuals		
- Current accounts	193,555	157,088
- Term deposits	890,316	834,213
Total customer accounts	**2,531,250**	**1,939,886**

As at 31 December 2011, the Bank's 10 largest customers, with an aggregate amount of accounts of USD 843,200 thousand, represented 33% of customer accounts (2010: largest 10 customers, with an aggregate amount of deposits of USD 416,804 thousand, represented 21% of customer accounts).

Notes to the Financial Statements for the Year Ended 31 December 2011 (in thousands of US dollars)

15. Customer Accounts (Continued)

As at 31 December 2011, included in customer accounts were deposits of USD 49,021 thousand (2010: USD 40,572 thousand) held as part of collateral for loans to customers of USD 80,391 thousand (2010: USD 55,477 thousand) (Note 9) and loan commitments of USD 3,242 thousand (2010: USD 1,260 thousand) (Note 31). In addition, USD 20,979 thousand (2010: USD 8,757 thousand) is held as collateral for commitments under import letters of credit, guarantees and promissory notes endorsements (Note 31).

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

Economic sector concentrations within customer accounts are as follows:

	2011	2010
Individuals	1,083,871	991,301
Non-banking financial institutions	592,728	161,577
Trade and agency services	278,535	137,311
Metallurgy	154,074	61,583
Transport and infrastructure	123,758	102,159
Machine building	112,712	66,988
Property development	52,987	33,640
Mining and energy	39,975	276,554
Chemical	19,869	14,643
Agriculture and food	12,787	10,224
Woodworking	3,869	1,867
Other	56,085	82,039
Total customer accounts	**2,531,250**	**1,939,886**

Notes to the Financial Statements for the Year Ended 31 December 2011 (in thousands of US dollars)

16. Eurobonds Issued

In February and May 2007, the Bank obtained a loan amounting to USD 275,000 thousand from Standard Bank Plc. This loan was funded by 9.75% loan participation notes ("Eurobonds") issued by, but without recourse to, Standard Bank Plc, for the sole purpose of funding the loan to the Bank. The initial maturity date for loan was in February 2010.

In December 2009, as a result of restructuring of the Bank's borrowings, the loan was replaced by the loan with interest rate of 11% p.a. and the final maturity term in December 2014. In November 2010, the amendments were signed to the agreement, taking into account the future merger of two banks (Note 1). The change in the agreement's terms did not result in derecognition of the liability as the difference between the present value of future cash flows, discounted using the original effective interest rate, and the book value of borrowings as at the date of amendments represented 0.34%. During 2010, the Bank repaid part of the loan in the amount of USD 22,512 thousand (including USD 4,936 thousand according to the change in the arrangement). As at 31 December 2011, the carrying amount of this loan was USD 245,230 thousand (2010: USD 243,804 thousand).

17. Bonds Issued

In April 2008, the Bank issued hryvnia denominated Series B bonds for the total nominal amount of UAH 300,000 thousand (USD 61,870 thousand at exchange rate as at the date of issue). The interest rate was initially at 13.5% p.a. and changed in 2010 to 17%.

In 2009, the Bank repaid before maturity Series B bonds with a total nominal amount of UAH 284,566 thousand (USD 36,938 thousand at exchange rate as at the date of repayment) and in 2010, Series B bonds with a total nominal amount of UAH 1,915 thousand (USD 242 thousand at exchange rate as at the date of repayment).

In 2011 the Bank's Supervisory Board decided to extend the maturity of the Series B bonds issued and approved new redemption and repayment dates. The term to maturity was extended to 4 April 2014 inclusive. The interest rate for these bonds was set at 13.75% for a 12-month period beginning in April 2011; the interest rate for the subsequent periods will be based on market interest rates but cannot be lower than 3% p.a.

	2011		2010	
	Nominal value	**Carrying value**	**Nominal value**	**Carrying value**
Series B bonds issued	13	14	13	14
Total bonds issued	**13**	**14**	**13**	**14**

18. Other Borrowed Funds

	2011	**2010**
HSBC Bank Plc	29,081	130,446
Landesbank Berlin AG	10,021	14,685
Deutsche Bank	5,726	8,241
Other facilities	3,492	5,377
Total other borrowed funds	**48,320**	**158,749**

On 22 December 2009, the Bank signed an agreement with a number of its lenders to restructure the Bank's debt with a carrying amount of USD 242,468 thousand. This agreement became effective on 4 February 2010. Under the agreement, the Bank's indebtedness to Standard Bank London Limited amounting to USD 149,000 thousand, VTB Bank Europe Plc amounting to USD 50,000 thousand, HSBC Bank Plc amounting to USD 20,000 thousand, Black Sea Trade and Development Bank amounting to USD 18,000 thousand was combined into one loan facility with interest at LIBOR + 2.5% p.a., for which the lead bank is HSBC Bank Plc.

In 2010, the terms of the arrangement were changed taking into account the future merger of two banks (Note 1). Changes in the arrangement did not result in derecognition of borrowings as the difference between the present value of future cash flows, discounted using the original effective interest rate, and the book value of borrowings as at the date of amendments represented 6.72%. As at 31 December 2011 carrying value of the loan was USD 29,081 thousand (2010: USD 130,446 thousand). The loan bears interest rate at LIBOR + 3.25% p.a., with the maturity date in September 2012.

Loans from Landesbank Berlin AG are denominated in euro and bear interest at a weighted average rate of EURIBOR + 0.6% p.a. on the outstanding amount with maturity from 28 June 2013 to 30 November 2014. The loans were received for the purpose of financing the acquisition of imported equipment by the Bank's customers.

Loans from Deutsche Bank are denominated in euro and bear interest at a weighted average rate of EURIBOR + 0.7% p.a. on the outstanding amount with maturity 12 February 2014. The loans were received for the purpose of financing the acquisition of imported equipment by the Bank's customers.

Other facilities represent funds received from other banks for the purposes of financing the acquisition of import equipment by the Bank's customers. These facilities are denominated in US dollars and bear interest at a weighted average rate of LIBOR + 5.1% p.a. on the outstanding amount with maturity from 12 December 2013 to 17 February 2014.

Notes to the Financial Statements for the Year Ended 31 December 2011 (in thousands of US dollars)

19. Other Liabilities

	2011	2010
Financial liabilities		
Derivative financial liabilities (Note 8, 21)	2,479	311
Software costs payable under licensing agreements	959	1,072
Payable under operations with plastic cards	570	297
Provision for credit related commitments (Note 31)	205	654
Amounts in the course of settlements	289	352
Other financial liabilities	574	62
Total financial liabilities	**5,076**	**2,748**
Non-Financial liabilities		
Amounts payable to employees	6,732	5,403
Other taxes payable	1,620	1,344
Other accruals and deferred income	-	747
Total non-financial liabilities	**8,352**	**7,494**
Total other liabilities	**13,428**	**10,242**

20. Subordinated Debt

The Bank's subordinated debt is denominated in UAH and USD and was provided by two companies.

Subordinated debt of USD 25,000 was issued to PJSC "Dongorbank" in 2007 by a non-resident company. This subordinated debt carries an interest rate of 6.3% p.a. and matures in December 2012. As at 31 December 2011, the carrying amount of this subordinated debt was USD 24,374 thousand (2010: USD 23,641 thousand). A gain on initial recognition of the subordinated debt at rates below market in the amount of USD 3,278 thousand was recognised in the income statement.

The UAH-denominated subordinated debt was issued to PJSC "Dongorbank" by a local company in 2009 in the amount of UAH 127,300 thousand (USD 15,899 thousand at the exchange rate on the date of issue) carrying an interest rate of 12.75% p.a. and maturing in November 2014. As at 31 December 2011, the carrying amount of this subordinated debt was USD 16,105 thousand (2010: USD 15,990 thousand). In addition, UAH-denominated subordinated debt was issued to PJSC "Dongorbank" by a local company in 2009 in the amount of UAH 135,000 thousand (USD 16,854 thousand at the exchange rate on the date of issue) with the carrying amount of USD 17,080 thousand as at 31 December 2011 (2010: USD 16,955 thousand) carrying an interest rate of 12.75% p.a. and maturing in November 2014.

Also, the UAH-denominated subordinated debt was issued to the Bank by a local company in 2009 in the amount of UAH 220,000 thousand (USD 27,491 thousand at the exchange rate on the date of issue) with the carrying amount of USD 27,746 thousand as at 31 December 2011 (2010: with the carrying amount of USD 27,844 thousand) carrying an interest rate of 9% p.a. and maturing in October 2015.

21. Derivative Financial Instruments

The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities.

The Bank had outstanding foreign exchange contracts with banks as at 31 December 2011 and as at 31 December 2010:

	2011		2010	
	Contracts with positive fair value	**Contracts with negative fair value**	**Contracts with positive fair value**	**Contracts with negative fair value**
Foreign exchange forwards: fair values, at the end of the reporting period, of				
- EUR receivable on settlement (+)	-	64,729	13,280	-
- USD receivable on settlement (+)	114,497	-	-	14,028
- USD payable on settlement (-)	-	(62,883)	(13,257)	-
- EUR payable on settlement (-)	(113,319)	-	-	(13,280)
- Other payable on settlement (-)	-	(2,282)	-	(772)
Net fair value of foreign exchange forwards	**1,178**	**(436)**	**23**	**(24)**
Foreign exchange swaps: fair values, at the end of the reporting period, of				
- USD receivable on settlement (+)	48,851	124,020	50,241	16,483
- USD payable on settlement (-)	(273,631)	(115,284)	(98,108)	(31,400)
- EUR receivable on settlement (+)	-	111,754	7,968	-
- EUR payable on settlement (-)	(48,387)	-	(49,826)	(33,579)
- UAH receivable on settlement (+)	281,668	1,000	94,068	62,720
- UAH payable on settlement (-)	(5,000)	(124,470)	-	(14,511)
- Other receivable on settlement (+)	-	937	-	-
- Other payable on settlement (-)	(469)	-	-	-
Net fair value of foreign exchange swaps	**3,032**	**(2,043)**	**4,343**	**(287)**

In addition to foreign exchange contracts presented in the table above, the Bank has a commodity swap arrangement with Ukrainian bank whereby the Bank committed to supply precious metals (gold) with the fair value of USD 1,308 thousand (2010: nil) in exchange for US dollars amounting to USD 1,353 thousand (2010: nil). The Bank expects that this contract will be settled in cash, therefore, the Bank recognised it in its statement of financial position an asset with the fair value of USD 45 thousand as at 31 December 2011 (2010: nil).

