PJSC Credit Europe Bank

Financial Statements
31 December 2011

These financial statements contain 49 pages

Contents

(in thousands of UAH)	*Note*	31 December 2011	31 December 2010
Assets			
Cash		**10,221**	7,141
Balances with the National Bank of Ukraine	*5*	**58,967**	7,792
Due from banks	*6*	**68,446**	150,876
Securities available-for-sale	*7*	**352,680**	304,586
Loans and advances	*8*	**1,075,597**	826,740
Property, equipment and intangible assets	*9*	**9,207**	13,996
Investment property	*10*	**13,212**	14,348
Other assets	*11*	**21,378**	3,815
Total assets		**1,609,708**	1,329,294
Liabilities			
Due to banks	*12*	**793,410**	637,666
Current accounts	*13*	**84,034**	63,190
Deposits	*14*	**67,032**	7,902
Deferred tax liability	*24*	**34,508**	32,750
Other liabilities	*15*	**22,359**	3,319
Total liabilities		**1,001,343**	744,827
Equity			
Share capital	*16*	**505,000**	505,000
Fair value reserve		**(2,964)**	151
Retained earnings		**106,329**	79,316
Total equity		**608,365**	584,467
Total liabilities and equity		**1,609,708**	1,329,294
Commitments and contingent liabilities	*17*		

The statement of financial position is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 7 to 49.

(in thousands of UAH)	*Note*	**2011**	2010
Interest income	*18*	**167,616**	173,690
Interest expense	*19*	**(40,943)**	(29,653)
Net interest income		**126,673**	144,037
Fee and commission income	*20*	**26,319**	25,070
Fee and commission expense	*20*	**(1,429)**	(1,602)
Net fee and commission income	*20*	**24,890**	23,468
Net gains from dealing with foreign currencies		**675**	(1,463)
Net gains from sales of securities available-for-sale		**935**	23,510
Other operating income		**4,759**	884
Operating income		**157,932**	190,436
Salaries and employee benefits	*21*	**(46,572)**	(40,572)
General administrative expenses	*22*	**(30,881)**	(29,162)
Depreciation and amortisation	*9*	**(8,245)**	(12,080)
Provision for impairment	*23*	**(40,824)**	(36,431)
Operating expenses		**(126,522)**	(118,245)
Profit before tax		**31,410**	72,191
Income tax expense	*24*	**(4,397)**	(21,260)
Net profit		**27,013**	50,931
Other comprehensive income (loss)			
Net change in fair value of available-for-sale financial assets, net of income tax		**(3,115)**	7,144
Total comprehensive income		**23,898**	58,075

The statement of comprehensive income is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 7 to 49.

	Note	**2011**	2010
(in thousands of UAH)			
Operating activities			
Interest received		**168,173**	158,851
Interest paid		**(38,002)**	(30,180)
Fees and commissions received		**26,319**	25,070
Fees and commissions paid		**(1,429)**	(1,602)
Net gains from dealing in foreign currencies		**(3,514)**	1,228
Operating expenses paid		**(73,973)**	(67,911)
Other operating income received		**4,759**	884
Change in due from banks with original maturity more than 3 months		**(57,660)**	-
Change in loans and advances		**(293,360)**	(79,476)
Change in restricted balances with NBU		**(38,897)**	21,759
Change in other assets		**(747)**	(632)
Change in due to banks		**162,533**	(62,939)
Change in current accounts		**19,884**	12,335
Change in deposits		**59,282**	(41,621)
Change increase in other liabilities		**1,262**	993
Net cash used in operating activities before tax		**(65,370)**	(63,241)
Income tax paid		**(1,756)**	(301)
Cash flows used in operating activities		**(67,126)**	(63,542)
Investing activities			
Change in securities available-for-sale		**(53,201)**	45,079
Proceeds from disposal of investment property		**259**	-
Acquisition of property, equipment and intangible assets		**(3,672)**	(494)
Proceeds from disposal of property, equipment and intangible assets		**-**	673
Cash flows (used in) from investing activities		**(56,614)**	45,258
Effect of exchange rates fluctuations on cash and cash equivalents		**(311)**	(551)
Net decrease in cash and cash equivalents		**(124,051)**	(18,835)
Cash and cash equivalents as at 1 January		**165,809**	184,644
Cash and cash equivalents as at 31 December		**41,758**	165,809

The statement of cash flows is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 7 to 49.

Cash and cash equivalents as at 31 December as shown in the cash flow statement is composed of the following items:

(in thousands of UAH)	*Note*	**31 December 2011**	31 December 2010
Cash		**10,221**	7,141
Balances with the National Bank of Ukraine available for withdrawal	*5*	**20,751**	7,792
Balances due from banks with original maturity less than three months available for withdrawal	*6*	**10,786**	150,876
Total cash and cash equivalents		**41,758**	165,809

The statement of cash flows is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 7 to 49.

(in thousands of UAH)	*Note*	**Share capital**	**Fair value reserve**	**Retained earnings**	**Total**
Balances as at 1 January 2010		505,000	(6,993)	28,385	526,392
Net profit		-	-	50,931	50,931
Other comprehensive loss:					
Net change in fair value of available-for-sale financial assets, net of income tax		-	7,144	-	7,144
Total other comprehensive loss		-	7,144	-	7,144
Total comprehensive income		-	7,144	50,931	58,075
Balances as at 31 December 2010		**505,000**	**151**	**79,316**	**584,467**
Net profit		**-**	**-**	**27,013**	**27,013**
Other comprehensive income:					
Net change in fair value of available-for-sale financial assets, net of income tax		**-**	**(3,115)**	**-**	**(3,115)**
Total other comprehensive income		**-**	**(3,115)**	**-**	**(3,115)**
Total comprehensive income		**-**	**(3,115)**	**27,013**	**23,898**
Balances as at 31 December 2011		**505,000**	**(2,964)**	**106,329**	**608,365**

The statement of changes in equity is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 7 to 49.

1 Background

(a) Organization and operations

PJSC Credit Europe Bank (the Bank) was established as CJSC Finansbank according to Ukrainian legislation and registered by the National Bank of Ukraine (NBU) in August 2006.

The Bank started operations on 2 February 2007. In June 2007 the Bank changed its name to Closed Joint-Stock Company Credit Europe Bank. In October 2009 the Bank was reorganised from a closed joint-stock company to a public joint-stock company.

The principal activities of the Bank are lending, deposit taking and customer accounts maintenance, issuing guarantees, cash and settlement operations and operations with securities and foreign exchange. The activities of the Bank are regulated by the National Bank of Ukraine.

The head office is located at 2 Mechnikova str, in Kyiv, Ukraine.

The Bank has 6 branches as at 31 December 2011 (31 December 2010: 7).

During the year ended 31 December 2011, the Bank substantially ceased retail banking actives. Accordingly, the Bank plans to grant retail loans only in exceptional cases and will concentrate on collection of existing retail loans. In addition, the Bank closed 5 branches in January 2012.

(b) Ukrainian business environment

Ukraine is experiencing political and economic change that has affected, and may continue to affect, the activities of entities operating in this environment. Consequently, operations in Ukraine involve risks that do not typically exist in other markets. In addition, the recent contraction in the capital and credit markets has further increased the level of economic uncertainty in the environment. These financial statements reflect management’s assessment of the impact of the Ukrainian business environment on the operations and the financial position of the Bank. The future business environment may differ from management’s assessment.

Management is unable to reliably estimate the effects on the Bank's financial position of any further deterioration in the liquidity of the financial markets and the increased volatility in the currency and equity markets. Management believes it is taking all the necessary measures to support the sustainability and liquidity position of the Bank's business in the current circumstances.

2 Basis of preparation

(a) Statement of compliance

The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS).

(b) Basis of measurement

These financial statements are prepared on the historical cost basis except for the following:

- derivative financial instruments are measured at fair value
- available-for-sale financial assets are measured at fair value
- investment property is measured at fair value

(c) Functional and presentation currency

The national currency of Ukraine is the Ukrainian hryvnia (UAH). Consequently, the functional and presentation currency for the purposes of these financial statements is the Ukrainian hryvnia.

Financial information presented in UAH is rounded to the nearest thousand.

(d) Accounting estimates and judgments in applying accounting policies

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

In particular, information about significant areas of estimation uncertainty in applying accounting policies is as follows:

Impairment of loans and advances. Management estimates impairment by assessing the likelihood of repayment of loans and advances based on analysis of individual accounts for individually significant loans, and collectively for loans with similar terms and risk characteristics. Factors taken into consideration when assessing individual loans include collection history, current financial condition of the borrower, timeliness of repayments and collateral, if any. To determine the amount of impairment, management estimates the amounts and timing of future payments of principal and interest and proceeds from the disposal of collateral, if any. These cash flows are then discounted using the loan's original interest rate. Actual principal and interest payments depend on the borrowers' ability to generate cash flows from operations or obtain alternative financing, and could differ from management's estimates.

Factors taken in consideration when estimating impairment on loans assessed collectively include historical loss experience, portfolio delinquency rates and overall economic conditions.

Note 8 contains a description of the sensitivity of the carrying amount of loans and advances to changes in estimates. Should actual repayments be less than management estimates, the Bank would be required to record additional impairment expense.

3 Significant accounting policies

The following significant accounting policies are consistently applied in the preparation of the financial statements. Changes in accounting policies are described at the end of this note.

(a) Foreign currency translation

Transactions in foreign currencies are translated to hryvnias at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to hryvnias at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period. Foreign currency differences arising on retranslation are recognised in profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

The principal UAH exchange rates used in the preparation of these financial statements are as follows:

Currency	31 December 2011	**31 December 2010**
US dollar	**7.99**	**7.96**
EUR	**10.30**	**10.57**

As at the date of these financial statements, 20 February 2012, the exchange rate is UAH 7.99 to USD 1.00 and UAH 10.51 to EUR 1.00.

