

**Public Joint-Stock Company
“ING Bank Ukraine”**

IFRS Financial Statements

Year ended 31 December 2011

Together with Independent Auditors' Report

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INDEPENDENT AUDITORS' REPORT

To the Shareholder and the Management Board of Public Joint Stock Company "ING Bank Ukraine"

We have audited the accompanying financial statements of Public Joint Stock Company "ING Bank Ukraine", which comprise the statement of financial position as at 31 December 2011, and the income statement, statement of other comprehensive income, of changes in equity and of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Public Joint Stock Company "ING Bank Ukraine" as at 31 December 2011, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.



14 June 2012

STATEMENT OF FINANCIAL POSITION
As at 31 December 2011

(Thousands of Ukrainian hryvnia)

	Notes	2011	2010 (reclassified)
Assets			
Cash and cash equivalents	5	932,015	804,739
Trading securities	6	747,383	933,859
Amounts due from credit institutions	7	1,524,926	1,476,364
Loans to customers	8	7,685,177	6,421,250
Investment securities available-for-sale	9	5,353	10,356
Property and equipment		10,405	7,748
Intangible assets		1,406	1,360
Current income tax assets		6,070	25,636
Deferred income tax assets	10	-	10,736
Other assets	12	16,293	8,705
Total assets		10,929,028	9,700,753
Liabilities			
Amounts due to credit institutions	14	6,662,490	5,482,554
Amounts due to customers	15	2,269,148	2,523,942
Derivative financial liabilities	13	15,083	6,316
Current income tax liabilities		-	24,662
Deferred income tax liabilities	10	35,325	-
Subordinated debt	16	43,162	43,003
Other liabilities	12	59,902	61,922
Total liabilities		9,085,110	8,142,399
Equity			
Share capital	17	751,579	751,579
Additional paid-in capital		13,359	13,359
Retained earnings		1,078,980	793,416
Total equity		1,843,918	1,558,354
Total equity and liabilities		10,929,028	9,700,753

Signed and authorised for release on behalf of the Management Board of the Bank

Chairman of the Board

Erik Versavel

Chief Financial Officer

Sergey Sokolov

14 June 2012

The image shows a circular official stamp of ING Bank Ukraine. The stamp contains the text 'ІНГ БАНК УКРАЇНА' (ING Bank Ukraine) and 'Ідентифікаційний код 1684818'. Overlaid on the stamp is a large, stylized handwritten signature in blue ink.

The accompanying notes on pages 6 to 37 are an integral part of these financial statements.

INCOME STATEMENT
For the year ended 31 December 2011

(Thousands of Ukrainian hryvnia)

	<i>Notes</i>	2011	2010 <i>(reclassified)</i>
Interest income			
Loans to customers		606,044	550,506
Amounts due from credit institutions		14,020	5,616
Securities available-for-sale		796	5,770
Amounts due from the National Bank of Ukraine		3,737	2,681
		624,597	564,573
Trading securities		95,631	46,116
		<u>720,228</u>	<u>610,689</u>
Interest expense			
Amounts due to credit institutions		(51,894)	(31,117)
Amounts due to customers		(42,980)	(14,371)
Amounts due to the National Bank of Ukraine		(1,188)	(2)
Subordinated debt		(140)	(160)
		<u>(96,202)</u>	<u>(45,650)</u>
Net interest income			
		624,026	565,039
Allowance for loan impairment	7, 8	(30,604)	(28,368)
Net interest income after allowance for loan impairment			
		593,422	536,671
Non-interest income			
Net fee and commission expense	19	(143,983)	(147,283)
Gains less losses from trading securities		14,078	91,467
Gains less losses from investment securities available-for-sale		1,327	(1,476)
Gains less losses from foreign currencies	20	72,962	59,583
Other income	21	6,816	6,046
		<u>(48,800)</u>	<u>8,337</u>
Non-interest expense			
Personnel expenses	22	(96,893)	(95,219)
Depreciation and amortisation		(4,229)	(5,795)
Other administrative and operating expenses	22	(69,125)	(100,247)
Other impairment allowances and provisions	11	1,390	21,949
		<u>(168,857)</u>	<u>(179,312)</u>
Profit before income tax expense			
		375,765	365,696
Income tax expense	10	(90,201)	(87,350)
Profit for the year			
		285,564	278,346

The accompanying notes on pages 6 to 37 are an integral part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2011*(Thousands of Ukrainian hryvnia)*

	<u>2011</u>	<u>2010</u>
Profit for the year	285,564	278,346
Other comprehensive income		
Unrealised gains/(losses) on securities available-for-sale	1,327	(169)
Realised gains on securities available-for-sale reclassified to the income statement	(1,327)	-
Income tax relating to other comprehensive income	-	42
Other comprehensive income	<u>-</u>	<u>(127)</u>
Total comprehensive income	<u>285,564</u>	<u>278,219</u>

The accompanying notes on pages 6 to 37 are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2011

(Thousands of Ukrainian hryvnia)

	<i>Share capital</i>	<i>Additional paid-in capital</i>	<i>Retained earnings</i>	<i>Revaluation reserve</i>	<i>Total</i>
1 January 2010	751,579	13,359	664,970	127	1,430,035
Dividends declared to shareholder of the Bank			(149,900)		(149,900)
Total comprehensive income for the year			278,346	(127)	278,219
31 December 2010	751,579	13,359	793,416	-	1,558,354
Total comprehensive income for the year			285,564		285,564
31 December 2011	751,579	13,359	1,078,980	-	1,843,918

The accompanying notes on pages 6 to 37 are an integral part of these financial statements.

STATEMENT OF CASH FLOWS
For the year ended 31 December 2011

(Thousands of Ukrainian hryvnia)

	Notes	2011	2010
Cash flows from operating activities			
Interest received		708,033	609,435
Interest paid		(91,345)	(45,599)
Fees and commissions received		58,583	83,060
Fees and commissions paid		(198,220)	(197,669)
Realised gains less losses from dealing in foreign currencies		83,060	33,018
Other income received		6,816	8,144
Personnel expenses paid		(92,788)	(92,497)
Other operating expenses paid		(73,701)	(75,608)
Cash flows from operating activities before changes in operating assets and liabilities		400,438	322,284
<i>Net (increase)/decrease in operating assets</i>			
Trading securities and securities pledged under repurchase agreements		230,681	(604,342)
Amounts due from credit institutions		(30,059)	(1,125,915)
Loans to customers		(1,278,274)	337,855
Other assets		(4,665)	2,198
<i>Net increase/(decrease) in operating liabilities</i>			
Amounts due to credit institutions		1,131,014	(614,384)
Amounts due to customers		(239,304)	563,444
Other liabilities		(6,635)	15,224
Net cash flows from/(used in) operating activities before income tax		203,196	(1,103,636)
Income tax paid		(49,236)	(74,326)
Net cash from/(used in) operating activities		153,960	(1,177,962)
Cash flows from investing activities			
Proceeds from sale and redemption of available-for-sale securities		6,204	2,496,707
Purchase of available-for-sale securities		-	(2,490,060)
Purchase of property, equipment and intangible assets		(7,251)	(1,273)
Proceeds from sale of property and equipment		1,007	4
Net cash (used in)/from investing activities		(40)	5,378
Cash flows from financing activities			
Dividends paid		-	(149,900)
Net cash used in financing activities		-	(149,900)
Effect of exchange rates changes on cash and cash equivalents		(26,644)	(43,191)
Net increase/(decrease) in cash and cash equivalents		127,276	(1,365,675)
Cash and cash equivalents, 1 January		804,739	2,170,414
Cash and cash equivalents, 31 December	5	932,015	804,739

The accompanying notes on pages 6 to 37 are an integral part of these financial statements.

(Thousands of Ukrainian hryvnia unless otherwise indicated)

1. Principal activities

Public Joint-Stock Company "ING Bank Ukraine" (hereinafter – the Bank) was created as a closed joint-stock company according to the Ukrainian legislation and was registered by the National Bank of Ukraine (the "NBU") on 15 December 1997.

The Bank specialises in providing banking services to leading Ukrainian and foreign companies and banks. These services include lending, trade finance, payments and cash, custody and other services. The Bank also opens accounts and offers fixed-term liability products to legal entities and individuals. The Bank operates under a general banking licence issued by the NBU. The Bank also has trading securities, depositary and custodian licences issued by the State Commission on Securities and Stock Market and is a member of the state deposit insurance scheme in Ukraine.

The activities are conducted principally in Ukraine, although the Bank also conducts transactions on international markets.

The Bank is a wholly owned subsidiary of ING Bank N.V., Netherlands. The head office is located at 30-A Spasska St., Kyiv, Ukraine.

2. Basis of preparation

Statement of compliance

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

The Bank is required to maintain its books of account in Ukrainian hryvnia and to prepare its financial statements for statutory purposes in accordance with the "Regulations for the Organisation of Accounting and Reporting for Ukrainian Banking Institutions" issued by the National Bank of Ukraine and in accordance with Ukrainian Accounting Standards ("UAS"). These financial statements are based on the Bank's UAS books and records, as adjusted and reclassified in order to comply with IFRS.

Basis of measurement

The financial statements are prepared under the historical cost convention except as disclosed in the accounting policies below. For example, trading, available-for-sale securities and derivatives are measured at fair value.

Functional and presentation currency

The national currency of Ukraine is the Ukrainian hryvnia ("UAH"). These financial statements are presented in thousands of Ukrainian hryvnia ("UAH thousands"), which is the Bank's functional and presentation currency, unless otherwise indicated.