The resulting net fair value gain or loss was recorded in the gains less losses from financial derivatives.

Notes to the Financial Statements for the Year Ended 31 December 2011 (in thousands of US dollars)

22. Share Capital

As at 31 December 2011, the Bank's authorised share capital comprises 14,323,880 ordinary shares with a nominal value of UAH 230 (USD 28.79 at the 31 December 2011 exchange rate of UAH 7.9898 for USD 1) per share. All shares have equal voting rights.

As at 31 December 2010, the share capital of FUIB comprised 10,968,880 ordinary shares with a nominal value of UAH 230 (USD 28.89 at the exchange rate of UAH 7.9617 for USD 1) per share. As at 31 December 2010, the share capital of PJSC "Dongorbank" comprised 771,650,000 ordinary shares with a nominal value of UAH 1 (USD 0.13 at the exchange rate of UAH 7.9617 for USD 1) per share. In these financial statements, the inflation-adjusted share capital of PJSC "Dongorbank" as at 31 December 2010 was included in the Merger reserve.

On 13 December 2011, the State Commission for Securities and Stock Market issued a statement of registration of the merged bank's share capital. The difference between the carrying value of the share capital of PJSC "Dongorbank" and its nominal amount as at 31 December 2011 was recorded in the Merger reserve in the amount of USD 4,288 thousand.

	Number of shares	Nominal amount	Inflation adjusted amount
At 1 January 2010	**10,968,880**	**315,948**	**332,587**
Translation to presentation currency	-	924	973
At 31 December 2010	**10,968,880**	**316,872**	**333,560**
New shares issued	3,355,000	96,585	96,585
Translation to presentation currency	-	(1,120)	(1,179)
At 31 December 2011	**14,323,880**	**412,337**	**428,966**

As at 31 December 2011, all shares were fully paid and registered.

Nature and Purpose of Other Reserve

Other reserve is used to record accumulated currency translation differences arising as a result of translation of equity items into the Bank's presentation currency at the closing rate ruling at the reporting date.

23. Segment Analysis

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

The Bank is organised on a basis of three main operating segments:

- Retail banking – representing private banking services, private customer current accounts, savings, deposits, investment savings products, custody, credit and debit cards, consumer loans and mortgages.
- Corporate banking – representing direct debit facilities, current accounts, deposits, overdrafts, loan and other credit facilities, foreign currency and derivative products.
- Investment banking and treasury – representing transactions at stock and capital markets, trading in securities and related brokerage services, investing in liquid assets such as short-term cash placements, debt securities and structured financing.

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

Notes to the Financial Statements for the Year Ended 31 December 2011 (in thousands of US dollars)

23. Segment Analysis (Continued)

Segment information for assets and liabilities of the reportable operating segments of the Bank as at 31 December 2011 is set out below:

2011	Retail banking	Corporate banking	Investment banking	Unallocated	Total
Segment assets	**621,520**	**1,737,500**	**1,356,740**	**(265)**	**3,715,495**
Including					
Cash balances	41,803	43,677	-	-	85,480
Balances on accounts with the National Bank of Ukraine	13,867	9,751	239,652	-	263,270
Due from other banks, net	-	-	549,574	-	549,574
Loans to customers, net	452,738	1,604,677	-	-	2,057,415
- loans to customers, gross	605,774	1,814,529	-	-	2,420,303
- allowance for impairment	(153,036)	(209,852)	-	-	(362,888)
Investment securities available for sale	-	-	551,036	-	551,036
Other financial statements line items	113,112	79,395	16,478	(265)	208,720
Segment liabilities	**1,091,192**	**1,444,724**	**360,188**	**210,721**	**3,106,825**
Including					
Due to the National Bank of Ukraine	-	-	-	127,182	127,182
Due to other banks	-	-	65,247	-	65,247
Customer accounts	1,087,022	1,439,202	-	-	2,526,224
Eurobonds issued and other borrowed funds	-	-	293,550	-	293,550
Bonds issued	-	-	14	-	14
Subordinated debt	-	-	-	86,067	86,067
Other financial statements line items	4,170	5,522	1,377	(2,528)	8,541

23. Segment Analysis (Continued)

Segment information for profit and loss of the reportable operating segments of the Bank for the year ended 31 December 2011 is set out below:

2011	Retail banking	Corporate banking	Investment banking	Unallocated	Total
Loans to customers	57,664	201,118	-	-	258,782
Due from other banks	-	87	24,831	-	24,918
Investment securities available for sale	-	-	36,314		36,314
Interest income	**57,664**	**201,205**	**61,145**	**-**	**320,014**
Customer accounts	(76,169)	(29,536)	(3,000)		(108,705)
Loans from the NBU	-	-	-	(14,541)	(14,541)
Due to other banks	(136)	(588)	(10,105)	-	(10,829)
Loans from international institutions	-	(686)	(41,358)	-	(42,044)
Securities in issue	-	-	(2)	-	(2)
Subordinated debt	-	-	-	(8,275)	(8,275)
Interest expense	**(76,305)**	**(30,810)**	**(54,465)**	**(22,816)**	**(184,396)**
Transfers	57,341	(101,870)	16,735	27,794	-
Net interest income	**38,700**	**68,525**	**23,415**	**4,978**	**135,618**
Fee and commission income	30,804	15,270	4,209	-	50,283
Fee and commission expense	(15,773)	(1,202)	(196)	-	(17,171)
Net fee and commission income	**15,031**	**14,068**	**4,013**	**-**	**33,112**
Net gains from dealing in foreign currencies, translation result	1,144	-	1,143	-	2,287
Net losses from investment securities available for sale	-	-	(241)	-	(241)
Trading income	**1,144**	**-**	**902**	**-**	**2,046**
Other income / (expense)	(290)	(772)	982	208	128
Operating income	**54,585**	**81,821**	**29,312**	**5,186**	**170,904**
Operating expenses	(55,164)	(37,073)	(7,200)	-	(99,437)
Provisions for credit related commitments	-	436	-	-	436
Allowance for impairment of loans and securities	(15,976)	5,684	3,429	-	(6,863)
Allowance for prepayments	-	-	1,778	4,170	5,948
Segment result	**(16,555)**	**50,868**	**27,319**	**9,356**	**70,988**
Income taxes					(13,842)
Profit/loss for the year					**57,146**

Notes to the Financial Statements for the Year Ended 31 December 2011 (in thousands of US dollars)

23. Segment Analysis (Continued)

Segment information for assets and liabilities of the reportable operating segments of the Bank as at 31 December 2010, presented in accordance with information analysed by management for the Bank before the merger, is set out below:

2010	Retail banking	Corporate banking	Investment banking	Unallocated	Total
Segment assets	**464,317**	**1,141,632**	**621,599**	**(4,805)**	**2,222,743**
Including					
Cash balances	38,774	12,339	-	-	51,113
Balances on accounts with the National Bank of Ukraine	5,917	4,396	65,243	-	75,556
Due from other banks, net	-	-	319,519	-	319,519
Loans to customers, net	333,376	1,075,080	-	-	1,408,456
- loans to customers, gross	420,915	1,289,817	-	-	1,710,732
- allowance for impairment	(87,539)	(214,737)	-	-	(302,276)
Investment securities available for sale	-	-	230,151	-	230,151
Other financial statements line items	86,250	49,817	6,686	(4,805)	137,948
Segment liabilities	**648,504**	**368,125**	**568,244**	**203,486**	**1,788,359**
Including					
Due to the National Bank of Ukraine	-	-	-	174,414	174,414
Due to other banks	-	-	160,090	-	160,090
Customer accounts	642,128	364,506	-	-	1,006,634
Eurobonds issued and other borrowed funds	-	-	402,553	-	402,553
Bonds issued	-	-	14	-	14
Subordinated debt	-	-	-	27,844	27,844
Other financial statements line items	6,376	3,619	5,587	1,228	16,810

23. Segment Analysis (Continued)

Segment information for profit and loss of the reportable operating segments of the Bank for the year ended 31 December 2010, presented in accordance with information analysed by management for the Bank before the merger, is set out below:

2010	Retail banking	Corporate banking	Investment banking	Unallo-cated	Total
Loans to customers	60,423	193,215	1,044	-	254,682
Due from other banks	-	57	14,810	-	14,867
Investment securities available for sale	-	-	15,177	-	15,177
Interest income	**60,423**	**193,272**	**31,031**	**-**	**284,726**
Customer accounts	(61,069)	(22,419)	-	26	(83,462)
Loans from the NBU	-	-	-	(24,108)	(24,108)
Due to other banks	(92)	(86)	(3,703)	-	(3,881)
Loans from international institutions	-	(899)	(39,516)	-	(40,415)
Securities in issue	-	-	(16)	-	(16)
Subordinated debt	-	-	-	(2,495)	(2,495)
Interest expense	**(61,161)**	**(23,404)**	**(43,235)**	**(26,577)**	**(154,377)**
Transfers	30,557	(104,062)	32,011	41,494	-
Net interest income	**29,819**	**65,806**	**19,807**	**14,917**	**130,349**
Fee and commission income	20,587	8,107	1,783	(13)	30,464
Fee and commission expense	(9,797)	(618)	(388)	-	(10,803)
Net fee and commission income	**10,790**	**7,489**	**1,395**	**(13)**	**19,661**
Net gains from dealing in foreign currencies, translation result	598	-	1,452	69	2,119
Net gains from investment securities available for sale	-	-	131	812	943
Trading income	**598**	**-**	**1,583**	**881**	**3,062**
Other income / (expense)	550	(52)	-	(511)	(13)
Operating income	**41,757**	**73,243**	**22,785**	**15,274**	**153,059**
Operating expenses	(37,457)	(21,738)	(4,481)	-	(63,676)
Provision for credit-related commitments	-	(437)	-	-	(437)
Allowance for impairment of loans and securities	(14,749)	(3,757)	6,840	-	(11,666)
Allowance for prepayments	-	-	(1,436)	(4,637)	(6,073)
Segment result	**(10,449)**	**47,311**	**23,708**	**10,637**	**71,207**
Income taxes					(17,175)
Profit/loss for the year					**54,032**

Notes to the Financial Statements for the Year Ended 31 December 2011 (in thousands of US dollars)

23. Segment Analysis (Continued)

Capital expenditure is not included into the segment information reviewed by the Management Board of the Bank. Capital expenditure represents additions to non-current assets other than financial instruments, deferred tax assets, post-employment benefit assets and rights arising under insurance contracts.