(b) Financial instruments

(i) Classification

Financial instruments at fair value through profit or loss are financial assets or liabilities that are:

- acquired or incurred principally for the purpose of selling or repurchasing in the near term
- part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking
- derivative financial instruments (except for derivative financial instruments that are designated and effective hedging instruments) or,
- upon initial recognition, designated as at fair value through profit or loss.

Management may designate financial assets and liabilities at fair value through profit or loss where either:

- the assets or liabilities are managed, evaluated and reported internally on a fair value basis
- the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise or,
- the asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

All trading derivatives in a net receivable position (positive fair value), as well as options purchased, are reported as assets. All trading derivatives in a net payable position (negative fair value), as well as options written, are reported as liabilities.

Management determines the appropriate classification of financial instruments in this category at the time of the initial recognition. Derivative financial instruments and financial instruments designated as at fair value through profit or loss upon initial recognition are not reclassified out of at fair value through profit or loss category. Financial assets that would have met the definition of loan and receivables may be reclassified out of the fair value through profit or loss or available-for-sale category if the Bank has an intention and ability to hold it for the foreseeble future or until maturity. Other financial instruments may be reclassified out of at fair value through profit or loss category only in rare circumstances. Rare circumstances arise from a single event that is unusual and highly unlikely to recur in the near term.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that management:

- intends to sell immediately or in the near term
- upon initial recognition designates as at fair value through profit or loss

- upon initial recognition designates as available-for-sale or,
- may not recover substantially all of its initial investment, other than because of credit deterioration.

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that management has the positive intention and ability to hold to maturity, other than those that:

- management upon initial recognition designates as at fair value through profit or loss
- management designates as available-for-sale or,
- meet the definition of loans and receivables.

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified as loans and receivables, held-to-maturity investments or financial instruments at fair value through profit or loss.

(ii) Recognition

Financial assets and liabilities are recognised in the statement of financial position when the Bank becomes a party to the contractual provisions of instrument. All regular way purchases of financial assets are accounted for at the settlement date.

(iii) Measurement

A financial asset or liability is initially measured at its fair value plus, in the case of a financial asset or liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or liability.

Subsequent to initial recognition, financial assets, including derivatives that are assets, are measured at their fair values, without any deduction for transaction costs that may be on sale or other disposal, except for:

- loans and receivables that are measured at amortised cost using the effective interest method
- held-to-maturity investments that are measured at amortised cost using the effective interest method, and
- investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, which are measured at cost less impairment losses.

All financial liabilities, other than those designated at fair value through profit or loss and financial liabilities that arise when a transfer of a financial asset carried at fair value does not qualify for de-recognition, are measured at amortised cost.

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortized based on the effective interest rate of the instrument.

Financial assets or liabilities originated at interest rates different from market rates are re-measured at origination to their fair value, being future interest payments and principal repayments discounted at market interest rates for similar instruments. The difference between the fair value and the nominal value at origination is credited or charged to profit or loss or equity (if financial assets or liabilities originated with the shareholders acting in their capacity as shareholders) as gains or losses on origination of financial instrument at rates different from market rates. Subsequently, the carrying amount of such assets or liabilities is adjusted for amortization of the gains/losses on origination and the related income/expenses is recorded in profit or loss using the effective interest method.

(iv) Fair value measurement principles

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arms's length transaction on the measurement date.

When available, management measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

If a market for a financial instrument is not active, management establishes fair value using a valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, and discounted cash flow analyses. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Bank, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, i.e., the fair value of the consideration given or received, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e., without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at the transaction price and any difference between this price and the value initially obtained from a valuation model is subsequently recognised in profit or loss on an appropriate basis over the life of the instrument but not later than when the valuation is supported wholly by observable market data or the transaction is closed out.

(v) Gains and losses on subsequent measurement

A gain or loss arising from a change in the fair value of a financial asset or liability is recognised as follows:

- a gain or loss on a financial instrument classified as at fair value through profit or loss is recognised in profit or loss
- a gain or loss on an available-for-sale financial asset is recognised as other comprehensive income in equity (except for impairment losses and foreign exchanges gains and losses) until the asset is derecognised, at which time the cumulative gain or loss previously recognised in equity is recognised in profit or loss. Interest in relation to an available-for-sale financial asset is recognised as earned in profit or loss and is calculated using the effective interest method.

For financial assets and liabilities carried at amortised cost, a gain or loss is recognised in profit or loss when the financial asset or liability is derecognised or impaired, and through the amortization process.

(vi) Derecognition

The Bank derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Bank is recognised as a separate asset or liability in the statement of financial position. The Bank derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

The Bank also derecognizes certain assets when it writes off balances pertaining to the assets deemed to be uncollectible.

(vii) Derivative financial instruments

Derivative financial instruments include swaps, forwards, futures, spot transactions and options in interest rates, foreign exchanges, precious metals and stock markets, and any combinations of these instruments.

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. All derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

Changes in the fair value of derivatives are recognised immediately in profit or loss.

Although the Bank trades in derivative instruments for risk hedging purposes, these instruments do not qualify for hedge accounting.

(viii) Interest bearing borrowings

Interest bearing borrowings are recognised initially at fair value. Subsequent to initial recognition, interest bearing borrowings are stated at amortised cost and any difference between cost and redemption value is recognised in profit or loss over the period of the borrowings.

When borrowings are repurchased or settled before maturity, any difference between the amount repaid and the carrying amount is immediately recognised in profit or loss.

(c) Impairment

(i) Calculation of recoverable amount

Financial assets carried at amortized cost

Financial assets carried at amortized cost consist principally of loans and other receivables (loans and receivables). Management reviews the loan portfolio to assess impairment on a regular basis. A loan (or a group of loans) is impaired and impairment losses are incurred 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 loan and that event (or events) has an impact on the estimated future cash flows of the loan (or the group of loans) that can be reliably estimated.

Management first assesses whether objective evidence of impairment exists individually for loans and advances that are individually significant, and individually or collectively for loans and advances that are not individually significant. If no objective evidence of impairment exists for an individually assessed loan, whether significant or not, it includes the loan in a group of loans with similar credit risk characteristics and collectively assesses them for impairment. Loans 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 on a loan has been incurred, the amount of the loss is measured as the difference between the loan carrying amount and the present value of estimated future cash flows including amounts recoverable from guarantees and collateral (excluding future losses that have not been incurred) discounted at the loan's original effective interest rate. Contractual cash flows and historical loss experience adjusted on the basis of relevant observable data that reflect current economic conditions provide the basis for estimating expected cash flows.

In some cases the observable data required to estimate the amount of an impairment loss on a loan may be limited or no longer fully relevant to current circumstances. This may be the case when a borrower is in financial difficulties and there is little available historical data relating to similar borrowers. In such cases, management uses its experience and judgment to estimate the amount of any impairment loss.

The 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.

All impairment losses in respect of loans and receivables are recognized in profit or loss and are only reversed if a subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

When a loan is uncollectable, it is written off against the related allowance for loan impairment. The Bank writes off a loan balance (and any related allowances for loan losses) when management determines that the loans are uncollectible and when all necessary steps to collect the loan are completed.

Available-for-sale assets

Impairment losses on available-for-sale assets are recognised by transferring the cumulative loss that has been recognised in other comprehensive income to profit or loss as a reclassification adjustment. The cumulative loss that is reclassified from other comprehensive income to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

For an investment in an equity security available-for-sale, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

Non financial assets

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

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

(ii) Reversal of impairment

An impairment loss in respect of a held-to-maturity asset or a loan or a receivable carried at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised. An impairment loss in respect of an investment in an equity instrument classified as available-for-sale is not reversed. If the fair value of a debt instrument classified as available-for-sale increases and the increase can be related objectively to an event occurring after the impairment loss was recognised in profit or loss, then the impairment loss is reversed, with the amount of the reversal recognised in profit or loss.

In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognised.

(iii) Credit related commitments

In the normal course of business, the Bank enters into credit related commitments, comprising undrawn loan commitments, letters of credit and guarantees, and provides other forms of credit insurance.

Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

A financial guarantee liability is recognised initially at fair value net of associated transaction costs, and is measured subsequently at the higher of the amount initially recognised less cumulative amortisation or the amount of provision for losses under the guarantee. Provisions for losses under financial guarantees and other credit related commitments are recognised when losses are considered probable and can be measured reliably.

Financial guarantee liabilities and provisions for other credit related commitment are included in other liabilities.

(d) Property, equipment and intangible assets

Property, equipment and intangible assets are carried at cost less accumulated depreciation and amortization and impairment losses. Depreciation and amortization is computed by the straight-line method over the estimated useful lives of the assets. Depreciation and amortization commences from the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. The estimated useful lives are as follows:

Furniture and equipment	3-5 years
Motor vehicles	5 years
Intangible assets	3-5 years

Expenditures for leasehold improvements are recognised as assets and charged to profit or loss on a straight-line basis over the shorter of their economic life or the period of the applicable lease.

(e) Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in normal course of business, or for the use in production or supply of goods or services or for administrative purposes. Investment property is measured at fair value with any change recognised in profit or loss.

When the use of a property changes such that it is reclassified as property and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

(f) Leases

Payments for operating leases, where the Bank does not assume substantially all the risks and rewards of ownership, are classified as expenses when incurred.

(g) Income and expense recognition

Interest and similar income and interest expense and similar charges are recognised in profit or loss on an accrual basis, taking into account the effective yield/rate of the asset/liability or an applicable floating rate. Interest and similar income and expense include the amortization of any discount or premium or other differences between the initial carrying amount of an interest bearing instrument and its amount at maturity calculated on an effective interest rate basis.

