IMPORTANT NOTICE NOT FOR DISTRIBUTION IN THE UNITED STATES

IMPORTANT: You must read the following before continuing. The following applies to the Prospectus following this important notice (the "**Prospectus**"), and you are therefore advised to read this carefully before reading, accessing or making any other use of the Prospectus. In accessing the Prospectus, you agree to be bound by the following terms and conditions, including any modifications to them any time you receive any information from us as a result of such access. You acknowledge that the access to the Prospectus is intended for use by you only and you agree you will not forward or otherwise provide access to any other person.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN THE UNITED STATES OR ANY OTHER JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION AND THE SECURITIES MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO OR FOR THE ACCOUNT OR BENEFIT OF U.S. PERSONS (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT), DIRECTLY OR INDIRECTLY, EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE OR LOCAL SECURITIES LAWS.

THIS PROSPECTUS MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS. IF YOU HAVE GAINED ACCESS TO THIS TRANSMISSION CONTRARY TO ANY OF THE FOREGOING RESTRICTIONS, YOU ARE NOT AUTHORISED AND WILL NOT BE ABLE TO PURCHASE ANY OF THE NOTES DESCRIBED IN THE ATTACHED PROSPECTUS.

Confirmation of your Representation: In order to be eligible to view the Prospectus or make an investment decision with respect to the securities described in the Prospectus, investors must comply with the following provisions. You have been sent the attached Prospectus on the basis that you have confirmed to Credit Suisse Securities (Europe) Limited, J.P. Morgan Securities plc. and UBS Limited (the "**Joint Lead Managers**"), being the senders of the Prospectus, that:

(a) you (and each investor that you represent) are either: (A) not a U.S. person (as such term is defined in Regulation S under the Securities Act), are not investing in the Rule 144A Note and the electronic mail address that you have given to us and to which this electronic transmission has been sent is not located in the United States; or (B) a "qualified institutional buyer" (as such term is defined in Rule 144A under the Securities Act) (a "**QIB**") that is also a "qualified purchaser" (within the meaning of Section 2(a)(51) of the United States Investment Company Act of 1940, as amended) (a "**QP**");

(b) you consent to delivery of the Prospectus by electronic transmission;

(c) you are a prospective purchaser of the notes referred to in the Prospectus (the "**Notes**") and you are a relevant person (as defined below) if in the United Kingdom;

(d) you will not transmit the Prospectus (or any copy of it or part thereof) or disclose, whether orally or in writing, any of its contents to any other person except with the consent of a Joint Lead Manager; and

(e) you acknowledge that the Prospectus does not constitute an offer of or an invitation to subscribe for or purchase any of the Notes.

By accepting this electronic transmission and accessing the Prospectus, you shall be deemed to have made the above representation and that you consent to delivery of such Prospectus by electronic transmission.

This document is only addressed to and directed at persons in member states of the European Economic Area that have implemented the Directive 2003/71/EC, as amended (the "**Prospective Directive**") who are "qualified investors" within the meaning of Article 2(1)(e) of the Prospectus Directive ("**Qualified Investors**"). In addition, the Prospectus is directed solely at (i) persons outside the United Kingdom, (ii) persons with professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 as amended (the "**Order**"), (iii) high net worth entities, or (iv) any other persons to whom an invitation or inducement to engage in investment activities may lawfully be communicated, falling within Article 49(2)(a) to (d) of the Order (all such persons in (i)-(iv) above being "**relevant persons**"). Any investment activity to which this communication relates will only be available to and will only be engaged with relevant persons. Any person who is not a relevant person should not act or rely on this communication.

The Prospectus has been delivered to you on the basis that you are a person into whose possession the Prospectus may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorised to, deliver this Prospectus to any other person.

The Prospectus has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of UK SPV Credit Finance plc (the "**Issuer**"), PUBLIC JOINT STOCK COMPANY COMMERCIAL BANK "PRIVATBANK" (the "**Bank**", and the Bank and its subsidiaries taken as a whole being, the "**Group**") or the Joint Lead Managers, or any person who controls them, or any director, officer, employee or agent of any of them, or their respective affiliates accepts any liability or responsibility whatsoever in respect of any difference between the Prospectus distributed to you in electronic format and the hard copy version available to you on request from the Joint Lead Managers.

You are reminded that no representation or warranty, expressed or implied is made or given by or on behalf of the Joint Lead Managers, nor any person who controls the Joint Lead Managers or any director, officer, employee or agent of any of them, or their respective affiliates as to the accuracy, completeness or fairness of the information or opinions contained in the Prospectus and such persons do not accept responsibility or liability for any such information or opinions.

Neither this electronic transmission nor the Prospectus constitutes or contains any offer to sell or invitation to subscribe or make commitments for or in respect of any securities in any jurisdiction where such an offer or invitation would be unlawful. If a jurisdiction requires that the offering of the Notes be made by a licensed broker or dealer, and the Joint Lead Managers or any affiliate of the Joint Lead Managers is a licensed broker or dealer in the relevant jurisdiction, the offering shall be deemed to be made by the Joint Lead Managers or such affiliate on behalf of the Issuer in such jurisdiction.

PUBLIC JOINT-STOCK COMPANY COMMERCIAL BANK "PRIVATBANK"

(incorporated in Ukraine)

U.S.$175,000,000 10.875 per cent. Loan Participation Notes due 2018

issued by, but with limited recourse to, UK SPV Credit Finance plc for the sole purpose of financing a loan to PUBLIC JOINT-STOCK COMPANY COMMERCIAL BANK "PRIVATBANK"

Issue Price: 100 per cent.

UK SPV Credit Finance plc (the "**Issuer**" or the "**Lender**") is issuing U.S.$175,000,000 in aggregate principal amount of 10.875 per cent. Loan Participation Notes due 2018 (the "**Notes**") on 28 February 2013 (the "**Closing Date**"). The Notes are limited recourse obligations of the Issuer and are being offered for the sole purpose of financing a loan of U.S.$175,000,000 (the "**Loan**") to be granted by the Lender to PUBLIC JOINT-STOCK COMPANY COMMERCIAL BANK "PRIVATBANK" (the "**Bank**", "**PrivatBank**" or the "**Borrower**") pursuant to a loan agreement dated 25 February 2013 between the Issuer and the Bank (the "**Loan Agreement**"). The Notes will be constituted and secured by, and will be subject to, and have the benefit of, a trust deed dated the Closing Date between the Issuer and Deutsche Trustee Company Limited, as trustee (the "**Trustee**"), for the holders of the Notes from time to time (the "**Noteholders**"), the "**Trust Deed**"). In the Trust Deed, the Issuer will charge in favour of the Trustee as security for its payment obligations in respect of the Notes (a) its rights to principal, interest and other amounts under the Loan Agreement (other than the Reserved Rights); (b) all amounts payable under or in respect of any claim, award or judgment relating to the Loan Agreement (other than the Reserved Rights); (c) sums held on deposit from time to time (other than the Reserved Rights); and (d) its rights, title and interest in Permitted Investments if any (as defined in the Trust Deed) (other than the Reserved Rights). The Issuer will also assign certain administrative rights under the Loan Agreement to the Trustee for the benefit of the Noteholders.

The Notes are limited recourse obligations of the Issuer. In each case where amounts of principal, interest and additional amounts (if any) are stated to be payable in respect of the Notes, the obligation of the Issuer to make any such payment shall constitute an obligation only to account to the Noteholders, on each date upon which such amounts of principal, interest and additional amounts (if any) are due in respect of the Notes, for an amount equivalent to all principal, interest and additional amounts (if any) actually received by, or for the account of, the Issuer pursuant to the Loan Agreement and the Issuer will have no other financial obligations under the Notes. **Noteholders will be deemed to have accepted and agreed that they will be relying solely and exclusively on the Borrower's covenant to pay under the Loan Agreement and the credit and financial standing of the Borrower in respect of the financial servicing of the Notes.**

Subject to receipt by the Issuer of amounts pursuant to the Loan Agreement, interest on the Notes will be payable semi-annually in arrear in equal instalments on 28 February and 28 August in each year from and including 28 August 2013, as described under "*Terms and Conditions of the Notes—Interests*". Unless previously redeemed or cancelled, the Notes will be redeemed at their principal amount on 28 February 2018.

The Loan may be prepaid at its principal amount, together with accrued interest, at the option of the Borrower for tax reasons or in the event that it becomes unlawful for the Issuer to fund the advance or allow the Loan to remain outstanding under the Loan Agreement, and the Loan shall be prepaid at its principal amount, together with accrued interest upon a Change of Control (as defined in the Loan Agreement). Thereupon (subject to the receipt of the relevant funds from the Borrower) the principal amount of all outstanding Notes will be prepaid by the Issuer, together with accrued interest.

The Notes will be in registered form. The Notes may be held and transferred, and will be offered and sold, in the principal amount of U.S.$200,000 each and integral multiples of U.S.$1,000 in excess thereof, in each case without interest coupons attached. Notes that are offered and sold outside the United States to non-U.S. persons in reliance on Regulation S ("**Regulation S**") under the United States Securities Act of 1933, as amended (the "**Securities Act**") will be represented by interests in a global registered certificate (the "**Regulation S Global Certificate**") deposited with a common depositary (the "**Common Depositary**") for, and registered in the name of, a nominee of, Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking, *société anonyme* ("**Clearstream, Luxembourg**") on or about the Closing Date. Notes which are offered and sold in the United States to qualified institutional buyers ("**QIBs**"), as defined in Rule 144A under the Securities Act ("**Rule 144A**"), that are also qualified purchasers ("**QPs**"), as defined in Section 2(a)(51) of the United States Investment Company Act of 1940, as amended (the "**Investment Company Act**"), in reliance on the exemption from registration provided by Rule 144A will be represented by interests in a global registered certificate (the "**Rule 144A Global Certificate**" and, together with the Regulation S Global Certificate, the "**Global Certificates**") deposited with a custodian for, and registered in the name of, a nominee of The Depository Trust Company ("**DTC**") on or about the Closing Date. Interests in the Global Certificates will be shown on, and transfers thereof will be effected only through, records maintained by DTC, Euroclear and Clearstream, Luxembourg and their respective participants. Individual notes in definitive form (the "**Definitive Certificates**") evidencing holdings of Notes will only be available in certain limited circumstances. See "*Summary of the Provisions Relating to the Notes in Global Form*".

AN INVESTMENT IN THE NOTES INVOLVES A HIGH DEGREE OF RISK, SEE "RISK FACTORS" BEGINNING ON PAGE 15.

There is currently no public market for the Notes. The Prospectus has been approved by the Central Bank of Ireland (the "**Central Bank**") as competent authority under Directive 2003/71/EC, as amended (the "**Prospective Directive**"). The Central Bank only approves this Prospectus as meeting the requirements imposed under Irish and European Union ("**EU**") law pursuant to the Prospectus Directive. Such approval relates only to the Notes which are to be admitted to trading on a regulated market for the purposes of Directive 2004/39/EC and/or which are to be offered to the public in any Member State of the European Economic Area. Application has been made to the Irish Stock Exchange (the "**Irish Stock Exchange**") for the Notes to be admitted to the official list (the "**Official List**") and trading on its regulated market (the "**Main Securities Market**"). References in this Prospectus to the Notes being listed (and all related references) shall mean that the Notes have been admitted to the Official List and have been admitted to trading on the Main Securities Market. The Main Securities Market is a regulated market for the purposes of Directive 2004/39/EC of the European Parliament and of the Council on markets in financial institutions.

THE NOTES AND THE LOAN IN RESPECT THEREOF HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE SECURITIES ACT, OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND, EXCEPT PURSUANT TO CERTAIN EXEMPTIONS, MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATION S). THE NOTES MAY BE OFFERED AND SOLD (I) WITHIN THE UNITED STATES TO QIBs THAT ARE ALSO QPs IN RELIANCE ON THE EXEMPTION FROM REGISTRATION PROVIDED BY RULE 144A (THE "RULE 144A NOTES") AND (II) TO NON-U.S. PERSONS IN OFFSHORE TRANSACTIONS IN RELIANCE ON REGULATION S (THE "REGULATION S NOTES"). THE ISSUER HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE INVESTMENT COMPANY ACT. PROSPECTIVE PURCHASERS ARE HEREBY NOTIFIED THAT SELLERS OF THE RULE 144A NOTES MAY BE RELYING ON THE EXEMPTION FROM THE PROVISIONS OF SECTION 5 OF THE SECURITIES ACT PROVIDED BY RULE 144A. FOR A DESCRIPTION OF THESE AND CERTAIN FURTHER RESTRICTIONS ON OFFERS, SALES AND TRANSFERS OF THE NOTES AND DISTRIBUTION OF THIS PROSPECTUS, SEE "SUBSCRIPTION AND SALE" AND "TRANSFER RESTRICTIONS".

The Notes are expected to be rated B3 by Moody's Investors Service Limited ("**Moody's**") and B by Fitch Ratings Ltd ("**Fitch**"). Each of Moody's and Fitch is established in the European Community and registered under Regulation (EC) No. 1060/2009 on credit rating agencies (the "**CRA Regulation**"). The list of credit rating agencies registered in accordance with the CRA Regulation is available on the European Securities and Market Authority's website (http://www.esma/europa.eu/popup2/php?id=7692). A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

Joint Lead Managers

Credit Suisse **J.P. Morgan** **UBS Investment Bank**

The date of this Prospectus is 25 February 2013

This document comprises a prospectus for the purposes of the Prospectus Directive as implemented in Ireland by the Prospectus (Directive 2003/71/EC) Regulations 2005 (the "**Prospectus Regulations**") and for the purpose of giving information with regard to the Issuer, the Bank, the Group (as defined herein), the Notes and the Loan which according to the particular nature of the Issuer, the Bank, the Group, the Notes and the Loan, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profit and losses and prospects of the Issuer and the Bank.

Each of the Issuer and the Bank (whose registered offices are set out on page 3 of this Prospectus) accepts responsibility for the information contained in this Prospectus. To the best of the knowledge and belief of the Issuer and the Bank (each having taken all reasonable care to ensure that such is the case), the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

The Bank, having made all reasonable enquiries, confirms that (i) this Prospectus contains all information with respect to the Bank, the Group, the Notes and the Loan that is material in the context of the issue and offering of the Notes; (ii) the statements contained in this Prospectus relating to the Bank and the Group are in every material respect true and accurate and are not misleading; (iii) the opinions, expectations and intentions expressed in this Prospectus with regard to the Bank and the Group are honestly held, have been reached after considering all relevant circumstances and are based on reasonable assumptions; (iv) there are no other facts with respect to the Bank, the Group, the Notes or the Loan the omission of which would, in the context of the issue and offering of the Notes, make any statement in this Prospectus misleading in any material respect; and (v) all reasonable enquiries have been made by the Bank to ascertain such facts and to verify the accuracy of all such information and statements. The Bank accepts responsibility accordingly.

This Prospectus does not constitute an offer of, or an invitation by or on behalf of (i) the Issuer, (ii) the Bank, or (iii) Credit Suisse Securities (Europe) Limited, J.P. Morgan Securities plc. or UBS Limited (collectively, the "**Joint Lead Managers**") to subscribe or purchase, any of the Notes in any jurisdiction to any person to whom it is unlawful to make the offer or invitation in such jurisdiction. The distribution of this Prospectus and the offering or sale of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Prospectus comes are required by the Issuer, the Bank and the Joint Lead Managers to inform themselves about and to observe any such restrictions.

The Prospectus does not constitute an offer of, or an invitation by or on behalf of, the Issuer, the Bank, the Group or the Joint Lead Managers to subscribe or purchase any Notes. The distribution of this Prospectus and the offering of the Notes in certain jurisdictions may be restricted by law. This Prospectus may not be used for, or in connection with, and does not constitute, any offer to, or solicitation by, anyone in any jurisdiction or under any circumstance in which such offer or solicitation is not authorised or is unlawful. In particular, this Prospectus is only being distributed to and is only directed at (i) persons outside the United Kingdom, (ii) persons with professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 as amended (the "**Order**"), (iii) high net worth entities, or (iv) any other persons to whom an invitation or inducement to engage in investment activities may lawfully be communicated, falling within Article 49(2)(a) to (d) of the Order (all such persons in (i)-(iv) above being "**relevant persons**"). The Notes are only available to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such Notes will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely on this document or any of its contents.

Persons into whose possession this Prospectus comes are required by the Issuer, the Bank and the Joint Lead Managers to inform themselves about and to observe any such restrictions. Any consents or approvals that are needed in order to purchase any Notes must be obtained. The Bank, the Issuer and the Joint Lead Managers are not responsible for compliance with these legal requirements. The appropriate characterisation of any Notes under various legal investment restrictions, and thus the ability of investors subject to these restrictions to purchase such Notes, is subject to significant interpretative uncertainties. None of the Issuer, the Bank, the Group or the Joint Lead Managers or any of the respective representatives is making any representation to any offeree or purchaser of the Notes regarding the legality of an investment by such offeree or purchaser under relevant legal investment or similar laws. Such investors should consult their legal advisers regarding such matters. The Securities have not been and will not be registered under the Securities Act. The Issuer has not been and will not be registered under the Investment Company Act. The Issuer is relying on the exemption from the requirements of the Investment Company Act provided by Section 3(c)(7) thereof. The Notes may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. The Notes are being offered and sold outside the United States to non U.S. persons in reliance on Regulation S and within the United States to QIBs that are also QPs in reliance on the exemption from registration under the Securities Act provided by Rule 144A. Prospective purchasers are hereby notified that sellers of the Notes may be relying on the exemption from the provision of Section 5 of the Securities Act provided by Rule 144A. For a description of these and certain further restrictions on offers, sales and transfers of the Notes and distribution of this Prospectus, see "*Subscription and Sale*" and "*Transfer Restrictions*".

None of the Issuer or the Group intends to provide any post-issuance transaction information regarding the Notes or the performance of the Loan. No person is authorised to give any information or to make any representation not contained in this Prospectus and any information or representation not so contained must not be relied upon as having been authorised by or on behalf of the Issuer, the Bank or the Joint Lead Managers. Neither the delivery of this Prospectus nor any sale made in connection herewith shall, under any circumstances, create any implication that there has been no change in the affairs of the Issuer or the Bank since the date hereof or the date upon which this Prospectus has been most recently amended or supplemented or that there has been no adverse change in the financial position of the Issuer or the Bank since the date hereof or the date upon which this Prospectus has been most recently amended or supplemented or that the information contained in it or any other information supplied in connection with the Notes is correct as at any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same. Without limitation to the generality of the foregoing, the contents of the Bank's or any other member of the Group's website, in addition to any other websites referred to in this Prospectus, as at the date hereof or as at any other date do not form any part of this Prospectus (and, in particular, are not incorporated by reference herein).

To the fullest extent permitted by law, the Joint Lead Managers accept no responsibility whatsoever for the contents of this Prospectus or for any other statement, made or purported to be made by any of them or on their behalf in connection with the Issuer, the Bank or the issue and offering of the Notes. The Joint Lead Managers accordingly disclaim all and any liability whether arising in tort or contract or otherwise (save as referred to above) which it might otherwise have in respect of this Prospectus or any such statement.

The offering is being made solely on the basis of this document. Prospective investors are responsible for making their own examination of the Bank and the Issuer and their own assessment of the merits and risks of investing in the Notes. In making their investment decisions, prospective investors should not consider any information in this document to be investment, legal or tax advice. Prospective investors should consult their own counsel, accountant and other advisors for legal, tax, business, financial and related advice regarding purchasing the Notes. By purchasing the Notes prospective investors will be deemed to have acknowledged that:

(a) they have reviewed this document;

(b) they have had an opportunity to request, receive and review all additional information that they need from the Bank and/or the Issuer; and

(c) the Joint Lead Managers are not responsible for, and is not making any representation or warranty to prospective investors concerning, the Bank's or Issuer's future performance or the accuracy or completeness of this document.

Any investment in the Notes does not have the status of a bank deposit and is not within the scope of the deposit protection scheme operated by the Central Bank. The Issuer is not and will not be regulated by the Central Bank as a result of issuing the Notes.

IN CONNECTION WITH THE ISSUE OF THE NOTES, UBS LIMITED (THE "STABILISING MANAGER") (OR ANY PERSON ACTING ON BEHALF OF THE STABILISING MANAGER) MAY OVER-ALLOT NOTES OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE NOTES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, THERE IS NO ASSURANCE THAT THE STABILISING MANAGER (OR ANY PERSON ACTING ON BEHALF OF THE STABILISING MANAGER) WILL UNDERTAKE STABILISATION ACTION. ANY STABILISATION ACTION MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE TERMS OF THE OFFER OF THE NOTES IS MADE AND, IF BEGUN, MAY BE ENDED AT ANY TIME, BUT IT MUST END NO LATER THAN THE EARLIER OF 30 DAYS AFTER THE CLOSING DATE OF THE NOTES AND 60 DAYS AFTER THE DATE OF THE ALLOTMENT OF THE NOTES. ANY STABILISATION ACTION OR OVER-ALLOTMENT MUST BE CONDUCTED BY THE RELEVANT STABILISING MANAGER (OR ANY PERSON ACTING ON BEHALF OF THE STABILISING MANAGER) IN ACCORDANCE WITH ALL APPLICABLE LAWS AND RULES.

NOTICE TO U.S. INVESTORS

EACH PROSPECTIVE PURCHASER OF RULE 144A NOTES OR BENEFICIAL INTERESTS THEREIN, BY ACCEPTING DELIVERY OF THIS PROSPECTUS, SHALL BE DEEMED TO HAVE ACKNOWLEDGED AND AGREED THAT SUCH PROSPECTUS IS PERSONAL TO IT AND DOES NOT CONSTITUTE AN OFFER TO ANY OTHER PERSON OR TO THE PUBLIC GENERALLY TO SUBSCRIBE FOR OR OTHERWISE ACQUIRE SUCH NOTES OTHER THAN PURSUANT TO RULE 144A. DISTRIBUTION OF THIS PROSPECTUS, OR DISCLOSURE OF ANY OF ITS CONTENTS TO ANY PERSON OTHER THAN SUCH OFFEREE AND THOSE PERSONS, IF ANY, RETAINED TO ADVISE IT WITH RESPECT THERETO IS UNAUTHORISED AND ANY DISCLOSURE OF ANY OF ITS CONTENTS, WITHOUT THE PRIOR WRITTEN CONSENT OF THE ISSUER, IS PROHIBITED. NOTWITHSTANDING ANYTHING HEREIN TO THE CONTRARY, EXCEPT AS REASONABLY NECESSARY TO COMPLY WITH APPLICABLE SECURITIES LAWS, INVESTORS (AND EACH EMPLOYEE, REPRESENTATIVE OR OTHER AGENT OF THE INVESTORS) MAY DISCLOSE TO ANY AND ALL PERSONS, WITHOUT

LIMITATION OF ANY KIND, THE U.S. FEDERAL TAX TREATMENT AND U.S. FEDERAL TAX STRUCTURE OF THE OFFERING AND ALL MATERIALS OF ANY KIND (INCLUDING OPINIONS OR OTHER TAX ANALYSES) THAT ARE PROVIDED TO THE INVESTORS RELATING TO SUCH U.S. FEDERAL TAX TREATMENT AND U.S. FEDERAL TAX STRUCTURE (AS SUCH TERMS ARE DEFINED FOR PURPOSES OF SECTIONS 6011, 6111 AND 6112 OF THE U.S. INTERNAL REVENUE CODE AND THE TREASURY REGULATIONS PROMULGATED THEREUNDER).

UNITED STATES INTERNAL REVENUE SERVICE CIRCULAR 230 DISCLOSURE

PURSUANT TO UNITED STATES INTERNAL REVENUE SERVICE CIRCULAR 230, WE HEREBY INFORM YOU THAT THE DESCRIPTION SET FORTH HEREIN WITH RESPECT TO UNITED STATES FEDERAL TAX ISSUES WAS NOT INTENDED OR WRITTEN TO BE USED, AND SUCH DESCRIPTION CANNOT BE USED, BY ANY TAXPAYER FOR THE PURPOSE OF AVOIDING ANY PENALTIES THAT MAY BE IMPOSED ON THEM UNDER THE UNITED STATES INTERNAL REVENUE CODE. SUCH DESCRIPTION WAS WRITTEN TO SUPPORT THE PROMOTION OR MARKETING BY THE ISSUER OF THE TRANSACTIONS OR MATTERS ADDRESSED HEREIN. TAXPAYERS SHOULD SEEK ADVICE BASED ON THEIR PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.

NOTICE TO NEW HAMPSHIRE RESIDENTS

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENCE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES ("**RSA**") WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

ADDITIONAL INFORMATION

Neither the Issuer nor the Bank is required to file periodic reports under Section 13 or 15 of the U.S. Securities Exchange Act of 1934, as amended (the "**Exchange Act**"). For so long as either the Issuer or the Bank is not a reporting company under Section 13 or 15(d) of the Exchange Act, or exempt from reporting pursuant to Rule 12g3-2(b) thereunder, the Issuer or the Bank, as the case may be, will, upon request, furnish to each holder or beneficial owner of Notes that are "restricted securities" (within the meaning of Rule 144(a)(3) under the Securities Act) and to each prospective purchaser thereof designated by such holder or beneficial owner upon request of such holder, beneficial owner or prospective purchaser, in connection with a transfer or proposed transfer of any such Notes pursuant to Rule 144A or otherwise, the information required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Presentation of Certain Terminology

In this Prospectus references to "**Bank**" or "**PrivatBank**" are to Public Joint-Stock Company Commercial Bank "PrivatBank"; all references to "**Group**" are to PrivatBank together with its subsidiaries and the other companies consolidated in its consolidated financial statements as at and for the years ended 31 December 2011, 2010 and 2009 and in its condensed consolidated interim financial information as at and for the nine months ended 30 September 2012 and 2011, in each case at the relevant time; and all references to "**Management**" are to the Management Board of PrivatBank.

In this Prospectus, all references to "**U.S.**", "**US**", "**USA**" or "**United States**" are to the United States of America, all references to "**U.K.**", "**UK**" or "**United Kingdom**" are to the United Kingdom of Great Britain and Northern Ireland and all references to the "**EU**" are to the European Union and its member states as at the date of this Prospectus. All references to the "**CIS**" are to the following countries that formerly comprised the Union of Soviet Socialist Republics and that are now members (or a participating non-member, or an unofficial associate member) of the Commonwealth of Independent States: Armenia, Azerbaijan, Belarus, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan, Turkmenistan, Ukraine and Uzbekistan.

In this Prospectus, "**Alfa-Bank**" means PJSC "Alfa-Bank"; "**Kyiv**" means PJSC "PJCB "Kyiv"; "**Delta Bank**" means PJSC "Delta Bank"; "**FUIB**" or "**First Ukrainian International Bank**" means PJSC "First Ukrainian International Bank"; "**Oschadbank**" means PJSC "State Savings Bank of Ukraine"; "**OTP Bank**" means PJSC "OTP Bank"; "**Prominvestbank**" means PSC "Joint-Stock Commercial Industrial & Investment Bank" (a subsidiary of Vneshekonombank); "**Raiffeisen Bank Aval**" means PJSC "Raiffeisen Bank Aval"; "**Rodovid Bank**" means PJSC "RODOVIDBANK"; "**Sberbank**" means PJSC "Subsidiary Bank Sberbank of Russia" PJSC; "**Ukreximbank**" means JSC "The State Export-Import Bank of Ukraine; "**Ukrgasbank**" means JSB "Ukrgazbank"; "**UkrSibbank**" means PJSC "UkrSibbank"; "**Ukrsotsbank**" means PJSC "Ukrsotsbank" and "**VTB Bank**" means PJSC "VTB Bank".

Financial Information

The consolidated financial statements for the Group set forth herein as at and for the financial years ended 31 December 2011, 2010 and 2009, together with the notes thereto (the "**Annual Consolidated Financial Statements**") were prepared in accordance with International Financial Reporting Standards ("**IFRS**") issued by the International Accounting Standards Board. The Annual Consolidated Financial Statements, together with the related independent auditor's report, are included elsewhere in this Prospectus.

The consolidated financial information of the Group set forth herein as at 30 September 2012 and for the nine months ended 30 September 2012 and 2011 has been derived from the unaudited condensed consolidated interim financial information as at and for the nine months ended 30 September 2012 (the "**Interim Consolidated Financial Information**" and together with the Annual Consolidated Financial Statements, the "**Consolidated Financial Statements**"), prepared in accordance with International Accounting Standard 34, *Interim Financial Reporting* ("**IAS 34**"). The Interim Consolidated Financial Information, together with the related review report, is set forth elsewhere in this Prospectus.

The financial information of the Group, unless otherwise indicated, has been derived from the Consolidated Financial Statements.

Changes in Presentation

With effect from 1 January 2011, the Group revised its approach to accounting for gains less losses from embedded derivatives and its accounting for income on impaired loans and the allowance for loan impairment in preparing the Group's consolidated financial statements. To present the Group's financial information as at and for the years ended 31 December 2009 and 2010 included in this Prospectus on a basis comparable with the information for the year ended 31 December 2011, the Group's statements of comprehensive income for the years ended 31 December 2009 and 2010 were adjusted to reflect these changes as described in more detail under "Change in accounting for gains less losses from embedded derivatives" and "Change in accounting for interest income" in Note 3 to the Annual Consolidated Financial Statements. For a discussion of other changes in presentation, see "Changes in presentation" in Note 3 to the Annual Consolidated Financial Statements.

Auditors

Ukraine

LLC Audit firm "PricewaterhouseCoopers (Audit)", independent auditors ("**PricewaterhouseCoopers**"), registered with the Chamber of Auditors of Ukraine, have audited, and rendered unqualified audit report on, the Annual Consolidated Financial Statements, as stated in their report included elsewhere in this Prospectus (the "**Independent Auditor's Report**"). The address of PricewaterhouseCoopers is 75 Zhylyanska Street, 01032 Kyiv 32, Ukraine.

With respect to the Interim Consolidated Financial Information included elsewhere in this Prospectus, PricewaterhouseCoopers reported that they have applied limited procedures in accordance with professional standards for a review of such information. However, their separate review report dated 26 December 2012 appearing elsewhere in this Prospectus states that they did not audit and do not express an opinion on the Interim Consolidated Financial Information. Accordingly, the degree of reliance on their separate review report on such Interim Consolidated Financial Information should be restricted in light of the limited nature of the review procedures performed.

United Kingdom

PricewaterhouseCoopers LLP, chartered accountants and statutory auditors (a member of the Institute of Chartered Accountants in England and Wales), have audited, and rendered unqualified audit reports on, the IFRS financial statements of the Issuer as at and for the years ended 31 December 2011 and 31 December 2010. The address of PricewaterhouseCoopers LLP is 7 More London, Riverside, London, SE1 2RT.

Critical Accounting Estimates, and Judgments in Applying Accounting Policies

The Group makes estimates and assumptions that affect the amounts recognised in the consolidated financial statements and the carrying amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on Management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the consolidated financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year are disclosed in Note 4

(Critical Accounting Estimates, and Judgments in Applying Accounting Policies) to the Annual Consolidated Financial Statements and Interim Consolidated Financial Information.

Non-IFRS Financial Measures

The Bank uses certain non-IFRS financial measures (such as capital adequacy ratio, net interest margin, operating income, non-performing loans and a number of other financial ratios including performance ratios, balance sheet ratios and asset quality ratios) set forth in this Prospectus to understand and compare operating results and/or financial position across accounting periods, for internal budgeting and forecasting purposes and for short- and long-term operating plans. However, these measures should not be used instead of, or considered as alternatives to, the historical financial results based on IFRS. These non-IFRS measures have no standardised meaning and are not defined by IFRS and, may not be comparable to similar measures presented by other banks. The Bank believes that these non-IFRS measures provide useful information as they are commonly used by investors, analysts and credit rating agencies as a measure of operating performance and asset quality of the Bank. For further information about the non-IFRS financial measures used in this Prospectus, see the notes to the table "Financial Ratios" in "*Selected Consolidated Financial Information*".

Currency

In this Prospectus, the following currency terms are used:

(a) "**euro**" or "**€**" means the lawful currency of the member states of the European Union that adopted the single currency in accordance with the Treaty of Rome establishing the European Economic Community, as amended from time to time;

(b) "**Pound sterling**" or "**£**" means the lawful currency of the United Kingdom;

(c) "**UAH, Ukrainian hryvnia**" or "**hryvnia**" means the lawful currency of Ukraine; and

(d) "**U.S. dollar**" or "**U.S.$**" means the lawful currency of the United States.

Impact of New Financial Reporting Standards

For information about certain new and amended financial reporting standards and interpretations that have become effective for the Group or will become effective for the Group for future reporting periods and their impact on the Group's consolidated financial statements, see Notes 5 and 6 to the Annual Consolidated Financial Statements and Notes 5 and 6 to the Interim Consolidated Financial Information.

Rounding

Certain figures included in this Prospectus have been subject to rounding adjustments; accordingly, figures shown for the same category presented in different tables may vary slightly, and figures shown as totals in certain tables may not be the arithmetic aggregation of the figures which precede them.

Average Balance Sheet and Interest Rate Data

This Prospectus includes average balances of assets and liabilities for the Group for the years ended 31 December 2011, 2010 and 2009 and the nine months ended 30 September 2012 and 2011, which are calculated as an average of the respective asset or liability amount at the beginning and at the end of the respective reporting period (the "**Average Balances**"). The annual or interim information for the Group was extracted from the Consolidated Financial Statements prepared under IFRS or the Group's accounting records.

Average interest rates are calculated by dividing interest income or expense for the relevant line item by the average balance for the same item for the applicable period. The average interest rates for the nine months ended 30 September 2011 and 2012 are not presented on an annualised basis and therefore are not comparable with the average interest rates measured over one-year periods. Average interest rates are distinct from the period-end effective interest rates presented in the Consolidated Financial Statements. The effective interest rate is the rate that discounts estimated future cash payments or receipts through the financial instrument's expected life or, when appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. The effective interest rate is sometimes termed the level yield to maturity or to the next repricing date, and is the internal rate of return of the financial asset or liability for that period. When calculating the effective interest rate, cash flows are estimated considering all the financial instrument's contractual terms, but future credit losses are not considered. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts.

Exchange Rates

The following table sets forth, for the periods indicated, the average and period-end official rates set by the National Bank of Ukraine (the "**NBU**"), in each case for the purchase of Ukrainian hryvnia, all expressed in Ukrainian hryvnia per U.S. dollar. The information should not be construed as representations that Ukrainian hryvnia amounts actually represent such U.S. dollar amounts or could be converted into U.S. dollars at the rate indicated as of any at the dates mentioned in this Prospectus or at all.

Year ended 31 December:	**High**	**Low**	**Average**	**Period-end**
	(Ukrainian hryvnia per U.S. dollar)			
2012..	7.99	7.98	7.99	7.99
2011..	7.99	7.94	7.97	7.99
2010..	8.01	7.89	7.94	7.96

Source: NBU

The official exchange rate quoted by NBU was 7.99 Ukrainian hryvnia for U.S.$1.00 on 18 February 2013.

Fluctuations in the exchange rates between the hryvnia and the U.S. dollar in the past are not necessarily indicative of fluctuations that may occur in the future. No representation is made that the hryvnia amounts referred to in this Prospectus could have been or could be converted into U.S. dollars at the above exchange rates or at any other rate.

Under Ukrainian legislation, the NBU is authorised to intervene through buying or selling foreign currencies on the interbank currency exchange in order to maintain indirectly the exchange rate of UAH to foreign currencies. The NBU establishes such official exchange rate on a daily basis for a particular foreign currency, based on the weighted average (bid and ask) applications submitted by the participants of the interbank currency exchange.

ENFORCEABILITY OF JUDGMENTS

The Bank is a joint stock company incorporated under the laws of Ukraine. A substantial number of the Bank's directors and executive officers named in this Prospectus reside outside the United Kingdom and the United States and a substantial portion of the assets of such persons as well as the assets of the Bank are located outside the United Kingdom and the United States. As a result, it may not be possible for investors to:

- effect service of process within the United Kingdom or the United States on the Bank or on any of the directors or executive officers of the Bank named in this Prospectus; or

- enforce, in courts located within the United Kingdom or the United States, judgments obtained in courts in jurisdictions located outside the United Kingdom and the United States against the Bank or any of the directors or executive officers of the Bank in any action.

In addition, it may be difficult for investors to enforce, in original actions brought in courts in jurisdictions located outside the United Kingdom and the United States, liabilities predicated upon English law or U.S. securities law.

Courts in Ukraine will recognise and/or enforce any judgement obtained in a court established in a country other than Ukraine if such recognition and/or enforcement is provided for in an international treaty to which Ukraine is a party, in accordance with the terms of such treaty. No such treaty exists between Ukraine and the United Kingdom or the United States for reciprocal enforcement of foreign court judgements.

In the absence of an international treaty providing for the recognition and enforcement of judgments, the courts of Ukraine may only recognise and/or enforce a foreign court judgment on the basis of the principle of reciprocity. Unless proven otherwise, reciprocity is deemed to exist in relations between Ukraine and the country where the judgment was rendered. However, Ukrainian law does not provide any clear rules on the application of the principle of reciprocity. Furthermore, there is no official interpretation and there is limited court practice with respect to such principle of reciprocity. Accordingly, there can be no assurance that the Ukrainian courts will recognise and/or enforce a judgment rendered by the courts of the United Kingdom or the United States on the basis of the principle of reciprocity. Furthermore, the courts of Ukraine might refuse to recognise and/or enforce a foreign court judgment on the basis of the principle of reciprocity on grounds provided in Ukrainian law in effect on the date on which such recognition and/or enforcement is sought.

Ukraine is a party to the 1958 New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards (the "**New York Convention**") with a reservation to the effect that, in respect of awards made in a state which is not a party to the New York Convention, Ukraine will only apply the New York Convention on a reciprocal basis. Consequently, a foreign arbitral award obtained in a state which is party to the New York Convention should generally be recognised and enforced by a Ukrainian court (under the terms of the New York Convention). The Loan Agreement contains a provision allowing for arbitration of disputes with London, England, designated as the seat of arbitration. Since the United Kingdom is a party to the New York Convention, arbitral awards in relation to such disputes may be enforced in Ukraine under the provisions of the New York Convention, subject to qualifications set out therein and compliance with applicable Ukrainian law. In practice, reliance upon international treaties may be met with a lack of understanding on the part of a Ukrainian court or other officials, thereby introducing delay and unpredictability into the process for enforcing any foreign judgment or any foreign arbitral award in Ukraine.

A Ukrainian court may apply Ukrainian law notwithstanding the choice of foreign law by the parties if the court determines that (a) the content of foreign law in respect of the relevant matter cannot be established within a reasonable time, (b) the relevant matter is not of a contractual nature and falls under the mandatory regulatory requirements of Ukraine or another relevant jurisdiction (including tax, currency exchange, banking or financial services legislation) or (c) the application of the relevant foreign law provisions would produce a result incompatible with the public order of Ukraine. Ukrainian legislation and court practice do not determine the precise scope or content of the concept of the "public order" of Ukraine.

THIRD-PARTY INFORMATION

Unless a specific source is identified, all information regarding market and other operating and statistical data provided in this Prospectus is based on the Group's own estimates. In making estimates, the Group relies on data produced internally and, where appropriate, external sources, including information made public by the NBU, the State Statistics Service of Ukraine (the "**SSSU**") and the Association of Ukrainian Banks (the "**AUB**"). Such information, data and statistics may be approximations or estimates or may use rounded numbers.

The information from such external sources has been accurately reproduced in this Prospectus and, as far as the Issuer and the Group are aware and are able to ascertain from such external sources, no facts have been omitted which would render any such information or data presented in this Prospectus inaccurate or misleading. The Issuer and the Group have relied on the accuracy of such information without carrying out an independent verification thereof. See "*Risk Factors—Risks Relating to Ukraine—Official economic data and third party information may not be reliable*".

FORWARD LOOKING STATEMENTS

Some statements in this Prospectus, as well as written and oral statements, that the Bank and its officers make from time to time in reports, filings, news releases, conferences, teleconferences, web postings or otherwise, may be deemed to be "forward-looking statements". Forward-looking statements include statements concerning the Group's plans, objectives, goals, strategies and future operations and performance and the assumptions underlying these forward-looking statements. When used in this Prospectus, the words "anticipates", "estimates", "expects", "believes", "intends", "plans", "may", "will", "should" and any similar expressions identify forward-looking statements. These forward-looking statements are contained in the "*Risk Factors*", "*Management's Discussion and Analysis of Financial Condition and Results of Operations*", "*Description of PrivatBank's Business*", "*Risk Management*" and other sections of this Prospectus. The Group has based these forward-looking statements on the current view of Management with respect to future events and financial performance. These views reflect the best judgment of the Management but involve uncertainties and are subject to certain risks the occurrence of which could cause actual results to differ materially from those predicted in the Group's forward-looking statements and from past results, performance or achievements. Although the Group believes that the estimates and the projections reflected in its forward-looking statements are reasonable, if one or more of the risks or uncertainties materialise or occur, including those which the Group has identified in this Prospectus, or if any of the Group's underlying assumptions prove to be incomplete or incorrect, the Group's actual results of operations may vary from those expected, estimated or projected.

By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, and risks exist that the predictions, forecasts, projections and other forward-looking statements will not be achieved. Prospective investors should be aware that a number of important factors could cause actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements. These factors include:

- inflation, interest rate and exchange rate fluctuations in Ukraine;
- prices for securities issued by Ukrainian entities;
- the health of the Ukrainian economy, including the Ukrainian banking sector;
- the effects of, and changes in, the policy of the Government of Ukraine and regulations promulgated by the NBU;
- the effects of competition in geographic and business areas in which the Group conducts its operations;
- the effects of changes in laws, regulations, taxation or accounting standards or practices in jurisdictions where the Bank conducts its operations;
- the Group's ability to increase market share for its products and services and control expenses;
- acquisitions or divestitures;
- technological changes; and
- the Group's success at managing the risks associated with the aforementioned factors.

This list of important factors is not exhaustive. When relying on forward-looking statements, prospective investors should carefully consider the foregoing factors and other uncertainties and events, especially in light of the political, economic, social and legal environment in which the Group operates.

These forward-looking statements speak only as at the date of this Prospectus. Without prejudice to any requirements under applicable laws and regulations, each of the Bank and the Issuer expressly disclaim any obligation or undertaking to disseminate after the date of this Prospectus any updates or revisions to any forward-looking statements contained herein to reflect any change in their expectations with regard thereto or any change in events, conditions or circumstances on which any such forward-looking statement is based.

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OVERVIEW

This overview may not contain all the information that may be important to prospective purchasers of the Notes and, therefore, should be read in conjunction with this entire Prospectus, including the more detailed information regarding the Group's business and the financial statements and related notes included elsewhere in this Prospectus. Certain statements in this Prospectus include forward-looking statements that also involve risks and uncertainties as described under "Forward-Looking Statements". Prospective purchasers of the Notes should also carefully consider the information set forth under "Risk Factors".

Overview of PrivatBank's Business

PrivatBank was founded and registered on 19 March 1992 with the purpose of providing a full range of banking services to retail and corporate customers.

According to statistics published by the NBU (which are prepared in accordance with Ukrainian statutory accounting principles and requirements of the NBU), as at 30 September 2012, PrivatBank was the largest bank in Ukraine in terms of total assets, loans to legal entities and individuals and deposits from legal entities and individuals. PrivatBank's principal business areas are corporate banking and retail banking. These business areas are supported by PrivatBank's treasury. PrivatBank also provides limited investment banking services, reflecting any ongoing needs of its large corporate clients.

PrivatBank's corporate banking activities include offering corporate lending, current accounts and term deposits to corporate customers, settlement transactions, payroll services for public and private sector employers, microfinancing loans, trade finance, foreign currency transactions and other corporate banking services. PrivatBank provides loans and other credit-related products to its corporate customers, including the provision of overdraft facilities, revolving credit lines and bank guarantees.

PrivatBank's retail banking activities include offering a wide range of products and services throughout Ukraine, including current accounts and term deposits to individuals, retail lending (including credit card and consumer loans) and other retail banking services. PrivatBank also provides services in connection with the payment of wages, pensions and other monetary entitlements.

PrivatBank's investment banking services primarily include trading and brokerage services in equity securities and depository services.

As at 30 September 2012, according to statistics published by the NBU, PrivatBank was the largest issuer of bank cards in Ukraine, with approximately 35.3 million bank cards in issue, comprising approximately 53.8 per cent. of bank cards in issue in Ukraine.

Headquartered in Dnipropetrovsk, as at 30 September 2012, PrivatBank had an extensive nationwide network of 34 branches and 3,375 outlets within Ukraine and a branch in Cyprus.

Additionally, PrivatBank has subsidiaries in Georgia, Latvia and the Russian Federation. As at 30 September 2012, PrivatBank's subsidiary in the Russian Federation (CJSC MKB MOSCOMPRIVATBANK) had 25 branches and 208 outlets, PrivatBank's subsidiary in Latvia (AS PRIVATBANK) had 30 outlets (including one outlet in Italy, two outlets in Portugal and one representative office in Spain) and PrivatBank's subsidiary in Georgia (JSC PRIVATBANK) had 106 service centres. PrivatBank's subsidiaries in the Russian Federation, Latvia and Georgia primarily focus on retail banking products and services.

PrivatBank also has representative offices, which do not carry out any banking operations or activities and perform purely administrative functions, in Kyiv (Ukraine), Moscow (Russia), Almaty (Kazakhstan), London (United Kingdom) and Beijing (China). PrivatBank also has correspondent relationships with a number of the world's leading financial institutions.

As at 30 September 2012, PrivatBank owned the largest number of ATMs and POS terminals of any bank in Ukraine, according to statistics published by the NBU.

As at 30 September 2012, PrivatBank had a network of 13,791 ATMs, 59,678 POS terminals and 6,458 self-service terminals (allowing customers to carry out certain banking operations and/or pay for goods and services from a self-service terminal without any assistance of the bank's personnel) in Ukraine.

As at 30 September 2012, the Group's total assets, loans and advances to customers and customer accounts amounted to UAH 159,275 million, UAH 117,240 million and UAH 118,379 million, respectively, and it had total equity of UAH 20,921 million.

Competitive Strengths

Management believes that PrivatBank enjoys a strong position in the Ukrainian banking sector and possesses the following competitive strengths which enable it to compete effectively and create a strong foundation for PrivatBank's future growth:

- largest private Ukrainian bank with leading market position across a number of product lines;
- one of the strongest nationwide distribution platforms in Ukraine;
- access to a wide corporate and retail customer base;
- resilience through the economic and financial crisis underpinned by a strong financial position and committed shareholder support;
- highly experienced and committed management team; and
- superior track record in product development and technology innovation, including one of the most innovative information technology and payment processing systems among Ukrainian banks.

Strategy

As part of the strategic plan for PrivatBank following recovery from the global economic downturn, PrivatBank's overall long-term strategy is to continue to develop and strengthen its market position by improving and strengthening its relationships with existing customers. PrivatBank has identified the following principal strategies:

- expand customer base;
- expand and diversify range of corporate and retail banking products and services;
- increase the volume of settlement operations effected via PrivatBank;
- focus on continuous improvement of customer relationships;

- cross-sell PrivatBank's range of products to its growing customer base;
- reduce the number and volume of non-performing loans;
- enhance agency relationships as a means of distribution of PrivatBank's products;
- extend the maturity profile of PrivatBank's funding base by attracting long-term deposits and accessing the international capital markets;
- enhance cost efficiencies by using technology to lower operating expenses and centralise the managerial, operational and accounting functions of PrivatBank at its head office; and
- expand network and international operations.

Risk Factors

An investment in the Notes involves a high degree of risk. For a detailed discussion of the risks and other factors to be considered when making an investment with respect to the Notes, see "*Risk Factors*" and "*Forward-Looking Statements*". Prospective investors in the Notes should carefully consider the risks and other information contained in this Prospectus prior to making any investment decision with respect to the Notes. Prospective investors should note that the risks described in this Prospectus are not the only risks the Group faces. PrivatBank and the Issuer have described only the risks they consider to be material. However, there may be additional risks that they currently consider immaterial or of which they are currently unaware.

The Bank

PrivatBank was founded and registered on 19 March 1992 with the purpose of providing a full range of banking services to retail and corporate customers. PrivatBank's headquarters are in Dnipropetrovsk. PrivatBank is registered as a public joint stock company with the Unified Register of Enterprises and Organisations of Ukraine under identification code No. 14360570. PrivatBank's registered office is at 50, Naberezhna Peremohy Str., 49094 Dnipropetrovsk, Ukraine. The telephone number for PrivatBank is +38 056 716 1507.

The Issuer

The Issuer, UK SPV Credit Finance plc, was incorporated in England and Wales on 24 January 2007 (registered number 06065720), as a public company with limited liability under the Companies Act 1985. The registered office of the Issuer is at 5th Floor, 6 St Andrew Street, London EC4A 3AE. The telephone number for the Issuer is +44 20 7832 4900.

Summary Consolidated Financial Information

The summary consolidated financial information for the Group set forth below should be read in conjunction with the Consolidated Financial Statements included elsewhere in this Prospectus as well as the sections entitled "*Presentation of Financial and Other Information*", "*Risk Factors*", "*Capitalisation and Indebtedness*" and "*Management's Discussion and Analysis of Financial Condition and Results of Operations*".

	Year ended 31 December			Nine months ended 30 September	
	2009	2010	2011	2011	2012
	(millions of UAH)				
COMPREHENSIVE INCOME STATEMENT DATA					
Interest income.............................	15,966	15,813	19,408	14,123	14,680
Interest expense............................	(7,295)	(8,950)	(9,329)	(7,032)	(7,822)
Net interest income	**8,671**	**6,863**	**10,079**	**7,091**	**6,858**
Provision for impairment of loans and advances to customers...........	(4,363)	(3,408)	(5,627)	(4,301)	(4,672)
Net interest income after provision for impairment of loans and advances to customers.........	**4,308**	**3,455**	**4,452**	**2,790**	**2,186**
Fee and commission income.........	2,119	3,035	3,191	2,326	2,767
Fee and commission expense........	(232)	(301)	(462)	(318)	(423)
Gains less losses from embedded derivatives....................................	128	147	27	231	872
Gains less losses from trading in foreign currencies	564	597	563	393	553
Foreign exchange translation (losses less gains)/gains less losses	(7)	32	(152)	(117)	(36)
(Impairment)/reversal of impairment of investment securities available-for-sale	(31)	8	(14)	(16)	9
Release of provision/(provision) for credit-related commitments...........	(14)	41	-	(5)	(26)
Other operating income................	141	155	110	65	120
Other gains less losses/(losses less gains)	(13)	(42)	144	133	7
Administrative and other operating expenses.......................................	(4,919)	(5,616)	(6,320)	(4,421)	(4,956)
Profit before tax	**2,044**	**1,511**	**1,539**	**1,061**	**1,073**
Income tax	(715)	(71)	(46)	(55)	(56)
Profit for the period...................	**1,329**	**1,440**	**1,493**	**1,006**	**1,017**
Profit/(loss) is attributable to					
Owners of the Bank	1,379	1,610	1,516	1,040	1,038
Non-controlling interest...............	(50)	(170)	(23)	(34)	(21)
Profit for the period...................	**1,329**	**1,440**	**1,493**	**1,006**	**1,017**
Other comprehensive income					
Increase in the fair value of premises.......................................	44	59	-	-	-
Reversal of impairment through other comprehensive income	-	5	-	-	-
Decrease in the fair value of premises.......................................	(370)	(103)	-	-	-
Revaluation of investment securities available-for-sale, net of tax	-	-	-	-	214
Exchange differences on translation to presentation currency	90	(18)	2	18	(11)
Income tax recorded in other comprehensive income.................	82	6	75	-	-
Other comprehensive income/ (loss) for the period....................	**(154)**	**(51)**	**77**	**18**	**203**
Total comprehensive income for the period....................................	**1,175**	**1,389**	**1,570**	**1,024**	**1,220**

	Year ended 31 December			Nine months ended 30 September	
	2009	**2010**	**2011**	**2011**	**2012**
			(millions of UAH)		
Total comprehensive income/(loss) is attributable to:					
Owners of the Bank	1,159	1,589	1,568	1,057	1,252
Non-controlling interest................	(16)	(200)	2	(33)	(32)
Total comprehensive income for the period.....................................	**1,175**	**1,389**	**1,570**	**1,024**	**1,220**

	As at 31 December			As at 30 September
	2009	2010	2011	2012
	(millions of UAH)			
STATEMENT OF FINANCIAL POSITION				
Assets				
Cash and cash equivalents and mandatory reserves.......	11,455	19,266	21,363	25,193
Due from other banks..	4,069	5,330	4,648	7,725
Loans and advances to customers	66,597	89,694	107,430	117,240
Embedded derivatives...	2,005	1,678	1,484	2,724
Investment securities available-for-sale	8	573	780	854
Investment securities held to maturity	23	588	24	189
Current income tax prepayment....................................	11	2	6	4
Deferred income tax asset	16	30	32	74
Goodwill	54	48	47	47
Premises, leasehold improvements and equipment and intangible assets	2,938	2,961	3,318	3,634
Other financial assets	1,801	1,117	1,144	864
Other assets...	712	629	655	727
Total assets	**89,689**	**121,916**	**140,931**	**159,275**
Liabilities				
Due to the NBU	8,310	7,312	5,825	4,786
Due to other banks and other financing institutions.......	2,319	3,860	2,453	4,271
Customer accounts..	57,133	86,521	104,209	118,379
Debt securities in issue..	6,112	6,161	5,600	7,314
Current income tax liability	10	55	60	65
Deferred income tax liability	1,614	1,530	1,181	1,124
Provisions for liabilities and charges, other financial and non-financial liabilities	703	929	1,000	1,033
Subordinated debt	1,438	1,379	1,418	1,382
Total liabilities..	**77,639**	**107,747**	**121,746**	**138,354**
Equity				
Share capital..	8,064	8,860	13,545	14,897
Share premium..	-	-	20	20
Additional capital..	462	-	-	-
Revaluation reserve for premises	628	518	571	557
Revaluation reserve of investment securities available-for-sale	-	-	-	214
Currency translation reserve	354	341	329	284
Retained earnings and other reserves	2,387	4,326	4,570	4,466
Net assets attributable to the Bank's owners............	**11,895**	**14,045**	**19,035**	**20,438**
Non-controlling interest..	**155**	**124**	**150**	**483**
Total equity..	**12,050**	**14,169**	**19,185**	**20,921**
Total liabilities and equity..	**89,689**	**121,916**	**140,931**	**159,275**

	As at and for the year ended 31 December			As at and for the nine months ended 30 September	
	2009	**2010**	**2011**	**2011**	**2012**
			(%)		
FINANCIAL RATIOS					
Performance Ratios					
Net interest margin[(1)(2)]	10.73	7.12	8.39	5.84	4.96
Net non-interest income to operating income[(3)]	23.57	34.47	25.26	27.52	35.91
Net interest income as a percentage of operating income[(4)]	76.56	65.14	74.74	72.48	64.09
Cost to income ratio[(5)].....................	43.43	53.31	46.86	45.19	46.31
Return on average assets[(6)].............	1.50	1.36	1.14	0.76	0.68
Return on average equity[(7)]	12.15	10.98	8.95	6.14	5.07
Balance Sheet Ratios (at period end)					
Customer loans to customer deposits[(8)]	116.56	103.67	103.09	103.66	99.04
Customer loans to total assets[(9)]......	74.25	73.57	76.23	76.51	73.61
Equity attributable to the Bank's owners to total assets	13.26	11.52	13.51	13.03	12.83
Total equity/total assets...................	13.44	11.62	13.61	13.09	13.14
Tier 1 capital adequacy ratio[(10)].......	14.55	13.19	14.69	-	14.00
Total capital adequacy ratio[(11)]........	17.59	14.85	16.08	-	15.20
Asset Quality (at period end)					
Impaired customer loans to total loans (gross)[(12)]	30.80	24.77	23.56	26.05	26.55
Provisions to total customer loans (gross)[(13)]...	14.67	12.22	12.93	12.17	13.99
Provisions to impaired loans[(14)].......	47.61	49.31	54.87	46.70	52.70
Provision charge to total customer loans (gross)[(15)]	5.59	3.34	4.56	3.47	3.43
NPL[(16)] ratio[(17)]	10.93	6.75	4.29	5.46	5.41
NPL coverage ratio [(18)]....................	134.16	180.94	301.40	222.63	258.55

(1) Net interest margin was calculated as net interest income before provision for loan impairment divided by simple average balance of total interest-earning assets set forth in the table under *"Management's Discussion and Analysis of Financial Condition and Results of Operations—Selected Statistical Information—Average Assets and Liabilities Balances and Interest Rate Data"* at the beginning and at the end of the period.

(2) Net interest margins for the nine months ended 30 September 2011 and 2012 are not presented on an annualised basis and, therefore, are not comparable with the full-year net interest margins for the years ended 31 December 2009, 2010 and 2011.

(3) Net non-interest income to operating income was calculated as net non-interest income (being net fee and commission income, gains less losses from embedded derivatives, gains less losses from trading in foreign currencies, foreign exchange translation (losses less gains)/gains less losses, reversal of impairment/(impairment) of investment securities available-for-sale, other operating income and other gains less losses/(losses less gains)) divided by operating income (calculated as profit before tax less provision for impairment of loans and advances to customers and administrative and other operating expenses).

(4) Net interest income as a percentage of operating income was calculated as net interest income divided by operating income (calculated as profit before tax less provision for impairment of loans and advances to customers and administrative and other operating expenses).

(5) Cost to income ratio was calculated as administrative and other operating expenses divided by operating income (calculated as profit before tax less provision for impairment of loans and advances to customers and administrative and other operating expenses).

(6) Return on average assets was calculated as profit for the period divided by the simple average of total assets at the beginning and at the end of the period. Return on average assets for the nine months ended 30 September 2011 and 2012 are not presented on an annualised basis and, therefore, are not comparable with the full-year return on average assets for the years ended 31 December 2009, 2010 and 2011.

(7) Return on average equity was calculated as profit for the period divided by the simple average of total equity at the beginning and at the end of the period. Return on average equity for the nine months ended 30 September 2011 and

2012 are not presented on an annualised basis and, therefore, are not comparable with the full-year return on average equity for the years ended 31 December 2009, 2010 and 2011.