Reconciliation of reportable segment assets and liabilities as at 31 December 2011 is set out below:

2011	Total amount for all reportable segments	Adjust-ment 1	Adjust-ment 2	Adjust-ment 3	Adjust-ment 4	Other adjust-ments	As reported under IFRS
Assets	**3,715,495**	**(6,516)**	**11,295**	**(1,652)**	**-**	**2,266**	**3,720,888**
including							
Cash balances	85,480	(6,516)	-	-	-	-	**78,964**
Balances on accounts with the National Bank of Ukraine	263,270	-	-	-	-	1	**263,271**
Due from other banks, net	549,574	-	11,295	25,786	-	(1,297)	**585,358**
Loans to customers	2,057,415	-	-	758	-	(2,419)	**2,055,754**
- loans to customers, gross	2,420,303	-	-	1,767	-	615	**2,422,685**
- allowance for impairment	(362,888)	-	-	(1,009)	-	(3,034)	**(366,931)**
Investment securities available for sale	551,036	-	-	(28,196)	-	69	**522,909**
Other financial statements line items	208,720	-	-	-	-	5,912	**214,632**
Liabilities	**3,106,825**	**(6,516)**	**11,295**		**(762)**	**5,115**	**3,115,957**
including							
Due to the National Bank of Ukraine	127,182	-	-	-	-	-	**127,182**
Due to other banks	65,247	-	-	-	-	(19)	**65,228**
Customer accounts	2,526,224	(6,516)	11,295	-	-	247	**2,531,250**
Eurobonds issued and other borrowed funds	293,550	-	-	-	-	-	**293,550**
Bonds issued	14	-	-	-	-	-	**14**
Subordinated debt	86,067	-	-	-	(762)	-	**85,305**
Other financial statements line items	8,541	-	-	-	-	4,887	**13,428**

23. Segment Analysis (Continued)

Adjustments stated in the above table are described as follows:

- Adjustment 1 relates to amount of cash withdrawals through ATMs on 31 December 2011, which is not reflected in segment reporting;
- Adjustment 2 refers to the timing differences on nostro accounts which were not reflected in segment reporting;
- Adjustment 3 is explained by the reclassification of balances on repo deals and receivables and related provisions, which are recognised as purchases and sales of securities in segment reporting; and
- Adjustment 4 relates to gain at initial recognition of subordinated debt at the interest rate below the market rate, which is not recorded in segment reporting.

Notes to the Financial Statements for the Year Ended 31 December 2011 (in thousands of US dollars)

23. Segment Analysis (Continued)

Reconciliation of reportable segment revenues, profit or loss for the year ended 31 December 2011 is set out below:

2011	Total amount for all reportable segments	Adjust-ment 1	Adjust-ment 2	Adjust-ment 3	Other adjust-ments	As reported under IFRS
Interest income	320,014	(19,154)	-	-	429	301,289
Interest expense	(184,396)	6,299	(733)	-	220	(178,610)
Net interest income	**135,618**	**(12,855)**	**(733)**	**-**	**649**	**122,679**
Allowance for loan impairment	-	-	-	-	(8,074)	(8,074)
Net interest income after allowance for loan impairment	**135,618**	**(12,855)**	**(733)**	**-**	**(7,425)**	**114,605**
Fee and commission income	50,283	-	-	(1,038)	(1,029)	48,216
Fee and commission expense	(17,171)	-	-	1,038	382	(15,751)
Net fee and commission income	**33,112**	**-**	**-**	**-**	**(647)**	**32,465**
Net gains from dealing in foreign currencies, translation result	2,287	-	-	-	146	2,433
Net losses from investment securities available for sale	(241)	-	-	-	97	(144)
Trading income	**2,046**	**-**	**-**	**-**	**243**	**2,289**
Reversal of provision for credit related commitments	-	-	-	-	418	418
Gains less losses on revaluation of investment property	-	-	-	-	1,336	1,336
Impairment of investment securities available for sale	-	-	-	-	(2,379)	(2,379)
Gains less losses from financial derivatives	-	12,855	-	-	(98)	12,757
Other income / (expense)	128	-	-	-	3,749	3,877
Operating income	**170,904**	**-**	**(733)**	**-**	**(4,803)**	**165,368**
Operating expenses	(99,437)	-	-	-	2,543	(96,894)
Provision for credit-related commitments	436	-	-	-	(436)	-
Allowance for impairment of assets	(6,863)	-	-	-	6,863	-
Allowance for prepayments	5,948	-	-	-	(5,948)	-
Segment result / Profit before income tax expense	**70,988**	**-**	**(733)**	**-**	**(1,781)**	**68,474**
Income taxes	(13,842)	-	-	-	1,749	(12,093)
Profit for the year	**57,146**	**-**	**(733)**	**-**	**(32)**	**56,381**

Adjustments stated in the above table are described as follows:

- Adjustment 1 is explained by presentation of swap arrangements on a gross and on a net basis, in management and the IFRS accounts, respectively;
- Adjustment 2 refers to gain at initial recognition of subordinated debt at the interest rate below the market rate, which is not recorded in segment reporting; and
- Adjustment 3 relate to internal correction of processing centre income and expenses of merged banks during the period in 2011 before the date of merging accounts, which is not eliminated in segment reporting.

23. Segment Analysis (Continued)

Reconciliation of reportable segment assets and liabilities as at 31 December 2010, presented in accordance with information analysed by management for the Bank before the merger, to the financial statements of the Bank presented under predecessor basis of accounting, with the effect of the merger and changes in presentation and accounting for interest income shown separately, is set out below:

2010	Total amount for all reportable segments	Adjust-ment 1	Adjustment 2	Other adjust-ments	Merger effect and changes in accounting	As reported under IFRS
Assets	**2,222,743**	**(874)**	**-**	**306**	**996,902**	**3,219,077**
Including						
Cash balances	51,113	(874)	-	(317)	25,738	75,660
Balances on accounts with the National Bank of Ukraine	75,556	-	-	2	64,040	139,598
Due from other banks, net	319,519	-	16,486	761	282,378	619,144
Loans to customers	1,408,456	-	-	223	410,326	1,819,005
- loans to customers, gross	1,710,732	-	-	3,625	492,610	2,206,967
- allowance for impairment	(302,276)	-	-	(3,402)	(82,284)	(387,962)
Investment securities available for sale	230,151	-	(16,486)	(851)	169,416	382,230
Other financial statements line items	137,948	-	-	488	45,004	183,440
Liabilities	**1,788,359**	**(874)**	**-**	**(88)**	**904,569**	**2,691,966**
Including						
Due to the National Bank of Ukraine	174,414	-	-	-	-	174,414
Due to other banks	160,090	-	-	623	(87,784)	72,929
Customer accounts	1,006,634	(874)	-	52	934,074	1,939,886
Eurobonds issued and other borrowed funds	402,553	-	-	-	-	402,553
Bonds issued	14	-	-	-	-	14
Subordinated debt	27,844	-	-	-	56,586	84,430
Other financial statements line items	16,810	-	-	(763)	1,693	17,740

Adjustments stated in the above table are described as follows:

- Adjustment 1 relates to amounts of cash withdrawals through ATMs on 31 December 2011, which are not reflected in segment reporting; and
- Adjustment 2 is explained by the reclassification of balances on repo deals, which are recognised as purchases and sales of securities in segment reporting.

Notes to the Financial Statements for the Year Ended 31 December 2011 (in thousands of US dollars)

23. Segment Analysis (Continued)

Reconciliation of reportable segment revenues, profit or loss for the year ended 31 December 2010, presented in accordance with information analysed by management for the Bank before the merger, to the financial statements of the Bank presented under predecessor basis of accounting, with the effect of the merger and changes in presentation and accounting for interest income shown separately, is set out below:

2010	Total amount for all reportable segments	Adjustment 1	Adjustment 2	Adjustment 3	Other	Merger effect and changes in presentation and accounting	As reported under IFRS
Interest income	284,726	-	(173)	(5,475)	7	53,281	332,366
Interest expense	(154,377)	-	-	1,509	6	(73,395)	(226,257)
Net interest income	**130,349**	**-**	**(173)**	**(3,966)**	**13**	**(20,114)**	**106,109**
Allowance for impairment of assets	-	(21,259)	-	-	-	45,776	24,517
Net interest income after allowance for loan impairment	**130,349**	**(21,259)**	**(173)**	**(3,966)**	**13**	**25,662**	**130,626**
Fee and commission income	30,464	-	-	-	(12)	9,045	39,497
Fee and commission expense	(10,803)	-	-	-	(73)	(610)	(11,486)
Net fee and commission income	**19,661**	**-**	**-**	**-**	**(85)**	**8,435**	**28,011**
Net gains from dealing in foreign currencies, translation result	2,119	(700)	-	20	2,076	313	3,828
Net gains from investment securities available for sale	943	-	-	-	(6)	(27)	910
Trading income	**3,062**	**(700)**	**-**	**20**	**2,070**	**286**	**4,738**
Provision for credit related commitments	-	(437)	-	-	-	-	(437)
Losses less gains on revaluation of investment property	-	-	-	-	(2,290)	(54)	(2,344)
Impairment of investment securities available for sale	-	9,593	-	-	-	595	10,188
Gains less losses from financial derivatives	-	-	-	3,946	-	1,836	5,782
Other income / (expense)	(13)	308	-	-	930	1,050	2,275
Operating income	**153,059**	**(12,495)**	**(173)**	**-**	**638**	**37,810**	**178,839**
Operating expenses	(63,676)	(5,681)	-	-	(186)	(18,222)	(87,765)
Provision for credit related commitments	(437)	437	-	-	-	-	-
Allowance for impairment of assets	(11,666)	11,666	-	-	-	-	-
Allowance for prepayment	(6,073)	6,073	-	-	-	-	-
Segment result / Profit before income tax expense	**71,207**	**-**	**(173)**	**-**	**452**	**19,588**	**91,074**
Income tax expense	(17,175)	-	-	-	86	(2,773)	(19,862)
Profit for the year	**54,032**	**-**	**(173)**	**-**	**538**	**16,815**	**71,212**

23. Segment Analysis (Continued)

Adjustments stated in the above table are described as follows:

- Adjustment 1 relates to the differences in classification of income and expenses in management and IFRS accounts;
- Adjustment 2 refers to repo transactions, which are recognised as purchases and sales of securities in segment reporting , and reclassifies the result of operations with securities to interest income on loans respectively; and
- Adjustment 3 is explained by presentation of swap arrangements on a gross and on a net basis, in management and the IFRS accounts, respectively.