Commission income and expense is recognised on accrual basis. Other fees, commission and other income are recognised when the corresponding service is provided/received.

Loan origination fees, loan servicing fees and other fees that are considered to be integral to the overall profitability of a loan, together with the related transaction costs, are deferred and amortized to interest income over the estimated life of the financial instrument using the effective interest method.

Expenses incurred in connection with loan facilitation are amortised over the life of the loan as an adjustment to interest income.

(h) Taxation

Income tax on the profit or loss comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the statement of financial position date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the unused tax losses and credits can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(i) Employee benefits

Pensions are provided by the State. Mandatory contributions are made by the Bank and employees based on the earnings of the employees. The cost for these contributions is recognized in profit or loss when contributions are due and is included in salaries and employee benefits.

(j) Cash and cash equivalents

Cash and cash equivalents include cash, balances with the National Bank of Ukraine and balances due from banks with contractual maturity within three months. As at 31 December 2011 and 2010, the mandatory reserve with the NBU is not considered to be cash equivalent due to restriction on its withdrawability.

(k) Offsetting

Financial assets and liabilities are offset and the net amount 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 realize the asset and settle the liability simultaneously.

(l) Segment reporting

An operating segment is a component of a Bank that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same Bank); whose operating results are regularly reviewed by the chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

The Bank represents one reportable segment that has central management and follows common lending policy and marketing strategy.

(m) Adoption of new accounting standards

Various improvements to IFRSs have been dealt with on a standard-by-standard basis.

With effect from 1 January 2011, the Bank changed its accounting policies in the following areas:

- With effect from 1 January 2011, the Bank retrospectively applied a revised version of IAS 24 (issued in 2009) *Related Party Disclosures*. This change has not had a significant impact on the related party disclosures;
- With effect from 1 January 2011, the Bank retrospectively applied limited amendments to IFRS 7 *Financial Instruments: Disclosures* issued as part of *Improvements to IFRSs 2010.* These amendments mainly relate to disclosures on collateral and other credit enhancements, as well as to renegotiated assets that would otherwise be past due or impaired.

(n) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective and have not been applied in preparing these financial statements. Of these pronouncements, the following will potentially have an impact on the financial statements:

- IFRS 9 *Financial Instruments* will be effective for annual periods beginning on or after 1 January 2015. The new standard is to be issued in phases and is intended ultimately to replace International Financial Reporting Standard IAS 39 *Financial Instruments: Recognition and Measurement*. The first phase of IFRS 9 was issued in November 2009 and relates to the classification and measurement of financial assets. The second phase regarding classification and measurement of financial liabilities was published in October 2010. The remaining parts of the standard are expected to be issued during 2012. The Bank recognises that the new standard introduces many changes to the accounting for financial instruments and is likely to have a significant impact on Bank's financial statements. The impact of these changes will be analysed during the course of the project as further phases of the standard are issued. The Bank does not intend to adopt this standard early.

- IFRS 13 *Fair Value Measurement* will be effective for annual periods beginning on or after 1 January 2013. The new standard replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It provides a revised definition of fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. IFRS 13 does not introduce new requirements to measure assets or liabilities at fair value, nor does it eliminate the practicability exceptions to fair value measurement that currently exist in certain standards. The standard is applied prospectively with early adoption permitted. Comparative disclosure information is not required for periods before the date of initial application.

- Amendment to IAS 1 *Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income*. The amendment requires that an entity present separately items of other comprehensive income that may be reclassified to profit or loss in the future from those that will never be reclassified to profit or loss. Additionally, the amendment changes the title of the statement of comprehensive income to statement of profit or loss and other comprehensive income. However, the use of other titles is permitted. The amendment shall be applied retrospectively from 1 July 2012 and early adoption is permitted.

- Amendment to IAS 12 *Income Taxes – Deferred Tax: Recovery of Underlying Assets*. The amendment introduces an exception to the current measurement principles for deferred tax assets and liabilities arising from investment property measured using the fair value model in accordance with IAS 40 *Investment Property*. The exception also applies to investment property acquired in a business combination accounted for in accordance with IFRS 3 *Business Combinations* provided the acquirer subsequently measures the assets using the fair value model. In these specified circumstances the measurement of deferred tax liabilities and deferred tax assets should reflect a rebuttable presumption that the carrying amount of the underlying asset will be recovered entirely by sale unless the asset is depreciated or the business model is to consume substantially all the asset. The amendment is effective for periods beginning on or after 1 January 2012 and is applied retrospectively.

- Amendment to IFRS 7 *Disclosures – Transfers of Financial Assets* introduces additional disclosure requirements for transfers of financial assets in situations where assets are not derecognised in their entirety or where the assets are derecognised in their entirety but a continuing involvement in the transferred assets is retained. The new disclosure requirements are designated to enable the users of financial statements to better understand the nature of the risks and rewards associated with these assets. The amendment is effective for annual periods beginning on or after 1 July 2011.

- Various *Improvements to IFRSs* have been dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purposes, will come into effect not earlier than 1 January 2012. The Bank has not yet analysed the likely impact of the improvements on its financial position or performance.

Management is currently studying what effect these new standards and amendments may have on the financial position and result of operations.

4 Segment reporting

The Bank represents one reportable segment that has central management and follows common lending policy and marketing strategy.

There are no customers from which revenues exceed 10% of total external revenue.

Substantially all revenues from external customers relate to residents of Ukraine. Substantially all of assets are located in Ukraine.

5 Balances with the National Bank of Ukraine

Balances with the National Bank of Ukraine as at 31 December are as follows:

(in thousands of UAH)	**2011**	2010
Balances available for withdrawal	**20,751**	7,792
Mandatory reserve with the NBU (restricted for withdrawal)	**4,836**	-
Accumulating account with NBU	**33,380**	-
Total	**58,967**	7,792

The Bank is required by the NBU to maintain an obligatory reserve balance calculated as an average of certain customer funds over a period of one month. During 2011 the NBU changed requirements for mandatory reserve balances. The NBU requires banks to maintain 70.0% of mandatory reserve balances calculated based on the previous reporting period (previous month) on special accounts held with the NBU (31 December 2010: 100.0%).

As at 31 December 2011, the obligatory reserve maintained in correspondent account with the NBU is UAH 4,836 thousand (31 December 2010: nil). The Bank meets the NBU reserve requirements as at 31 December 2011 and 2010. This amount could be available for withdrawal as long as an average monthly balance maintained by the Bank meets obligatory reserve requirement. The obligatory reserve deposit bears interest rate of 30% of NBU discount rate.

As at 31 December 2011 the Bank had balances, the use of which was restricted due to other reserve requirements imposed by the NBU of UAH 33,380 thousand (31 December 2010: nil).

The restricted portion of balances with the NBU as at 31 December 2011 is not available to finance day-to-day operations, therefore, for the purposes of the statement of cash flows, these amounts are excluded from cash and cash equivalents.

6 Due from banks

Balances due from banks as at 31 December are as follows:

(in thousands of UAH)	**2011**	2010
Current accounts	**3,595**	108,831
Loans and advances	**64,851**	42,045
Total	**68,446**	150,876

As at 31 December 2011 loans and advances amounting to UAH 57,660 thousand are placed with Credit Europe Bank N.V. ("Parent bank") (note 27) and are pledged as collateral under financial guarantee agreement (note 17(a)).

The following table represents an analysis of due from banks by rating agency designation based on Standard and Poor's ratings (S&P) or their equivalent as at 31 December:

(in thousands of UAH)	**2011**	2010
Current accounts:		
AA- to AA+	**611**	104,706
BBB- to BBB+	**-**	3,989
BB- to BB+	**2,829**	-
B- to B+	**32**	-
CCC- to CCC+	**2**	2
Unrated	**121**	134
	3,595	108,831
Loans and advances:		
BBB- to BBB+	**-**	31,627
BB- to BB+	**57,660**	-
CCC- to CCC+	**7,191**	10,418
	64,851	42,045
Total	**68,446**	150,876

As at 31 December 2011, the two largest balances due from banks amount to UAH 67,671 thousand or 98.9% of the gross exposure due from banks (31 December 2010: UAH 140,266 thousand or 93.0%).

7 Securities available-for-sale

Securities available-for-sale as at 31 December are as follows:

(in thousands of UAH)	**2011**	2010
Corporate bonds	**302,464**	205,052
Government bonds issued by Ministry of Finance of Ukraine	**50,216**	99,534
Total	**352,680**	304,586

The following table represents an analysis of securities available-for-sale by rating agency designation based on Moody's ratings or their equivalent as at 31 December:

(in thousands of UAH)	**2011**	2010
Ba2	**60,029**	-
Ba3	**39,860**	-
B2/Negative	**43,330**	142,084
B3	**55,255**	55,026
Unrated	**154,206**	107,476
	352,680	304,586

8 Loans and advances

Loans and advances as at 31 December are as follows:

(in thousands of UAH)	**2011**	2010
Corporate	**886,758**	619,641
Retail		
Mortgage	**131,098**	128,250
Auto	**116,619**	102,712
Other loans	**14,864**	17,995
	262,581	248,957
	1,149,339	868,598
Provision for impairment (note 23)	**(73,742)**	(41,858)
Total loans, net	**1,075,597**	826,740

Loans and advances include loan principal and accrued interest as at 31 December 2011 and 2010. Mortgage loans include loans obtained by individuals for acquisition of residential real estate and business real estate.

Changes in collection estimates can affect the impairment losses recognised. For example, to the extent that the net present value of the estimated cash flows differs by plus/minus one percent, the loan impairment as at 31 December 2011 would be UAH 10,756 thousand lower/higher (31 December 2010: UAH 8,267 thousand).