(8) Customer loans to customer deposits was calculated as total loans and advances to customers net of provision for loan impairment divided by total customer accounts as at the respective date.

(9) Customer loans to total assets was calculated as total loans and advances to customers net of provision for loan impairment divided by total assets as at the respective date.

(10) See "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Capital Adequacy*" for further information on Tier 1 Capital Ratio, calculated in accordance with the requirements of the Basel Capital Accord (as defined below).

(11) See "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Capital Adequacy*" for further information on Capital Adequacy Ratio, calculated in accordance with the requirements of the Basel Capital Accord (as defined below).

(12) Impaired customer loans to total loans (gross) was calculated as total individually impaired loans divided by loans and advances to customers before provision for loan impairment at the period end.

(13) Provisions to total customer loans was calculated as the provision for loan impairment at the period end divided by total loans and advances to customers before provision for loan impairment.

(14) Provisions to impaired loans was calculated as the provision for loan impairment at the period end divided by the amount of individually impaired loans at the period end.

(15) Provision charge to total customer loans was calculated as provision for impairment of loans and advances to customers for the period divided by total loans and advances to customers before provision for loan impairment at the period end. Provision charge to total customer loans for the nine months ended 30 September 2011 and 2012 are not presented on an annualised basis and, therefore, are not comparable with the full-year provision charge to total customer loans for the years ended 31 December 2009, 2010 and 2011.

(16) Non-performing loans to customers ("**NPLs**") are loans that are overdue by more than 90 days.

(17) Ratio of non-performing loans to customers to loans and advances to customers before provision for loan impairment presented as at the end of the respective period.

(18) Ratio of impairment provisions to non-performing loans to customers as at the end of the respective period.

OVERVIEW OF THE OFFERING

Issuer/Lender	UK SPV Credit Finance plc
Bank/Borrower	PUBLIC JOINT-STOCK COMPANY COMMERCIAL BANK "PRIVATBANK" (the "**Bank**", "**PrivatBank**" or the "**Borrower**")
The Notes	U.S.$175,000,000 10.875 per cent. Loan Participation Notes due 2018
Issue Price...	100 per cent. of the principal amount of the Notes
Issue Date..	28 February 2013
Trustee..	Deutsche Trustee Company Limited
Principal Paying Agent	Deutsche Bank AG, London Branch
United States Paying Agent, Registrar and Transfer Agent..................................	Deutsche Bank Trust Company Americas
Euro Paying Agent, Registrar and Transfer Agent..	Deutsche Bank Luxembourg, S.A.
Interest	On each Interest Payment Date (being 28 February and 28 August in each year commencing on 28 August 2013 and ending on 28 February 2018 (the "**Maturity Date**")), the Issuer shall account to the Noteholders for an amount equivalent to amounts of interest actually received and retained (net of tax) by or for the account of the Issuer pursuant to the Loan Agreement, which interest under the Loan Agreement is equal to 10.875 per cent. per annum from, and including, the Issue Date to, but excluding, the Maturity Date.
Status..	The Notes constitute secured, limited recourse obligations of the Issuer to apply an amount equal to the gross proceeds of the issue of the Notes solely for the purpose of financing the Loan to the Borrower pursuant to the terms of the Loan Agreement. The Issuer will account to the Noteholders solely for amounts equivalent to those (if any) received from the Borrower under the Loan Agreement less amounts in respect of the Reserved Rights (as defined in the Terms and Conditions of the Notes).
Form..	The Notes will be issued in fully registered form in the denominations of U.S.$200,000 and higher integral multiples of U.S.$1,000. Notes

which are offered and sold outside the United States to non U.S. persons in reliance on Regulation S will be represented by interests in the Regulation S Global Certificate deposited with a Common Depositary for, and registered in the name of a nominee of, Euroclear or Clearstream, Luxembourg on or about the Closing Date. Notes which are offered and sold in the United States to U.S. persons that are QIBs and QPs in reliance on Rule 144A will be represented by interests in the Rule 144A Global Certificate deposited with a custodian for, and registered in the name of a nominee of, DTC on or about the Closing Date. The Global Certificates will only be exchangeable for Definitive Certificates in the limited circumstances described under "*Summary of the Provisions Relating to the Notes in Global Form*".

Early Redemption .... The Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time, upon giving not less than 15 days' nor more than 90 days' notice to the Noteholders, at the outstanding principal amount thereof together with interest accrued to the date fixed for redemption, upon receiving notice that the Borrower intends to prepay the Loan for tax reasons or upon receiving notice of a Change of Control (as defined in the Loan Agreement) or in the event that it becomes unlawful for the Issuer to fund the Loan or to allow it to remain outstanding under the Loan Agreement, all as more fully described in Clause 6 (Repayment and Prepayment) of the Loan Agreement. See also Condition 6.2 (Mandatory Redemption) in "*Terms and Conditions of the Notes*".

Issuer's Covenant .... As long as any of the Notes remain outstanding (as defined in the Trust Deed), the Issuer will not, without the prior written consent of the Trustee or an Extraordinary Resolution of Noteholders, agree to any amendments to or any modification or waiver of, or authorise any breach or proposed breach of, the terms of the Loan Agreement, except as otherwise expressly provided in the Trust Deed or the Loan Agreement.

Negative Pledge and Other Covenants .... The Loan Agreement limits, among other things, (i) certain disposals by the Bank; (ii) the Bank's ability to enter into certain transactions with its related entities; and (iii) the placing of

	restrictions on the ability of any material subsidiary of the Bank to pay dividends. The Loan Agreement also contains a negative pledge and restrictions in relation to mergers and requires the Bank and any banking subsidiary of the Bank to comply with any capital ratio requirements imposed by a relevant banking authority. For further details see "*The Loan Agreement*".
Rating..	The Notes are expected to be rated B3 by Moody's and B by Fitch. *A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation. The ratings do not address the likelihood that the principal on the Notes will be prepaid, paid on an expected final payment date or paid on a particular date before the legal final maturity date of the Notes. The ratings do not address the marketability of the Notes or any market price. Any change in the credit ratings of the Notes or the Bank could adversely affect the price that a subsequent purchaser could be willing to pay for the Notes.*
Events of Default/ Relevant Events..........	In the case of the occurrence of an Event of Default or a Relevant Event (as defined in the Terms and Conditions of the Notes), the Trustee may, subject to it being indemnified, pre-funded and/or secured to its satisfaction and subject as provided in the Trust Deed, (1) require the Issuer to declare all amounts payable under the Loan Agreement by the Borrower to be due and payable (in the case of an Event of Default); or (2) enforce the Security Interests (as defined in the Terms and Conditions of the Notes) (in the case of a Relevant Event). Upon repayment of the Loan following an Event of Default, the Notes will be redeemed or repaid at the principal amount thereof, together with interest accrued to the date fixed for redemption and thereupon shall cease to be outstanding.
Withholding Tax.......................................	All payments of principal and interest in respect of the Notes will be made without withholding or deduction for, or on account of, any taxes, duties, assessments or other governmental charges of United Kingdom or Ukraine, save as required by law. If any such withholding or deduction is so required, the Issuer shall (subject to certain exceptions) pay such additional

amounts as will result in the receipt by the Noteholders of such amounts as would have been received by them had no such withholding or deduction been required. The sum payable by the Borrower under the Loan Agreement will be required (subject to certain exceptions) to be increased to the extent necessary to ensure that the Issuer and, following the assignment to the Trustee pursuant to the terms of the Trust Deed, the Trustee receives a net sum sufficient to enable it to pay such additional amounts. The sole obligation of the Issuer in this respect will be to pay to the Noteholders sums equivalent to the sums received from the Borrower. See Condition 8 (*Taxation*) in "*Terms and Conditions of the Notes*".

Limited Recourse ....

The Notes will be limited recourse obligations of the Issuer. The Issuer will be obliged to apply the proceeds from the issue of the Notes solely for financing the Loan and to account to the Noteholders for amounts equivalent to sums of principal, interest and additional amounts (if any) actually received by or for the account of the Issuer pursuant to the Loan Agreement less any amount in respect of Reserved Rights, all as more fully described in Condition 2.2 (*Limited Recourse*) in "*Terms and Conditions of the Notes*".

Security ....

The Notes will be secured by a first fixed security on:

(a) all of the Issuer's rights to principal, interest and other amounts paid and payable by the Borrower to the Issuer as lender under the Loan Agreement;

(b) all amounts payable by the Borrower under any claim, award or judgment relating to the Loan Agreement;

(c) all of the Issuer's rights, title and interest in and to all sums held on deposit in the Lender Account (as defined in the Trust Deed), together with the debts represented thereby (other than interest from time to time earned thereon); and

(d) all of the Issuer's rights, title and interest in Permitted Investments if any (as defined in the Trust Deed),

pursuant to the Trust Deed, in each case, other than the Reserved Rights (as defined in the

Terms and Conditions of the Notes).

Use of Proceeds..	The Issuer will lend an amount equivalent to the gross proceeds of the Notes to the Bank. The Bank intends to use the net proceeds for general corporate purposes.
Further Issues..	The Issuer may from time to time, without the consent of the Noteholders, create and issue further notes on the same terms and conditions as the Notes and such further notes shall be consolidated and form a single series with the Notes.
Listing	Application has been made to the Irish Stock Exchange for the Notes to be admitted to the Official List and to trading on the Main Securities Market.
Selling Restrictions..................................	The Notes have not been, and will not be, registered under the Securities Act and, subject to certain exceptions, may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S). The Issuer has not been and will not be registered under the Investment Company Act. The Issuer is relying on the exemption from the requirements of the Investment Company Act provided by Section 3(c)(7) thereof. The Notes may be offered and sold (i) within the United States to QIBs that are also QPs in reliance on the exemption from registration provided by Rule 144A; and (ii) to non-U.S. persons in offshore transactions in reliance on Regulation S. The Notes may be sold in other jurisdictions (including the United Kingdom, Ukraine, the Russian Federation and Ireland) only in compliance with applicable laws and regulations. See "*Subscription and Sale*."
Governing Law	The Notes, the Loan Agreement, the Agency Agreement and the Trust Deed and any non-contractual obligations arising out of or in connection with them shall be governed by, and shall be construed in accordance with, English law.
Risk Factors...	An investment in the Notes involves a high degree of risk. For a discussion of certain issues that should be considered by prospective purchasers of the Notes, see "*Risk Factors*".

Security Codes	Regulation S ISIN: XS0896890315 Regulation S Common Code: 089689031 Rule 144A ISIN: US90277VAB45 Rule 144A Common Code: 089703182 Rule 144A CUSIP: 90277V AB4
ERISA	The Notes may not be sold or transferred to any Benefit Plan Investor (as defined herein), and no Benefit Plan Investor is permitted to purchase or hold any of the Notes. See "*Certain ERISA Considerations*".

An investment in the Notes involves a high degree of risk. Prospective investors should carefully consider the following risks described below, as well as other information contained in this Prospectus, before making any investment decision. Any of the following risks, individually or together, could have a material adverse effect on the Group's business, financial condition, results of operations and prospects, in which case, the trading price of the Notes could decline and investors could lose part or all of their investment.

The Group has described the risks and uncertainties that its management believes are material, but these risks and uncertainties may not be the only ones the Group faces. Additional risks and uncertainties, including those the Group currently is not aware of or sees as immaterial, could also have a material adverse effect on the Group's business, financial condition, results of operations and prospects, which could result in a decline in the value of the Notes.

Risks Relating to Ukraine

General

Since obtaining independence in 1991, Ukraine has undergone a substantial political transformation from a constituent republic of the former Union of Soviet Socialist Republics to an independent sovereign state. The EU granted Ukraine market economy status at the end of 2005. The United States granted Ukraine market economy status in February 2006. Ukraine joined the World Trade Organisation (the "**WTO**") in 2008. Although some progress has been made since independence to reform Ukraine's economy and its political and judicial systems, to some extent Ukraine still lacks the necessary legal infrastructure and regulatory framework that are essential to support market institutions, the effective transition to a market economy and broad-based social and economic reforms. The pace of economic, political and judicial reforms has been adversely affected by political instability caused by the continuing disagreement amongst the Government, the Parliament and the President of Ukraine. Furthermore, the Ukrainian economy was severely affected by the global economic recession in late 2008 and 2009. In 2009, Ukraine's real gross domestic product ("**GDP**") decreased by 14.8 per cent. compared to 2008. Ukraine's real GDP growth started to recover in 2010, reaching 4.1 per cent. in 2010 compared to 2009 and 5.2 per cent. in 2011 compared to 2010. However, largely due to the crisis in the euro zone and its effect on global economic growth and Ukraine's exports, Ukraine's real GDP grew at a slower pace by 2.0 per cent. in the first quarter of 2012 and 3.0 per cent. in the second quarter and decreased by 1.3 per cent. in the third quarter and by 2.7 per cent. for the fourth quarter (in each case, on an annualised basis). According to the SSSU, Ukraine's real GDP growth amounted to 0.2 per cent. in 2012. There can be no assurance that Ukraine's real GDP rate of growth will not continue to decline.

Set forth below is a brief description of some of the risks involved in investing in Ukraine.

Emerging markets, including Ukraine, carry additional risks

An investment in Ukraine, which achieved independence 22 years ago and whose economy is in transition, is subject to substantially greater risks than an investment in a country with a more developed economy and more mature political and legal systems. As a consequence, an investment in Ukraine and other emerging markets carries risks that are not typically associated with investing in more mature markets. Moreover, financial turmoil in any emerging market tends to adversely affect prices in the debt and equity markets of all emerging markets, as investors move their money to more stable developed markets. In the second half of 2008, financial problems caused by the global economic slowdown and an increase in the perceived risks associated with investing in emerging economies dampened foreign investment in Ukraine, resulting in an outflow of capital and an adverse effect on the Ukrainian economy. In addition, in the second half of 2012 the hryvnia depreciated in currency markets against the U.S. dollar by 0.3 per cent. The intervention measures taken by the NBU, however, returned the U.S. dollar/hryvnia exchange rate to the prior level. There is a risk that the trend of hryvnia depreciation could resume and continue further, which may, in turn, result in continued capital outflows from Ukraine and reduced domestic investment. Moreover, Ukraine may become subject to heightened volatility due to regional economic, political or military conflicts.

As a result of continuing turmoil in global credit markets, the number of non-performing loans extended by Ukrainian banks has significantly increased. Those banks engaged in retail lending have experienced the most significant growth in non-performing loans. This growth of non-performing loans may potentially affect the banks' decision to launch new credit programmes, since the launch of a new credit programme could potentially result in an increase in the number of non-performing loans due to a large number of borrowers seeking to refinance their existing debts through these new programmes.

These risks may be compounded by incomplete, unreliable or unavailable economic and statistical data on Ukraine, including elements of the information provided in this Prospectus. See "*—Official economic data and third party information may not be reliable*".

Prospective investors should also note that emerging economies such as Ukraine are subject to rapid change and that the information set out in the Prospectus may become outdated relatively quickly. Accordingly, investors should exercise particular care in evaluating the risks involved. Generally, investments in emerging markets, such as Ukraine, are only suitable for sophisticated investors who fully appreciate the significance of the risks involved and investors are urged to consult their own legal and financial advisors before making a decision with respect to the Notes.

Official economic data and third party information may not be reliable

Although a range of government ministries, along with the NBU and the SSSU, produce statistics on Ukraine and its economy, there can be no assurance that these statistics are as accurate or as reliable as those compiled in more developed countries. Prospective investors should be aware that figures relating to Ukraine's GDP and other aggregate figures cited in this Prospectus may be subject to some degree of uncertainty and may not be fully in accordance with international standards. Furthermore, standards of accuracy of statistical data may vary from ministry to ministry or from period to period due to the application of different methodologies. In this Prospectus, data are presented as provided by the relevant governmental agency or institution to which the data are attributed, and no attempt has been made to reconcile such data to the data compiled by other ministries or by other organisations, such as the International Monetary Fund (the "**IMF**"). Since the first quarter of 2003, Ukraine has produced data in accordance with the IMF's Special Data Dissemination Standard. There can be no assurance, however, that this IMF standard has been fully implemented or correctly applied. The existence of a sizeable unofficial or shadow economy may also affect the accuracy and reliability of statistical information. Prospective investors should be aware that none of these statistics have been independently verified. PrivatBank accepts responsibility only for the correct extraction and reproduction of such information.

Political and social conflicts or instability could create an uncertain operating environment

In recent years, Ukraine has been experiencing continuous political transformations accompanied by gradual movement towards fully-fledged democracy. However, the establishment of strong democratic institutions is not complete.

Historically, a lack of political consensus in the Ukrainian Parliament (*Verkhovna Rada of Ukraine*) has made it difficult for the Government to sustain a stable coalition of parliamentarians to secure the necessary support to adhere to a sustained path of structural reforms intended to foster economic liberalisation and a stable business and legal environment.

The first round of the last presidential elections was held in January 2010. As no candidate won 50 per cent. or more of the popular vote, the two highest polling candidates, Victor Yanukovych, a leader of the Party of Regions, and Yuliya Tymoshenko, a leader of Yuliya Tymoshenko's Bloc, took part in the second round of elections. Following the results of the second round held in February 2010, Viktor Yanukovych was elected president. Although Yuliya Tymoshenko initially contested the results of the run off, she subsequently conceded and Viktor Yanukovych was inaugurated as President of Ukraine in February 2010.

In July 2010, 252 deputies submitted to the Constitutional Court of Ukraine (the "**CCU**") an application questioning the constitutionality of the Law of Ukraine "On Amendments to the Constitution of Ukraine", dated 8 December 2004 (the "**Constitutional Reform Law**"). On 30 September 2010, the CCU adopted a decision pursuant to which the Constitutional Reform Law was held to be unconstitutional (the "**CCU Ruling**"). The CCU ruled that the previous edition of the Constitution of Ukraine came back into force as at 30 September 2010. Following the CCU Ruling, some legislative acts may contradict the Constitution of Ukraine and require amendment. This may result in uncertainty with respect to the distribution of powers among state authorities and may lead to further political instability.

On 1 February 2011, Parliament adopted legislation aimed at amending the Constitution of Ukraine to unify the terms of office of the President, the Parliament, and local councils (the "**2011 Constitution Amendment Law**"). The 2011 Constitution Amendment Law, which came into effect on 4 February 2011, provides for the reinstatement of the five-year term of office for the Parliament which had previously been reduced to four years by the CCU Ruling.

In December 2010, criminal charges were filed by the Prosecutor General's Office of Ukraine against former prime minister Yuliya Tymoshenko for allegedly misusing €380 million of state funds while in office by illegally diverting revenues received in 2009 from Ukraine's carbon emission rights under the Kyoto Protocol. In addition, it has been reported that in April 2011, criminal charges were filed by the Prosecutor General's Office of Ukraine against Yuliya Tymoshenko for allegedly causing losses to the state by exceeding her authority during the execution of gas contracts in 2009 and that on 5 August 2011, Yuliya Tymoshenko was arrested and detained due to alleged abuse of powers during her time in office as the Prime Minister. On 11 October 2011, the court ruled that Yuliya Tymoshenko had criminally exceeded her powers when she signed the gas contracts with Russia in 2009 and sentenced her to seven years in prison. Later that month, Yuliya Tymoshenko submitted an appeal. On 23 December 2011, the Kyiv City Court of Appeals refused Yuliya Tymoshenko's appeal, with the result that she could not participate in the 2012 parliamentary elections held on 28 October 2012. A new criminal investigation has now reportedly been launched to investigate allegations of fraud committed during Yuliya Tymoshenko's management of the United Energy Systems of Ukraine in the 1990s. There have been reports that the timing and circumstances of the arrest and subsequent imprisonment of the former Ukrainian prime minister for abuse of power, has been questioned by some, causing a negative reaction among, and affecting relations with, a number of governments and international institutions. Furthermore, EU authorities have indicated that the signing of Ukraine's Association Agreement with the EU may be delayed pending a satisfactory resolution of the Yuliya Tymoshenko case.

The most recent parliamentary elections were held on 28 October 2012. Elections were held on the basis of mixed voting system, according to which 225 members of Parliament are elected on the basis of majority voting and other 225 members of Parliament are elected through proportional representation of the parties. Out of 21 political parties participating in the October 2012 elections through proportional representation, five political parties reached the five per cent. threshold required to gain seats in the Parliament. Of these, the Party of Regions, led by Viktor Yanukovych, received the largest proportion of the votes cast, representing 30 per cent. VO Batkivschyna received 25.54 per cent. of votes cast, Party UDAR 13.96 per cent., the Communist Party of Ukraine 13.18 per cent. and Party Svoboda 10.44 per cent.. Out of 87 political parties participating in the elections through majority voting, representatives of nine political parties received a majority of votes in their respective districts and gained seats in the Parliament. 113 members of Parliament elected through majority voting represent the Party of Regions, 39 represent VO Batkivschyna, 12 represent Party Svoboda, six represent Party UDAR, three represent the Party Unified Centre (*Yedyny Tsentr*), two represent the Peoples' Party, one represents the Party Union (*Partiya "Soyuz"*) and one represents the Radikal Party of Oleh Lyashko, and 43 are self-nominated individuals.

The table below shows the breakdown of the number of seats in the Parliament for each party according to the official results:

Parliamentary Faction	**Total seats won in 2012 elections**	**Number of seats as a percentage**
Party of Regions	185	41.11
VO Batkivschyna	101	22.44
Party UDAR	40	8.89
Communist Party of Ukraine	32	7.11
Party Svoboda	37	8.22
Other, including self-nominated	50	11.11
Total	**445**	**98.88**

In the course of the October 2012 elections, there have been a number of disputes as to the results of the elections and their process. In particular, the Central Election Commission announced that it was impossible to establish the results of the elections in five single-member districts, and on 6 November 2012 the Parliament issued a resolution recommending the Central Election Commission to order repeat elections in those districts. The repeat elections are expected to take place in the beginning of 2013. The absence of five (out of 450) members in the Parliament does not legally prevent the Parliament from operating.

The new Parliament convened the first session on 12 December 2012. On 13 December 2012, the new Parliament approved appointment of Mykola Azarov as the new Prime Minister of Ukraine.

On 8 February 2013, the Higher Administrative Court of Ukraine declared the results of the parliamentary elections in two single-member districts invalid on the basis of violations in the course of the election process and the resulting impossibility to accurately determine the results of the elections in these districts. Accordingly, the Court declared absence of the status and authority of a national deputy in respect of Mr. Pavlo Baloga and Mr. Oleksandr Dombrovsky who were elected in the above two districts and ordered repeat elections in theses districts. Since the grounds on which the judgment of the Court is based were questioned by certain state officials and national deputies, on 14 February 2013, 61 national deputies submitted an application to the CCU requesting official interpretation of certain provisions of the Constitution of Ukraine relating to the termination of the status of a national deputy. As at the date of this Prospectus, the CCU is considering the application. Although the ultimate effect of the judgment of the Higher Administrative Court of Ukraine is not yet clear and no assurance can be given as to the ability of the CCU to issue a comprehensive official interpretation on the matter, such precedent may have adverse effect on the operation of the Parliament and, as a result, the political stability in Ukraine.

The newly formed Government consists mainly of members of the President's Party of Regions with a few positions being occupied by representatives of other political forces.

As at the date of this Prospectus, relations between the President, the Government and the Parliament, as well as the procedures and rules governing the political process in Ukraine, remain in a state of uncertainty. The formation and dissolution of a government and governing factions, the appointment of the Government and the authority of the state bodies may be subject to change through the normal process of political alliance building or through constitutional amendments and decisions of the CCU.

Political developments in recent years have also highlighted potential inconsistencies between the Constitution of Ukraine and various laws and presidential decrees. Furthermore, such developments have raised questions regarding the judicial system's independence from economic and political influences.

A number of factors could adversely affect political stability in Ukraine, including the lack of agreement within the factions, disputes between factions within the parliamentary majority and opposition factions on major policy issues, court action taken by opposition parliamentarians against decrees and other actions of the President or Government, or court action by the President against parliamentary or governmental resolutions or actions.

Ukraine's economy is vulnerable to fluctuations in the global economy and is highly dependent on steel exports

The negative impact of the global economic and financial downturn has been compounded by weaknesses in the Ukrainian economy, which as many other emerging markets is acutely vulnerable to external shocks, is poorly diversified and is, to a large extent, dependent on its exports. In particular, as the Ukrainian economy is highly dependant on prices of exported commodities, especially steel, as well as commodity imports, global demand for steel, on the one hand, and increases in imported commodity prices, on the other hand, have and may continue to have a material adverse effect on the Ukrainian economy. In addition, although the Government has generally been committed to economic reform, the implementation of reforms has been impeded by the lack of political consensus, controversies over privatisation (including privatisation of land in the agricultural sector and privatisation of large industrial enterprises), the restructuring of the energy sector and removal of exemptions and privileges for certain state-owned enterprises or for certain industry sectors.

In large part due to the impact of the global economic and financial crisis on the Ukrainian economy, in February 2009, Fitch and Standard & Poor's Credit Market Services Europe Limited ("**S&P**") downgraded their long-term sovereign ratings for Ukraine to B (negative) and CCC+ (negative) respectively. In November 2009, Fitch further revised its long-term foreign currency credit rating on Ukraine to B- (negative). In March 2010 however, following the recent presidential elections and the appointment of the new Ukrainian Government, S&P and Fitch upgraded their long-term foreign currency sovereign credit ratings for Ukraine to B- (positive) and B- (stable) respectively. In July 2010, Fitch and S&P further reviewed and upgraded their long-term foreign currency sovereign credit ratings on Ukraine to B (stable) and B+ (stable) respectively. In July 2011, Fitch upgraded its long-term foreign currency sovereign credit ratings for Ukraine to B (positive) and on 19 October 2011, revised Ukraine's long-term foreign currency sovereign credit outlook from B (positive) to B (stable). On 7 December 2012, S&P downgraded its long-term sovereign ratings for Ukraine to B (negative) citing, inter alia, the country's significant external financing needs.

Ukraine's real GDP grew at an average of approximately 7.0 per cent. each year between 2000 and 2008. This growth was driven mainly by a rapid increase in foreign demand, rising commodity prices on external markets and the availability of foreign financing. While positively affecting the pace of Ukrainian economic growth in those years, these factors made the Ukrainian economy overly vulnerable to adverse external shocks. The negative impact of these factors was compounded by weaknesses in the Ukrainian economy, which is sensitive to external and internal events. Thus, as the global economic and financial situation started to deteriorate, Ukraine's economy was one of the most heavily affected by the downturn. In the fourth quarter of 2008, Ukraine's real GDP declined by 7.8 per cent. compared to the same period in 2007.

The pressure on Ukraine's liquidity may intensify if Ukraine does not meet its revenue targets in the consolidated budget for Ukraine for 2013. In 2009, revenues of the consolidated budget were UAH 273.0 billion, or UAH 51.7 billion below the budgeted target, largely due to the effect of the financial and economic downturn globally and in Ukraine. Of that amount, UAH 4,054.1 million, UAH 13,046.3 million and UAH 9,917.9 million reflect decreased collection of import duties, value added tax ("VAT") and corporation tax, respectively. In 2010, the actual revenues of the consolidated budget Ukraine were approximately UAH 314.5 billion. The revenues for 2010 were below the target in the consolidated budget for Ukraine for 2010 by UAH 10.9 billion, principally as a result of a decrease in collection of VAT and excise duty on domestic goods by UAH 4.4 billion and UAH 2.3 billion respectively. In 2011, revenues of the consolidated budget were UAH 398.6 billion, or UAH 3.5 billion over the budgeted target. According to the Ministry of Finance of Ukraine, revenues of the consolidated budget amounted to UAH 445.5 billion in 2012, while the 2013 State Budget is based on a forecast of consolidated budget revenues being UAH 463.1 billion.

The economic crisis has also contributed to an increase in Ukraine's state budget deficit as a percentage of its GDP. Although this percentage remains relatively low in absolute terms, it has increased significantly from 1.3 per cent. at the year-end 2008 to 3.9 per cent. at the year-end 2009 (or UAH 35.5 billion). The 2010 State Budget Law provided for not more than 4.99 per cent. but the actual deficit of the 2010 State Budget amounted to 5.9 per cent. of GDP (or UAH 64.3 billion). However, the 2011 State Budget Law provided for a budget deficit of not more than 2.6 per cent. of GDP, whereas the actual deficit of the 2011 State Budget amounted to 1.8 per cent. of GDP (or UAH 23.6 billion). The 2012 State Budget Law provides for a budget deficit of not more than 2.6 per cent. of GDP. The 2013 State Budget Law provides for a budget deficit of not more than 3.3. per cent. of GDP.

According to the SSSU, the consumer price inflation ("**CPI**") in Ukraine was 4.6 per cent. in 2011, 9.1 per cent. in 2010 and 12.3 per cent. in 2009. In 2012, Ukraine experienced a decrease in consumer prices of 0.2 per cent.

Wholesale prices are also vulnerable to the increases in world prices for metal products and grain, as well as natural gas and oil. Wholesale price inflation ("**WPI**") was 14.3 per cent. in 2009, 18.7 per cent. in 2010 and 14.2 in 2011, in each case compared to the December of the previous year. In 2012, WPI stood at 0.3 per cent.

In 2009, Ukrainian real GDP decreased by 19.6 per cent. in the first quarter of the year, 17.3 per cent. in the second quarter of the year, 15.7 per cent. in the third quarter of the year and 6.7 per cent. in the fourth quarter of the year, each compared to the corresponding periods in 2008. Real GDP growth started to recover in 2010, reaching 4.5 per cent. in the first quarter of 2010, 5.4 per cent. in the second quarter of 2010, 3.3 per cent. in the third quarter of 2010 and 3.7 per cent. in the fourth quarter of 2010, compared to the corresponding period in 2009. In 2010, Ukraine's real GDP growth was 4.1 per cent. and Ukraine's nominal GDP was UAH 1.083 trillion. In 2011, real GDP grew at 5.2 per cent. However, growth has slowed considerably since then, running at 2.0 per cent. in the first quarter of 2012, 3.0 per cent. for the second quarter and decreasing by 1.3 per cent. in the third quarter of 2012 and by 2.7 per cent. in the fourth quarter of 2012, in each case on an annualised basis. Pursuant to SSSU data, Ukraine's real GDP growth for the whole of 2012 equaled to 0.2%. As a result, Ukraine has not achieved the 2012 GDP growth assumption underlying the 2012 State Budget, which assumed growth of 3.9 per cent. for the year. Negative trends in the Ukrainian economy may resume or continue if commodity prices on the external markets are low and access to foreign credit is limited.

Furthermore, future political instability in the executive or legislative branches could hamper efforts to implement necessary reforms. There can be no assurance that the political initiatives necessary to achieve these or any other reforms described elsewhere in this Prospectus will continue, will not be reversed or will achieve their intended aims. Rejection or reversal of reform policies favouring privatisation, industrial restructuring and administrative reform may have negative effects on the economy, generally, and, as a result, on the Bank's business, results of operations and financial condition.

In addition, recent acts of violence or unrest in some Middle Eastern states may result in a loss of business confidence or increased volatility in the global financial markets which could have an adverse impact on the economies in the CIS and in other countries and may have other consequences that could adversely affect the Bank's business, results of operations and financial condition.

In addition, the global financial crisis has led to the collapse or bailout of some Ukrainian banks and to significant liquidity constraints for others. The crisis has prompted the Government to inject substantial funds into the banking system amid reports of difficulties among Ukrainian banks and other financial institutions. The continuation or worsening of the financial crisis, further insolvencies of Ukrainian banks and the failure to adopt and implement a system of banking regulation that achieves an increased degree of soundness and stability in the nation's banks could have a material adverse effect on the Ukrainian economy and, as a result, materially adversely affect the Bank's business, results of operations and financial condition.

Further, Ukraine's economy was significantly affected by the global financial and economic crisis that began in 2007 and as a result of which international capital markets ceased to be available to Ukrainian borrowers. Prior to this crisis, the relatively easy access to credit (both from within Ukraine and internationally) was a significant factor facilitating the growth in Ukraine's GDP. The reduction in the availability of external finance for Ukrainian companies contributed to a decline in industrial production and cutdowns of investment projects as well as cutdowns in capital expenditures generally. Any deterioration of global or regional economic conditions may cause the economic and financial situation in Ukraine to worsen. Any such developments along with increases in world prices for goods imported to Ukraine or decreases in world prices for goods exported from Ukraine, may have or continue to have a material adverse effect on the economy and thus adversely affect the Bank's business, results of operations and financial condition.

The Ukrainian banking system may be vulnerable to stress due to fragmentation, undercapitalisation and a potential increase in non-performing loans, all of which could have a material adverse effect on the real economy

The global financial crisis has led to the collapse or bailout of some Ukrainian banks and to significant liquidity constraints for others. The crisis has prompted the Government to inject substantial funds into the banking system amid reports of difficulties among Ukrainian banks and other financial institutions. The Ukrainian Government's policy has been to intervene in support only of banks whose size is such that their failure would create systemic risk for the Ukrainian economy.

Despite progress with the restructuring and recapitalisation of Ukrainian banks, problems with asset quality and indebtedness persist. Asset quality was affected significantly by the devaluation in the hryvnia in 2008 (52.5 per cent. against the dollar and 46.3 per cent. against the euro) and further exacerbated by the 14.8 per cent. contraction of the economy in 2009. Despite Governmental and NBU intervention and progress in stabilising the foreign exchange market by the end of 2009 and during the first half of 2010, the high dollarisation in the Ukrainian financial system increased exchange rate risks and could contribute to a worsening of banks' asset quality. Overdue loans are another factor affecting the asset quality of Ukrainian banks. The share of doubtful and bad loans (classified under the NBU regulations) in the loan portfolio of Ukrainian banks was 3.8 per cent., 13.1 per cent., 14.9 per cent. and 14.3 per cent. as at 31 December 2008, 2009, 2010, and 2011, respectively, and 12.5 per cent. as at 30 November 2012. Although the share of doubtful and bad loans in banks' credit portfolios started to decline in 2012, a future increase in this rate could place additional strain on the banking system. Furthermore, in addition to the loans that the NBU categorises as overdue, a significant proportion of Ukrainian banks' loan portfolios could also be described as substandard. The IMF, in connection with the first review of the stand-by agreement with Ukraine (which is described in greater detail below), provided two definitions for loans which could be categorised as non-performing. The broad definition of non-performing loans includes loans classified as substandard, doubtful and loss-making. According to the IMF Country report 39.1 per cent. of loans held by Ukrainian banks were non-performing as at 31 March 2012. The narrow definition of non-performing loans does not however, include substandard loans that are serviced in a timely manner. Under this definition, the IMF estimated that 14.9 per cent. of loans held by Ukrainian banks were non-performing as at 31 March 2012.

In the past, the NBU has implemented measures aimed at countering the effects of the global financial crisis, supporting the national currency and limiting deposit flight. these measures included rules restricting Ukrainian banks' ability to purchase foreign currency on the interbank market to repay the principal amount of foreign currency deposits of Ukrainian customers and a moratorium on early withdrawals of deposits. While the NBU has subsequently lifted many of these measures, in the event of hryvnia depreciation, similar measures may be reintroduced in the future which may adversely affect ability of Ukrainian banks to raise funds.

The continuation or worsening of the financial crisis, further insolvencies of Ukrainian banks, growth in the share of doubtful and bad loans, the need for the Ukrainian Government to inject more capital into the banking system and the failure to adopt and implement a system of banking regulation that achieves an increased degree of soundness and stability in the nation's banks could all have a material adverse effect on the Ukrainian economy and, as a result, materially adversely affect the Bank's business, results of operations and financial condition.

The business environment in Ukraine could deteriorate

Ukrainian enterprises have a limited history of operating in free-market conditions and have had limited experience (compared with companies in more developed jurisdictions) of entering into and performing contractual obligations. Ukrainian enterprises, when compared to businesses operating in more developed jurisdictions, are often characterised by management that lack experience in responding to changing market conditions and limited capital resources with which to develop their operations. In addition, Ukraine has a limited infrastructure to support a market system, and communications, banks and other financial infrastructure are less well developed and less well regulated than their counterparts in more developed jurisdictions. Ukrainian enterprises face significant liquidity problems due to a limited supply of domestic savings, few foreign sources of funds, high taxes and limited lending by the banking sector to the industrial sector, amongst other factors. Many Ukrainian enterprises cannot make timely payments for goods or services and owe large amounts in taxes, as well as wages to employees. Any further deterioration in business environment could have a materially adverse effect on the Bank's business, results of operations, financial condition and prospects.

The Ukrainian currency has been subject to volatility and depreciation

In view of the high dollarisation of the Ukrainian economy and the increased activity of Ukrainian borrowers on external markets in pre-crisis years, Ukraine has become increasingly exposed to the risk of exchange rate fluctuations. From September 2008 to August 2009, the interbank U.S. dollar/hryvnia exchange rate was subject to significant fluctuations as a result of which the hryvnia depreciated against the major world currencies. Over the course of 2008, the hryvnia lost 52.5 per cent. against the dollar and 46.3 per cent. against the euro compared to year-end 2007 and further depreciated against these currencies in 2009 by 3.7 per cent. and 5.5 per cent. respectively. The NBU sought to address the hryvnia instability by taking administrative measures (including certain foreign exchange market restrictions), and used approximately U.S.$14.3 billion of its foreign exchange reserves to support the Ukrainian currency in 2008 and 2009. In 2010, the hryvnia appreciated by 0.3 per cent. against the U.S. dollar and by 7.6 per cent. against the euro. While the hryvnia depreciated in real terms against the U.S. dollar by 0.35 per cent. in 2011, it appreciated against the euro by 2.7 per cent. In 2012, the hryvnia depreciated against the dollar by 0.28 per cent. and depreciated against the euro by 2.32 per cent. Fluctuations in hryvnia exchange rates have negatively affected the ability of Ukrainian borrowers to repay their foreign exchange denominated liabilities to Ukrainian banks (approximately 47.0 per cent. of domestic loans in Ukraine are denominated in foreign currency as at 1 October 2012) as well as to external lenders.

On 6 November 2012, the law "On Amendments to Certain Laws of Ukraine as to Spreading Instruments of Influence on Monetary and Credit Market" was adopted. Pursuant to the law, the NBU is empowered to introduce mandatory requirements as to sale of foreign currency received by Ukrainian residents under export transactions and to shorten mandatory settlement periods in export and import transactions. As a result, with effect from 19 November 2012, the NBU established a requirement on mandatory sale of 50 per cent. of foreign currency receivables of Ukrainian residents and shortened the export and import settlement period to 90 days.

While the NBU has relaxed the restrictions on derivatives trading in recent years, the market for these financial instruments remains underdeveloped in Ukraine. In addition, the NBU currently restricts Ukrainian banks from entering into forward foreign exchange contracts with international counterparties. This limits the ability of Ukrainian banks to conduct foreign exchange hedging operations, with most Ukrainian banks managing their foreign exchange exposure by attempting to match assets and liabilities in each currency.

The Ukrainian currency may depreciate further in the near future, given the absence of significant currency inflow from exports and foreign investment, limited foreign currency reserves, the need for borrowers to repay a substantial amount of short-term external debt (estimated by the NBU to be approximately U.S.$32.2 billion as at 30 September 2012) as well as requirements to pay a substantial amount of foreign currency for energy supplies from Russia and the rest of the CIS. Any further currency fluctuations may negatively affect the Ukrainian economy and the Bank's business.

Ukraine's physical infrastructure is in poor condition, which may lead to disruptions in the Bank's business or an increase in its costs

Ukraine's physical infrastructure, including its power generation and transmission and communication systems and building stock, largely dates back to Soviet times and has not been adequately funded and maintained over the past decade. Road conditions throughout Ukraine are relatively poor in comparison with more developed countries. The Ukrainian Government has been implementing plans to develop the nation's rail, electricity and telephone systems, which may result in increased charges and tariffs whilst failing to generate the anticipated capital investment needed to repair, maintain and improve these systems. The deterioration of Ukraine's physical infrastructure has an adverse effect on the national economy, disrupts the transportation of goods and supplies, adds costs to doing business in Ukraine and can interrupt business operations. Any further deterioration in Ukraine's physical infrastructure could have a materially adverse effect on the Bank's business, financial condition and operational results.

Ukraine may not be able to increase or maintain access to foreign investment

Cumulative foreign direct investments in Ukraine increased by 20.6 per cent. in 2008, by 12.5 per cent. in 2009, by 11.9 per cent. in 2010, by 10.2 per cent. in 2011 and by 5.2 per cent. for the nine months ended 30 September 2012. As at 31 December 2008, 31 December 2009, 31 December 2010, 31 December 2011 and 30 September 2012, cumulative foreign direct investments (including foreign interests in privatisations) in Ukraine was U.S.$35.6

billion, U.S.$40.1 billion and U.S.$44.8 billion, U.S.$49.4 billion and U.S.$52.7 billion, respectively.

The annual amount of foreign investment capital growth in Ukraine decreased from U.S.$6,073.7 million in 2008 to U.S.$4,436.6 million in 2009 due to the global financial downturn, in particular, increased foreign currency market volatility, limited access to domestic and foreign capital markets and the decreased profitability of Ukrainian companies. The decline in foreign investments capital growth continued in 2010 and 2011, foreign investments capital growth amounting to U.S.$4,753.0 million and U.S.$4,556.3 million, respectively. For the nine months ended 30 September 2012, foreign investments capital growth amounted to U.S.$2,599.6 million. As at 31 December 2011 and 30 September 2012, cumulative foreign currency investments was approximately U.S.$1,084.3 per capita and U.S.$1,157.0 per capita, respectively.

Notwithstanding improvements in the Ukrainian economy in recent years and its recent economic growth, cumulative foreign direct investment remains low for a country of Ukraine's size. An increase in the perceived risks associated with investing in Ukraine could reduce foreign direct investment in Ukraine and adversely affect the Ukrainian economy. No assurance can be given that Ukraine will be able to increase or maintain access to foreign investment. Although the previous Government led by Prime Minister Tymoshenko emphasised that the plans announced in early 2005 to review the privatisation of a number of major companies are no longer under consideration, it is unclear whether the current Government will follow that policy. Any future attempts to reverse the privatisation of previously privatised enterprises could adversely affect the climate for foreign direct investment and have an adverse effect on the economy of Ukraine which, in turn, may adversely affect the Bank's business, results of operations, financial condition and prospects.

Inability to obtain financing from external sources could affect Ukraine's ability to meet financing expectations in its budget

Ukraine's internal debt market remains illiquid and underdeveloped compared with markets in most western countries. In the wake of the emerging market crisis in the autumn of 1998 and until the second half of 2002, loans from multinational organisations such as the European Bank for Reconstruction and Development (the "**EBRD**"), the World Bank, the EU and the IMF comprised Ukraine's only significant sources of external financing.

From 2003 until 2008, the international capital markets were Ukraine's main source of external financing but they ceased to be available from mid-2008 due to the global economic and financial crisis. As a result, Ukraine sought IMF financing. In November 2008, the IMF approved a two-year Stand-By Arrangement ("**2008 SBA**") with Ukraine for approximately U.S.$16.4 billion to assist the Ukrainian Government in restoring economic and financial stability. In 2008 and 2009, the total disbursement under the 2008 SBA amounted to approximately U.S.$10.6 billion.

Following negotiations with Ukraine, in July 2010, the IMF cancelled the 2008 SBA and approved a new 29-month Stand-By Arrangement ("**2010 SBA**") for Ukraine for approximately U.S.$15.15 billion. Ukraine had received two tranches under the 2010 SBA, which expired in December 2012, totalling approximately U.S.$3.4 billion. The goal of the Ukrainian economic programme supported by the 2010 SBA was to entrench fiscal and financial stability, advance structural reforms and put Ukraine on a path of sustainable and balanced growth. To achieve these aims, the 2010 SBA established a number of requirements for the Ukrainian Government relating to fiscal policy, monetary and exchange rate policy, and financial sector policy. The drawdowns of the IMF financing were contingent upon Ukraine's satisfaction of these requirements. Such requirements included, among other things, a ceiling on the cash deficit of the Government, a floor on net international reserves of the NBU, a ceiling on the net domestic assets and a ceiling on the state-guaranteed debt. The first review of Ukraine's compliance with the 2010 SBA terms commenced in November 2010 and was completed in mid-December 2010. On 22 December 2010, following the completion of the first review, the IMF board approved the second tranche to be provided to Ukraine totalling approximately U.S.$1.5 billion, with U.S.$1.0 billion earmarked for the financing of the State Budget deficit. However, the disbursement of the third tranche, expected to take place in May 2011, was deferred. Further provision of funds by the IMF remained subject to raising domestic gas tariffs as previously agreed, which is politically challenging. Such challenges were exacerbated by recent increases in natural gas tariffs for imported gas in accordance with the tariff schedule arranged in 2009 with the Russian gas supplier OJSC Gazprom ("**Gazprom**"). Ukraine is currently in negotiations to amend the tariff schedule with Gazprom but no agreement has yet been reached. See "*—Ukraine's economy depends heavily on its trade flows with Russia and certain other CIS countries and any major change in relations with Russia could have adverse effects on the economy*". Any further increase in imported gas prices would require an increase either in domestic gas tariffs or an increase in Government subsidies for the National Joint-Stock Company "Naftogaz of Ukraine" ("**Naftogaz**"), the Ukrainian state-owned oil and gas company. Further meetings between the Ukraine Government and the IMF began on 29 January 2013 and are ongoing, with the goal of renewing the programme of cooperation between the IMF and Ukraine and discussing the possibility of a new stand-by arrangement in the amount of 10 billion special drawing rights. However, due to Ukraine's reluctance in the past in implementing all of the IMF's requirements, there can be no assurance that such discussion will result in a new stand-by arrangement or that Ukraine would be able to satisfy the conditions for drawdown under any such arrangement.

As part of its cooperation with the EU, in 2013 Ukraine expects to receive financial support from the EU amounting to up to €610 million. As of the date of this Prospectus, negotiations with the EU have been completed, the text of the memorandum of understanding and a loan agreement for a €610.0 million facility have been finalised and preparations are being made for the execution of the loan agreement. The aim of the EU's support is to help to maintain the stability of the Ukrainian economy. The EU's disbursement of funds under this facility may be subject to the EU's discretion and may include consideration of Ukraine's compliance with IMF requirements. The EU's support is expected to be provided in four separate tranches in the amount of €100 million, €10 million, €250 million and €250 million. The facility is expected to have a maturity of 15 years. Before each tranche is released, the European Commission, together with the representatives of the IMF and the Ukraine Government, will examine Ukraine's progress in complying with certain reform criteria set out in the memorandum of understanding.

If the international capital markets or syndicated loan markets continue to be unavailable to Ukraine, it would have to rely further to a significant extent on official or multilateral borrowings to finance part of the budget deficit, fund its payment obligations under domestic and international borrowings and to support foreign exchange reserves. Additionally, Ukraine has indicated that, as part of its debt management policy, it plans to develop the internal debt market and to reduce its reliance on external debt financing. However, reliance on internal debt and the unavailability of external financing may place additional pressure on Ukraine's ability to meet its payment obligations.

External borrowings from multilateral organisations such as the IMF, the EBRD, the World Bank or the EU may be conditional on Ukraine's satisfaction of certain requirements, which may include, among other things, implementation of strategic, institutional and structural reforms, reduction of overdue tax arrears, the absence of an increase of budgetary arrears, the improvement of sovereign debt credit ratings and reduction of overdue indebtedness for electricity and gas. If Ukraine is unable to resort to the international capital markets, syndicated loan markets, and official creditors or obtain adequate financing Ukraine's budget and foreign exchange reserves may be put under financial pressure which may have a materially adverse effect on the Bank's business, results of operations and financial condition.

Ukraine's economy depends heavily on its trade flows with Russia and the rest of the CIS countries and any major change in relations with Russia could have adverse effects on the economy

Ukraine's economy depends heavily on its trade flows with Russia and the rest of the CIS countries, largely because Ukraine imports a large proportion of its energy requirements, especially from Russia (or from countries that transport energy-related exports through Russia). In addition, a large share of Ukraine's services receipts comprise of transit charges for oil, gas and ammonia from Russia.

Ukraine, therefore, considers its relations with Russia to be of strategic importance. However, relations between Ukraine and Russia cooled to a certain extent due to disagreements over the prices and methods of payment for gas delivered by Gazprom to, or for transportation through, Ukraine; a Russian ban on imports of meat and milk products from Ukraine; anti-dumping investigations conducted by Russian authorities in relation to certain Ukrainian goods; issues relating to the delineation of the Russia-Ukraine maritime border; and issues relating to the temporary stationing of the Russian Black Sea Fleet (Chernomorskyi Flot) in the territory of Ukraine.

However, relations with Russia strengthened to some extent following the election of President Yanukovych in 2010. On 21 April 2010, Ukraine and Russia signed a new agreement on issues of the stationing of Russia's Black Sea Fleet on Ukrainian territory, under which the term of the stationing of Russia's Black Sea Fleet in Sevastopol was extended for a further 25-year period with an additional five-year extension option.

In the past, Russia has threatened to cut off the supply of oil and gas to Ukraine in order to apply pressure on Ukraine to settle outstanding gas debts and maintain the low transit fees for Russian oil and gas through Ukrainian pipelines to European consumers. In line with its threats, Gazprom substantially decreased natural gas supplies to Ukraine in early January 2009, reportedly, due to the failure by Naftogaz to timely repay all outstanding debts owed to Gazprom for natural gas supplied to Ukraine for domestic consumption in 2008. Following negotiations between the Government of Russia and the Ukrainian Government and the signing of agreements between Naftogaz and Gazprom setting out the terms of further natural gas supplies and transit through the territory of Ukraine, on 20 January 2009 Gazprom resumed natural gas supplies to Ukraine and Western Europe. Naftogaz faces serious penalties if it reduces the country's gas consumption, while Gazprom faces no penalties if it supplies less than the agreed upon amount of gas to Ukraine. On 20 November 2009, this agreement was altered to allow Ukraine to buy less gas in view of the financial crisis in Ukraine in 2008 and 2009 without penalties. Pursuant to the agreement signed on 21 April 2010, Ukraine was obliged to buy 36.5 billion cubic metres of gas in 2010, which exceeds the previous amount by 2.8 billion cubic metres.

Prices for natural gas supplied by Gazprom for domestic consumption in Ukraine increased in each of 2006, 2007 and 2008 from U.S.$50 per 1,000 cubic metres as at 1 January 2005 to U.S.$179.5 per 1,000 cubic metres as at 1 January 2008. Pursuant to the agreements signed between Naftogaz and Gazprom on 19 January 2009 for natural gas supplies and transit in 2009 through to 2019, a price for natural gas supplied to Ukraine for domestic consumption and a tariff for the transit of natural gas through the territory of Ukraine is to be determined pursuant to formulas set out in the agreements.

In 2009, the average weighted price for natural gas was approximately U.S.$210.2 per 1,000 cubic metres. In 2010, the average weighted price for natural gas increased further. In April 2010, Gazprom agreed to give Naftogaz certain discounts from the otherwise applicable price for natural gas supplied for domestic consumption to Ukraine As a result, the average weighted annual price for natural gas was U.S.$256.7 and U.S.$309 per 1,000 cubic metres in 2010 and 2011, respectively. The price for such imported natural gas being paid in 2012 was U.S.$424.5 per 1,000 cubic metres. While Naftogaz and Gazprom are currently in negotiations about the pricing of gas for domestic consumption in 2012, to date no agreement has been reached. Furthermore, on 25 January 2013, Gazprom invoiced Naftogaz approximately U.S.$7 billion for having imported natural gas below the contracted volume in 2012. According to an official statement made by Naftogaz, Gazprom has been formally notified on several occasions of the intention of Naftogaz to import less gas than it is contractually obliged to in 2012. As the discussions on the matter between the two companies is at an early stage, no assurance can be given as to how the situation will affect relations between Naftogaz and Gazprom as well as natural gas supplies to Ukraine generally. Failure to come to an acceptable compromise may force Ukraine to continue to subsidise Naftogaz to reduce their losses in the event relatively low gas prices for Ukrainians are required to be maintained.

In addition, Naftogaz and its subsidiaries accounted for approximately 8.6 per cent. (or UAH 29.6 billion), 11.4 per cent. (or UAH 36.0 billion) and 10.9 per cent. (or UAH 26.3 billion) of revenues to Ukraine's State Budget in 2012, 2011 and 2010 respectively. However, the State Budget revenues received from Naftogaz and its subsidiaries have been offset by direct subsidies from the State Budget to cover differences between the purchase price of imported gas and the price charged to municipal heating enterprises and other domestic consumers. For example, UAH 3.4 billion and UAH 4.1 billion of subsidies were extended from the State Budget to Naftogaz to cover this difference in 2010 and 2009 respectively, although in 2011 comparable payments were not made from the State Budget. In addition to these direct subsidies, the Government may use other measures to support Naftogaz, including but not limited to deferral of taxes and increasing the statutory capital of Naftogaz through the issuance of additional shares and their exchange for treasury bills. Further increases in the price of imported natural gas would continue to put pressure on the Government to continue to support, or to increase support to, Naftogaz to the extent not offset by higher tariffs for domestic consumption. Failure to reduce such support for Naftogaz may continue to delay future drawdowns from IMF and other financing programmes thereby having a significant adverse effect on the economy of Ukraine.

In May 2011, it was reported that Russia plans to divert approximately 20 billion cubic metres of gas per annum from Ukraine's gas transit system to the Nord Stream and South Stream pipelines and bypass Ukraine. This amount would be equivalent to approximately 20.3 per cent. of all gas transported through Ukraine in 2010. The Nord Stream pipeline commenced commercial operations in November 2011. In 2012, transit of natural gas through Ukraine decreased to 84.3 billion cubic metres from 104.2 billion cubic metres in 2011, due to the combined effects of Nord Stream and generally lower demand in the EU. Ukraine is seeking to minimise any potential adverse effect of Nord Stream to Naftogaz and the Ukrainian economy in general, including through assurances on transport volumes. Such efforts may not be successful and any decreases in the volumes of gas transportation (due to the launch of Nord Stream, South Stream and other pipelines bypassing Ukraine), further Russian increases in gas supply prices or other developments could adversely affect Naftogaz's future results of operations, reducing the revenue the State Budget receives from Naftogaz or increasing Naftogaz's need for support.

In the first eleven months of 2012, almost 26 per cent. of Ukrainian exports of goods went to Russia, while much of Russia's exports of energy resources are delivered to the EU via Ukraine. Russia's increases in the price for natural gas have adversely affected the pace of economic growth of Ukraine due to the considerable dependence of the Ukrainian economy on Russian exports of energy resources. Furthermore, although the gas price increases have increased pressure for reforms in the energy sector and modernisation of major energy-consuming industries of Ukraine through the implementation of energy-efficient technologies and the modernisation of production facilities, there can be no assurance that these reforms will be implemented successfully.

Although the election of President Yanukovych has generally improved relations with Russia, Ukraine's balance of payments and foreign currency reserves could be materially and adversely affected if bilateral trade relations deteriorate, or if Russia stops transiting a large portion of its oil and gas through Ukraine or if Russia halts supplies of natural gas to Ukraine. Any further adverse changes in Ukraine's relations with Russia, in particular any such changes adversely affecting supplies of energy resources from Russia to Ukraine or Ukraine's revenues derived from transit charges for Russian oil and gas, may have negative effects on the Ukrainian economy as a whole and thus on the Bank's business, results of operations and financial condition.

Failure to develop relations with the EU might have negative effects on the Ukrainian economy and the Bank's business, financial condition and operational results

Ukraine continues to develop its economic relationship with the EU. In 2006, the EU became the largest external trade partner of Ukraine, a trend that continued in 2007, 2008 and 2009. In 2011, the EU's share in the total foreign trade turnover of Ukraine amounted to 26.3 per cent. Goods and services exported from Ukraine to the EU in 2011 amounted to U.S.$21.6 billion, while goods and services imported to Ukraine from the EU amounted to U.S.$29.1 billion. For the nine months ended 30 September 2012, the EU's share in the total foreign trade turnover of Ukraine amounted to 28.6 per cent.

EU imports from Ukraine are to a large extent liberalised, apart from metal scrap on which Ukraine levies export duties.

In return for effective implementation of political, economic and institutional reforms, Ukraine and other neighbouring countries should be offered the prospect of gradual integration with the EU's internal market, accompanied by further trade liberalisation. Ukraine's accession to the WTO created the necessary preconditions for the launch of formal negotiations for introduction of a free trade area ("**FTA**") with the EU. During negotiations on the FTA held between Ukraine and the EU from 2008 to January 2012, the parties achieved progress in harmonisation of, amongst others, the following areas: trade in goods (including in relation to instruments of trade protection, tariffs, technical barriers in trade, sanitary and customs issues), intellectual property, rules relating to origin of goods, sustainable development and trade, trade in services, and public procurement.

The Bank would benefit from a strong relationship between the EU and Ukraine. Should Ukraine fail to develop its relations with the EU or should such developments be protracted, it may have negative effects on the Ukrainian economy and, consequently, adversely affect the Bank's business, financial condition and operational results.

Ukraine's relationships with western governments and institutions

Ukraine continues to pursue the objectives of achieving a closer relationship with the EU, and joined the WTO on 16 May 2008. Ukraine was given market economy status from 30 December 2005 by the EU, but without any immediate prospect of EU membership. Following the Fourteenth EU-Ukrainian Summit on 22 November 2010, Ukraine was offered an action plan towards visa liberalisation. The action plan sets out all technical conditions to be met by Ukraine in order to progress towards the establishment of a visa free regime as a long term perspective for short stay travel for Ukrainian citizens.

As discussed above under "*—Political and social conflicts or instability could create an uncertain operating environment*", due to imprisonment of the former Ukrainian prime minister Yuliya Tymoshenko, prospects of Ukraine's becoming a member of the EU have become more remote.

Further, the international press has reported various voting irregularities in connection with the 28 October 2012 Ukrainian parliamentary elections. Such reports contribute adversely to the perception of western governments and multinational institutions regarding Ukraine's commitment to democratic reform.

Any major changes in Ukraine's relations with western governments and institutions, in particular any such changes adversely affecting the ability of Ukrainian manufacturers to access or to fully compete in world export markets, could have negative effects on the Ukrainian economy as a whole and therefore on the Bank's business, financial position and results of operations.