Inflation accounting

The Ukrainian economy was considered hyperinflationary until 31 December 2000. As such, the Bank has applied IAS 29 "Financial accounting in hyperinflationary economies". The effect of applying IAS 29 is that non-monetary items, including components of equity, were restated to the measuring units current at 31 December 2000 by applying the Consumer Price Indexes to the historical cost, and that these restated values were used as a basis for accounting in subsequent accounting periods.

Reclassifications

In 2011, the Bank decided to reclassify certain accounts in the statement of financial position and income statement for 2010 which significantly increased during 2011 to conform to the improved presentation of the 2011 IFRS financial statements. The Bank has not presented the statement of the financial position as at the beginning of comparative period, since it does not materially differ from those previously published. The effect of the reclassification of the corresponding figures is as follows:

Financial statements line item	As previously reported	Reclassification	As reclassified
Statement of financial position as at 31 December 2010			
Derivative financial liabilities	-	6,316	6,316
Other liabilities	68,238	(6,316)	61,922
Income statement as at 31 December 2010			
Interest expense:			
Amounts due to credit institutions	(31,119)	2	(31,117)
Amounts due to the National Bank of Ukraine	-	(2)	(2)
Net fee and commission expense	(114,609)	(32,674)	(147,283)
Gains less losses from foreign currencies - dealing	33,018	32,674	65,692

(Thousands of Ukrainian hryvnia unless otherwise indicated)

3. Summary of significant accounting policies

Changes in accounting policies and disclosures – new and amended standards and interpretations

The Bank has adopted the following amended IFRS and new IFRIC Interpretations during the year. The principal effects of these changes are as follows:

Amendments to IAS 32 "Financial instruments: Presentation": Classification of Rights Issues"

In October 2009, the IASB issued amendment to IAS 32. Entities shall apply that amendment for annual periods beginning on or after 1 February 2010. The amendment alters the definition of a financial liability in IAS 32 to classify rights issues and certain options or warrants as equity instruments. This is applicable if the rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, in order to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. The amendment had no impact on the Bank's financial statements.

IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments"

IFRIC Interpretation 19 was issued in November 2009 and is effective for annual periods beginning on or after 1 July 2010. The interpretation clarifies the accounting when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor to extinguish all or part of the financial liability. This Interpretation had no impact on the Bank's financial statements.

Improvements to IFRSs

In May 2010, the IASB issued the third omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. Most of the amendments are effective for annual periods beginning on or after 1 January 2011. There are separate transitional provisions for each standard. Amendments included in the May 2010 "Improvements to IFRS" had an impact on the accounting policies, financial position or performance of the Bank, as described below.

- IFRS 7 Financial instruments: Disclosures; introduces amendments to quantitative and credit risk disclosures. The additional requirements had minor impact as information is readily available.
- Other amendments to IFRS 1, IFRS 3, IAS 1, IAS 27, IAS 34 and IFRIC 13 will have no impact on the accounting policies, financial position or performance of the Bank.

The following amendments to standards and interpretations did not have any impact on the accounting policies, financial position or performance of the Bank:

- IFRS 1 First-time Adoption of International Financial Reporting Standards – Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters
- IFRIC 14 Prepayments of a Minimum Funding Requirement

Financial assets

Initial recognition

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

Date of recognition

All regular way purchases and sales of financial assets are recognised on the trade date, i.e. the date that the Bank commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

(Thousands of Ukrainian hryvnia unless otherwise indicated)

3. Summary of significant accounting policies (continued)

Financial assets at fair value through profit or loss

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

Loans and receivables

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

Available-for-sale financial assets

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

Investments in equity instruments that do not have a quoted market price in an active market are measured at cost less any allowance for impairment.

Determination of fair value

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

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

Offsetting

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

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, current accounts with the NBU not restricted for use by the Bank, and amounts due from credit institutions that mature within ninety days of the date of origination and are free from contractual encumbrances.

Repurchase and reverse repurchase agreements and securities lending

Sale and repurchase agreements ("repos") are treated as secured financing transactions. Securities sold under sale and repurchase agreements are retained in the statement of financial position and, in the event that the transferee has the right by contract or custom to sell or repledge them, they are reclassified as securities pledged under sale and repurchase agreements. The corresponding liability is presented within amounts due to credit institutions or customers. Securities purchased under agreements to resell ("reverse repo") are recorded as amounts due from credit institutions or loans to customers as appropriate. The difference between the sale and repurchase price is treated as interest and accrued over the life of repo agreements using the effective yield method.

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

(Thousands of Ukrainian hryvnia unless otherwise indicated)

3. Summary of significant accounting policies (continued)

Derivative financial instruments

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

Derivatives embedded in other financial instruments are treated as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contract, and the host contract is not itself held for trading or designated at fair value through profit or loss. The embedded derivatives separated from the host are carried at fair on the trading portfolio with changes in fair value recognised in the income statement.

Borrowings

Issued financial instruments or their components are classified as liabilities, where the substance of the contractual arrangement results in the Bank having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity instruments. Such instruments include amounts due to credit institutions, amounts due to customers and subordinated debt. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in the income statement when the borrowings are derecognised as well as through the amortisation process.

If the Bank purchases its own debt, it is removed from the statement of financial position and the difference between the carrying amount of the liability and the consideration paid is recognised in the income statement.

Leases

Operating – Bank as lessee

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

Operating – Bank as lessor

The Bank presents assets subject to operating leases in the statement of financial position according to the nature of the asset. Lease income from operating leases is recognised in the income statement on a straight-line basis over the lease term as other income. The aggregate cost of incentives provided to lessees is recognised as a reduction of rental income over the lease term on a straight-line basis. Initial direct costs incurred specifically to earn revenues from an operating lease are added to the carrying amount of the leased asset.

Impairment of financial assets

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

Amounts due from credit institutions and loans to customers

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

(Thousands of Ukrainian hryvnia unless otherwise indicated)

3. Summary of significant accounting policies (continued)

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

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

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

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

Available-for-sale financial assets

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

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

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed through the income statement.

Renegotiated loans

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

The accounting treatment of such restructuring is as follows:

- If the currency of the loan has been changed the old loan is derecognised and the new loan is recognised.
- If the loan restructuring is not caused by the financial difficulties of the borrower the Bank uses the same approach as for financial liabilities described below.
- If the loan restructuring is due to the financial difficulties of the borrower and the loan is impaired after restructuring, the Bank recognizes the difference between the present value of the new cash flows discounted using the original effective interest rate and the carrying amount before restructuring in the provision charges for the period. In case loan is not impaired after restructuring the Bank recalculates the effective interest rate.

(Thousands of Ukrainian hryvnia unless otherwise indicated)

3. Summary of significant accounting policies (continued)

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

Derecognition of financial assets and liabilities

Financial assets

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

- the rights to receive cash flows from the asset have expired;
- the Bank has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; and
- the Bank either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Bank's continuing involvement is the amount of the transferred asset that the Bank may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Bank's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

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

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

Financial guarantees

In the ordinary course of business, the Bank gives financial guarantees consisting of letters of credit, guarantees and avals. Financial guarantees are initially recognised in the financial statements at fair value as 'Other liabilities' being the premium received. After the initial recognition the Bank's liability under each guarantee is measured at the higher of the amortised premium and the best estimate of expenditure required settling any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is taken to the income statement. The premium received is recognised in the income statement on a straight-line basis over the life of the guarantee.

Taxation

The current income tax charge is calculated in accordance with Ukrainian taxation regulations.

Deferred tax assets and liabilities are calculated in respect of temporary differences using the liability method. Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, except where the deferred income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

(Thousands of Ukrainian hryvnia unless otherwise indicated)

3. Summary of significant accounting policies (continued)

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the reporting date.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Ukraine also has various operating taxes, which are assessed on the Bank's activities. These taxes are included as a component of administrative and operating expenses.

Property and equipment

Property and equipment is carried at cost excluding the costs of day-to-day servicing, less accumulated depreciation and any accumulated impairment. The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

Depreciation of an asset begins when it is available for use. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

	<u>Years</u>
Equipment	2-5 years
Furniture	8 years
Other tangible assets	5-7 years
Vehicles	5 years

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

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

Intangible assets

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

Provisions

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of obligation can be made.

Employee benefits

The Bank does not have any pension arrangements separate from the State pension system of Ukraine, which requires current contributions by the employer calculated as a percentage of current gross salary payments; such expense is charged in the period the related salaries are earned. In addition, the Bank has no significant post-retirement benefits.

Share capital

Share capital

Ordinary shares are classified as equity. Share capital contributions received before 31 December 2000 are recognised at restated cost following the application of IAS 29 "Financial Reporting in Hyperinflationary Economies".

(Thousands of Ukrainian hryvnia unless otherwise indicated)

3. Summary of significant accounting policies (continued)

Dividends

Dividends are recognised as a liability and deducted from equity at the reporting date only if they are declared before or on the reporting date. Dividends are disclosed when they are proposed before the reporting date or proposed or declared after the reporting date but before the financial statements are authorised for issue.

Contingencies

Contingent liabilities are not recognised in the statement of financial position but are disclosed unless the possibility of any outflow in settlement is remote. A contingent asset is not recognised in the statement of financial position but disclosed when an inflow of economic benefits is probable.

Recognition of income and expense

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

Interest and similar income and expenses

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

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

Fee and commission income

The Bank earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

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

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

- Fee income from providing transaction services

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

Foreign currency translation

The financial statements are presented in Ukrainian hryvnia ("UAH"), which is the Bank's functional and presentation currency. Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognised in the income statement as gains less losses from foreign currencies - translation differences. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the transaction dates. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Differences between the contractual exchange rate of a transaction in a foreign currency and the NBU exchange rate on the date of the transaction are included in gains less losses from dealing in foreign currencies.