(a) Significant credit exposures

As at 31 December 2011, loans and advances to the ten largest borrowers total UAH 676,111 thousand, and represent 58.8% of the total gross loans and advances (31 December 2010: UAH 539,844 thousand or 62.2%).

(b) Loan impairment

Loan impairment as at 31 December 2011 is as follows:

(in thousands of UAH)	Gross loans	Impairment	Net loans	Impairment to gross loans
Corporate loans				
Loans with specific impairment	**128,028**	**24,738**	**103,290**	**19.3%**
Loans without specifically identified impairment	**758,730**	**4,266**	**754,464**	**0.6%**
Total corporate loans	**886,758**	**29,004**	**857,754**	**3.3%**
Retail loans				
Loans with specific impairment				
Mortgage	**36,169**	**26,443**	**9,726**	**73.1%**
Other loans	**703**	**703**	**-**	**100.0%**
Total retail loans with specific impairment	**36,872**	**27,146**	**9,726**	**73.6%**
Loans without specifically identified impairment				
Mortgage	**94,929**	**13,795**	**81,134**	**14.5%**
Auto	**116,619**	**656**	**115,963**	**0.6%**
Other loans	**14,161**	**3,141**	**11,020**	**22.2%**
Total retail loans without specifically identified impairment	**225,709**	**17,592**	**208,117**	**7.8%**
Total retail loans	**262,581**	**44,738**	**217,843**	**17.0%**
Total	**1,149,339**	**73,742**	**1,075,597**	**6.4%**

Loan impairment as at 31 December 2010 is as follows:

(in thousands of UAH)	**Gross loans**	**Impairment**	**Net loans**	**Impairment to gross loans**
Corporate loans				
Loans with specific impairment	42,410	22,737	19,673	53.6%
Loans without specifically identified impairment	577,231	1,687	575,544	0.3%
Total corporate loans	619,641	24,424	595,217	3.9%
Retail loans without specifically identified impairment				
Mortgage	128,250	12,133	116,117	9.5%
Auto	102,712	-	102,712	0.0%
Other loans	17,995	5,301	12,694	29.5%
Total retail loans	248,957	17,434	231,523	7.0%
Total	868,598	41,858	826,740	4.8%

As at 31 December 2011, accrued interest income on impaired loans and advances amounted to UAH 109 thousand (31 December 2010: UAH 1,681 thousand).

Restructuring activity is designed to manage customer relationships, maximize collection opportunities and, if possible, avoid foreclosure or repossession. Such activities include extended payment arrangements, approved external debt management plans, deferring foreclosure, modification, loan rewrites and/or deferral of payments pending a change in circumstances. Restructuring policies and practices are based on indicators or criteria which, in the judgment of management, indicate that repayment will probably continue. These policies are required to be kept under continuing review and their practical application varies according to the nature of the market, the product and the availability of empirical data. Renegotiated loans are included in the category of assets without individual signs of impairment in the tables above, unless the borrower fails to comply with the renegotiated terms.

(c) Credit quality of loans and advances

Quality of retail loans and advances as at 31 December 2011 is as follows:

(in thousands of UAH)	**Gross loans**	**Impairment**	**Net loans**	**Impairment to gross loans**
Retail loans and advances				
not overdue	**200,535**	**4,265**	**196,270**	**2.1%**
overdue less than 30 days	**4,529**	**76**	**4,453**	**1.7%**
overdue 31-90 days	**1,321**	**399**	**922**	**30.2%**
overdue 91-180 days	**647**	**620**	**27**	**95.8%**
overdue 181-365 days	**34,627**	**25,743**	**8,884**	**74.3%**
overdue more than 365 days	**20,922**	**13,635**	**7,287**	**65.2%**
Total retail loans and advances	**262,581**	**44,738**	**217,843**	**17.0%**

Quality of retail loans and advances as at 31 December 2010 is as follows:

(in thousands of UAH)	**Gross loans**	**Impairment**	**Net loans**	**Impairment to gross loans**
Retail loans and advances				
not overdue	212,590	941	211,649	0.4%
overdue less than 30 days	4,215	1,025	3,190	24.3%
overdue 31-90 days	2,530	447	2,083	17.7%
overdue 91-180 days	1,101	1,097	4	99.6%
overdue 181-365 days	4,847	2,427	2,420	50.1%
overdue more than 365 days	23,674	11,497	12,177	48.6%
Total retail loans and advances	248,957	17,434	231,523	7.0%

Quality of corporate loans and advances as at 31 December 2011 is as follows:

(in thousands of UAH)	**Gross loans**	**Impairment**	**Net loans**	**Impairment to gross loans**
Corporate loans and advances				
not overdue	**882,934**	**27,765**	**855,169**	**3.1%**
overdue	**3,824**	**1,239**	**2,585**	**32.4%**
Total corporate loans and advances	**886,758**	**29,004**	**857,754**	**3.3%**

Quality of corporate loans and advances as at 31 December 2010 is as follows:

(in thousands of UAH)	**Gross loans**	**Impairment**	**Net loans**	**Impairment to gross loans**
Corporate loans and advances				
not overdue	575,465	1,675	573,790	0.3%
overdue	44,176	22,749	21,427	51.5%
Total corporate loans and advances	619,641	24,424	595,217	3.9%

As at 31 December 2011, past due but not impaired loans amount to UAH 7,019 thousand, (31 December 2010: UAH 5,188 thousand).

During 2011 the Bank wrote off retail loans amounting to UAH 4,165 thousand (2010: retail loans amounting to UAH 13,771 thousand and corporate loans amounting to UAH 23,000 thousand). Additionally, a portfolio of impaired retail loans with gross value of UAH 5,437 thousand was sold by the Bank during the year ended 31 December 2011 (31 December 2010: 10,049 thousand). The Bank recorded a gain of UAH 269 thousand on this sale during the year ended 31 December 2011 (31 December 2010: loss of UAH 681 thousand).

During the year ended 31 December 2011 the Bank foreclosed residential and non-residential real estate with a fair value of UAH 1,470 thousand (2010: UAH 12,994 thousand). Real estate will be retained for capital appreciation, and accordingly, is recognized as investment property (note 10).

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

(d) Description of collateral held as security

The following table provides information on collateral securing loans to corporate customers, net of impairment, by types of collateral as at 31 December 2011:

(in thousands of UAH)	**2011**	2010
Real estate	**299,050**	191,272
Motor vehicle	**36,856**	17,250
Other collateral	**178,746**	253,188
No collateral	**343,102**	133,507
Total	**857,754**	595,217

Collateral held against loans and advances is described in more details below.

The Bank employs the following principal collateral types:

- In the retail sector - mortgages over residential properties, cars and other assets;
- In the corporate sector - business assets such as premises, inventories and equipment, charges over the properties being financed.

Although collateral can be an important mitigation of credit risk it is the Bank’s policy to lend on the basis of the customer’s capacity to repay, rather than rely primarily on the value of collateral offered. Depending on the customer’s standing and the type of product, loans may be provided unsecured.

Corporate loans

As at 31 December 2011, an estimated difference betwen the Bank’s actual impairment losses for commercial loans with specific impairment and what they would have been without any collateral amount to UAH 30,576 thousand (2010: UAH 19,673 thousand).

For corporate customers with a net carrying amount of UAH 754,464 thousand for which no specific signs of impairment were identified (31 December 2010: UAH 575,544 thousand) the fair value of collateral was estimated at the inception of the loans and was not adjusted for subsequent changes to the reporting date. The recoverability of these loans is primarily dependent on the creditworthiness of the borrowers rather than the value of collateral, and the current value of the collateral does not impact the impairment assessment.

Loans to retail customers

Mortgage loans are secured by the underlying housing real estate. Mortgage loans are assessed for impairment on collective and individual basis depending whether any specific signs of impairment were identified with respect to those loans. For these loans specific appraisals of properties are obtained at origination and the Bank track approximate changes in property values as this is the factor that drives the assessment of collective impairment. The Bank obtains specific individual valuation of collateral in case there are indications of impairment.

As at 31 December 2011, an estimated difference betwen the Bank’s actual impairment losses for retail mortgage loans with specific impairment and what they would have been without any collateral amount to UAH 9,726 thousand (2010: nil).

Auto loans are secured by the underlying cars. For auto loans management believes that the fair value of collateral is at least equal to the carrying amount of individual loans at the reporting date. The Bank updates the appraised values of collateral at inception of the loans to the current values considering the approximate changes in prices and aging of cars.