Corruption and money laundering may have an adverse effect on the Ukrainian economy

External analysts have identified corruption and money laundering as problems in Ukraine. In accordance with Ukrainian anti-money laundering legislation, which came into force in Ukraine in June 2003, the NBU and other state authorities, as well as various entities performing financial transactions, are now required to monitor certain financial transactions more closely for evidence of money laundering. As a result of the implementation of this legislation, Ukraine was removed from the list of non-cooperative countries and territories by the Financial Action Task Force on Money Laundering ("**FATF**") in February 2004, and in January 2006 FATF suspended the formal monitoring of Ukraine. In May 2010, legislation was passed to implement the recommendations of the FATF and the EU directive on money laundering and terrorist financing. Furthermore, a new anti-corruption law setting forth a general framework for the prevention and counteraction of corruption in Ukraine became fully effective on 1 January 2012. There is no assurance that this law will be effectively applied and implemented by the relevant supervising authorities in Ukraine.

In February 2010, Ukraine was noted by FATF as having demonstrated progress in improving its anti-money laundering and combating the financing of terrorism regime ("**AML/CFT**") despite still having certain strategic AML/CFT deficiencies. Ukraine has made a high-level political commitment to work with FATF and the Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism ("**MONEYVAL**") to address these deficiencies. However, in February 2011, the FATF determined that certain strategic AML/CFT deficiencies still remain and called upon Ukraine to continue to work on implementing its action plan to address these deficiencies. From 27 October 2011, Ukraine has no longer been subject to FATF's monitoring for the purposes of AML/CFT compliance. Although the new legislation facilitates anti-corruption efforts in Ukraine, there has been no quantifiable recorded increase in the level of prosecutions or an overall decrease in the levels of corruption in the country. Any future allegations of corruption in Ukraine or evidence of money laundering could have a negative effect on the ability of Ukraine to attract foreign investment and thus have a negative effect on the economy of Ukraine, which in turn may adversely affect the Bank's business, results of operations and financial condition.

Ukraine's developing legal system creates risks and uncertainties for investors in Ukraine and for participants in the Ukrainian economy

Since independence in 1991, the Ukrainian legal system has been developing to support the country's transition from a planned to a market-based economy. However, Ukraine's legal system is subject to greater risks and uncertainties than a more mature legal system. In particular, risks associated with the Ukrainian legal system include: (i) inconsistencies between and among the Constitution of Ukraine and various laws, presidential decrees, governmental, ministerial and local orders, decisions, resolutions and other acts; (ii) provisions in the laws and regulations that are ambiguously worded or lack specificity and thereby raise difficulties when implemented or interpreted; (iii) difficulty in predicting the outcome of judicial application of Ukrainian legislation due to, amongst other factors, a general inconsistency in the judicial interpretation of such legislation in the same or similar cases; and (iv) the fact that not all Ukrainian resolutions, orders and decrees and other similar acts are readily available to the public or available in understandably organised form.

Furthermore, as many Ukrainian laws are relatively new, have a limited history of being applied in the conditions of economic downturn, and given that there is a lack of consensus as to the measures necessary to address adverse developments in the Ukrainian economy, this may put the enforceability and underlying constitutionality of such laws in doubt and may result in ambiguities, inconsistencies and anomalies. Ukrainian legislation often provides for the implementation of regulations. Often such regulations have either not yet been promulgated, leaving substantial gaps in the regulatory infrastructure, or have been promulgated with substantial deviation from the principal rules and conditions imposed by the respective legislation, which results in a lack of clarity and growing conflicts between companies and regulatory authorities.

On 19 January 2013, a number of amendments to the bankruptcy and insolvency law of Ukraine became effective. These amendments include significant changes in the bankruptcy and insolvency law that are directed at creating a more streamlined and efficient insolvency process and remedying defects existing in the current law. However, the entry into force of these amendments may lead to uncertainties in implementation and interpretation of the bankruptcy and insolvency law by Ukrainian courts and government officials.

These and other factors that impact Ukraine's legal system make an investment in the Notes subject to greater risks and uncertainties than an investment in a country with a more mature legal system. The uncertainties relating to the legal system could have a negative effect on the Ukrainian economy and, as a result, materially adversely affect the Bank's business, results of operations and financial condition.

Uncertainties relating to the judicial system may hamper development of the economy

The independence of the judicial system and its immunity from economic and political influences in Ukraine remain questionable. Although the CCU is the only body authorised to exercise constitutional jurisdiction and has mostly proven impartial in its judgments, the system of constitutional jurisdiction itself remains too complicated to ensure the smooth and effective removal of discrepancies between the Constitution of Ukraine on the one hand and the various laws of Ukraine on the other.

The court system is also understaffed and underfunded. As Ukraine is a civil law jurisdiction, judicial decisions under Ukrainian law have no precedential effect, except for the decisions of the Supreme Court of Ukraine, taken following the review of rulings of high specialised courts of Ukraine. These decisions of the Supreme Court of Ukraine have precedential effect over the decisions of lower courts taken in similar cases and for governmental bodies applying provisions of Ukrainian law interpreted by the Supreme Court of Ukraine. Courts themselves are generally not bound by earlier decisions taken under the same or similar circumstances, which can result in the inconsistent application of Ukrainian law to resolve the same or similar disputes. Not all Ukrainian law is readily available to the public or organised in a manner that facilitates understanding. Furthermore, judicial decisions are not always readily available and, therefore, their role as guidelines for interpreting applicable Ukrainian law to the public at large is limited. However, according to a law "On Access to Court Decisions", which became effective on 1 June 2006, decisions of courts which have general jurisdiction in civil, economic, administrative and criminal matters became generally available to the public from 1 January 2007, although the relevant registry of the court decisions is still being upgraded. In addition, the Ukrainian judicial system became more complicated and hierarchical as a result of recent judicial reforms. In particular, on 1 November 2010 the Specialised High Court of Ukraine for Civil and Criminal Matters commenced its activities. This court has become the superior court for all civil and criminal matters in substitution of the Supreme Court of Ukraine. The role of the Supreme Court of Ukraine has been limited to cases, the resolution of which is complicated by inconsistency of judicial interpretation as opposed to a court of appeal in all cases. The process of creation of the Specialised High Court of Ukraine for Civil and Criminal Matters and change in the powers of the Supreme Court of Ukraine has been subject to disagreements and controversies which are continuing as the role and functions of the Supreme Court of Ukraine have been further debated in the Parliament. The generally perceived result of these reforms is that the Ukrainian judicial system has become less certain and even slower than before.

Enforcement of court orders and judgments can in practice be very difficult in Ukraine. The State Execution Service (the "**SES**"), a body independent of the Ukrainian courts, is responsible for the enforcement of court orders and judgments in Ukraine. Often, enforcement procedures are very time-consuming and may fail for a variety of reasons, including the defendant lacking sufficient bank account funds, the complexity of auction procedures for the sale of the defendant's property, or the defendant undergoing bankruptcy proceedings. In addition, the SES has limited authority to enforce court orders and judgments quickly and effectively. Ukrainian enforcement agencies are bound by the method of execution envisaged by the relevant court order or judgment and may not independently change such method even if it proves to be inefficient or unrealisable. Furthermore, notwithstanding successful execution of a court order or judgment, a higher court could reverse the court order or judgment and require that the relevant funds or property be restored to the defendant.

These uncertainties also extend to certain rights, including investor rights. In Ukraine, there is no established history of investor rights or responsibility to investors and in certain cases, the courts may not enforce these rights. In the event courts take a consistent approach in protecting rights of investors granted under applicable Ukrainian law, the legislature of Ukraine may attempt legislatively to overrule any such court decisions by adopting changes to or cancelling the existing laws or regulations with retroactive effect.

All of these factors make judicial decisions in Ukraine difficult to predict and effective redress uncertain. In addition, court claims are often used in the furtherance of political aims. The Bank may be subject to such claims and may not be able to receive a fair hearing. Finally, court orders are not always enforced or followed by law enforcement institutions. The uncertainties relating to the judicial system could have a negative effect on the Ukrainian economy and thus on the Bank's business, results of operations and financial condition.

Ukraine's tax system is underdeveloped and subject to frequent change, which may create an uncertain environment for investment and business activity

Ukrainian tax legislation is subject to frequent changes and amendments, which can result in either a more favourable environment or unusual complexities for PrivatBank and its business generally. For example, with effect from 1 January 2011, the Ukrainian tax system was significantly reformed by the adoption of the new Tax Code of Ukraine (the "**Tax Code**"). Taxes affected include value-added tax, corporate profits tax, personal income tax, and other taxes. The new rules of the Tax Code have not yet been properly tested in practice nor confirmed by court interpretation or by the tax authorities. Therefore, at the moment the interpretation of the new tax rules and their practical application remains unclear.

Apart from the Tax Code, the system of taxation is frequently varied by other statutory enactments amending the Tax Code. This impacts negatively on the predictability of the country's taxation system and, therefore, has an adverse effect on business activity, reducing the attractiveness of the national economy for foreign investors and restricting its opportunities for medium and long-term planning.

As a result of the ambiguity of certain tax regulations and discrepancies in their interpretation by taxpayers and government-controlled agencies, a large amount of explanation and clarification is expected to be published on the application of such laws.

For example, the difficulties in refunding VAT remain an obstacle for investing in the export-oriented sectors of the economy. The complicated process of tax inspections and the contradictory rules on when they should be held create serious barriers to the proper administration of the tax. Due to the budget deficit, taxpayers may not receive VAT refunds to which they are entitled or may not be able to offset them against future tax liabilities because of the absence of an effective legislative mechanism to offset the sums of the amounts of the VAT against taxes and duties.

There is also uncertainty as to the tax treatment of foreign exchange losses, in particular during the financial crisis, as well as ability of taxpayers to utilise such losses generated in prior periods to offset against taxable profits in the current and future periods. The Ukrainian Parliament is likely to introduce significant limitations on carry-forward of tax losses. For example, tax losses incurred by Ukrainian companies prior to the enactment of the Tax Code (which are mainly foreign exchange and operational losses incurred due to 2008 financial crisis) were limited to 25% of the gross amount of such losses per year.

The Tax Code put into force the new transfer pricing rules, which came into effect from 1 January 2013, setting out an extended list of methods for the market price determination. Under the general rule currently in force, the price agreed by the parties in an agreement shall be deemed to be "usual price", unless otherwise provided in the Tax Code or proven by the tax authorities, with the burden of such proof resting with the tax authorities).

The Tax Code introduces a "safe harbour" in respect of transfer pricing adjustments, effective as at 1 April 2011. Provided the contractual price agreed by the counterparties is within a 20 per cent. deviation from the market price, no adjustment to the tax base is required.

However, the new edition of the transfer pricing rules of the Tax Code is currently being developed by the Ministry of Finance of Ukraine and is likely to be introduced in the near future. Under the proposed amendments, no "safe harbours" will be granted for prices falling outside of the range of market prices.

Differing opinions regarding legal interpretations often exist both among and within governmental ministries and organisations, including the tax authorities, creating uncertainties and areas of conflict. Recent events within Ukraine suggest that the tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past will be challenged. As a result, significant additional taxes, penalties and interest may be assessed. Tax declarations/returns, together with other legal compliance areas (for example, customs and currency control matters), are subject to review and investigation by a number of authorities, which are authorised by law to impose substantial fines, penalties and interest charges. These circumstances create tax risks in Ukraine that are more significant than those typically found in countries with more developed tax systems.

Generally, the Ukrainian tax authorities may re-assess tax liabilities of taxpayers only within a period of three years after the filing of the relevant tax return. Nonetheless, this statutory limitation period may not be observed or may be extended in certain circumstances. Moreover, the fact that a period has been reviewed during a tax audit does not exempt this period, or any tax declaration or return applicable to that period, from further review. While the Ukrainian tax authorities have consistently found PrivatBank to be in compliance in all material respects with tax laws, it is possible that the relevant authorities could in the future take differing positions with regard to interpretative issues, which may have a material adverse effect on PrivatBank's business, results of operations and financial condition.

Regulation of the banking industry is subject to frequent change, which may create an uncertain environment for investment and business activity

The legislation in Ukraine has not always kept pace with market demands. Ukrainian commercial practices and legal and regulatory frameworks differ significantly from practices in other jurisdictions. As a result, it is often difficult to attract competent management and qualified accounting staff who can ensure compliance with changing regulatory requirements.

The Banking Regulation Instruction sets forth capital adequacy ratios and the rules upon which the calculations of capital adequacy ratios are based. The Banking Regulation Instruction also contains general rules for submitting statistical information to the NBU and the calculation of the ratios based on stand-alone and consolidated financial statements. From

31 December 2002, all banks with subsidiaries under their control are required to file consolidated financial statements with the NBU. In addition, Ukrainian authorities, including the NBU, have the right to, and do, conduct periodic inspections of the Bank's operations throughout the financial year.

Failure to comply with any of the foregoing (whether determined by the NBU inspection or otherwise) could result in the imposition of fines, penalties or more severe sanctions, including the suspension, amendment or termination of the Bank's licences, any of which could increase costs or materially adversely affect the Bank's business, financial condition and results of operations.

Notwithstanding the Banking Regulation Instruction, regulatory standards applicable to banks in Ukraine and the oversight and enforcement thereof by Ukrainian regulators differ from those applicable to banking operations in more highly developed regulatory regimes. There can be no assurance that the NBU will not implement regulations, policies or legal interpretations of existing banking or other regulations, relating to or affecting taxation, interest rates, inflation, exchange controls, or otherwise take action that could have a material adverse effect on the Bank's business, financial condition or results of operations or that could adversely affect the market price and liquidity of the Notes.

There are weaknesses in corporate governance and disclosure standards under Ukrainian law

The Group's operations are conducted primarily in Ukraine. Corporate governance, disclosure and reporting requirements have only recently been enacted in Ukraine. Anti-fraud legislation has only recently been adapted to the requirements of a market economy and remains largely untested. Most Ukrainian companies do not have corporate governance procedures that are in line with generally accepted international standards and corporate governance requirements (including those introduced in the UK or the United States). Ukrainian banking laws have introduced the concept of fiduciary duties owed by a bank's management to the bank and its customers, which was further elaborated upon in the "Guidelines for the Improvement of Corporate Governance in Ukrainian Banks" approved by the NBU in March 2007. However, the concept of fiduciary duties of management or members of the board to their companies or shareholders remains underdeveloped in Ukraine. Violations of disclosure and reporting requirements or breaches of fiduciary duties by the Bank could significantly affect the receipt of material information or result in inappropriate management decisions, which may have a material adverse effect on the Bank's business, results of operations, and financial condition.

Risks Relating to the Bank

The quality of the Bank's loan portfolio depends on macroeconomic situation in Ukraine and the Bank's risk management policies may not protect it against future adverse economic developments

The Group is subject to risks regarding the credit quality of, and the recovery of amounts due from, customers and market counterparties such as the Group's correspondent banks. A deterioration in the creditworthiness of the Bank's borrowers and market counterparties, or in their behaviour, whether arising from systemic risks in the Ukrainian or global financial systems or otherwise, could significantly reduce the value of the Bank's assets and increase its write-downs and provisions for impairment losses.

After 2008, the Group experienced a decline in the level of non-performing loans (i.e., loans to customers that are overdue by more than 90 days). However, the Group's proportion of non-performing loans as a percentage of the loans and advances to customers before impairment increased to 5.4 per cent. as at 30 September 2012 from 4.3 per cent. as at 31 December 2011, due to, among other factors, the slowdown of economic activity in Ukraine and the resulting growth impairment of GDP, the dependency of the macroeconomic situation in Ukraine on commodity markets and the Group's diversification of its loan portfolio by increasing the amount of loans to customers outside of the oil trading sector, which loans are more profitable and riskier than loans to the oil trading sector.

The proportion of non-performing loans as a percentage of the Group's total loans and advances to customers (before impairment) was 5.4 per cent. as at 30 September 2012, compared to 4.3 per cent. as at 31 December 2011 and 6.8 per cent. as at 31 December 2010. The Group's provisions for loan impairment increased to UAH 19,701 million as at 30 September 2012, compared to UAH 15,950 million as at 31 December 2011 and UAH 12,481 million as at 31 December 2010.

Any future deterioration in the credit quality of the Bank's customers and market counterparties or inadequate loan loss provisions, could adversely affect the value of the Bank's assets, and lead to increased write-downs and additional provisions for loan impairment. Factors including unemployment in Ukraine, increased inflation, reduced corporate liquidity and profitability, could reduce the Bank's customers' and market counterparties' ability to repay loans. In addition, changes in economic conditions may result in a deterioration in the value of security held against lending exposures and increase the risk of loss in the event of a default by borrowers or market counterparties.

Although the Bank has reviewed its risk management policies and implemented an internal stress testing programme following the economic downturn, its risk management strategies may not protect it from substantially increased levels of non-performing loans in its portfolio. If the Bank's non-performing loans increase significantly as a result of the economic downturn, this could have a material adverse effect on the Bank's business, results of operations, financial condition and prospects.

Industry and borrower concentration in the Bank's loan portfolio subjects the Bank to heightened risk in the event of default by its customers

The Bank's loan portfolio has relatively high industry and borrower concentration. Loans to companies in the oil industry accounted for 29 per cent. of the Group's total loans and advances to customers (before impairment) as at 30 September 2012. The Group's ten largest borrowers accounted for 9 per cent. of its total loans and advances to customers (before impairment) as at 30 September 2012. Accordingly, the Bank remains vulnerable to adverse developments in the sectors in which its borrowers are concentrated, as well as to adverse changes in such borrowers' business and financial condition. Any impairment in the ability of the Bank's borrowers to service or repay their loans may adversely affect the Bank's performance. In addition, the Group's total assets in Ukraine constituted approximately 73 per cent. of its total assets as at 30 September 2012. Accordingly, there can be no assurance that it will be able to achieve or maintain an appropriate level of diversification. The Bank's failure to do so may have a material adverse effect on its business, results of operations, financial condition and prospects.

To the extent the Group's loans are secured, the value or liquidity of the collateral securing such loans may decline

The Group discloses the financial effect of collateral in its consolidated financial statements by disclosing collateral values separately for (i) those assets where collateral and other credit enhancements are equal to or exceed carrying value of the asset ("**overcollateralised assets**") and (ii) those assets where collateral and other credit enhancements are less than the carrying value of the asset ("**under-collateralised assets**").

As at 31 December 2011, over-collateralised loans and advances to customers had a carrying value of UAH 70,673 million with a fair value of collateral of UAH 87,050 million and under-collateralised loans and advances to customers, excluding credit cards and consumer loans, had the carrying value of UAH 19,604 million with a fair value of collateral of UAH 8,311 million.

The lack of collateral securing loans may reduce the Bank's ability to collect amounts lent to borrowers, which may have a material adverse effect on the Bank's business, financial condition and results of operations. In particular, from 2010 onwards, the Group has increased its focus on credit card and consumer loans, all of which are unsecured. Further, to the extent loans are secured, there is no guarantee that the Bank will have access to the collateral securing the loans. In addition, the collateral granted under many of the Group's loans to customers currently has a fair market value significantly less than the amount of such loans. Failure to collect amounts lent to borrowers as a result of the lack of available collateral and/or failure to collect amounts lent to borrowers pursuant to unsecured loans may have a material adverse effect on the Bank's business, financial condition and results of operations.

Although certain of the Bank's loans and advances to customers are secured by collateral, such as real estate, tradable securities, industrial equipment and vehicles, the global economic and financial crisis has severely affected the market in Ukraine for many types of collateral and, in particular, real estate. This has led to a low level of liquidity for certain types of assets and, accordingly, a decline in the value of collateral securing loans, to levels lower than the amounts of outstanding principal and accrued interest on such loans. If the value of collateral continues to decline, such collateral may not be sufficient to cover uncollectible amounts in respect of the Bank's secured loans. A further decline in the value of collateral securing the Bank's loans, its inability to obtain additional collateral or failure to recover the expected value of collateral in the case of foreclosure may expose the Bank to losses that may adversely affect its business, results of operations, financial condition and prospects.

The Bank could be adversely affected by the deterioration of the soundness or the perceived soundness of other financial institutions

The Bank is subject to the risk of deterioration of the soundness and/or perceived soundness of other financial institutions within and outside Ukraine. Financial institutions that transact with each other are interrelated as a result of trading, investment, clearing and other relationships. This risk is sometimes referred to as "systemic risk" and may adversely affect financial intermediaries, such as clearing agencies, clearing houses, banks, securities firms and exchanges with which the Bank interacts on a daily basis, all of which could have an adverse effect on the Bank.

The Bank routinely executes transactions with counterparties in the financial services industry. As a result, the Bank is exposed to counterparty risk. Such counterparty risk is heightened during periods of financial instability and economic downturns, such as that experienced during the global economic and financial crisis. A default by, or concerns about the stability of, one or more financial institutions could lead to significant systemic liquidity problems, or losses or defaults by other financial institutions, which could have a material adverse effect on the Bank's business, results of operations, financial condition and prospects.

The Bank is subject to the risk of exchange rate fluctuations

As at 30 September 2012, 37.6 per cent. of the Group's monetary financial assets (excluding derivatives) and 54.7 per cent. of its monetary financial liabilities (excluding derivatives) were denominated in foreign currencies. As at 31 December 2011, the Group's exposure to foreign currency (which represents the difference between monetary financial assets and monetary financial liabilities plus gross amount of the fair value of currency derivatives denominated in the particular currency) in U.S. dollars was a liability of UAH 12,690 million, in euros was a liability of UAH 506 million and in other currencies was an asset of UAH 1,088 million. Although the Bank is required to comply with the open currency position limits in respect of foreign currencies and banking metals set by the NBU and sets internal limits and performs certain other measures aimed at reducing exchange rate risk, these efforts may be insufficient and fluctuations in exchange rates may adversely affect the Bank's business, results of operations, financial condition and prospects.

The Bank is exposed to the risk of a potential outflow of retail deposits given the concentration of its funding base

The Bank has historically relied on retail deposits for a major portion of its funding needs. The Bank relies particularly on a large number of deposits with a small deposit amount (i.e. with an average deposit amount of approximately U.S.$689). Customer accounts of individuals comprised 50.4 per cent. of the Group's total liabilities as at 31 December 2009, 58.6 per cent. as at 31 December 2010, 65.3 per cent. as at 31 December 2011 and 67.8 per cent. as at 30 September 2012. The Bank's term deposits and balances on customer current accounts can be withdrawn at any time under Ukrainian law at the request of the respective depositors or account holders. As a result, such concentration of retails deposits exposes the Bank to liquidity risks if individual customers were to withdraw large amounts of deposits. Political, economic or social developments, or speculation about such developments, could trigger large scale withdrawals of retail deposits. If any such withdrawals occur, this may also lead to more customers withdrawing their deposits and may result in liquidity gaps that the Bank may not be able to cover through borrowing in domestic and international capital, syndicated loan and interbank markets, which could have a material adverse effect on the Bank's business, results of operations, financial condition and prospects.

The Bank relies on shareholder funding

The Bank has historically relied upon issues of new shares to its shareholders and on the capitalisation of dividends to support its funding strategy and its capital adequacy ratios. Although the principal shareholders of the Bank have provided additional capital to the Bank in the past, there is no assurance that this support will continue in the future or that they will be able to provide such support. The existing shareholders of the Bank have no obligation to inject additional capital. In addition, through their ownership of a majority of the Bank's voting share capital, its existing shareholders have the ability to block any increase in the Bank's capital. Any inability to raise sufficient amounts of capital or the withdrawal of funding support by the Bank's shareholders would have a material adverse effect on the Bank's funding strategy, may affect its ability to comply with its capital adequacy ratios and other regulatory requirements, and could have a material adverse effect on the Bank's business, results of operations, financial condition and prospects.

The Bank relies on NBU funding

In October 2008, the Bank obtained its first NBU refinancing loan in the amount of UAH 3,410 million (the "**First NBU Refinancing Loan**"). In October 2009, the maturity of the First NBU Refinancing Loan was extended. In January 2009, the amount of the First NBU Refinancing Loan was decreased by UAH 100 million as a result of repayment. In March 2009, the Bank obtained a second NBU refinancing loan in the amount of UAH 5,000 million, (the "**Second NBU Refinancing Loan**" and together with the First NBU Refinancing Loan, the "**NBU Refinancing Loans**"), which increased the total amount of NBU Refinancing Loans to UAH 8,310 million. In January 2010 and November 2012, the NBU extended the maturity date of the NBU Refinancing Loans. The NBU Refinancing Loans are currently repayable in instalments in accordance with agreed repayment schedules from July 2010 until December 2016. As at 31 December 2010 and 2011 and 30 September 2012, the total amounts outstanding under the NBU Refinancing Loans were UAH 7,312 million, UAH 5,825 million and UAH 4,786 million, respectively. If the Bank becomes ineligible to access further funding from the NBU at commercially acceptable terms or at all, or if the NBU changes the existing terms of its funding, this could have a material adverse effect on the Bank's business, results of operations, financial condition and prospects.

Instability of global financial markets and their effect on the Ukrainian economy and banking sector may adversely affect the Bank

The financial markets, globally, have faced significant volatility, dislocation and liquidity constraints since the onset of the global financial crisis in the autumn of 2008. Concerns regarding the stability of the financial markets generally and the strength of counterparties led many lenders to reduce, and in some cases, cease to provide, funding to borrowers, including other financial institutions, which has significantly reduced the liquidity in the global financial system.

While international credit markets started to recover from the global financial crisis in March 2009, they remain highly volatile. Further, significant government borrowing to finance the recapitalisation of financial and other institutions, substantial fiscal stimulus packages and increased government borrowing to finance budget deficits caused by lower tax receipts due to the economic downturns currently being experience by many countries have led to a deterioration of sovereign credit. As a result, global credit and capital markets continue to be fragile and suffer from crises of confidence. In particular, concerns about a European sovereign debt crisis commenced in 2009 with the situation becoming increasingly unstable in 2010 through 2012, when countries such as Portugal, Ireland, Italy, Greece and Spain, due, in part to, rising budget deficits and debt levels, suffered from spiking interest rates on sovereign bonds and, in some cases, curtailed ability to access capital markets for financing. The financial stability of these countries and other EU member states remains unclear. There can be no assurance that the disruptions in the global capital and credit markets will not be amplified or replicated elsewhere on a more significant scale in the near future. Accordingly, there can be no assurance that instability will not return and will not in turn adversely affect PrivatBank’s business, results of operations, financial condition and prospects.

Instability of global financial markets has in the past had, and may in the future have, a severe adverse impact on the liquidity of Ukrainian banks, including PrivatBank, and other financial institutions, the availability of credit, and the terms and cost of funding in Ukraine. Ukrainian banks continue to experience a reduction in the availability of long- as well as short-term financing.

The Bank may face liquidity risks

In common with other banks in Ukraine, since the global economic and financial crisis, the Bank has relied almost exclusively on corporate and retail deposits, NBU financing support and shareholder funding. See “**—***The Bank relies on shareholder funding*” and “**—***The Bank relies on NBU funding*”. Adverse economic conditions in Ukraine may result in the withdrawal of deposits by Ukrainian customers. Significant withdrawals of corporate or retail deposits may result in liquidity gaps that the Bank would need to cover. See “**—***The Bank is exposed to the risk of a potential outflow of retail deposits given the concentration of its funding base*”).

Furthermore, the Bank’s ability to obtain funding in the domestic and international capital, syndicated loan, interbank and trade finance markets in amounts sufficient to meet its funding needs was adversely affected by the economic downturn and the global economic and financial crisis, including the ongoing sovereign debt crisis in the euro zone. If such conditions return, this could result in, among other things, significantly higher interest rates and limited opportunities for funding in the capital or syndicated loan markets, making financing more difficult and costly to obtain.

Any deterioration in the financial condition of Ukrainian companies or the liquidity of Ukrainian and international capital, syndicated loan, interbank and trade finance markets, significant withdrawals of corporate and retail deposits and maturity mismatches between the Bank’s assets and liabilities (including currency mismatches), may lead to a lack of liquidity at certain times and consequently may, together or individually, have a material adverse effect on the Bank's business, results of operations, financial condition and prospects.

Interest rate volatility may adversely affect the Bank's results of operations

The Bank's net interest income is significantly impacted by volatility of interest rates (including changes in the difference between the levels of prevailing short- and long-term rates). Movements in interest rates may adversely affect the Bank's operations in a number of different ways. Interest rates are sensitive to many factors beyond the Bank's control, including the policies of the NBU and central banks of other jurisdictions, domestic and international economic and financial conditions and political factors. There can be no assurance that the Bank will be able to protect itself from the adverse effects of future interest rate fluctuations. Any fluctuations in interest rates could lead to a reduction in net interest income and net interest margin, and adversely affect the Bank's business, results of operations, financial condition and prospects.

The profitability of PrivatBank, similar to other banks, is affected by its net interest margin

The profitability of PrivatBank, similar to other banks, is affected by its net interest margin. A number of factors can have a negative effect on a bank's net interest margin, including factors such as:

- the bank's increasing rates on customer deposits during a period of stable or declining interest rates on loans and advances; and

- the change in the mix of the Bank's loan portfolio from higher risk loans and advances bearing higher interest rates to lower risk loans and advances bearing lower interest rates.

Decreases in the Group's net interest margin may have a material adverse effect on its business, results of operations and financial condition.

The Group's net interest margin was 10.73 per cent., 7.12 per cent. and 8.39 per cent. for the years ended 31 December 2009, 2010 and 2011, respectively. The Group's net interest margin was 5.84 per cent. and 4.96 per cent. for the nine months ended 30 September 2011 and 2012, respectively. Net interest margins for the nine months ended 30 September 2011 and 2012 are not presented on an annualised basis and therefore are not comparable with the full-year net interest margins for the years ended 31 December 2009, 2010 and 2011. For additional information, see "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Selected Statistical Information—Average Assets and Liabilities Balances and Interest Rate Data*".

The Bank has engaged and continues to engage in transactions with related parties that may present conflicts of interest, potentially resulting in the conclusion of transactions on less favourable terms than those that could be obtained in arm's length transactions

In the course of its business, the Bank has engaged, and continues to engage, in transactions with related parties, including entities under common control, that may present conflicts of interest, potentially resulting in the conclusion of transactions on less favourable terms than those that could be obtained in arm's length transactions. The Bank's shareholders currently have business interests in a variety of industries and sectors, including, but not limited to, the oil, gas, manganese ore, ferroalloy, iron ore and steel industries. For the oil industry concentrations in the Group's loan portfolio, see "*—Industry and borrower concentration in the Bank's loan portfolio, subjects it to heightened risk in the event of default by its customers*".

The Group's gross loans and advances to related parties were UAH 6,168 million, UAH 10,881 million, UAH 8,466 million and UAH 13,396 million as at 31 December 2009, 2010 and 2011 and 30 September 2012, respectively. The Group's related parties' customer accounts were UAH 2,686 million, UAH 2,331 million, UAH 3,966 million and UAH 4,331 million as at 31 December 2009, 2010 and 2011 and 30 September 2012, respectively. For more information on the transactions with related parties, see "*Shareholders*" and "*Related Party Transactions*" and the Consolidated Financial Statements.

Although the Bank aims to conduct its transactions with related parties on market terms and apply its standard approval procedures and limits to such transactions, there can be no assurance that all transactions with related parties will be entered into on such terms.

Accordingly, related party exposures may have a negative impact on the Bank's ratings and may have an adverse effect on the Bank's business, results of operations, financial condition and prospects.

The Bank may be unable to comply with capital adequacy requirements

Pursuant to the Law of Ukraine "On Banks and Banking Activity", dated 7 December 2000 (the "**Banking Law**") and the NBU's Resolution No. 368, dated 28 August 2001, which authorised the Instruction on Regulation of Activity of Ukrainian Banks (the "**Banking Regulation Instruction**"), the Bank's capital adequacy ratio must be 10.0 per cent. based on the Ukrainian accounting standards. This capital adequacy ratio was 11.72 per cent. as at 1 January 2012 and 10.99 as at 1 October 2012.

The Bank must also comply with the minimum regulatory capital requirement (i.e. the sum of principal (core) capital and additional capital), which was established by the NBU at the level of UAH 120 million and which in any event must not be less than the share capital of the Bank.

In addition, pursuant to the Banking Regulation Instruction, PrivatBank's regulatory capital to total assets ratio must be 9.0 per cent. based on the Ukrainian accounting standards. This ratio was 10.39 per cent. as at 1 January 2012 and 9.36 as at 1 October 2012. If PrivatBank's capital adequacy ratio and regulatory capital to total assets ratio were to fall below the required thresholds, this may violate covenants in certain of its loan agreements, affect its credit ratings and consequently borrowing costs and could lead to the imposition of sanctions by the NBU.

The NBU may amend the capital adequacy requirement and increase the capital adequacy ratio, the regulatory capital requirement or the regulatory capital to total assets ratio at any point and, in such circumstances, the Bank would be forced to seek additional capital or alternative sources of financing to comply with these requirements, which may not be available or may only be available at commercially unsustainable prices. Historically, the Bank has been supported by its shareholders. The existing shareholders of the Bank are under no obligation to inject additional capital into the Bank. Failure to increase its capital levels may adversely affect the Bank's ability to implement its strategic plans and may ultimately have a material adverse effect on the Bank's business, results of operations, financial condition and prospects.

The Bank and its foreign subsidiaries depend on their banking licences, other licences and other approvals having similar effect

All banking operations in Ukraine require licensing by the NBU. The Bank has a current licence for all of its banking and other operations. Although it is currently in compliance with its existing material licence and reporting obligations, there is no assurance that the Bank will be able to maintain such licences and other documents having similar effect in the future. The loss of the licences, breaches of terms of the licences by the Bank or failure to obtain any further required licences or other documents having similar effect in the future for whatever reason could result in the Bank being required to cease its banking operations which could have a material adverse effect on the Bank's business, results of operations, financial condition and prospects.

In addition, the Bank's international banking subsidiaries are highly regulated entities, which may fail to comply with the regulations applicable to banking entities in the jurisdictions where they do business. This could lead to a loss of important licences at one or all of these subsidiaries, which could, in turn, have an adverse effect on the Bank's reputation, business and prospects.

Laws and regulations regarding the Ukrainian banking sector are not as developed as in many western countries and may change rapidly or unexpectedly, which may impose risks on the Bank

The Bank operates in a highly regulated environment. Ukraine's laws and regulations regarding banks and banking activities are subject to change and development, which could be rapid or unexpected. It is difficult to predict how changes in banking and financial regulation may affect the Ukrainian banking system, and no assurance can be given that the regulatory system will not change in a way that will impair the Bank's ability to provide a full range of banking and financial services or to compete effectively, thus materially and adversely affecting the Bank's business, results of operations, financial condition and prospects.

In addition, notwithstanding regulatory standards in Ukraine, prospective investors should understand that regulatory standards applicable to banks in Ukraine and the oversight and enforcement thereof by the relevant regulators may differ from those applicable to banking operations in countries with more developed regulatory regimes. As a result, investors may not have the benefit of all of the protections available in such other countries.

The Bank may not be successful in managing growth or implementing its strategic plans

According to its strategy, the Bank plans to further expand its operations, including by offering new products and services to its corporate and retails customers such as, for example, products with an emphasis on card related bank technologies, as well as through organic growth and selective regional expansion. See "*Description of the Bank's Business—Strategy*". This exposes the Bank to a number of risks and challenges, including, among others, the following:

- new business activities or greater focus on its existing business activities may have less growth or profit potential than the Bank anticipates, and there can be no assurance that such business activities will remain or become profitable at the level the Bank desires or at all;

- the Bank may fail to identify and offer attractive new services in a timely fashion, putting it at a disadvantage to its competitors;

- the Bank's competitors, particularly foreign banks, may have greater experience in and resources for the new or existing business activities the Bank wishes to commence or focus on, and thus the Bank may not be able to attract customers from its competitors;

- the Bank may need to hire or retrain personnel who are able to supervise and conduct the relevant new business activities, adding to the Bank's cost base; and

- the Bank may need to enhance its information technology systems to support a broader range of activities and increased retail customer base.

To the extent the Bank further expands its international operations, it will be exposed to additional risks. In particular, the Bank may need to comply with new local licensing regimes and regulations and may also be affected by political and economic developments in other countries. The inability of the Bank to successfully manage growth and extract value from its new business areas or regions could adversely affect the Bank's business, results of operations, financial condition and prospects.

The Bank depends on its information technology systems

The Bank is reliant on centralised and automated systems and procedures supported by its information technology systems, in particular for the approval, recording, monitoring and enforcement of loans. In addition, the Bank has pursued a strategy aimed at increasing the volume of cash settlement operations, which has been supported by the Bank's advanced information technology systems. Furthermore, the Bank operates a variety of Internet-based products. See further "*Description of PrivatBank's Business—Internet and Mobile Banking*".

A significant proportion of the software run by the Bank is designed, written and maintained by PrivatBank's in-house information technology department. While the Bank sees this as a competitive strength, the successful operation of the Bank's business is reliant on qualified personnel. The Bank cannot provide any assurance that it will be successful in recruiting and retaining a sufficient number of information technology personnel with the requisite skills to replace any personnel that leave and meet the needs of its planned expansion. See "*Description of PrivatBank's Business—Information Technology*".

The Bank's financial performance and its ability to meet its strategic objectives will depend to a significant extent upon the functionality of its information technology systems and its ability to increase their capacity. In addition, the reliability of its information technology systems depends on future investments that may be necessitated by evolving technologies. Although the Bank has in place various safeguards such as regular back-ups and remote storage of data, there can be no assurance that its information technology systems will function without interruption in the future. As a result, there can be no assurance that even a short-term disruption to the normal operation of the Bank's information technology systems, or delays in increasing the capacity of the information technology, will not have a material adverse effect on the Bank's business, results of operations, financial condition and prospects.

The Bank may be unable to adequately assess the credit risk of borrowers and counterparties

Ukraine's system for gathering and publishing statistical information relating to the Ukrainian economy generally, and for specific economic sectors within it, or corporate or financial information relating to companies and other economic enterprises, is not as advanced as in established market economies.

In addition, although legislation regulating credit bureaus has been in place since 2006, credit bureaus are not widely developed in Ukraine and it is therefore particularly difficult to accurately assess the credit risk of individuals. Based on the data of the Unified Register of Credit History Bureaus established by the Law of Ukraine "On Organisation of Creation and Circulation of Credit History" dated 23 June 2005 (the "**Credit History Law**") and maintained by the National Commission for State Regulation of Financial Services Markets, as at 1 November 2012, there were seven private credit history bureaus registered in Ukraine. There is no national credit rating agency for individuals and no national database for companies or individuals who have previously been late payers or who have defaulted on loans. Moreover, the retail lending market in Ukraine is relatively underdeveloped and limited resources are available to Ukrainian banks to obtain the credit history of individual borrowers.

Although the Bank operates its own credit information gathering system, the more limited statistical, corporate, financial and credit-related information available in Ukraine compared to more developed countries may affect the accuracy of the Bank's assessments of credit risk. The Bank may therefore face greater risk of borrower default and incorrect valuations of collateral relative to banks in more developed countries, which may result in a deterioration of the Bank's loan portfolio and a corresponding increase in loan impairments which may have a material adverse effect on the Bank's business, results of operations, financial condition and prospects.

The Bank's results are subject to critical accounting estimates applied in valuation of financial instruments

The Group had outstanding derivatives embedded in loans issued to customers which were separated from the host instrument and carried at fair value of UAH 2,724 million at 30 September 2012, UAH 1,484 million at 31 December 2011, UAH 1,678 million at 31 December 2010 and UAH 2,005 million at 31 December 2009. During the nine months ended 30 September 2012 and the years ended 31 December 2011, 2010 and 2009, the Group recognised a gain of UAH 872 million, UAH 262 million, UAH 179 million and UAH 159 million, respectively, in respect of change in fair value of a financial derivative that arises on the issue of UAH denominated loans with the condition of compensation in the case of UAH devaluation against the U.S. dollar. These embedded derivatives are currently represented by a currency option maturing in 2013, 2014 and 2015. The fair values of these financial derivatives that are not quoted in active markets are determined by using valuation techniques. These valuation techniques take into account expected movements in exchange rates, discount factor and credit risk. Changes in assumptions about these factors could significantly affect reported fair values. In addition, movements in exchange rates in future periods may differ from the management's expectations which may impact the value of derivatives and in turn, have an adverse effect on the Bank's financial condition, results of operations and prospects. For more information, see "*Management's Discussion and Analysis of Results of Operations and Financial Condition—Contingencies, Commitments and Derivative Financial Instruments Contingencies—Derivative Financial Instruments*".

The interests of the Bank's controlling shareholders may conflict with those of the Noteholders

Mr. Gennady Bogolyubov and Mr. Igor Kolomoyskiy collectively own, directly or indirectly, approximately 92.59 per cent. of the Bank's statutory capital. Each of these shareholders has the ability to influence the Bank's business significantly in respect of all actions that require shareholder approval including election of members of the Supervisory Board, approval of major transactions, alteration of share capital and declaration of dividends, if any. In addition, Mr. Kolomoyskiy and Mr. Bogolyubov have the ability to influence the Bank's business through their membership on the Bank's Supervisory Board, which gives them the right, among other things, to elect and dismiss members of the Bank's Management Board. This ability to control and/or influence the Bank's business is further enhanced by virtue of the fact that the Bank has a minority of independent members on its Supervisory Board.

In addition, pursuant to Ukrainian law, shareholders holding at least 60 per cent. of a company's share capital are required for a quorum at a general shareholders meeting. Therefore, any shareholder or combination of shareholders representing more than 40 per cent. of the Bank's share capital has the ability to block certain corporate actions by refusing to attend the general shareholders meeting. As a result, certain circumstances may arise where the interests of Mr. Bogolyubov or Mr. Kolomoyskiy may conflict with the interests of the Noteholders, Noteholders could be disadvantaged by any such conflict, as such controlling shareholders could take actions contrary to Noteholders' interests. For example, Mr. Bogolyubov and Mr. Kolomoyskiy acting jointly may exercise control over the Bank's pursuit of acquisitions, divestitures, financings or other transactions that could enhance the value of their equity investment without necessarily benefiting the interests of the Noteholders. See "*Shareholders*" and "*Related Party Transactions*".

__The Bank is dependent on highly qualified employees__

The continued growth of the Bank's existing operations and its ability to implement its strategy depends on the Bank's ability to retain existing employees and to identify and recruit additional individuals who are not only familiar with local customs and market conditions, but who also have the necessary qualifications and level of banking experience. In particular, the Bank is dependent on its key management personnel (such as, for example, the members of its Supervisory Board or the Management Board) and is not insured against risks of their loss or removal. Although the Bank has established programmes for attracting and retaining its key management personnel, it cannot provide any assurance that it will be successful in retaining its key managers to meet the needs of its planned expansion. Increasing competition from international financial institutions in Ukraine who have significant capital resources may also continue to make it more difficult for the Bank to pay competitive salaries and to attract and retain qualified employees and may lead to rising labour costs in the future. If the Bank is unable to attract, train and retain sufficiently qualified individuals or if competition for qualified employees increases its labour costs, this may have a material effect on the Bank's business, results of operations, financial condition and prospects and may impair the Bank's ability to achieve its strategic objectives.

__There are risks associated with the Group's accounting and reporting systems and the internal controls relating to the preparation of IFRS financial information__

While the Group has been preparing its financial information in accordance with IFRS since 1994 and Management believes the Group's continuing automation of its data processing and verification procedures and other internal controls historically have allowed the Group to prepare accurate IFRS financial information in a timely and accurate manner, the Group does not have a fully integrated or automated information reporting system for the preparation of IFRS financial information or a fully developed system of internal controls over IFRS financial reporting. Furthermore, in some cases, the Group may lack formal procedures for monitoring transactions and for collecting and analysing financial and related information required for the preparation of accurate IFRS financial data. In those cases where the Group has established formal procedures, these procedures may be underdeveloped compared to those of companies in certain other jurisdictions.

Each of the Group's subsidiaries prepares its separate financial information under its respective local accounting standards for statutory reporting purposes. The Group then prepares its consolidated IFRS financial information on the basis of the subsidiaries' financial information with accounting adjustments as necessary. The transformation and consolidation process is complicated and time-consuming, requires significant attention from the Group's senior accounting personnel and may result in errors in the preparation of the Group's consolidated IFRS financial information.

While the Group plans to further improve the automation of its IFRS reporting system in 2013, the Group's lack of an integrated and established accounting and reporting system and related controls which have been in operation for, and tested over, an extended period of time could adversely impact the Group's ability to timely and accurately report its IFRS financial information.

__The Bank's internal controls may not be sufficiently robust__

Certain of the Bank's internal controls may not be sufficiently robust. Amongst other things, these deficiencies relate to loan file maintenance, management information and financial reporting and primarily arise as a result of data processing by the Bank's employees. The Bank has taken, and continues to take, steps to strengthen its internal controls and financial reporting processes. A failure by the Bank to adequately address such deficiencies or to strengthen its internal controls could increase the risks associated with its operations, which in turn could have a material adverse effect on its business, results of operations, financial condition and prospects. The Bank is reliant on highly centralised and automated systems and procedures supported by its information technology systems, in particular for the approval, recording, monitoring and enforcement of loans. Any defect or failure to implement or adhere to these systems or procedures could have a material adverse effect on the Bank's business, results of operations, financial condition and prospects.

PrivatBank's risk management policies and procedures may be ineffective

The Bank's policies and procedures for managing credit risk, market risk, liquidity risk and operational risk may prove ineffective. Some of the Bank's methods for managing risk are based upon observations of historical market behaviour, and the Bank applies statistical techniques to these observations to arrive at quantifications of its potential risk exposures. However, these methods may not accurately quantify the Bank's risk exposures, especially in situations that cannot be identified based on its historical data. In particular, if the Bank enters new lines of business, historical data may be incomplete.

Deficiencies in respect of credit risk management may lead to the Bank not being able to accurately assess default risk on loans provided to corporate, small business and retail customers. Deficiencies in respect of liquidity risk management may result in the inability of the Bank to meet its obligations in full when they become due without borrowing funds at higher than market rates or at all. Deficiencies in respect of interest rate risk management may have a negative impact on the Bank's funding costs, net interest income and net interest margin and may result in a gap between its interest-rate sensitive assets and liabilities. Currency risk management deficiencies may adversely affect the value of the Bank's assets and liabilities denominated in foreign currencies. Operational risk management deficiencies may result in significant unanticipated losses resulting from, among other things, fraud by employees or outsiders, mismanagement, unauthorised transactions by employees and operational errors. Therefore, material deficiencies in the Bank's risk management policies or procedures could have a material adverse effect on its business, results of operations, financial condition or prospects.

Compliance with anti-money laundering and anti-terrorism financing rules involves significant costs and efforts and non-compliance may have several legal, monetary and reputational consequences for the Bank

The Bank is subject to rules and regulations regarding money laundering and the financing of terrorism. Monitoring compliance with anti-money laundering and anti-terrorism financing rules can put a significant burden on banks and other financial institutions and pose significant technical problems. Although the Bank's management believes its current anti-money laundering policies and procedures are sufficient to ensure compliance with applicable laws, it cannot guarantee that the Bank is in compliance with all applicable anti-money laundering and anti-terrorism financing laws at all times or that its group-wide anti-money laundering and anti-terrorism financing standards are being consistently applied by its employees in all circumstances. Any violation of anti-money laundering and anti-terrorism financing rules, or even the suggestion of violations, may have severe legal, monetary and reputational consequences and, consequently, may have a material adverse effect on the Bank's business, results of the operations, financial condition and prospects.

Covenants in documentation related to the Bank's Existing Notes and the Notes restrict the Group from engaging in certain transactions. Breaches of these covenants could lead to materially adverse consequences for the Group's future operations

As at 30 September 2012, the Bank had outstanding obligations in respect of U.S.$200 million loan participation notes due 2015 issued by UK SPV Credit Finance plc (the "**Existing Notes**"). The terms of the Existing Notes require, and the terms of the Notes will require, the Bank to comply with certain covenants, which restrict the Bank and its subsidiaries, as applicable, from, among other things, engaging in certain corporate reorganisations, mergers, disposals, entering into certain transactions with related parties, creating, incurring or permitting to exist certain liens, declaring or paying dividends. If the covenants are breached, all amounts outstanding under the relevant loan agreement (including the principal amount and interest) can be declared immediately due and payable. Should this happen, the Bank may be unable to obtain adequate cash to discharge such obligations and this may lead to negative publicity. Furthermore, the loan agreements made in connection with the Existing Notes contain, and in connection with Notes will contain cross-default provisions, which provide for any indebtedness (subject to a certain *de minimis* threshold) of the Bank or any of its subsidiaries to become due and payable prior to the stated maturity thereof, following a default of the Bank or any of its subsidiaries or in the circumstances where the Bank or any of its subsidiaries fail to make any payment in respect of their indebtedness. There can be no assurance that these covenants governing the Existing Notes and the Notes will not be breached in the future.

Any material breaches by PrivatBank of covenants in documentation related to the Existing Notes and the Notes that could cause acceleration of repayments obligations or trigger cross-defaults could make it substantially more difficult for PrivatBank to obtain financing in the future, which could prevent it from successful implementation of its strategy and could have a material adverse effect on its business, results of operations, financial condition and prospects.

The Bank faces significant competition in the Ukrainian banking market

Despite the difficult recent economic conditions, the Ukrainian market for financial services remains highly competitive. According to the NBU, as at 30 November 2012 there were 176 commercial banks registered in Ukraine, excluding the NBU, all of which have been granted licences by the NBU to perform banking transactions. In Management's view, its principal competitors may be divided into three groups. The first group comprises the Ukrainian state-owned banks such as Oschadbank and Ukreximbank. Traditionally, Oschadbank primarily focused on utilities settlement operations. Ukreximbank is PrivatBank's competitor primarily in trade financing for state-owned corporate customers. By introducing laws and regulations, the Ukrainian government may attempt to transfer accounts of state corporate customers to such banks. The second group of PrivatBank's competitors comprises the banks controlled by a western parent. These banks include Raiffeisen Bank Aval, UkrSibbank, Ukrsotsbank and OTP Bank. Generally this group of banks enjoy lower funding costs. These banks have decreased their presence in Ukraine due to the high proportion of non-performing loans in their loan portfolios following the recent economic downturn. The third group of PrivatBank's competitors includes Russian banks operating in Ukraine through their subsidiaries. These banks include Alfa-Bank, Prominvestbank (a subsidiary of Vneshekonombank), VTB Bank and Sberbank. Management believes that these banks will be primarily concentrating on lending to large corporate borrowers, including Russian corporate borrowers operating in Ukraine, as they have not yet created a sufficient network and infrastructure to effectively compete in the retail banking sector. PrivatBank expects competition in deposit taking, corporate lending and settlement services to increase, which could narrow interest rate spreads between deposits and loans, which in turn could have an adverse impact on PrivatBank's net interest margin. In addition, PrivatBank's competitors may succeed in developing product lines which could be similar to PrivatBank's products and may be more successful in selling and marketing these products. If PrivatBank is unable to continue to compete successfully in the Ukrainian banking sector, there could be a material adverse effect on PrivatBank's business, results of operations, financial condition and prospects. See "*Description of PrivatBank's Business—Competition*".

Off-balance sheet credit-related commitments may lead to potential losses

As part of its lending and foreign trade-related activities, the Bank provides guarantees and import letters of credit. As at 30 September 2012, the Group issued guarantees amounting to UAH 825 million, and import letters of credit amounting to UAH 518 million, compared to

UAH 1,167 million and UAH 559 million, respectively, as at 31 December 2011. As at 31 December 2011 and 30 September 2012, the Group also had irrevocable commitments to extend credit amounting in total to UAH 84 million and UAH 83 million, respectively. Although all such credit-related commitments are classified as off-balance sheet items in the Group's financial statements, they still subject the Bank to credit risk. Credit related commitments are subject to credit approval and compliance procedures, and commitments to extend credit are contingent on the customers' maintaining specific credit standards, but these exposures are not fully secured. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Contingencies, Commitments and Derivative Financial Instruments—Credit related commitments*".

The Group had provisions of UAH 2 million as at 31 December 2011 and UAH 28 million as at 30 September 2012 for its off-balance sheet credit-related commitments. While Management believes that this provision is sufficient, there is a risk that the actual losses that the Bank may potentially incur on its credit-related commitments may exceed such allowance. Any such loss may have a material adverse effect on the Bank's business, results of operations, financial condition and prospects.

The Bank's borrowing costs and access to the international capital markets depend significantly on the Bank's credit ratings

As at the date of this Prospectus, the long-term credit rating of the Bank is B2 from Moody's and B from Fitch. Each of Moody's and Fitch is established in the European Community and registered under CRA Regulation. A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the assigning rating organisation.

Reduction in the credit ratings of the Bank (including due to factors over which the Bank has no control) could significantly increase its borrowing costs, limit its access to the international capital markets and trigger additional collateral requirements in derivative contracts and other secured funding arrangements, which could in turn materially adversely affect the Bank's competitive position and have a material adverse effect on the Bank's business, results of operations, financial condition and prospects.

Risks Relating to the Offering, the Notes and the Trading Market

An interest cap imposed by Ukrainian law may limit the Bank's ability to make payments under the Loan Agreement and, in turn, the Issuer's ability to make payments under the Notes

Ukrainian law prohibits Ukrainian borrowers from making, in connection with loans granted by foreign lenders, any payments (other than payments of principal), including interest, additional amounts, fees, default interest, penalties and other charges (collectively, the "**Capped Payments**"), that, in the aggregate per annum, exceed an amount determined by applying the applicable maximum interest rate established by the NBU (the "**MIR**") to the principal amount of the loan. Moreover, the parties to any such loan must reflect the MIR limitation in the text of the loan agreement. As at the date of this Prospectus, the MIR applicable to fixed interest rate loans in major foreign convertible currencies (including U.S. dollars) with maturities that are:

- less than one year is 9.8 per cent. per annum;
- from one year to three years is 10.0 per cent. per annum; and
- in excess of three years is 11.0 per cent. per annum.

The NBU has the authority to review and modify the MIR from time to time and could refuse to register a change in the Loan Agreement (e.g. as a result of the replacement of the Issuer with the Trustee as the Lender under the Loan due to enforcement of security by the Trustee) if the amount of the Capped Payments in connection with the Loan exceeds the then applicable MIR.

In the event of prepayment of the Loan, the NBU will not permit the aggregate amount of the Capped Payments under the Loan Agreement to exceed an amount determined by applying the relevant MIR to the principal amount of the Loan. While the NBU's regulation establishing the MIR requirement have not been tested in this regard, the NBU could require the application of the MIR based on the period for which the Loan has been outstanding as at the date of prepayment, rather than the MIR applicable to the Loan's contractual maturity. This would result in the application of a lower MIR to the amounts payable under the loan (e.g. the MIR applicable to fixed interest rate loans with maturities of less than one year or of one to three years instead of the MIR applicable to fixed interest rate loans with maturities in excess of three years).

At the current MIR, the Issuer would receive payment of the full amount of scheduled interest payments in respect of the Loan since the interest rate on the Loan, and the interest rate applicable to the Notes, are less than the currently effective MIR. However, any additional amounts, default interest or other amounts (except the repayment of principal), if any, payable to the Issuer in connection with the Loan could be limited by the MIR.

Further, since the NBU has the authority to review and modify the MIR from time to time, a reduction in the MIR could further limit the ability of the Issuer to collect interest, additional amounts, default interest or other charges payable in connection with a prepayment of the Loan.

If any amounts due from the Borrower under or in respect of the Loan would exceed the then applicable MIR, the Borrower would need to apply for an individual licence of the NBU in respect of such due amounts. If such application is not successful and if the Borrower would pay the Lender in breach of applicable laws and regulations, the Borrower may become subject to material penalties and/or other sanctions. If the Borrower would not pay such due amounts in such circumstances, it would be in default under the Loan.

Noteholders have limited recourse to the Issuer as payments under the Notes are limited to the amount of certain payments received by the Issuer under the Loan Agreement

The Issuer has an obligation under the Conditions and the Trust Deed to pay such amounts of principal, interest and additional amounts (if any) as are due in respect of the Notes. However, the Issuer's obligation to pay is limited to the amount of principal, interest and additional amounts (if any) actually received and retained (net of tax) from the Bank by or for the account of the Issuer pursuant to the Loan Agreement, less any amounts in respect of Reserved Rights. Consequently, if the Bank fails to meet its payment obligations under the Loan Agreement in full, this will result in the Noteholders receiving less than the scheduled amount of principal, interest or other amounts, if any.

Noteholders have no direct recourse to the Bank

Except as otherwise expressly provided in the Conditions and in the Trust Deed, no proprietary or other direct interest in the Issuer's rights under or in respect of the Loan Agreement exists for the benefit of the Noteholders. Subject to the terms of the Trust Deed, no Noteholder can enforce any provision of the Loan Agreement or have direct recourse to the Bank as borrower except through an action by the Trustee pursuant to the rights granted to the Trustee in the Trust Deed. Under the Trust Deed and the Conditions, the Trustee shall not be required to take proceedings to enforce payment under the Loan Agreement unless it has been indemnified and/or secured and/or pre-funded by the Noteholders to its satisfaction. In addition, neither the Issuer nor the Trustee is required to monitor the Bank's financial performance. See "*Terms and Conditions of the Notes*".

Payment in full of the principal and interest by the Bank pursuant to the Loan Agreement, to, or to the order of, the Trustee or the Principal Paying Agent will satisfy the Issuer's obligations in respect of the Notes. Consequently, Noteholders will have no further recourse against the Issuer or the Bank after such payment is made in full.

The claims of Noteholders may be limited in the event that the bank is liquidated by the NBU

Ukrainian bankruptcy laws differ from bankruptcy laws of England and are subject to varying interpretations. There is not enough precedent to be able to predict how claims of the Issuer, the Trustee or the Noteholders against the Bank would be resolved in the event of the Bank's liquidation. In the event of the Bank's liquidation, the claims of the Issuer, the Trustee and the Noteholders would be treated as unsecured and the Bank's obligations to the Issuer, the Trustee or, as the case may be, the Noteholders would be subordinated to the following obligations:

- obligations secured by pledge or mortgage of the Bank's assets;
- expenditures associated with the conduct of the liquidation proceedings;
- obligations arising as a result of inflicting harm to the life or health of individuals;
- payment of wages to the Bank's employees due as of the commencement of the liquidation procedure;
- obligations to the Fund for the Guaranteeing of Deposits of Individuals (the "**Deposits Guarantee Fund**");
- obligations to individual depositors in an amount exceeding the sum paid by the Deposits Guarantee Fund;
- obligations to the NBU with respect to a decrease in the value of the collateral securing refinancing loans; and
- obligations to individuals (with the exception of individual entrepreneurs) with respect to blocked payments.