(Thousands of Ukrainian hryvnia unless otherwise indicated)

3. Summary of significant accounting policies (continued)

The principal Ukrainian hryvnia exchange rates used in the preparation of these financial statements as at 31 December are as follows:

Currency	31 December 2011	31 December 2010
US dollar	7.9898	7.962
Euro	10.2980	10.573

Future changes in accounting policies

Standards and interpretations issued but not yet effective

Standards issued but not yet effective up to the date of issuance on the Bank's financial statements are listed below. This listing is of standards and interpretations issued, which the Bank reasonably expects to be applicable as at a future date. The Bank intends to adopt these standards when they become effective.

IFRS 9 "Financial Instruments"

In November 2009 and 2010, the IASB issued the first phase of IFRS 9 Financial instruments. This Standard will eventually replace IAS 39 Financial Instrument: Recognition and Measurement. IFRS 9 becomes effective for financial years beginning on or after 1 January 2015. The first phase of IFRS 9 introduces new requirements relating to the classification and measurement of financial instruments. In particular, for subsequent measurement all financial assets are to be classified at amortised cost or at fair value through profit or loss with the irrevocable option for equity instruments not held for trading to be measured at fair value through other comprehensive income. For financial liabilities designated at fair value through profit or loss using the fair value option IFRS 9 requires the amount of change in fair value attributable to changes in credit risk to be presented in other comprehensive income. The Bank is currently evaluating the impact of the adoption of the new Standard and is considering the initial application date.

IFRS 10 "Consolidated Financial Statements"

IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgement to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in IAS 27. In addition IFRS 10 introduces specific application guidance for agency relationships. IFRS 10 replaces the portion of IAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12 Consolidation — *Special Purpose Entities*. It is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted. The adoption of IFRS 10 will have no effect on Bank's financial position and performance.

IFRS 11 "Joint Arrangements"

IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. IFRS 11 supersedes IAS 31 Interests in Joint Ventures and SIC-13 Jointly Controlled Entities—Non-monetary Contributions by Venturers and is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted. The Bank expects that adoption of IFRS 11 will have no effect on its financial position and performance.

IFRS 12 "Disclosure of Interests in Other Entities"

IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. IFRS 12 is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted. Adoption of the standard will require new disclosures to be made in the financial statements of the Bank but will have no impact on its financial position or performance.

IFRS 13 "Fair Value Measurement"

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. IFRS 13 is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted. The adoption of the IFRS 13 may have effect on the measurement of the Bank's assets and liabilities accounted for at fair value. The Bank is currently evaluating the possible effect of the adoption of IFRS 13 on its financial position and performance.

IAS 27 "Separate Financial Statements" (as revised in 2011)

As a consequence of the new IFRS 10 and IFRS 12, what remains of IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The amendment becomes effective for annual periods beginning on or after 1 January 2013. The Bank expects that these amendments will have no impact on its financial position.

(Thousands of Ukrainian hryvnia unless otherwise indicated)

3. Summary of significant accounting policies (continued)

IAS 28 "Investments in Associates and Joint Ventures" (as revised in 2011)

As a consequence of the new IFRS 11 and IFRS 12, IAS 28 has been renamed IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates. The amendment becomes effective for annual periods beginning on or after 1 January 2013. The Bank expects that these amendments will have no impact on its financial position.

Amendments to IFRS 7 "Financial Instruments: Disclosures"

The Amendments were issued in October 2010 and are effective for annual periods beginning on or after 1 July 2011. The amendment requires additional disclosure about financial assets that have been transferred but not derecognised to enable the user of the Bank's financial statements to understand the relationship with those assets that have not been derecognised and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognised assets to enable the user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognised assets. The amendment affects disclosure only and has no impact on the Bank's financial position or performance.

Amendments to IAS 12 "Income Taxes" – Deferred tax: Recovery of underlying assets

In December 2010 the IASB issued amendments to IAS 12 effective for annual periods beginning on or after 1 January 2012. The amendment clarified the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, it introduces the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in IAS 16 should always be measured on the sale basis of the asset. The Bank is currently evaluating the impact of the adoption of these amendments.

Amendments to IAS 19 "Employee Benefits"

The IASB has published amendments to IAS 19 Employee Benefits, effective for annual periods beginning on or after 1 January 2013, which proposes major changes to the accounting for employee benefits, including the removal of the option for deferred recognition of changes in pension plan assets and liabilities (known as the "corridor approach"). In addition, these amendments will limit the changes in the net pension asset (liability) recognised in profit or loss to net interest income (expense) and service costs. The Bank expects that these amendments will have no impact on the Bank's financial position.

Amendments to IAS 1 Changes to the Presentation of Other Comprehensive Income

The amendments to IAS 1 Presentation of Financial Statements, effective for annual periods beginning on or after 1 July 2012, change the grouping of items presented in other comprehensive income. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. These amendments will change presentation in the statement of comprehensive income but will have no effect on its financial position and performance.

Amendment to IFRS 1 Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters

These amendments to IFRS 1, effective for annual periods beginning on or after 1 July 2011, introduce a new deemed cost exemption for entities that have been subject to severe hyperinflation. The Bank expects that these amendments will have no impact on the Bank's financial position.

Amendments to IAS 32/ IFRS 7 Offsetting Financial Assets and Financial Liabilities

The amendments to IAS 32 address inconsistencies in current practice when applying the offsetting criteria in IAS 32 Financial Instruments: Presentation. The amendments clarify the meaning of 'currently has a legally enforceable right of set-off'; and that some gross settlement systems may be considered equivalent to net settlement. The amendments are effective for annual periods beginning on or after 1 January 2014 and are required to be applied retrospectively. The Bank is currently evaluating the effect of this amendment on its financial statements.

The amendments are part of the IASB's offsetting project. As part of that project, the IASB also separately issued Disclosures—Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7). The new disclosure requirements are intended to help investors and other financial statement users to better assess the effect or potential effect of offsetting arrangements on a company's financial position. This amendment is effective for annual periods beginning on or after 1 January 2013. The Bank is currently evaluating the effect of this amendment on its financial statements.

(Thousands of Ukrainian hryvnia unless otherwise indicated)

4. Significant accounting judgements and estimates

Judgements

In the process of applying the Bank's accounting policies the management has made the following judgements, apart from those involving estimates, which have the most significant effect on the amounts recognised in the financial statements:

Classification of securities

Securities owned by the Bank comprise Ukrainian State and corporate bonds and corporate shares. Upon initial recognition, the Bank designates securities as financial assets with recognition of changes in fair value through profit or loss, or available-for-sale financial assets with recognition of changes in fair value through the statement of comprehensive income.

Estimation uncertainty

In the process of applying the Bank's accounting policies, management has used its judgement and made estimates in determining the amounts recognised in the financial statements. The most significant use of estimates is as follows:

Fair value of financial instruments

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

Allowance for impairment of loans and receivables

The Bank regularly reviews its loans and receivables to assess impairment. The Bank uses its judgement to estimate the amount of any impairment loss in cases where a borrower is in financial difficulties and there is little available historical data relating to similar borrowers. Similarly, the Bank estimates changes in future cash flows based on the observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of loans and receivables. The Bank uses its judgement to adjust observable data for a group of loans or receivables to reflect current circumstances.

Deferred tax asset recognition

Deferred tax assets are recognised in respect of tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits, together with future tax planning strategies.

5. Cash and cash equivalents

Cash and cash equivalents comprise:

	2011	2010
Cash on hand	10,728	14,990
Current accounts with the NBU	448,318	355,292
Current accounts with other credit institutions	372,962	422,514
Time deposits with the NBU up to 90 days	100,007	-
Overnight deposits placed	-	11,943
Cash and cash equivalents	932,015	804,739

The current account with the NBU represents amounts deposited with the NBU relating to daily settlements and other activities.

As at 31 December 2011, an amount of UAH 359,511 thousand placed on current accounts with four OECD banks (2010: UAH 382,327 thousand with eight OECD banks) is included in current accounts with other credit institutions. The placements have been made under normal banking terms and conditions.

(Thousands of Ukrainian hryvnia unless otherwise indicated)

6. Trading securities

As at 31 December 2011, trading securities are represented by Ukrainian State bonds with a carrying value of UAH 747,383 thousand (2010: UAH 933,859 thousand).

7. Amounts due from credit institutions

Amounts due from credit institutions comprise:

	<u>2011</u>	<u>2010</u>
Loans and deposits due from banks	235,664	323,127
Obligatory reserves with the NBU	1,293,512	1,132,850
Other amounts	-	24,752
Gross amounts due from credit institutions	1,529,176	1,480,729
Less – Allowance for impairment	(4,250)	(4,365)
Amounts due from credit institutions	1,524,926	1,476,364

As at 31 December 2011, included in amounts due from banks is UAH 201,212 thousand (2010: UAH 247,370 thousand) of loans and deposits placed with five Ukrainian banks.

With effect from November 2011, Ukrainian banks are required to keep 70% of the obligatory reserve for the previous month on a separate account with the NBU (2010: 100% of the obligatory reserve). The interest rate for this obligatory reserve is 30% of the official NBU discount rate. As at 31 December 2011, the amount of obligatory reserves of the Bank placed on separate account was UAH 139,504 thousand (2010: UAH 164,762 thousand).