Revenues for each individual country are not reported to the CODM as they are mainly represented by revenues from Ukraine, including revenues from off-shore companies of Ukrainian customers, based on the domicile of the customer. Revenues from other countries comprise interest income and fee and commission income and do not exceed 10% of total revenues of the Bank.

Capital expenditure comprising additions to non-current assets other than financial instruments is represented by assets located in Ukraine.

The Bank has no customer for which the revenue represents 10% or more of the total revenues.

24. Interest Income and Expense

	2011	2010
Interest income		
Loans to customers		
- legal entities	201,465	228,075
- individuals	58,173	69,380
Due from other banks	5,683	11,319
Securities available for sale	35,968	23,592
Total interest income	**301,289**	**332,366**
Interest expense		
Individuals		
- term deposits	(73,563)	(95,778)
- current accounts	(2,700)	(4,423)
Legal entities		
- term deposits	(21,521)	(45,353)
- current accounts	(11,165)	(2,756)
Eurobonds issued	(30,087)	(30,592)
Due to the NBU	(14,541)	(24,108)
Other borrowed funds	(11,957)	(9,824)
Subordinated debt	(9,008)	(8,946)
Due to other banks	(4,066)	(4,461)
Bonds issued	(2)	(16)
Total interest expense	**(178,610)**	**(226,257)**
Net interest income	**122,679**	**106,109**

Notes to the Financial Statements for the Year Ended 31 December 2011 (in thousands of US dollars)

25. Fee and Commission Income and Expense

	2011	2010
Payment cards	26,359	17,897
Foreign currency exchange	8,002	3,453
Settlement transactions with customers	6,842	10,616
Documentary operations	3,544	2,914
Cash deposits and withdrawals	2,269	3,760
Servicing of loans	798	469
Fiduciary activities	131	170
Other	271	218
Fee and commission income	**48,216**	**39,497**
Payment cards	(13,603)	(8,010)
Cash collections	(1,075)	(2,072)
Settlement transactions	(912)	(1,269)
Documentary operations	(65)	(84)
Fiduciary activities	(22)	(12)
Other	(74)	(39)
Fee and commission expense	**(15,751)**	**(11,486)**
Net fee and commission income	**32,465**	**28,011**

26. Other Income

	2011	2010
Reversal of premises impairment	988	455
Rental income from investment properties (Note 11)	883	780
Other rental income	556	274
Gain from sale of precious metals	501	96
Penalties received	207	414
Other income	742	256
Total other income	**3,877**	**2,275**

27. Operating Expenses

	2011	2010
Salary, employee benefits and compulsory contributions to State funds	52,037	41,396
Depreciation and amortisation (Note 11)	11,185	11,843
Maintenance of premises and equipment	6,547	6,188
Individuals Deposits Guarantee Fund	5,139	4,124
Audit, legal, consulting services	7,607	4,030
Lease of premises	4,796	3,750
Advertising, entertainment, representative offices maintenance	3,467	2,042
Impairment of premises	1,345	371
Communication	1,855	1,817
State duties and taxes, other than on income	1,658	2,164
Security services	1,205	1,225
Training	437	212
Charitable contributions	85	77
Reversal of provision on tax claim	-	(988)
Impairment of other assets (Note 12)	(5,965)	6,053
Other	5,496	3,461
Total operating expenses	**96,894**	**87,765**

Included in salary, employee benefits and compulsory contributions to State funds are the unified social tax in the amount of USD 10,974 thousand and one-off pension contributions of USD 255 thousand (2010: statutory social security of USD 1,041 thousand and pension contributions of USD 8,099 thousand). Starting from 2011, in accordance with the Ukrainian legislation, the unified social tax is implemented, with further allocation of contributions between the respective state social funds. Pension contributions are made into State pension fund which is a defined contribution plan. Contribution to the state pension fund comprises 90.2174% of the unified social tax, amounting to USD 9,900 thousand in 2011.

As a result of a tax review of the Bank on the matters of compliance with the tax legislation requirements, held for the period from 1 April 2006 to 31 December 2007, the Bank received the official tax claim on the additional current tax payable, including the amount of UAH 7,888 thousand, a part of which related to the respective penalties. The additional current tax payable was charged by tax authorities, as the expenses on provision for credit related commitments had been defined by the Bank as tax deductible that was treated as the matter of non-compliance with tax legislation. The Bank argued against the treatment through the court procedure. Taking into account the uncertainty of positive court decision, the Bank accrued provision for tax claim in the amount of UAH 7,888 thousand in 2008. On 11 March 2010, based on the decision of Supreme Administrative Court of Ukraine, the tax claim related to the amount of UAH 7,888 thousand was rendered ineffective. In 2010, the reversal of provision was made, with the income recognised in the amount of UAH 7,888 thousand (USD 988 thousand at foreign exchange rate as at the date of transaction). Refer to Note 27.

Notes to the Financial Statements for the Year Ended 31 December 2011 (in thousands of US dollars)

28. Income Taxes

Income tax expense was comprised of the following:

	2011	2010
Current tax charge	9	25,085
Deferred tax expense / (benefit)	12,084	(5,223)
Income tax expense for the year	**12,093**	**19,862**

The income tax rate applicable to the Bank's income earned before 1 April 2011 is 25%. The income tax rate applicable to the Bank's income earned after 1 April 2011 is 23%. A reconciliation between the expected and the actual income tax expense is provided below:

	2011	2010
Profit before income tax	**68,474**	**91,074**
Theoretical tax charge at the applicable statutory rate	16,091	22,769
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Income assessable for tax purposes only	4,629	19,841
- Income recognised in financial reporting only	(4,103)	(10,568)
- Non deductible expenses	2,229	954
- Exchange rate differences on recognition of current and deferred income tax	(32)	(149)
- Other non temporary differences	(283)	388
- Change in unrecognised deferred tax asset	-	(13,937)
- Recognition of previously unrecognised tax loss carried forward	(2,895)	(287)
- Utilisation of previously unrecognised tax loss carry forwards	(3,543)	(1,923)
- Change in income tax amount for income tax rate applicable in future	-	2,774
Income tax expense for the year	**12,093**	**19,862**

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

As at 31 December 2009 the Bank did not recognise deferred tax asset arising on provision for loan impairment of USD 13,937 thousand and deferred tax asset of USD 8,648 thousand arising in respect of tax losses accumulated by PJSC "Dongorbank" due to uncertainty with realisation of these tax assets and loss-making activity of the Bank in 2009. In 2010 and 2011, as a result of improved performance of the Bank and market conditions, the Bank revised its estimates.

28. Income Taxes (Continued)

As at 31 December 2011, the Bank has recognised potential deferred tax asset in respect of unused tax loss carry forwards of USD 15,147 thousand (2010: USD 1,248 thousand). Tax losses under Ukrainian legislation can be carried forward for indefinite period of time.

Before 1 April 2011, book value of property and equipment in tax accounting was different from their book value in the financial accounting by the amount of revaluation of premises and because of the differences in depreciation rules. Starting from 1 April 2011, in accordance with the newly adopted Tax Code, the revaluation made before 1 January 2010 was included into the book value of premises in tax accounting, and new depreciation rules were introduced, being close to the financial accounting rules. As a result, deferred tax liability on property and equipment decreased by USD 17,314 thousand which was previously included into other comprehensive income. Major part of this change in deferred tax was included in other comprehensive income as it related to revaluation surplus which was also recorded in other comprehensive income.

Deferred tax assets and liabilities as at 31 December 2011 and 31 December 2010 and their movements for the respective years are as follows:

	31 December 2010	Credited/ (charged) to other comprehensive income	Credited/ (charged) to statement of income	Effect of translation to presen-tation currency	31 December 2011
Tax effect of deductible and taxable temporary differences					
Allowance for loan impairment and credit related commitments	(851)	-	(25,427)	3	(26,275)
Investment securities available for sale	8,713	(482)	2,930	(31)	11,130
Property and equipment	(18,569)	16,499	(1,206)	65	(3,211)
Accrued interest and commission income	10,851	-	7,192	(38)	18,005
Accrued interest and commission expense	(4,121)	-	2,657	14	(1,450)
Subordinated debt	(344)	-	183	1	(160)
Other	2,595	-	(1,308)	(9)	1,278
Estimated net deferred tax liability	**(1,726)**	**16,017**	**(14,979)**	**5**	**(683)**
Tax loss carry forward	287	-	2,895	(1)	**3,181**
Net deferred tax (liability) / asset	**(1,439)**	**16,017**	**(12,084)**	**4**	**2,498**

Notes to the Financial Statements for the Year Ended 31 December 2011 (in thousands of US dollars)

28. Income Taxes (Continued)

	31 December 2009	Credited/ (charged) to other comprehensive income	Credited/ (charged) to statement of income	Effect of translation to presen-tation currency	31 December 2010
Tax effect of deductible and taxable temporary differences					
Allowance for loan impairment and credit related commitments	26,410	-	(27,354)	93	(851)
Investment securities available for sale	4,915	(792)	4,571	19	8,713
Property and equipment	(19,108)	399	206	(66)	(18,569)
Accrued interest and commission income	(498)	-	11,356	(7)	10,851
Accrued interest and commission expense	(949)	-	(3,169)	(3)	(4,121)
Subordinated debt	(560)	-	220	(4)	(344)
Other	(2,526)	-	5,129	(8)	2,595
Estimated deferred tax asset/ (liability)	**7,684**	**(393)**	**(9,041)**	**24**	**(1,726)**
Unrecognized deferred tax asset	(13,937)	-	13,977	(40)	-
Tax loss carry forward	-	-	287	-	287
Net deferred tax liability	**(6,253)**	**(393)**	**5,223**	**(16)**	**(1,439)**

29. Risk Management

Introduction

Risk is inherent in the Bank's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. The process of risk management is critical to the Bank's continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities. The Bank is exposed to credit risk, liquidity risk and market risk, the latter being subdivided into trading and non-trading risks. It is also subject to operating risks.