In the event of insolvency, Ukrainian bankruptcy law may materially adversely affect the Bank's ability to make payments to the Issuer or the Trustee

Claims against the Bank may be incapable of enforcement upon the introduction by the NBU of temporary administration of the Bank.

After a bank is determined to be insolvent, the Deposits Guarantee Fund becomes the temporary administrator of the bank. The Deposits Guarantee Fund will appoint an authorised representative (the "**Administrator**") who will replace all of the bank's governing bodies for the entire term of the temporary administration (for all banks up to three months with an extended term of six months for systemic banks) and be authorised to carry out any acts aimed at the bank's financial rehabilitation, including but not limited to: (i) making any decision, which would have been under the authority of the governing bodies of the bank; (ii) entering into any agreements on behalf of the bank that are necessary for the operational activity of the bank; (iii) continuing, limiting or cancelling any operations of the bank; and (iv) within a period of 30 days from the commencement of temporary administration, initiate a review of the agreements entered into by the bank in the year preceding commencement of temporary administration. Any such agreements which, upon the results of such review: (i) have disposed or provide for the disposal of the bank's property not on arm's length terms; (ii) provide for privileges to a borrower in the case of loan agreements which are not granted on arm's length terms; (iii) are aimed at stripping assets from the bank in the case of loan agreements and other commercial agreements; (iv) provide for any payment or transaction with property of the bank which grant additional privileges to particular creditors of the bank; (v) are related party transactions if such transactions contradict legislation of Ukraine or create a threat to depositors and creditors of the bank; and (vi) amount to commercial transactions where payments made significantly exceed the market price of goods purchased by the bank, will be invalid and the Administrator will be entitled to claim in court for full restitution, meaning that the bank will be required to repay all amounts received from the transferee and the transferee will be required to return the assets to the bank (or, if such return is not possible, to pay to the bank the value of the assets).

If the Loan Agreement were to be declared invalid on such a basis, and a court applies Ukrainian law, the Bank would be required to repay to the Issuer all funds received from the Issuer pursuant to the Loan Agreement, and the Issuer would be required to repay to the Bank all funds received from the Bank pursuant to the Loan Agreement. There is also a lack of certainty as to whether, in such event, the court might apply any other consequences of the invalidation of the Loan Agreement (this would depend on the facts of the relevant case).

Professional advisors of the Bank have advised that they believe there is no basis for challenging the validity of the Loan Agreement or any transaction contemplated thereunder as contravening the requirements of Ukrainian legislation. However, in view of the risks associated with the Ukrainian legal system as disclosed under "*Risks Relating to Ukraine—Ukraine's developing legal system creates risks and uncertainties for investors in Ukraine and for participants in the Ukrainian economy*", no assurance can be given that the courts in Ukraine would interpret this in the same manner.

It is to be noted that during the term of operation of the temporary administration of a Ukrainian bank, none of the following will apply: (i) satisfaction of claims of depositors and other creditors of the bank; (ii) enforcement of claims at the expense of property of the bank, arrest of the bank's property; (iii) accrual of any financial sanctions for the non-performance of the bank's payment obligations (including default interest, penalties and fines); and (iv) set-off, if it violates the priority of a creditor's claim under applicable law. Applicable legislation exempts the following payments from the moratorium: ongoing operational activities of the bank, including payroll liabilities, copyright liabilities, obligations in respect of personal injuries to the bank's employees; as well as claims of depositors under agreements, if due, in an amount not exceeding a maximum amount as provided by applicable law.

The Notes may be redeemed prior to maturity

In the event that the Issuer becomes obliged to increase the amounts payable in respect of any Notes due to any withholding or deduction for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of Ukraine or the United Kingdom or any political subdivision thereof or any authority therein or thereof having power to tax, the Bank would be required to increase amounts payable under the Loan Agreement.

In such circumstances, and if such obligation arises as a result of an amendment to or change in law or regulation of Ukraine or the United Kingdom or any change in the application thereof, the Bank may (subject to certain conditions) prepay the Loan, in which case the Issuer would redeem all outstanding Notes in accordance with the Conditions.

In addition, the Notes will be redeemed in whole, but not in part, upon notice to the Noteholders, at any time at their outstanding principal amount together with accrued interest to the date of redemption and any additional amounts in respect thereof, (i) if the Bank elects to prepay the Loan for other tax reasons (in addition to the circumstances described above) or by reason of increased costs; (ii) upon a Change of Control (as defined in Clause 1.1 (*Definitions*) of the Loan Agreement); or (iii) in the event that it becomes unlawful for the Issuer to fund the Loan or to allow it to remain outstanding under the Loan Agreement, all as more fully described in Clause 6 (*Repayment and Prepayment*) of the Loan Agreement. See "*The Loan Agreement*". See also Condition 6.2 (*Mandatory Redemption*) of "*Terms and Conditions of the Notes*".

Any Notes acquired by the Bank or any of its subsidiaries may be surrendered through the Issuer to the Principal Paying Agent for cancellation, and the Loan shall be deemed to have been prepaid in an amount corresponding to the aggregate principal amount of the Notes surrendered for cancellation.

It is possible that treaty relief will not be available and therefore that payments of interest under the Loan will be subject to withholding tax and that the Bank will be able to prepay the Loan under the Loan Agreement

In general, payments of interest on borrowed funds by a Ukrainian entity to a non-resident legal entity, provided that the interest is not effectively connected with a permanent establishment of the non-resident entity situated in Ukraine, are subject to Ukrainian withholding tax at the rate of 15 per cent., not including any reduction or elimination pursuant to the terms of any applicable tax treaty. Under the terms of the Convention between the Government of the United Kingdom of Great Britain and Northern Ireland and the Government of Ukraine for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income and Capital Gains of 10 February 1993 (the "**Double Tax Treaty**"), as it is currently applied, payments of interest on the Loan will not be subject to withholding tax, provided that certain conditions set forth in the Double Tax Treaty and under applicable Ukrainian law are duly satisfied. However, there can be no assurance that the exemption from withholding tax under the Double Tax Treaty is, or will continue to be, available.

Specifically, in order for the exemption from withholding under the Double Tax Treaty to be applicable, the Issuer must be resident in the United Kingdom for the purposes of the Double Tax Treaty, must be the beneficial owner of the interest payments being received in the United Kingdom and must be subject to tax in respect of such interest payments in the United Kingdom. The exemption will not be available under the Double Tax Treaty if the Issuer carries on business through a permanent establishment or other fixed place of business located in Ukraine, and the debt claim in respect of which the interest is paid is effectively connected with such permanent establishment or other fixed place of business. In addition, the notion of beneficial ownership is not well defined in Ukrainian tax law. Furthermore, it is not clear how the test of taxation of interest payments in the United Kingdom will be interpreted and applied by the Ukrainian authorities in practice. As a consequence, different interpretations are possible and the position could be taken that the Issuer should not be viewed as the beneficial owner of the interest payments being received in the United Kingdom or subject to tax thereon in the United Kingdom. See also "*Taxation—Ukraine—Withholding Tax on Interest Payments and Principal Repayments under the Loan*".

In addition, Article 11(7) of the Double Tax Treaty contains a "main purpose" anti-avoidance provision. While there is no established practice of the Ukrainian tax authorities with respect to the application of this provision, if the Ukrainian tax authorities were to take the position that one of the main purposes of selecting the United Kingdom, the Issuer's jurisdiction of residence, for this loan transaction was to avail the Issuer of the tax benefits provided under the Double Tax Treaty, the Ukrainian tax authorities may invoke the anti-avoidance provision of Article 11(7). In such circumstances, there is a risk that payments of interest by the Bank under the Loan would cease to have the benefit of the Double Tax Treaty.

If this were to occur, or if the Issuer or any successor or assignee of the Issuer were to cease to be resident of the UK or of a jurisdiction that has a double tax treaty with Ukraine that is similar to the Double Tax Treaty, or if the Issuer will not be viewed as the beneficial owner of the interest payments under the Loan, or if the Issuer or any successor or assignee of the Issuer were to take any action that would render the Double Tax Treaty or similar treaty inapplicable, the Bank would have to withhold an amount of Ukrainian withholding tax in respect of payments under the Loan Agreement and therefore become obligated to pay additional amounts, and may prepay the Loan at its principal amount, together with accrued interest. Thereupon the Issuer would prepay all outstanding Notes. See also "*Risk Factors—Risks relating to the Offering, the Notes and the Trading Market—Obligation to pay additional amounts under the Loan Agreement may not be enforceable*". Furthermore, such additional amounts would amount to Capped Payments and be subject to the maximum interest rate established by the NBU. See also *"Risk Factors – Risks relating to the Offering, the Notes and the Trading Market—Any interest cap imposed by Ukrainian law may limit the Bank's ability to make payments under the Loan Agreement and, in turn, the Issuer's ability to make payment under the Notes."*

If the Trustee were to enforce the security under the Trust Deed, payments under the Loan Agreement could lose the benefit of the Double Tax Treaty and could become subject to Ukrainian withholding tax

If the Trustee were to enforce the security under the Trust Deed, following a Relevant Event, the Trustee will be entitled to payments of principal and interest under the Loan Agreement. As a result, payments under the Loan Agreement may cease to have the benefit of the Double Tax Treaty and may consequently become subject to Ukrainian withholding tax unless the Trustee meets all the criteria for the exemption under the Double Tax Treaty. If this were to occur, the Borrower would be obliged to pay additional amounts on account of Ukrainian taxes withheld and would become entitled to prepay the Loan at its principal amount, together with accrued interest as set forth in the Loan Agreement.

Obligation to pay additional amounts under the Loan Agreement may be unenforceable

Ukrainian tax law contains restrictions that may affect the validity and enforceability of the obligation of the Bank to pay additional amounts under the Loan Agreement due to the effect of Ukrainian withholding tax. In May 2012, the State Tax Service of Ukraine issued a letter indicating that under the Tax Code, tax gross-up, tax reimbursement and tax indemnity clauses of agreements between Ukrainian residents and their foreign counterparties contravene the requirements of Ukrainian legislation that prohibit the shifting of the foreign counterparty's tax payment obligation to the Ukrainian resident. Therefore, there is a risk that payments of interest and/or principal by the Issuer to investors could be reduced by any such amounts withheld by virtue of such applicable Ukrainian withholding tax.

A failure by the Bank to pay additional amounts due under the Loan Agreement would constitute an event of default under the Loan Agreement. Also, in the event that the Bank would become obliged to pay additional amounts under the Loan Agreement, the Bank may prepay the Loan at its principal amount, together with accrued interest, and thereupon all outstanding Notes will be prepaid by the Issuer. See "*Risk Factors—Risks relating to the Banks—The Notes may be redeemed prior to maturity*".

The Loan Agreement could be challenged as a result of the Issuer not qualifying as a financial institution

The Commercial Code of Ukraine provides that Ukrainian borrowers may borrow foreign currency loans from "foreign financial institutions". It is unclear whether the Issuer may be regarded as a "foreign financial institution" for these purposes. However, the specified provision of the Commercial Code of Ukraine is generally regarded in Ukraine as declaratory rather than restrictive, and a broad practice of Ukrainian companies' borrowing from foreign companies which are not financial institutions supports this position. The NBU regulations governing the extension of cross-border loans by foreign lenders to Ukrainian borrowers do not prevent the registration of loans from foreign lenders which are not financial institutions, and the NBU does register such loans in practice.

Ukrainian currency control regulations could restrict the Bank's ability to make payments to the Issuer or the Trustee under the Loan Agreement

The NBU is empowered to establish the policy and regulate currency operations in Ukraine, as well as establish any restrictions on currency operations, cross-border payments and the repatriation of profits.

Ukrainian currency control regulations and practice are subject to continuing change, with the NBU exercising considerable autonomy in their interpretation and application. While at present the Loan Agreement is only subject to registration with the NBU and no licence is required to be obtained from the NBU in order to make payments of principal and interest under the Loan Agreement, there can be no guarantee that such law and practice will remain unchanged during the term of the Loan. If the NBU determines in the future that a licence is required for payments by the Bank under the Loan Agreement, the Bank will need to apply for a licence. The Bank cannot assure investors that it will receive such a licence in such case. If the Bank does not receive such a licence (if one were to be required), no assurance can be given that the Bank will not be restricted from making payments under the Loan Agreement.

Among the exemptions from the requirement to obtain an individual licence from the NBU (the "**Cross-border Payment Licence**"), Decree of the Cabinet of Ministers of Ukraine No. 15-93 dated 19 February 1993 "On the System of Currency Regulation and Currency Control" lists "foreign currency payments made from Ukraine abroad in the form of interest payments on a loan" extended to a Ukrainian resident by a foreign lender. By its terms, this exemption refers to interest payments only and does not refer to the ability to repay principal under a loan. This omission is generally regarded a result of poor drafting. The Bank is unaware of any situation in which a Cross-border Payment Licence was required to remit principal payments under a loan agreement validly registered with the NBU, such as the Loan Agreement. Nonetheless, there is a remote risk that a contrary approach could be applied by the NBU, other Ukrainian state authorities or the Ukrainian courts in respect of the Loan Agreement.

The currently existing statutory exemptions from the licensing regime of the NBU arguably do not cover any payments that may have to be made by the Borrower from Ukraine abroad pursuant to the Loan Agreement other than the repayment of principal, the payment of interest and the payment of fees (the "**Fees**"). In particular, these statutory exemptions do not expressly extend to the following categories of cross-border payments (collectively, the "**Restricted Payments**"): indemnities, default interest, tax gross-up payments, tax indemnity, increased costs, currency indemnity, costs/expense/stamp tax reimbursement and indemnification and other similar payments that may need to be made by the Borrower from Ukraine abroad pursuant to the Loan Agreement and the other related transaction documents. Although any Restricted Payment may legally be made only after the relevant Cross-border Payment Licence has been obtained for such Restricted Payment, the NBU would refuse to issue a Cross-border Payment Licence on a contingency basis or for a contingency payment, when the exact amount of the payment and its term cannot be specified. If the Restricted Payments are made by the Borrower in the absence of a Cross-border Payment Licence, this may result in the imposition by the NBU of penalties on the Borrower for the violation of applicable currency control regulations, but would not result in the Loan Agreement or other transaction documents being invalidated. While the lack of a Cross-border Payment Licence would not affect the legality, validity and binding nature of the Loan Agreement or any related transaction documents that provide for the relevant Restricted Payments (and would not affect the legality, validity and binding nature of the obligation of the Borrower to make such Restricted Payment pursuant to the Loan Agreement and other transaction documents), the absence of this licence may delay or prevent the timely making of the Restricted Payment. Furthermore, although Ukrainian currency control regulations are silent in this respect, the Borrower should be permitted to make the Restricted Payment pursuant to a valid and effective order issued by a Ukrainian court (enforcing a foreign arbitral award or adopted upon review of the merits of the dispute).

While the Loan Agreement will be registered with the NBU, payments of principal and interest under the Loan Agreement to any entity other than the Issuer would require prior registration with the NBU of the resulting change in the Loan Agreement. In addition, any such change in the Loan Agreement requires the prior approval of the NBU for assignment of the Issuer's rights under the Loan Agreement and the amendment of the Loan Agreement. The NBU has a broad discretion in evaluating such amendments, and could refuse to provide such approval as a result of, for example, insufficient documentation. As a result, there can be no assurance that such an assignment of the Issuer's rights under the Loan Agreement would be successfully approved by the NBU to enable the Bank to make payments on the Loan Agreement to an entity other then the Issuer.

There is an NBU regulation pursuant to which the State Information and Analytical Centre for Monitoring External Commodity Markets (the "**SIAC**") is required to review the fees for services rendered by a non-resident to a resident under an agreement for services (or a series of agreements for similar services purchased within one calendar year from the same payee) with a value in excess of €100,000 (or an equivalent value in another currency), excluding payments made by banks in favour of non-residents for rendering financial services, as well as payments made according to the registration notice bearing the registration notation of the NBU evidencing the registration of a loan from a non-resident. Unless a cross-border transaction relating to the non-resident's services is licensed by the NBU, or is otherwise subject to an exemption, any such payment can only be made if the SIAC determines that the value of the services set forth in the agreement (or in the series of agreements) is in line with market conditions. If the SIAC for any reason refuses to make that determination, any such payment can be made only on the basis of a specific permission from the NBU. If the SIAC determines that the fees are excessive, or refuses to make that determination and the NBU does not grant the permission, the payment of fees cannot be made (unless such decision of the SIAC or the NBU has been overruled by a court order). The Bank's payments of fees under the Loan Agreement are exempt from this requirement to the extent they constitute fees for financial services under Ukrainian law, which the Bank believes to be the case. However, a risk exists that such exemption would not apply if the Bank were required to make any payment of such fees to a non-resident that is not authorised to render financial services under the laws of its jurisdiction, or if such services were not regarded as financial services for purposes of the applicable regulations of the NBU.

Foreign judgments may not be enforceable against the Bank

Under the Loan Agreement, the Issuer, in its capacity as Lender, may, at its sole option, initiate litigation proceedings in the courts of England or arbitration proceedings in London, England against the Bank.

Courts in Ukraine will recognise and/or enforce any judgement obtained in a court established in a country other than Ukraine if such recognition and/or enforcement is provided for in an international treaty to which Ukraine is a party, in accordance with the terms of such treaty. No such treaty exists between Ukraine and the United Kingdom or the United States for reciprocal enforcement of foreign court judgements. Accordingly, the holders of the Notes and parties to the Loan Agreement will generally not be able to enforce a judgment of a United Kingdom court in Ukraine pursuant to any such treaty.

In the absence of an international treaty providing for the recognition and enforcement of judgments, the courts of Ukraine may only recognise and/or enforce a foreign court judgment on the basis of the principle of reciprocity. Unless proven otherwise, reciprocity is deemed to exist in relations between Ukraine and the country where the judgment was rendered. However, Ukrainian law does not provide any clear rules on the application of the principle of reciprocity. In addition, there is no official interpretation and there is limited court practice with respect to such principle of reciprocity. Accordingly, there can be no assurance that the Ukrainian courts will recognise and/or enforce a judgment rendered by the courts of the United Kingdom or the United States on the basis of the principle of reciprocity. Furthermore, the courts of Ukraine might refuse to recognise and/or enforce a foreign court judgment on the basis of the principle of reciprocity on grounds provided in Ukrainian law in effect on the date on which such recognition and/or enforcement is sought.

Since Ukraine is a party to the New York Convention, an arbitral award would be enforceable in Ukraine, subject to the terms of the New York Convention. See "*Enforceability of Judgments*".

A Ukrainian court may apply Ukrainian law notwithstanding the choice of foreign law by the parties if the court determines that (a) the content of foreign law in respect of the relevant matter cannot be established within a reasonable time, (b) the relevant matter is not of a contractual nature and falls under the mandatory regulatory requirements of Ukraine or another relevant jurisdiction (including tax, currency exchange, banking or financial services legislation) or (c) the application of the relevant foreign law provisions would produce a result incompatible with the public order of Ukraine. Ukrainian legislation and court practice do not determine the precise scope or content of the concept of the "public order" of Ukraine.

The validity and enforcement in Ukraine of the Loan Agreement and other related transaction documents may be limited by statutes of limitation, lapses of time, and laws relating to bankruptcy, insolvency, temporary administration, liquidation or reorganisation or other laws relating to or affecting generally the enforcement of the rights of creditors.

There is no active trading market for the Notes

The Notes are new securities which may not be widely distributed and for which there is currently no active trading market. If the Notes are traded after their initial issuance, they may trade at a discount to their initial offering price, depending upon prevailing interest rates, the market for similar securities, general economic conditions and the financial condition of the Borrower. Although application has been made for the Notes to be admitted to the Official List and to be admitted to trading on the Main Securities Market, there is no assurance that such application will be accepted or that an active trading market will develop. Accordingly, there is no assurance as to the development or liquidity of any trading market for the Notes.

The market price of the Notes may be volatile

The market price of the Notes could be subject to significant fluctuations in response to actual or anticipated variations in the Bank's own and the Bank's competitors' operating results, adverse business developments, changes to the regulatory environment in which the Bank operates, changes in financial estimates by securities analysts, and the actual or expected sale of a large number of Notes, as well as other factors, including the trading market for Notes issued by or on behalf of Ukraine as a sovereign borrower. In addition, in recent years the global financial markets have experienced significant price and volume fluctuations which, if repeated in the future, could adversely affect the market price of the Notes without regard to the Bank's results of operations, prospects or financial condition.

The Issuer may issue Further Notes with identical terms that may have a negative impact on the market value of the Notes

If Further Notes (as defined herein) are issued in subsequent offerings that are not fungible with the Notes for US federal income tax purposes, US Holders of those notes may be required to accrue original issue discount on the Further Notes into income whether or not they receive cash payments. Because the Further Notes may not be distinguishable from the previously outstanding Notes, that may adversely affect the market value of all of the Notes. See "*Taxation—United States Federal Income Tax Considerations—Further Notes*".

The Notes may be subject to FATCA if the Issuer is substituted, if the Notes are materially modified, or considered equity in the Issuer for US federal income tax purposes

The Issuer expects the Notes to be exempt from withholding tax under sections 1471-1474 of the US Internal Revenue Code (commonly known as "FATCA") based on the assumption that the Notes are considered to represent beneficial interests in the Loan for US federal income tax purposes and therefore expected to represent interests in a grandfathered obligation for purposes of FATCA. The characterization of the Notes is not entirely free from doubt, and there is no guarantee that the US Internal Revenue Service or a court will agree with the Issuer's characterization. The Notes may be subject to withholding tax under FATCA if rather than representing beneficial interests in the Loan for US federal income tax purposes, the Notes are considered equity in the Issuer. If the Notes are considered equity of the Issuer for US federal income tax purposes, the Notes may be subject to a 30% withholding tax on payments of interest and principal under FATCA possibly beginning as early as 2017.

Any negative change in Ukraine's or the Bank's own credit rating could adversely affect the market price of the Notes

The foreign-currency long-term debt of Ukraine is currently rated B with negative outlook by S&P, B3 with negative outlook by Moody's Deutschland GmbH ("**Moody's Deutschland**") and B with stable outlook by Fitch. As at the date of this Prospectus, the long-term credit rating of the Bank is B2 from Moody's and B from Fitch. Each of S&P, Moody's, Moody's Deutschland and Fitch is established in the European Community and registered under CRA Regulation. A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the assigning rating organisation. Any negative change in Ukraine's or the Bank's own credit rating could materially adversely affect the market price of the Notes.

The Notes may not be a suitable investment for all investors

Each potential investor in the Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained in this Prospectus;

- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact such investment will have on its overall investment portfolio;

- have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes;

- understand thoroughly the terms of the Notes and be familiar with the behaviour of the relevant financial markets; and

- be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Exchange rate risks and exchange controls

The Issuer will pay principal and interest on the Notes in U.S. dollars. This presents certain risks relating to currency conversions if any investor's financial activities are denominated principally in a currency or currency unit (the "**Investor's Currency**") other than the U.S. dollar. These include the risk that exchange rates may significantly change (including changes due to devaluation of the U.S. dollar or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency relative to the U.S. dollar would decrease: (i) the Investor's Currency equivalent yield on the Notes; (ii) the Investor's Currency equivalent value of the principal payable on the Notes; and (iii) the Investor's Currency equivalent market value of the Notes.

The Notes may only be transferred in accordance with the procedures of the depositaries in which the Notes are deposited

Except in limited circumstances, the Notes will be issued only in global form, with interests therein held through the facilities of Euroclear, Clearstream, Luxembourg and/or DTC. Ownership of beneficial interests in the Notes is shown on, and the transfer of that ownership is effected only through, records maintained by Euroclear, Clearstream, Luxembourg and/or DTC or their nominees and the records of their participants. The laws of some jurisdictions may require that certain purchasers of securities take physical delivery of such securities in definitive form. These laws may impair the ability to transfer beneficial interests in the Notes. Because Euroclear, Clearstream, Luxembourg and/or DTC can only act on behalf of their participants, which, in turn, act on behalf of owners of beneficial interests held through such participants and certain banks, the ability of a person having a beneficial interest in a Note to pledge or transfer such interest to persons or entities that do not participate in the Euroclear, Clearstream, Luxembourg and/or DTC systems may be impaired.

Risks Related to the Issuer

The UK Regime for the taxation of securitisation companies

The UK tax treatment of the Issuer will depend upon whether the Issuer qualifies as a "securitisation company" within the meaning of the Taxation of Securitisation Companies Regulations 2006 (as amended) (the "**Regulations**"). The Regulations set out a number of criteria which a company must satisfy in order to qualify as a securitisation company. These criteria are intended to ensure, in very broad terms, that a company's activities are limited to those relating to its participation in an appropriate debt funding structure, and that its assets predominantly constitute certain financial assets.

If the Issuer qualifies as a securitisation company, then it will not be subject to the ordinary provisions which determine a company's taxable profit for UK corporation tax purposes. Instead it will, broadly speaking, be subject to corporation tax on the cash profits retained by it for each accounting period in accordance with the transaction documents.

If the Issuer does not qualify as a securitisation company, then the ordinary provisions which determine a company's taxable profits for UK corporation tax purposes will apply and this might result in the Issuer being subject to corporation tax on more than its retained profit, for example as a result of a mismatch between the accounting-based amounts required to be brought into account for tax purposes and the actual payments or receipts. It would also be necessary to consider whether payments made by the Issuer were fully deductible under provisions which can treat certain payments in respect of securities as non-deductible distributions.

DESCRIPTION OF THE TRANSACTION

The following information about the Notes and the Loan should be read in conjunction with, and is qualified in its entirety by, the information set forth under "The Loan Agreement" and "Terms and Conditions of the Notes" appearing elsewhere in this Prospectus.

The transaction will be structured as a loan to the Borrower by the Lender.

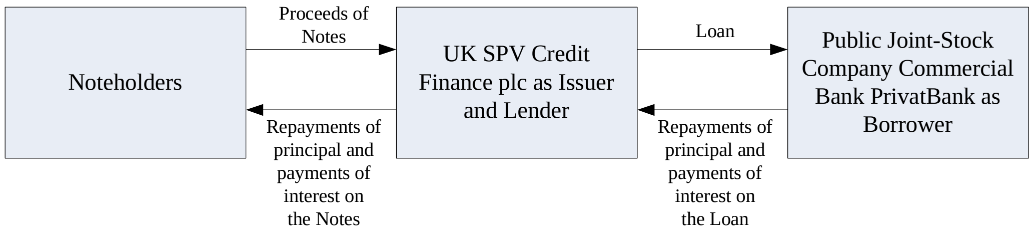
The Notes are limited recourse loan participation notes to be issued by the Issuer for the sole purpose of financing the Loan. The Notes will be constituted and secured by and will be subject to, and have the benefit of, the Trust Deed. The Notes will be secured by a first fixed security on: (a) all of the Issuer's rights to principal, interest and other amounts paid and payable by the Borrower to the Issuer as lender under the Loan Agreement; (b) all amounts payable by the Borrower under any claim, award or judgment relating to the Loan Agreement; (c) all of the Issuer's rights, title and interest in and to all sums held on deposit in the Lender Account (as defined in the Trust Deed), together with the debts represented thereby (other than interest from time to time earned thereon); and (d) all of the Issuer's rights, title and interest in Permitted Investments if any (as defined in the Trust Deed), pursuant to the Trust Deed, in each case, other than the Reserved Rights (as defined in the Terms and Conditions of the Notes). The Issuer will also assign certain administrative rights under the Loan Agreement to the Trustee for the benefit of the Noteholders.

The Borrower will be obliged to make payments under the Loan Agreement to the Lender in accordance with the terms of the Loan Agreement to the Lender Account. The Issuer will agree in the Trust Deed not to make any amendment to or any modification or waiver of, or authorise any breach or proposed breach of, the terms of the Loan Agreement unless the Trustee has given its prior written consent or except as otherwise expressly provided in the Trust Deed and the Loan Agreement. The Issuer will further agree to act at all times in accordance with any instructions of the Trustee from time to time with respect to the Loan Agreement, save as otherwise provided in the Trust Deed. Any amendments, modifications, waivers or authorisations made with the Trustee's consent shall be notified to the Noteholders in accordance with Condition 15 (*Notices*) and shall be binding on the Noteholders. Formal notice of the security interests created by the Trust Deed will be given to the Borrower and the Trustee, who will each be required to acknowledge the same.

In the event that the Trustee enforces the security interests granted to it, the Trustee will assume certain rights and obligations towards the Noteholders as more fully set out in the Trust Deed.

The Notes are limited recourse obligations and the Issuer will not have any obligation to the Noteholders other than the obligation to account to the Noteholders for payments of amounts actually received by it under the Loan Agreement less the Reserved Rights, which the Issuer is entitled to retain from any amounts actually received.

Set out below is a diagrammatic representation of the structure following the issue of the Notes:



USE OF PROCEEDS

The gross proceeds from the offering of the Notes, being U.S.$175,000,000 will be used by the Issuer for the purpose of financing the Loan to the Bank. The Bank will receive the gross proceeds of the Loan, in the amount of U.S.$175,000,000 and will separately pay commissions, fees and expenses in connection with the offering of approximately U.S.$1,400,000. The Bank will use the proceeds of the Loan for general corporate purposes.

CAPITALISATION AND INDEBTEDNESS

The table below sets forth the Group's consolidated capitalisation as at 30 September 2012, derived from the Interim Consolidated Financial Information included elsewhere in this Prospectus. The table below should be read in conjunction with *"Presentation of Financial and Other Information"*, "*Selected Consolidated Financial Information*", "*Management's Discussion and Analysis of Financial Condition and Results of Operations*" and the Consolidated Financial Statements included elsewhere in this Prospectus.

	As at 30 September 2012
	(millions of UAH)
Liabilities	
Due to the NBU	4,786
Due to other banks and other financing institutions	4,271
Customer accounts	118,379
Debt securities in issue	7,314
Other liabilities[(1)]	2,222
Subordinated debt	1,382
Total liabilities	138,354
Equity	
Share capital	14,897
Share premium	20
Revaluation reserve for premises	557
Revaluation reserve of investment securities available-for-sale	214
Currency translation reserve	284
Retained earnings and other reserves	4,466
Net assets attributable to the Bank's owners	20,438
Non-controlling interest	483
Total equity	20,921
Total liabilities and equity	159,275

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(1) Other liabilities include current income tax liability, deferred income tax liability, provisions for liabilities and charges and other financial and non-financial liabilities.

Other than disclosed under "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Recent Developments*", there has been no material change in the Group's consolidated capitalisation or indebtedness since 30 September 2012.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

Consolidated Financial Information

The selected consolidated financial information for the Group set forth below should be read in conjunction with the Consolidated Financial Statements included elsewhere in this Prospectus as well as the sections entitled *"Presentation of Financial and Other Information", "Risk Factors"*, "*Capitalisation and Indebtedness*" and "*Management's Discussion and Analysis of Financial Condition and Results of Operations*".

	Year ended 31 December			Nine months ended 30 September	
	2009	**2010**	**2011**	**2011**	**2012**
			(millions of UAH)		
COMPREHENSIVE INCOME STATEMENT DATA					
Interest income	15,966	15,813	19,408	14,123	14,680
Interest expense	(7,295)	(8,950)	(9,329)	(7,032)	(7,822)
Net interest income	**8,671**	**6,863**	**10,079**	**7,091**	**6,858**
Provision for impairment of loans and advances to customers	(4,363)	(3,408)	(5,627)	(4,301)	(4,672)
Net interest income after provision for impairment of loans and advances to customers	**4,308**	**3,455**	**4,452**	**2,790**	**2,186**
Fee and commission income	2,119	3,035	3,191	2,326	2,767
Fee and commission expense	(232)	(301)	(462)	(318)	(423)
Gains less losses from embedded derivatives	128	147	27	231	872
Gains less losses from trading in foreign currencies	564	597	563	393	553
Foreign exchange translation (losses less gains)/gains less losses	(7)	32	(152)	(117)	(36)
(Impairment)/reversal of impairment of investment securities available-for-sale	(31)	8	(14)	(16)	9
Release of provision/(provision) for credit-related commitments	(14)	41	-	(5)	(26)
Other operating income	141	155	110	65	120
Other gains less losses/(losses less gains)	(13)	(42)	144	133	7
Administrative and other operating expenses	(4,919)	(5,616)	(6,320)	(4,421)	(4,956)
Profit before tax	**2,044**	**1,511**	**1,539**	**1,061**	**1,073**
Income tax	(715)	(71)	(46)	(55)	(56)
Profit for the period	**1,329**	**1,440**	**1,493**	**1,006**	**1,017**
Profit/(loss) is attributable to					
Owners of the Bank	1,379	1,610	1,516	1,040	1,038
Non-controlling interest	(50)	(170)	(23)	(34)	(21)
Profit for the period	**1,329**	**1,440**	**1,493**	**1,006**	**1,017**
Other comprehensive income					
Increase in the fair value of premises	44	59	-	-	-
Reversal of impairment through other comprehensive income	-	5	-	-	-
Decrease in the fair value of premises	(370)	(103)	-	-	-
Revaluation of investment securities available-for-sale net of tax	-	-	-	-	214
Exchange differences on translation to presentation currency	90	(18)	2	18	(11)
Income tax recorded in other comprehensive income	82	6	75	-	-

	Year ended 31 December			Nine months ended 30 September	
	2009	2010	2011	2011	2012
			(millions of UAH)		
Other comprehensive income/ (loss) for the period	**(154)**	**(51)**	**77**	**18**	**203**
Total comprehensive income for the period	**1,175**	**1,389**	**1,570**	**1,024**	**1,220**
Total comprehensive income/(loss) is attributable to:					
Owners of the Bank	1,159	1,589	1,568	1,057	1,252
Non-controlling interest	(16)	(200)	2	(33)	(32)
Total comprehensive income for the period	**1,175**	**1,389**	**1,570**	**1,024**	**1,220**

	As at 31 December			As at 30 September
	2009	2010	2011	2012
		(millions of UAH)		
STATEMENT OF FINANCIAL POSITION				
Assets				
Cash and cash equivalents and mandatory reserves	11,455	19,266	21,363	25,193
Due from other banks	4,069	5,330	4,648	7,725
Loans and advances to customers	66,597	89,694	107,430	117,240
Embedded derivatives	2,005	1,678	1,484	2,724
Investment securities available-for-sale	8	573	780	854
Investment securities held to maturity	23	588	24	189
Current income tax prepayment	11	2	6	4
Deferred income tax asset	16	30	32	74
Goodwill	54	48	47	47
Premises, leasehold improvements and equipment and intangible assets	2,938	2,961	3,318	3,634
Other financial assets	1,801	1,117	1,144	864
Other assets	712	629	655	727
Total assets	**89,689**	**121,916**	**140,931**	**159,275**
Liabilities				
Due to the NBU	8,310	7,312	5,825	4,786
Due to other banks and other financing institutions	2,319	3,860	2,453	4,271
Customer accounts	57,133	86,521	104,209	118,379
Debt securities in issue	6,112	6,161	5,600	7,314
Current income tax liability	10	55	60	65
Deferred income tax liability	1,614	1,530	1,181	1,124
Provisions for liabilities and charges, other financial and non-financial liabilities	703	929	1,000	1,033
Subordinated debt	1,438	1,379	1,418	1,382
Total liabilities	**77,639**	**107,747**	**121,746**	**138,354**

	As at 31 December			As at 30 September
	2009	2010	2011	2012
		(millions of UAH)		
Equity				
Share capital	8,064	8,860	13,545	14,897
Share premium	-	-	20	20
Additional capital	462	-	-	-
Revaluation reserve for premises	628	518	571	557
Revaluation reserve of investment securities available-for-sale	-	-	-	214
Currency translation reserve	354	341	329	284
Retained earnings and other reserves	2,387	4,326	4,570	4,466
Net assets attributable to Bank's owners	**11,895**	**14,045**	**19,035**	**20,438**
Non-controlling interest	**155**	**124**	**150**	**483**
Total equity	**12,050**	**14,169**	**19,185**	**20,921**
Total liabilities and equity	**89,689**	**121,916**	**140,931**	**159,275**

	As at and for the year ended 31 December			As at and for the nine months ended30 September	
	2009	2010	2011	2011	2012
			(%)		
FINANCIAL RATIOS					
Performance Ratios					
Net interest margin[(1)(2)]	10.73	7.12	8.39	5.84	4.96
Net non-interest income to operating income[(3)]	23.57	34.47	25.26	27.52	35.91
Net interest income as a percentage of operating income[(4)]	76.56	65.14	74.74	72.48	64.09
Cost to income ratio[(5)]	43.43	53.31	46.86	45.19	46.31
Return on average assets[(6)]	1.50	1.36	1.14	0.76	0.68
Return on average equity[(7)]	12.15	10.98	8.95	6.14	5.07
Balance Sheet Ratios (at period end)					
Customer loans to customer deposits[(8)]	116.56	103.67	103.09	103.66	99.04
Customer loans to total assets4	74.25	73.57	76.23	76.51	73.61
Equity attributable to the Bank's owners to total assets	13.26	11.52	13.51	13.03	12.83
Total equity/total assets	13.44	11.62	13.61	13.09	13.14
Tier 1 capital adequacy ratio4	14.55	13.19	14.69	-	14.00
Total capital adequacy ratio4	17.59	14.85	16.08	-	15.20
Asset Quality (at period end)					
Impaired customer loans to total loans (gross)[(12)]	30.80	24.77	23.56	26.05	26.55
Provisions to total customer loans (gross)[(13)]	14.67	12.22	12.93	12.17	13.99
Provisions to impaired loans[(14)]	47.61	49.31	54.87	46.70	52.70
Provision charge to total customer loans (gross)[(15)]	5.59	3.34	4.56	3.47	3.43
NPL[(16)] ratio[(17)]	10.93	6.75	4.29	5.46	5.41
NPL coverage ratio[(18)]	134.16	180.94	301.40	222.63	258.55

(1) Net interest margin was calculated as net interest income before provision for loan impairment divided by simple average balance of total interest-earning assets set forth in the table under "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Selected Statistical Information—Average Assets and Liabilities Balances and Interest Rate Data*" at the beginning and at the end of the period.

(2) Net interest margins for the nine months ended 30 September 2011 and 2012 are not presented on an annualised basis and, therefore, are not comparable with the full-year net interest margins for the years ended 31 December 2009, 2010 and 2011.

(3) Net non-interest income to operating income was calculated as net non-interest income (being net fee and commission income, gains less losses from embedded derivatives, gains less losses from trading in foreign currencies, foreign exchange translation (losses less gains)/gains less losses, reversal of impairment/(impairment) of investment securities available-for-sale, other operating income and other gains less losses/(losses less gains)) divided by operating income (calculated as profit before tax less provision for impairment of loans and advances to customers and administrative and other operating expenses).

(4) Net interest income as a percentage of operating income was calculated as net interest income divided by operating income (calculated as profit before tax less provision for impairment of loans and advances to customers and administrative and other operating expenses).

(5) Cost to income ratio was calculated as administrative and other operating expenses divided by operating income (calculated as profit before tax less provision for impairment of loans and advances to customers and administrative and other operating expenses).

(6) Return on average assets was calculated as profit for the period divided by the simple average of total assets at the beginning and at the end of the period. Return on average assets for the nine months ended 30 September 2011 and 2012 are not presented on an annualised basis and, therefore, are not comparable with the full-year return on average assets for the years ended 31 December 2009, 2010 and 2011.

(7) Return on average equity was calculated as profit for the period divided by the simple average of total equity at the beginning and at the end of the period. Return on average equity for the nine months ended 30 September 2011 and 2012 are not presented on an annualised basis and, therefore, are not comparable with the full-year return on average equity for the years ended 31 December 2009, 2010 and 2011.

(8) Customer loans to customer deposits was calculated as total loans and advances to customers net of provision for loan impairment divided by total customer accounts as at the respective date.

(9) Customer loans to total assets was calculated as total loans and advances to customers net of provision for loan impairment divided by total assets as at the respective date.

(10) See "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Capital Adequacy*" for further information on Tier 1 Capital Ratio, calculated in accordance with the requirements of the Basel Capital Accord (as defined below).

(11) See "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Capital Adequacy*" for further information on Capital Adequacy Ratio, calculated in accordance with the requirements of the Basel Capital Accord (as defined below).

(12) Impaired customer loans to total loans (gross) was calculated as total individually impaired loans divided by loans and advances to customers before provision for loan impairment at the period end.

(13) Provisions to total customer loans was calculated as the provision for loan impairment at the period end divided by total loans and advances to customers before provision for loan impairment.

(14) Provisions to impaired loans was calculated as the provision for loan impairment at the period end divided by the amount of individually impaired loans at the period end.

(15) Provision charge to total customer loans was calculated as provision for impairment of loans and advances to customers for the period divided by total loans and advances to customers before provision for loan impairment at the period end. Provision charge to total customer loans for the nine months ended 30 September 2011 and 2012 are not presented on an annualised basis and, therefore, are not comparable with the full-year provision charge to total customer loans for the years ended 31 December 2009, 2010 and 2011.

(16) Non-performing loans to customers ("**NPLs**") are loans that are overdue by more than 90 days.

(17) Ratio of non-performing loans to customers to loans and advances to customers before provision for loan impairment presented as at the end of the respective period.

(18) Ratio of impairment provisions to non-performing loans to customers as at the end of the respective period.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of the consolidated financial position and results of operations of the Group covers the years ended 31 December 2009, 2010 and 2011 and the nine months ended 30 September 2011 and 2012. This section should be read in conjunction with the Consolidated Financial Statements (including the notes thereto) and the other financial information included elsewhere in this Prospectus as well as "Presentation of Financial and Other Information" and "Risk Factors". All figures presented herein, unless otherwise indicated, have been rounded.

Certain information contained in the discussion and analysis set forth below and elsewhere in this Prospectus includes "forward-looking statements". Such forward-looking statements are subject to risks, uncertainties and other factors that could cause actual results to differ materially from those expressed or implied by such forward-looking statements. Factors that could cause or contribute to differences include, but are not limited to, those discussed below and elsewhere in this Prospectus, particularly under "Forward-Looking Statements" and "Risk Factors".

Overview

According to statistics published by the NBU (which are prepared in accordance with Ukrainian statutory accounting principles and requirements of the NBU), as at 30 September 2012, PrivatBank was the largest bank in Ukraine in terms of total assets, loans to legal entities and individuals, deposits from legal entities and individuals. PrivatBank's principal business areas are corporate banking and retail banking. These business areas are supported by PrivatBank's treasury. PrivatBank also provides limited investment banking services.

PrivatBank's corporate banking activities include offering corporate lending, current accounts and term deposits to corporate customers, settlement transactions, payroll services for public and private sector employers, microfinancing loans, trade finance, foreign currency transactions and other corporate banking services. PrivatBank provides loans and other credit-related products to its corporate customers, including the provision of overdraft facilities, revolving credit lines and bank guarantees.

PrivatBank's retail banking activities include offering a wide range of products and services throughout Ukraine, including current accounts and term deposits to individuals, retail lending (including credit card and consumer loans) and other retail banking services. PrivatBank provides services in connection with the payment of wages, pensions and other monetary entitlements.

PrivatBank's investment banking services primarily include trading and brokerage services in equity securities and depository services.

As at 30 September 2012, according to statistics published by the NBU, PrivatBank was the largest issuer of bank cards in Ukraine, with approximately 35.3 million bank cards in issue, comprising approximately 53.8 per cent. of bank cards in issue in Ukraine.

Headquartered in Dnipropetrovsk, as at 30 September 2012, PrivatBank had an extensive nationwide network of 34 branches and 3,375 outlets within Ukraine and a branch in Cyprus.

As at 31 December 2011, PrivatBank has 34 branches and 3,362 outlets within Ukraine and a branch in Cyprus. As at 31 December 2010, Privatbank had 34 branches, 3,162 outlets within Ukraine and a branch in Cyprus. As at 31 December 2009, Privatbank had 36 branches, 3,102 outlets within Ukraine and a branch in Cyprus.

Additionally, PrivatBank has subsidiaries in Georgia, Latvia and the Russian Federation. As at 30 September 2012, PrivatBank's subsidiary in the Russian Federation (CJSC MKB

MOSCOMPRIVATBANK) had 25 branches and 208 outlets, PrivatBank's subsidiary in Latvia (AS PRIVATBANK) had 30 outlets (including one outlet in Italy, two outlets in Portugal and one representative office in Spain) and PrivatBank's subsidiary in Georgia (JSC PRIVATBANK) had 106 service centres. PrivatBank's subsidiaries in the Russian Federation, Latvia and Georgia primarily focus on retail banking products and services.

PrivatBank also has representative offices, which do not carry out any banking operations or activities and perform purely administrative functions, in Kyiv (Ukraine), Moscow (Russia), Almaty (Kazakhstan), London (United Kingdom) and Beijing (China). PrivatBank also has correspondent relationships with a number of the world's leading financial institutions.

As at 30 September 2012, PrivatBank owned the largest number of ATMs and POS terminals of any bank in Ukraine, according to statistics published by the NBU. As at 30 September 2012, PrivatBank had a network of 13,791 ATMs, 59,678 POS terminals and 6,458 self-service terminals (allowing customers to carry out certain banking operations and/or pay for goods and services from a self-service terminal without any assistance of the bank's personnel).

As at 30 September 2012, the Group's total assets, loans and advances to customers and customer accounts amounted to UAH 159,275 million, UAH 117,240 million and UAH 118,379 million, respectively, and its total equity was UAH 20,921 million.

Significant Factors Affecting Results of Operations

Ukraine's Economic Condition

As at 30 September 2012, approximately 73 per cent. of the Group's assets were concentrated in Ukraine. A large number of PrivatBank's customers are located in, have businesses relating to, revenues derived from, and expenses incurred in, Ukraine. As a result, PrivatBank and the Group are affected by Ukrainian macroeconomic conditions.

The following table sets forth certain indicators for the Ukrainian economy as at and for the dates indicated:

	As at and for the year ended 31 December			As at and for the nine months ended 30 September
	2009	2010	2011	2012
Nominal GDP[1] (*billions of hryvnia*)	913.3	1,082.6	1,316.6	1,040.8
Real GDP (*percentage change*)[2]	(14.8)	4.1	5.2	-[3]
Consumer price index (*percentage change*)[4]	12.3	9.1	4.6	-[5]
Real household income growth (*percentage change*)[6]	6.2	23.1	13.6	-[5]
Deficit of the state budget of Ukraine (*millions of UAH*)[7]	(35,517.2)	(64,265.5)	(23,554.0)	(24,378.1)
Deficit of the state budget of Ukraine (*in percentages to GDP*)[7]	(3.9)	(5.9)	(1.8)	-[5]
Official reserves (*millions of UAH*)[8]	211,643.3	275,286.9	254,032.6	233,834.2

(1) Source: SSSU.
(2) Source: SSSU. The SSSU calculates real GDP for a period by dividing nominal GDP for such period by the relevant consumer price index. The real GDP percentage change for a particular period indicates the percentage change compared to the relevant period in the prior year.
(3) Real GDP increased by 2.0 per cent. in the first quarter of 2011 and 3.0 per cent. in the second quarter of 2012 and decreased by 1.3 per cent. in the third quarter of 2012.
(4) Source: SSSU. The consumer price index percentage change for a particular period indicates the percentage change in weighted prices for consumer goods and services compared with the previous period-end.
(5) Data not published for the nine months ended 30 September 2012.
(6) Source: SSSU. Real disposable household income growth is the percentage growth in real disposable household income as compared to the previous period.
(7) Source: Statistical information of the NBU and the Ministry of Finance of Ukraine.
(8) Source: NBU.

Ukraine was severely affected by the global economic and financial crisis which started to affect the Ukrainian economy in the beginning of the final quarter of 2008. The crisis resulted in declines in creditworthiness of many borrowers, a significant reduction in the number and scale of investment and construction projects and an overall decrease in demand for credit, all of which adversely affected PrivatBank's corporate banking and small business banking businesses. Falling incomes and rising unemployment reduced consumer demand for retail banking products in Ukraine and consequently affected PrivatBank's retail banking businesses.

In 2009, Ukraine's real GDP decreased by 14.8 per cent. The decline in GDP in 2009 was a result of unfavourable external conditions, including both reduced external demand and low export prices, decreased domestic demand and limited volumes of available financing due to the global financial downturn. However, Ukraine's economy was gradually adjusting to external shocks caused by the global economic and financial downturn. As a result, in 2009, the cumulative rates of decline in GDP fell throughout the year (from 17.8 per cent. year-on-year decline in June 2009 to 15.9 per cent. in September 2009 and 14.8 per cent. in December 2009).

While the Ukrainian economy experienced a moderate recovery in economic growth in 2010 and 2011, developments in 2011 and 2012 were restrained by, among other things, the international sovereign debt crisis and stock market volatility. In 2011, Ukraine's real GDP increased by 5.2 per cent. to UAH 1,316.6 billion, following real GDP growth of 4.1 per cent. to UAH 1,082.6 billion in 2010. The main reasons for the Ukrainian economy's recovery from the recession in 2008 and 2009 to growth in 2010 and 2011 include both improved external conditions (in part in relation to metallurgy and agricultural sectors, which represent a significant proportion of the Ukrainian economy) and a gradual improvement in the domestic market, which was accompanied by lower refinancing rates and stabilisation of the exchange rate of the hryvnia against major foreign currencies and increased money market liquidity levels until June 2011. According to a resolution of the Ukrainian Cabinet of

Ministers dated 31 August 2011, as amended, real GDP was forecast to increase by between 3.9 and 6.5 per cent. in 2012. However, real GDP growth slowed during 2012, running at 2.0 per cent. in the first quarter and 3.0 per cent. in the second quarter before decreasing by 1.3 per cent. in the third quarter and 2.7 in the fourth quarter of 2012, each on an annualised basis. Factors influencing the slowdown in GDP growth in the first half of 2012, compared to the first half of 2011, included seasonal disparities, adverse weather conditions, low levels of bank lending and external economic issues, such as the renewed downturn in the European Union. In addition, GDP growth in the first half of 2012 was mainly due to temporary factors such as an early harvest and the Euro 2012 Championship. The negative growth in real GDP in the second half of 2012 was affected by decreases in export demand from both the EU and CIS states, lower harvest compared to 2011 and the end of construction and other activity related to Euro 2012 Championship.

Ukraine's Banking Sector

The following tables set forth information on the Ukrainian banking sector as at and for the dates indicated:

	As at and for the year ended 31 December			**As at and for the eleven months ended 30 November**
	2009	**2010**	**2011**	**2012**
	(millions of UAH)			
Total shareholders' equity	115,175	137,725	155,487	167,926
Total assets (not adjusted for provisions)	1,001,626	1,090,248	1,211,540	1,264,671
Total assets (adjusted for provisions)	880,302	942,088	1,054,280	1,119,378
Statutory capital	119,189	145,857	171,865	174,541
Net income/(loss)	(38,450)	(13,027)	(7,708)	4,358
Total liabilities	765,127	804,363	898,793	951,452
Lending to Ukrainian economy	825,617	934,250	1,008,600	1,058,641

Source: NBU.

	As at 31 December			As at 30 September
	2009	2010	2011	2012
		(billions of UAH)		
Lending by banks to residents including.......	723.30	732.82	801.81	810.46
Non-financial corporations(1)	462.22	500.96	575.54	595.39
Households(2)	241.25	209.54	201.22	189.06
Financial corporations(3)...............................	14.01	13.43	16.44	18.20
State administration bodies(4).......................	5.76	8.82	8.53	7.75
Non-commercial organisations(5)	0.06	0.08	0.07	0.06
Total deposits of banks from residents(6).......	334.95	416.65	491.76	537.05

Source: NBU.

(1) Non-financial corporations include companies (state, private or under foreign ownership) producing goods or providing non-financial services.
(2) Households include employees, employers, self-employed, pensioners, persons who derive their income from property.
(3) Financial corporations include insurance companies, private pension funds and financial institutions, etc.
(4) State administration bodies include national government, regional and local authorities and social insurance funds.
(5) Non-commercial organisations include organisations producing goods and providing services to households on non-market terms (e.g., free of charge or below market rates), political parties, other non-governmental organisations and charities, etc.
(6) Include deposits to entities listed in notes 1 to 5 above.

The economic and financial crisis resulted in withdrawals of customer deposits from Ukrainian banks in 2008 (with retail customers largely opting to maintaining funds in cash form) which, in turn, led to an immediate shortage of liquidity in the banking sector. In order to maintain an adequate level of liquidity and to offset the losses suffered by the Ukrainian banking system, the NBU ensured the support of banks' liquidity. In 2008, the NBU's banks' refinancing operations amounted to approximately UAH 169.5 billion. The NBU's bank refinancing operations amounted to approximately UAH 64.4 billion in 2009, UAH 5.2 billion in 2010 and UAH 5.2 billion in 2011. In addition, to stop the outflow of funds from the banking system, the NBU imposed a temporary moratorium on early redemption of customer deposits and took certain measures to protect the hryvnia from depreciation, including certain foreign exchange market restrictions. From April 2009, the liquidity position of Ukrainian banks has been improving gradually due to measures taken by the NBU. For more information on impact of such events on PrivatBank, see "*—Availability of Long-Term Funding*".

The economic and financial crisis stalled the Ukrainian mortgage market, and the mortgage market still has not recovered. According to the NBU, the total mortgage portfolio of Ukrainian banks decreased from UAH 98.8 billion as at 31 December 2009 to UAH 82.0 billion as at 31 December 2010, UAH 70.5 billion as at 31 December 2011 and UAH 61.3 billion as at 30 September 2012. PrivatBank's results of operations and financial condition have not been significantly affected by the decline in the Ukrainian mortgage lending market due to the historically small share of mortgage loans in the Group's loan portfolio and the Group's efficient foreclosure procedures. Management believes that PrivatBank's mortgage lending will not increase significantly in the future due to the continuing instability of the real estate market in Ukraine.

Despite the difficult recent economic conditions, the Ukrainian market for financial services remains highly competitive. Although, according to statistics published by the NBU (which are prepared in accordance with Ukrainian statutory accounting principles and requirements of the NBU), as at 30 September 2012, PrivatBank was the largest bank in Ukraine in terms of total assets, loans to legal entities and individuals, deposits from legal entities and individuals. PrivatBank faces a particularly intense competition to defend its leading positions in certain segments of the Ukrainian banking market. See "*Risk Factors—Risks relating to the Bank—The Bank faces significant competition in the Ukrainian banking market*" and "*Description of PrivatBank's Business—Competition*".

Availability of Long-Term Funding

From October 2008 to March 2009, PrivatBank's funding bases were adversely affected by the impact of the global economic and financial crisis. In particular, nearly all of the Ukrainian banks were affected by substantial withdrawals of customer deposits. In 2010, the stability of the Ukrainian and global financial systems increased, resulting in greater availability of various types of funding and lower interest rates on such funding. However, despite the availability of short-term funding, some of the Ukrainian banks still experience difficulties in raising long-term funds (i.e. funds with a maturity exceeding two years), which may result in mismatches of their assets and liabilities. Moreover, as a high proportion of funding (including deposits and long-term funding from foreign banks and international financial institutions) is attracted in foreign currencies, some of the banks may be affected by the lack of funding in hryvnia.

In the second half of 2008 and during the course of 2009, PrivatBank principally relied on funding from customer deposit accounts, the NBU, and international financing arrangements. As a result of concerns about the overall health of the Ukrainian banking system at the end of 2008 and beginning of 2009, large amounts of deposits were withdrawn from Ukrainian banks and banks generally had to offer better terms to retain existing depositors and attract returning depositors. Increased competition for customers resulted in higher interest rates payable on term deposits of individuals, with the average interest rate increasing for the Group from 11.5 per cent. per annum in 2008 to 12.6 per cent. per annum in 2009 and 13.2 per cent. per annum in 2010. The reduced availability of wholesale funding as a result of the economic and financial crisis was offset in part by Ukrainian government-supported bank financing on commercially attractive terms. Both in 2008 and 2009, the Group was able to take advantage of government-supported financing primarily in the form of the NBU Refinancing Loans, which helped to reduce the upward pressure on funding costs. In November 2012, the NBU extended the final maturity date of the NBU Refinancing Loans to 31 December 2016 without changing the interest rate of the loans. See "***—****Funding****—****Interbank Borrowings*". Historically, PrivatBank has been successful in obtaining long-term funding from foreign banks and international financial institutions.

Loan Portfolio and Asset Quality

The Group's borrowers were adversely affected by the financial and economic environment in 2008 and 2009, which in turn impacted their ability to repay the amounts owed. As a significant part of loans to customers was issued in foreign currencies or hryvnya loans linked to foreign currencies, hryvnia depreciation against these currencies from the middle of 2008 until the end of 2009 had a significant impact on the Group's borrowers' ability to service their loans. Deteriorating economic conditions for borrowers were reflected in the Group's revised estimates of expected future cash flows in impairment assessments. See "**—***Exchange Rate Fluctuations*".

However, PrivatBank's lending operations were positively affected by the Ukrainian economic recovery that commenced in 2010 and continued in 2011 before slowing down in the first nine months of 2012. A factor which may continue, however, to affect PrivatBank and the banking sector overall is the availability of creditworthy borrowers. In addition, the relatively underdeveloped state of Ukraine's bankruptcy laws, the cumbersome procedures for the registration and enforcement of collateral and other legal and fiscal impediments continue to adversely affect banks currently operating in Ukraine.

The following table shows the proportion of the Group's non-performing loans (i.e. loans to customers that are overdue by more than 90 days) as a percentage of the Group's total loans and advances to customers (before impairment), total advances to customers (after provision for loan impairment) and provisions for loan impairment for the periods indicated:

	As at and for the year ended 31 December			As at and for the nine months ended 30 September
	2009	2010	2011	2012
Proportion of non-performing loans[(1)] as a percentage of total loans and advances to customers before impairment (%)	10.9	6.8	4.3	5.4
Total advances to customers after provision for impairment (millions of UAH)	66,597	89,694	107,430	117,240
Provisions for loan impairment (millions of UAH)	11,445	12,481	15,950	19,071

(1) Non-performing loans refer to loans to customers that are overdue by more than 90 days.