With effect from August 2008, Ukrainian banks are required to deposit 20% of amounts attracted from non-residents in foreign currencies for a period of less than 183 days on separate account with the NBU in form of a non-interest bearing cash deposit. With effect from 2009, Ukrainian banks are required to deposit on the same separate account with the NBU an amount equivalent to the impairment allowance (determined under UAS) created for loans granted in foreign currencies to borrowers with no foreign currency income on a separate account with the NBU in form of a non-interest bearing cash deposit. As at 31 December 2011, the total amount placed by the Bank on the separate account was UAH 1,154,008 thousand (2010: UAH 968,088 thousand). The Bank's ability to withdraw this deposit is significantly restricted by statutory legislation.

The obligatory reserves with the NBU represent mandatory reserve deposits and are not available for use in the Bank's day-to-day operations. The Bank complied with the NBU's requirements for such obligatory reserve as at 31 December 2011 and 2010.

The movements in allowance for impairment of amounts due from credit institutions were as follows:

	<u>2011</u>	<u>2010</u>
1 January	4,365	4,005
(Release)/charge	(115)	360
31 December	4,250	4,365

8. Loans to customers

Loans to customers comprise:

	<u>2011</u>	<u>2010</u>
Commercial	7,609,692	6,250,172
Overdrafts	139,296	201,876
Retail	95,797	98,091
Gross loans to customers	7,844,785	6,550,139
Less – Allowance for impairment	(159,608)	(128,889)
Loans to customers	7,685,177	6,421,250

(Thousands of Ukrainian hryvnia unless otherwise indicated)

8. Loans to customers (continued)

Allowance for impairment of loans to customers

A reconciliation of the allowance for impairment of loans to customers by class is as follows:

	Commercial	Overdrafts	Retail	Total
At 1 January 2011	121,044	38	7,807	128,889
Charge/(release) for the year	30,269	(1)	451	30,719
At 31 December 2011	151,313	37	8,258	159,608
Individual impairment	147,859	-	2,161	150,020
Collective impairment	3,454	37	6,097	9,588
	151,313	37	8,258	159,608
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	522,437	-	2,804	525,241
	Commercial	Overdrafts	Retail	Total
At 1 January 2010	96,745	-	4,136	100,881
Charge for the year	24,299	38	3,671	28,008
At 31 December 2010	121,044	38	7,807	128,889
Individual impairment	116,907	-	1,986	118,893
Collective impairment	4,137	38	5,821	9,996
	121,044	38	7,807	128,889
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	1,546,287	-	2,663	1,548,950

Collateral and other credit enhancements

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

The main types of collateral obtained are as follows:

- For commercial lending – bank guarantees, charges over real estate properties, inventory and trade receivables;
- For retail lending – mortgages over residential properties.

The Bank also obtains guarantees from ING Bank N.V. for loans granted to corporate customers.

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

Concentration of loans to customers

As at 31 December 2011, the Bank had a concentration of loans represented by UAH 4,617,150 thousand due from the ten largest third party borrowers (58.9% of gross loan portfolio) (2010: UAH 3,167,217 thousand or 48.4%). The allowance for impairment recognised against these loans amounted to UAH 1,466 thousand as at 31 December 2011 (2010: UAH 1,629 thousand). As at 31 December 2011, the amount of guarantees received in respect of these loans from ING Bank N.V. was UAH 4,254,999 thousand or 92% (2010: UAH 2,870,368 thousand or 91%).

(Thousands of Ukrainian hryvnia unless otherwise indicated)

8. Loans to customers (continued)

Loans are made principally within Ukraine in the following industry sectors:

	<u>2011</u>	<u>2010</u>
Trade	2,171,616	1,421,566
Metallurgy	1,486,481	1,532,121
Food and beverages	1,054,040	1,040,247
Machinery	608,949	611,019
Energy	445,543	365,506
Tobacco	309,568	205,273
Consultancy services	286,073	280
Construction material production	216,172	328,345
Chemical goods production	181,830	401,459
Communications	158,179	94,278
Wood processing	155,082	83,538
Retail	95,797	98,091
Other	675,455	368,416
	<u>7,844,785</u>	<u>6,550,139</u>

9. Investment securities available-for-sale

As at 31 December 2011, available-for-sale securities are represented by corporate bonds and shares with a carrying value of UAH 2,124 thousand and UAH 3,391 thousand respectively (2010: UAH 6,965 thousand and UAH 3,391 thousand respectively).

As at 31 December 2011, the Bank recognised an impairment loss of UAH 162 thousand on available-for-sale securities (2010: UAH 1,476 thousand).

10. Taxation

The corporate income tax expense comprises:

	<u>2011</u>	<u>2010</u>
Current tax charge	44,140	53,370
Deferred tax charge	46,061	33,980
Income tax expense	<u>90,201</u>	<u>87,350</u>

In 2011, Ukrainian corporate income tax was levied on taxable income less allowable expenses at the rate of 23% (2010: 25%).

On 13 December 2010, the Parliament of Ukraine adopted a Tax Code. According to the newly adopted provisions, the corporate income tax rate was decreased to 23% with effect from 1 April 2011, and will be decreased to 21% from 1 January 2012, to 19% from 1 January 2013 and to 16% from 1 January 2014. Deferred tax balances are measured using of the tax rates that will be applicable when the temporary differences are expected to reverse.

The effective income tax rate differs from the statutory income tax rates. A reconciliation of the income tax expense based on statutory rates with actual is as follows:

	<u>2011</u>	<u>2010</u>
Profit before income tax expense	375,765	365,696
Statutory tax rate	23%	25%
Income tax expense at the statutory rate	86,426	91,424
Non-deductible expenditures:	767	657
Effect of changes in tax legislation	830	-
Income recognised for tax purposes only	-	(6,125)
Reassessment of temporary differences	1,135	-
Effect of change in tax rates	1,043	1,394
Income tax expense	<u>90,201</u>	<u>87,350</u>

(Thousands of Ukrainian hryvnia unless otherwise indicated)

10. Taxation (continued)

Deferred tax assets and liabilities as at 31 December and their movements for the respective years comprise:

	<i>Origination and reversal of temporary differences</i>			<i>Origination and reversal of temporary differences</i>			
	<i>2009</i>	<i>in the income statement</i>	<i>in other compre- hensive income</i>	<i>2010</i>	<i>in the income statement</i>	<i>in other compre- hensive income</i>	<i>2011</i>
Tax effect of deductible and taxable temporary differences:							
Amounts due from credit institutions	(2,192)	(7,641)	-	(9,833)	7,097	-	(2,736)
Securities owned	21,977	(24,519)	42	(2,500)	(4,875)	-	(7,375)
Loans to customers	(1,239)	(3,420)	-	(4,659)	(29,774)	-	(34,433)
Property and equipment	8,386	(3,777)	-	4,609	(2,558)	-	2,051
Other assets	5,028	(4,639)	-	389	(1,193)	-	(804)
Amounts due to customers	3,194	7,730	-	10,924	(10,924)	-	-
Other liabilities	9,520	2,286	-	11,806	(3,834)	-	7,972
Deferred tax asset/(liability)	44,674	(33,980)	42	10,736	(46,061)	-	(35,325)

11. Other impairment allowances and provisions

The movements in other impairment allowances and provisions were as follows:

	<i>Other assets</i>
31 December 2009	23,574
Reversal	(21,949)
Write-offs	(69)
31 December 2010	1,556
Reversal	(1,390)
Write-offs	(25)
31 December 2011	141

The allowance for impairment of assets is deducted from the carrying amounts of the related assets.

12. Other assets and liabilities

Other assets comprise:

	<i>2011</i>	<i>2010</i>
Accrued income	4,909	4,391
Derivative financial instruments	3,858	2,836
Amounts due on operations with other financial instruments	3,416	1,458
Prepayments for fixed assets	1,952	29
Prepaid expenses	1,267	780
Other prepayments	858	401
Amounts due on operations with securities	-	293
Other	174	73
	16,434	10,261
Less – Allowance for impairment of other assets (Note 11)	(141)	(1,556)
Other assets	16,293	8,705

(Thousands of Ukrainian hryvnia unless otherwise indicated)

12. Other assets and liabilities (continued)

Other liabilities comprise:

	<u>2011</u>	<u>2010</u>
Accrued expenses	49,149	46,950
Payables for services	6,708	9,954
Transit accounts in respect of transactions with clients	1,815	1,698
Taxes payable other than income tax	1,549	2,009
Other	681	1,311
Other liabilities	<u>59,902</u>	<u>61,922</u>

13. Derivative financial instruments

The Bank enters into derivative financial instruments for trading purposes. The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are not indicative of the credit risk.

	<u>2011</u>			<u>2010</u>		
	<u>Notional amount</u>	<u>Fair values</u>		<u>Notional amount</u>	<u>Fair value</u>	
		<u>Asset</u>	<u>Liability</u>		<u>Asset</u>	<u>Liability</u>
Securities trading contracts						
Forwards – foreign	173,453	-	(7,452)	279,279	-	(6,316)
Forwards – domestic	63,541	196	(2,172)	46,222	2,836	-
Foreign exchange contracts						
Forwards – foreign	16,168	-	(62)	-	-	-
Forwards – domestic	765,141	3,662	(5,397)	-	-	-
Total derivative assets / liabilities		<u>3,858</u>	<u>(15,083)</u>		<u>2,836</u>	<u>(6,316)</u>

14. Amounts due to credit institutions

Amounts due to credit institutions comprise:

	<u>2011</u>	<u>2010</u>
Short term loans and deposits	6,287,845	5,099,469
Long term loans and deposits	374,645	383,085
Amounts due to credit institutions	<u>6,662,490</u>	<u>5,482,554</u>

As at 31 December 2011, loans and deposits due to credit institutions include UAH 6,548,373 thousand received from ING Group banks (2010: UAH 5,226,775 thousand). These loans are denominated in US dollars, Euro and Russian rubles, and bear fixed and floating interest rates, and are matched in maturity with loans issued to customers.