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

Risk Management Process

Risk management policy, monitoring and control are conducted by a number of specialised bodies and units within the Bank. The units most actively involved in such management are: Credit Risk Management Division and the Market and Operational Risk Management Division, subordinated to the Deputy Chairman of the Management Board and reporting to the Bank Management Board, Credit Council, and the Assets and Liabilities Management Committee.

Supervisory Board

The Supervisory Board has the highest degree of authority with respect to the Bank's risk management, and is empowered through the Bank's Charter to approve any transactions on behalf of the Bank for amounts in excess of USD 150,000 thousand.

Management Board

The Management Board is generally responsible for the activities of the Bank, including those relating to risk management. The Management Board delegates its powers with respect to the overall asset and liability management of the Bank to the Assets and Liabilities Management Committee, approves the composition of this Committee and the Tariff Committee. In addition, the Management Board is responsible for development and preliminary approval of the Bank's credit policy, before final approval by Supervisory Board.

Credit Council

Credit Council of the Bank approves loans issued with the maximum credit exposure of USD 150,000 thousand and sets limits on interbank deals. A representative of shareholders is a member of Credit Council. All decisions of the Credit Council have the power only if they are unanimous. The Council meets several times per week when the need arises.

Credit Committee

Credit Committee is responsible for decision on restructuring and issue of loans with a maximum credit exposure of USD 2,000 thousand irrespectively of collateral. Also Credit Committee of the Bank approves loans which bear no credit risk covered by cash collateral for loans with a maximum credit exposure of USD 10,000 thousand. The Committee meets several times per week when the need arises.

Assets and Liabilities Committee

The Assets and Liabilities Committee is responsible for managing the Bank's assets and liabilities and the overall financial structure. It is also primarily responsible for monitoring the interest, currency and liquidity risks of the Bank.

Notes to the Financial Statements for the Year Ended 31 December 2011 (in thousands of US dollars)

29. Risk Management (Continued)

Credit Risk Management Division
The Credit Risk Management Department is responsible for development of credit risk management methodologies, implementing and maintaining credit risk related procedures, reporting.

Market and Operational Risk Management Division
The Market and Operational Risk Management division is responsible for the development of risk management methodologies, procedures and reporting, which allow the Bank to perform a quantitative assessment of interest, currency, operating and liquidity risks. This structural unit monitors the above mentioned risks on a permanent basis and controls the implementation of the decisions of the Assets and Liabilities Management Committee.

Risk measurement and reporting systems
The Bank's risks are measured using a method which reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical and expert's models. The models make use of probabilities derived from historical experience, adjusted to reflect current economic environment. The Bank also runs worst case scenarios that would arise in the case that extreme events which are unlikely to occur do, in fact, occur.

Monitoring and controlling risks is primarily performed based on limits established by the Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept, with additional emphasis on selected industries. In addition the Bank monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risks types and activities. Information compiled from all the businesses is examined and processed in order to analyse, control and early identify risks. This information is presented and explained to the Management Board, Assets and Liabilities Management Committee, Credit Council and the head of each respective business division. The report includes the information on aggregate credit exposure, credit metric forecasts, hold limit exceptions, liquidity and interest rate risks and risk profile changes. On a monthly basis, detailed reporting of liquidity, currency and interest rate risks, industry, customer and geographic risks is prepared. Senior management assesses the appropriateness of the allowance for credit losses on a quarterly basis.

The Management Board receives a comprehensive risk report which is designed to provide all the necessary information to assess and conclude on the risks of the Bank on a monthly basis.

Risk mitigation
As part of its overall risk management, the Bank uses derivatives and other instruments to manage exposures resulting from changes in interest rates, foreign currencies, equity risks, credit risks, and exposures arising from forecast transactions.

The Bank actively uses collateral to reduce its credit risks (see below for more detail).

Excessive risk concentration
Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location.

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

29. Risk Management (Continued)

Credit risk
The Bank takes on exposure to credit risk which is the risk, that a counterparty will be unable to pay amounts in full when due. The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers. Such risks are monitored on a revolving basis and subject to a regular review. Limits on the level of credit risk by borrower are approved regularly by the Credit Council and Credit Committee of the Bank.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and principal repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed, in part, by obtaining collateral and corporate guarantees.

Derivative financial instruments
Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded in the statement of financial position.

Credit-related commitments risks
The Bank makes available to its customers guarantees and letters of credit which may require that the Bank make payments on their behalf. They expose the Bank to similar risks to loans and these are mitigated by the same control processes and policies.

The table below shows the maximum exposure to credit risk for the components of the statement of financial position, including derivatives. The maximum exposure is reflected in the carrying amounts of financial assets on the consolidated statement of financial position, shown before the effect of mitigation through the use of master netting and collateral agreements.

	2011	**2010**
Balance with the National Bank of Ukraine (Note 7)	263,271	139,598
Balances with other banks (Note 8)	585,358	619,144
Loans to customers (Note 9)	2,055,754	1,819,005
Investment securities available for sale (Note 10)	522,026	381,345
Other financial assets (Note 12)	12,746	7,994
Financial contingencies and commitments (Note 31)	138,946	128,178
Total credit risk exposure	**3,578,101**	**3,095,264**

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

For more detail on the maximum exposure to credit risk for each class of financial instrument, references shall be made to the specific notes. The effect of collateral and other risk mitigation techniques is shown below.

Credit quality of financial assets
The credit quality of financial assets is managed by using both external and the Bank's internal credit ratings. The credit quality by class of asset for loan-related statement of financial position lines, based on the external ratings and the Bank's credit rating system is presented in Note 8, Note 9 and Note 10.

Notes to the Financial Statements for the Year Ended 31 December 2011 (in thousands of US dollars)

29. Risk Management (Continued)

Impairment assessment
The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue by more than 30 days or there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract. The Bank addresses impairment assessment in two areas: individually assessed allowances and collectively assessed allowances.

Individually assessed allowances
The Bank determines the allowances appropriate for each individually significant loan on an individual basis. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and the expected dividend payment in case of bankruptcy, the availability of other financial support, the realisable value of collateral, and the timing of the expected cash flows. The impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

Collectively assessed allowances
Allowances are assessed collectively for losses on loans to customers that are not individually significant (including credit cards, residential mortgages and unsecured consumer lending) and for individually significant loans where there is no yet objective evidence of impairment. Allowances are evaluated at each reporting date with each portfolio receiving a separate review. The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is no yet any objective evidence of impairment in an individual assessment. Impairment losses are estimated by taking into consideration the following information: historical losses on the portfolio, current economic conditions, the appropriate delay between the time a loss is likely to have been incurred and the time it will be identified as requiring an individually assessed impairment allowance, and expected receipts and recoveries once impaired. The impairment allowance is then reviewed by credit management to ensure alignment with the Bank's overall policy.

Financial guarantees and letters of credit are assessed based on the methods applied for loans; when a loss is considered probable, provisions are recorded against other credit related commitments.

Liquidity risk and funding management
Liquidity risk is the risk that the Bank will be unable to discharge its payment obligations when due in the course of usual economic activity and under stress circumstances. To limit this risk, the management has ensured diversified funding sources in addition to the Bank's core deposit base, manages assets in compliance with its liquidity principles and monitors on a daily basis future cash flows and liquidity.

29. Risk Management (Continued)

During the crisis period, the Bank, with the view to ensuring proper discharge of both its own and clients' obligations, has implemented the policy aimed at maintaining liquid assets at a level sufficient to cover any unplanned withdrawal of a proportion of client deposits placed with the Bank as a precaution against further deterioration in the economic situation. Liquidity risk is measured by the Bank by using gap analysis and forecasts of expected future cash flows during the 1 year term. In addition, stress tests scenarios are applied to the forecasted future cash flows developed based on the statistical data of Ukrainian banks' results under conditions of the financial crisis.

The liquidity position is assessed and managed by the Bank, based on certain liquidity ratios established by the NBU. As at 31 December, these ratios were as follows:

Ratio	**2011, %**	**2010, % (without the effect of the merger)**
N4 "Instant Liquidity Ratio" (cash and balances on correspondent accounts / liabilities repayable on demand) (minimum required by the NBU – 20%)	55.00	67.88
N5 "Current Liquidity Ratio" (assets receivable or realisable within 31 days / liabilities repayable within 31 days) (minimum required by the NBU – 40%)	68.34	68.76
N6 "Short-term Liquidity Ratio" (certain assets with original maturity up to 1 year / liabilities with original maturity up to 1 year including off-balance sheet commitments) (minimum required by the NBU – 60%)	77.65	88.14

Analysis of financial liabilities by remaining contractual maturities
The table below summarises the maturity profile of the Bank's financial liabilities at 31 December 2011 based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay and the table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

As at 31 December 2011	**Up to 1 month**	**From 1 to 3 months**	**From 3 to 6 months**	**From 6 to 12 months**	**More than 12 months**	**Total**
Due to the National Bank of Ukraine	1,019	1,970	2,990	49,659	85,448	141,086
Due to other banks	55,483	106	1,738	651	13,327	71,305
Derivative financial instruments:	2,479	-	-	-	-	2,479
- inflows	(302,440)	-	-	-	-	(302,440)
- outflows	304,919	-	-	-	-	304,919
Customer accounts	1,647,292	287,058	214,919	355,177	66,708	2,571,154
Eurobonds issued	-	6,943	6,943	13,887	308,035	335,808
Bonds issued	-	-	14	-	-	14
Other borrowed funds	150	279	10,601	20,842	19,882	51,754
Other financial liabilities	1,724	-	-	258	615	2,597
Subordinated debt	1,425	1,332	2,032	29,056	75,078	108,923
Total undiscounted financial liabilities	**1,709,572**	**297,688**	**239,237**	**469,530**	**569,093**	**3,285,120**