As economic conditions in Ukraine and the quality of PrivatBank's overall lending portfolio improved in 2010, PrivatBank, while maintaining its conservative risk management approach, started to increase lending to reliable corporate customers and credit-card lending and, as discussed below under "*—Significant Factors Affecting Results of Operations—Automobile Financing and Mortgages*", started to offer financing for automobiles only in the form of financing leases, which is less risky (partly due to less cumbersome procedures for the recovery of underlying assets in the event of a default) and creates a better quality automobile financing portfolio relative to standard automobile loans. These measures resulted in the increase in the Group's total loans and advances to customers after provision for loan impairment shown in the table above as at 31 December 2010, 31 December 2011 and as at 30 September 2012. The increase in the Group's provision for loan impairment over each of the periods shown in the table above was primarily due to PrivatBank's conservative approach to provisioning and changes in the composition of the Group's loan portfolio. In addition, the increase in the Group's provision for loan impairment shown in the table above as at 31 December 2011 compared to 31 December 2010 and as at 30 September 2012 compared to 31 December 2011 were also affected by the growth in the Group's loan portfolio as shown in the table above. The increase as at 30 September 2012 compared to 31 December 2011 was also due to the slowdown of economic activity in Ukraine and the resulting growth impairment of GDP, the dependency of the macroeconomic situation in Ukraine on commodity markets and the Group's diversification of its loan portfolio by increasing the amount of loans to customers outside of the oil trading sector, which loans are more profitable and riskier than loans to the oil trading sector.

The amount of provision for impaired loans is based on Management's appraisals of these assets at the end of the relevant reporting period after taking into consideration the cash flows that may result from foreclosure less costs for obtaining and selling any collateral securing the loans. The market in Ukraine for many types of collateral, especially real estate, has been severely affected by the volatile global financial markets, resulting in a low level of liquidity for certain types of assets. In some cases, the Bank has also experienced unforeseeable delays in recovering collateral. As a result, the actual realisable value on future foreclosure may differ from the value set forth in estimating allowances for impairment at the end of the relevant reporting period.

Impact of Changes in Interest Rates

Net interest income is the largest component of the Group's income statement. As such, changes in interest rates in the Ukrainian banking markets have affected the Group's results of operations in the past and are likely to continue to affect the Group's results of operations in the future. For example, from August through November 2011 the NBU regulating actions intended to control inflation and sustain the hryvnia exchange rate caused the recurring lack of liquidity in the hryvnia. At the time of scarce liquidity of the hryvnia during this period, the money market experienced a short-term increase in interest rates. In December 2011, the NBU reconsidered its regulatory effect by relaxing the mandatory reserve requirements set for commercial banks, thus enabling interest rates to go down. For information on the effect of changes in interest rates on the Group's results of operations, see "*—Selected Statistical Information—Average Assets and Liabilities Balances and Interest Rate Data*".

Exchange Rate Fluctuations

Exchange rate fluctuations have affected the Group's results of operations in the past and are likely to continue to affect its results of operations in the future. The recent global economic and financial crisis caused significant exchange rate volatility. The NBU was authorised to intervene to maintain the exchange rate of hryvnia to foreign currencies within a corridor, which was established on an annual basis for a particular foreign currency. However, as a result of the global economic and financial crisis and inflationary pressures arising as a result of such corridor being maintained, in November 2008 the NBU abandoned this policy and allowed the hryvnia to float in a broader range against the U.S. dollar. In 2008, the hryvnia depreciated in real terms against the U.S. dollar by 52.5 per cent. and against the euro by 46.3 per cent. as compared to year end 2007. The following table shows the percentage appreciation or depreciation of the hryvnia against the U.S. dollar and the euro in real terms for the periods indicated:

	Year ended 31 December			Nine months ended 30 September
	2009	**2010**	**2011**	**2012**
Appreciation/(depreciation) of the hryvnia against the U.S. dollar compared to 31 December of the prior year........................	(3.7)%	0.3%	(0.4)%	(0.04)%
Appreciation/(depreciation) of the hryvnia against the euro compared to 31 December of the prior year..................................	(5.5)%	7.7%	2.5%	0.08%

Source: NBU.

As at 30 September 2012, the official exchange rate was UAH 7.993 per U.S.$1.00 and UAH 10.29 per €1.00. For further information about historical exchange rates, see "*Presentation of Financial and Other Information—Exchange Rates*".

Relatively high volatility of hryvnia exchange rates against other currencies in 2009 created a favourable environment for the Group's foreign exchange trading operations. The Group's net gain on trading in foreign currencies was UAH 564 million in 2009. Despite the decrease in volatility of hryvnia exchange rates against other currencies in 2010 as compared to 2009 and in 2011 compared to 2010, the net gain on trading in foreign currencies remained relatively stable for the Group at UAH 597 million in 2010 and UAH 563 million in 2011. In the first nine months of 2012, the net gain on trading in foreign currencies increased to UAH 553 million from UAH 393 million in the first nine months of 2011. This increase was largely due to an increase in customer cash transactions as a result of volatility in the exchange rate of the U.S. dollar to hryvnia in the run-up to the Ukrainian parliamentary elections in October 2012, with PrivatBank benefitting from this increase in transactions. The Group's net loss arising from foreign exchange translation (resulting from the stabilisation of exchange rates) was UAH 7 million in 2009. The Group's net gain arising from foreign exchange translation increased to UAH 32 million in 2010 due to insignificant volatility of exchange rates. The Group's net loss arising from foreign exchange translation was UAH 152 million in 2011 primarily due to volatility of the exchange rate of the euro to the hryvnia, as a significant portion of PrivatBank's liabilities are denominated in U.S. dollars and euros whereas its assets are mostly denominated in hryvnia. The Group's net loss arising from foreign exchange translation decreased from UAH 117 million for the first nine months of 2011 to UAH 36 million for the first nine months of 2012 primarily due to volatility of the exchange rate of the euro to the hryvnia.

The Group is also exposed to foreign currency fluctuations in relation to derivatives embedded in currency options related to U.S.-dollar-linked loans to customers. See "*—"Contingencies, Commitments and Derivative Financial Instruments—Derivative Financial Instruments" and "—Critical Accounting Estimates, and Judgments in Applying Account Policies—Fair Value of Derivatives".*

For information about the effect of fluctuations in the hryvnia exchange rate of the ability of the Group's borrowers to service their loans, see "*—Loan Portfolio and Asset Quality*".

Increased Volume of Cash Settlements

In response to the global economic and financial crisis, PrivatBank has pursued a strategy aimed at increasing fee and commission income by increasing the volume of settlement transactions, cash collections and cash transactions. Such transactions are deemed by the Group to be a lower risk, generating a steady income stream for the Group. This is particularly important for the Group in the circumstances where its interest income decreases due to, amongst other factors, competition from the other banks or excess liquidity. The implementation of this strategy was and is continued to be facilitated by the Group's growing network of ATMs, POS terminals and self-service terminals. PrivatBank's advanced information technology systems allow for settlement operations to be carried out in an efficient manner to decrease costs and to reduce its staff involvement into such operations.

Automobile Financing and Mortgages

In response to the global economic and financial downturn, PrivatBank changed its approach to the automobile loans and mortgages in 2010. Prior to then, PrivatBank granted automobile loans to individuals for both new and used automobiles. However, since the beginning of 2011, PrivatBank has only been offering loans in the form of finance leases of new and used cars to its individual customers, SMEs and corporate customers. Management believes that finance leases of vehicles provide PrivatBank with a greater control over vehicles as such vehicles are registered in PrivatBank's name and allow for less cumbersome recovery of vehicles in the event of a default. PrivatBank usually controls the state of vehicles by installing GPS devices. Further, in August 2011, PrivatBank changed its approach to mortgage lending. Under the new approach, PrivatBank offers only finance leases of residential properties, whereby PrivatBank retains the ownership of a particular residential property until a customer fully repays the full value of such asset over the term of the lease plus interest to PrivatBank. PrivatBank believes that this approach enables PrivatBank to reduce the level of non-performing loans and simplify foreclosure procedures. Under this programme, PrivatBank offers its customers finance leases over residential properties repossessed by PrivatBank in connection with non-performing loans. To date, PrivatBank has not entered into a significant amount of finance leases for residential property. Finance leases of automobiles and residential properties are recorded as "Finance lease receivables" under "Other financial assets" on the Group's consolidated statement of financial position. As at 31 December 2011, finance lease receivables, mostly related to finance leases of automobiles, amounted to UAH 214 million, compared to UAH 32 million as at 31 December 2010.

Scope of Consolidation

The following table shows the principal subsidiaries included in the Consolidated Financial Statements and the Bank's ownership interest in these subsidiaries as at the dates indicated:

Name	Nature of business	Country of registration	Percentage of legal interest in subsidiary			
			31 December			30 September
			2009	2010	2011	2012
Moscomprivatbank ..	Banking	Russian Federation	92.34%	92.34%	92.34%	59.33%
JSC PrivatBank..........	Banking	Georgia	75.00%	61.30%	50.30%	50.30%
AS PrivatBank	Banking	Latvia	50.04%	75.02%	75.02%	50.02%

As a result of a capital increase in February 2012 (which the Bank did not participate in), the Bank's ownership interest in Moscomprivatbank was decreased from 92.34% as at 31 December 2011 to 59.33% as at 30 September 2012.

As a result of a capital increase in July 2012 (which the Bank did not participate in), the Bank's ownership interest in AS PrivatBank Latvia was decreased from 75.02% as at 31 December 2011 to 50.02% as at 30 September 2012.

For information about the increase in the Bank's ownership interest in Moscomprivatbank to 70.04 per cent in November 2012, see "*Recent Developments—Increase in Moscomprivatbank's Share Capital*".

Selected Statistical Information

Average Assets and Liabilities Balances and Interest Rate Data

The tables below set forth the Group's average balances of interest-earning assets and interest-bearing liabilities, amount of interest income and interest expense and average interest rate on such assets and liabilities for the periods indicated. For the purposes of these tables, the average balances of assets and liabilities represent the average of the opening and closing balances for the applicable period. The results may differ materially, if alternative or more frequent averaging methods were used. The average interest rates below are calculated by dividing interest income or expense for the relevant line item below by the average balance for the same item for the applicable period. Average interest rates are also distinct from the period-end effective interest rates presented in the Consolidated Financial Statements.

The average interest rates for the nine months ended 30 September 2011 and 2012 in the first table and the discussion below are not presented on an annualised basis. As a result, these average interest rates are not comparable with the average interest rates measured over one-year periods set forth in the second table below.

	Nine months ended 30 September					
	2011			2012		
	Average balance	Interest income/ expense	Average rate	Average Balance	Interest income/ expense	Average rate
	(million of UAH, except percentage rate data)					
Interest-earning assets						
Loans and advances to legal entities (including loans to SMEs and reverse repo).......	90,516	8,918	9.9	104,099	8,556	8.2
Loans and advances to individuals..........................	22,459	4,919	21.9	25,747	5,882	22.8
Due from other banks..........	5,295	126	2.4	6,187	125	2.0
Debt securities, finance lease receivables and interest-earning part of mandatory reserve with the NBU(1)	3,082	160	5.2	2,243	117	5.2
Total interest- earning assets..................................	**121,352**	**14,123**	**11.6**	**138,276**	14,680	**10.6**
Interest-bearing liabilities						
Due to the NBU..................	6,755	494	7.3	5,306	381	7.2
Due to other banks and other financing institutions...........	3,362	157	4.7	3,362	140	4.2
Term deposits of legal entities................................	11,638	654	5.6	9,738	541	5.6
Term deposits of individuals	58,429	4,679	8.0	72,121	5,509	7.6
Current/settlement accounts.	25,631	666	2.6	29,435	770	2.6
Debt securities in issue........	5,978	316	5.3	6,457	401	6.2
Subordinated debt...............	1,369	50	3.7	1,400	63	4.5
Other liabilities (liability for finance lease)......................	108	16	14.8	107	17	15.9
Total interest-bearing liabilities............................	**113,270**	**7,032**	**6.2**	**127,926**	7,822	**6.1**
Net interest spread(2)...........			5.43			4.50
Net interest income.............		7,091			6,858	
Net interest margin(3)...........		5.84			4.96	

(1) Debt securities include trading securities, other securities at fair value through profit or loss, investment securities available for sale and investment securities held to maturity.

(2) The difference between the average annual interest rate on interest-earning assets and the average annual interest rate on interest-bearing liabilities.

(3) Net interest income before provision for loan impairment expressed as a percentage of average interest-earning assets.

	Year ended 31 December								
	2009			2010			2011		
	Average balance	Interest income/ expense	Average rate	Average balance	Interest income/ expense	Average rate	Average balance	Interest income/ expense	Average rate
	(million of UAH except percentage rate data)								
Interest-earning assets									
Loans and advances to legal entities (including loans to SMEs and reverse repo)	55,299	10,462	18.9	70,552	10,571	15.0	90,380	12,006	13.3
Loans and advances to individuals	21,825	5,201	23.8	19,557	4,912	25.1	22,398	6,993	31.2
Due from other banks	3,366	291	8.6	4,700	263	5.6	4,989	177	3.5
Debt securities, finance lease receivables and interest-earning part of mandatory reserve with the NBU[(1)]	338	12	3.6	1,566	67	4.3	2,435	232	9.6
Total interest-earning assets	**80,828**	**15,966**	**19.8**	**96,365**	**15,813**	**16.4**	**120,192**	**19,408**	**16.1**
Interest-bearing liabilities									
Due to the NBU and other central banks	5,932	1,091	18.4	7,811	979	12.5	6,569	643	9.8
Due to other banks and other financing institutions	4,456	413	9.3	3,090	139	4.5	3,157	195	6.2
Term deposits of legal entities	10,758	794	7.4	11,129	1,063	9.6	10,768	876	8.1
Term deposits of individuals	31,328	3,956	12.6	42,335	5,595	13.2	59,586	6,181	10.4
Current/settlement accounts	14,966	480	3.2	18,363	611	3.3	25,012	875	3.5
Debt securities in issue	6,741	358	5.3	6,137	445	7.3	5,881	420	7.1
Subordinated debt	1,386	176	12.7	1,409	99	7.0	1,399	121	8.6
Other liabilities (liability for finance lease)	141	27	19.1	89	19	21.3	87	18	20.7
Total interest-bearing liabilities	**75,708**	**7,295**	**9.6**	**90,363**	**8,950**	**9.9**	**112,459**	**9,329**	**8.3**
Net interest spread[(2)]			10.12			6.50			7.85
Net interest income		8,671			6,863			10,079	
Net interest margin[(3)]		10.73			7.12			8.39	

(1) Debt securities include trading securities, other securities at fair value through profit or loss, investment securities available for sale and investment securities held to maturity.

(2) The difference between the average annual interest rate on interest-earning assets and the average annual interest rate on interest-bearing liabilities.

(3) Net interest income before provision for loan impairment expressed as a percentage of average interest-earning assets.

Average Balances of Loans and Advances to Individuals

Average balances of loans and advances to individuals decreased by 10.4 per cent. from UAH 21,825 million in 2009 to UAH 19,557 million in 2010 and increased by 14.5 per cent. to UAH 22,398 million in 2011 and by 15.0 per cent. to UAH 25,747 million in the first nine months of 2012. Average balances of loans and advances to legal entities increased by 27.6 per cent. from UAH 55,299 million in 2009 to UAH 70,552 million in 2010, by 28.1 per cent. to UAH 90,380 million in 2011 and by 15.0 per cent. to UAH 104,099 million in the first nine months of 2012. The increases in the average balance of total interest-earning assets of 19.2 per cent. in 2010, 24.7 per cent. in 2011 and 15.0 per cent. in the first nine months of 2012 resulted primarily from an increase in loans and advances to legal entities due to PrivatBank's continued focus on corporate lending. See "*—Liquidity and Capital Resources—Funding—Retail Lending*".

Due from Other Banks

Any temporarily unused cash held by the Group is generally loaned to other banks on a short-term basis, allowing the Group to maintain a solid liquidity position, which was a particular focus of the Group in the highly volatile economic environment during 2009. The Group's excess liquidity and its focus on maintaining liquidity position in 2010, 2011 and the first nine months of 2012 contributed to an increase in the average balance of amounts due from other banks in each of those periods. See "*—Liquidity and Capital Resources—Funding—Due from Other Banks*".

Term Deposits

The Group sources its funding needs mostly through term deposits. Average balances of term deposits of legal entities increased by 3.4 per cent. from UAH 10,758 million in 2009 to UAH 11,129 million in 2010 and then decreased by 3.2 per cent. to UAH 10,768 million in 2011 and by 9.6 per cent. to UAH 9,738 million in the first nine months of 2012. Average balances of term deposits of individuals increased by 35.1 per cent. from UAH 31,328 million in 2009 to UAH 42,335 million in 2010, by 40.7 per cent. to UAH 59,586 million in 2011 and by 21.0 per cent. to UAH 72,121 million in the first nine months of 2012. The increases of 19.4 per cent., 24.5 per cent. and 13.8 per cent. in the average balance of total interest-bearing liabilities in 2010, 2011 and the first nine months of 2012 resulted primarily from an increase in term deposits from individuals, which constitute the Group's main source of funding. See "*—Liquidity and Capital Resources—Funding—Customer Accounts*".

Due to the NBU and Other Central Banks

In addition, in 2009, the reduced availability of wholesale funding as a result of the economic and financials crisis resulted in the Group sourcing a portion of its funding needs from the NBU. The average balances of the amounts due to the NBU and other central banks were UAH 5,932 million in 2009, UAH 7,811 million in 2010, UAH 6,569 million in 2011 and UAH 5,306 million in the first nine months of 2012. See "*—Liquidity and Capital Resources—Funding—Interbank Borrowings*".

Debt Securities in Issue

Despite the issuance in September 2010 of Existing Notes in the principal amount of U.S.$200 million, the average balance of debt securities in issue decreased from UAH 6,741 million in 2009 to UAH 6,137 million in 2010, primarily due to the scheduled redemptions by the Group of some of its debt securities in issue. Average balance of debt securities in issue decreased to UAH 5,881 million in 2011 largely due to the repayment of mortgage bonds and auto bonds in that year. Average balance of debt securities in issue increased to UAH 6,457 million in the first nine months of 2012 largely due to the Group's private placements of hryvnia-denominated 12.0 per cent. bonds in an aggregate principal amount of UAH 5,510 million, comprising the placements in April 2012 of UAH 3,500 million principal amounts of bonds maturing in February 2015, in July 2012 of UAH 1,200 million principal amount of bonds maturing in June 2015 and in August 2012 of UAH 810 million principal amount of bonds maturing in June 2015 (collectively, the "**2012 Private-Placement Bonds**"). In February 2012, the Group redeemed the remaining U.S.$399 million aggregate outstanding principal amount of Eurobonds issued in 2007. See "*—Liquidity and Capital Resources—Funding—Debt Securities in Issue*".

Net Interest Spread

The Group's net interest spread is defined as the difference between the average interest rate on interest-earning assets and the average interest rate on interest-bearing liabilities. The net interest spread decreased from 10.12 per cent. in 2009 to 6.50 per cent. in 2010, primarily due to a decrease in the average interest rate received on interest-earning assets to 16.4 per cent. in 2010 from 19.8 per cent. in 2009. The net interest spread increased from 6.50 per cent. in 2010 to 7.85 per cent. in 2011, primarily due to lower cost of funding in 2011 as shown by the decrease in the average interest rate on interest-bearing liabilities to 8.3 per cent. in 2011 from 9.9 per cent. in 2010. The net interest spread decreased from 5.43 per cent. in the first nine months of 2011 to 4.50 per cent. in the first nine months of 2012, primarily due to the decrease in the average interest rate on interest-earning assets from 11.6 per cent. in the first nine months of 2011 to 10.6 per cent. in the first nine months of 2012 as well as a higher percentage increase in total interest-bearing liabilities than in total interest-earning assets in the first nine months of 2012.

Average Interest Rates

The average interest rate on term deposits of individuals was 12.6 per cent. in 2009, 13.2 per cent. in 2010, 10.4 per cent. in 2011, 8.0 per cent. in the first nine months of 2011 and 7.6 per cent. in the first nine months of 2012. The increase in 2010 compared to 2009 was primarily due to the increased competition in individual deposit taking. In addition, PrivatBank's loyalty programme allowed its existing customers to enjoy the benefit of increased interest rates on short-term and medium-term deposits and to retain existing depositors and attract returning depositors (as large amounts of deposits were withdrawn from the Ukrainian banks during the global economic and financial downturn and banks generally had to offer better terms to customers). The decrease in average interest rates on term deposits of individuals in 2011 compared to 2010 was largely due to more stable market conditions in Ukraine. The average interest rate on term deposits of individuals remained relatively stable in the first nine months of 2012 compared to the first nine months of 2011.

The average interest rate on amounts due to the NBU and other central banks was 18.4 per cent. in 2009, 12.5 per cent. in 2010 and 9.8 per cent. in 2011. The decreases in average interest rates over each of these periods compared to the prior comparable period were primarily attributed to a decrease in the interest rate on the NBU Refinancing Loans that were obtained at the end of 2008 and in the course of 2009, which interest rate was gradually reduced during 2010 from 17.3 per cent. in March 2010 to the NBU discount rate (from August 2010 to March 2012: 7.75 per cent.; since March 2012: 7.50 per cent.) plus 2 per cent. in August 2010.

The average interest rate on amounts due to other banks and other financing institutions was 9.3 per cent. in 2009, 4.5 per cent. in 2010, 6.2 per cent. in 2011, 4.7 per cent. in the first nine months of 2011 and 4.2 per cent. in the first nine months of 2012. The decrease in 2010 compared to 2009 was primarily due to the increased share of correspondent accounts and overnight placements of other banks or financing institutions, which are short-term in nature and as a result carry a lower rate of interest as compared to term placements of, and long-term loans from, other banks and financing institutions, the share of which decreased in 2010. The increase in the interest rates on amounts due to other banks and other financing institutions in 2011 compared to 2010 was primarily due to the lower share of correspondent accounts and overnight placements of other banks or financing institutions, coupled with an increase in term placements of, and long-term loans from, other banks and financing institutions in 2011. The decrease in the interest rates on amounts due to other banks and other financing institutions in the first nine months of 2012 compared to the first nine months of 2011 was primarily due to the higher share of correspondent accounts and overnight placements of other banks or financing institutions in the first nine months of 2012.

While the average interest rate on interest-bearing liabilities increased slightly from 9.6 per cent. in 2009 to 9.9 per cent. in 2010, the average interest rate on interest-earning assets decreased from 19.8 per cent. in 2009 to 16.4 per cent. in 2010. The decrease in the average interest rate on interest-earning assets was primarily due to a decrease in the average interest rate on loans and advances to legal entities from 18.9 per cent. in 2009 to 15.0 per cent. in 2010 coupled with an 27.6 per cent. increase in the average balance of loans and advances to legal entities as well as a decrease in the average interest rate on amounts due from other banks, which decreased from 8.6 per cent. in 2009 to 5.6 per cent. in 2010 largely due to low LIBOR and interbank rates, partially offset by an increase in the average interest rate on loans and advances to individuals from 23.8 per cent. in 2009 to 25.1 per cent. in 2010.

The average interest rate on interest-bearing liabilities decreased from 9.9 per cent. in 2010 to 8.3 per cent. in 2011, and the average interest rate on interest-earning assets decreased from 16.4 per cent. in 2010 to 16.1 per cent. in 2011. The decrease in the average interest rate on interest-bearing liabilities was primarily due to:

- decreases in average interest rates on term deposits of individuals from 13.2 per cent. to 10.4 per cent., on term deposits of legal entities from 9.6 per cent. to 8.1 per cent, on amounts due to the NBU from 12.5 per cent. to 9.8 percent and on debt securities in issue from 7.3 per cent. to 7.1 per cent; partially offset by

- increases in average interest rates in 2011 compared to 2010 on amounts due to other banks and other financing institutions from 4.5 per cent. to 6.2 per cent, on current/settlement accounts from 3.3 per cent. to 3.5 per cent. and on subordinated debt from 7.0 per cent. to 8.6 per cent.

The decrease in the average interest rate on interest-earning assets in 2011 compared to 2010 was primarily due to:

- a decrease in the average interest rate on loans and advances to legal entities from 15.0 per cent. in 2010 to 13.3 per cent. in 2011 coupled with an increase in the average balance of these loans and advances. PrivatBank offered lower interest rates on loans and advances to legal entities in order to increase lending of surplus available funds, as well as to attract additional customers; and

- a decrease in the average interest rate on amounts due from other banks from 5.6 per cent. in 2010 to 3.5 per cent. in 2011, largely as a result of lower LIBOR and interbank rates, coupled with an increase in the average balance of these amounts, partially offset by

- an increase in the average interest rate on loans and advances to individuals from 25.1 per cent. in 2010 to 31.2 per cent. in 2011 due to a higher proportion of credit cards loans, which bear higher interest rates than other loans and advances to individual, coupled with an increase in the average balance of total loans and advances to individuals; and

- an increase in the average interest rate on debt securities, finance lease receivables and the interest-earning part of mandatory reserve with the NBU from 4.3 per cent. in 2010 to 9.6 per cent. in 2011 coupled with an increase in the average balance of these assets.

The average interest rate on interest-bearing liabilities decreased slightly from 6.2 per cent. in the first nine months of 2011 to 6.1 per cent. in the first nine months of 2012, and the average interest rate on interest-earning assets decreased from 11.6 per cent. in the first nine months of 2011 to 10.6 per cent. in the first nine months of 2012. The decrease in the average interest rate on interest-earning assets was primarily due to:

- a decrease in the average interest rate on loans and advances to legal entities from 9.9 per cent. in the first nine months of 2011 to 8.2 per cent. in the first nine months of 2012 coupled with an increase in the average balance of these loans and advances; and

- a decrease in the average interest rate on amounts due from other banks from 2.4 per cent. in the first nine months of 2011 to 2.0 per cent. in the first nine months of 2012, largely as a result of lower LIBOR and interbank rates, coupled with an increase in the average balance of these amounts; partially offset by

- an increase in the average interest rate on loans and advances to individuals from 21.9 per cent. in the first nine months of 2011 to 22.8 per cent. in the first nine months of 2012 coupled with an increase in the average balance of these loans and advances.

Net Interest Margin

The Group's net interest margin is defined as net interest income before provision for loan impairment as a percentage of average interest-earning assets. The net interest margin decreased from 10.73 per cent. in 2009 to 7.12 per cent. in 2010 primarily due to:

- a higher average interest rate on interest-bearing liabilities in 2010, resulting primarily from increases in the average interest rates on the term deposits of individuals and legal entities and on debt securities in issue, partially offset by lower average interest rates on loans due to the NBU and on amounts due to other banks and other financing institutions;

- a decrease in the average interest rate on interest-earning assets in 2010, principally resulting from decreases in the average interest rates on loans and advances to legal entities, on loans due from other banks, partially offset by an increase in the average interest rate on loans and advances to individuals and on debt securities, finance lease receivables and interest-earning part of mandatory reserve with the NBU;

- the composition of the Group's loan portfolio with the focus on corporate lending with lower margins; and

- an increased allocation, in accordance with the Group's focus on maintaining a solid liquidity position, of interest-earning assets to amounts due from other banks, which are highly liquid but less profitable assets.

The Group's net interest margin increased from 7.12 per cent. in 2010 to 8.39 per cent. in 2011 primarily due to a lower average interest rate on interest-bearing liabilities in 2011, resulting primarily from above-described lower average interest rates on term deposits of individuals and legal entities, on amounts due to the NBU, on debt securities in issue, partially offset by increases in average interest rates on amounts due to other banks and other financing institutions, on current/settlement accounts and on subordinated debt.

The Group's net interest margin decreased from 5.84 per cent. in the first nine months of 2011 to 4.96 per cent. in the first nine months of 2012 primarily due to:

- a decrease in the average interest rate on interest-earning assets in the first nine months of 2012, principally resulting from the above-described decreases in the average interest rates on loans and advances to legal entities and on amounts due from other banks, partially offset by an increase in the average interest rates on loans and advances to individuals; partially offset by

- the above-described decrease in interbank interest rates; and

- a decrease in the average interest rate on term deposits of individuals.

Net Changes in Interest Income and Expense—Volume and Rate Analysis

The table below provides a comparative analysis of net changes in interest income and interest expense by reference to changes in average volume and average interest rates for the periods indicated. Net changes in net interest income are attributed to either changes in average balances (volume change) or changes in average rates (rate change) for interest-earning assets and interest-bearing liabilities on which interest is received or paid. Volume change is calculated as the change in volume multiplied by the previous year's average rate, while rate change is the change in average rate multiplied by the later year's volume. Average balances used for calculating the information for the table below constitute the average of opening and closing balances for the relevant period.

	2009/2010			2010/2011		
	Increase/(decrease) due to changes in			Increase/(decrease) due to changes in		
	Volume	**Rate**	**Net change**	**Volume**	**Rate**	**Net change**
			(millions of UAH)			
Interest income						
Loans and advances to legal entities (including loans to SMEs and reverse repo)............................	2,886	(2,777)	109	2,971	(1,536)	1,435
Loans and advances to individuals..........................	(540)	251	(289)	713	1,368	2,081
Due from other banks	115	(143)	(28)	16	(102)	(86)
Debt securities, finance lease receivables and interest-earning part of mandatory reserve with the NBU	43	12	55	37	128	165
Total interest income	**2,504**	**(2,657)**	**(153)**	**3,737**	**(142)**	**3,595**
Interest expense						
Due to the NBU..	346	(458)	(112)	(156)	(180)	(336)
Due to other banks and other financing institutions	(127)	(147)	(274)	3	53	56
Term deposits of legal entities................................	27	242	269	(34)	(153)	(187)
Term deposits of individuals..................................	1,390	249	1,639	2,280	(1,694)	586
Current/settlement accounts...................................	109	22	131	221	43	264
Debt securities in issue...	(32)	119	87	(19)	(6)	(25)
Subordinated debt	3	(80)	(77)	(1)	23	22
Other liabilities (liability for finance lease)...........	(10)	2	(8)	-	(1)	(1)
Total interest expense	**1,706**	**(51)**	**1,655**	**2,294**	**(1,915)**	**379**
Net change in net interest income	**798**	**(2,606)**	**(1,808)**	**1,443**	**1,773**	**3,216**

	Nine months ended 30 September		
	2011/2012		
	Increase/(decrease) due to changes in		
	Volume	**Rate**	**Net change**
		(millions of UAH)	
Interest income			
Loans and advances to legal entities (including loans to SMEs and reverse repo)..........................	1,338	(1,700)	(362)
Loans and advances to individuals.......................	720	243	963
Due from other banks	21	(22)	(1)
Debt securities, finance lease receivables and interest-earning part of mandatory reserve with the NBU(1)...	(44)	1	(43)
Total interest income	**2,035**	**(1,478)**	**557**
Interest expense			
Due to the NBU and other central banks.............	(106)	(7)	(113)
Due to other banks and other financing institutions	-	(17)	(17)
Term deposits of legal entities.............................	(107)	(6)	(113)
Term deposits of individuals...............................	1,096	(266)	830
Current/settlement accounts	99	5	104
Debt securities in issue..	25	60	85
Subordinated debt	1	12	13
Other liabilities (liability for finance lease).........	-	1	1
Total interest expense	**1,008**	**(218)**	**790**
Net change in net interest income	**1,027**	**(1,260)**	**(233)**

(1) Debt securities include trading securities, other securities at fair value through profit or loss, investment securities available for sale and investment securities held to maturity.

Recent Developments

General

Since 30 September 2012, the Group has continued to perform in line with Management's expectations.

Increase in Moscomprivatbank's Share Capital

In November 2012, Moscomprivatbank's share capital was increased by UAH 231 million and the Bank's ownership interest in Moscomprivatbank increased to 70.04 per cent.

Extension of Final Maturity Date of the NBU Refinancing Loans

In November 2012, the NBU extended the final maturity date of the NBU Refinancing Loans to 31 December 2016 without changing the interest rate of the loans.

Issuance of Hryvnia-denominated Bonds

In January 2013 and December 2012, the Group issued hryvnia-denominated bonds in total amount of UAH 1,220 million (Series X) maturing in December 2015 and bearing interest at the rate of 16.0 per cent. per year.

Results of Operations

Explanation of Certain Key Income Statement Items

Interest Income

Interest income consists primarily of interest paid to the Group by legal entities, individuals and credit institutions on funds borrowed from the Group. Interest income on loans and advances to legal entities, individuals and funds due from other banks accounted for 99.9 per cent., 99.6 per cent., 98.8 per cent., 98.9 per cent. and 99.2 per cent., of the Group's interest income in the years ended 31 December 2009, 2010 and 2011 and the nine months ended 30 September 2011 and 2012, respectively.

Interest Expense

Interest expense consists primarily of amounts paid by the Group as interest on term deposits of individuals, term deposits of legal entities, current/settlement accounts and amounts paid by the Group as interest on its borrowings from the NBU. Interest expense also includes amounts paid by the Group as interest on borrowings obtained from other credit and financial institutions and interest paid on debt securities in issue. Interest expense paid by the Group on term deposits of individuals, term deposits of legal entities and current/settlement accounts amounted to 71.7 per cent., 81.2 per cent., 85.0 per cent., 85.3 per cent. and 87.2 per cent. of the Group's interest expense in the years ended 31 December 2009, 2010 and 2011 and the nine months ended 30 September 2011 and 2012, respectively. The primary reason for the increasing trend in these percentages was the growth in term deposits of individuals.

Net Non-Interest Income

Net non-interest income consists primarily of net fee and commission income, gains and losses arising from embedded derivatives, net gains from trading in foreign currencies, foreign exchange translation gains less losses, impairment or reversal of impairment of investment securities available-for-sale, provisions and release of provisions for credit-related commitments. Net non-interest income also includes other gains less losses and other operating income. For accounting treatment and other information about the income from foreign exchange-linked UAH-denominated loans and embedded derivatives, see "*—Contingencies, Commitments and Derivative Financial Instruments—Derivative Financial Instruments*", "*—Critical Accounting Estimates, and Judgments in Applying Account Policies—Fair Value of Derivatives*" and "*Financial instruments—key measurement terms*" and "Initial recognition of financial instruments" in Note 3 to the Annual Consolidated Financial Statements".

Administrative and Other Operating Expenses

Administrative and other operating expenses consist primarily of staff costs, share grant, rent, depreciation and amortisation of premises, leasehold improvements and equipment and intangible assets, utilities and office supplies, contributions to a deposit guarantee fund, mail and telecommunication expenses, expenses for maintenance of premises, leasehold improvements and equipment, security, advertising and marketing expenses, transportation and insurance expenses. The most significant component of administrative and other operating expenses of the Group has been staff costs (excluding share grant), which accounted for 44.1 per cent., 48.6 per cent., 56.0 per cent., 57.8 per cent. and 51.8 per cent. of the Group's administrative and other operating expenses in the years ended 31 December 2009, 2010 and 2011 and the nine months ended 30 September 2011 and 2012, respectively.

Income Tax Charge

The income tax charge comprises current tax and deferred tax. Current tax is the amount expected to be paid to or recovered from tax authorities in respect of taxable profits or losses for the current and prior periods. Deferred income tax is calculated using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Taxes, other than on income, are recorded within administrative and other operating expenses.

Nine Months Ended 30 September 2012 Compared to Nine Months Ended 30 September 2011

Interest Income

The Group's interest income increased by UAH 557 million, or 3.9 per cent., to UAH 14,680 million in the nine months ended 30 September 2012 from UAH 14,123 million in the nine months ended 30 September 2011.

The following table sets forth the principal components of the Group's interest income for the nine months ended 30 September 2011 and 30 September 2012:

	Nine months ended 30 September			
	2011		**2012**	
	(millions of UAH)	*(% of total)*	*(millions of UAH)*	*(% of total)*
Interest income attributable to:				
Loans and advances to legal entities	8,918	63.1	8,556	58.3
Loans and advances to individuals	4,919	34.8	5,882	40.1
Due from other banks	126	0.9	125	0.9
Other[(1)]	160	1.1	117	0.8
Total interest income	**14,123**	**100.0**	**14,680**	**100.0**

(1) Other interest income includes interest income from debt securities, mandatory reserve deposits with the NBU and finance lease receivables.

Interest Income on Loans and Advances to Customers

The increase in interest income was primarily attributable to a 19.6 per cent. increase in interest income attributable to loans and advances to individuals from UAH 4,919 million in the nine months ended 30 September 2011 to UAH 5,882 million in the nine months ended 30 September 2012. Interest income attributable to loans and advances to individuals accounted for 40.1 per cent. of the total interest income in the nine months ended 30 September 2012, as compared to 34.8 per cent. of the total interest income in the nine months ended 30 September 2011. The increase in interest income attributable to loans and advances to individuals resulted primarily from an increase in credit cards lending to individuals and an increase in the average interest rate on loans and advances to individuals from 21.9 per cent. in the nine months ended 30 September 2011 to 22.8 per cent. in the nine months ended 30 September 2012.

The increase in interest income attributable to loans and advances to individuals was offset by a decrease in interest income attributable to loans and advances to legal entities, which decreased by 4.1 per cent. from UAH 8,918 million in the nine months ended 30 September 2011 to UAH 8,556 million in the nine months ended 30 September 2012. Interest income attributable to loans and advances to legal entities accounted for 58.3 per cent. of the total interest income in the nine months ended 30 September 2012, as compared to 63.1 per cent. of the total interest income in the nine months ended 30 September 2011. The decrease in interest income attributable to loans and advances to legal entities resulted primarily from a decrease in the average interest rate on loans and advances to legal entities from 9.9 per cent. in the nine months ended 30 September 2011 to 8.2 per cent. in the nine months ended 30 September 2011, despite an increase in the average balance of loans and advances to legal entities.

Interest Income on Amounts Due from Other Banks

Interest income on amounts due from other banks decreased by UAH 1 million, or 0.8 per cent., from UAH 126 million in the nine months ended 30 September 2011 to UAH 125 million in the nine months ended 30 September 2012.

Interest Expense

Interest expense increased by UAH 790 million, or 11.2 per cent., to UAH 7,822 million in the nine months ended 30 September 2012 from UAH 7,032 million in the nine months ended 30 September 2011.

The following table sets forth the principal components of the Group's interest expense for the nine months ended 30 September 2011 and 30 September 2012:

	Nine months ended 30 September		
	2011	**2012**	**Change**
Interest expense	*(millions of UAH)*		*(%)*
Term deposits of individuals	4,679	5,509	17.7
Current/settlement accounts	666	770	15.6
Term deposits of legal entities	654	541	(17.3)
Debt securities in issue	316	401	26.9
Due to the NBU	494	381	(22.9)
Due to other banks and other financing institutions	157	140	(10.8)
Subordinated debt	50	63	26.0
Other[(1)]	16	17	6.3
Total interest expense	**7,032**	**7,822**	**11.2**

(1) Other includes interest expense on finance leases.

Interest Expense on Customer Deposits

The increase in interest expense was primarily attributable to a 17.7 per cent. increase in interest expense on term deposits of individuals from UAH 4,679 million in the nine months ended 30 September 2011 to UAH 5,509 million in the nine months ended 30 September 2012. Interest expense on term deposits of individuals accounted for 70.4 per cent. of the total interest expense in the nine months ended 30 September 2012 as compared to 66.5 per cent. of the total interest expense in the nine months ended 30 September 2011. The increase in interest expense on term deposits of individuals resulted primarily from an increase in the average balance of term deposits of individuals from UAH 58,429 million in the nine months ended 30 September 2011 to UAH 72,121 million in the nine months ended 30 September 2012 due to the Group's focus on deposits of individuals, which constitute one of its main sources of funding.

The increase in interest expense on term deposits of individuals was partially offset by a 17.3 per cent. decrease in interest expense on term deposits of legal entities from UAH 654 million in the nine months ended 30 September 2011 to UAH 541 million in the nine months ended 30 September 2012. Interest expense on term deposits of legal entities accounted for 6.9 per cent. of the total interest expense in the nine months ended 30 September 2012 as compared to 9.3 per cent. of the total interest expense in the nine months ended 30 September 2011. The decrease in interest expense on term deposits of legal entities resulted primarily from a decrease in the average balance of such liabilities from UAH 11,638 million in the nine months ended 30 September 2011 to UAH 9,738 million in the nine months ended 30 September 2012.

Interest Expense on Amounts Due to the NBU

Interest expense on amounts due to the NBU decreased by UAH 113 million, or 22.9 per cent., to UAH 381 million in the nine months ended 30 September 2012 from UAH 494 million in the nine months ended 30 September 2011 primarily as a result of a decrease in the average balance of such liabilities from UAH 6,755 million in the nine months ended 30 September 2011 to UAH 5,306 million in the nine months ended 30 September 2012.

Interest Expense on Other Borrowed Funds Including Due to Other Banks and Other Financing Institutions, Debt Securities in Issue and Subordinated Debt

Interest expense on other borrowed funds (including due to other banks and other financing institutions, debt securities in issue and subordinated debt) increased by UAH 81 million or 15.5 per cent. from UAH 523 million in the nine months ended 30 September 2011 to UAH 604 million in the nine months ended 30 September 2012.

This increase was primarily caused by an increase in interest expense attributable to debt securities in issue from UAH 316 million in the nine months ended 30 September 2011 to UAH 401 million in the nine months ended 30 September 2012 as a result of an increase in the average interest rate on debt securities in issue from 5.3 per cent. in the nine months ended 30 September 2011 to 6.2 per cent. in the nine months ended 30 September 2012 and an increase in the average balance of such liabilities.

The increase in interest expense attributable to debt securities in issue was offset by a decrease in interest expense on amounts due to other banks and other financing institutions from UAH 157 million in the nine months ended 30 September 2011 to UAH 140 million in the nine months ended 30 September 2012 as a result of a decrease in the average interest rate on amounts due to other banks and other financing institutions from 4.7 per cent. in the nine months ended 30 September 2011 to 4.2 per cent. in the nine months ended 30 September 2012. The decrease in interest expense on amounts due to other banks and other financing institutions was in part attributed to an increased share of correspondent accounts and overnight placements of other banks which are short-term in nature and as a result carry a lower rate of interest as compared to long-term loans from other banks and other financing institutions.

The increase in interest expense attributable to subordinated debt from UAH 50 million in the nine months ended 30 September 2011 to UAH 63 million in the nine months ended 30 September 2012 was primarily due to an increase in the average interest rate on subordinated debt from 3.7 per cent. in the nine months ended 30 September 2011 to 4.5 per cent. in the nine months ended 30 September 2012.

Net Interest Income Before Provision for Impairment of Loans and Advances to Customers, Net Interest Spread and Net Interest Margin

Net interest income before provision for impairment decreased by UAH 233 million, or 3.3 per cent., from UAH 7,091 million in the nine months ended 30 September 2011 to UAH 6,858 million in the nine months ended 30 September 2012.

Provision for Loan Impairment

The Group's provision for impairment of loans and advances to customers increased by 26.6 per cent. from UAH 15,059 million as at 30 September 2011 to UAH 19,071 million as at 30 September 2012.

The following tables sets forth movements in the Group's provision for loan impairment relating to the Group's gross loans and advances to customers during the nine months ended 30 September 2011 and 30 September 2012:

	As at and for the nine months ended 30 September	
	2011	**2012**
	(millions of UAH, except %)	
Provision for loan impairment at 1 January	**12,481**	**15,950**
Provision for loan impairment during the period	4,418	5,167
Amounts written off during the period as uncollectible	(1,814)	(2,050)
Currency translation differences	(26)	4
Provision for loan impairment at 30 September	**15,059**	**19,071**
Gross loans and advances to customers	**123,773**	**136,311**
Provision for loan impairment as a percentage of gross loans and advances to customers	**12.2**	**14.0**

The provision for loan impairment as a percentage of gross loans and advances to customers increased from 12.2 per cent. as at 30 September 2011 to 14.0 per cent. as at 30 September 2012. The increase in the Group's loan impairment provisions as a percentage of gross loans and advances to customers resulted primarily from the Group's conservative approach with respect to provisions and changes in the composition of the Group's loan portfolio, including an increase in the amount of loans to customers outside of the oil trading sector, which are more profitable and riskier than loans to the oil trading sector.

In addition, the amounts written off during the period as uncollectible increased by UAH 236 million, or 13.0 per cent., in the nine months ended 30 September 2012 as compared to the nine months ended 30 September 2011 primarily due to more write-offs for old problematic corporate loans.

Net Non-Interest Income

The following table sets forth certain information regarding the Group's net non-interest income for the nine months ended 30 September 2011 and 30 September 2012:

	Nine months ended 30 September	
	2011	**2012**
	(millions of UAH)	
Fee and commission income	2,326	2,767
Fee and commission expense	(318)	(423)

	Nine months ended 30 September	
	2011	2012
	(millions of UAH)	
Gains less losses from trading in foreign currencies	393	553
Gains less losses from embedded derivatives	231	872
Foreign exchange translation losses less gains	(117)	(36)
Reversal of impairment/(impairment) of investment securities available-for-sale	(16)	9
Other gains less losses	133	7
Provision for credit-related commitments	(5)	(26)
Other operating income	65	120
Total net non-interest income	**2,692**	**3,843**

The Group's net non-interest income increased by UAH 1,151 million, or 42.8 per cent. to UAH 3,843 million in the nine months ended 30 September 2012 from UAH 2,692 million in the nine months ended 30 September 2011. The increase in the Group's net non-interest income resulted principally from an increase in net gains from embedded derivatives, which increased by UAH 641 million from UAH 231 million in the nine months ended 30 September 2011 to UAH 872 million in the nine months ended 30 September 2012; an increase in fee and commission income, which increased by UAH 441 million from UAH 2,326 million in the nine months ended 30 September 2011 to UAH 2,767 million in the nine months ended 30 September 2012; and an increase in net gains from trading in foreign currencies, which increased by UAH 160 million from UAH 393 million in the nine months ended 30 September 2011 to UAH 553 million in the nine months ended 30 September 2012. Embedded derivatives include an instrument embedded in hryvnia denominated loans which include an obligation on the part of the customer to pay compensation to the Group in the event of a devaluation of the hryvnia against the U.S. dollar. Gains or losses from embedded derivatives are accounted for separately from the underlying instrument.

Net Fee and Commission Income

The following table sets forth certain information regarding the Group's net fee and commission income for the nine months ended 30 September 2011 and 30 September 2012:

	Nine months ended 30 September	
	2011	**2012**
	(millions of UAH)	
Fee and commission income		
Settlement transactions [(1)]	1,526	1,783
Cash collection and cash transactions [(2)]	706	850
Other	94	134
Total fee and commission income	**2,326**	**2,767**
Fee and commission expense		
Cash and settlement transactions	300	402
Other	18	21
Total fee and commission expense	**318**	**423**
Net fee and commission income	**2,008**	**2,344**

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(1) Includes fees charged in respect of payments made through the Group's system from one customer's account to another customer's account, or from one customer's account to a third party.

(2) Includes fees charged to business customers for cash collection and transportation services from their collection points to the Group's vaults and fees charged to customers for cash withdrawals as well as fees charged to public and private customers for payment services in respect of payments of wages, pensions and other monetary entitlements.

The Group's net fee and commission income increased by 16.7 per cent. from UAH 2,008 million in the nine months ended 30 September 2011 to UAH 2,344 million in the nine months ended 30 September 2012. This increase was primarily attributable to growth in income from settlement transactions, which increased by 16.8 per cent. from UAH 1,526 million in the nine months ended 30 September 2011 to UAH 1,783 million in the nine months ended 30 September 2012. Income from cash collection and cash transactions also increased by 20.4 per cent. from UAH 706 million in the nine months ended 30 September 2011 to UAH 850 million in the nine months ended 30 September 2012. The Group's significant income received in the nine months ended 30 September 2012 from settlement transactions was primarily a result of the Group's continued focus on settlement operations, deemed by the Group to be a lower risk and a source of a steady income stream for the Group. The implementation of this strategy was facilitated by the Group's growing network of ATMs, POS terminals and self-service terminals.

Administrative and Other Operating Expenses

The following table sets forth the major components of the Group's administrative and other operating expenses for the nine months ended 30 September 2011 and 30 September 2012:

	Nine months ended 30 September	
	2011	**2012**
	(millions of UAH)	
Staff costs	2,557	2,568
Rent	386	467
Contributions to Individual Deposits Guarantee Fund	238	293
Depreciation and amortisation of premises, leasehold improvements, equipment and intangible assets	300	270
Maintenance of premises, leasehold improvements and equipment	180	234
Mail and telecommunication	158	227
Utilities and household expenses	181	226
Taxes other than on income	82	111

	Nine months ended 30 September	
	2011	2012
	(millions of UAH)	
Advertising and marketing	54	76
Security	94	103
Transportation	51	45
Other	140	336
Total administrative and other operating expenses	**4,421**	**4,956**

Administrative and other operating expenses increased by UAH 535 million, or 12.1 per cent., to UAH 4,956 million in the nine months ended 30 September 2012 from UAH 4,421 million in the nine months ended 30 September 2011. The increase in total administrative and other operating expenses was driven by increased rent expenses, which increased by 21.0 per cent. from UAH 386 million in the nine months ended 30 September 2011 to UAH 467 million in the nine months ended 30 September 2012, which was primarily the result of the increase in rent rates imposed by landlords.

Depreciation and amortisation of premises, leasehold improvements, equipment and intangible assets decreased by 10.0 per cent. from UAH 300 million in the nine months ended 30 September 2011 to UAH 270 million in the nine months ended 30 September 2012 primarily as a result of changes in the rate of amortisation.

In addition, the increase in total administrative and other operating expenses was due to increases in taxes (other than on income), utilities and household expenses and staff costs.

Income Tax Expense

Income tax expense increased by UAH 1 million or 1.8 per cent. from UAH 55 million in the nine months ended 30 September 2011 to UAH 56 million in the nine months ended 30 September 2012.

The Group's effective income tax rate (calculated as income tax expense divided by profit before tax) remained the same at 5.2 per cent. in the nine months ended 30 September 2011 and 2012. The Group's effective income tax rate was lower than the Group's average statutory income tax rate largely due to differences between IFRS and relevant statutory tax regulations, including differences in calculation of provisions, and movements in deferred tax.

The statutory income tax rate applicable to the majority of the Group's income was 23.0 per cent. for the nine months ended 30 September 2011 and 21.0 per cent. for the nine months ended 30 September 2012. The statutory income tax rate applicable to the subsidiaries of the Group varied from 15.0 per cent. to 30.0 per cent. in the nine months ended 30 September 2011 as well as in the nine months ended 30 September 2012.

Year Ended 31 December 2011 Compared to Year Ended 31 December 2010

Interest Income

The Group's interest income increased by UAH 3,595 million, or 22.7 per cent., to UAH 19,408 million in 2011 from UAH 15,813 million in 2010.

The following table sets forth the principal components of the Group's interest income for the years ended 31 December 2010 and 31 December 2011:

	Year ended 31 December			
	2010		2011	
	(millions of UAH)	*(% of total)*	*(millions of UAH)*	*(% of total)*
Interest income attributable to:				
Loans and advances to legal entities	10,571	66.9	12,006	61.9
Loans and advances to individuals	4,912	31.1	6,993	36.0
Due from other banks	263	1.7	177	0.9
Other[(1)]	67	0.4	232	1.2
Total interest income	**15,813**	**100.0**	**19,408**	**100.0**

(1) Other interest income includes interest income from debt securities, interest-earning part of mandatory reserve deposits with the NBU and finance lease receivables.

Interest Income on Loans and Advances to Customers

The increase in interest income was primarily attributable to a 13.6 per cent. increase in interest income attributable to loans and advances to legal entities from UAH 10,571 million in 2010 to UAH 12,006 million in 2011. Interest income attributable to loans and advances to legal entities accounted for 61.9 per cent. of the total interest income in 2011, as compared to 66.9 per cent. of the total interest income in 2010. Despite a decrease in the average interest rate on loans and advances to legal entities from 15.0 per cent. in 2010 to 13.3 per cent. in 2011 due to the general market trend towards a decrease in interest rates and increased competition in corporate lending, the increase in interest income attributable to loans and advances to legal entities resulted primarily from the Group's increased lending to legal entities from an average balance of UAH 70,552 million in 2010 to an average balance of UAH 90,380 million in 2011 as a result of its focus on corporate borrowers representing, in PrivatBank's view, a lower credit risk than retail customers following the economic and financial downturn.

Interest income attributable to loans and advances to individuals also increased by 42.4 per cent. from UAH 4,912 million in 2010 to UAH 6,993 million in 2011. Interest income attributable to loans and advances to individuals accounted for 36.0 per cent. of the total interest income in 2011, as compared to 31.1 per cent. of the total interest income in 2010. The increase in interest income attributable to loans and advances to individuals resulted primarily from an increase in the average interest rate on such assets from 25.1 per cent. in 2010 to 31.2 per cent. in 2011 and an increase in lending to individuals.

Interest Income on Amounts Due from Other Banks

Interest income on amounts due from other banks decreased by UAH 86 million, or 32.7 per cent., from UAH 263 million in 2010 to UAH 177 million in 2011.

Interest Expense

Interest expense increased by UAH 379 million, or 4.2 per cent., to UAH 9,329 million in 2011 from UAH 8,950 million in 2010.

The following table sets forth the principal components of the Group's interest expense for the years ended 31 December 2010 and 31 December 2011:

	Year ended 31 December		Change from
	2010	2011	prior year
Interest expense	*(millions of UAH)*		*(%)*
Term deposits of individuals	5,595	6,181	10.5
Term deposits of legal entities	1,063	876	(17.6)
Current/settlement accounts	611	875	43.2
Due to the NBU	979	643	(34.3)
Debt securities in issue	445	420	(5.6)
Due to other banks and other financing institutions	139	195	40.3
Subordinated debt	99	121	22.2
Other[(1)]	19	18	(5.3)
Total interest expense	**8,950**	**9,329**	**4.2**

(1) Other includes interest expense on finance leases.

Interest Expense on Customer Deposits

The increase in interest expense was primarily attributed to a 10.5 per cent. increase in interest expense on term deposits of individuals from UAH 5,595 million in 2010 to UAH 6,181 million in 2011. Interest expense on term deposits of individuals accounted for 66.3 per cent. of the total interest expense in 2011 as compared to 62.5 per cent. of the total interest expense in 2010. Despite a decrease in the average interest rate on term deposits of individuals from 13.2 per cent. in 2010 to 10.4 per cent. in 2011, the increase in interest expense on term deposits of individuals resulted primarily from an increase in the average balance of such liabilities from UAH 42,335 million in 2010 to UAH 59,586 million in 2011 due to the Group's focus on individual deposits, which constitute one of its main sources of funding.

The increase in interest expense on term deposits of individuals was offset by a 17.6 per cent. decrease in interest expense on term deposits of legal entities from UAH 1,063 million in 2010 to UAH 876 million in 2011. Interest expense on term deposits of legal entities accounted for 9.4 per cent. of the total interest expense in 2011 as compared to 11.9 per cent. of the total interest expense in 2010. The decrease in interest expense on term deposits of legal entities resulted primarily from a decrease in the average interest rate on such liabilities from 9.6 per cent. in 2010 to 8.1 per cent. in 2011 and a decrease in the average balance of term deposits of legal entities from UAH 11,129 million in 2010 to UAH 10,768 million in 2011.

Interest Expense on Amounts Due to the NBU

Interest expense on amounts due to the NBU decreased by UAH 336 million, or 34.3 per cent., to UAH 643 million in 2011 from UAH 979 million in 2010 primarily as a result of a decrease in the average interest rates on amounts due to the NBU from 12.5 per cent. in 2010 to 9.8 per cent. in 2011.

Interest Expense on Other Borrowed Funds (Including Due to Other Banks and Other Financing Institutions, Debt Securities in Issue and Subordinated Debt)

Interest expense on other borrowed funds (including due to other banks and other financing institutions, debt securities in issue and subordinated debt) increased by UAH 53 million or 7.8 per cent. from UAH 683 million in 2010 to UAH 736 million in 2011.

This increase was primarily caused by an increase in interest expense on amounts due to other banks and other financing institutions from UAH 139 million in 2010 to UAH 195 million in 2011 as a result of an increase in the average interest rate on amounts due to other banks and other financing institutions from 4.5 per cent in 2010 to 6.2 per cent. in 2011 and an increase in the average balance of the amounts due to other banks and other financing institutions from UAH 3,090 million in 2010 to UAH 3,157 million in 2011. The increase in interest expense on amounts due to other banks and other financing institutions was in part attributed to an increased share of long-term loans of other banks and financing institutions, which by their nature carry a higher rate of interest as compared to short-term loans.

The increase in interest expense attributable to subordinated debt from UAH 99 million in 2010 to UAH 121 million in 2011 was primarily due to an increase in the average interest rate on subordinated debt to 8.6 per cent. in 2011 as compared to 7.0 per cent. in 2010.

The decrease in interest expense attributable to debt securities in issue from UAH 445 million in 2010 to UAH 420 million in 2011 resulted primarily from a decrease in the average interest rate on debt securities in issue from 7.3 per cent. in 2010 to 7.1 per cent. in 2011.

Net Interest Income Before Provision for Impairment of Loans and Advances to Customers

Net interest income before provision for impairment of loans and advances to customers increased by UAH 3,216 million, or 46.9 per cent., from UAH 6,863 million in 2010 to UAH 10,079 million in 2011.

The table below summarises the interest rates, based on reports reviewed by key management personnel, by major currencies for major debt instruments as at 31 December 2010 and 31 December 2011. The analysis has been prepared based on period-end interest rates used for amortisation of the respective assets and liabilities.