(e) Distribution of corporate loans and advances by industry sector

Corporate loans and advances by economic sector as at 31 December are as follows:

(in thousands of UAH)	**2011**	2010
Automotive	**232,980**	194,045
Agriculture and fishing	**209,609**	76,656
Services	**122,943**	-
Basic materials	**99,099**	111,704
Retail trade with non-food product	**48,961**	-
Construction	**41,852**	44,364
Financial intermediaries	**18,767**	49,642
Food, beverage and tobacco	**29,322**	41,978
Consumer products non-food	**25,231**	24,603
Building materials	**12,925**	16,090
Tourism	**-**	39,519
Other	**45,069**	21,040
Total	**886,758**	619,641

9 Property, equipment and intangible assets

A summary of activity in property, equipment and intangible assets for the year ended 31 December 2011 is as follows:

(in thousands of UAH)	**Leasehold improvements**	**Furniture and equipment**	**Motor vehicles**	**Intangible assets**	**Total**
Cost					
1 January 2011	**14,553**	**23,594**	**1,117**	**7,075**	**46,339**
Additions	**1,574**	**1,502**	**596**	**-**	**3,672**
Disposals	**(853)**	**-**	**(281)**	**-**	**(1,134)**
31 December 2011	**15,274**	**25,096**	**1,432**	**7,075**	**48,877**
Accumulated depreciation and amortisation					
1 January 2011	**9,258**	**18,278**	**871**	**3,936**	**32,343**
Depreciation and amortisation	**3,842**	**2,410**	**327**	**1,666**	**8,245**
Disposals	**(843)**	**-**	**(75)**	**-**	**(918)**
31 December 2011	**12,257**	**20,688**	**1,123**	**5,602**	**39,670**
Net book value as at 31 December 2011	**3,017**	**4,408**	**309**	**1,473**	**9,207**

A summary of activity in property, equipment and intangible assets for the year ended 31 December 2010 is as follows:

(in thousands of UAH)	**Leasehold improvements**	**Furniture and equipment**	**Motor vehicles**	**Intangible assets**	**Total**
Cost					
1 January 2010	15,682	24,144	1,363	7,024	48,213
Additions	36	126	281	51	494
Disposals	(1,165)	(676)	(527)	-	(2,368)
31 December 2010	14,553	23,594	1,117	7,075	46,339
Accumulated depreciation and amortisation					
1 January 2010	5,060	13,330	760	2,226	21,376
Depreciation and amortisation	4,753	5,300	317	1,710	12,080
Disposals	(555)	(352)	(206)	-	(1,113)
31 December 2010	9,258	18,278	871	3,936	32,343
Net book value as at 31 December 2010	5,295	5,316	246	3,139	13,996

10 Investment property

A summary of activity in investment property for the year ended 31 December is as follows:

(in thousands of UAH)	**2011**	2010
As at 1 January	**14,348**	1,813
Foreclosed property	**1,470**	12,994
Disposal of investment property	**(373)**	-
Change in fair value	**(2,233)**	(459)
As at 31 December	**13,212**	14,348

During the year ended 31 December 2011 and 2010, the Bank foreclosed residential and non residential real estate. The Bank intends to keep the property for capital appreciation.

Property was recognised at fair value. The basis used for the appraisal was the market approach. The market approach is based upon an analysis of the results of comparable sales of similar premises. Key assumptions relate to the condition, quality and location of premises used as comparatives.

Close to the reporting date an analysis of changes in fair value of investment property was performed based on analysis of changes in market value for similar real estate, taking into account location, condition and overall quality of premises.

11 Other assets

Other assets as at 31 December are as follows:

(in thousands of UAH)	**2011**	2010
Fees receivable for issuing financial guarantee contracts (note 17(a))	**16,861**	-
Prepayments for goods and services	**3,629**	3,114
Income tax receivable	**122**	167
Derivative financial asset (note 25)	**128**	-
Other	**638**	534
Total	**21,378**	3,815

Fees receivable for issuing financial guarantee contracts represent net present value of the fees receivable for guarantees issued.

12 Due to banks

Balances due to banks as at 31 December are as follows:

(in thousands of UAH)	**2011**	2010
Deposits and balances due to banks:		
OECD countries	**485,028**	637,666
Non OECD countries	**306,384**	-
Domestic	**1,998**	-
Total	**793,410**	637,666

As at 31 December 2011, balances due to Parent amount to UAH 485,028 thousand or 61.1% of balances due to banks (31 December 2010: UAH 637,657 thousand or 100.0%).

13 Current accounts

Current accounts as at 31 December are as follows:

(in thousands of UAH)	**2011**	2010
Commercial	**79,770**	55,810
Retail	**4,264**	7,380
Total	**84,034**	63,190

As at 31 December 2011, current accounts of the ten largest customers total UAH 69,101 thousand, or 82.2% of the total current accounts (31 December 2010: UAH 50,602 thousand, or 80.1%).

14 Deposits

Deposits as at 31 December are as follows:

(in thousands of UAH)	**2011**	2010
Commercial	**37,052**	2,100
Retail	**29,980**	5,802
Total	**67,032**	7,902

As at 31 December 2011, deposits of the ten largest customers total UAH 43,238 thousand, or 64.5% of total deposits (31 December 2010: UAH 6,471 thousand, or 81.9%).

15 Other liabilities

Other liabilities as at 31 December are as follows:

(in thousands of UAH)	**2011**	2010
Financial guarantee contracts (note 17(a))	**16,861**	-
Provision for unused vacations	**1,995**	1,078
Accounts payable	**2,843**	1,654
Deferred income	**-**	1
Derivative financial liability (note 25)	**-**	67
Other	**660**	519
Total	**22,359**	3,319

Liability under financial guarantee contracts represents the amount recognised initially (fair value of the guarantee) less cumulative amortisation.

16 Share capital

The share capital as at 31 December is as follows:

	2011		2010	
(in thousands of UAH)	**Number of shares**	**Amount**	Number of shares	Amount
Shares authorised, issued and fully paid in	505,000,000	505,000	505,000,000	505,000

The nominal value of ordinary shares is UAH 1 per share as at 31 December 2011 and 2010.

All ordinary shares have equal voting, dividend and capital repayment rights. In 2011 and 2010 no dividends were declared.

In accordance with the Ukrainian legislation, the distributable reserves are limited to the balance of accumulated reserves as recorded in the statutory financial statements prepared in accordance with National Accounting Standards.

17 Commitments and contingent liabilities

(a) Guarantees

As at 31 December guarantees issued by the Bank are as follows:

(in thousands of UAH)	**2011**	2010
Guarantees granted to banks	**112,561**	140,518
Guarantees granted to customers	**42,488**	1,738
	155,049	142,256

The amounts reflected in the table above assume that amounts are fully advanced and represent the maximum accounting loss that would be recognised at the reporting date if counterparties failed completely to perform as contracted.

As at 31 December 2011, guarantees granted to banks amounting to UAH 54,901 thousand or 35% of total amount of guarantees granted to banks, are granted to one counterparty (31 December 2010: UAH 108,906 thousand and 77.5%, respectively). As at 31 December 2011 and 2010 those guarantees are secured with counter-guarantee received from the same Bank in similar amount.

As at 31 December 2011 guarantees amounting to UAH 57,660 thousand are granted to the Parent Bank to compensate its losses in case of default of issuers of the bonds (Ukrainian Banks) which were purchased by the Parent Bank during 2011 (31 December 2010: nil). These guarantees are secured with deposit placed with the Parent amounting to UAH 57,660 thousand (31 December 2010: nil). As at 31 December 2011 the guarantees amounting to UAH 42,225 thousand and UAH 15,435 thousand mature in September 2015 and March 2016, respectively.

As at 31 December 2011 guarantees granted to customers amounting to UAH 32,479 thousand are secured with current accounts with customers amounting to UAH 39,064 thousand.

(b) Operating lease commitments

The Bank leases operational space in its normal course of business. Future non-cancellable lease payments as at 31 December are as follows:

(in thousands of UAH)	**2011**	2010
Within one year	**2,796**	1,742
	2,796	1,742

(c) Loan commitments

The Bank has outstanding commitments to extend loans. These commitments take the form of approved loans and credit card limits and overdraft facilities. The total outstanding contractual commitments do not necessarily represent future cash requirements, as these commitments may expire or terminate without being funded.

(d) Insurance

The insurance industry in Ukraine is in a developing stage and many forms of insurance protection common in other countries are not yet generally available. The Bank does not have full coverage for its premises and equipment, business interruption, or third party liability in respect of damage arising from accidents on Bank property or relating to operations. Until the Bank obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the operations and financial position.

(e) Tax contingency

The Ukrainian tax system can be characterised by numerous taxes and frequently changing legislation. Tax regulations are often unclear, open to wide interpretation, and in some instances are conflicting. Instances of inconsistent opinions between local, regional and national tax authorities and between the National Bank of Ukraine and the Ministry of Finance are not unusual. Tax declarations are subject to review and investigation by a number of authorities that are enabled by law to impose significant penalties and interest charges. These facts create tax risks in Ukraine substantially more significant than typically found in countries with more developed tax systems.

Starting from 1 January 2011 new Tax Code of Ukraine was adopted that implies certain changes in tax accounting. In particular Tax code stipulates the decrease in corporate income tax rates from 25% to 23 % since 1 April 2011, 21% since 1 January 2012, 19% since 1 January 2013 and 16% since 1 January 2014.

Management believes it has complied with all existing tax legislation. However, there can be no assurance that the tax authorities will not have a different interpretation of the Bank's compliance with existing legislation and assess fines and penalties. No provision for potential tax assessments has been made in these financial statements.

(f) Litigation

The Bank is involved in various legal proceedings in the ordinary course of business. Management does not believe the result of any such actions will have a material effect on financial position or results of operations.

18 Interest income

Interest income for the year ended 31 December is as follows:

(in thousands of UAH)	**2011**	2010
Loans and advances	**121,953**	104,345
Securities available-for-sale	**43,806**	66,667
Due from banks	**1,683**	2,678
Other	**174**	-
Total	**167,616**	173,690

Interest income on individually impaired loans and advances during the year ended 31 December 2011 amounts to UAH 10,985 thousand (2010: UAH 1,681 thousand).