Notes to the Financial Statements for the Year Ended 31 December 2011 (in thousands of US dollars)

29. Risk Management (Continued)

As at 31 December 2010	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 12 months	Total
Due to the National Bank of Ukraine	11,271	7,463	18,441	6,436	162,767	206,378
Due to other banks	212,030	288	3,072	13,697	-	229,087
Derivative financial instruments:	311	-	-	-	-	311
- inflows	(93,231)	-	-	-	-	(93,231)
- outflows	93,542	-	-	-	-	93,542
Customer accounts	1,037,723	284,539	264,074	365,900	32,494	1,984,730
Eurobonds issued	-	6,943	6,943	13,887	335,809	363,582
Bonds issued	1	-	14	-	-	15
Other borrowed funds	467	31,701	23,197	63,511	55,469	174,345
Other financial liabilities	1,648	-	-	-	789	2,437
Subordinated debt	1,050	1,371	2,034	4,176	108,652	117,283
Total undiscounted financial liabilities	**1,264,501**	**332,305**	**317,775**	**467,607**	**695,980**	**3,078,168**

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

	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 12 months	Total
2011	4,248	40,942	7,260	46,254	40,447	**139,151**
2010	8,560	25,014	34,680	29,386	31,192	**128,832**

Financial commitments and contingences include guarantees, letters of credit and credit limits on overdrafts, with the expected draw-down at any time starting from the reporting date till the date of contractual expiry. The Bank expects that not all of the contingent liabilities or commitments will be drawn before expiry of the commitments.

29. Risk Management (Continued)

The table below shows an analysis of carrying values of assets and liabilities according to when they are expected to be recovered or settled as at 31 December 2011:

	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 12 months	Total
Assets						
Cash on hand and in transit	78,964	-	-	-	-	78,964
Balance with the National Bank of Ukraine	263,271	-	-	-	-	263,271
Due from other banks	563,461	7,354	6,920	7,584	39	585,358
Loans to customers	192,791	242,989	180,477	339,371	1,100,126	2,055,754
Investment securities available for sale	250,338	29,241	7,095	17,151	219,084	522,909
Gross settled swaps and forwards:						
- inflows	446,369	-	-	-	-	446,369
- outflows	(442,114)	-	-	-	-	(442,114)
Other financial assets	5,579	-	-	115	2,797	8,491
Total financial assets	**1,358,659**	**279,584**	**194,492**	**364,221**	**1,322,046**	**3,519,002**
Liabilities						
Due to the National Bank of Ukraine	-	-	-	43,805	83,377	127,182
Due to other banks	55,363	2	1,317		8,546	65,228
Customer accounts	1,642,939	276,767	205,093	343,368	63,083	2,531,250
Eurobonds issued	-	-	-	-	245,230	245,230
Bonds issued	-	-	14	-	-	14
Other borrowed funds	58	58	9,718	19,385	19,101	48,320
Subordinated debt	703	-	-	24,238	60,364	85,305
Gross settled swaps and forwards:						
- inflows	(302,440)	-	-	-	-	(302,440)
- outflows	304,919	-	-	-	-	304,919
Other financial liabilities	1,724	-	-	258	615	2,597
Total financial liabilities	**1,703,266**	**276,827**	**216,142**	**431,054**	**480,316**	**3,107,605**
Liquidity gap arising from financial instruments	**(344,607)**	**2,757**	**(21,650)**	**(66,833)**	**841,730**	**411,397**

The maturity analysis does not reflect the historical stability of current liabilities. Their realisation historically took place within a period exceeding that indicated in the table above. Management believes that despite the current economic situation, the balances of current accounts will remain stable. These balances are included in the table above as amounts with the maturity date in the period up to one month.

Notes to the Financial Statements for the Year Ended 31 December 2011 (in thousands of US dollars)

29. Risk Management (Continued)

The table below shows an analysis of assets and liabilities according to when they are expected to be recovered or settled as at 31 December 2010:

	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 12 months	Total
Assets						
Cash on hand and in transit	75,660	-	-	-	-	75,660
Balance with the National Bank of Ukraine	139,598	-	-	-	-	139,598
Due from other banks	599,501	13,657	4,678	1,308	-	619,144
Loans to customers	156,337	218,944	158,262	377,954	907,508	1,819,005
Investment securities available for sale	89,989	67,118	4,570	63,198	157,355	382,230
Gross settled swaps and forwards:						
- inflows	165,557	-	-	-	-	165,557
- outflows	(161,191)	-	-	-	-	(161,191)
Other financial assets	2,637	-	-	-	991	3,628
Total financial assets	**1,068,088**	**299,719**	**167,510**	**442,460**	**1,065,854**	**3,043,631**
Liabilities						
Due to the National Bank of Ukraine	10,048	5,024	15,072	-	144,270	174,414
Due to other banks	57,492	-	2,579	12,858		72,929
Customer accounts	1,031,572	272,933	256,758	349,877	28,746	1,939,886
Eurobonds issued	-	-	-	-	243,804	243,804
Bonds issued	1	-	13	-	-	14
Other borrowed funds	467	29,595	20,848	58,050	49,789	158,749
Subordinated debt	347	-	-	-	84,083	84,430
Gross settled swaps and forwards:						
- inflows	(93,231)	-	-	-	-	(93,231)
- outflows	93,542	-	-	-	-	93,542
Other financial liabilities	1,648	-	-	-	789	2,437
Total financial liabilities	**1,101,886**	**307,552**	**295,270**	**420,785**	**551,481**	**2,676,974**
Liquidity gap arising from financial instruments	**(33,798)**	**(7,833)**	**(127,760)**	**21,675**	**514,373**	**366,657**

The Bank's ability to repay its liabilities depends on its ability to attract the equivalent amount of assets within the same period of time. The current volume of liquid assets will enable the Bank to operate in a stable manner even under a situation when there may be a partial withdrawal of clients' deposits from the Bank and in case of further deterioration of the economic situation. Management believes that in spite of a substantial portion of customers accounts being on demand, diversification of these deposits by number and type of depositors, and the past experience of the Bank would indicate that these customer accounts provide a long-term and stable source of funding for the Bank.

29. Risk Management (Continued)

Included in customer accounts are term deposits of individuals. Pursuant to the Ukrainian legislation the Bank is obliged to repay such deposits upon the depositor's demand (Note 15).

Market risk – Non-trading

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, exchange rates and other prices. The Bank manages exposures to market risk for non-trading portfolios. Non-trading positions are managed and monitored using sensitivity analysis. Except for the concentrations within foreign currency, the Bank has no significant concentration of market risk.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. Interest risk is measured based on the reports of changes in spread and margin. Also, the Bank performs duration analysis and modelling of interest income in case of parallel shift of yield curve. The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Bank's income statement.

The sensitivity of the statement of income is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities held at 31 December, taking into account the repricing periods according to the contractual terms on the respective assets and liabilities.

	2011		2010	
Interest rate	**Change in interest rate, basis points**	**Effect on net profit and equity**	**Change in interest rate, basis points**	**Effect on net profit and equity**
Libor	+15	(4)	+25	(209)
Libor	-10	2	-	-
Euribor	+50	26	+50	38
Euribor	-30	(16)	-25	(19)

The above effect of changes in interest rates on the net profit and equity does not include the impact of taxation. Tax rate applicable for 2012 is 21%, refer to Note 2.

At 31 December 2011, if interest rates on financial instruments denominated in UAH at that date had been 100 basic points higher/lower with all other variables held constant, profit for the year would not have been affected. Other components of equity would have been USD 5,220 thousand (2010: 3,813 thousand) lower/higher, mainly as a result of a decrease / increase in the fair value of fixed rate financial assets classified as available for sale.

29. Risk Management (Continued)

Basis rates are stated by the Bank's Assets and Liabilities Committee. Delegation of authority regarding the change of interest rates is established by the internal policies of the Bank. The actual interest rates are monitored monthly by Assets and Liabilities Committee.

Currency risk
Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Management Board has set limits on positions by currency based on the NBU regulations. Positions are monitored on a daily basis. Currency risk is measured by use of VaR methodology and stress tests for significant fluctuations of currency exchange rates.

The table below summarises the Bank's exposure to foreign currency risk as at 31 December 2011, presented in thousands of US dollars.

Assets	UAH	USD	EUR	Other	Non-monetary assets	Total
Assets						
Cash on hand and in transit	53,472	16,433	6,041	3,018	-	78,964
Balance with the National Bank of Ukraine	259,993	2,940	338	-	-	263,271
Due from other banks	49,110	483,364	42,468	10,416	-	585,358
Loans to customers	1,085,056	853,160	117,406	132	-	2,055,754
Investment securities available for sale	522,026	-	-	-	883	522,909
Other financial assets	9,361	3,032	333	20	-	12,746
Total financial assets	**1,979,018**	**1,358,929**	**166,586**	**13,586**	**883**	**3,519,002**
Liabilities						
Due to the National Bank of Ukraine	127,182	-	-	-	-	127,182
Due to other banks	37,092	21,850	6,273	13	-	65,228
Customer accounts	1,397,145	975,489	147,441	11,175	-	2,531,250
Eurobonds issued	-	245,230	-	-	-	245,230
Bonds issued	14	-	-	-	-	14
Other borrowed funds	-	32,573	15,747	-	-	48,320
Other financial liabilities	1,727	2,300	1,034	15	-	5,076
Subordinated debt	60,931	24,374	-	-	-	85,305
Total financial liabilities	**1,624,091**	**1,301,816**	**170,495**	**11,203**	**-**	**3,107,605**
Less net derivatives	1,961	(185)	-	-	-	1,776
Total assets and liabilities net of derivatives	**352,966**	**57,298**	**(3,909)**	**2,383**	**883**	**409,621**
Derivatives (Note 21)	153,198	(163,077)	14,777	(1,814)	(1,308)	1,776
Net currency position	**506,164**	**(105,779)**	**10,868**	**569**	**(425)**	**411,397**
Credit related commitments	18,609	25,018	65,503	5,529	-	114,659

29. Risk Management (Continued)

The table below summarises the Bank's exposure to foreign currency risk as at 31 December 2010, presented in thousands of US dollars.