	2010				2011			
	UAH	**U.S.$**	**€**	**Other**	**UAH**	**U.S.$**	**€**	**Other**
				(%)				
Assets								
Correspondent accounts and overnight deposits with other banks	0	4	2	0	0	0	0	1
Correspondent accounts with the NBU, Central Bank of Russian Federation, Central Bank of Latvia, Central Bank of Cyprus and Central Bank of Georgia	0	-	-	0	2	-	1	0
Due from other banks	0	6	3	3	0	4	3	1
Loans and advances to legal entities	14	13	10	10	12	11	11	5
Loan and advances to individuals	28	16	9	40	28	15	9	32
Debt investment securities held to maturity	-	8	-	5	-	8	-	2
Liabilities								
Due to the NBU	10	-	-	-	10	-	-	-
Correspondent accounts and overnight deposits of other banks	3	6	1	0	7	4	0	0
Term placements of other banks	-	1	3	9	-	9	8	10
Long-term loans under the credit lines from international financial institutions	-	-	3	3	-	-	4	-
Customer accounts								
- current accounts of customers	1	5	6	1	5	4	2	0
- term deposits of legal entities	10	9	10	7	4	7	7	5
- term deposits of individuals	17	9	8	11	14	8	7	8
Debt securities in issue	14	-	3	-	13	8	3	-
Subordinated debt	-	8	-	10	-	6	-	1
Other financial liabilities	-	8	-	-	-	11	-	-

The sign "-" in the table above means that the Group does not have the respective assets or liabilities in the corresponding currency.

Provision for Loan Impairment

The Group's provision for impairment of loans and advances to customers increased by 27.8 per cent. from UAH 12,481 million as at 31 December 2010 to UAH 15,950 million as at 31 December 2011.

The following table sets forth movements in the Group's provision for loan impairment relating to the Group's gross loans and advances to customers during the years ended 31 December 2010 and 31 December 2011:

	As at and for the year ended 31 December	
	2010	**2011**
	(millions of UAH, except %)	
Provision for loan impairment at 1 January	**11,445**	**12,481**
Provision for loan impairment during the year	3,530	5,818
Amounts written off during the year as uncollectible	(2,430)	(2,316)
Currency translation differences	(64)	(33)
Provision for loan impairment at 31 December	**12,481**	**15,950**
Gross loans and advances to customers	**102,175**	**123,380**
Provision for loan impairment as a percentage of gross loans and advances to customers	12.2	12.9

The provision for loan impairment as a percentage of gross loans and advances to customers increased from 12.2 per cent. as at 31 December 2010 to 12.9 per cent. as at 31 December 2011. The increase in the Group's loan impairment provisions as a percentage of gross loans and advances to customers resulted primarily from the Group's conservative approach with respect to provisions and changes in the composition of the Group's loan portfolio, including an increase in credit card loans, which are more profitable and carry a higher risk than other types of loans.

In addition, the amounts written off during the year as uncollectible decreased by UAH 114 million, or 4.7 per cent., in 2011 as compared to 2010 primarily due to rapid growth in the Group's credit card portfolio resulting in fewer write-offs and fewer write-offs for old problematic corporate loans.

Net Non-Interest Income and Expense

The following table sets forth certain information regarding the Group's net non-interest income for the years ended 31 December 2010 and 31 December 2011:

	Year ended 31 December	
	2010	**2011**
	(millions of UAH)	
Gains less losses from trading in foreign currencies	597	563
Foreign exchange translation gains less losses/(losses less gains)	32	(152)
Fee and commission income	3,035	3,191
Fee and commission expense	(301)	(462)
(Impairment)/reversal of impairment of investment securities available-for-sale	8	(14)
Gains less losses from embedded derivatives	147	27
Other (losses less gains)/gains less losses	(42)	144
Release of provision for credit-related commitments	41	-
Other operating income	155	110
Total net non-interest income	**3,672**	**3,407**

The Group's net non-interest income decreased by UAH 265 million, or 7.2 per cent. to UAH 3,407 million in 2011 from UAH 3,672 million in 2010. The decrease in the Group's net non-interest income in 2011 resulted principally from a decrease in foreign exchange translation gains, which decreased by UAH 184 million from a net gain of UAH 32 million in

2010 to a net loss of UAH 152 million in 2011. The decrease in net non-interest income was also in part due to a decrease in net gains from embedded derivatives, which decreased by UAH 120 million, or 81.6 per cent., from UAH 147 million in 2010 to UAH 27 million in 2011, which was to a certain extent offset by an increase in fee and commission income, increasing from UAH 3,035 million in 2010 to UAH 3,191 million in 2011. Embedded derivatives include an instrument embedded in hryvnia denominated loans which include an obligation on the part of the customer to pay compensation to the Group in the event of a devaluation of the hryvnia against the U.S. dollar. Gains or losses from embedded derivatives are accounted for separately from the underlying instrument.

Net Fee and Commission Income

The following table sets forth certain information regarding the Group's net fee and commission income for the years ended 31 December 2010 and 31 December 2011:

	Year ended 31 December	
	2010	**2011**
	(millions of UAH)	
Fee and commission income		
Settlement transactions [2]	1,662	2,045
Cash collection and cash transactions [1]	1,261	1,018
Other	112	128
Total fee and commission income	**3,035**	**3,191**
Fee and commission expense		
Cash and settlement transactions	249	418
Other	52	44
Total fee and commission expense	**301**	**462**
Net fee and commission income	**2,734**	**2,729**

(1) Includes fees charged to business customers for cash collection and transportation services from their collection points to the Group's vaults and fees charged to customers for cash withdrawals as well as fees charged to public and private customers for payment services in respect of payments of wages, pensions and other monetary entitlements.

(2) Includes fees charged in respect of payments made through the Group's system from one customer's account to another customer's account, or from one customer's account to a third party.

The Group's net fee and commission income decreased by 0.2 per cent. from UAH 2,734 million in 2010 to UAH 2,729 million in 2011. This decrease was primarily attributable to a decrease in income from cash collection and cash transactions, which decreased by 19.3 per cent. from UAH 1,261 million in 2010 to UAH 1,018 million in 2011. The decrease in the Group's income from cash collection and cash transactions was offset by a growth in income from settlement transactions, which increased by 23.0 per cent. from UAH 1,662 million in 2010 to UAH 2,045 million in 2011. The Group's significant income received in 2011 from settlement transactions was primarily a result of the Group's continued focus on cash settlement operations, deemed by the Group to be a lower risk and a source of a steady income stream for the Group. The implementation of this strategy was facilitated by the Group's enlarged network of ATMs, POS terminals and self-service terminals.

Administrative and Other Operating Expenses

The following table sets forth the major components of the Group's administrative and other operating expenses for the years ended 31 December 2010 and 31 December 2011:

	Year ended 31 December	
	2010	**2011**
	(millions of UAH)	
Staff costs, except for share grant	2,730	3,540
Rent	475	530
Depreciation and amortisation of premises, leasehold improvements, equipment and intangible assets	319	403
Contributions to Individual Deposits Guarantee Fund	215	330
Utilities and household expenses	245	284
Maintenance of premises, leasehold improvements and equipment	171	269
Mail and telecommunication	201	220
Security	153	126
Taxes other than on income	74	116
Advertising and marketing	76	97
Share grant	500	-
Other	457	405
Total administrative and other operating expenses	**5,616**	**6,320**

Administrative and other operating expenses increased by UAH 704 million, or 12.5 per cent., to UAH 6,320 million in 2011 from UAH 5,616 million in 2010. The increase in total administrative and other operating expenses was primarily a result of higher staff costs except for share grant, which increased by 29.7 per cent. from UAH 2,730 million in 2010 to UAH 3,540 million in 2011. The increase in staff costs (which includes remuneration to employees as well as various social taxes (including payments made to the State Pension Fund of Ukraine)) is principally attributable to a 9.4 per cent. increase in the year-end number of the Group's employees in 2011 as compared to 2010.

Depreciation and amortisation of premises, leasehold improvements, equipment and intangible assets increased by 26.3 per cent. from UAH 319 million in 2010 to UAH 403 million in 2011 primarily as a result of changes in the rate of amortisation.

Rent expenses increased by 11.6 per cent. from UAH 475 million in 2010 to UAH 530 million in 2011 primarily as a result of the increase in rent rates imposed by landlords. Other administrative and other operating expenses decreased from UAH 457 million in 2010 to UAH 405 million in 2011 primarily as a result of a decrease in insurance expenses due to changes in Ukrainian legislation.

In addition, the increase in total administrative and other operating expenses was due to increases in taxes (other than on income), utilities and office supplies, contributions to the Individual Deposits Guarantee Fund, and costs related to maintenance of premises, leasehold improvements and equipment.

Income Tax Expense

Income tax expense decreased by UAH 25 million or 35.2 per cent. from UAH 71 million in 2010 to UAH 46 million in 2011. Income tax expense comprises the following:

	Year ended 31 December	
	2010	2011
	(millions of UAH)	
Current tax	163	322
Deferred tax	(92)	(276)
Income tax expense for the year	**71**	**46**

The Group's effective income tax rate (calculated as income tax expense divided by profit before tax) decreased from 4.7 per cent. in 2010 to 3.0 per cent. in 2011 primarily as a result of the adoption of the new Tax Code in December 2010, which introduced decreased corporate tax rates from which the Group was able to benefit in 2011. On 2 December 2010, the Ukrainian Parliament adopted the new Tax Code, which became effective from 1 January 2011, with the corporate income tax section coming into effect from 1 April 2011. The Tax Code provides for a significant reduction of the corporate tax rate to 23 per cent. for the period from 1 April to 31 December 2011, 21 per cent. for 2012, 19 per cent. for 2013 and 16 per cent. from 2014 onwards. The Group's effective income tax rate was lower than the Group's average statutory income tax rate largely due to differences between IFRS and relevant statutory tax regulations, including differences in calculation of provisions, and movements in deferred tax.

The statutory income tax rate applicable to the majority of the Group's income was 23.0 per cent. for 2011, as compared to 25.0 per cent. in 2010. The statutory income tax rate applicable to the subsidiaries of the Group varied from 15.0 per cent. to 30.0 per cent. in 2011 as well as in 2010.

Year Ended 31 December 2010 Compared to Year Ended 31 December 2009

Interest Income

The Group's interest income decreased by UAH 153 million, or 1.0 per cent., to UAH 15,813 million in 2010 from UAH 15,966 million in 2009.

The following table sets forth the principal components of the Group's interest income for the years ended 31 December 2009 and 31 December 2010:

	Year ended 31 December			
	2009		2010	
	(millions of UAH)	*(% of total)*	*(millions of UAH)*	*(% of total)*
Interest income attributable to:				
Loans and advances to legal entities	10,462	65.5	10,571	66.9
Loans and advances to individuals	5,201	32.6	4,912	31.1
Due from other banks	291	1.8	263	1.7
Other[(1)]	12	0.1	67	0.4
Total interest income	**15,966**	**100.0**	**15,813**	**100.0**

(1) Other interest income includes interest income from debt securities, finance lease receivables and interest-earning part of mandatory reserve deposits with the NBU.

Interest Income on Loans and Advances to Customers

The decrease in interest income was primarily attributed to a 5.6 per cent. decrease in interest income attributable to loans and advances to individuals from UAH 5,201 million in 2009 to UAH 4,912 million in 2010. Interest income attributable to loans and advances to individuals accounted for 31.1 per cent. of the total interest income in 2010, as compared to 32.6 per cent. of the total interest income in 2009. The decrease in interest income attributable to loans and advances to individuals was primarily due to a UAH 2,268 million decrease in the average balance of loans and advances to individuals from UAH 21,825 million in 2009 to UAH 19,557 million in 2010. The decrease in interest income attributable to loans and advances to individuals was offset by an increase in the average interest rate on loans and advances to individuals from 23.8 per cent. in 2009 to 25.1 per cent in 2010.

The decrease in interest income was partly offset by an increase in interest income attributable to loans and advances to legal entities from UAH 10,462 million in 2009 to UAH 10,571 million in 2010. The increase in interest income attributable to loans and advances to legal entities was primarily due to a 27.6 per cent. increase in the average balance of loans and advances to legal entities from UAH 55,299 million in 2009 to UAH 70,552 million in 2010 as a result of the Group's focus on corporate borrowers representing in its view a lower credit risk than retail customers following the economic and financial downturn.

Interest Income on Amounts Due From Other Banks

Interest income on amounts due from other banks decreased by UAH 28 million, or 9.6 per cent., from UAH 291 million in 2009 to UAH 263 million in 2010.

Interest Expense

Interest expense increased by UAH 1,655 million, or 22.7 per cent., to UAH 8,950 million in 2010 from UAH 7,295 million in 2009.

The following table sets forth the principal components of the Group's interest expense for the years ended 31 December 2009 and 31 December 2010:

	Year ended 31 December		**Change from**
	2009	**2010**	**prior year**
Interest expense	*(millions of UAH)*		*(%)*
Term deposits of individuals	3,956	5,595	41.4
Term deposits of legal entities	794	1,063	33.9
Due to the NBU	1,091	979	(10.3)
Current/settlement accounts	480	611	27.3
Debt securities in issue	358	445	24.3
Due to other banks and other financing institutions	413	139	(66.3)
Subordinated debt	176	99	(43.8)
Other[(1)]	27	19	(29.6)
Total interest expense	**7,295**	**8,950**	**22.7**

(1) Other includes interest expense on finance leases.

Interest Expense on Customer Deposits

The increase in interest expense was primarily attributable to a 41.4 per cent. increase in interest expense on term deposits of individuals from UAH 3,956 million in 2009 to

UAH 5,595 million in 2010. Interest expense on term deposits of individuals accounted for 62.5 per cent. of the total interest expense in 2010 as compared to 54.2 per cent. of the total interest expense in 2009. The increase in interest expense on term deposits of individuals resulted primarily from an increase in the average interest rate on such assets from 12.6 per cent. in 2009 to 13.2 per cent. in 2010 and an increase in the average balance of term deposits of individuals from UAH 31,328 million in 2009 to UAH 42,335 million in 2010 following the gradual stabilisation of Ukraine's economic and financial condition and the Group's focus on individual deposits, which constitute one of its main sources of funding.

The increase in interest expense was also attributable to a 33.9 per cent. increase in interest expense on term deposits of legal entities from UAH 794 million in 2009 to UAH 1,063 million in 2010. Interest expense on term deposits of legal entities accounted for 11.9 per cent. of the total interest expense in 2010 as compared to 10.9 per cent. of the total interest expense in 2009. The increase in interest expense on term deposits of legal entities resulted primarily from an increase in the average interest rate on such liabilities from 7.4 per cent. in 2009 to 9.6 per cent. in 2010 and an increase in the average balance of term deposits of legal entities from UAH 10,758 million in 2009 to UAH 11,129 million in 2010.

Interest Expense on Amounts Due to NBU

Interest expense on amounts due to NBU and other central banks decreased by UAH 112 million, or 10.3 per cent., to UAH 979 million in 2010 from UAH 1,091 million in 2009 primarily as a result of a decrease in the average interest rates on amounts due to the NBU from 18.4 per cent. in 2009 to 12.5 per cent. in 2010. In particular, the decrease in 2010 was primarily attributed to a decrease in the interest rate on the NBU Refinancing Loans, which was gradually reduced during 2010 from 17.3 per cent. in March 2010 to 9.75 per cent. in August 2010 and a reduction of the outstanding balance of the NBU Refinancing Loans.

Interest Expense on Other Borrowed Funds (Including Due to Other Banks and Other Financing Institutions, Debt Securities in Issue and Subordinated Debt)

Interest expense on other borrowed funds (including due to other banks and other financing institutions, debt securities in issue and subordinated debt) decreased by UAH 264 million or 27.9 per cent. from UAH 947 million in 2009 to UAH 683 million in 2010.

The primary component of this decrease was a decline in interest expense on amounts due to other banks and other financing institutions from UAH 413 million in 2009 to UAH 139 million in 2010, as a result of a decrease in the average interest rate on amounts due to other banks and other financing institutions from 9.3 per cent. in 2009 to 4.5 per cent. in 2010 and a decrease in the average balance of the amounts due to other banks and other financing institutions from UAH 4,456 million in 2009 to UAH 3,090 million in 2010. The decrease in interest expense on amounts due to other banks and other financing institutions was in part attributed to an increased share of correspondent accounts and overnight placements of other banks or financing institutions which are short-term in nature and as a result carry a lower rate of interest as compared to term placements with and long-term loans from other banks and financing institutions.

The decrease in interest expense attributable to subordinated debt from UAH 176 million in 2009 to UAH 99 million in 2010 was primarily due to a decrease in the average interest rate on subordinated debt from 12.7 per cent. in 2009 to 7.0 per cent in 2010.

The increase in interest expense attributable to debt securities in issue from UAH 358 million in 2009 to UAH 445 million in 2010 resulted primarily from an increase in the average interest rate on debt securities in issue from 5.3 per cent. in 2009 to 7.3 per cent. in 2010, including as a result of a fixed rate of 9.375 per cent. on the U.S.$200 million loan participation notes issued in September 2010.

Net Interest Income Before Provision for Impairment of Loans and Advances to Customers

Net interest income before provision for impairment decreased by UAH 1,808 million, or 20.9 per cent., from UAH 8,671 million in 2009 to UAH 6,863 million in 2010.

The table below summarises the interest rates, based on reports reviewed by key management personnel, by major currencies for major debt instruments as at 31 December 2009 and 31 December 2010. The analysis has been prepared based on period-end interest rates used for amortisation of the respective assets and liabilities.

	As at 31 December							
	2009				2010			
	UAH	U.S.$	€	Other	UAH	U.S.$	€	Other
	(%)							
Assets								
Correspondent accounts and overnight deposits with other banks	0	0	2	2	0	4	2	0
Correspondent accounts with the NBU, Central Bank of Russian Federation, Central Bank of Latvia, Central Bank of Cyprus and Central Bank of Georgia	0	-	-	0	0	-	-	0
Other debt securities at fair value through profit or loss	-	-	-	7	-	-	-	-
Due from other banks	1	5	3	0	0	6	3	3
Loans and advances to legal entities	19	14	10	30	14	13	10	10
Loan and advances to individuals	29	15	9	44	28	16	9	40
Debt investment securities held to maturity	-	5	-	-	-	8	-	-
Liabilities								
Due to the NBU	16	-	-	-	10	-	-	-
Correspondent accounts and overnight deposits of other banks	-	3	-	3	3	6	1	0
Term placements of other banks	-	1	3	7	-	1	3	9
Long-term loans under the credit lines from international financial institutions	-	-	4	-	-	-	3	3
Customer accounts								
- current accounts of customers	-	2	4	4	1	5	6	1
- term deposits of legal entities	14	11	11	11	10	9	10	7
- term deposits of individuals	21	12	12	15	17	9	8	11
Debt securities in issue	7	8	6	-	14	-	3	-
Subordinated debt	11	8	10	10	-	8	-	10
Other financial liabilities	-	11	-	1	-	8	-	-

The sign "-" in the table above indicates that the Group does not have the respective assets or liabilities in the corresponding currency.

Provision for Loan Impairment

The Group's provision for impairment of loans and advances to customers recognised in profit for the year decreased by 19.1 per cent. from UAH 4,363 million in 2009 to UAH 3,530 million in 2010.

The following table sets forth movements in the Group's provision for loan impairment relating to the Group's gross loans and advances to customers during the years ended 31 December 2009 and 31 December 2010:

	As at and for the year ended 31 December	
	2009	**2010**
	(millions of UAH, except %)	
Provision for loan impairment at 1 January	**8,130**	**11,445**
Provision for loan impairment during the year	4,363	3,530
Amounts written off during the year as uncollectible	(1,293)	(2,430)
Currency translation differences	245	(64)
Provision for loan impairment at 31 December	**11,445**	**12,481**
Gross loans and advances to customers	**78,042**	**102,175**
Provision for loan impairment as a percentage of gross loans and advances to customers	14.7	12.2

The provision for loan impairment as a percentage of gross loans and advances to customers decreased from 14.7 per cent. as at 31 December 2009 to 12.2 per cent. as at 31 December 2010. The decrease in the Group's loan impairment provisions as a percentage of gross loans and advances to customers resulted primarily from the improvement of the quality of loan portfolio of the Group.

In addition, the amounts written off during the year as uncollectible increased by UAH 1,137 million, or 87.9 per cent., in 2010 as compared to 2009 primarily as a result of write-offs of old problematic corporate loans (including SME loans) in the amount of UAH 1,076 million.

Net Non-Interest Income and Expense

The following table sets forth certain information regarding the Group's net non-interest income for the years ended 31 December 2009 and 31 December 2010.

	Year ended 31 December	
	2009	**2010**
	(millions of UAH)	
Gains less losses from trading in foreign currencies	564	597
Foreign exchange translation (losses less gains)/gains less losses	(7)	32
Fee and commission income	2,119	3,035
Fee and commission expense	(232)	(301)
(Impairment)/reversal of impairment of investment securities available-for-sale	(31)	8
Gains less losses from embedded derivatives	128	147
Other gains less losses/(losses less gains)	(13)	(42)
Release of provision/(provision) for credit-related commitments	(14)	41
Other operating income	141	155
Total net non-interest income	**2,655**	**3,672**

The Group's net non-interest income increased by UAH 1,017 million, or 38.3 per cent. to UAH 3,672 million in 2010 from UAH 2,655 million in 2009. The increase in the Group's net non-interest income in 2010 resulted principally from an increase in fee and commission income, which increased by 43.2 per cent. from UAH 2,119 million in 2009 to UAH 3,035 million in 2010, and an increase in net gains from trading in foreign currencies, which increased by 5.9 per cent. from UAH 564 million in 2009 to UAH 597 million in 2010. The Group's net foreign exchange translation gains also increased from a net loss of UAH 7 million in 2009 to a net gain of UAH 32 million in 2010. See "—*Contingencies, Commitments and Derivative Financial Instruments—Derivative Financial Instruments*".

Net Fee and Commission Income

The following table sets forth certain information regarding the Group's net fee and commission income for the years ended 31 December 2009 and 31 December 2010:

	Year ended 31 December	
	2009	**2010**
	(millions of UAH)	
Fee and commission income		
Settlement transactions [(1)]	790	1,662
Cash collection and cash transactions [(2)]	1,238	1,261
Other	91	112
Total fee and commission income	**2,119**	**3,035**
Fee and commission expense		
Cash and settlement transactions	190	249
Other	42	52
Total fee and commission expense	**232**	**301**
Net fee and commission income	**1,887**	**2,734**

(1) Includes fees charged in respect of payments made through the Group's system from one customer's account to another customer's account, or from one customer's account to a third party.

(2) Includes fees charged to business customers for cash collection and transportation services from their collection points to the Group's vaults and fees charged to customers for cash withdrawals as well as fees charged to public and private customers for payment services in respect of payments of wages, pensions and other monetary entitlements.

The Group's net fee and commission income increased by 44.9 per cent. from UAH 1,887 million in 2009 to UAH 2,734 million in 2010. This increase was primarily attributable to growth in income from settlement transactions, which increased by 110.4 per cent. from UAH 790 million in 2009 to UAH 1,662 million in 2010. Income from cash collection and cash transactions also increased by 1.9 per cent. from UAH 1,238 million in 2009 to UAH 1,261 million in 2010. The Group's significant income received in 2010 from settlement transactions and cash collection and cash transactions was primarily a result of the Group's continued focus on cash settlement operations, deemed by the Group to be a lower risk and a source of a steady income stream for the Group. The implementation of this strategy was facilitated by the Group's enlarged network of ATMs, POS terminals and self-service terminals.

Administrative and Other Operating Expenses

The following table sets forth the major components of the Group's administrative and other operating expenses for the years ended 31 December 2009 and 31 December 2010:

	Year ended 31 December	
	2009	2010
	(millions of UAH)	
Staff costs, except for share grant	2,171	2,730
Share grant	-	500
Rent	541	475
Depreciation and amortisation of premises, leasehold improvements, equipment and intangible assets	400	319
Utilities and household expenses	208	245
Contributions to Individual Deposits Guarantee Fund	171	215
Mail and telecommunication	215	201
Maintenance of premises, leasehold improvements and equipment	135	171
Security	144	153
Advertising and marketing	72	76
Taxes other than on income	112	74
Other	750	457
Total administrative and other operating expenses	**4,919**	**5,616**

The share grant represents expenses related to a share-based management incentive programme operated by PrivatBank's major shareholders. In 2010, the majority shareholders of PrivatBank offered some of the Group's managers an option to purchase shares. The amount of UAH 500 million, which represents the difference between the fair value of shares as at the date of the share grant and the cost of purchase of such shares for the management, was recognised as a remuneration of the management of the Group within the administrative and other operating expenses with respective credit to equity of PrivatBank.

Administrative and other operating expenses increased by UAH 697 million, or 14.2 per cent., to UAH 5,616 million in 2010 from UAH 4,919 million in 2009. The increase in total administrative and other operating expenses was primarily a result of higher staff costs, which increased by 25.7 per cent. from UAH 2,171 million in 2009 to UAH 2,730 million in 2010 and the addition of share grant costs in 2010 of UAH 500 million. The increase in staff costs (which includes remuneration to employees as well as various social taxes (i.e. payments made to the State Pension Fund of Ukraine)) is principally attributable to a 2.8 per cent. increase in the year-end number of the Group's employees in 2010 as compared to 2009.

Depreciation and amortisation of premises, leasehold improvements, equipment and intangible assets decreased by 20.3 per cent. from UAH 400 million in 2009 to UAH 319 million in 2010 primarily due to the revision of amortisation rates. Rent expenses decreased by 12.2 per cent. from UAH 541 million in 2009 to UAH 475 million in 2010 primarily as a result of the decrease in rent rates imposed by landlords. Other administrative and other operating expenses decreased by 39.1 per cent. from UAH 750 million in 2009 to UAH 457 million in 2010 primarily as a result of a decrease in insurance expenses as a result of changes in Ukrainian legislation.

In addition, the increase in total administrative and other operating expenses was due to increases in taxes (other than on income), utilities and office supplies, transportation expenses and contributions to the Individual Deposits Guarantee Fund.

Income Tax Expense

Income tax expense decreased by UAH 644 million or 90.1 per cent. from UAH 715 million in 2009 to UAH 71 million in 2010. Income tax expense comprises the following items for the years indicated:

	Year ended 31 December	
	2009	**2010**
	(millions of UAH)	
Current tax	70	163
Deferred tax	645	(92)
Income tax expense for the year	**715**	**71**

The Group's effective income tax rate (calculated as income tax expense divided by profit before tax) decreased from 35.0 per cent. in 2009 to 4.7 per cent. in 2010 primarily as a result of the adoption of the new Tax Code, which introduced decreased corporate tax rates from which the Group was able to benefit in 2010 and which was reflected in the effect from change in the tax rate of UAH 312 million in 2010. See "*—Year Ended 31 December 2011 Compared to Year Ended 31 December 2010—Income Tax Expense*" above. The decrease in the effective income tax rate in 2010 as compared to 2009 was also attributable to an increase in income that qualified as an amount exempt from taxation amounting to UAH 110 million, which related to the recognition of the share grant in connection with the management incentive programme and management's income in connection therewith which was not subject to taxation. The decrease in the effective income tax rate was also due to a decrease in unrecognised deferred tax assets by UAH 60 million in 2010, which amount was recognised in 2009 in respect of its Russian banking subsidiary.

The statutory income tax rate applicable to the majority of the Group's income was 25 per cent. for fiscal years 2010 and 2009. The statutory income tax rate applicable to the subsidiaries of the Group varied from 15 per cent. to 30 per cent. in 2009 as well as in 2010.

Liquidity and Capital Resources

Cash Flows

The following table set forth the Group's main sources and uses of cash for the periods indicated:

	Year ended 31 December			Nine months ended 30 September	
	2009	**2010**	**2011**	**2011**	**2012**
	(millions of UAH)				
Cash flows from operating activities before changes in operating assets and liabilities	5,488	5,748	7,211	5,548	4,969
Net cash (used in)/from operating activities	783	8,777	(1,267)	(1,694)	1,704
Net cash used in investing activities	(193)	(1,580)	(389)	(835)	(621)
Net cash from financing activities	56	113	2,940	3,061	2,211
Effect of exchange rate changes on cash and cash equivalents	307	(133)	(185)	(390)	68
Net increase in cash and cash equivalents	953	7,177	1,099	142	3,362
Cash and cash equivalents at the end of the year	10,314	17,491	18,590	17,633	21,952

Operating Activities

In the first nine months of 2012, the Group's net cash from operating activities was an inflow of UAH 1,704 million compared to a outflow of UAH 1,694 million in the first nine months of 2011. This change was primarily due to a smaller net increase in the loans and advances to customers of UAH 14,525 million in the first nine months of 2012 compared to UAH 24,011 million in the first nine months of 2011 and a net increase in amounts due to other banks and financing institutions of UAH 1,811 million in the first nine months of 2012 compared to a net decrease in amounts due to other banks and financing institutions of UAH 954 million in the first nine months of 2012, partially offset by a net increase in customer accounts of UAH 13,811 million in the first nine months of 2012 compared to UAH 19,421 million in the first nine months of 2011 and a net increase in amounts due from other banks of UAH 3,038 million in the first nine months of 2012 compared to a net decrease in amounts due from other banks of UAH 72 million in the first nine months of 2011. In addition, in the first nine months of 2012, PrivatBank repaid a refinancing loan from the NBU of UAH 1,195 million.

In 2011, the Group's net cash from operating activities was an outflow of UAH 1,267 million compared to a inflow of UAH 8,777 million in 2010. This change was primarily due to a smaller net increase in the Group's customer accounts (primarily in the Group's individual customer accounts) of UAH 18,759 million received in 2011 compared to UAH 29,642 million received in 2010 and a net decrease in amounts due to other banks and financing institutions of UAH 1,408 million in 2011 compared to a net increase in such amounts of UAH 1,566 million in 2010. The changes in 2011 were partially offset by a smaller net increase loans and advances (primarily in the Group's loan and advances to legal entities) made to customers of UAH 24,068 million in 2011 compared to UAH 26,190 million in 2010 as well as a net decrease in amounts due to other banks of UAH 672 million in 2011 compared to a net increase in amounts due to other banks of UAH 1,273 million in 2010. In addition, PrivatBank repaid NBU Refinancing Loans in the amount of UAH 1,487 million, in 2011.

In 2010, the Group's net cash from operating activities was UAH 8,777 million compared to UAH 783 million in 2009. This change was primarily due to a significant net increase in the Group's customer accounts (primarily in the Group's individual customer accounts) from

UAH 45 million received in 2009 to UAH 29,642 million received in 2010, which was partially offset by a significant increase in net loans and advances (primarily in the Group's loan and advances to legal entities) made to customers from UAH 1,694 million used in 2009 to UAH 26,190 million used in 2010.

Investing Activities

The Group used net cash in investing activities in the amount of UAH 621 million in the first nine months of 2012 compared to UAH 835 million in the first nine months of 2011. This change resulted primarily from cash used for the acquisition of investments securities available-for-sale of nil in the first nine months of 2012 compared to UAH 946 million in the first nine months of 2011 and cash proceeds from the redemption of investment securities available-for-sale of UAH 119 million in the first nine months of 2012 compared to nil in the first nine months of 2011, partially offset by cash proceeds from redemption of investment securities held to maturity in of nil in the first nine months of 2012 compared to UAH 512 million in the first nine months of 2011, and cash used for the acquisition of investment securities held to maturity in the amount of UAH 165 million in the first nine months of 2012 compared to nil in the first nine months of 2011 and cash used for the acquisition of premises, leasehold improvements and equipment in the amount of UAH 685 million in the first nine months of 2012 compared to UAH 473 million in the first nine months of 2011.

The Group used net cash in investing activities in the amount of UAH 389 million in 2011 compared to UAH 1,580 million in 2010. This change resulted primarily from cash proceeds received from the redemption of investments securities held to maturity, primarily Ukrainian government securities, in the amount of UAH 564 million in 2011, compared to nil in 2010 and a decrease in the acquisition of investment securities available-for-sale to UAH 187 million in 2011 from UAH 561 million in 2010, largely due to an amount that PrivatBank's subsidiary Moscomprivatbank invested in Russian government securities, partially offset by cash used for the acquisition of premises, leasehold improvements and equipment in the amount of UAH 822 million in 2011 compared to UAH 502 million in 2010. In addition, nil was used for the acquisition of securities held to maturity in 2011, compared to UAH 565 million in 2010.

The Group used net cash in investing activities in the amount of UAH 1,580 million in 2010 as compared to UAH 193 million in 2009. This change of UAH 1,387 million resulted primarily from significant increases in the acquisitions of investment securities available for sale, investment securities held to maturity, and premises, leasehold improvements and equipment.

Financing Activities

In the first nine months of 2012, the Group generated net cash from financing activities in the amount of UAH 2,211 million compared to UAH 3,061 million in the first nine months of 2011. In the first nine months of 2012, the Group received proceeds of UAH 5,510 million from the issue of the 2012 Private-Placement Bonds and UAH 510 million from cash inflows on transactions with non-controlling interests and used cash of UAH 3,809 million to repay and repurchase debt securities, in particular, the remaining U.S.$399 million aggregate principal amount of the Eurobonds. In the first nine months of 2011, the Group received proceeds of UAH 3,405 million from the issuance of 16,154,900 ordinary shares to Triantal Investments Ltd. in September 2011 and used cash of UAH 385 million to repay and repurchase debt securities.

In 2011, the Group generated net cash from financing activities in the amount of UAH 2,940 million compared to UAH 113 million in 2010. This increase was primarily due to the Bank's issuance of 16,154,900 ordinary shares to Triantal Investments Ltd. for UAH 3,405 million in cash consideration in September 2011.

In 2010, the Group generated net cash from financing activities in the amount of UAH 113 million compared to UAH 56 million from financing activities in 2009. This increase of UAH 57 million in net cash from financing activities in 2010, as compared to 2009 was primarily due to the receipt of proceeds from debt securities issued in the amount of UAH 1,746 million in 2010 as compared to nil in 2009, which was partially offset by cash outflow for the repayment of debt securities issued of UAH 1,690 million in 2010 compared to UAH 1,143 million in 2009.

For more information about the Group's issuances and repurchases of debt securities during the period under review, see "**—***Funding***—***Debt Securities in Issue*".

Capital Expenditure

The following table provides an overview of the Group's capital expenditure on premises, leasehold improvements and equipment for the periods indicated:

	Year ended 31 December			**Nine months ended 30 September**
	2009	**2010**	**2011**	**2012**
	(millions of UAH)			
Capital expenditure on premises, leasehold improvements and equipment	258	502	820	696

The increases in the Group's capital expenditure in the periods shown in the table above were primarily related to the Group's general business activities, including opening new branches and outlets and enlarging the Group's network of ATMs, POS terminals and self-service cash collection sites. As at 30 September 2012, the Group had capital expenditure commitments in respect of computers, furniture and equipment totalling UAH 101 million, compared to UAH 78 million as at 31 December 2011.

Funding

The Group's principal sources of funding have been customer deposits and, in addition, the First NBU Refinancing Loan in 2008 and the Second Refinancing Loan in 2009 and the funding from the issuance of the 2010 Notes in 2010 and the 2012 Private-Placement Bonds in April to August 2012. In addition, the Bank has historically relied upon issues of new shares to its shareholders and on the capitalisation of dividends to support its funding strategy and its capital adequacy ratios. During the economic and financial crisis, the Group's strategy of relying on its existing deposit base and on the NBU Refinancing Loans resulted in relative stability of its funding sources. In November 2012, the NBU extended the final maturity date of the NBU Refinancing Loans to 31 December 2016 without changing the interest rate of the loans.

The following table sets forth the Group's liabilities as at the dates indicated:

	As at 31 December						As at 30 September	
	2009		2010		2011		2012	
	(millions of UAH)	*(%)*	*(millions of UAH)*	*(%)*	*(millions of UAH)*	*(%)*	*(millions of UAH)*	*(%)*
Due to the NBU	**8,310**	**10.7**	**7,312**	**6.8**	**5,825**	**4.8**	**4,786**	**3.5**
Due to other banks and other financing institutions								
Term placements of other commercial banks	2,115	2.7	1,385	1.3	1,401	1.2	1,257	0.9
Correspondent accounts and overnight placements of other banks	181	0.2	2,341	2.2	268	0.2	847	0.6
Long-term loans under the credit lines from other financing institutions	22	-	130	0.1	774	0.6	1,363	1.0
Pledge deposits of other banks	1	-	4	-	10	-	804	0.6
Total due to other banks and other financing institutions	**2,319**	**3.0**	**3,860**	**3.6**	**2,453**	**2.0**	**4,271**	**3.1**
Customer accounts								
Individuals								
- Term deposits	32,035	41.3	52,635	48.9	66,536	54.7	77,706	56.2
- Current/demand accounts	7,121	9.2	10,532	9.8	12,967	10.7	16,095	11.6
Legal entities								
- Term deposits	9,869	12.7	12,389	11.5	9,147	7.5	10,329	7.5
- Current/settlement accounts	8,108	10.4	10,965	10.2	15,559	12.8	14,249	10.3
Total customer accounts	**57,133**	**73.6**	**86,521**	**80.3**	**104,209**	**85.6**	**118,379**	**85.6**
Debt securities in issue	**6,112**	**7.9**	**6,161**	**5.7**	**5,600**	**4.6**	**7,314**	**5.3**
Subordinated debt								
Subordinated debt provided by legal entities	1,425	1.8	1,379	1.3	1,405	1.2	1,359	1.0
Subordinated debt provided by individuals	13	-	-	-	13	-	23	-
Total subordinated debt	**1,438**	**1.9**	**1,379**	**1.3**	**1,418**	**1.2**	**1,382**	**1.0**
Deferred income tax liability	**1,614**	**2.1**	**1,530**	**1.4**	**1,181**	**1.0**	**1,124**	**0.8**
Provisions for liabilities and charges, other financial and non-financial liabilities and current income tax liabilities	**713**	**0.9**	**984**	**0.9**	**1,060**	**0.9**	**1,098**	**0.8**
Total liabilities	**77,639**	**100.0**	**107,747**	**100.0**	**121,746**	**100.0**	**138,354**	**100.0**

The following table shows the Group's total financial liabilities broken down by currency as at the dates indicated:

	As at 31 December	
	2010	2011
	(%)	
UAH	43	44
US dollar	39	38
Euro	13	12
Other	4	5
Total financial liabilities	**100**	**100**

Customer Accounts

The following table sets forth the total amount of the Group's customer accounts as well as customer accounts by type of depositor and deposit as at the dates indicated:

	As at 31 December						As at 30 September	
	2009		2010		2011		2012	
	(millions of UAH)	*(%)*	*(millions of UAH)*	*(%)*	*(millions of UAH)*	*(%)*	*(millions of UAH)*	*(%)*
Individuals								
Term deposits	32,035	56.1	52,635	60.8	66,536	63.8	77,706	65.6
Current/demand accounts	7,121	12.5	10,532	12.2	12,967	12.4	16,095	13.6
Total accounts of individuals	**39,156**	**68.5**	**63,167**	**73.0**	**79,503**	**76.3**	**93,801**	**79.3**
Legal entities								
Term deposits	9,869	17.3	12,389	14.3	9,147	8.8	10,329	8.7
Current/settlement accounts	8,108	14.2	10,965	12.7	15,559	14.9	14,249	12.0
Total accounts of legal entities	**17,977**	**31.5**	**23,354**	**27.0**	**24,706**	**23.7**	**24,578**	**20.7**
Total customer accounts	**57,133**	**100.0**	**86,521**	**100.0**	**104,209**	**100.0**	**118,379**	**100.0**

The following table sets forth accounts of individuals by category as a percentage of total accounts of individuals at the dates indicated:

	As at 31 December			As at 30 September
	2009	2010	2011	2012
Individuals				
Term deposits	81.8%	83.3%	83.7%	82.8%
Current/demand accounts	18.2%	16.7%	16.3%	17.2%
Total accounts of individuals	**100.0%**	**100.0%**	**100.0%**	**100.0%**

The following table sets forth deposits of legal entities by category as a percentage of total accounts of legal entities as at the dates indicated:

	As at 31 December			As at 30 September
	2009	2010	2011	2012
Legal entities				
Term deposits	54.9%	53.0%	37.0%	42.0%
Current/settlement accounts	45.1%	47.0%	63.0%	58.0%
Total accounts of legal entities	**100.0%**	**100.0%**	**100.0%**	**100.0%**

The following table provides an overview of the percentage changes in the Group's customer accounts by type of depositor and deposit between the dates indicated:

	Change as at 31 December		Change as at 31 December 2011/ 30 September
	2009/2010	2010/2011	2012
Individuals			
Term deposits	64.3%	26.4%	16.8%
Current/demand accounts	47.9%	23.1%	24.1%
Total accounts of individuals	**61.3%**	**25.9%**	**18.0%**
Legal entities			
Term deposits	25.5%	(26.2)%	12.9%
Current/settlement accounts	35.2%	41.9%	(8.4)%
Total accounts of legal entities	**29.9%**	**5.8%**	**(0.5)%**
Total customer accounts	**51.4%**	**20.4%**	**13.6%**

The increase in customer accounts during the period under review was primarily due to increases in term deposits of individuals as shown in the tables above. While the growth in customer accounts was limited in 2009 largely due to the economic downturn, the rate of growth in customer accounts increased substantially in 2010 due to the stabilisation of economic conditions. In addition, the Group continues to introduce various incentives to introduce to attract retail deposits, which have had a positive effect on the development of customer accounts.

While the total accounts of legal entities remained relatively stable at UAH 23,354 million as at 31 December 2010, UAH 24,706 million as at 31 December 2011 and UAH 24,578 million as at 30 September 2012, the proportion of these accounts that are allocated to term deposits on the one hand and customer/settlement accounts on the other is subject to period-to-period fluctuations as, among other things, customers move their funds between term deposits and current/settlement accounts to meet their expected business liquidity requirements. This was the primary reason for the 26.2 per cent. decrease in term deposits of legal entities and the 41.9 per cent. increase in current/settlement accounts of legal entities, in each case, as at 31 December 2011 compared to 31 December 2010, and the 12.9 per cent. increase in term deposits of legal entities as at 30 September 2012 compared to 31 December 2011.

The following table sets forth the Group's customer accounts by type of depositor and currency as at the dates indicated:

	As at 31 December											
	2009				2010				2011			
	(millions of UAH)											
	(UAH)	*(U.S.$)*	*(EUR)*	*(Other)*	*(UAH)*	*(U.S.$)*	*(EUR)*	*(Other)*	*(UAH)*	*(U.S.$)*	*(EUR)*	*(Other)*
Individuals...	17,566	10,944	7,912	2,734	29,007	17,994	10,677	5,489	35,494	26,240	11,721	6,050
Legal entities	5,351	8,668	3,258	700	6,519	10,797	4,958	1,080	10,783	9,926	2,679	1,318
Total customer accounts......	**22,917**	**19,612**	**11,170**	**3,434**	**35,526**	**28,791**	**15,635**	**6,569**	**46,277**	**36,166**	**14,400**	**7,366**

	As at 30 September			
	2012			
	(millions of UAH)			
	(UAH)	*(U.S.$)*	*(EUR)*	*(Other)*
Individuals..	40,654	34,149	11,847	7,151
Legal entities	9,845	11,087	1,949	1,697
Total customer accounts.................	**50,499**	**45,236**	**13,796**	**8,848**

Source: The figures are unaudited and have been extracted from the Group's management accounting system.

The following table sets forth the Group's customer accounts by sector as at the dates indicated:

	As at 31 December						As at 30 September	
	2009		2010		2011		2012	
	(millions of UAH)	*(%)*	*(millions of UAH)*	*(%)*	*(millions of UAH)*	*(%)*	*(millions of UAH)*	*(%)*
Individuals	39,156	68.5	63,167	73.0	79,503	76.3	93,801	79.2
Manufacturing	5,299	9.3	5,474	6.3	4,764	4.6	3,825	3.2
Trade	4,944	8.7	9,062	10.5	9,207	8.8	6,114	5.2
Services	1,804	3.2	2,330	2.7	3,478	3.3	5,197	4.4
Machinery	928	1.6	864	1.0	477	0.5	370	0.3
Agriculture	865	1.5	783	0.9	2,618	2.5	3,576	3.0
Transport and communication................	784	1.4	1,209	1.4	1,458	1.4	2,179	1.8
Other	3,353	5.9	3,632	4.2	2,704	2.6	3,317	2.8
Total customer accounts..........................	**57,133**	**100.0**	**86,521**	**100.0**	**104,209**	**100.0**	**118,379**	**100.0**

The following table sets forth the aggregate deposits of the Group's ten largest customers as at the dates indicated:

	As at 31 December						As at 30 September	
	2009		2010		2011		2012	
	(millions of UAH)	*(%)*	*(millions of UAH)*	*(%)*	*(millions of UAH)*	*(%)*	*(millions of UAH)*	*(%)*
Aggregate deposits of the Group's ten largest customers ..	6,171	10.8	7,097	8.2	9,576	9.2	6,714	5.7

Management believes that the Group is sufficiently diversified in terms of its depositor base and does not depend on any key customers.

Interbank Borrowings

In March 2009, the Group repaid at maturity a syndicated loan of U.S.$200 million (UAH 1,010 million at the exchange rate applicable at the date of receipt) that the Group had received in March 2008.

In 2009, as well as in 2008, the Group was able to take advantage of government-supported financing, which helped to reduce the upward pressure on funding costs. In October 2008, PrivatBank obtained the First NBU Refinancing Loan in the amount of UAH 3,410 million with a fixed interest rate of 15 per cent. per annum, to support PrivatBank liquidity, maturing in October 2009. In October 2009, the maturity of the First NBU Refinancing Loan was extended. In January 2010, the amount of the First NBU Refinancing Loan was decreased by UAH 100 million. In March 2009, PrivatBank obtained the Second NBU Refinancing Loan in the amount of UAH 5,000 million with a fixed interest rate of 16.5 per cent. per annum, to support PrivatBank liquidity, maturing in March 2010, which increased the total amount of such NBU Refinancing Loans to UAH 8,310 million. The maturities of the NBU Refinancing Loans were extended in January 2010 and November 2012. In March 2010, the interest rate on the NBU Refinancing Loans was decreased to the level of the NBU discount rate (from March to August 2010: 7.75 per cent.; since March 2012: 7.50 per cent.) plus 2 per cent. The NBU Refinancing Loans are currently repayable in instalments up through 31 December 2016 in accordance with the repayment schedules. As at 30 September 2012, the total amount outstanding under the NBU Refinancing Loans was UAH 4,786 million (compared to UAH 5,825 million as at 31 December 2011 and UAH 7,312 million as at 31 December 2010). The following table sets for the assets that had been pledged by the Group as collateral to secure the term borrowings from the NBU as at 30 September 2012:

	Carrying amount
	(millions of UAH)
Mandatory reserve balance with the NBU	1,294
Loans and advances to customers	668
Investment securities held to maturity	160
Premises	952
Assets owned by related and third parties, some of those are borrowers of the Bank	4,923

As at 1 January 2009, the Group had U.S. dollar-denominated loans in the amount of UAH 286 million for SME financings provided by the international financial institutions. Loans totalling UAH 40 million with an interest rate of LIBOR + 1.85 per cent. and loans totalling UAH 246 million with an interest rate of 7.5 per cent. These loans were fully repaid by the Group in 2009.

Debt Securities in Issue

As at 30 September 2012, debt securities in issue accounted for 5.3 per cent. of the Group's liabilities (UAH 7,314 million), compared to 4.6 per cent. (UAH 5,600 million) as at 31 December 2011, 5.7 per cent. (UAH 6,161 million) as at 31 December 2010 and 7.9 per cent. (UAH 6,112 million) as at 31 December 2009. Debt securities include primarily debt securities issued in the international capital markets and hryvnia-denominated bonds issued in private placements. The Group uses debt securities to obtain long-term funding as well as an additional instrument to manage its liquidity.

Notes

The Group redeemed the entire remaining U.S.$399 million outstanding aggregate principal outstanding of Eurobonds at their maturity on 6 February 2012. The Eurobonds had been issued in the aggregate principal amount of U.S.$500 million in February 2007.

In September 2010, UK SPV Credit Finance plc issued the Existing Notes, comprising U.S.$200 million 9.375 per cent. loan participation notes due 2015 listed on the main market of the London Stock Exchange plc, for the purpose of financing a loan to PrivatBank in the amount of U.S.$200 million at the rate of 9.375 per cent. per annum (the "**2010 Loan**"). UK SPV Credit Finance plc and PrivatBank entered into a loan agreement regulating the terms and conditions of the 2010 Loan on 17 September 2010 (the "**2010 Loan Agreement**"). Unless previously prepaid or repaid, PrivatBank will be required to repay the 2010 Loan (together with any outstanding interest or additional amounts) on 23 September 2015 and, subject to such repayment, all the Existing Notes then remaining outstanding will on that date be redeemed or repaid by UK SPV Credit Finance plc.

The 2010 Loan Agreement contains covenants substantially similar to those that will be contained in the Loan Agreement, including certain covenants which restrict PrivatBank and its subsidiaries, as applicable, from certain corporate reorganisations, mergers, disposals, restrict their ability to enter into certain transactions with its related entities and also restrict their ability to declare or pay dividends. The covenants also include a negative pledge and maintenance of capital adequacy.

Securitisations

In February 2007, the Group completed a securitisation of a specific mortgage loan portfolio through the sale of such loans to Ukraine Mortgage Loan Finance No. 1 Plc, a company incorporated in England and Wales ("**UK Mortgage Securitisation SPV**"), and the issuance by UK Mortgage Securitisation SPV of U.S. dollar-denominated Residential Mortgage Backed Floating and Fixed Rate Notes (referred to as "**Mortgage bonds**") backed by mortgage loans by the Group with a par value of U.S.$180 million. The notes were issued in three series (Class A, Class B and Class C).

Mortgage bonds with a total nominal value of U.S.$17 million (UAH 135 million at the exchange rate applicable as at 31 December 2010) and U.S.$9 million (UAH 72 million at the exchange rate applicable as at 31 December 2011) were repurchased by the Group as at 31 December 2010 and 2011, respectively, and removed from the Group's consolidated statement of financial position, including all class C bonds repurchased according to the terms of the issue. As at 31 December 2011, Mortgage bonds with a carrying value of UAH 254 million were effectively collateralised by loans and advances to customers in the amount of UAH 383 million.

In May 2008, the Group completed a securitisation of a specific auto loan portfolio through the sale of such loans to Ukraine Auto Loan Finance No. 1 Plc, a company incorporated in England and Wales, ("**UK Auto Securitisation SPV**") and the issuance by UK Auto Securitisation SPV of U.S. dollar-denominated Asset Backed Floating and Fixed Rate Notes (referred to as "**Auto bonds**") backed by car loans extended by the Group with a par value of U.S.$110 million. As at 31 December 2010, Auto bonds with a total nominal value of U.S.$30 million (UAH 239 million at the exchange rate applicable as at 31 December 2010) were repurchased by the Group and removed from the Group's consolidated statement of financial position. In September 2011, the Group repurchased and cancelled the remaining outstanding U.S.$110 million par amount of Auto bonds.

Privately Placed Hryvnia-Denominated Bonds

In January 2013 and December 2012, the Group issued hryvnia-denominated bonds in total amount of UAH 1,220 million (Series X) maturing in December 2015 and bearing interest at the rate of 16.0 per cent. per year.

Between April and August 2012, the Group issued the 2012 Private-Placement Bonds in an aggregate principal amount of UAH 5,510 million, including the Series V Bonds issued in April 2012 with a par value of UAH 3,500 million and the Series W Bonds issued in July and August 2012 with a par value of UAH 2,010 million. The bonds mature between February and June 2015 and bear interest at the rate of 12.0 per cent. per year.

In November and December 2010, the Group issued, in a private placement, hryvnia-denominated bonds with a par value of UAH 300 million and UAH 250 million maturing in May 2012 and November 2013, respectively (Series R and Series S). The Series R and S Bonds were fully repaid and cancelled in May 2012.

In May 2010, the Latvian subsidiary bank of the Group redeemed euro-denominated mortgage bonds with a par value of UAH 67 million upon their maturity.

As at 1 January 2009, the Group had hryvnia-denominated bonds issued in private placements in March 2007 (Series K and L), in July 2007 (Series M) and in November 2007 (Series Q) with a par value of UAH 500 million, UAH 500 million, UAH 250 million and UAH 500 million, respectively. Series K, L and M bonds were fully repaid and cancelled in 2010. Series Q bonds were fully repaid and cancelled in 2009.

Subordinated Debt

As at 30 September 2012, subordinated debt accounted for 1.0 per cent. (UAH 1,382 million) of the Group’s liabilities, compared to 1.2 per cent. (UAH 1,418 million) as at 31 December 2011, 1.3 per cent. (UAH 1,379 million) as 31 December 2010 and 1.9 per cent. (UAH 1,438 million) as at 31 December 2009. The Group uses subordinated debt to obtain long-term funding. In accordance with the Banking Law and NBU regulations, subordinated debt cannot be withdrawn from the Group for at least five years from the date of receipt.

Included in subordinated debt provided by legal entities is the U.S. dollar-denominated subordinated debt issued by PrivatBank in February 2006 in the amount of U.S.$150 million bearing an interest rate of 8.75 per cent. per annum payable quarterly with a maturity date of February 2016. In February 2011, the interest rate in respect of this debt decreased from 8.75 per cent. to 5.799 per cent. per annum. In addition, PrivatBank had, until the debt was repurchased and cancelled at its maturity in March 2010, U.S. dollar-denominated subordinated debt issued in March 2005 in the amount of UAH 30 million at the exchange rate at the date of issue at par at 10 per cent. per annum payable monthly.

Shareholder Support

In April 2012, the shareholders of PrivatBank made a decision to increase the nominal value of PrivatBank’s shares from UAH 209.53 per share to UAH 230.45 per share. The increase resulted from the capitalisation of dividends allocable to the shareholders in relation to the year ended 31 December 2011 in the amount of UAH 1,352 million which were re-invested into PrivatBank’s share capital through an increase in the nominal value of PrivatBank’s existing shares.

In June 2011, the shareholders resolved to increase PrivatBank's share capital by UAH 3,385 million to UAH 13,545 million through the issuance of 16,154,900 ordinary shares. Triantal Investments Ltd. (a company affiliated with Mr. Kolomoyskiy and Mr. Bogolyubov) subscribed for all of these shares offered by entering into a sale and purchase agreement in respect of such shares with PrivatBank on 4 August 2011. The consideration paid by Triantal Investments Ltd. for 16,154,900 shares was UAH 3,405 million. Registration of the increase in share capital occurred in September 2011.

In June 2011, the shareholders of PrivatBank also resolved to increase the nominal value of PrivatBank's shares from 182.72 per share to UAH 209.53 per share. The increase resulted from the capitalisation of dividends in the amount of UAH 1,300 million, which were re-invested into PrivatBank's share capital through an increase in the nominal value of PrivatBank's existing shares.

In March 2010, the shareholders of PrivatBank resolved to increase the nominal value of PrivatBank's shares from 161.08 per share to UAH 182.72 per share. The increase resulted from the capitalisation of dividends in the amount of UAH 1,049 million, which were re-invested into PrivatBank's share capital through an increase in the nominal value of PrivatBank's existing shares.

In April 2009, the shareholders of PrivatBank resolved to increase the nominal amount of PrivatBank's shares from UAH 134.45 per share to UAH 161.08 per share. The increase resulted from the capitalisation of dividends in the amount of UAH 1,125 million, which were re-invested into PrivatBank's share capital through an increase in the nominal value of PrivatBank's existing shares.

In July 2009, PrivatBank issued additional 6,208,100 ordinary shares with the nominal amount of UAH 161.08 per share totalling UAH 1,000 million.

Loan Portfolio

The following table sets forth the Group's loan and advances to customers net of loan impairment both in absolute terms and as a percentage of total assets:

	As at 31 December						**As at 30 September**	
	2009		**2010**		**2011**		**2012**	
	(millions of UAH)	*(%)*	*(millions of UAH)*	*(%)*	*(millions of UAH)*	*(%)*	*(millions of UAH)*	*(%)*
Loan and advances to customers net of provision for loan impairment	66,597	74.3	89,694	73.6	107,430	76.2	117,240	73.6

The increases in loans and advances to customers net of provision for loan impairment in absolute terms shown in the table above were primarily due to significant increases in loans to corporate borrowers, as discussed in more detail below.

The following table shows the Group's customer loan portfolio after provision for impairment broken down by currency as at the dates indicated:

	As at 31 December		As at 30 September
	2010	2011	2012
		(%)	
UAH	63	70	74
US dollar	33	26	23
Euro	2	1	1
Other	2	3	3
Total loan portfolio after provision for impairment	**100**	**100**	**100**

Retail Lending

The Group's retail lending activities are concentrated in five primary areas, including card loans to individuals, mortgages, consumer loans, auto loans and other loans. The following table sets forth a breakdown of the Group's retail lending by primary area as at the dates indicated:

	As at 31 December			As at 30 September
	2009	2010	2011	2012
		(millions of UAH)		
Loans to individuals — cards	7,475	9,463	16,817	18,842
Loans to individuals — mortgage	6,461	5,472	4,997	4,529
Loans to individuals — consumer	408	628	966	1,046
Loans to individuals — auto	3,754	2,480	1,454	867
Loans to individuals — other[(1)]	1,383	1,590	928	1,047
Total loans to individuals (before impairment)	**19,481**	**19,633**	**25,162**	**26,331**

(1) Loans to individuals – other represent loans not classified as credit card loans, mortgages, auto loans or consumer loans. For example, loans granted over individual customers' existing deposits, or loans granted in cash and secured by pledges over real estate are considered as other loans.

The following tables shows the percentage change in the Group's loans to individuals by primary area between the dates indicated:

	Change as at 31 December		Change as at 31 December 2011/ 30 September
	2009/2010	2010/2011	2012
Loans to individuals — card	26.6%	77.7%	12.0%
Loans to individuals — mortgage	(15.3)%	(8.7)%	(9.4)%
Loans to individuals — consumer	53.9%	53.8%	8.3%
Loans to individuals — auto	(33.9)%	(41.4)%	(40.4)%
Loans to individuals — other[(1)]	15.0%	(41.6)%	12.8%
Total loans to individuals (before impairment)	0.8%	28.2%	4.6%

(1) Loans to individuals – other represent loans not classified as credit card loans, mortgages, auto loans or consumer loans. For example, loans granted over individual customers' existing deposits, or loans granted in cash and secured by pledges over real estate are considered as other loans.