19 Interest expense

Interest expense for the year ended 31 December is as follows:

(in thousands of UAH)	**2011**	2010
Due to banks	**35,804**	28,113
Deposits and current accounts	**5,139**	1,540
Total	**40,943**	29,653

20 Net fee and commission income

Net fee and commission income for the year ended 31 December is as follows:

(in thousands of UAH)	**2011**	2010
Fee and commission income:		
Issued guarantees and letters of credit	**9,442**	10,523
Credit fees	**7,511**	6,026
Settlements and cash services	**5,553**	4,220
Operations in foreign exchange and bank metal market for customers	**3,009**	2,307
Fines and penalties	**803**	1,991
Other fee and commission income	**1**	3
Total fee and commission income	**26,319**	25,070
Fee and commission expense:		
Settlements and cash services	**541**	538
Other fees and commission expense	**888**	1,064
Total fee and commission expense	**1,429**	1,602
Net fee and commission income	**24,890**	23,468

21 Salaries and employee benefits

Salaries and employee benefits for the year ended 31 December are as follows:

(in thousands of UAH)	**2011**	2010
Salaries and other benefits	**39,151**	34,685
Salary related charges	**7,421**	5,887
Total	**46,572**	40,572

22 General administrative expenses

General administrative expenses for the year ended 31 December are as follows:

(in thousands of UAH)	**2011**	2010
Rent and maintenance expenses	**14,071**	13,760
Stationery and office supplies	**2,619**	2,776
Communication and information expenses	**2,674**	2,267
Change in fair value of investment property	**2,233**	459
Travel expenses	**1,094**	1,138
Security expenses	**1,126**	1,090
Legal and consultancy fees	**913**	2,964
Advertising and marketing	**538**	215
Taxes, other than income tax, duties and charges	**420**	468
Insurance expenses	**158**	498
Other	**5,035**	3,527
Total	**30,881**	29,162

23 Provision for impairment

The following is a schedule of movements in provision for impairment for the year ended 31 December:

(in thousands of UAH)	**2011**	2010
Balance as at 1 January	**41,858**	91,847
Provision for impairment:		
Loans and advances	**40,824**	36,431
Provision for impairment charged to profit and loss	**40,824**	36,431
Currency translation adjustment	-	(3,189)
Write-offs of due from banks	-	(36,411)
Write-off loans and advances	**(8,940)**	(46,820)
Balance as at 31 December	**73,742**	41,858

24 Income tax expense

The statutory income tax rate from 1 January 2011 to 31March 2011 is 25% and from 1 April 2011 to 31 December 2011 tax rate is 23% (for the year ended 31 December 2010: 25%).

The components of income tax expense for the year ended 31 December are as follows:

(in thousands of UAH)	**2011**	2010
Current tax expense	**1,801**	109
Deferred tax expense	**2,596**	21,151
Total tax expense	**4,397**	21,260

The difference between the total expected income tax expense computed by applying the statutory income tax rate to profit before tax and the reported income tax expense is as follows:

	Year ended 31 December			
(in thousands of UAH)	**2011**	**2011**	2010	2010
Profit before tax	**31,410**	**100%**	72,191	100.0%
Computed expected income tax expense at statutory rate	**7,381**	**23.5%**	18,048	25.0%
Non-deductible expenses	**555**	**1.8%**	7,002	9.7%
Reduction in income tax rate	**(3,539)**	**(11.3%)**	(3,790)	(5.2%)
Effective income tax expense	**4,397**	**14.0%**	21,260	29.4%

(a) Movements in recognised temporary differences during the year

Deferred tax assets and liabilities as at 31 December 2011 are attributable to the items detailed as follows:

(in thousands of UAH)	**1 January 2011** *asset (liability)*	**Recognised through profit or loss** *benefit (charge)*	**Recognised directly in equity** *benefit (charge)*	**31 December 2011** *asset (liability)*
Due from banks	**(327)**	**112**	**-**	**(215)**
Securities available-for-sale	**(13,575)**	**458**	**838**	**(12,279)**
Loans and advances	**(20,676)**	**(2,477)**	**-**	**(23,153)**
Property, equipment and intangible assets	**1,941**	**(342)**	**-**	**1,599**
Other assets	**(360)**	**358**	**-**	**(2)**
Other liabilities	**247**	**(705)**	**-**	**(458)**
Total	**(32,750)**	**(2,596)**	**838**	**(34,508)**

Deferred tax assets and liabilities as at 31 December 2010 are attributable to the items detailed as follows:

(in thousands of UAH)	**1 January 2010** *asset (liability)*	**Recognised through profit or loss** *benefit (charge)*	**Recognised directly in equity** *benefit (charge)*	**31 December 2010** *asset (liability)*
Due from banks	-	(327)	-	(327)
Securities available-for-sale	4,035	(15,228)	(2,382)	(13,575)
Loans and advances	(17,407)	(3,269)	-	(20,676)
Property, equipment and intangible assets	3,912	(1, 971)	-	1,941
Other assets	-	(360)	-	(360)
Other liabilities	243	4	-	247
Total	(9,217)	(21,151)	(2,382)	(32,750)

25 Derivative financial instruments at fair value through profit and loss

Derivative financial instruments relate mainly to foreign exchange swaps and forward exchange contracts.

The Bank has loans due from and deposits due to the same banks that are denominated in different currencies for the same period with the same or similar amounts. Cash flows under these instruments are similar to cash flows under foreign exchange swaps. The Bank's accounting policies allow offsetting of assets and liabilities (i.e. loans due from and deposits due to the same banks) only when there is legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. Although settlement of loans and deposits is typically done on the same day, loans due from and deposits due to the same banks are settled by receiving and paying separate amounts, thus exposing the Bank to credit risk for the full amount of the asset or liquidity risk for the full amount of the liability. These risk exposures may be significant even though relatively brief. Management believes that these transactions are in substance foreign exchange swaps and accounts for these transactions in accordance with the Bank's accounting policy in respect of derivatives (note 3(b)(vii)).

The table below sets out gross amounts of receivable and payable upon settlement of amounts due from and deposits due to banks. Because these contracts are short-term, the net amount of receivable or payable upon settlement also approximates the positive (net receivable) or negative (net payable) fair value of the foreign exchange contracts:

(in thousands of UAH)	**2011** *Contracts with negative fair values*	**2010** *Contracts with negative fair values*
UAH receivable	**4,001**	**35,000**
USD payable	**(3,995)**	**(35,000)**
Net fair value (liabilities) assets	**6**	**-**
Maximum exposure to credit risk (gross amount receivable)	**4,001**	**35,000**

The table below summarises the contractual amounts of forward exchange contracts outstanding at 31 December 2011 with details of the contractual exchange rates and remaining periods to maturity. Foreign currency amounts presented below are translated at rates ruling at the reporting date.

	31 December 2011			
(in thousands of UAH)	**Payable**	**Receivable**	**Fair value (liability)**	**Average contractual exchange rate**
Buy EUR sell UAH				
Within one month	**(1,076)**	**1,198**	**122**	**11.46**

26 Financial risk management

Management of risk is fundamental to the business of banking and is an essential element of operations. The major risks faced by the Bank are those related to credit exposures, market risk (which includes risk of movements in foreign exchange rates and in interest rates) and liquidity risk.

(a) Risk management framework

The risk management policies aim to identify, analyze and manage the risks faced by the Bank, to set appropriate risk limits and controls and to continuously monitor risk levels and adherence to limits.

The risks are managed in an integrated manner and are evaluated in terms of the policy of the Bank, which is reviewed and approved by the Board on an annual basis. Risk limits are established for credit, market and liquidity risks and the level of exposure is then maintained within these limits.

(b) Credit risk

Credit risk is the risk of a financial loss to the Bank if a customer or counterparty fails to meet its contractual obligations, and arises principally from loans and advances and investment securities. The maximum credit risk exposure is generally net carrying amounts of instruments at the reporting date.

Management monitors concentration of credit risk. For the analysis of concentration of credit risk in respect of loans and advances refer to note 8.

The Bank has to comply with varying NBU regulations that limit exposure to companies, groups of companies and related parties. To manage credit risk, the Bank deals with counterparties of good credit standing and when appropriate obtains collateral.

Corporate Lending

In making its lending decisions, the Bank evaluates potential borrowers on the basis of their financial condition as reflected in their financial statements, their credit history with the Bank and other financial institutions and the amount of risk involved in lending to a particular borrower, using a rating scale. A lack of credit history with the Bank or lack of credit history in general is not an absolute bar to granting a loan, provided the Bank receives sufficient information to assess the borrower’s business and financial condition. However, when the Bank lends to a borrower with no credit history, it sets conditions such as a requirement to transfer a certain part of the customer’s banking operations to the Bank for a certain period and charging a higher interest rate, or requiring additional collateral or guarantees from such borrower.

In evaluating the risks associated with a particular borrower, the Bank takes into account the borrower’s business and factors such as the quality of its management, its main business activities, its geographic location, suppliers, customers, other indebtedness, financial stability, turnover, likely return on the loan, the liquidity of the proposed collateral and whether it is sufficient in view of the credit risk. The Bank also considers the weighted average credit risk associated with the industry in which the borrower operates.

Retail Lending

Retail loans are subject to a standardised approval procedure.

Loans are subject to maximum limits depending on the applicant’s income, stability of future earnings, liquidity and quality of collateral. The Credit Committee reviews a credit application and makes the relevant decision as to whether to grant the loan.

The approval is primarily based on financial condition and solvency of the borrower.

The determination of the financial condition of the borrower includes general data, financial indicators, purpose of the loan and personal qualities.

The Bank continuously monitors the performance of individual credit exposures and regularly reassesses the creditworthiness of its customers. The review is based on an analysis of overdue payments and other information obtained by the Bank. In light of this information the borrower's internal credit rating may be revised.

The maximum off-balance sheet exposure to credit risk at 31 December is as follows:

(in thousands of UAH)	**2011**	2010
Guarantees granted (note 17(a))	**155,049**	142,256
Gross amount receivable on derivatives (note 25)	**5,199**	35,000
Total off-balance sheet exposure	**160,248**	177,256

For the analysis of concentration of credit risk in respect of loans and advances to customers refer to note 8.

(c) Market risk

Market risk is the risk that changes in the market prices, such as interest rate, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's/issuer's credit standing) will affect income or the value of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

(d) Foreign currency risk

Currency risk is the risk that movements in foreign exchange rates will affect income or the value of its portfolios of financial instruments.