(Thousands of Ukrainian hryvnia unless otherwise indicated)

15. Amounts due to customers

The amounts due to customers include the following:

	<u>2011</u>	<u>2010</u>
Current accounts		
- Legal entities	1,745,079	1,972,394
- Individuals	17,291	19,502
	<u>1,762,370</u>	<u>1,991,896</u>
Time deposits from legal entities	506,778	532,046
	<u>2,269,148</u>	<u>2,523,942</u>
Amounts due to customers		
Held as security against letters of credit	-	3,753
Held as security against guarantees	5,850	3,523

As at 31 December 2011, current accounts of legal entities amounting to UAH 710,066 thousand (41% of legal entities current accounts) were due to the ten largest third party customers (2010: UAH 777,725 thousand or 39.4%).

As at 31 December 2011, term deposits from legal entities of UAH 465,422 thousand (91.8% of time deposits of legal entities) were due to the ten largest third party clients (2010: UAH 517,665 thousand or 97.3%).

An analysis of customer accounts by economic sector follows:

	<u>2011</u>	<u>2010</u>
Trade	829,485	753,905
Manufacturing	515,973	215,932
Individuals	232,284	19,502
Services	215,918	146,681
Financial services	138,413	463,927
Metallurgy	97,840	229,550
Chemical	76,691	20,077
Transport and communications	69,694	109,899
Real estate constructions	14,491	1,056
Agriculture and food processing	11,540	375,495
Machine building	10,308	758
Energy	370	183
Other	56,142	186,977
Amounts due to customers	<u>2,269,149</u>	<u>2,523,942</u>

16. Subordinated debt

In 2002, the Bank received a long-term subordinated loan of USD 5,400 thousand (UAH 42,993 thousand) bearing a variable interest rate of three month LIBOR multiplied by 1.021 (carrying value of UAH 43,162 thousand and UAH 43,003 thousand as at 31 December 2011 and 31 December 2010, respectively). This subordinated loan matures in 2012. The average interest rate for the year ended 31 December 2011 approximated 0.33% (2010: 0.35%).

17. Equity

As at 31 December 2011 and 2010, the Bank's authorised issued share capital comprised 73,129,804,500 ordinary shares, with a nominal value of UAH 0.01 per share. All shares have equal voting rights. As at 31 December 2011 and 2010, all issued shares were fully paid and registered.

The share capital of the Bank was contributed in Ukrainian hryvnia and the shareholder is entitled to dividends and any capital distributions in Ukrainian hryvnia.

(Thousands of Ukrainian hryvnia unless otherwise indicated)

17. Equity (continued)

The balances of share capital were as follows:

	<i>Number of shares</i>	<i>Nominal amount, UAH thousand</i>	<i>Restated cost, UAH thousand</i>
31 December 2011, 2010 and 2009	73,129,804,500	731,298	751,579

18. Commitments and contingencies

Operating environment

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

The Ukrainian economy has been affected by market downturns and economic slowdowns in the world. The global financial crisis has resulted in a decline in the gross domestic product, instability in the capital markets, a significant deterioration in the liquidity of the banking sector, and tighter credit conditions within Ukraine. Whilst the Ukrainian Government continues to introduce various stabilisation measures aimed at supporting the banking sector and providing liquidity to Ukrainian banks and companies, there continues to be uncertainty regarding access to capital and its cost for the Bank and its counterparties, which could affect the Bank's financial position, results of operations and business prospects.

In addition, factors including increased unemployment in Ukraine, reduced corporate liquidity and profitability, and increased corporate and personal insolvencies, have affected the ability of the Bank's borrowers to repay the amounts due to the Bank. In addition, changes in economic conditions have resulted in deterioration in the value of collateral held against loans and other obligations. To the extent that information is available, the Bank has reflected revised estimates of expected future cash flows in its impairment assessment.

Whilst management believes it is taking appropriate measures to support the sustainability of the Bank's business in the current circumstances, any unexpected further deterioration in the areas described above could negatively affect the Bank's results and financial position in a manner not currently determinable.

Legal

In the ordinary course of business, the Bank is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations of the Bank.

Taxation

Ukrainian legislation and regulations regarding taxation and other operational matters continue to evolve as a result of an economy in transition. Legislation and regulations are not always clearly written and their interpretation is subject to varying interpretations by local, regional and national authorities, and other Governmental bodies. Instances of inconsistent interpretations are not unusual. Management believes that the Bank have complied with all regulations and paid or accrued all taxes that are applicable. Where the risk of outflow of resources is probable, the Bank has accrued tax liabilities based on management's best estimate.

The Bank's operations and financial position will continue to be affected by Ukrainian political developments including the application of existing and future legislation and tax regulations. The Bank believes that obligations that could arise as a result of these contingencies, as relating to its operations, would not be more significant than those of similar enterprises in Ukraine.

(Thousands of Ukrainian hryvnia unless otherwise indicated)

18. Commitments and contingencies (continued)

Commitments and contingencies

The Bank's financial commitments and contingencies comprise the following:

	2011	2010
Credit related commitments		
Letters of credit	321,611	365,859
Guarantees	773,009	218,726
Promissory note guarantees	12,397	18,948
Undrawn loan commitments	12,511	139,727
	1,119,528	743,260
Less – Cash held as security against letters of credit, guarantees and promissory notes guarantees (Note 15)	(5,850)	(7,276)
Commitments and contingencies	1,113,678	735,984

19. Net fee and commission expense

Net fee and commission expense comprises:

	2011	2010
Operations with securities	17,755	22,702
Payments and withdrawals	12,179	11,753
Guarantees and commitments	28,719	14,916
Credit service to customers	511	236
Fee and commission income	59,164	49,607
Guarantees and commitments	(197,305)	(191,145)
Operations with securities	(2,814)	(1,893)
Payments and withdrawals	(2,914)	(3,675)
Other	(114)	(177)
Fee and commission expense	(203,147)	(196,890)
Net fee and commission expense	(143,983)	(147,283)

20. Gains less losses from foreign currencies

Gains less losses from foreign currencies comprises:

	2011	2010
Dealing	33,529	34,303
Forward contracts	5,516	(1,285)
Commission income from dealing in foreign currencies	42,360	33,452
Commission expense from dealing in foreign currencies	(136)	(778)
Translation differences	(8,307)	(6,109)
Gains less losses from foreign currencies	72,962	59,583

21. Other income

	2011	2010
Sale of MasterCard shares and return of overpaid penalty	-	3,436
Consulting	3,913	952
Sub-leasing	502	665
Insurance agent services	523	467
Penalties received	768	324
Gain on disposal of property, equipment and intangible assets	830	18
Other	280	184
Total other income	6,816	6,046

(Thousands of Ukrainian hryvnia unless otherwise indicated)

22. Personnel and other administrative and operating expenses

Personnel and other operating expenses comprise:

	2011	2010
Salaries and bonuses	85,253	84,748
Social security costs	11,640	10,471
Personnel expenses	96,893	95,219
Repair and maintenance	30,331	33,795
Occupancy and rent	12,467	11,737
Operational and maintenance	8,773	8,510
Consulting	7,813	5,635
Business trips	4,679	4,495
EDP cost	2,262	2,970
Communications	1,644	1,864
Security	420	403
Loss on sale of financial assets	262	29,587
Marketing and advertising	130	518
Penalties paid	16	259
Operating taxes	2	44
Other	326	430
Other operating expenses	69,125	100,247

23. Risk management

Introduction

The Bank is exposed to risks i.e. credit risk, liquidity risk and market risk (which is subdivided into interest rate risk, currency risk and trading book risk), operational risk as well as strategic and reputation risk which are continuously identified, assessed and controlled within the risk management process. The risk management process is decisive for ensuring the Bank's efficiency and profitability and each employee of the Bank is responsible for respecting the risk management rules and procedures in the course of fulfilling their tasks and duties.

Risk management structure

The risk management policies aim to identify, analyse 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 operational risk management functions are aimed at developing and ensuring proper functioning of internal processes and procedures to manage the exposure to internal and external risk factors.

Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered.

Risk management policies, monitoring and control are conducted by a number of specialised divisions and units within the Risk Management Department ("RMD") under the supervision of the Asset and Liability Management Committee ("ALCO"). The ALCO is supervised by the Supervisory Board and the Management Board.

The Supervisory Board has the highest degree of authority with respect to risk management, and is empowered through the Charter to approve any transactions on behalf of the Bank, including those that are outside of the scope of the authority of the Management Board and other governing bodies. Specifically, the Supervisory Board is responsible for appointing the external auditor and for establishing the procedure for auditing and monitoring the financial and economic activities. The Supervisory Board's Risk Management Committee determines the overall risk management strategy. The Management Board is directly responsible for its implementation.

The Management Board is generally responsible for the activities of the Bank, including those relating to risk management. The Management Board delegates its powers with respect to assets, liabilities and risks management to the ALCO.

The ALCO is chaired by the Chairman of the Management Board. The ALCO sits at least once every month or more frequently if required. The ALCO is responsible for the control and management of the asset and liability structure. It also sets interest rates and maturity limits and compares key performance indicators with those of competitors. In addition, the ALCO is responsible for managing risks and monitoring compliance with the limits it has set, reviewing reports on liquidity, interest and foreign exchange risk, establishing the methodology for carrying out risk assessment and setting limits and standards with the aim of balancing the level of risks and profitability.