	UAH	USD	EUR	Other	Non-monetary assets	Total
Assets						
Cash on hand and in transit	50,951	17,467	6,289	953	-	75,660
Balance with the National Bank of Ukraine	138,949	294	355	-	-	139,598
Due from other banks	61,875	374,098	165,009	18,162	-	619,144
Loans to customers	901,561	817,711	99,503	230	-	1,819,005
Investment securities available for sale	381,345	-	-	-	885	382,230
Other financial assets	2,912	1,862	226	2,994	-	7,994
Total financial assets	**1,537,593**	**1,211,432**	**271,382**	**22,339**	**885**	**3,043,631**
Liabilities						
Due to the National Bank of Ukraine	174,414	-	-	-	-	174,414
Due to other banks	30,992	36,891	4,464	582	-	72,929
Customer accounts	945,050	821,319	157,371	16,146	-	1,939,886
Eurobonds issued	-	243,804	-	-	-	243,804
Bonds issued	14	-	-	-	-	14
Other borrowed funds	-	135,822	22,927	-	-	158,749
Other financial liabilities	1,208	331	1,123	86	-	2,748
Subordinated debt	60,789	23,641	-	-	-	84,430
Total financial liabilities	**1,212,467**	**1,261,808**	**185,885**	**16,814**	**-**	**2,676,974**
Less net derivatives	103	2,488	1,465	(1)	-	4,055
Total assets and liabilities net of derivatives	**325,023**	**(52,864)**	**84,032**	**5,526**	**885**	**362,602**
Derivatives	142,277	(62,013)	(75,437)	(772)	-	4,055
Net currency position	**467,300**	**(114,877)**	**8,595**	**4,754**	**885**	**366,657**
Credit related commitments	15,377	35,666	62,503	5,809	-	119,355

Amounts disclosed in respect of derivatives represent the fair value, at the end of the reporting period, of the respective currency that the Bank agreed to buy (positive amount) or sell (negative amount) before netting of positions and payments with the counterparty. The amounts by currency are presented gross as stated in Note 21. The net total represents the fair value of the currency derivatives. The above analysis includes only monetary assets and liabilities. Investments in equities and non-monetary assets are not considered to give rise to any material currency risk.

Notes to the Financial Statements for the Year Ended 31 December 2011 (in thousands of US dollars)

29. Risk Management (Continued)

The table below presents the effect of a reasonably possible movement of the currency rate against hryvnia, with all other variables held constant on the statement of income (due to the fair value of currency sensitive non-trading monetary assets and liabilities). The effect on equity does not differ from the effect on the statement of income. A negative amount in the table reflects a potential net reduction in the statement of income or equity, while a positive amount reflects a net potential increase.

	2011		2010	
Currency	**Change in currency rate, %**	**Effect on net profit and equity**	**Change in currency rate, %**	**Effect on net profit and equity**
US dollars	+6	(6,347)	+10	(11,488)
US dollars	-4	4,231	-5	5,744
Euro	+9	978	+15	1,289
Euro	-5	(543)	-10	(860)

The above effect of changes in currency rates on the net profit and equity does not include the impact of taxation. Tax rate applicable for 2012 is 21%, refer to Note 2.

The above effect of changes in currency rates on the net profit and equity relates to revaluation of open currency position only and does not take into account the potential decrease in credit quality of assets as a result of devaluation of Ukrainian hryvnia.

30. Fair Values of Financial Instruments

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

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

	2011		2010	
	Carrying value	**Fair value**	**Carrying amount**	**Fair value**
Financial assets				
Cash on hand	78,964	78,964	75,660	75,660
Balance with the National Bank of Ukraine	263,271	263,271	139,598	139,598
Due from other banks				
- Current accounts and overnight deposits	506,982	506,982	544,484	544,484
- Term deposits with other banks	52,591	52,591	49,462	49,462
- Repurchase agreements with other banks	25,785	29,196	25,198	25,385
Loans to customers				
- Corporate loans	1,602,522	1,594,302	1,367,815	1,319,610
- Reverse sale and repurchase agreements	-	-	4,773	4,773
- Mortgage loans	283,438	251,724	324,289	302,897
- Car loans	76,972	84,737	105,720	96,225
- Consumer loans	88,567	89,294	9,274	7,476
- Other loans (overdrafts)	4,255	4,255	7,134	8,184
Financial liabilities				
Due to the National Bank of Ukraine	127,182	127,182	174,414	174,414
Due to other banks				
- Current accounts of other banks	25,241	25,241	32,189	32,189
- Term deposits of other banks	39,987	39,987	40,117	40,117
- Repurchase agreements with other banks	-	-	623	623
Customer accounts				
- Legal entities	1,447,379	1,446,768	948,585	950,746
- Individuals	1,083,871	1,104,880	991,301	968,217
Eurobonds issued	245,230	224,757	243,804	249,029
Bonds issued	14	13	14	14
Other borrowed funds	48,320	48,320	158,749	158,749
Subordinated debt	85,305	85,914	84,430	84,218

Notes to the Financial Statements for the Year Ended 31 December 2011 (in thousands of US dollars)

30. Fair Values of Financial Instruments (Continued)

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

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

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

Financial instruments recorded at fair value
The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
- Level 2: techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

As at 31 December 2011	Level 1	Level 2	Level 3	Total
Financial assets				
Derivative financial assets	-	4,255	-	4,255
Ukrainian Government debt securities	257,510	1,833	-	259,343
Deposit certificates issued by the NBU	-	250,087	-	250,087
Corporate bonds	-	12,596	-	12,596
Shares	-	-	883	883
Financial liabilities				
Derivative financial liabilities	-	2,479	-	2,479

30. Fair Values of Financial Instruments (Continued)

As at 31 December 2010	Level 1	Level 2	Level 3	Total
Financial assets				
Derivative financial assets	-	4,366	-	4,366
Ukrainian Government debt securities	201,474	149,848	-	351,322
Deposit certificates issued by the NBU	-	12,576	-	12,576
Corporate bonds	-	17,447	-	17,447
Shares	-	-	885	885
Financial liabilities				
Derivative financial liabilities	-	311	-	311

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

Derivative financial instruments
Derivatives valued using a valuation technique with market observable inputs are mainly currency swaps and forward foreign exchange contracts. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate curves.

Investment securities available for sale
Investment securities available for sale valued using a valuation technique or pricing models primarily consist of unquoted debt securities. These securities are valued using discounted cash flows models which sometimes only incorporate data observable in the market, such as interest rates, and at other times use both observable and non-observable data. The non-observable inputs to the models include assumptions regarding the future financial performance of the investee, its risk profile, and economic assumptions regarding the industry in which the investee operates.

During 2011 and 2010, the Bank did not transfer any financial assets or financial liabilities from either level 1 to level 2 or from level 2 to level 1.

Notes to the Financial Statements for the Year Ended 31 December 2011 (in thousands of US dollars)

31. Contingencies and Commitments

Legal

The Bank is involved in various legal proceedings in the ordinary course of business. On the basis of its own estimates and internal professional advice, Management does not believe the result of any such actions will have a material adverse effect on the Bank's financial position or results of operations.

Tax and other regulatory compliance

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

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

Capital expenditure commitments

As at 31 December 2011, the Bank had capital expenditure commitments in respect of purchase of equipment of USD 1,972 thousand (2010: USD 7,057 thousand). The Bank's Management has already allocated the necessary resources in respect of this commitment. The Bank's Management believes that future income and funding will be sufficient to cover this commitment and any similar commitments.

Compliance with covenants

The Bank is subject to certain covenants related primarily to Eurobonds issued, due to the National Bank of Ukraine and other borrowed funds. Non-compliance with such covenants may result in negative consequences for the Bank including growth in the cost of borrowings and declaration of default. In particular, the Bank is required to maintain certain level of equity, capital adequacy ratio, liquid assets to total assets ratio, maximum exposure to a single party to capital, maximum exposure to a single party which is a related party to the Bank to capital, ratio of operating expenses to operating results, ratio of fixed and intangible assets to capital. Failure to comply with these requirements could lead to early withdrawal of funds by the creditors upon their discretion. Management believes that the Bank was in compliance with all covenants as at 31 December 2011 and 31 December 2010.

Credit related commitments

Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the risk of clients' defaults or inability to perform the contract with a counterparty. The Bank manages its risk of loss by requiring a significant proportion of guarantees to be secured with deposits in the Bank. Documentary and commercial letters of credit, which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate or cash deposits and therefore carry less risk than a direct borrowing.

31. Contingencies and Commitments (continued)

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss. However, due to its revocable nature the Bank is able to refuse to issue the loans, guarantees or letters of credit to the customer due to deterioration of the customer's solvency.

The total outstanding contractual amount of undrawn credit lines, letters of credit, and guarantees does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded.

Letters of credit issued by the Bank are as follows:

	2011	2010
Confirmed export letters of credit	-	195
Import letters of credit	25,661	33,245
Cash collateral (Note 15)	(14,301)	(4,805)
Provision for import letters of credit	(65)	(134)
Total letters of credit	**11,295**	**28,501**

Guarantees issued are as follows:

	2011	2010
Guarantees and promissory note endorsements	101,376	92,276
Cash collateral (Note 14, 15)	(6,744)	(4,018)
Provision for guarantees	(140)	(520)
Total guarantees	**94,492**	**87,738**

The Bank's outstanding irrevocable commitments to extend credit were as follows:

	2011	2010
Commitments to extend credit	12,114	3,116
Cash collateral	(3,242)	-
Total irrevocable commitments to extend credit	**8,872**	**3,116**

The amount of undrawn revocable commitments to extend credit issued by the Bank as at 31 December 2011 was USD 114,229 thousand (2010: USD 112,212 thousand). Management considers the commitments to extend credit as revocable due to the fact that the Bank can stop further financing of the client or early cancel the credit limit funds based on business reasons, irrespectively of any material adverse change. In addition, the agreements provide for wide range of trigger events for early cancellation of credit limits, such as worsening of the client's financial condition, decrease in volume of cash inflows into the client's current accounts, loss of collateral or substantial decrease in its fair value, decisions of regulatory bodies impacting Ukrainian money monetary market.