The following table shows the percentage of loans to individuals by primary area as a percentage of total loans to individuals (before impairment) as at the dates indicated:

	As at 31 December			As at 30 September
	2009	2010	2011	2012
		%		
Loans to individuals — cards	38.4	48.2	66.8	71.6
Loans to individuals — mortgage	33.2	27.9	19.9	17.2
Loans to individuals — consumer	2.1	3.2	3.8	4.0
Loans to individuals — auto	19.3	12.6	5.8	3.3
Loans to individuals — other(1)	7.1	8.1	3.7	4.0
Total loans to individuals (before impairment)	**100.0**	**100.0**	**100.0**	**100.0**

(1) Loans to individuals – other represent loans not classified as credit card loans, mortgages, auto loans or consumer loans. For example, loans granted over individual customers' existing deposits, or loans granted in cash and secured by pledges over real estate are considered as other loans.

The increases in card loans to individuals, consumer loans and other loans to individuals shown in the tables above as at 31 December 2010 and 2011 and 30 September 2012 were largely due to the Group's increased focus on credit card lending and operations and increased consumer financings. The decreases in mortgages as at 31 December 2010 and 2011 and 30 September 2012 were largely explained by the instability of the real estate markets in Ukraine. The decreases in auto loans as at 31 December 2010 and 30 September 2012 shown in the tables above were due to the Group's change in policy to one of no longer financing automobile purchases in the form of loans but instead in the form of finance leases, as discussed above under "**—***Significant Factors Affecting Results of Operations***—***Automobile Financing and Mortgages*".

Corporate Lending

Lending to creditworthy corporate customers remains a key focus of the Group's lending strategy. The Group focuses on offering loans to its existing corporate customers identified through its internal performance monitoring systems as creditworthy borrowers with funding requirements.

The following table provides an overview of the Group's portfolio of loans to corporate customers as at the dates indicated and the interest income attributable to loans and advances to legal entities between the dates or periods indicated:

	As at and for the year ended 31 December			As at and for the nine months ended September
	2009	2010	2011	2012
		(millions of UAH)		
Corporate loans before impairment......	54,728	80,042	96,825	108,807
Corporate loans (including loans to SMEs and reverse sale and repurchase agreements) before impairment	58,561	82,542	98,218	109,980
Interest income attributable to loans and advances to legal entities	10,462	10,571	12,006	8,556

The following table provides an overview of the percentage changes in the Group's portfolio of loans to corporate customers as at the dates indicated and percentage changes in the interest income attributable to loans and advances to legal entities between the dates or periods indicated:

	Change as at and for the year ended 31 December		**Change as at 31 December 2011 / 30 September**
	2009/2010	**2010/2011**	**2012**
Corporate loans before impairment	46.3	21.0	12.4
Corporate loans (including loans to SMEs and reverse sale and repurchase agreements) before impairment	41.0	19.0	12.0
Interest income attributable to loans and advances to legal entities	(2.8)	13.6	n/a

The following table presents information on the economic sector concentration of the Group's loan portfolio (before impairment) as at the dates indicated:

	As at 31 December						**As at 30 September**	
	2009		**2010**		**2011**		**2012**	
	(millions of UAH)	*(%)*	*(millions of UAH)*	*(%)*	*(millions of UAH)*	*(%)*	*(millions of UAH)*	*(%)*
Oil trading	23,021	29.5	32,772	32.1	39,436	32.0	39,438	28.9
Loans to individuals	19,481	25.0	19,633	19.2	25,162	20.4	26,331	19.3
Agriculture, agriculture machinery and food industry	7,764	9.9	9,765	9.6	14,049	11.4	12,134	8.9
Ferroalloy trading and production	2,352	3.0	13,149	12.9	10,937	8.9	12,707	9.3
Manufacturing and chemicals	2,916	3.7	3,398	3.3	10,485	8.5	13,994	10.3
Commerce, finance and securities trading	9,925	12.7	13,313	13.0	8,756	7.1	11,575	8.5
Real estate construction	2,934	3.8	2,950	2.9	4,791	3.9	5,246	3.8
Ski resort, tourism and football clubs	2,527	3.2	2,859	2.8	4,178	3.5	5,384	3.9
Air transportation	-	-	18	-	2,394	1.9	5,284	3.9
Small and medium enterprises (SME)	3,833	4.9	2,500	2.4	1,393	1.1	1,173	0.9
Other	3,289	4.2	1,818	1.8	1,799	1.5	3,045	2.2
Total loans and advances to customers (before impairment)	**78,042**	**100.0**	**102,175**	**100.0**	**123,380**	**100.0**	**136,311**	**100.0**

The Group seeks to minimise the risk of loan defaults and maximise the return on its overall loan portfolio through its policy of close, on-going monitoring and analysis of the historic, current and expected performance and creditworthiness of each of its borrower sectors and of existing and potential borrowers within each of these sectors and adjusting its exposure to sectors and borrowers based on the results of these analyses, while also diversifying the Group's risk by seeking a balanced exposure to a cross-section of sectors and of borrowers. This lending policy largely accounts the changes in the Group's loan portfolio's exposure to the various economic sectors shown in the table above. For example:

- The Group increased its loans to the commerce, finance and securities trading sector by 34.1 per cent. as at 31 December 2010 compared to 31 December 2009 largely due to the improved economic environment for the sector in that year as well as the increase in the sector's volume of operations following the economic and financial crisis.

- The Group's increased lending to the agriculture, agriculture machinery and food sector as at 31 December 2010 and as at 31 December 2011 was primarily due to loans to selected borrowers in the sector for terms of up to five years. As this sector is strongly export driven, financing for these loans was raised from the international markets and guaranteed by foreign export credit agencies.

- The Group significantly increased its loans to the ferroalloy trading and production sector as at 31 December 2010 compared to 31 December 2009 due to the stabilisation of the industry and the increased demand for that sector's products following the economic and financial crisis.

- The Group significantly increased its lending to the manufacturing and chemicals sector in 2011 and during the first nine months of 2012 primarily as a result of a decision to increase the diversification of the Group's loan portfolio by lending to reliable customers in that sector with strong export market exposure.

- The increase in loans to the construction sector and the ski resort, tourism and footballs clubs sector was largely due to the increase in creditworthy projects in these sectors, which were primarily related to the Euro 2012 Championship.

- The Group significantly increased its lending to the air transportation sector due to the growth of air transportation infrastructure in Ukraine, including both the construction of new airport terminals and airport renovations, related to the Euro 2012 Championship.

As shown in the table above, loans to the oil trading sector, including companies engaged in the wholesale and retail sale of petrol, oil and oil products, have a strong position in the Group's loan portfolio, accounting for 29 per cent. of the Group's total loan portfolio as at 31 December 2009, 32.1 per cent. as at 31 December 2010, 32.0 per cent. as at 31 December 2011 and 28.9 per cent. as at 30 September 2012. This position is a result of the Management's decision to increase the Group's exposure to the oil trading sector in 2009 as a result of Management's view that the oil industry had been more resilient and less vulnerable industry in the economic and financial downturn during 2008. The decrease in the proportion of loans to the oil trading sector as at 30 September 2012 compared to 31 December 2011 was primarily due to Management's decision to diversify its loan portfolio by providing loans to borrowers in other profitable sectors. Transactions with borrowers from the oil trading industry are priced at market rates. As at 30 September 2012, loans issued to these companies in the oil trading sector in the amount of UAH 38,925 million (31 December 2011:UAH 39,436 million) were collateralised with inventory of oil, gas and oil products of the collateral value of UAH 2,018 million (31 December 2011: UAH 2,727 million), property rights for advances made by borrowers of UAH 2,028 million (31 December 2011: UAH 3,480 million) and corporate rights for shares in the share capital of borrowers and their guarantors with the collateral value of UAH 31,514 million (31 December 2011: UAH 31,499 million). The collateral value of corporate rights for shares is determined based on the fair value of petrol stations, petrol storages, oil refineries and gas and oil production fields owned by borrowers, their shareholders and guarantors. Collateral agreements are concluded under English law.

Loan Portfolio Borrower Concentration Profile

The following table sets forth the aggregate amount of loans to the Group's ten largest borrowers as at the dates indicated:

	As at 31 December						As at 30 September	
	2009		2010		2011		2012	
	(millions of UAH)	*(%)*	*(millions of UAH)*	*(%)*	*(millions of UAH)*	*(%)*	*(millions of UAH)*	*(%)*
Aggregate loans to the Group's ten largest borrowers	15,319	19.6	22,069	21.6	14,774	12.0	12,070	8.9

The decrease in the amount of loans outstanding to the ten largest borrowers as at 30 September 2012 and 31 December 2011 was largely due to PrivatBank's policy of diversifying its loan portfolio. In addition, the decrease as at 31 December 2011 was also affected by the improvement in the Ukrainian economy from 2010 to 2011, which increased the demand for loans as well as the pool of borrowers that were deemed creditworthy.

As at 30 September 2012, the Group had one borrower, compared to one borrower as at 31 December 2011 and eleven borrowers as at 31 December 2010 and 2009, with aggregate loan balances in excess of 10 per cent. of the Group's net assets as at those dates respectively. The total aggregate amount of these loans was UAH 2,702 million as at 30 September 2012, UAH 2,843 million as at 31 December 2011, UAH 23,544 million as at 31 December 2010 and UAH 16,132 million as at 31 December 2009.

Loan Portfolio Maturity Profile

The following table sets forth the Group's net loan portfolio to customers by expected maturity as at the dates indicated:

	As at 31 December						As at 30 September	
	2009		2010		2011		2012	
	(millions of UAH)	*(%)*	*(millions of UAH)*	*(%)*	*(millions of UAH)*	*(%)*	*(millions of UAH)*	*(%)*
Demand and less than 1 month.............	11,118	16.7	4,467	5.0	9,608	8.9	9,213	7.9
From 1 to 3 months ...	4,729	7.1	6,132	6.8	17,521	16.3	17,720	15.1
From 3 to 12 months......................	22,669	34.0	52,016	58.0	59,331	55.2	60,899	51.9
More than 1 year........	28,081	42.2	27,079	30.2	20,970	19.5	29,407	25.1
Total.........................	**66,597**	**100.0**	**89,694**	**100.0**	**107,430**	**100.0**	**117,240**	**100.0**

Loans with a maturity from three to 12 months represent the largest proportion of the Group's customer loan portfolio as at 30 September 2012, 31 December 2011 and 31 December 2010. The Group also concentrates on short-term loans in order to meet customers' requirements and mitigate risks associated with funding availability and to improve Group's funding structure. The share of loans with a maturity of three to 12 months increased by 129.5 per cent. from UAH 22,669 million as at 31 December 2009 to UAH 52,016 million as at 31 December 2010, by 14.1 per cent. to UAH 59,331 million as at 31 December 2011 and by 2.6 per cent. to UAH 60,899 million as at 30 September 2012. The share of loans exceeding one year in the customer portfolio decreased by 3.6 per cent. from UAH 28,081 million as at 31 December 2009 to UAH 27,079 million as at 31 December 2010 and by 22.6 per cent. to UAH 20,970 million as at 31 December 2011 before increasing by 40.2 per cent. to

UAH 29,407 million as at 30 September 2012. The 22.6 per cent. decrease in the share of loans exceeding one year as at 31 December 2011 compared to 31 December 2010 was primarily due to an increase in short-term loans by borrowers to more closely match their business cycles. The 40.2 per cent. increase in the share of loans exceeding one year as at 30 September 2012 compared to 31 December 2011 was primarily due to borrowers obtaining loans in advance of the Euro 2012 Championship. The share of loans on demand and loans with a maturity of less than one month decreased by 59.8 per cent. from UAH 11,118 million as at 31 December 2009 to UAH 4,467 million as at 31 December 2010, increased by 115.1 per cent. to UAH 9,608 million as at 31 December 2011 and decreased by 4.1 per cent. to UAH 9,213 million as at 30 September 2012. Loans with a maturity of one to three months increased by 185.7 per cent. from UAH 6,132 million as at 31 December 2010 to UAH 17,521 million as at 31 December 2011, largely due to PrivatBank's strategy of increasing the amount of its credit cards loans, which generally have a maturity of one to three months.

Loan Portfolio Impairment Profile

The table below sets forth loans and advances to customers, including past due loans and provision for loan impairment, as at the dates indicated. The Group treats as past due loans with payments that are past due one day or more in respect of principal payments or interest payments.

	As at 31 December			As at 30 September
	2009	2010	2011	2012
	(millions of UAH, except %)			
Neither past due nor impaired loans	51,985	75,291	92,253	96,656
Past due but not impaired loans	2,017	1,575	2,058	3,467
Individually impaired loans (gross)	24,040	25,309	29,069	36,188
Less: provision for loan impairment	(11,445)	(12,481)	(15,950)	(19,071)
Total	**66,597**	**89,694**	**107,430**	**117,240**
Provision for loan impairment as a percentage of gross loans	14.7	12.2	12.9	14.0
Provision for loan impairment as a percentage of impaired loans	47.6	49.3	54.9	52.7
Impaired loans as a percentage of gross loans	30.8	24.8	23.6	26.5

The provision for loan impairment as a percentage of gross loans and advances to customers was 14.7 per cent. as at 31 December 2009, 12.2 per cent. as at 31 December 2010, 12.9 per cent. as at 31 December 2011 and 14.0 per cent. as at 30 September 2012. The decrease in loan impairment provisions as a percentage of gross loans as at 31 December 2010 and 2011 was primarily due to stabilisation in the quality of the Group's loan portfolio. The increase in loan impairment provisions as a percentage of gross loans as at 30 September 2012 was primarily due to the deterioration of the market situation in Ukraine, PrivatBank's conservative approach to provisions and changes in the composition of the Group's loan portfolio, including an increase in the amount of loans to customers outside of the oil trading sector, which are more profitable and riskier than loans to the oil trading sector.

The provision for loan impairment as a percentage of impaired loans was 47.6 per cent. as at 31 December 2009, 49.3 per cent. as at 31 December 2010, 54.9 per cent. as at 31 December 2011 and 52.7 per cent. as at 30 September 2012. The increase as at 31 December 2010 compared to 31 December 2009 primarily reflected the Group's conservative provisioning policy. The increases as at 31 December 2011 compared to 31 December 2010 and as at 30 September 2012 as compared to 31 December 2011 were primarily due to PrivatBank's conservative approach to provisions.

The following table sets forth a breakdown of loans individually determined to be impaired (shown on a gross basis) by credit quality of loans, as at 30 September 2012:

	Corporate loans	Loans to individuals	SME	Total
		(millions of UAH)		
Not overdue	25,717	207	-	25,924
Less than 30 days overdue	70	7	-	77
30 to 90 days overdue	2,802	9	-	2,811
90 to 180 days overdue	1,343	523	35	1,901
180 to 360 days overdue	994	663	75	1,732
Over 360 days overdue	504	2,717	522	3,743
Total individually impaired loans (gross)	**31,430**	**4,126**	**632**	**36,188**

Collateral

The Group discloses the financial effect of collateral in its consolidated financial statements by disclosing collateral values separately for (i) those assets where collateral and other credit enhancements are equal to or exceed carrying value of the asset ("**over-collateralised assets**") and (ii) those assets where collateral and other credit enhancements are less than the carrying value of the asset ("**under-collateralised assets**"). The tables below exclude cards and consumer loans, issues of which do not require any collateral.

The following table presents information on the effect of collateral securing loans to customers as at the dates indicated:

	As at 31 December 2011			
	Over-collateralised assets		Under-collateralised assets	
	Carrying value of the assets	Fair value of collateral	Carrying value of the assets	Fair value of collateral
		(in millions of Ukrainian hryvnias)		
Corporate loans	68,054	81,072	15,031	5,717
Loans to individuals – mortgage	2,128	4,505	1,808	1,738
Loans to individuals – auto	61	118	1,139	483
Loans to individuals – other	114	339	793	75
Loans to small and medium enterprises SME)	316	1,016	833	298
Total	**70,673**	**87,050**	**19,604**	**8,311**

	As at 31 December 2010			
	Over-collateralised assets		Under-collateralised assets	
	Carrying value of the assets	**Fair value of collateral**	**Carrying value of the assets**	**Fair value of collateral**
	(in millions of Ukrainian hryvnias)			
Corporate loans..............................	15,377	19,101	55,045	6,667
Loans to individuals – mortgage.....	694	1,751	3,448	1,835
Loans to individuals – auto............	194	261	1,861	602
Loans to individuals – other...........	91	215	1,303	157
Loans to small and medium enterprises SME)............................	560	1,364	1,383	741
Total..	**16,916**	**22,692**	**63,040**	**10,002**

As at 30 September 2012, loans by the Group to borrowers other than those engaged in oil trading sector in the amount of UAH 40,361 million (31 December 2011: UAH 31,521 million) were collateralised with corporate rights for shares in the share capital of these borrowers and their guarantors with the collateral value of UAH 55,028 million (31 December 2011: UAH 46,818 million).

Due from Other Banks

The following table summarises the Group's loans due from other banks as at the dates indicated:

	As at 31 December			As at 30 September	
	2009	**2010**	**2011**	**2011**	**2012**
			(millions of UAH)		
Term placements with other banks	3,767	4,893	4,149	4,791	7,354
Guarantee deposits with other banks[(1)]	302	437	499	468	371
Total due from other banks	**4,069**	**5,330**	**4,648**	**5,259**	**7,725**

(1) Guarantee deposits represent balances placed with other banks as cover for letters of credit and for international payments. These are effectively restricted deposits, which are required to be maintained to complete the related trade finance activity.

Amounts due from other banks increased by 31.0 per cent. as at 31 December 2010 compared to 31 December 2009. This increase was primarily associated with the Group's excess liquidity in 2010 and its policy to lend temporarily unused cash to other banks on a short-term basis, which allowed the Group to maintain a solid liquidity position and was a particular focus of the Group in the highly volatile economic environment of 2009.

Amounts due from other banks decreased by 12.8 per cent. as at 31 December 2011 compared to 31 December 2010. This decrease was primarily due to PrivatBank's increased lending activity and its loan portfolio following its lifting of certain prior lending restrictions.

Amounts due from other banks increased by 66.2 per cent. as at 30 September 2012 compared to 31 December 2011. This increase was primarily due to an increase in the Group's U.S. dollar-denominated term placement with two OECD banks under a U.S. dollar-denominated loans issued by these banks to Group's customer. These funds were used for the purchase of private placements of bonds for UAH 5,510 million issued by PrivatBank. See Note 17 to the Interim Consolidated Financial Information.

Sovereign Exposure

The following table sets forth the Group's liabilities attributable to sovereigns in monetary terms as at the dates indicated:

	As at 31 December			As at 30 September
	2009	2010	2011	2012
	(millions of UAH)			
Term borrowings from the NBU	8,310	7,312	5,825	4,786
Current accounts of state and public organizations in Ukraine..................	8	18	21	57
Term accounts of state and public organizations in Ukraine..................	-	-	-	1
Current accounts of state and public organizations in Georgia..................	9	11	29	37
Term accounts of state and public organizations in Georgia..................	3	1	-	-
Current accounts of state and public organizations in Latvia	7	7	7	15
Term accounts of state and public organisations in Latvia	17	7	37	30

Analysis by Segment

Overview

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

The Group's segments are strategic business units that focus on different customers. They are managed separately because each business unit requires different marketing strategies and service levels.

Segment financial information reviewed by the CODM does not include information on the Group's subsidiaries. Regular review of such subsidiaries is delegated to the local management teams. As information on such subsidiaries is available less frequently to the CODM, Management has concluded that segment reporting should exclude details of the subsidiaries.

The Group has four business segments: retail banking, corporate banking, investment banking and treasury.

- *Retail banking* represents private banking services, private customer current accounts, savings, deposits, investment savings products, custody, credit and debit cards, consumer loans, mortgages and derivative products.

- *Corporate banking* represents direct debit facilities, current accounts, deposits, overdrafts, loan and other credit facilities, foreign currency and derivative products.

- *Investment banking* represents financial instruments trading, structured financing, corporate leasing, merger and acquisition advice.

- *Treasury* represents interbank loans, deposits, foreign currency exchange operations, arrangement of funding in the international markets, asset and liabilities management, issue of senior bonds and assets backed securities, project financing, negotiation of limits for trade financing with financial institutions.

The CODM reviews the financial information of the Group prepared based on Ukrainian accounting standards adjusted to meet the requirements of the NBU reporting rules and before consolidation of subsidiaries. The financial information reviewed by the CODM is unaudited and differs in certain respects from IFRS:

- funds are generally reallocated between segments at internal interest rates set by the treasury department, which are determined by reference to market interest rate benchmarks, contractual maturities for loans and observed actual maturities of customer accounts balances;

- income taxes are not allocated to segments;

- loan loss provisions are recognised based on the statutory accounting rules;

- loans and advances to customers are written-off based on statutory requirements;

- fair value of derivatives is not recognised in statutory accounts;

- managing its open currency position the Group enters into swap transactions that are recognised at cost; and

- consolidation of subsidiaries.

The CODM evaluates the performance of each segment based on profit before tax.

The following tables set forth certain segment information for the Group's IFRS 8 operating segments for 2009, 2010 and 2011. Total revenues, as indicated in the following tables, comprise all items of income that are included in operating income, including interest income, fees and commission income and other operating income. In addition, revenues from other segments, as shown in the tables below, represent income and expense from lending and borrowing between segments, charged at internally calculated rates. For additional information regarding the Group's business segments, see Note 23 of the Annual Consolidated Financial Statements and Note 16 to the Interim Consolidated Financial Information.

Segment Financial Information

The following tables sets forth segment information for the Group's reportable business segments as at and for the periods indicated:

	As at and for the year ended 31 December 2011				
	Retail banking	**Corporate banking**	**Investment banking**	**Treasury**	**Total reportable segments**
			(millions of UAH)		
Cash and cash equivalents and mandatory reserves	2,949	-	-	15,554	18,503
Trading securities	-	-	123	-	123
Due from other banks	-	-	-	4,202	4,202
Loans and advances to customers	17,869	82,952	-	-	100,821
Investment securities available-for-sale	-	-	82	-	82
Investment securities held to maturity	-	-	-	72	72
Investment property	-	-	2	-	2
Investment in subsidiaries	-	-	980	-	980
Intangible assets	6	1	-	1	8
Premises, leasehold improvements and equipment	1,094	248	4	209	1,555
Other financial assets	322	16	12	17,517	17,867
Other assets	64	29	-	2	95
Total reportable segment assets	**22,304**	**83,246**	**1,203**	**37,557**	**144,310**
Due to the NBU	-	-	-	5,825	5,825
Due to other banks and other financing institutions	-	-	6	10,095	10,101
Customer accounts	68,868	22,804	503	-	92,175
Debt securities in issue	-	1	-	560	561
Other financial liabilities	353	195	-	17,617	18,165
Other non-financial liabilities	15	7	14	3	39
Subordinated debt	-	-	-	1,226	1,226
Total reportable segment liabilities	**69,236**	**23,007**	**523**	**35,326**	**128,092**
External revenues	8,495	13,015	60	398	21,968
Revenues from other segments	4,443	(6,830)	(135)	2,707	185
Total revenues	**12,938**	**6,185**	**(75)**	**3,105**	**22,153**
Total revenues includes:					
- Interest income	8,737	5,438	(135)	2,932	16,972
- Fee and commission income	3,619	663	59	172	4,513
- Other operating income	582	84	1	1	668
Total revenues	**12,938**	**6,185**	**(75)**	**3,105**	**22,153**
Interest expense	(6,263)	(976)	(7)	(1,601)	(8,847)
Provision for loan impairment	(2,080)	(4,200)	-	(29)	(6,309)
Impairment of investment securities available-for-sale	-	-	7	-	7
Release of provision for credit-related commitments	-	-	1	(6)	(5)
Fee and commission expense	-	52	-	-	52
Losses less gains from trading securities	(294)	-	(19)	(360)	(673)
Gains less losses from trading in foreign currencies	-	-	38	-	38
Gains less losses from disposals of investment securities available-for-sale	235	187	-	8	430
Administrative and other operating expenses	(2,669)	(604)	(9)	(526)	(3,808)
Depreciation and amortization charge	(164)	(37)	(1)	(32)	(234)
Segment result[(1)]	**1,703**	**607**	**(65)**	**559**	**2,804**

	As at and for the year ended 31 December 2010				
	Retail banking	**Corporate banking**	**Investment banking**	**Treasury**	**Total reportable segments**
			(millions of UAH)		
Cash and cash equivalents and mandatory reserves	4,417	-	-	6,558	10,975
Trading securities	-	-	84	-	84
Due from other banks	-	-	-	10,449	10,449
Loans and advances to customers	13,707	71,763	-	-	85,470
Investment securities available-for-sale	-	9	44	31	84
Investment securities held to maturity	-	-	-	708	708
Investment in subsidiaries	-	-	1,025	-	1,025
Intangible assets	5	1	-	1	7
Premises, leasehold improvements and equipment	928	228	5	173	1,334
Other financial assets	152	30	13	2,279	2,474
Other assets	88	36	-	7	131
Total reportable segment assets	**19,297**	**72,067**	**1,171**	**20,206**	**112,741**
Due to the NBU	-	-	-	7,312	7,312
Due to other banks and other financing institutions	-	-	1	12,992	12,993
Customer accounts	53,804	21,006	613	-	75,423
Debt securities in issue	-	1	-	556	557
Other financial liabilities	150	260	(11)	3,259	3,658
Other non-financial liabilities	10	5	16	2	33
Subordinated debt	-	-	-	1,235	1,235
Total reportable segment liabilities	**53,964**	**21,272**	**619**	**25,356**	**101,211**
External revenues	5,713	11,621	55	881	18,270
Revenues from other segments	4,130	(6,540)	(184)	2,669	75
Total revenues	**9,843**	**5,081**	**(129)**	**3,550**	**18,345**
Total revenues includes:					
- Interest income	7,066	4,480	(184)	2,996	14,358
- Fee and commission income	2,385	537	53	385	3,360
- Other operating income	392	64	2	169	627
Total revenues	**9,843**	**5,081**	**(129)**	**3,550**	**18,345**
Interest expense	(5,533)	(1,057)	(7)	(1,884)	(8,481)
Provision for loan impairment	(592)	(3,485)	-	(233)	(4,310)
Reversal of impairment of investment securities available-for-sale	-	-	2	-	2
Gains less losses on derecognition of available for sale securities	-	-	19	-	19
Release of provision for credit-related commitments	-	26	-	-	26
Fee and commission expense	(153)	-	(24)	(374)	(551)
Losses less gains from trading securities	-	-	(21)	-	(21)
Gains less losses from trading in foreign currencies	-	-	-	443	443
Administrative and other operating expenses	(1,918)	(576)	(8)	(360)	(2,862)
Depreciation and amortization charge	(111)	(27)	(1)	(21)	(160)
Segment result[(1)]	**1,536**	**(38)**	**(169)**	**1,121**	**2,450**

	As at and for the year ended 31 December 2009				
	Retail banking	**Corporate banking**	**Investment banking**	**Treasury**	**Total reportable segments**
Cash and cash equivalents and mandatory reserves	2,822	198	-	3,266	6,286
Trading securities	-	-	105	-	105
Due from other banks	140	-	158	8,172	8,470
Loans and advances to customers	12,345	49,302	22	-	61,669
Investment securities available-for-sale	-	9	50	-	59
Investment securities held to maturity	-	-	-	372	372
Investment in subsidiaries	-	-	796	-	796
Intangible assets	2	1	-	1	4
Premises, leasehold improvements and equipment	682	242	6	15	945
Other financial assets	231	31	10	6,036	6,308
Other assets	61	57	-	6	124
Total reportable segment assets	**16,283**	**49,840**	**1,147**	**17,868**	**85,138**
Due to the NBU	-	-	-	8,310	8,310
Due to other banks and other financing institutions	-	-	-	7,193	7,193
Customer accounts	35,935	12,905	414	741	49,995
Debt securities in issue	-	1	-	1,289	1,290
Other financial liabilities	1,221	486	60	5,356	7,123
Other non-financial liabilities	8	12	2	1	23
Subordinated debt	-	61	-	1,239	1,300
Total reportable segment liabilities	**37,164**	**13,465**	**476**	**24,129**	**75,234**
External revenues	6,176	10,998	69	704	17,947
Revenues from other segments	2,161	(5,678)	(143)	2,370	(1,290)
Total revenues	**8,337**	**5,320**	**(74)**	**3,074**	**16,657**
Total revenues includes:					
- Interest income	5,909	4,391	(143)	2,879	13,036
- Fee and commission income	2,106	859	66	126	3,157
- Other operating income	322	70	3	69	464
Total revenues	**8,337**	**5,320**	**(74)**	**3,074**	**16,657**
Interest expense	(4,103)	(966)	(6)	(1,793)	(6,868)
Provision for loan impairment	(752)	(4,309)	-	145	(4,916)
Impairment of investment securities available-for-sale	-	-	(12)	-	(12)
Release of provision for credit-related commitments	-	254	-	-	254
Fee and commission expense	(102)	-	(59)	(482)	(643)
Losses less gains from trading securities	-	-	(430)	-	(430)
Gains less losses from trading in foreign currencies	-	-	-	192	192
Gains less losses from disposals of investment securities available for sale	-	-	11	-	11
Administrative and other operating expenses	(2,193)	(763)	(56)	(82)	(3,094)
Depreciation and amortization charge	(135)	(48)	(1)	(3)	(187)
Segment result[(1)]	**1,052**	**(512)**	**(627)**	**1,051**	**964**

(1) This line item represents net profit before income tax expense for each respective segment.

	As at and for the nine months ended 30 September 2011				
	Retail banking	**Corporate banking**	**Investment banking**	**Treasury**	**Total reportable segments**
			(millions of UAH)		
External revenues	5,765	9,594	50	298	15,707
Revenues from other segments	3,420	(5,139)	(99)	2,177	359
Total revenues	**9,185**	4,455	(49)	2,475	16,066

	As at and for the nine months ended 30 September 2012				
	Retail banking	**Corporate banking**	**Investment banking**	**Treasury**	**Total reportable segments**
			(millions of UAH)		
External revenues	6,962	9,368	39	370	16,739
Revenues from other segments	3,914	(5,130)	(115)	1,650	319
Total revenues	10,876	4,238	(76)	2,020	17,058

Treasury attracts resources primarily in order to provide funding for the Group's corporate customers for which it also performs encashment services. The Group's investment banking activities are also primarily performed for the Group's corporate customers. As a result, the Group's corporate banking, treasury and investment banking segments are considered by the Management as a part of the Group's corporate banking business. Net losses reflected in the segment analysis are the result of the Group's policy of reallocating funds between segments at internal interest rates.

Reconciliation of Reportable Segment Revenues, Profit or Loss, Assets and Liabilities

The table below provides a reconciliation of total reportable revenues for reportable segments to total consolidated revenues for the periods indicated. Total consolidated revenues comprise interest income, fee and commission income and other operating income.

	Year ended 31 December			**Nine months ended 30 September**	
	2009	**2010**	**2011**	**2011**	**2012**
			(millions of UAH)		
Total revenues for reportable segments	**16,657**	**18,345**	**22,153**	**16,066**	**17,058**
Recognition of embedded derivatives and embedded derivatives with expired underlying contracts [(1)]	991	(76)	(846)	(176)	99
Consolidation adjustments[(2)]	731	1,068	1,946	1,409	1,433
Other adjustments	(1,443)	(259)	(358)	(426)	(705)
Unallocated (expenses)/revenues[(3)]	1,290	(75)	(186)	(359)	(318)
Total consolidated revenues	**18,226**	**19,003**	**22,709**	**16,514**	**17,567**

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(1) Embedded derivatives and embedded derivatives with expired underlying contracts are accounted for at the fair value for IFRS purposes. In statutory accounts results from operations with embedded derivatives and embedded derivatives with expired underlying contracts are accounted when cash is received within interest income.

(2) Segment reporting is prepared before consolidation of subsidiaries.

(3) Unallocated balances represent balances which were not included in the reportable segments.

The following table provides a reconciliation of total reportable segment result to profit before tax for the periods indicated:

	Year ended 31 December			Nine months ended 30 September	
	2009	2010	2011	2011	2012
	(millions of UAH)				
Total reportable segment result	**964**	**2,450**	**2,804**	**2,127**	**2,308**
Recognition of embedded derivatives and embedded derivatives with expired underlying contracts[(1)]	1,083	79	(820)	63	971
Consolidation adjustments[(2)]	(341)	(813)	23	85	(238)
Other adjustments	185	168	51	(163)	(225)
Unallocated (expenses less revenues)/revenues less expenses[(3)]	268	(963)	(1,236)	(1,106)	(1,122)
Release of provision/(provision) for impairment[(4)]	(115)	1,090	717	55	(621)
Share grant[(5)]	-	(500)	-	-	-
Profit before tax	**2,044**	**1,511**	**1,539**	**1,061**	**1,073**

(1) Embedded derivatives and embedded derivatives with expired underlying contracts are accounted for at the fair value for IFRS purposes. In statutory accounts results from operations with embedded derivatives and embedded derivatives with expired underlying contracts are accounted when cash is received within interest income.
(2) Segment reporting is prepared before consolidation of subsidiaries.
(3) Unallocated balances represent balances which were not included in the reportable segments.
(4) In segment reporting, the Group analyses provision for impairment in accordance with NBU requirements.
(5) Share grant is recognised only in IFRS financial statements.

The following table provides a reconciliation of total reportable segment assets to total consolidated assets as at the dates indicated:

	As at 31 December			Nine months ended 30 September	
	2009	2010	2011	2011	2012
	(millions of UAH)				
Total reportable segment assets	**85,138**	**112,741**	**144,310**	**144,638**	**163,393**
Recognition of embedded derivatives and embedded derivatives with expired underlying contracts [(1)]	1,943	1,923	1,631	1,288	2,683
Consolidation adjustments[(2)]	8,793	8,797	10,582	10,937	13,856
Other adjustments	(444)	(489)	(943)	(381)	(737)
Unallocated assets[(3)]	423	535	566	531	567
Release of provision for impairment of loans and advances to customers[(4)]	602	1,840	2,706	2,044	1,589
SWAP and spot operations at fair value[(5)]	(6,766)	(3,431)	(17,921)	(12,965)	(22,076)
Total consolidated assets	**89,689**	**121,916**	**140,931**	**142,092**	**159,275**

(1) Embedded derivatives and embedded derivatives with expired underlying contracts are accounted for at the fair value for IFRS purposes. In statutory accounts results from operations with embedded derivatives and embedded derivatives with expired underlying contracts are accounted when cash is received within interest income.
(2) Segment reporting is prepared before consolidation of subsidiaries.
(3) Unallocated balances represent balances which were not included in the reportable segments.
(4) In segment reporting, the Group analyses provision for impairment in accordance with NBU requirements.
(5) The Group presented swap and spot operations on a gross basis in its financial statements prepared in accordance with NBU rules.

The following table provides a reconciliation of total reportable segment liabilities to total consolidated liabilities as at the dates indicated:

	As at 31 December			Nine months ended 30 September	
	2009	2010	2011	2011	2012
	(millions of UAH)				
Total reportable segment liabilities	**75,234**	**101,211**	**128,092**	**124,857**	**146,113**
Consolidation adjustments[(1)]	8,118	9,032	10,764	11,084	13,304
Other adjustments	(513)	(604)	(400)	(108)	(339)
Unallocated liabilities[(2)]	56	182	40	21	91
Swap and spot operations at fair value[(3)]	(6,766)	(3,428)	(17,921)	(13,662)	(22,076)
Deferred income tax liability[(4)]	1,510	1,354	1,171	1,296	1,261
Total consolidated liabilities	**77,639**	**107,747**	**121,746**	**123,488**	**138,354**

(1) Segment reporting is prepared before consolidation of subsidiaries.
(2) Unallocated balances represent balances which were not included in the reportable segments.
(3) The Group presented swap and spot operations on gross basis in its financial statements prepared in accordance with the NBU rules.
(4) In segment reporting the CODM does not analyse taxation.

Capital Adequacy

The Bank complies with the NBU's mandatory minimum capital adequacy ratios for Ukrainian banks. With effect from 1 March 2004, the NBU's mandatory minimum capital adequacy ratio, which is the ratio of capital to total risk-weighted assets, was established at 10.0 per cent. The Bank's capital adequacy ratio, calculated in accordance with the NBU regulations and Ukrainian statutory accounting requirements, was 10.99 per cent as at 30 September 2012, compared to 11.72 per cent. as at 31 December 2011, 11.18 per cent. as at 31 December 2010 and 11.48 per cent. as at 31 December 2009.

Under the current capital requirements set by the NBU banks must maintain a ratio of regulatory capital to risk weighted assets ("**statutory capital ratio**") above a prescribed minimum level. See Appendix A "*Banking Supervision—Mandatory Ratios—Capital Requirements*". Regulatory capital is based on the Bank's reports prepared under Ukrainian accounting standards and comprises:

	As at 31 December			As at 30 September
	2009	2010	2011	2012
	(millions of UAH)			
Net assets unadjusted for accruals, provisions and taxes	8,390	11,395	15,402	15,835
Plus subordinated debt	1,210	1,194	1,198	959
Less investments into subsidiaries	(796)	(1,025)	(980)	(950)
Other	(2)	(2)	(2)	(2)
Total regulatory capital	**8,802**	**11,562**	**15,618**	**15,842**

The composition of the Group's capital calculated in accordance with the requirements of the Basel Capital Accord, as described in the International Convergence of Capital Measurement and Capital Standards of July 1988 (updated in April 1998) (the "**Basel Capital Accord**") and amendment to the Base Capital Accord to reflect market risk changes (updated November 2005), commonly known as Basel I, is as follows:

	As at 31 December			As at 30 September
	2009	2010	2011	2012
	(millions of UAH, except %)			
Tier 1 Capital				
Share capital	8,064	8,860	13,565	14,917
Disclosed reserves	2,542	4,450	4,720	4,953
Cumulative translation reserve	354	341	329	284
Less: goodwill and intangible assets	(57)	(51)	(50)	(50)
Total Tier 1 Capital	**10,903**	**13,600**	**18,564**	**20,104**
Tier 2 Capital				
Asset revaluation reserves	628	518	571	769
Additional capital	462	-	-	-
Subordinated debt	1,198	1,194	1,198	957
Total Tier 2 Capital	**2,288**	**1,712**	**1,769**	**1,726**
Total capital	**13,191**	**15,312**	**20,333**	**21,830**
Risk Weighted Assets(1)	74,924	103,101	126,404	143,576
Tier 1 Capital Ratio(2)	14.55	13.19	14.69	14.00
Capital Adequacy Ratio(3)	17.59	14.85	16.08	15.20

(1) Calculated in accordance with the Basel Capital Accord principles and the 1996 Amendment to the Capital Accord to Incorporate Market Risks.
(2) Total Tier 1 Capital divided by Risk Weighted Assets.
(3) Total capital divided by Risk Weighted Assets.

The Group is currently in the process of evaluating the potential impact of the adoption of the Basel II proposals, which is expected to be implemented by the NBU over the course of the next 15 years. Pillar I of the Basel II proposals relating to the maintenance of regulatory capital calculated for three major components of risk that a bank faces (credit risk, operational risk, and market risk), is expected to be applied over the course of the next few years.

Contractual Obligations

The table below sets forth the Group's liabilities at 31 December 2011 by maturity. The amounts disclosed in the table are the non-discounted contractual cash flows, including gross finance leasing obligations (before deducting future finance charges), prices specified in deliverable forward agreements to purchase financial assets for cash, contractual amounts to be exchanged under gross settled currency swaps and gross loan commitments. Such non-discounted cash flows differ from the amounts included in the statement of financial position because the amounts disclosed in the consolidated statement of financial position are based on discounted cash flows.

	Liabilities due by maturity as at 31 December 2011					
	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 12 months to 5 years	Over 5 years	Total
			(millions of UAH)			
Liabilities						
Due to the NBU	172	338	1,468	4,957	-	6,935
Due to other banks and other financing institutions	951	126	958	986	152	3,173
Customer accounts	27,469	25,065	46,660	8,953	124	108,271
Debt securities in issue	-	3,833	381	1,928	50	6,192
Subordinated debt	9	46	81	1,680	-	1,816
Other financial liabilities	300	6	23	43	360	732
Gross settled swaps and forwards	19,861	-	-	-	-	19,861
Total contractual future payments for financial obligations	48,762	29,414	49,571	18,547	686	146,980

Source: Estimated information extracted from Note 24 of the Annual Consolidated Financial Statements.

Contingencies, Commitments and Derivative Financial Instruments

Legal Proceedings

See "*Description of PrivatBank's Business—Legal Proceedings*".

Credit-Related Commitments

The Group's credit commitments consist of guarantees issued, import letters of credit and irrevocable commitments to extend credit. The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees issued and import letters of credit, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate or cash deposits and therefore carry less risk than a direct borrowing.

The following table sets forth the Group's outstanding credit-related commitments as at the dates indicated:

	As at 31 December			As at 30 September
	2009	2010	2011	2012
		(millions of UAH)		
Guarantees issued	914	981	1,167	825
Import letters of credit	616	986	559	518
Irrevocable commitments to extend credit	123	55	84	83
Less: Cash covered letters of credit	(44)	(44)	(30)	(6)
Less: Provision for credit-related commitments	(43)	(2)	(2)	(28)
Total credit-related commitments	**1,566**	**1,976**	**1,778**	**1,392**

The Group's outstanding credit-related commitments, net of provisions, increased by 26.2 per cent. from UAH 1,566 million as at 31 December 2009 to UAH 1,976 million as at 31 December 2010, reflecting the increased business activity of the Group's customers in light of gradually improving market conditions.

The Group's outstanding credit-related commitments, net of provisions, decreased by 10.0 per cent. from UAH 1,976 million as at 31 December 2010 to UAH 1,778 million as at 31 December 2011, largely reflecting a decrease in demand for letters of credit by the Group's corporate customers.

The Group's outstanding credit-related commitments, net of provisions, decreased by 21.7 per cent. from UAH 1,778 million as at 31 December 2011 to UAH 1,392 million as at 30 September 2012, largely reflecting a decrease in demand for guarantees by the Group's corporate customers.

Derivative Financial Instruments

Ukrainian commercial banks are generally not active in engaging in operations with foreign currency derivatives as such a market in Ukraine is underdeveloped and there are certain limitations on such activity imposed by the NBU.

As 30 September 2012, the Group had term placements with other banks in U.S. dollar, euro and other currencies totalling UAH 24,354 million (compared to UAH 19,803 million as at 31 December 2011) pledged against euro, Ukrainian hryvnia, U.S. dollar and other currency deposits received for the same term from the same counterparty banks totalling UAH 24,353 million compared to UAH 19,841 million as at 31 December 2011. In accordance with the specific requirements of International Accounting Standard 39 "Financial Instruments: Recognition and Measurement", these arrangements are accounted for on a net basis as derivatives so as to reflect that in substance these types of transactions represent one instrument.

As at 30 September 2012, the Group had outstanding loans and advances to customers totalling UAH 77,653 million (compared to UAH 67,715 million as at 31 December 2011, UAH 51,620 million as at 31 December 2010 and UAH 36,608 million as at 31 December 2009) issued in Ukrainian hryvnia, the terms of which included an obligation of the respective borrowers to pay a compensation to the Group in the event that the official exchange rate of hryvnia depreciated against the U.S. dollar. The Group has accounted for the contract to receive compensation as an embedded derivative with the fair value of UAH 2,724 million as at 30 September 2012 (compared to UAH 1,484 million as at 31 December 2011, UAH 1,678 million as at 31 December 2010 and UAH 2,005 million as at 31 December 2009) estimated using a valuation technique. This valuation technique takes into account expected movements in exchange rates, discount factor and credit risk. Changing the assumptions about expected exchange rates may result in a different profit or loss. During the nine months ended 30 September 2011 and 2012 and the years ended 31 December 2011, 31 December 2010 and 31 December 2009, the Group recognised gains of UAH 231 million, UAH 872 million, UAH 27 million, UAH 147 million and UAH 128 million, respectively, in respect to change in fair value of a financial derivative that arises on the issue of UAH-denominated loans with the condition of compensation in the case of UAH devaluation against U.S. dollar. All of the contracts currently held mature from 2012 to 2015, inclusive. If the expected hryvnia/U.S. dollar exchange rate for these years would be higher or lower by 5 per cent., the fair value of the derivative and the respective profit or loss amount would have increased by UAH 6,435 million and decreased by UAH 205 million for the nine months ended 30 September 2012 (compared to UAH 4,058 million and UAH 514 million, respectively, for the nine months ended 30 September 2011; UAH 3,158 million and UAH 551 million, respectively, for the year ended 31 December 2011; UAH 2,304 million and UAH 1,671 million, respectively, for the year ended 31 December 2010; and UAH 1,518 million and UAH 1,518 million, respectively, for the year ended 31 December 2009). If the discount rate used for fair valuation of the derivatives as at 30 September 2012 would be higher or lower by 100 basis points, the fair value of the derivative and profit or loss would decrease or increase by UAH 22 million for the nine months ended 30 September 2012 (compared to UAH 17 million for the year ended 31 December 2011; UAH 10 million for the year ended 31 December 2010; UAH 134 million for the year ended 31 December 2009). If the credit risk of counterparties as at 30 September 2012 would be higher or lower by 10.0 per cent., the fair value of the derivative and profit or loss amount would decrease or increase by UAH 127 million for the nine months ended 30 September 2012 (compared to UAH 45 million for the year ended 31 December 2011; UAH 81 million for the year ended 31 December 2010; UAH 200 million for the year ended 31 December 2009). For further information, see Notes 4 and 27 to the Annual Consolidated Financial Statements and Notes 4 and 18 to the Interim Consolidated Financial Information.

Critical Accounting Estimates, and Judgments in Applying Account Policies

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

Impairment Losses on Loans and Advances

The Group regularly reviews its loan portfolios to assess impairment. In determining whether an impairment loss should be recorded in consolidated statement of comprehensive income for a period, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a loan portfolio before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group or in 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 loan portfolio when preparing schedules of future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. A 10% increase or decrease in actual loss experience compared to the loss estimates used would result in an increase or decrease in loan impairment losses of UAH 681 million or UAH 681 million, respectively, in the first nine months of 2012 (in the year ended 31 December 2011, UAH 641 million or UAH 641 million, respectively; in the year ended 31 December 2010, UAH 571 million or UAH 628 million, respectively; in the year ended 31 December 2009, UAH 490 million or UAH 490 million, respectively). Impairment losses for individually significant loans are based on estimates of discounted future cash flows of the individual loans, taking into account repayments and realisation of any assets held as collateral against the loans. A 10% increase or decrease in the actual loss experience compared to the estimated future discounted cash flows from individually significant loans, which could arise from differences in amounts and timing of the cash flows, would result in an increase or decrease in loan impairment losses of UAH 944 million or UAH 1,215 million, respectively (in the year ended 31 December 2011, UAH 758 million or UAH 885 million, respectively; in the year ended 31 December 2010, UAH 719 million or UAH 731 million, respectively; in the year ended 31 December 2009, UAH 500 million and UAH 500 million, respectively).

Assessment of Loans and Advances Issued to a Group of Borrowers-oil traders for Impairment

The Group regularly reviews its outstanding loans and advances issued to the oil traders that are engaged in wholesale and retail sale of petrol, oil and oil products. Certain of these companies work closely with each other. As of 30 September 2012, the gross amount of these loans was UAH 39,438 million (as at 31 December 2011, UAH 39,436 million; as at 31 December 2010, UAH 32,104 million; as at 31 December 2009, UAH 21,994 million). In determining whether an impairment loss should be recorded in profit or loss for a financial period, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans issued to oil traders before the decrease can be identified for an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in an oil traders group or in regulatory, industry or national economic conditions that correlate with defaults on assets in the oil traders group. Management uses estimates based on historical loss experience for assets with credit risk characteristics. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. The fair value of collateral substantially contributes to the assessment of whether there is an impairment of loans issued to oil traders.

Fair Value of Derivatives

The fair values of financial derivatives that are not quoted in active markets are determined by the Group using valuation techniques. Where valuation techniques, such as models, are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the department that created them. To the extent practical, models use only observable data; however, areas such as credit risk (both own and counterparty), volatilities and correlations require Management to make estimates. Changes in assumptions about these factors could affect reported fair values. For further information, see "—*Contingencies, Commitments and Derivative Financial Instruments—Derivative Financial Instruments*" above.

Initial Recognition of Related Party Transactions

In the normal course of business the Group enters into transactions with its related parties. IAS 39 *Financial Instruments: Recognition and Measurement* requires initial recognition of financial instruments based on their fair values. Judgment is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgment is pricing for similar types of transactions with unrelated parties and effective interest rate analysis.

Tax Legislation

Ukrainian tax and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant authorities.

The Ukrainian tax authorities may be taking a more assertive and sophisticated approach in their interpretation of tax legislation and tax examinations. Combined with a possible increase in tax collection efforts to respond to budget pressures, this may lead to an increase in the level and frequency of scrutiny by the tax authorities, and it is possible that transactions and activities that have not been challenged in the past may be challenged.

As a result, significant additional taxes, penalties and interest may be assessed on the Group. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances, reviews may cover longer periods.

Ukrainian transfer pricing legislation provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of all controllable transactions, provided that the transaction price differs from market price. Controllable transactions include transactions with related parties, as determined under the Ukrainian Corporate Profit Tax ("**CPT**") Law, whose definition of such transactions is significantly different from IFRS, All transactions with non-residents (irrespective whether performed between related or unrelated parties) and transactions with non-standard CPT payers are controllable transactions. There is no formal guidance as to how these transfer pricing rules should be applied in practice. The procedure for assessing additional tax liabilities using transfer pricing rules requires the tax authorities to obtain a court decision approving the tax additional tax assessment amount. It is currently not clear when or if new or more detailed transfer pricing regulations will be introduced. It is possible that with the evolution of the interpretation of the transfer pricing rules in Ukraine and the changes in the approach of the Ukrainian tax authorities, transfer prices could potentially be challenged. The impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the Group entity.

Provision for Credit-Related Commitments

The Group regularly reviews its outstanding credit-related commitments to assess whether any provision is required. In determining whether a provision should be recorded in the consolidated statement of comprehensive income for the period, the Group makes judgements as to whether there is any observable data indicating that credit-related commitment will be executed and whether the best estimate of the expenditure required to settle the commitment at the end of the period is lower than the remaining unamortised balance of the amount at initial recognition.

Management uses estimates based on historical loss experience for commitments with credit risk characteristics similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Share Grant

In 2010, PrivatBank's majority shareholders offered the Group's top managers the opportunity to purchase shares of PrivatBank, at a discount to the nominal value of shares, for services provided by these managers (the ***First Share Grant***). The amount of UAH 500 million being difference between the fair value of shares as at the date of share grant and cost to purchase of these shares for management was recognised as a remuneration of top management of the Group within the administrative and other operating expenses in the consolidated statement of comprehensive income, with a corresponding credit to equity in the consolidated statement of financial position. If the fair value of shares of PrivatBank as at the date of share grant had been higher or lower by 5 per cent., staff costs in 2010 would have increased or decreased by UAH 36 million. In addition, in 2010, PrivatBank's majority shareholders also offered some of the Group's top managers the opportunity to purchase shares of PrivatBank on the same terms as the First Share Grant for services provided that are not related to the Group's activities. If the split of shares between those related and those not related to the Group's activities had been different by plus or minus 10 per cent., staff costs would increase by UAH 100 million or decrease by UAH 100 million, respectively.

DESCRIPTION OF PRIVATBANK'S BUSINESS

Overview

PrivatBank was founded and registered on 19 March 1992 with the purpose of providing a full range of banking services to retail and corporate customers.

According to statistics published by the NBU (which are prepared in accordance with Ukrainian statutory accounting principles and requirements of the NBU), as at 30 September 2012, PrivatBank was the largest bank in Ukraine in terms of total assets, loans to legal entities and individuals and deposits from legal entities and individuals. PrivatBank's principal business areas are corporate banking and retail banking. These business areas are supported by PrivatBank's treasury. PrivatBank also provides limited investment banking services, reflecting any ongoing needs of its large corporate clients.

PrivatBank's corporate banking activities include offering corporate lending, current accounts and term deposits to corporate customers, settlement transactions, payroll services for public and private sector employers, microfinancing loans, trade finance, foreign currency transactions and other corporate banking services. PrivatBank provides loans and other credit-related products to its corporate customers, including the provision of overdraft facilities, revolving credit lines and bank guarantees.

PrivatBank's retail banking activities include offering a wide range of products and services throughout Ukraine, including current accounts and term deposits to individuals, retail lending (including credit card and consumer loans) and other retail banking services. PrivatBank also provides services in connection with the payment of wages, pensions and other monetary entitlements.

PrivatBank's investment banking services primarily include trading and brokerage services in equity securities and depository services.

As at 30 September 2012, according to statistics published by the NBU, PrivatBank was the largest issuer of bank cards in Ukraine, with approximately 35.3 million bank cards in issue, comprising approximately 53.8 per cent. of bank cards in issue in Ukraine.

Headquartered in Dnipropetrovsk, as at 30 September 2012, PrivatBank had an extensive nationwide network of 34 branches and 3,375 outlets within Ukraine and a branch in Cyprus.

PrivatBank has subsidiaries in Georgia, Latvia and the Russian Federation. As at 30 September 2012, PrivatBank's subsidiary in the Russian Federation (CJSC MKB MOSCOMPRIVATBANK) had 25 branches and 208 outlets, PrivatBank's subsidiary in Latvia (AS PRIVATBANK) had 30 outlets (including one outlet in Italy, two outlets in Portugal and one representative office in Spain) and PrivatBank's subsidiary in Georgia (JSC PRIVATBANK) had 106 service centres. PrivatBank's subsidiaries in the Russian Federation, Latvia and Georgia primarily focus on retail banking products and services.

PrivatBank also has representative offices, which do not carry out any banking operations or activities and perform purely administrative functions, in Kyiv (Ukraine), Moscow (Russia), Almaty (Kazakhstan), London (United Kingdom) and Beijing (China). PrivatBank also has correspondent relationships with a number of the world's leading financial institutions.

As at 30 September 2012, PrivatBank owned the largest number of ATMs and POS terminals of any bank in Ukraine, according to statistics published by the NBU.

As at 30 September 2012, PrivatBank had a network of 13,791 ATMs, 59,678 POS terminals and 6,458 self-service terminals (allowing customers to carry out certain banking operations and/or pay for goods and services from a self-service terminal without any assistance of the bank's personnel) in Ukraine.

As at 30 September 2012, the Group's total assets, loans and advances to customers and customer accounts amounted to UAH 159,275 million, UAH 117,240 million and UAH 118,379 million, respectively, and it had total equity of UAH 20,921 million.

History

PrivatBank was founded and registered on 19 March 1992 as a limited liability company of unlimited duration under the laws of Ukraine to engage in various activities in the banking sector. On 4 September 2000, the bank was reorganised as a closed joint stock company of unlimited duration in accordance with the Banking Law. On 17 July 2009, the bank was reorganised as a public joint stock company of unlimited duration in accordance with the Law of Ukraine "On Joint Stock Companies" dated 17 September 2008 (the "**Joint Stock Companies Law**").

From the first year of existence, PrivatBank focused on developing and expanding its retail and corporate customer base, its branch network, developing its information technology systems and platforms, diversifying its product range, focusing, amongst other things, on Internet- and mobile-based banking products, and also actively participating in international capital markets transactions.

The Group expanded primarily through organic growth, combined with selective acquisitions. In June 2004, PrivatBank acquired 95 per cent. of the share capital of AS "Paritate Banka" and commenced its banking operations in Latvia. In November 2004, PrivatBank acquired 50 per cent. of the share capital of CJSC Moskovsky Commercial Bank "Moscomprivatbank" and commenced its banking operations in the Russian Federation. In July 2007, PrivatBank acquired 75 per cent. of the share capital of Joint Stock Company "Taobank" and commenced its banking operations in Georgia.

In 1995, PrivatBank worked pursuant to the EBRD programme to increase its corporate lending business by extending loans to small and medium-sized companies (the "**SMEs**").

In 1996 and 1997, PrivatBank significantly expanded its bank card business. In 1996, it became a member of the VISA international payment system. In 1997, PrivatBank became a member of the MasterCard international payment system. In 2003, PrivatBank became the first bank in Ukraine to issue over 1 million MasterCard and Maestro bank cards.

As a result of its focus on information technologies and communication systems, in 1999, PrivatBank introduced mobile banking in Ukraine allowing its customers to receive transaction confirmation messages via a short message service ("**SMS**") and to make payments for goods and services via SMS. In 2000, PrivatBank opened a call centre in Ukraine, which provides information about PrivatBank's services, handles bank card applications and contacts potential customers offering new products and services.

In 2001, PrivatBank became the first Ukrainian bank to launch an Internet banking system (known as "Privat24"), which currently offers a broad range of banking services to both corporate and individual customers and as at 30 September 2012 had approximately 700 thousand corporate and more than three million individual users in Ukraine.

In 2003, PrivatBank launched an “Internet merchant acquiring” service in Ukraine allowing its customers to pay for goods and services through the Internet with more than 50 thousand retailers (as at 30 September 2012) participating in this service via their websites.

In 2008, PrivatBank launched the “LiqPay” service, which as at 30 September 2012 had over two million users in Ukraine, allowing its customers to make money transfers by simply providing the mobile phone numbers of the recipients. In 2009, PrivatBank launched a “coin-free” settlement system in Ukraine, which allows for coin change from customers’ transactions in PrivatBank’s branches to be automatically directed either as charitable donations or credited to the LiqPay account of the customer.

In August 2010, PrivatBank launched an “Online encashment” technology which allows its corporate customers to record and monitor daily their cash receipts through mobile POS terminals. In addition, in April 2011, PrivatBank launched an accredited electronic keys system in accordance with the Law of Ukraine “On Electronic Digital Signature” dated 22 May 2003 (“**Electronic Signature Law**”), which allows PrivatBank’s customers in Ukraine to conduct electronic reporting and filing with various state authorities in Ukraine and to activate the “Privat24” Internet banking remotely through the Internet.