The Bank has assets and liabilities denominated in several foreign currencies. Foreign currency risk arises when the actual or forecasted assets in a foreign currency are either greater or less than the liabilities in that currency. Management establishes limits and constantly monitors foreign currency positions in accordance with the regulations of the NBU and internally developed methodology. The policy with regard to open foreign currency position is restricted to certain thresholds under Ukrainian law and is monitored by the NBU.

Foreign currency positions as at 31 December 2011 are as follows:

(in thousands of UAH)	**USD**	**EUR**	**Other**
Assets			
Cash	**1,776**	**2,515**	**-**
Balances with the National Bank of Ukraine	**12,784**	**20,596**	**-**
Due from banks	**66,146**	**2,178**	**17**
Loans and advances	**656,919**	**49,859**	**-**
Other assets	**17,855**	**6**	**-**
Total assets	**755,480**	**75,154**	**17**
Liabilities			
Due to banks	**(737,979)**	**(55,431)**	**-**
Current accounts	**(8,597)**	**(2,224)**	**-**
Deposits	**(29,304)**	**(5,912)**	**-**
Other liabilities	**(16,872)**	**-**	**-**
Total liabilities	**(792,752)**	**(63,567)**	**-**
Net on balance sheet position	**(37,272)**	**11,587**	**17**
Derivatives: foreign exchange swaps and forwards (note 25)	**(3,995)**	**1,198**	**-**
Net long (short) position	**(41,267)**	**12,785**	**17**

Foreign currency positions as at 31 December 2010 are as follows:

(in thousands of UAH)	**USD**	**EUR**	**Other**
Assets			
Cash	2,694	806	-
Due from banks	149,449	1,290	17
Loans and advances	491,014	3,493	-
Total assets	643,157	5,589	17
Liabilities			
Due to banks	(636,651)	(1,015)	-
Current accounts	(7,466)	(1,218)	-
Deposits	(4,584)	(242)	-
Other liabilities	(177)	-	-
Total liabilities	(648,878)	(2,475)	-
Net on balance sheet position	(5,721)	3,114	17
Derivatives: foreign exchange swaps (note 25)	(35,000)	-	-
Net long (short) position	(40,721)	3,114	17

Other currencies are mainly represented by Russian roubles.

As at 31 December a 10 percent weakening of the Ukrainian hryvnia against the following currencies would have increased (decreased) net profit for the year ended 31 December and total equity as at 31 December by the amount shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

(in thousands of UAH)	**2011**	2011
USD	**(3,178)**	(3,054)
EUR	**984**	234

As at 31 December a 10 percent strengthening of the Ukrainian hryvnia against the above currencies would have had an equal but opposite effect on the net profit and total equity to the amount shown above, on the basis that all other variables remain constant.

(e) Interest Rate Risk

Interest rate risk is the risk that movements in interest rates will affect income or the value of financial instruments.

Interest rate risk is measured by the extent to which changes in market interest rates impact on margins and net interest income. To the extent the term structure of interest bearing assets differs from that of liabilities, net interest income will increase or decrease as a result of movements in interest rates. To manage interest rate risk, management continually assesses market interest rates for different types of interest bearing assets and liabilities.

Interest margins on assets and liabilities having different maturities may increase as a result of changes in market interest rates. In practice, management resets interest rates on both assets and liabilities based on current market conditions and mutual agreement, which is documented in an addendum to the original agreement, which sets forth the new interest rate.

The average effective interest rates of major interest bearing assets and liabilities as at 31 December are as follows:

		2011			2010	
	UAH	**USD**	**EUR**	UAH	USD	EUR
Due from banks	**-**	**0.6%**	**-**	-	0.8%	-
Securities available-for-sale	**16.1%**	**-**	**-**	16.2%	-	-
Loans and advances	**15.4%**	**9.8%**	**8.2%**	16.4%	11.5%	11.8%
Due to banks	**-**	**5.4%**	**5.3%**	11.0%	5.4%	-
Deposits	**17.7%**	**6.1%**	**5.3%**	8.5%	4.2%	4.5%

The Bank does not have any floating rate instruments. The Bank does not account for any fixed rate financial assets and liabilities at fair value through profit or loss. Therefore, a change in interest rates at the reporting date would not affect profit or loss.

Increase in market interest rates by one percentage point will decrease fair value of securities available-for-sale and equity by UAH 1,500 thousand as at 31 December 2011 (31 December 2010: UAH 1,636 thousand). One percentage point decrease would have had an equal but opposite effect.

(f) Liquidity Risk

Liquidity risk arises in the general funding of activities and in the management of positions. It includes both the risk of being unable to fund assets at appropriate maturities and rates and the risk of being unable to liquidate an asset at a reasonable price and in an appropriate time frame.

Management's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation.

The Bank seeks to actively support a diversified and stable funding base comprising debt securities in issue, long-term and short-term loans from other banks, core corporate and retail customer deposits, accompanied by diversified portfolios of highly liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

To maintain its short-term liquidity, the Bank takes short-term deposits, enters into repurchase transactions and buys and sells foreign currency, securities and precious metals. To maintain its long-term liquidity, the Bank takes medium and long-term deposits, sells assets such as securities, regulates its interest rate policy and strives to reduce expenses.

The contractual remaining maturities of assets and liabilities, excluding interest payments, as at 31 December 2011 are as follows:

Description			**Maturity periods**				**Total**
	Within one month	From one to three months	From three months to one year	From one to five years	More than five years	No maturity	
(in thousands of UAH)							
Cash	**10,221**	**-**	**-**	**-**	**-**	**-**	**10,221**
Balances with the NBU	**58,967**	**-**	**-**	**-**	**-**	**-**	**58,967**
Due from banks	**61,255**	**7,191**	**-**	**-**	**-**	**-**	**68,446**
Securities available-for-sale	**30,154**	**101,165**	**72,338**	**149,023**	**-**	**-**	**352,680**
Loans and advances	**77,596**	**154,493**	**403,050**	**376,452**	**64,006**	**-**	**1,075,597**
Property, equipment and intangible assets	**-**	**-**	**-**	**-**	**-**	**9,207**	**9,207**
Investment property	**-**	**-**	**-**	**-**	**-**	**13,212**	**13,212**
Other assets	**4,917**	**1,192**	**3,175**	**12,094**	**-**	**-**	**21,378**
Total assets	**243,110**	**264,041**	**478,563**	**537,569**	**64,006**	**22,419**	**1,609,708**
Liabilities							
Due to banks	**78,074**	**219,170**	**496,166**	**-**	**-**	**-**	**793,410**
Current accounts	**84,034**	**-**	**-**	**-**	**-**	**-**	**84,034**
Deposits	**19,252**	**36,890**	**10,890**	**-**	**-**	**-**	**67,032**
Deferred tax liability	**1,796**	**6,848**	**11,195**	**13,291**	**1,378**	**-**	**34,508**
Other liabilities	**5,778**	**1,089**	**2,982**	**12,510**	**-**	**-**	**22,359**
Total liabilities	**188,934**	**263,997**	**521,233**	**25,801**	**1,378**	**-**	**1,001,343**
Liquidity surplus (gap) for the period	**54,176**	**44**	**(42,670)**	**511,768**	**62,628**	**22,419**	**608,365**
Cumulative liquidity surplus	**54,176**	**54,220**	**11,550**	**523,318**	**585,946**	**608,365**	

The contractual remaining maturities of assets and liabilities, excluding interest payments, as at 31 December 2010 are as follows:

Description	**Maturity periods**						**Total**
	Within one month	From one to three months	From three months to one year	From one to five years	More than five years	No maturity	
(in thousands of UAH)							
Cash	7,141	-	-	-	-	-	7,141
Balances with the NBU	7,792	-	-	-	-	-	7,792
Due from banks	150,876	-	-	-	-	-	150,876
Securities available-for-sale	80,378	101,148	22,205	100,855	-	-	304,586
Loans and advances	129,020	59,188	309,719	230,661	98,152	-	826,740
Property, equipment and intangible assets	-	-	-	-	-	13,996	13,996
Investment property	-	-	-	-	-	14,348	14,348
Other assets	3,815	-	-	-	-	-	3,815
Total assets	379,022	160,336	331,924	331,516	98,152	28,344	1,329,294
Liabilities							
Due to banks	75,366	31,051	531,249	-	-	-	637,666
Current accounts	63,190	-	-	-	-	-	63,190
Deposits	2,958	3,591	1,353	-	-	-	7,902
Deferred tax liability	-	8,920	7,575	16,255	-	-	32,750
Other liabilities	3,319	-	-	-	-	-	3,319
Total liabilities	144,833	43,562	540,177	16,255	-	-	744,827
Liquidity surplus (gap) for the period	234,189	116,774	(208,253)	315,261	98,152	28,344	584,467
Cumulative liquidity surplus	234,189	350,963	142,710	457,971	556,123	584,467	

Current accounts are due on demand and have been reflected as such in these schedules. However, management estimates that demand on a majority of the accounts will occur at significantly later dates.

As at 31 December 2011, under Ukrainian law individual depositors can withdraw their funds prior to the stated maturity date upon two-day notification. Management believes that a majority of individual deposits will not be withdrawn prior to the stated maturity date.

The contractual maturity analysis of undiscounted cash flows (including interest payments) for financial liabilities as at 31 December 2011 is as follows:

(in thousands of UAH)	**Within one month**	**From one to three months**	**From three months to one year**	**Total**
Due to banks	**81,547**	**146,566**	**581,421**	**809,534**
Current accounts	**84,034**	**-**	**-**	**84,034**
Deposits	**19,819**	**37,342**	**11,158**	**68,319**
	185,400	**183,908**	**592,579**	**961,887**

The contractual maturity analysis of undiscounted cash flows (including interest payments) for financial liabilities as at 31 December 2010 is as follows:

(in thousands of UAH)	**Within one month**	**From one to three months**	**From three months to one year**	**Total**
Due to banks	75,540	31,355	541,031	647,926
Current accounts	63,190	-	-	63,190
Deposits	3,313	3,700	1,395	8,408
	142,043	35,055	542,426	719,524

(g) Capital management

(i) Regulatory capital

The NBU sets and monitors capital requirements for the Bank as a whole. The Bank and individual banking operations are directly supervised by their local regulators.