Notes to the Financial Statements for the Year Ended 31 December 2011 (in thousands of US dollars)

31. Contingencies and Commitments (continued)

Movements in the provision for letters of credit and guarantees are as follows:

	2011	2010
Provision for credit related commitments as at 1 January	654	218
(Reversal of provision) / charge for provision for credit related commitments during the year	(418)	437
Effect of translation to presentation currency	(31)	(1)
Provision for letters of credit and guarantees as at 31 December (Note 19)	**205**	**654**

Operating lease commitments

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

	2011	2010
Within one year	1,654	1,738
From 1 to 5 years	1,947	1,581
Later than 5 years	429	115
Total operating lease commitments	**4,030**	**3,434**

32. Related Party Transactions

For the purposes of these financial statements, parties are generally 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 as defined by IAS 24 “Related Party Disclosures”. In considering each possible related party relationship, attention is paid to the substance of the relationship, not merely the legal form.

In the normal course of business the Bank enters into transactions with significant shareholders, companies under common control and other related parties. These transactions include settlements, loans, deposits, trade finance and foreign currency transactions. The outstanding balances as at 31 December 2011 and as at 31 December 2010 and income and expenses for the years then ended are as follows:

As at and for the year ended 31 December 2011	Parent company	Entities under common control	Management	Other related parties
Assets				
Loans to customers (interest rate, % p.a)		87,386 (11)	83 (16.6)	427 (11.9)
Allowance for loan impairment	-	(115)	(0.1)	(0,8)
Due from other banks (interest rate, % p.a)	-	18,879 (6.1)	-	-
Other assets	-	29	-	-
Liabilities				
Due to other banks (interest rate, % p.a)	-	8,636 (2)	-	-
Customer accounts (interest rate, % p.a)	3 (0)	899,893 (4.8)	1,554 (7.2)	7,834 (5.7)
Other liabilities	-	-	44	-
Credit related commitments				
Revocable commitments to extend credit	-	6,264	40	71
Guarantees	-	3	-	-
Letters of credit	-	1,253	-	-
Income / expense				
Interest income	-	7,999	50	109
Interest expense	-	(12,408)	(131)	(514)
Fee and commission income	-	3,788	2	19
Fee and commission expense	-	(300)	-	-
Net losses from dealing in foreign currencies	-	(6,758)	-	-
Other income	-	237	-	-
Allowance for loan impairment	-	56	2	1
Provision for credit related commitments	-	15	-	-
Insurance expense	-	(192)	-	-

In September 2011 the Bank started buying unsecured retail loans from the related party (Ukrainian bank). Portfolio purchases are made on a monthly basis. During the period up to 31 December 2011 four tranches have been purchased for the total amount of USD 83,826 thousand. The entire portfolio was purchased at fair value, no gain or loss on initial recognition was recorded.

Notes to the Financial Statements for the Year Ended 31 December 2011 (in thousands of US dollars)

32. Related Party Transactions (Continued)

As at and for the year ended 31 December 2010	Parent company	Entities under common control	Management	Other related parties
Assets				
Loans to customers (interest rate, % p.a)	-	66,161 (12.46)	1,087 (15.60)	1,217 (11.69)
Allowance for loan impairment	-	(200)	(2)	(2)
Other assets	-	62	-	-
Liabilities				
Customer accounts (interest rate, % p.a)	5 (0.36)	328,444 (1.92)	4,574 (8.86)	9,363 (8.32)
Other liabilities	-	-	-	19
Credit related commitments				
Revocable commitments to extend credit	-	15,703	-	-
Letters of credit	-	10,191	-	-
Provision for credit related commitments	-	(15)	-	-
Income / expense				
Interest income	-	14,035	21	148
Interest expense	-	(17,855)	(463)	(716)
Fee and commission income	1	3,734	3	32
Fee and commission expense	-	(35)	-	-
Other income	-	6	-	-
Allowance for loan impairment	-	447	(2)	98
Provision for credit related commitments	-	(15)	-	-
Insurance expense	-	(266)	-	-

The allowance for loan impairment in respect of loans to related parties has been assessed on a portfolio basis in respect of the majority of loans.

During the year movements on related parties' loan accounts were as follows:

	Parent company	Entities under common control	Management	Other related parties
Loans granted to related parties during the year	-	568, 756	207	166
Amounts repaid by related parties during the year	-	546,247	1,205	929
Other change	-	(1,285)	(7)	(27)

32. Related Party Transactions (Continued)

During 2010 movements on related parties' loan accounts were as follows:

	Parent company	Entities under common control	Management	Other related parties
Loans granted to related parties during the year	-	393,728	1,191	305
Amounts repaid by related parties during the year	-	(396,657)	(149)	(405)
Changes in related party	-	29,539	-	-
Other change	-	(1,929)	(4)	-

In 2011, the remuneration of members of the Management Board comprised salaries of USD 4,861 thousand (2010: USD 3,534 thousand), compulsory contributions to the State funds of USD 87 thousand (2010: USD 95 thousand) and other benefits of USD 5 thousand (2010: USD 22 thousand). In 2011, benefits paid to the Supervisory Council were USD 5 thousand (2010: USD 81 thousand).

Notes to the Financial Statements for the Year Ended 31 December 2011 (in thousands of US dollars)

33. Capital

The Bank maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Bank's capital is monitored using, among other measures, the ratios established by the Basel Capital Accord 1988 and the ratios established by the NBU in supervising the Bank. The Bank considers total capital under management to be total regulatory capital. The amount of capital that the Bank manages is UAH 4,461,640 thousand, or USD 558,417 thousand as at 31 December 2011.

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

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. No changes were made in the objectives, policies and processes from the previous years.

NBU capital adequacy ratio

The NBU requires banks to maintain a capital adequacy ratio of 10% of risk-weighted assets, computed based on Ukrainian accounting rules. As at 31 December 2011 and 2010, the Bank's capital adequacy ratio on this basis was as follows:

	2011	**2010 (without the effect of the merger)**
Main capital	366,648	269,291
Additional capital	191,769	109,530
Total equity	**558,417**	**378,821**
Risk weighted assets	**3,521,502**	**2,018,801**
Capital adequacy ratio	**15.86%**	**18.76%**

33. Capital (continued)

Regulatory capital consists of Main capital, which comprises paid in registered share capital, share premium, reserves created in accordance with the Ukrainian legislation less net book value of intangible assets and losses of current and prior years. The other component of regulatory capital is Additional capital, which includes standard provisions for interbank and customer loans, property revaluation reserve, current year profit decreased for the amount of accrued income overdue for more than 30 days net of provision for doubtful accrued interest, subordinated long-term debt, retained earnings of prior years. As at 31 December 2011 and 31 December 2010, the Bank is compliant with the regulatory requirements to capital.

The Bank is also subject to minimum capital requirements established by covenants stated in loan agreements, including capital adequacy levels calculated in accordance with the requirements of the Basel Accord, as defined in the International Convergence of Capital Measurement and Capital Standards (updated April 1998) and the Amendment to the Capital Accord to incorporate market risks (updated November 2005), commonly known as Basel I. The Bank complied with this loan covenant. As at 31 December 2011, the Bank's capital adequacy ratio calculated in accordance with the Basel requirements is as follows:

	2011
Tier 1 capital	
Share capital	428,966
Share premium	7,109
Merger reserve	4,288
Retained earnings	104,001
Currency translation reserve and other reserve	(21,715)
Total tier 1 capital	**522,649**
Tier 2 capital	
Revaluation reserves	82,282
Subordinated debt	85,305
Total tier 2 capital	**167,587**
Total capital	**690,236**
Capital Adequacy Ratio at 31 December 2011	
Risk Adjusted Weighed Assets	2,575,904
Total capital	690,236
Capital adequacy ratio (%)	**26.80%**

Signed on behalf of the Management Board on 21 March 2012.

K. M. Vaysman (Chairman of the Management Board)

O. M. Moshkalova (Chief Accountant)

Credit Ratings

FUIB has been rated by international rating agencies since 1998.

In March 2012 Moody's Investors Service confirmed its outlook on foreign currency deposit rating changed in December 2011 for 13 Ukraine's banks, including FUIB, to negative from stable following a change in outlook for Ukraine's sovereign ceilings.

Moody's Ratings	**2010**	**2011**
Bank Financial Strength Rating	E + (stable)	E + (stable)
Local Currency Deposit Rating	B2/NP (negative)	B2/NP (stable)
Foreign Currency Deposit Rating	B3/NP (stable)	B3/NP (negative)
National Scale Rating	A3.ua	A2.ua
Foreign Currency Debt Rating	B2	B2
Outlook	negative	stable

The initial capital FUIB in 2011 amounted to (UAH thousand).

3 294 492

Contacts

Headquarters

Andriivska 4,
Kyiv, Ukraine
+380 44 231 70 00
+380 44 231 71 00 (fax)

Press Service

+380 44 231 72 52
pr@fuib.com

Investor Relations

+380 44 231 70 55
ir@fuib.com

www.pumb.ua

International Borrowings

Sergey Zubro
Head of
International Financing
and Transactions Structuring

+380 44 231 70 55
Serhiy.Zubro@fuib.com

Trade Finance

Konstantin Kamarali
Head of
Trade Finance
and Documentary Operations

+380 44 231 71 20
Konstantin.Kamarali@fuib.com

Securities

Marina Tregubenko
Head of Securities

+380 44 231 75 98
Marina.Tregubenko@fuib.com

Treasury

Anton Stadnik
Head of Treasury

+380 44 231 70 46
Anton.Stadnik@fuib.com

Correspondent Banking

Maxim Marchenko
Head of Correspondent Banking

+380 62 332 47 92
Maxim.Marchenko@fuib.com

Depositary

Ninel German
Head of Depositary

+380 44 231 71 80
Ninel.German@fuib.com

Call Centre
0 800 500 490 landline
490 from a mobile

info@fuib.com
/ pumbua