(Thousands of Ukrainian hryvnia unless otherwise indicated)

23. Risk management (continued)

The Credit Committees are responsible for approving loans, implementing the lending strategy, coordinating the activities of the departments and sub-committees and forming a balanced and diversified loan portfolio. Approval from the relevant Credit Committee is required to grant loans, make provisions and recover debt (including signing loan agreements and bringing claims or legal proceedings).

The RMD assists the ALCO and the various Credit Committees in discharging their functions. Its functions include evaluating and analysing financial risks, monitoring compliance with limits, and making recommendations with regard to balancing levels of risk and profitability, based on overall levels of risk and risks associated with particular business areas and banking products.

The RMD evaluates financial risks using information on parameters of assets and liabilities (including interest rates, amounts and maturities) from the business divisions, information on exposure limits, procedures and methodologies from the ALCO. It then provides the ALCO with the results of its risk analysis and monitoring and recommendations on setting or changing limits, and informs the business divisions, back office, etc. of the normative risk levels.

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 Management 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. In general, the Bank uses the risk assessment/management methods used by ING Group to the extent they are in line with regulations of the NBU.

The Internal Audit Department is responsible for monitoring compliance with risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank. The Internal Audit Department undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Supervisory Board.

The principal categories of risks to which the Bank is exposed through its operations and the way the Bank manages these risks are described below.

Risk mitigation

The Bank does not use derivatives for the management of risks arising from changes in interest rates, foreign exchange rates, credit risk and liquidity risk.

The Bank extensively uses collateral to minimise credit risk.

Excessive risk concentration

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

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

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 to customers and other banks and investment securities. For risk management reporting purposes, the Bank considers and consolidates all elements of credit risk exposure (such as individual customer and counterparty default risk, country, and industry risk).

For risk management purposes, credit risk arising on trading securities is managed independently and reported as a component of market risk exposure.

The Bank manages its credit risk by establishing internal policies aimed at maximising risk adjusted profit by maintaining credit risk exposure within accepted parameters by setting, monitoring and reviewing credit ratings, by setting and authorising lending limits and by actively monitoring the performance of its customers. The Bank deal with counterparties of good credit standing and, when appropriate, obtains collateral. The credit policy is reviewed and approved by the Management Board and Supervisory Board.

The RMD determines levels of overall risk exposure by reference to customers and products. The Credit Risk Sub-Department regularly evaluates customers' creditworthiness and business performance.

(Thousands of Ukrainian hryvnia unless otherwise indicated)

23. Risk management (continued)

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, expected return on the loan, the liquidity of the proposed collateral and whether it is acceptable in view of the credit risk, 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, 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.

The Bank also considers the weighted average credit risk associated with the industry in which the borrower operates. The Bank has developed an internal credit rating system whereby each borrower is assigned ratings based on (i) financial and operational ratios, (ii) financial position, (iii) market position and management effectiveness and (iv) the quality of the collateral. In making its credit decisions with regard to loans to banks, the Bank uses a rating scale based on the international ratings, if any, and financial statements audited by recognised auditors, allocating various credit ratings to the borrowers. The Bank evaluates the borrower's financial statements, credit history, and cash flows in order to determine the expected risk of default for such borrower and also monitors the weighted average credit risk of potential borrowers on a portfolio basis and by industry sector.

The borrower's financial standing is subject to continual monitoring and review on a quarterly basis or as the business may require.

The Bank structures the levels of credit risk it undertakes by placing separate limits on the amount of risk accepted in relation to each borrower and each category of borrowers within a particular industry or geographical region. Such risks are monitored and reviewed regularly (at least monthly).

When structuring loans to corporate customers, the Bank follows certain basic principles. It sets out repayment schedules and adapts them so as to take into account any seasonality in the borrower's business and, where applicable, also obtains guarantees from affiliates of the borrower or other ING Group division, enters into collateral agreements to secure related loans, prescribes the borrower's own equity contribution for the project financing and requires cash flows from the financed project or counterparties to be directed to the current accounts opened with the Bank. In the case of loans to retail customers, the Bank typically takes collateral or requires guarantees to secure such loans. As the lending policy is to give priority to the quality of the borrower over the quality of the collateral available, lending decisions are always based on risk assessment rather than on the quality of the collateral. When taking security, the Bank gives preference to the most liquid form of collateral with the highest re-sale value. It also takes into account regional factors when determining the value of collateral.

Each year, the RMD determines and submits to the Board for approval an annual Credit Risk Policy, containing, inter alia, target credit risk exposures by particular industry sectors, products, currency and borrower risk classes.

The Bank establishes an allowance for loan losses that represent its estimates of losses incurred in its loan portfolio.

The Bank writes off a loan balance (and any related provision for impairment losses) when the Credit Committee determines that the loan is uncollectible and when all necessary steps to collect the loan are completed. This determination is reached after considering information such as the occurrence of significant changes in the borrower's financial position such that the borrower can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure.

Credit-related commitments risks

The Bank makes available to its customers guarantees which may require that the Bank make payments their behalf. Such payments are collected from customers under the terms of the letters of credit. These arrangements expose the Bank to similar risks to loans and these are mitigated by similar control procedures and policies.

The maximum exposure to credit risk for the components of the statement of financial position, including derivatives, before the effect of mitigation through the use of master netting and collateral agreements, is best represented by their carrying amounts.

If recorded at fair value, the carrying value represents the current credit risk exposure but not the maximum risk exposure that could arise in future as a result of changes in values.

(Thousands of Ukrainian hryvnia unless otherwise indicated)

23. Risk management (continued)

Credit quality by class of financial assets

The credit quality of financial assets is managed by the Bank's internal credit ratings. The table below shows the credit quality by class of asset for loan-related lines in the statement of financial position, based on the Bank's credit rating system.

	Notes	Neither past due nor impaired			Past due or individually impaired 2011	Total 2011
		High grade 2011	Standard grade 2011	Sub-standard grade 2011		
Cash equivalents	5	921,287	-	-	-	921,287
Amounts due from credit institutions	7	1,364,030	110,622	50,274	4,250	1,529,176
Loans to customers	8					
Commercial		3,788,199	139,440	3,159,616	522,437	7,609,692
Overdrafts		72,869	2	66,425	-	139,296
Retail		67,019	16,996	2,333	9,449	95,797
		3,928,087	156,438	3,228,374	531,886	7,844,785
Investment securities available-for-sale	9			2,124		2,124
Total		6,213,404	267,060	3,280,772	536,136	10,297,372

	Notes	Neither past due nor impaired			Past due or individually impaired 2010	Total 2010
		High grade 2010	Standard grade 2010	Sub-standard grade 2010		
Cash equivalents	5	789,749	-	-	-	789,749
Amounts due from credit institutions	7	1,302,797	151,890	21,677	4,365	1,480,729
Loans to customers	8					
Commercial		3,117,155	280,567	1,249,990	1,602,460	6,250,172
Overdrafts		150,326	41,459	10,091	-	201,876
Retail		54,443	23,115	12,130	8,403	98,091
		3,321,924	345,141	1,272,211	1,610,863	6,550,139
Investment securities available-for-sale	9	-	-	6,965	-	6,965
Total		5,414,470	497,031	1,300,853	1,615,228	8,827,582

In the table above loans to banks and customers of high grade are those having a minimal level of credit risk, normally with a credit rating on or close to sovereign level or very well collateralised. Other borrowers with good financial position and good debt service are included in the standard grade. Sub-standard grade comprises loans below standard grade but not individually impaired.

(Thousands of Ukrainian hryvnia unless otherwise indicated)

23. Risk management (continued)

Ageing analysis of past due but not impaired loans per class of financial assets

	Less than 30 days 2011	31 to 60 days 2011	2011 61 to 90 days 2011	More than 90 days 2011	Total 2011
Loans to customers - Retail	6,645	-	-	-	6,645
Total	6,645	-	-	-	6,645

	Less than 30 days 2010	31 to 60 days 2010	2010 61 to 90 days 2010	More than 90 days 2010	Total 2010
Loans to customers					
Commercial	52,585	599	-	2,989	56,173
Retail	5,610	-	-	130	5,740
Total	58,195	599	-	3,119	61,913

See Note 8 for more detailed information with respect to the allowance for impairment of loans to customers.

Impairment assessment

The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue by more than 90 days or there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract. The Bank addresses impairment assessment in two areas: individually assessed allowances and collectively assessed allowances.

Individually assessed allowances

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

Collectively assessed allowances

Allowances are assessed collectively for losses on loans to customers that are not individually significant (including credit cards, residential mortgages) and for individually significant loans where there is not yet objective evidence of individual impairment. Allowances are evaluated on each reporting date with each portfolio receiving a separate review.

The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is no yet objective evidence of the impairment in an individual assessment. Impairment losses are estimated by taking into consideration of the following information: historical losses on the portfolio, current economic conditions, the appropriate delay between the time a loss is likely to have been incurred and the time it will be identified as requiring an individually assessed impairment allowance, and expected receipts and recoveries once impaired. Local management is responsible for deciding the length of this period which can extend for as long as one year. The impairment allowance is then reviewed by credit management to ensure alignment with the Bank's overall policy.

Financial guarantees and letters of credit are assessed and provision made in a similar manner as for loans.