Under the current capital requirements set by the NBU banks have to maintain a ratio of capital to risk weighted assets (statutory capital ratio) above the prescribed minimum level. If it does not maintain or sufficiently increase its capital base in line with the increase in its risk weighted assets, it may be non-compliant with the NBU capital adequacy regulations, which could lead to the imposition of sanctions by the NBU. This could have a material adverse effect on results of operations and financial condition. As at 31 December 2011, the minimum level required by the NBU is 10.0% (31 December 2010: 10.0%).

The following table shows the composition of the capital position calculated in accordance with the requirements of the Basel Accord, as at 31 December:

(in thousands of UAH)	**2011**	2010
Tier I capital		
Share capital	**505,000**	505,000
Retained earnings less negative fair value reserve	**103,365**	79,316
Total Tier I capital	**608,365**	584,316
Tier II capital		
Positive fair value reserve	-	151
Total capital	**608,365**	584,467
Total risk-weighted assets	**1,657,784**	1,248,748
Capital ratios		
Total Tier I capital expressed as a percentage of total risk-weighted assets	**36.7%**	46.8%
Total Tier II capital expressed as a percentage of total risk-weighted assets	**36.7%**	46.8%

27 Balances with related parties

The Bank grants loans and advances, attracts deposits and performs other transactions with related parties in the ordinary course of business. Parties are considered to be related if one party has the ability to control the other party or exercises significant influence over the other party when making financial and operational decisions. Terms of transactions with related parties are established at the time of the transaction. Related parties comprise entities under common control, members of the supervisory board, key management personal and their immediate family members, companies that are controlled or significantly influenced by shareholders, by key management personal or by their close family members.

As at 31 December 2011 and 2010 the Bank's parent is Credit Europe Bank N.V ("Parent Bank"). Credit Europe Bank N.V. prepares publicly available financial statements as at and for the year ended 31 December 2011.

The ultimate controlling party of the Bank is FIBA Holding A.S., Turkey, which is ultimately controlled by Mr. Hüsnü Özyegin.

Balances and transactions with the related parties as at 31 December and for the year then ended are as follows:

(in thousands of UAH)	**2011**	2010
Balances and transactions with the Parent		
Statement of financial position:		
Due from banks	**60,479**	35,574
Due to banks	**485,028**	637,657
Other assets	**16,861**	-
Other liabilities	**16,861**	67
Statement of comprehensive income:		
Interest expense	**31,341**	21,209
Net fee and commission income	**6,374**	-
Net fee and commission expense	**-**	985
Balances and transactions with other entities under common control		
Statement of financial position:		
Due from banks	**25**	23
Due to banks	**306,384**	-
Loans and advances	**16,165**	48,362
Current accounts	**760**	967
Deposits	**-**	2,001
Statement of comprehensive income:		
Interest income	**2,655**	2,492
Interest expense	**1,680**	414
Balances and transactions with key management personnel		
Statement of financial position:		
Loans and advances	**89**	163
Current accounts	**136**	233
Deposits	**2,804**	133
Statement of comprehensive income:		
Interest income	**7**	-
Interest expense	**54**	18
Salaries and employee benefits	**5,883**	2,356

As at 31 December 2011 guarantees amounting to UAH 57,660 thousand are granted to the Parent Bank to compensate its losses in case of default of issues of the bonds (Ukrainian Banks) which were purchased by the Parent Bank during 2011 (note 17(a)).

The foreign currency positions and interest rates of balances with related parties as at 31 December 2011 are as follows:

(in thousands of UAH)	**UAH**	**Interest rate**	**USD**	**Interest rate**	**EUR**	**Interest rate**	**Other**	**Interest rate**
Balances with the Parent								
Due from banks	-	-	**58,305**	-	**2,174**	-	-	-
Due to banks	-	-	**429,597**	**5.2%**	**55,431**	**5.4%**	-	-
Other assets	-	-	**16,861**	-	-	-	-	-
Other liabilities	-	-	**16,861**	-	-	-	-	-
Balances with other entities under common control								
							-	
Due from banks	-	-	**12**	-	**3**	-	**10**	-
Due to banks	-	-	**306,384**	**5.8%**	-	-	-	-
Loans and advances	**16,165**	**12%**	-	-	-	-	-	-
Current accounts	**207**	-	**216**	-	**337**	-	-	-
Balances with key management personnel								
Loans and advances	-	-	**89**	**9%**	-	-	-	-
Current accounts	-	-	-	-	**136**	-	-	-
Deposits	**140**	**13%**	**2,664**	**7%**	-	-	-	-

The foreign currency positions and interest rates of transactions with related parties as at 31 December 2010 are as follows:

(in thousands of UAH)	**UAH**	**Interest rate**	**USD**	**Interest rate**	**EUR**	**Interest rate**	**Other**	**Interest rate**
Balances with the Parent								
Due from banks	-	-	34,303	-	1,271	-	-	-
Due to banks	1,006	11.0%	636,651	5.3%	-	-	-	-
Balances with other entities under common control								
Due from banks	-	-	12	-	-	-	11	-
Loans and advances	48,362	15.3%	-	-	-	-	-	
Current accounts	406	-	215	-	346	-	-	-
Deposits	2,001	6.3%	-	-	-	-	-	-
Balances with key management personnel								
Loans and advances	-	-	163	8.5%	-	-	-	-
Current accounts	101	-	121	-	11	-	-	-
Deposits	133	19.0%	-	-	-	-	-	-

The contractual remaining maturities of balances with related parties as at 31 December 2011 are as follows:

(in thousands of UAH)	Within one month	From one to three months	From three months to one year	From one to five years	More than five years	**Total**
Balances with the Parent						
Due from banks	**60,479**	**-**	**-**	**-**	**-**	**60,479**
Due to banks	**74,103**	**179,221**	**231,704**	**-**	**-**	**485,028**
Other assets	**400**	**1,192**	**3,175**	**12,094**	**-**	**16,861**
Other liabilities	**280**	**1,089**	**2,982**	**12,510**	**-**	**16,861**
Balances with other entities under common control						
Due from banks	**25**	**-**	**-**	**-**	**-**	**25**
Due to banks	**1,973**	**39,949**	**264,462**	**-**	**-**	**306,384**
Loans and advances	**-**	**-**	**16,165**	**-**	**-**	**16,165**
Current accounts	**760**	**-**	**-**	**-**	**-**	**760**
Balances with key management personnel						
Loans and advances	**-**	**-**	**89**	**-**	**-**	**89**
Current accounts	**136**	**-**	**-**	**-**	**-**	**136**
Deposits	**1,986**	**818**	**-**	**-**	**-**	**2,804**

The contractual remaining maturities of balances with related parties as at 31 December 2010 are as follows:

(in thousands of UAH)	Within one month	From one to three months	From three months to one year	From one to five years	**Total**
Balances with the Parent					
Due from banks	35,574	-	-	-	35,574
Due to banks	75,357	31,051	531,249	-	637,657
Balances with other entities under common control					
Due from banks	23	-	-	-	23
Loans and advances	-	-	48,362	-	48,362
Current accounts	967	-	-	-	967
Deposits	-	2,001	-	-	2,001
Balances with key management personnel					
Loans and advances	-	-	-	163	163
Current accounts	233	-	-	-	233
Deposits	-	-	-	133	133

Key management personnel are those individuals that have the authority and responsibility for planning, directing and controlling the activities of the Bank directly or indirectly, and includes members of the Board of Management.

28 Estimation of fair value

The estimated fair values of financial assets and liabilities are determined using discounted cash flow and other appropriate valuation methodologies and may not be indicative of the fair value of those instruments at the date these financial statements are distributed. These estimates do not reflect any premium or discount that could result from offering for sale at one time the Bank’s entire holdings of a particular financial instrument. Fair value estimates are based on judgments regarding future expected cash flows, current economic conditions, risk characteristics of various financial instruments and other factors.

Fair value estimates are based on existing financial instruments without attempting to estimate the value of anticipated future business and the value of assets and liabilities not considered financial instruments. In addition, tax ramifications related to the realization of the unrealized gains and losses can have an effect on fair value estimates and have not been considered.

The fair values of loans and advances and deposits as at 31 December 2011 and 2010 are assumed to approximate their carrying value due to their short term nature and/or the market rates at period end.

The fair value of all other financial assets and liabilities are assumed to approximate their carrying value due to their short term nature and/or the market rates at period end.

IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources, unobservable inputs reflect the Bank's market assumptions. These two types of inputs have resulted in the following fair value hierarchy:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges and exchanges traded derivatives like futures.

Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

This hierarchy requires the use of observable market data when available. The Bank considers relevant and observable market prices in its valuations where possible.

The estimates of fair value are intended to approximate the amount for which a financial instrument can be exchanged between knowledgeable, willing parties in an arm's length transaction. However given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realisable in an immediate sale of the assets or settlement of liabilities.

Assets and liabilities measured at fair value by hierarchy levels are as follows:

(in thousands of UAH)	**Level 1**	**Level 2**	**Level 3**	**Total**
31 December 2011				
Securities available-for-sale	-	**352,680**	-	**352,680**

(in thousands of UAH)	**Level 1**	**Level 2**	**Level 3**	**Total**
31 December 2010				
Securities available-for-sale	-	304,586	-	304,586

Acting Head of Management Board
Iryna Nemchen

Chief Financial Officer
Onur Anliatamer

20 February 2012