(Thousands of Ukrainian hryvnia unless otherwise indicated)

23. Risk management (continued)

Geographical concentration

The geographical concentration of Bank's monetary assets and liabilities is set out below:

	2011			Total
	Ukraine	OECD	CIS and other non-OECD countries	
Assets:				
Cash and cash equivalents	559,462	361,253	11,300	932,015
Trading securities	747,383	-	-	747,383
Amounts due from credit institutions	1,524,926	-	-	1,524,926
Loans to customers	7,666,534	-	18,643	7,685,177
Investment securities available-for-sale	1,962	-	-	1,962
Other assets (monetary)	10,219	1,997	-	12,216
	10,510,486	363,250	29,943	10,903,679
Liabilities:				
Amounts due to credit institutions	114,117	6,522,135	26,238	6,662,490
Amounts due to customers	2,031,093	161,083	76,972	2,269,148
Subordinated debt	-	43,162	-	43,162
Other liabilities (monetary)	59,817	85	-	59,902
	2,205,027	6,726,465	103,210	9,034,702
Net financial position	8,305,459	(6,363,215)	(73,267)	1,868,977

	2010			Total
	Ukraine	OECD	CIS and other non-OECD countries	
Assets:				
Cash and cash equivalents	372,339	394,263	38,137	804,739
Trading securities	933,859	-	-	933,859
Amounts due from credit institutions	1,476,364	-	-	1,476,364
Loans to customers	6,371,175	-	50,075	6,421,250
Investment securities available-for-sale	6,965	-	-	6,965
Other assets (monetary)	7,853	-	-	7,853
	9,168,555	394,263	88,212	9,651,030
Liabilities:				
Amounts due to credit institutions	255,778	5,226,776	-	5,482,554
Amounts due to customers	2,152,153	341,940	29,849	2,523,942
Subordinated debt	-	43,003	-	43,003
Other liabilities (monetary)	67,282	-	-	67,282
	2,475,213	5,611,719	29,849	8,116,781
Net financial position	6,693,342	(5,217,456)	58,363	1,534,249

Liquidity risk and funding management

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 period.

The process of managing liquidity risk is continuous. The RMD carries out day-to-day monitoring of short-term exposure to liquidity risk. Senior management receives weekly analysis and daily reports and the ALCO performs a monthly review of liquidity risk management.

The Bank assesses liquidity risk based on gap analysis, that is, an analysis of the difference between assets and liabilities with the same maturity. The amounts of such unmatched positions in assets and liabilities having the same maturity are used to calculate the cumulative gap, which is subject to certain limits. These limits are determined by the ability to source funds on the money markets. Such limits may be reviewed, depending on changes in the Bank's capacity to source funds. The RMD is responsible for making recommendations with respect to changing limits, which are subject to approval by the ALCO. In addition, the Bank has procedures that apply in the event these limits are exceeded, as well as contingency plans for unforeseen situations.

(Thousands of Ukrainian hryvnia unless otherwise indicated)

23. Risk management (continued)

The risks associated with the concentration of loans and deposits require continuous monitoring. Management acknowledges the risks associated with possible high concentrations of assets and liabilities and seeks to match maturities of high-value corporate loans and deposits, which management views as a means of managing liquidity and interest rate risk. The Bank has access to a diverse funding base, including deposits, subordinated liabilities and share capital, which enhances funding flexibility, limits dependence on any one source of funds and generally lowers the cost of funds. The Bank also holds a portfolio of liquid assets as part of its liquidity risk management. The use of a combination of instruments to manage liquidity risks enables the Bank to use its lending resources and maintain liquidity levels more effectively.

Assessment of the liquidity position

The adherence to the internal limits set by the Bank is in line with the liquidity risk standards established by the NBU. The liquidity position is assessed and managed by the Bank by its own efforts, based on certain liquidity ratios established by the NBU as described in the Short-Term Liquidity Risk Management section.

As at 31 December, the liquidity position, assessed by the respective liquidity ratios established by the NBU, was as follows:

	<u>2011, %</u>	<u>2010, %</u>
N4 "Instant Liquidity Ratio" (vault cash and balances on nostro accounts with banks / liabilities repayable on demand) (minimum required by the NBU – 20%)	51.45	46.84
N5 "Current Liquidity Ratio" (assets receivable or realisable within 31 days / liabilities repayable within 31 days) (minimum required by the NBU – 40%)	96.06	103.17
N6 "Short-Term Liquidity Ratio" (certain assets with original maturity up to 1 year / liabilities with original maturity up to 1 year including commitments and contingencies) (minimum required by the NBU as at 31 December 2011 – 60%, as at 31 December 2010 – 60%)	101.88	108.23

Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Bank's financial liabilities at 31 December based on contractual undiscounted repayment obligations.

Financial liabilities As at 31 December 2011	Within one month	From 1 to 3 months	3 months to one year	1 to 5 years	Over 5 years	Total
Amounts due to credit institutions	5,627,642	483,576	294,870	247,557	35,297	6,688,942
Amounts due to customers	2,147,242	127,720	160	-	-	2,275,122
Subordinated debt	-	91	43,163	-	-	43,254
Derivative financial instruments						
- Contractual amounts payable	7,626	7,452	-	-	-	15,078
- Contractual amounts receivable	(3,663)	(113)	(82)	-	-	(3,858)
Other liabilities	58,353	-	-	-	-	58,353
Total undiscounted financial liabilities	<u>7,837,200</u>	<u>618,726</u>	<u>338,111</u>	<u>247,557</u>	<u>35,297</u>	<u>9,076,891</u>
Financial liabilities As at 31 December 2010	Within one month	From 1 to 3 months	3 months to one year	1 to 5 years	Over 5 years	Total
Amounts due to credit institutions	4,307,341	797,600	14,140	348,804	43,136	5,511,021
Amounts due to customers	2,491,818	27,514	5,706	-	-	2,525,038
Subordinated debt	21	22	102	43,121	-	43,266
Derivative financial instruments						
- Contractual amounts payable	1,143	5,173	-	-	-	6,316
- Contractual amounts receivable	(1,448)	-	(918)	(470)	-	(2,836)
Other liabilities	60,966	-	-	-	-	60,966
Total undiscounted financial liabilities	<u>6,859,841</u>	<u>830,309</u>	<u>19,030</u>	<u>391,455</u>	<u>43,136</u>	<u>8,143,771</u>

(Thousands of Ukrainian hryvnia unless otherwise indicated)

23. Risk management (continued)

The Bank expects that many customers will not demand repayment on the earliest date when the Bank could be required to make a respective repayment and the table does not reflect the expected cash flows calculated by the Bank based on information on deposit repayment in previous periods.

The table below shows the contractual expiry by maturity of the Bank's financial commitments and contingencies before deduction of cash held as security against letters of credit, guarantees and promissory notes guarantees.

	<i>Less than 3 months</i>	<i>3 to 12 months</i>	<i>1 to 5 years</i>	<i>Over 5 years</i>	<i>Total</i>
2011	682,893	394,078	8,677	33,880	1,119,528
2010	327,605	275,258	140,397	-	743,260

The Bank expects that not all of the contingent liabilities or commitments will be drawn before their expiry. In order to limit liquidity risk arising from asymmetric prepayment and early repayment prospective of the term assets and liabilities, the Bank incorporates in standard client agreements conditions that motivate customers not to use the options of prepayment and early repayment.

The maturity analysis does not reflect the historical stability of current accounts. Their liquidation has historically taken place over a longer period than indicated in the tables above. These balances are included in amounts due within one month in the tables above.

Included in due to customers are term deposits of individuals. In accordance with Ukrainian legislation, the Bank is obliged to repay such deposits upon demand of a depositor (Note 15).

Market risk

Price risk

Price risk is the risk that the fair values of trading securities decrease as the result of changes in the levels of market securities price indices and the value of individual securities. The price risk exposure arises from the Bank's securities trading portfolio.

The effect on the income statement (as a result of a change in the fair value of trading securities as at 31 December) due to a reasonably possible change in securities price indices, with all other variables held constant, is as follows:

<i>Market index</i>	<i>Change in securities price 2011</i>	<i>Effect on income statement 2011</i>	<i>Change in securities price 2010</i>	<i>Effect on Income statement 2010</i>
PFTS index	+6.68%	49,934	+7.51%	70,097
	-6.89%	(51,532)	-7.75%	(72,368)

Interest rate risk

Interest rate risk is the risk that movements in interest rates will affect cash flows or the fair value of the Bank's portfolios of financial instruments. The Bank is exposed to interest rate risk, principally as a result of lending at fixed interest rates in amounts and for periods which differ from those of term borrowings at fixed interest rates. Interest margins on assets and liabilities having different maturities may increase as a result of changes in market interest rates.

The ALCO sets limits on the level of mismatch of interest rate re-pricing that may be undertaken, which is monitored by the RMD. In the absence of any available hedging instruments, the Bank seeks to match its interest rate positions. The evaluation and analysis of interest rate risk is performed as at the first day of each month and updated as necessary to reflect market changes, for example, a change in benchmark interest rates, market volatility or similar events. The results of such evaluation and analysis are discussed at regular ALCO meetings. In addition to applying standard calculations, the Bank uses stress-tests.

These involve determining the level of interest-rate risk that would apply in the event of unforeseen circumstances or contingencies arising. This approach enables the Bank to evaluate changes in net interest income for future periods and determine the priority areas for interest risk management.

(Thousands of Ukrainian hryvnia unless otherwise indicated)

23. Risk management (continued)

		2011			
Currency	Base for interest rate	Increase in basis points	Effect on profit before income tax expense	Decrease in basis points	Effect on profit before income tax expense
USD	LIBOR	+15	80,252	-15	(80,252)
EUR	LIBOR	+15	3,243	-15	(3,243)
Total			83,495		(83,495)

		2010			
Currency	Base for interest rate	Increase in basis points	Effect on profit before income tax expense	Decrease in basis points	Effect on profit before income tax expense
USD	LIBOR	+100	36,818	-25	(9,204)
EUR	LIBOR	+100	7,083	-25	(1,771)
Total			43,901		(10,975)

Currency risk

Exchange rate risk is the risk of losses resulting from adverse movements in foreign currency exchange rates. Exchange rate risk results from the Bank having open positions in different currencies. Such positions are calculated as differences between assets and liabilities in the same currencies as at the reporting date.

The Bank evaluates, monitors and sets limits for long and short foreign exchange positions. The Bank complies with all applicable NBU requirements in addition to using its own methods for evaluating exchange rate risk. The policy with regard to open foreign currency positions is restricted to certain thresholds under Ukrainian law and is strictly monitored by the NBU on a daily basis.

The ALCO sets limits on the level of exposure by currencies. Such limits are reviewed in the event of volatility in foreign exchange rates. The ALCO may amend limits based on recommendations by the RMD. The Bank monitors compliance with such limits on a daily basis. Reports on changes in currency positions are provided to management on a weekly and a monthly basis.

		2011		2010	
Currency	Change in currency rate	Effect on profit before income tax expenses	Change in currency rate	Effect on profit before income tax expenses	
USD/UAH	23.22%	(76,967)	29.50%	40,302	
EUR/UAH	27.20%	(11,030)	27.90%	(16,477)	
Total		(87,997)		23,825	
USD/UAH	-23.22%	76,967	-29.50%	(40,302)	
EUR/UAH	-27.20%	11,030	-27.90%	16,477	
Total		87,997		(23,825)	

Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks may cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Bank does not expect to eliminate all operational risks, but a control framework, monitoring and timely responding to potential risks are effective tools to manage the risks. Controls include the effective segregation of duties, access rights, authorisation procedures, staff training and assessment processes. Currently, operational risks are considerably reduced due to more strict observance of the requirements of technological processes.

(Thousands of Ukrainian hryvnia unless otherwise indicated)

24. Fair values of financial instruments

The Bank uses the following hierarchic methods of measurement to determine and disclose the fair values of financial instruments:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: measurement methods the inputs for which, having a material impact on fair values recognised in the financial statements, are based on observable market data, either directly or indirectly.
- Level 3: measurement methods the inputs for which, having a material impact on fair values recognised in the financial statements, are not based on observable market data.

The table below shows the analysis of financial instruments presented in the financial statements at fair value by hierarchic levels of fair value sources as at 31 December 2011 and 2010:

At 31 December 2011	Level 1	Level 2	Level 3	Total
Financial assets				
Trading securities	-	747,383	-	747,383
Investment securities – available-for-sale	3,391	1,962	-	5,353
	3,391	749,345	-	752,736
At 31 December 2010				
Financial assets				
Trading securities	-	933,859	-	933,859
Investment securities – available-for-sale	3,391	6,965	-	10,356
	3,391	940,824	-	944,215

The estimated fair values of financial assets and liabilities is determined using market prices for actively traded financial assets and discounted cash flow and other appropriate valuation methodologies as at the reporting date. 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 judgements regarding future expected cash flows, current economic conditions, risk characteristics of various financial instruments and other factors, and the discount rate is a market related rate for a similar instrument at the reporting date.

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.

The fair values of all short-term financial assets and liabilities are assumed to equal their carrying values due to their short-term nature, regular re-pricing periods and/or market interest rates at period end. The fair value of loans and deposits with maturities greater than one year approximate their carrying value because for substantially all loans and deposits the Bank has applied floating interest rates that consider current value of cash flows and market conditions.

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

(Thousands of Ukrainian hryvnia unless otherwise indicated)

25. Maturity analysis of assets and liabilities

The table below shows an analysis of assets and liabilities according to when they are expected to be recovered or settled.

	2011			2010		
	Within one year	More than one year	Total	Within one year	More than one year	Total
Assets						
Cash and cash equivalents	932,015	-	932,015	804,739	-	804,739
Trading securities	747,383	-	747,383	933,859	-	933,859
Amounts due from credit institutions	1,524,926	-	1,524,926	1,476,364	-	1,476,364
Loans to customers	6,990,769	694,408	7,685,177	5,791,359	629,891	6,421,250
Investment securities available-for-sale	5,353	-	5,353	5,259	5,097	10,356
Property and equipment	-	10,405	10,405	-	7,748	7,748
Intangible assets	-	1,406	1,406	-	1,360	1,360
Corporate current tax asset	6,070	-	6,070	25,636	-	25,636
Deferred tax assets	-	-	-	10,736	-	10,736
Other assets	16,292	-	16,292	8,705	-	8,705
Total assets	10,222,808	706,219	10,929,027	9,056,657	644,096	9,700,753
Liabilities						
Amounts due to credit institutions	6,390,795	271,695	6,662,490	5,106,075	376,479	5,482,554
Amounts due to customers	2,269,148	-	2,269,148	2,523,942	-	2,523,942
Current income tax liabilities	-	-	-	24,662	-	24,662
Deferred tax liabilities	35,325	-	35,325	-	-	-
Subordinated debt	43,162	-	43,162	-	43,003	43,003
Other liabilities	74,985	-	74,985	68,238	-	68,238
Total liabilities	8,813,415	271,695	9,085,110	7,722,917	419,482	8,142,399
Net	1,409,393	434,524	1,843,917	1,333,740	224,614	1,558,354

The maturity analysis does not reflect the historical stability of current accounts. Their liquidation has historically taken place over a longer period than indicated in the tables above. These balances are included in amounts due within one year in the table above.

26. Related party disclosures

In accordance with IAS 24 "Related Party Disclosures", parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

(Thousands of Ukrainian hryvnia unless otherwise indicated)

23. Related party disclosures (continued)

The outstanding balances of related party transactions, at the year-end are as follows:

	2011			2010		
	Parent company	Key management personnel	Entities under common control	Parent company	Key management personnel	Entities under common control
Loans outstanding at 1 January, gross	-	12,386	2,980	-	12,966	2,308
Loans issued during the year	-	1,612	2,687	-	3,985	958
Loan repayments during the year	-	(1,718)	(2,902)	-	(1,455)	(286)
Other movements	-	1,024	(29)	-	(3,110)	
Loans outstanding at 31 December, gross	-	13,304	2,736	-	12,386	2,980
Less: allowance for impairment at 31 December	-	(101)	-	-	(152)	(66)
Loans outstanding at 31 December, net	-	13,203	2,736	-	12,234	2,914
Long term deposits at 1 January	100,467	-	284,537	-	-	77,760
Long term deposits received during the year	-	-	-	102,563	-	207,035
Long term deposits repaid during the year	-	-	(8,756)	-	-	-
Other movements	(2,610)	-	1,007	(2,096)	-	(258)
Long term deposits at 31 December	97,857	-	276,788	100,467	-	284,537
Short term deposits at 31 December	-	-	6,173,728	741,107	-	4,100,665
Commitments and guarantees received	11,683,360	-	66,209	10,103,882	-	-

The income and expense arising from related party transactions are as follows:

	For the year ended 31 December					
	2011			2010		
	Parent company	Key management personnel	Entities under common control	Parent company	Key management personnel	Entities under common control
Interest income	653	685	152	213	579	196
Allowance for loan impairment	-	51	66		(152)	(66)
Interest expense	(9,380)	-	(33,084)	(4,297)	-	(22,404)
Fee and commission income	1,124	4	305	799	3	224
Other income	-	-	691	-	-	816
Fee and commission expenses	(197,951)	(1)	(252)	(191,198)	(2)	(263)
Other operating expenses	(1,952)	-	1	(1,711)	9	329

Guaranties received from ING Group companies represent irrevocable unconditional guarantees for credit risk cover on loans granted by the Bank to corporate customers.

The aggregate short-term benefits paid to the key management personnel for 2011 is UAH 16,293 thousand (2010: UAH 18,752 thousand).

(Thousands of Ukrainian hryvnia unless otherwise indicated)

27. Capital adequacy

The Bank maintains an actively managed adequate capital level to cover external risks inherent in the business. The adequacy of the Bank's capital is monitored using the ratios established by the NBU and Basel Capital Accord 1988.

During 2011, the Bank complied in full with all its externally imposed capital requirements.

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

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

NBU capital adequacy ratio

The NBU requires banks to maintain a capital adequacy ratio of 10% of the amount of risk-weighted assets, computed in accordance with the UAS.

As at 31 December 2011 and 2010, the Bank's capital adequacy ratio on this basis was as follows:

	2011	2010
Main capital	1,088,009	1,074,666
Additional capital	645,132	539,828
Total capital	1,733,141	1,614,494
Risk weighted assets	4,076,061	2,227,195
Capital adequacy ratio	42.52%	72.49%

Capital adequacy ratio under Basel Capital Accord 1988

As at 31 December 2011 and 2010, the Bank's capital adequacy ratio, computed in accordance with the Basel Capital Accord 1988 amended to include market risk was as follows:

	2011	2010
Tier 1 capital	1,843,918	1,558,354
Tier 2 capital	-	8,599
Total capital	1,843,918	1,566,953
Risk weighted assets	9,256,442	7,191,406
Tier 1 capital ratio	19.92%	21.67%
Total capital ratio	19.92%	21.79%