Over the years, PrivatBank has completed a number of capital markets transactions. In 2003, PrivatBank became the first bank in Ukraine to issue bonds, with a par value of U.S.$100 million on the Luxembourg Stock Exchange. In February 2007, PrivatBank was the first and the only bank in Ukraine to complete a securitisation of a residential mortgage portfolio. This was the first deal where an investment grade rating was attributed to securities backed by assets originated by a Ukrainian bank by an international rating agency. In May 2008, PrivatBank also completed a securitisation of auto loans. Also in February 2007, PrivatBank raised U.S.$500 million through the issuance by the Issuer of the Eurobonds. In addition, in 2010, PrivatBank raised U.S.$200 million through the issuance by the Issuer of the Existing Notes. In September 2011 PrivatBank redeemed in full USD denominated bonds backed by auto loans issued in 2008 subject to condition 5(f) of the Terms and Conditions of the Notes (Optional Redemption After Step-Up Date). In February 2012, the Group redeemed the remaining U.S.$399 million aggregate outstanding principal amount of Eurobonds.

PrivatBank and its shareholders are not affiliated with any Ukrainian political parties. Management believes that its customers value its perceived independence.

Competitive Strengths

Management believes that PrivatBank enjoys a strong position in the Ukrainian banking sector and possesses the following competitive strengths which enable it to compete effectively and create a strong foundation for PrivatBank’s future growth:

Largest private Ukrainian bank with leading market position across a number of product lines

According to statistics published by the NBU (which are prepared in accordance with Ukrainian statutory accounting principles and requirements of the NBU), as at 30 September 2012, PrivatBank was the largest bank in Ukraine in terms of total assets, loans to legal entities and individuals, deposits from legal entities and individuals. PrivatBank has a history of market leadership in retail deposit taking in Ukraine focused on meeting customer needs through the continuous improvement of the quality of its services and the introduction of new products and services, including its Internet- and mobile-based technologies. Management believes that PrivatBank’s leading market position in Ukraine puts it in a strong position to benefit from potential growth in the Ukrainian banking sector and provides a strong platform to pursue its strategy.

One of the strongest nationwide distribution platforms in Ukraine

As at 30 September 2012, PrivatBank had 34 branches and 3,375 outlets within Ukraine and a branch in Cyprus. As at 30 September 2012, according to statistics published by the NBU, PrivatBank owned the largest of any bank number of ATMs, POS and self-service terminals (allowing customers to carry out certain banking operations and/or pay for goods and services from a self-service terminal without any assistance of the bank's personnel) in Ukraine, with a market share of 39.9 per cent., 50.4 per cent. and 23.2 per cent., respectively. Management believes that PrivatBank's significant regional presence in Ukraine provides it with greater brand recognition than its competitors and allows it to establish relationships with regional retail and corporate customers. PrivatBank's wide territorial coverage in Ukraine also provides it with a competitive advantage over other large Ukrainian banks, including foreign-owned Ukrainian banks, due to the amount of time its competitors would need to spend and the investment they would need to make in order to create a comparable distribution network.

Access to a wide corporate and retail customer base

As at 30 September 2012, PrivatBank had approximately 13.03 million individual customers and approximately 453,865 corporate customers (including the SME customers) across Ukraine, which were serviced through a large distribution network supported by a strong brand name, an experienced management team and advanced technology for card processing and other remote banking services. PrivatBank believes that its wide customer base allows for cross-selling initiatives. Management also believes that PrivatBank is one of the few Ukrainian banks that is able to offer a full range of banking products. Over the recent years, PrivatBank wide corporate and retail customer base contributed to a substantial increase in its loan and deposit portfolio as well as interest and fee income.

Resilience through the economic and financial crisis underpinned by a strong financial position and committed shareholder support

Management believes that PrivatBank has an international reputation as a stable and reliable bank. Management also believes that the impact on PrivatBank of instability in the Ukrainian financial markets, which resulted from the global economic and financial downturn, was less pronounced than it was for most other Ukrainian banks. According to statistics published by the NBU (which are prepared in accordance with Ukrainian statutory accounting principles and requirements of the NBU), in the periods ending 30 September 2012, 31 December 2011, 31 December 2010 and 31 December 2009, PrivatBank had the highest revenues and the highest total assets of any bank in Ukraine. PrivatBank has successfully implemented a number of measures to ensure the quality of its loan portfolio during the recent economic downturn. These measures have included, among other things, the centralisation of its credit approval procedures at its head office in Dnipropetrovsk, adoption of a detailed loan issuance and evaluation procedure and robust underwriting standards in retail lending and operation of a flexible business model which enabled PrivatBank to shift its focus to transactions which PrivatBank associated with a lower risk, such as for example, settlement transactions, cash collections and cash transactions. As a result, the Group's percentage of non-performing loans (i.e. loans to customers that are overdue by more than 90 days) constituted 10.9 per cent., 6.8 per cent., 4.3 per cent. and 5.4 per cent. of the Group's total loans and advances to customers (before impairment) as at 31 December 2009, 31 December 2010, 31 December 2011 and 30 September 2012, respectively. In addition, two majority shareholders, Mr. Bogolyubov and Mr. Kolomoyskiy, have been supporting PrivatBank's operations for more than ten years. Management believes that the willingness of its shareholders to support

PrivatBank have helped it to develop and implement its long-term strategies. See "*Risk Factors—Risks Relating to PrivatBank—PrivatBank relies on shareholder funding*".

Highly experienced and committed management team

PrivatBank's senior management team, headed by Alexander Dubilet, has significant banking and financial experience. Mr. Dubilet has worked at PrivatBank since 1992 and successfully managed PrivatBank through the financial crisis. The majority of the members of the Management Board have an average of ten years of banking and finance expertise. The management team can draw on significant industry experience to seek to deliver on PrivatBank's growth strategy, which enabled PrivatBank to strengthen its competitive position. Furthermore, PrivatBank's management has a proven track record of successfully growing PrivatBank and launching new financial products and services.

Superior track record in product development and technology innovation, including one of the most innovative information technology and payment processing systems among Ukrainian banks

Management believes that its information technology systems and technologies for retail and corporate banking are superior to those of most Ukrainian banks and allow it to increase the quality of its services, reduce costs and streamline decision-making processes. Throughout its history, PrivatBank has strived to develop and provide a wide range of innovative banking services to its customers. PrivatBank was the first bank in Ukraine to offer its customers Internet-based banking services and a service allowing bank customers to make payments via a mobile phone by sending SMS messages to a server at PrivatBank. PrivatBank was also one of the first banks in Ukraine to offer a mobile banking application for mobile devices equipped with a mobile operating system allowing its customers to carry out banking transactions To date, PrivatBank has developed and implemented approximately 50 telephone applications for smart phones and other electronic devices, including:

- *Privat 24* allows customers to undertake cash and credit-card transactions 24 hours a day, seven days a week, from their smart phones;

- *Emergency Cash* allows customers to use their smart phones to withdraw cash from PrivatBank's ATMs without the use of a debit or credit card;

- *iPay* is a free, downloadable application for smart phones with embedded NFC chips that turn the phones into virtual POS-terminals for receiving contactless payments;

- *PhotoCashDesk* allows customers to arrange for the payment of bills by sending a picture of the bill to PrivatBank for servicing;

- *PrivatHelp* allows customers to send a signal notifying PrivatBank of ATM machines that are out of operation or otherwise in need of servicing; and

- *Privat Hot Line* enables the reporting of fraudulent activity by sending a photo of suspicious activity to PrivatBank.

PrivatBank's information technology systems allow it to centrally manage the operations of its head office, maintain the turnover of electronic documents, and to monitor the Group's performance on a regular basis. See "*—Information Technology*" and "*—Internet and Mobile Banking*".

Strategy

As part of the strategic plan for PrivatBank following recovery from the global economic downturn, PrivatBank's overall long-term strategy is to continue to develop and strengthen its market position by improving and strengthening its relationships with existing customers. PrivatBank has identified the following principal strategies:

Expand customer base

The economic downturn in Ukraine that started in mid-2008 and continued into 2009 demonstrated the risks of over-exposure to the retail banking segment and to SMEs. As a result, PrivatBank shifted its focus to lending to reputable corporate customers, which Management considers to be lower risk than lending to individual borrowers. PrivatBank's strategy is to further enhance its existing corporate banking relationships with an emphasis on profitable business segments and industries. PrivatBank seeks to increase its market share in banking products and services provided to such sectors and industries through cross-selling initiatives, greater client focus and the introduction of fee-based products. In developing its retail banking business, PrivatBank seeks to expand its retail customer base through cross-selling initiatives to increase volume of sales per customer, by leveraging its distribution channels and further developing remote banking. PrivatBank aims to become the bank of choice to its customers.

Expand and diversify range of corporate and retail banking products and services

PrivatBank has been a market leader in Ukraine in providing innovative corporate and retail banking products and services, with an emphasis on its bank card related technologies. PrivatBank continuously expands the range of services offered to its cardholders, which Management believes will enable it to increase its fee income and interest income. See *"—Banking Services—Corporate Banking—Payroll Services"*, *"—Banking Services—Retail Banking—Credit and Lending"* and *"—Bank Cards and Infrastructure"*. In corporate banking, PrivatBank is further expanding its overdraft product range. In retail banking, PrivatBank intends to further enhance the ability of individual holders of its bank cards not just to use them as a simple way to access their accounts but to offer through these cards additional credit products. PrivatBank intends to increase credit limits for those individual cardholders who regularly make payments through their cards. Management believes that by improving existing products and services and offering new ones it will be able to increase its customers' loyalty to PrivatBank. In addition, PrivatBank aims to increase its commission fees from agent sales and Internet-oriented banking products.

Increase the volume of settlement operations effected via PrivatBank

Management believes that servicing a large number of settlement operations is a risk-free way to increase its fee and commission income. Currently, settlement operations effected through PrivatBank primarily include utility payments, commercial contracts settlements, money transfers, payments to state authorities for licences and payments of taxes and fines, as well as payments for education and telecommunication. The implementation of this strategy is facilitated by PrivatBank's growing network of ATMs, POS terminals and self-service terminals. PrivatBank's advanced information technology systems also allow for settlement operations to be carried out in an efficient manner thereby decreasing costs and to reducing its staff involvement into such operations.

Focus on continuous improvement of customer relationships

As at 30 September 2012, PrivatBank had approximately 13.03 million individual customers and approximately 453,865 corporate customers (including the SME customers) across Ukraine. PrivatBank offers its retail and corporate banking services through a number of distribution channels, including its branch network, ATMs, POS terminals, self-service terminals, Internet banking, mobile banking and its Call Centre, which also allow it to effectively evaluate customers and offer them suitable additional banking products and services. In addition, in August 2010, PrivatBank launched the “Privat International” service in some of its branches, which allows for the provision of certain banking services to foreigners in foreign languages. PrivatBank also intends to further develop its relationships with existing creditworthy customers by introducing loyalty programmes. PrivatBank also intends to increase its product offering for its VIP customers and introduce mandatory quality surveys for its corporate VIP customers through SMS.

Cross-sell PrivatBank’s range of products to its growing customer base

PrivatBank intends to take advantage of its extensive branch network, agent network and bank card business to cross-sell its products and services to new and existing customers. In addition, PrivatBank has developed and constantly updates its significant database of customer information, which allows it to cross-sell its products and services. PrivatBank intends to further utilise this database to identify specific customer needs and to use techniques such as specialised advertising campaigns to target new product sales to its customer base. Part of PrivatBank’s cross-selling strategy is to build on its relationships with large corporate banking customers to attract their customers and employees as retail banking customers. For example, PrivatBank’s payroll card services for its existing corporate banking customers enabled it to establish banking relationships with such corporate customers’ employees.

Reduce the number and volume of non-performing loans

In response to the recent economic downturn, PrivatBank has shifted its focus to lending to corporate customers with good credit standing, which has had the effect of reducing the proportion of non-performing loans in its loan portfolio. PrivatBank intends to further reduce the proportion of non-performing loans by tightening loan approval procedures, taking quality security and enhancing its credit collection procedures, including debtor automatic messaging and calling. Such enhancements also include internal stress testing programme and enhanced risk management policies. For additional details on methodology, procedures, infrastructure and recovery statistics in relation to PrivatBank’s collection procedures please see “*Risk Management—Credit Risk—Problem Loan Recovery*”.

Enhance agency relationships as a means of distribution of PrivatBank’s products

PrivatBank actively engages third party agents (such as students, employees of the state pension fund and social services, travel agencies, car retailers and large corporates) to promote its products in Ukraine and also in Georgia, Latvia and the Russian Federation. PrivatBank intends to further expand its agent network in order to save personnel costs, reach new customers without significant capital investments and strengthen its position in corporate and retail banking.

Extend the maturity profile of PrivatBank's funding base by attracting long-term deposits and accessing the international capital markets

PrivatBank intends to continue to improve its funding base by increasing its market share in longer-term deposits of corporate and retail customers. In addition, to further diversify its funding sources and extend the maturity profile of its funding base, PrivatBank anticipates that it will continue to access the international capital markets.

Enhance cost efficiencies by using technology to lower operating expenses and centralise the managerial, operational and accounting functions of PrivatBank at its head office

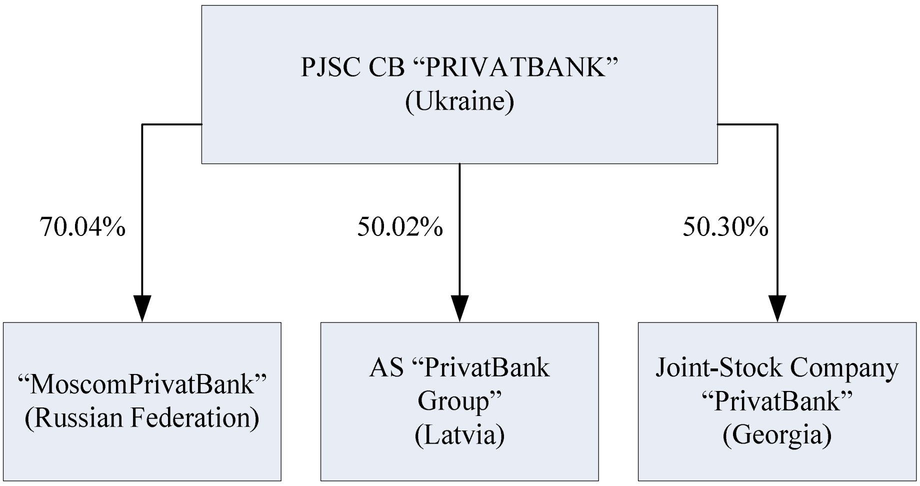
PrivatBank has invested significantly in technology to lower operating expenses and to exploit alternative distribution channels which are more cost efficient in the delivery of banking services. PrivatBank intends to continue to invest in its Call Centre, Internet banking, mobile banking, "LiqPay", "Internet Merchant Acquiring", ATMs, POS terminals, self-service terminals and the maintenance of its customer database to increase market penetration and enhance the convenience of banking for its customers. One of the key drivers for the improvement of efficiency, given its expanding branch network, is PrivatBank's initiative to further centralise management, control and operations capacities in the head office. Management expects this initiative to lead to an improvement in its cost/income ratio, better supervision over PrivatBank's branch network and improved quality of PrivatBank's services.

Expand network and international operations

PrivatBank intends to continue to expand its branch network, both domestically and internationally. PrivatBank intends to open new international branches in areas with a high concentration of Ukrainian migrant workers in Europe and also in the Russian Federation in the areas outside Moscow. Management believes that this will allow PrivatBank to strengthen its brand recognition and attract new regional retail and corporate customers.

Corporate Structure

The chart below shows the Group's corporate structure and certain ownership information relating to its shareholders and subsidiaries, as at the date of this Prospectus.



Banking Services

PrivatBank's principal business areas are corporate banking and retail banking. These business areas are supported by its treasury operations. PrivatBank also provides limited investment banking services, reflecting any ongoing needs of its large corporate clients, which include trading, brokerage and depositary services. Investment banking is not a strategic focus for PrivatBank, but rather an ancillary service for its corporate customers.

Corporate Banking

PrivatBank's corporate banking activities include offering corporate lending, current/settlement accounts and term deposits to corporate customers, settlement transactions, payroll services for public and private sector employers, microfinancing loans, trade finance, foreign currency transactions and other corporate banking services.

Customer Segmentation

PrivatBank provides a broad range of banking products and services to corporate customers, including SMEs and private entrepreneurs. PrivatBank generally defines an SME as a legal entity which does not meet certain requirements to become a corporate customer. In order to become a corporate customer, a legal entity is required to perform a certain number of active and passive operations and obtain a certain number of services from PrivatBank. Within its corporate segment, PrivatBank also distinguishes VIP corporate customers. PrivatBank generally defines VIP corporate customers as companies which have strong brand recognition, developed operational network and a high number of employees, which entitles them to receive a higher and more personal level of service from PrivatBank. They receive, for example, access to personal tariffs and a personal banker who advises them on a wide variety of sophisticated banking services.

As at 30 September 2012, PrivatBank had approximately 13.03 million individual customers and approximately 453,865 corporate customers (including SME customers) across Ukraine.

Deposit Taking

According to statistics published by the NBU (which are prepared in accordance with Ukrainian statutory accounting principles and requirements of the NBU), as at 30 September 2012, PrivatBank was the leader in Ukraine in terms of deposits from legal entities. According to the NBU data, it had a market share of approximately 9.9 per cent. of deposits from legal entities in Ukraine as at 30 September 2012. See *"Management's Discussion and Analysis of Financial Condition and Results of Operations—Funding—Customer Accounts"* for further information.

PrivatBank provides a variety of term deposits to address the varying needs of its corporate customers and several different types of current/settlement accounts for its corporate customers.

Term deposits differ from each other based on, among other things, whether or not additional funds may be deposited in an account, whether funds may be withdrawn prior to the expiration of the term of the deposit without the loss of accrued interest or whether the term of the deposit may be extended. PrivatBank offers its corporate customers "online deposits". In addition, it offers "business deposits" of up to 3 months with an available credit facility/overdraft guaranteed by such deposit. As at 30 September 2012, PrivatBank's interest rates for hryvnia denominated term deposits of legal entities varied from 13 per cent. per annum to 17 per cent. per annum and PrivatBank's interest rates for U.S. dollar denominated term deposits of legal entities varied from 3.5 per cent. per annum to 6.5 per cent. per annum.

As at 30 September 2012, 40.1 per cent. of the Group's customer accounts of legal entities were hryvnia denominated.

Corporate current/settlement accounts represent an important source of funding for PrivatBank as they are a less expensive source of funding than term deposits. Corporate current/settlement accounts do not bear any interest on outstanding balances.

Corporate Lending

According to statistics published by the NBU (which are prepared in accordance with Ukrainian statutory accounting principles and requirements of the NBU), as at 30 September 2012, PrivatBank was the leader in Ukraine in terms of loans to legal entities. According to the NBU data, it had a market share of approximately 16.9 per cent. of loans to legal entities in Ukraine as at 30 September 2012. See *"Management's Discussion and Analysis of Financial Condition and Results of Operations—Loan Portfolio—Corporate Lending"* for further information.

After the onset of the global economic and financial crisis in Ukraine in mid-2008, PrivatBank made significant efforts to strengthen its corporate customer base. Corporate lending was and continues to be perceived by PrivatBank as a lower risk operation, compared to retail lending which also affords cross-selling opportunities. PrivatBank intends to continue to concentrate on corporate lending, however, as PrivatBank also aims to increase its retail lending operations (and in particular its credit card lending operations), Management expects the share of corporate lending in the Group's total loan portfolio to decrease.

PrivatBank's corporate lending products include various types of loans and credit products such as credit limits on current/settlement accounts, overdrafts, term credit facilities and revolving credit lines. The commercial terms of PrivatBank's corporate loans differ, depending on the tenor of the loan, the customer's internal rating, its financial condition, the collateral securing the loan and other factors. As at 30 September 2012, the maturity of PrivatBank's loans to legal entities varied from one day to 24 years and the average maturity of loans to legal entities was one year. As at 30 September 2012, PrivatBank's interest rates for hryvnia denominated loans to legal entities varied from 23 per cent. per annum to 27 per cent. per annum and for U.S. dollar denominated loans to legal entities varied from 13 per cent. per annum to 16 per cent. per annum.

Trade Finance

PrivatBank also provides trade finance loans and conducts trade-related documentary operations. PrivatBank maintains credit lines with major U.S. and European financial institutions to attract medium- and long-term funds to be used for financing international trade contracts for its customers. PrivatBank's trade finance loans are generally guaranteed by foreign export credit agencies, including Euler Hermes (Germany), Eximbank (United States), EDC (Canada), ONDD (Belgium), SACE (Italy), COFACE (France), EGAP (Czech Republic), SERV (Switzerland), Finnvera (Finland) and EKF (Denmark). PrivatBank also provides post-import financing, consisting of letters of credit with post-shipment financing or letters of credit with deferred payment.

Cash Collection and Settlement Operations

PrivatBank also earns fees and commissions from cash collection services and delivery of cash to a customer in banknotes of particular denominations or coins. Cash collection services include cash collection and transportation services from collection points of PrivatBank's customers engaged in retail trade to PrivatBank's vaults. Cash transactions include withdrawals of cash by PrivatBank's corporate customers from their accounts with PrivatBank. PrivatBank's settlement operations principally consist of accepting non-cash payments and processing of non-cash payments made by its customers.

Guarantees

PrivatBank issues guarantees, import letters of credit and irrevocable commitments to extend credit at the request of its corporate customers. As at 31 December 2011 and 30 September 2012, the Group raised UAH 2 million and UAH 28 million, respectively, of provision against credit-related commitments.

Payroll Services

As at 30 September 2012, PrivatBank provided payroll services to approximately 3.5 million employees of approximately 63 thousand legal entities, as well as PrivatBank's own employees. Employees taking part in these services are issued salary cards. Generally, PrivatBank charges fees and commissions to the employers taking part in this service, though the employees themselves are not charged for the service, other than transaction costs and interest charges when using their cards.

Other Corporate Banking Services

In addition to its core corporate banking services described above, PrivatBank provides its corporate customers with foreign exchange services and issuance and servicing of corporate bank cards. Corporate cards are issued to corporate customers for payment of general and administrative expenses. At the customer's option, various limits and restrictions on the use of the corporate card account can be set for security purposes.

PrivatBank operates a loyalty programme for private entrepreneurs, through which it offers them a variety of discounts, and the "Privat Business Club" service, which is a network for SME businesses throughout Ukraine that grant reciprocal discounts to each other. In 2006, PrivatBank introduced its "Blitz Business Distribution" service which allows PrivatBank's customers engaged in wholesale distribution to receive payments from their customers using PrivatBank cards and POS terminals. In addition, since 2006, PrivatBank's corporate customers, including SMEs, have been able to add funds to their corporate cards via the Internet and to manage their accounts with PrivatBank through its Call Centre, which operates 24 hours a day throughout the year.

Treasury

PrivatBank's treasury department manages its liquidity by minimising interest, currency and market risks. It manages PrivatBank's capital markets transactions, interbank transactions, currency exchange operations and operations with securities and precious metals. It is also responsible for PrivatBank's trade financing. PrivatBank's cash collection operations for its corporate customers are also serviced by PrivatBank's treasury department by a large fleet of vehicles monitored from its head office.

Investment Banking

Trading and Brokerage

As part of its investment banking services for corporate customers, PrivatBank's trading and brokerage activities for corporate customers involve primarily Ukrainian hryvnia denominated equity securities of Ukrainian corporate issuers. PrivatBank engages in trading of securities on behalf of its customers on the principal Ukrainian stock exchanges, such as the First Stock Trading System (the "**PFTS**"), and on the over-the-counter market.

Depositary Services

PrivatBank's depositary services include opening and administering securities accounts for corporations and individuals, residents and non-residents of Ukraine.

Retail Banking

PrivatBank's principal retail banking products and services include current accounts, term deposits, credit and debit cards, consumer loans, mortgage loans, auto loans, settlement and cash services. PrivatBank also promotes and sells as agent non-banking products (such as for example, insurance, mobile- and Internet-oriented products).

Deposit Taking

According to statistics published by the NBU, as at 30 September 2012, PrivatBank was the leader in Ukraine in terms of deposits from individuals. According to the NBU data, it had a market share of approximately 23.3 per cent. of deposits from individuals in Ukraine as at 30 September 2012. See *"Management's Discussion and Analysis of Financial Condition and Results of Operations—Funding—Customer Accounts"* for further information.

PrivatBank's term deposits of individuals and balances on customer current accounts can be withdrawn at any time under Ukrainian law at the request of the respective depositors or account holders, subject to re-calculation of interest rates provided for in relevant current account agreements. See *"Risk Factors—Risks Relating to the Bank—The Bank is exposed to the risk of a potential outflow of retail deposits given the concentration of its funding base"*.

PrivatBank's customer accounts include current/demand accounts and term deposits. Term deposits differ from each other based on, among other things, currency, whether or not additional funds may be deposited in an account, whether funds may be withdrawn prior to the expiration of the term of the deposit without loss of accrued interest or whether the term of the deposit may be extended. PrivatBank offers a variety of term deposits designed for different categories of retail customers, including students, public and private employees and pensioners. As at 30 September 2012, PrivatBank's interest rates for hryvnia denominated term deposits of individuals varied from 8.5 per cent. per annum to 19 per cent. per annum and PrivatBank's interest rates for U.S. dollar denominated term deposits of individuals varied from 4 per cent. per annum to 10 per cent. per annum.

As at 30 September 2012, 43.3 per cent. of the Group's individual customer accounts were hryvnia denominated.

Deposits of individuals are a key funding source of PrivatBank. PrivatBank continues to introduce various campaigns to attract deposits from individuals such as loyalty programmes aimed at extending deposit terms and decreasing the difference between interest rates payable on medium and short-term deposits. For instance, PrivatBank has issued credit cards free of charge to customers who have deposits with PrivatBank. PrivatBank issues to all of its depositors special bank cards which allow them to obtain basic information about their accounts (such as account balance, current interest rate, accrued interest and dates of most recent transactions) through PrivatBank's ATM network.

Retail Lending

According to statistics published by the NBU, as at 30 September 2012, PrivatBank was the leader in Ukraine in terms of loans to individuals. According to the NBU data, as at 30 September 2012, it had a market share of approximately 13.7 per cent. of loans to individuals in Ukraine. See *"Management's Discussion and Analysis of Financial Condition and Results of Operations—Loan Portfolio—Retail Lending"* for further information.

The Group's retail lending activities are concentrated in five areas, including credit card loans, mortgages, automobile loans, other loans and consumer loans, which accounted for 13.82, 3.32, 0.6, 0.8 and 0.8 per cent. in the Group's total loans and advances to customers (before impairment) as at 30 September 2012, respectively.

Credit Card Loans

Credit card loans are extended solely in hryvnia and are generally unsecured. As at 30 September 2012, interest rates on credit card loans of PrivatBank varied from 22.8 to 36.0 per cent. per annum, primarily depending on grace periods thereon. Management believes its credit card lending operations will increase due to an increased usage of credit cards in Ukraine.

As part of its strategy to attract new credit card customers, PrivatBank offers up to 55 days grace period for each new purchase made on some of its credit cards rather than a standard grace period for all purchases in the monthly billing cycle. In addition to PrivatBank's regular credit card, PrivatBank also offers a credit card with a lower monthly interest rate, as a customer is charged a fixed monthly commission instead (a part of which is returned to such customer as a bonus). In cooperation with VISA and MasterCard, PrivatBank also offers personal service credit and debit cards which allow customers to obtain discounts in retail stores and use "concierge" services provided by PrivatBank.

Mortgages

In response to the recent economic and financial downturn, in August 2011 PrivatBank has changed its approach to mortgage lending. Currently, PrivatBank only offers finance leases of residential properties, whereby PrivatBank retains the ownership of a particular residential property until a customer fully repays the full value of such asset over the term of the lease plus a return on capital to PrivatBank. PrivatBank believes that this approach allows PrivatBank to reduce the level of non-performing loans and simplifies foreclosure procedures.

Under this programme, PrivatBank offers its customers finance leases over residential properties repossessed by PrivatBank in connection with non-performing loans. To its employees, PrivatBank offers finance leases in respect of residential properties repossessed by PrivatBank in connection with non-performing loans or any other completed residential properties.

Management believes that PrivatBank's mortgage lending/leasing will not increase significantly in the future due to the continuing instability of the real estate market in Ukraine.

Automobile Loans

In response to the recent economic and financial downturn, PrivatBank has changed its approach to the automobile loans in 2010. PrivatBank granted automobile loans to individuals for both old and new cars prior to the onset of the recent economic and financial downturn, however, since 2010, only offers finance leases of old and new cars to its individual customers, SMEs and corporate customers. Management believes that finance leases of vehicles provide PrivatBank with a greater control over vehicles as such vehicles are registered in PrivatBank's name. PrivatBank usually monitors the location of vehicles by installing GPS devices. In the future, in connection with its auto financial leasing programme, PrivatBank aims to offer, through agent sales, to its individual customers ancillary car insurance and car maintenance services.

Consumer Loans

Consumer loans are seasonal in nature with the highest number of consumer loans being issued in autumn. Consumer loans are extended solely in hryvnia and have a maximum term of 2 to 3 years. Interest rates on such loans vary depending on a type of a consumer product in question and existence of an agreement between PrivatBank and a retailer. Consumer loans are secured by, amongst other things, charges over a borrower's account to which its salary is directed. In its consumer lending operations PrivatBank co-operates with leading retailers in Ukraine such as "Comfy", "Foxtrot" and "Eldorado".

Other Loans

Other loans represent loans which are not classified as credit card loans, mortgages, auto loans or consumer loans. For example, loans granted over individual customers' existing deposits, or any other loans secured by pledges over real estate, are classified as other loans.

Cash Services and Settlement Operations

PrivatBank offers its retail customers various payment, money transfer and foreign exchange services. PrivatBank plans to increase the proportion of payment, money transfer and foreign exchange transactions that are carried out through its branch network, ATMs and remote channels such as Internet and telephone banking to increase margins on these operations.

Other Retail Banking Services

In addition to the retail banking services discussed above, PrivatBank also provides a wide range of services for wealthy individuals, or "VIP" customers, including a personal banking manager (who is able to provide financial management advice to customers), platinum credit cards with special benefits such as increased spending limits and a "concierge" service that assists such customers with travel arrangements, hotel bookings and related services and offers discounts at a network of over 1,000 restaurants, hotels, shops and sports complexes throughout Ukraine and the Russian Federation. PrivatBank is one of the few banks in Ukraine which issues "VISA" Infinite and MasterCard World Signia bank cards to its VIP customers.

PrivatBank also offers its retail customers domestic and international money transfer services through Western Union, MoneyGram and its own money transfer system PrivatMoney.

Bank Cards and Infrastructure

Bank Cards and Services

As at 30 September 2012, according to statistics published by the NBU, PrivatBank was the largest issuer of bank cards in Ukraine, with approximately 35.3 million bank cards in issue, comprising approximately 53.8 per cent. of bank cards in issue in Ukraine. PrivatBank's card business is a major source of fee and commission income, as well as, in the case of credit cards, interest income, and provides significant cross-selling opportunities for PrivatBank.

According to statistics published by the NBU, as at 30 September 2012 PrivatBank's nearest competitor was Oschadbank with approximately 7.1 million bank cards in issue, comprising approximately 10.8 per cent. of bank cards in issue in Ukraine. According to statistics published by the NBU, as at 30 September 2012 the other main competitors of PrivatBank in terms of bank cards in issue in Ukraine were Raiffeisen Bank Aval, Ukrsotsbank, Delta Bank and First Ukrainian International Bank.

PrivatBank issues both VISA and MasterCard debit and credit cards. In cooperation with MasterCard, PrivatBank introduced and certified the MasterCard's PayPass contact-free chip payment technologies used for payments in retail network.

PrivatBank offers a variety of debit cards designed for different categories of individual customers, including students, pensioners, public and private employees. PrivatBank offers student, salary, pension debit cards, "junior" debit cards (which serve primarily as a tool to educate children about financial products and services). For additional information on PrivatBank's individuals credit cards, see *"—Banking Services—Retail Banking—Retail Lending—Credit Card Loans"*.

PrivatBank also offers a variety of services to holders of its bank cards, including direct deposit services (allowing the customers to deposit cash through "Privat24" Internet banking or self-service terminals), direct payment options for utility and household bills (allowing the customers to make payments through "Privat24" Internet banking or self-service terminals), pre-paid cards for telecommunication services, ATM services and payment services over the Internet.

ATMs, POS terminals and Self-Service Terminals

As at 30 September 2012, PrivatBank owned the largest of any bank number of ATMs and POS terminals in Ukraine, according to statistics published by the NBU. As at 30 September 2012, the Group had a network of 16,140 ATMs, 70,441 POS terminals and 6,895 self-service terminals (allowing customers to carry out certain banking operations and/or pay for goods and services from a self-service terminal without any assistance of the bank's personnel). PrivatBank's self-service terminals allow PrivatBank's customers to conduct currency exchanges, arrange for money transfers, transfer funds between bank cards, make payments for utilities, mobile and television services, arrange for deposits and connect to "Privat24" Internet banking and mobile banking systems.

As at 30 September 2012, PrivatBank had a network of 13,791 ATMs, 59,678 POS terminals and 6,458 self-service terminals; PrivatBank's subsidiary in Georgia had a network of 356 ATMs, 1,324 POS terminals and 108 self-service terminals; the subsidiary in Latvia had a network of 27 ATMs and two self-service terminals and the subsidiary in Russia had a network of 1,966 ATMs, 9,439 POS terminals and 327 self-service terminals.

PrivatBank is expanding and upgrading its ATM services, POS terminals and self-service terminals, which Management believes are important for attracting customers and increasing cross- selling opportunities. Ukrainian regulations on consumer services have recently been amended to require all entrepreneurs, whether legal entities or individuals to use POS terminals in their operations to allow their customers to use their bank cards.

Internet and Mobile Banking

PrivatBank was the first bank in Ukraine to offer banking services through the Internet and currently offers a broad range of banking services through this channel to both corporate and individual customers and as at 30 September 2012 had approximately 700 thousand corporate and more than 3 million individual users in Ukraine. This service can be activated in PrivatBank's branches through ATMs or self-service terminals, and since 2010, this service can be activated remotely through the Internet. "Privat24" allows customers to make payments for goods and services, monitor account balances, transfer funds, order bank cards and open deposit accounts. PrivatBank's customers access "Privat24" using a unique secure technology patented by PrivatBank, which involves several levels of password protection. Customers may use "Privat24" to obtain credit and make withdrawals using their PrivatBank bank cards. "Privat24" also allows customers who do not have accounts with PrivatBank to make payments of up to a certain amount. Management expects that the number of users of "Privat24" will increase as more Ukrainians gain access to the Internet. The Group also operates the "Privat24.ru" Internet banking system for its Russian subsidiary's customers. PrivatBank was also the first bank in Ukraine to offer "social banking" services through Facebook, allowing individual customers to make certain banking transactions, including payments or funds transfers.

PrivatBank has also continued to expand its mobile banking services. This service allows bank customers to make payments via a mobile phone by sending coded SMS messages to a server at PrivatBank, and to receive alerts containing information on their accounts. PrivatBank was also one of the first banks in Ukraine to offer a mobile banking application for mobile devices equipped with a mobile operating system allowing its customers to carry out banking transactions, such as, for example, payments for goods and services. As at 30 September 2012, there were over 2 million customers in Ukraine using the mobile banking services offered by PrivatBank.

In 2003, PrivatBank launched an "Internet merchant acquiring" service in Ukraine allowing its customers to pay for goods and services through the Internet with more than 50 thousand retailers in Ukraine, Russia, Georgia and other CIS countries (as at 30 September 2012) participating in this service via their websites. Since 2007, PrivatBank is a partner of Skype in Ukraine. In 2008, PrivatBank launched the "LiqPay" service, which as at 30 September 2012 had over 2 million users in Ukraine, allowing its customers to make money transfers by simply providing the mobile phone numbers of the recipients. In 2009, PrivatBank launched a "coin-free" settlement system in Ukraine, which allows for coin change from customers' transactions in PrivatBank's branches to be automatically directed either as charitable donations or credited to the LiqPay account of the customer. In August 2010, PrivatBank launched an "Online encashment" technology which allows its corporate customers to record and monitor daily their cash receipts through mobile POS terminals. In April 2011, PrivatBank launched an accredited electronic keys system in accordance with the Electronic Signature Law, which allows PrivatBank's customers in Ukraine to conduct electronic reporting and filing with various state authorities in Ukraine and to activate the "Privat24" Internet banking remotely through the Internet.

Call Centre

PrivatBank has operated a 24-hour Call Centre in Ukraine, providing its retail banking customers with assistance for more than 11 years. As at 30 September 2012, the Call Centre was supported by approximately 1,300 operators and currently serves over 10 million customers across Ukraine, the Russian Federation, Georgia, Cyprus and Latvia. On average, the Call Centre receives approximately 20 thousand calls per day, approximately 13 thousand chats per day (which represent communications through Skype, SMS, online chats and online forums) and carries out approximately 17 thousand banking transactions.

Information Technology

PrivatBank is committed to developing and maintaining an operations and information technology infrastructure that supports its increasing range and volume of transactions while minimising operational risks and business interruptions. PrivatBank's information technology systems facilitate client identification, account and card management, payments and money transfers, information services and communications, loan and credit limit monitoring. The Group's total capital expenditure on its information technology systems was UAH 92 million, UAH 100 million and UAH 354 million in the years ended 31 December 2009, 2010 and 2011 respectively.

In its operations, PrivatBank uses hardware produced by IBM, HP, CISCO; software and database systems created by IBM, Oracle and SyBase, ATMs produced by Wincor Nixdorf; POS terminals produced by Hypercom, Verifone and Ingencio.

PrivatBank has a system for electronic record processing, a united client database and a clients' accounts, transactions and contracts record system, all created by PrivatBank internally. Management believes the strength of PrivatBank's information technology systems enable it to effectively manage risks at the head office and branch levels. PrivatBank has a processing centre for bank card transactions located at its head office which enables it to handle in-house all aspects of processing its credit card transactions. PrivatBank's bank card transactions processing centre, which was designed by Compass+ (a system for processing payments through bank cards), carries out back-office transactions, such as clearing transactions with international payment systems, and front-office transactions with ATM and POS terminal networks. PrivatBank's PrivatBank48 retail service system and "Privat24" Internet banking platform are designed by PrivatBank. PrivatBank uses information technology security software which is in line with international information technology security standards, including those of VISA and MasterCard.

PrivatBank creates most of its software. As at 30 September 2012, PrivatBank employed approximately 427 programmers, of whom around 30 are key personnel who are responsible for creating programmes for complex banking operations. PrivatBank maintains an electronic business centre that serves a research and development function for development of technology in PrivatBank. The electronic business centre focuses on using technology for developing new products for new markets and supporting PrivatBank's communications with its customers and communications within PrivatBank's branch network.

PrivatBank operates back-up systems, which allow it to conduct its operations continuously. PrivatBank backs up the records of all of its daily transactions both at its head office and at all of its branches. PrivatBank is building a back-up system outside Dnipropetrovsk and has budgeted approximately U.S.$20 million for this purpose. PrivatBank has not experienced any material disruptions in its information technology systems in the past.

Competition

As at 1 December 2012, there were a total of 176 commercial banks registered in Ukraine, excluding the NBU, 176 of which have been granted licences by the NBU to perform banking transactions (one of which has a remedial bank licence). According to the information published by the NBU, as at 1 December 2012, the licensed banks had total paid share capital of approximately UAH 174.5 billion and total assets of UAH 1,119.4 billion. As at 31 December 2011, the NBU divided commercial banks operating in Ukraine into four groups according to the size of their assets. For further information see *"Banking Sector and Regulation in Ukraine—Ukrainian Banking System"*.

Three commercial banks (Rodovid Bank, Ukrgasbank and Bank Kyiv) were recapitalised in 2009 by the government of Ukraine. As a result of such recapitalisation, the state became the majority shareholder in those banks (with the state-owned stake ranging from 93.0 per cent up to almost 99.99 per cent according to NBU's information as at 31 March 2012).

According to statistics published by the NBU, as at 30 September 2012, PrivatBank was the largest bank in Ukraine in terms of total assets, loans to legal entities and individuals and deposits from legal entities and individuals and is also the largest issuer of bank cards in Ukraine and the owner of the largest number of ATMs and POS terminals.

Management believes that PrivatBank's principal competitors may be divided into three groups.

The first group includes Ukrainian state-owned banks, such as Oschadbank and Ukreximbank. Traditionally, these banks have held strong positions in the settlement services segment relating to utility payments (Oschadbank) and trade finance lending market for state-owned corporate customers (Ukreximbank).

The second group of PrivatBank's competitors comprises the banks controlled by a western parent. These banks include Raiffeisen Bank Aval, UkrSibbank, Ukrsotsbank and OTP Bank. Generally this group of banks enjoys lower funding costs. Due to the availability of cheaper funding available from their parent companies, these banks used to actively compete in the retail mortgage market prior to the onset of the recent economic and financial crisis, following which retail lending by such banks has become less pronounced due to a high proportion of non-performing retail loans in loan portfolios of such banks. In addition, these banks are currently decreasing their share of retail deposit taking as they attract cheaper funding from their parent companies than that offered by the local depositor base. Competition from these banks has been particularly intense in lending to large corporate customers because, in contrast to retail lending, corporate lending does not require a large branch network or extensive knowledge of, and experience in, local markets. Following the recent economic and financial downturn, the Ukrainian market suffers from a lack of creditworthy corporate borrowers, which has intensified competition in this sphere.

The third group of PrivatBank's competitors includes Russian banks operating in Ukraine through their subsidiaries. These banks include Sberbank, Alfa-Bank, Prominvestbank (a subsidiary of Vneshekonombank) and VTB. These banks have high growth potential in the Ukrainian market and are expected to concentrate primarily on lending to large corporate customers, including Russian corporates operating in Ukraine and retail deposits subject to the introduction of the required infrastructure for such operations. Management believes that Russian banks operating in Ukraine will be required to make significant expenditures in order to introduce the required information technology and operational infrastructure to launch such operations within a short period of time.

The following tables set out information on the ten largest Ukrainian banks as at 30 September 2012 according to the NBU data and calculated in accordance with Ukrainian statutory accounting principles and requirements of the NBU.

Ten largest Ukrainian banks(1)

	Total assets	Shares of top ten banks	Total equity capital	Profit (loss) before tax	Net profit (loss) of the bank	Loans and receivables with individuals	Loans and receivables with legal entities
	(in thousands UAH)	*(%)*	*(in thousands UAH)*	*(in thousands UAH)*	*(in thousands UAH)*	*(in thousands UAH)*	*(in thousands UAH)*
PrivatBank................	164,562,828	28	17,754,362	1,183,335	991,175	18,649,215	92,950,775
Oschadbank..............	86,474,149	15	17,873,824	464,333	411,023	2,246,068	48,150,700
Ukreximbank............	78,674,429	13	17,745,990	92,358	71,527	467,230	40,025,888
Raiffeisen Bank Aval..........................	47,433,689	8	6,329,654	170,667	68,567	10,279,405	16,422,000
Prominvestbank.........	41,823,697	7	5,044,697	(10,440)	(10,737)	482,347	30,587,996
Ukrsotsbank	40,348,799	7	6,501,865	42,471	6,199	14,431,821	13,408,694
VTB Bank	34,488,614	6	3,790,017	703,088	693,646	3,392,066	21,141,640
Delta Bank	31,612,360	5	2,939,758	33,142	61,699	8,291,398	8,561,340
FUIB	31,591,570	5	4,144,190	256,456	194,709	3,709,782	13,061,290
UkrSibbank	29,085,228	5	2,620,667	(65,211)	59,636	9,436,605	6,297,436

Ten largest Ukrainian banks(1)

	Deposits from banks	Total deposits from individuals	Demand deposits from individuals	Total deposits from legal entities	Demand deposits from legal entities
	(in thousands UAH)	*(in thousands UAH)*	*(in thousands UAH)*	*(in thousands UAH)*	*(in thousands UAH)*
PrivatBank................	10,771,296	82,508,282	15,246,332	20,641,333	11,641,773
Oschadbank.............	19,105,330	29,126,943	10,399,106	8,016,517	3,682,510
Ukreximbank...........	13,475,412	15,164,379	1,633,345	18,904,907	10,529,823
Raiffeisen Bank Aval.........................	9,877,404	15,229,317	6,146,514	12,394,489	8,413,134
Prominvestbank........	18,918,924	7,922,923	1,976,600	5,891,433	3,000,699
Ukrsotsbank.............	12,654,784	11,030,081	2,793,811	6,188,648	4,435,091
VTB Bank	16,670,837	5,491,648	1,049,529	5,980,395	2,270,398
Delta Bank...............	8,796,853	11,452,048	2,042,825	3,574,442	2,442,714
FUIB	6,118,853	9,777,480	2,853,433	7,826,999	5,213,721
UkrSibbank	2,270,308	10,833,964	5,458,685	7,950,903	4,579,443

Source: NBU

(1) The ten largest Ukrainian banks are the banks with the highest total assets, as published in the NBU's statistical information.

Licences

PrivatBank's activities are governed by numerous NBU regulations, including in particular the Regulation on the Procedure for Registration and Licensing of Banks, Establishment of Separate Subdivisions adopted by Resolution of the NBU No. 306 dated 8 September 2011.

All banking operations in Ukraine require licensing by the NBU. PrivatBank is registered with the NBU with registration No. 92 and holds a banking licence of unlimited duration for all of its banking and other operations, a general license for its operations with foreign currency and licences to conduct professional securities market activities issued by the Securities Commission of Ukraine allowing PrivatBank to conduct brokerage, dealer and custodian activities.

PrivatBank has an accreditation certificate and a compliance certificate for its centre for certification of keys issued in accordance with the Electronic Signature Law, which allows PrivatBank to provide services in connection with the application of electronic digital signatures.

Employees

The following table sets forth the number of employees PrivatBank and the Group had as at the dates indicated.

	As at 31 December			As at 30 September
	2009	2010	2011	2012
PrivatBank	26,902	27,419	29,557	27,921
Group	30,421	31,261	34,233	32,421

PrivatBank uses incentive plans to motivate its employees and has been operating a bonus system linked to PrivatBank's financial performance and an employee's personal performance. Management believes that these benefits have enhanced PrivatBank's ability to attract and retain qualified and experienced employees required to compete in the Ukrainian banking and financial services sector.

PrivatBank makes a single social security contribution to the State Pension Fund of Ukraine, which is further distributed for (1) compulsory state pension insurance; (2) compulsory state social insurance against unemployment; (3) compulsory state social insurance against temporary loss of productivity; and (4) compulsory state social insurance against work-related accidents and occupational diseases which may result in incapacitation.

PrivatBank operates two private pension schemes, including (1) a Private Pension Contribution Scheme and (2) a Pension Contribution Scheme. Each employee who has worked at PrivatBank for at least six months may participate in these pension schemes. Participation in these pension schemes is voluntary and qualified employees may choose which scheme to participate in. It is also possible for qualifying employees to participate in both schemes at the same time. Pension contributions under these schemes are paid in to the Open Pension Fund "PrivatFund" (the "**Pension Fund**") under the pension contracts entered into between an individual and LLC Managing Administrator PF "Paritet". Although PrivatBank does not make any contributions to the Pension Fund under the Pension Contribution Scheme, it makes contributions to the Private Pension Contribution Scheme.

PrivatBank provides its employees with opportunities to develop their careers and professional qualifications through in-house and external training programmes. In particular, PrivatBank organises regular in-house training sessions run by internal instructors who inform PrivatBank's employees about new products offered by PrivatBank. PrivatBank has also implemented induction programmes and procedures for new employees. In addition, PrivatBank operates, jointly with Kyiv Mohyla Business School, PrivatBank's MBA training programme for its top management and "Effective Manager" programme for its middle management.

To Management's knowledge, none of PrivatBank's employees are members of trade unions.

Property

As of 30 September 2012, the carrying amount of the Group's property, including the properties set out in the table below was UAH 1,907 million. The NBU Refinancing Loans to PrivatBank are secured by a mortgage over PrivatBank's head office and certain other real estate.

Set out below is a summary of certain material properties owned by PrivatBank:

Address	Date acquired	Approximately total area	Encumbrances
		(square metres)	
30 Naberezhna Peremogy, Dnipropetrovsk..............................	2009	16,198.5	Mortgaged in favour of the NBU
1 Pivdennoberezhne Shose, Oliva Village, Yalta, the Autonomous Republic of Crimea..	2004	3,835.5	No encumbrances
1, Rogalyova Str, Dnpropetrovski..............................	2004	5,604.7	No encumbrances
1 Heroyiv Adzhmyshkaya Str., Simferopol, the Autonomous Republic of Crimea	2003	3,232.7	Mortgaged in favour of the NBU
50 Naberezhna Peremogy, Dnipropetrovsk..............................	2009	4,156.9	Mortgaged in favour of the NBU

PrivatBank leases the land plots underlying its two material properties both located in Dnipropetrovsk at 30 Naberezhna Peremogy and 1, Rogalyova Str.

Branch Network and Subsidiaries

Headquartered in Dnipropetrovsk, as at 30 September 2012, PrivatBank had an extensive nationwide network of 34 branches and 3,375 outlets within Ukraine and a branch in Cyprus.

As at 30 September 2012, PrivatBank had three consolidated banking subsidiaries, including Closed Joint Stock Company "MoscomPrivatBank" (Russia), AS "PrivatBank" (Latvia) and Joint-Stock Company "PrivatBank" (Georgia). As at 30 September 2012, PrivatBank held 59.3 per cent. of the share capital of Closed Joint Stock Company "MoscomPrivatBank" (Russia), 50.0 per cent. of the share capital of AS "PrivatBank" (Latvia) and 50.3 per cent. of the share capital of Joint Stock Company "PrivatBank" (Georgia).

PrivatBank has subsidiaries in Georgia, Latvia and the Russian Federation. As at 30 September 2012, PrivatBank has subsidiaries in Georgia, Latvia and the Russian Federation. As at 30 September 2012, PrivatBank's subsidiary in the Russian Federation (CJSC MKB MOSCOMPRIVATBANK) had 25 branches and 208 outlets, PrivatBank's subsidiary in Latvia (AS PRIVATBANK) had 30 outlets (including one outlet in Italy, two outlets in Portugal and one representative office in Spain) and PrivatBank's subsidiary in Georgia (JSC PRIVATBANK) had 106 service centres. Furthermore, PrivatBank has representative offices, which do not carry out any banking operations or activities and perform purely administrative functions, in Kyiv (Ukraine), Moscow (Russia), Almaty (Kazakhstan), London (United Kingdom) and Beijing (China). PrivatBank has correspondent relationships with a number of the world's leading financial institutions. PrivatBank conducts annual assessments and planning with respect to the expansion of its branch network taking into account macroeconomic and competitive factors and PrivatBank's general strategy.

The Group actively engages third party agents (such as students, employees of the state pension fund and social services, travel agencies, car retailers and large corporates) to promote its products in Ukraine and Georgia, Latvia and the Russian Federation.

Legal Proceedings

The Group is, from time to time, the subject of legal proceedings and other investigations in the ordinary course of its business. Management does not believe that there are any pending actions, suits or proceedings against or affecting the Group which, if determined adversely to the Group, would, individually or in the aggregate, have a material adverse effect on the Group or its business, financial condition and results of operations.

RISK MANAGEMENT

Introduction

The purpose of risk management is to monitor and control the level and concentration of risks arising from PrivatBank's activities. The principal categories of risk inherent to PrivatBank's businesses are credit risk, market risk (including currency risk, interest rate risk and securities portfolio risk), liquidity risk, operational risk and legal risk. PrivatBank's risk management policy is designed to identify and analyse the above-mentioned risks, set appropriate limits and continually monitor these risks and limits by means of advanced administrative and information systems. PrivatBank manages risks using principles of checks and balances, continuity, prudence and hedging. Furthermore, PrivatBank's risk management policies and systems are continuously modified and enhanced to reflect changes in markets and products.

In developing its risk management policies, PrivatBank follows international best practices, principles and guidelines from the Basel Committee on Banking Supervision as well as the requirements of Ukrainian laws and regulations, including recommendations issued by the NBU.

PrivatBank's recent initiatives in the risk management area have been focused on:

- consolidation of a risk management function with the establishment of the Risk Management Division (as described below), headed by the Chief Risk Officer (the "**CRO**"), who is responsible for monitoring PrivatBank's overall risk position and designing and modifying risk management policies, procedures and methodologies;

- adjustment of credit policy to changes in the economic environment caused by the impact of the recent global economic and financial crisis and the gradual economic recovery in its aftermath and introduction of the new lending criteria and limits.

Policy Making and Monitoring Bodies

Supervisory Board

PrivatBank's risk management strategy is established by its Supervisory Board and is reviewed on an annual basis. The latest version of PrivatBank's risk management strategy was approved by the Supervisory Board on 17 November 2010. The Supervisory Board approves on an annual basis PrivatBank's credit policy, assesses the efficiency of risk management processes, sets high-level guidelines for acceptable levels for various types of risks and supervises certain bodies involved in the risk management process. The Supervisory Board has the authority to approve loans exceeding U.S.$2 million and loans to related parties exceeding U.S.$500,000.

Management Board

The Management Board is involved in the decision-making process in respect of the structure, functioning and enhancement of the risk management system. The Management Board allocates responsibilities in respect of risk management, sets limits of authority for employees engaged in risk management processes, unless such power is delegated to other committees of PrivatBank, and approves internal policies and procedures relating to risk management. The Chairman of the Management Board has the authority to approve loans up to and including U.S.$2 million (except for loans to related parties exceeding U.S.$500,000, which are subject to approval of the Supervisory Board). Meetings of the Management Board are sometimes attended by other members of PrivatBank's management on as needed basis.

Other Risk Management Bodies

The monitoring of risks and implementation of risk management policies are conducted by a number of bodies of the Group. These bodies include the Credit Committee, the Treasury, the Finance and Risk Division, the Risk Management Division (including the United Credit Centre and the United Centre of Processing Problem Loans) and the Internal Control and Fraud Management Division. These bodies report to the Management Board.

Credit Committee

The Credit Committee is currently composed of 18 members. The Credit Committee currently includes some members of the Management Board and other senior managers of PrivatBank:

- Mr. A. Dubilet (the Chairman of the Management Board);
- Mr. Y. Pikush (the General Vice-Chairman of the Management Board);
- Mr. N. Davydov (the Chairman of the Management Board of Closed Joint Stock Company “MoscomPrivatBank” (Russia));
- Mr. O. Trubakov (the Chairman of the Management Board of AS “PrivatBank” (Latvia));
- Mr. B. Lesjuk (the Chairman of the Management Board of Joint-Stock Company “PrivatBank” (Georgia));
- Mr. V. Yatsenko (the First Vice-Chairman of the Management Board);
- Mr. T. Novikov (the First Vice-Chairman of the Management Board);
- Mr. Y. Kandaurov (the Vice-Chairman of the Management Board);
- Ms. L. Shmalchenko (the Vice-Chairman of the Management Board);
- Mr. V. Matsak (the Director of the Dnipropetrovsk regional head office);
- Mr. G. Linskiy (the Director of the Finance and Risk Division);
- Mr. A. Sokolovskiy (the Director of the Internal Control and Fraud Management Division);
- Mr. O. Gorohovskiy (the Vice-Chairman of the Management Board);
- Mr. A. Shaban (the Director of the Division on Servicing Individual VIP clients);
- Ms. T. Gurjeva (the Vice-Chairman of the Management Board);
- Mr. S. Kryzhanovskyy (the Vice-Chairman of the Management Board);
- Mr. V. Kovalev (the Director of the Risk Management Division); and
- Ms. L. Chmona (the Vice-Chairman of the Management Board).

The Credit Committee meets bi-weekly and is responsible for setting the Group's credit policy, approving loans over the prescribed lending limits and the limits for counterparty banks, monitoring loan performance and the quality of the Group's loan portfolio and reviewing large loan projects and lending policies of PrivatBank's branch network. The Credit Committee also monitors the interest rates set for a range of currencies by the Group's main competitors and the overall market situation and determines the Group's pricing policy on the basis of the above. In addition, the Credit Committee is also responsible for preparing and formulating management decisions with regards to increasing the Group's funding base.

In 2012, the rules of the Credit Committee were updated to establish separate credit committees in the form of the Asset Liabilities Management Committee and the Collection Committee.

Treasury

The Treasury is responsible for daily asset and liability management of the Group. The Treasury is responsible for overseeing the Group's assets, liabilities, liquidity and interest rate sensitivity analysis based on instructions and guidelines from the Financial Risks Department (described below) and its own assessments. The Treasury is responsible for the operational aspects of asset and liability management.

Financial Risks Department

The Financial Risks Department calculates the mandatory ratios set by the NBU and monitors PrivatBank's compliance therewith, monitors the requirement to maintain mandatory reserves on PrivatBank's correspondent account with the NBU and its internal liquidity ratios. The Financial Risks Department prepares daily reports on the maximum liquidity gap by matching assets and liabilities with different maturities and currencies as well as providing daily forecasts of PrivatBank's balances on its correspondent account with the NBU to ensure PrivatBank's compliance with the mandatory reserve requirement and with the instant, current and short-term liquidity ratios set by the NBU. The liquidity reports are maintained in an electronic database which is accessible by the Treasury and is used for the purposes of liquidity management. In addition, the Financial Risks Department prepares guidelines for the head office business divisions seeking to raise long-term funds and/or reviews decisions of the Credit Committee on the implementation of programmes to increase PrivatBank's funding base in order to ensure that the Group's short and long-term liquidity requirements are met.

Risk Management Division

The Risk Management Division analyses the creditworthiness of counterparties, calculates provisions for the Group's active operations and limits for counterparties, monitors problem assets in the loan portfolio under credit programmes, monitors compliance with interbank transaction limits, reviews the lending authority limits of the Group's employees, analyses lending policies of the regional head offices and branches and provides the Credit Committee with suggestions for improving its credit policies. It also determines the strategy and basic methodological approaches in the Group's risk management system and oversees its compliance with the requirements established by the NBU as well as the Group's internal guidelines. The Risk Management Division is also responsible for the management of the business processes relating to loan approvals for new credit cards and retail lending, development and implementation of scoring models and management of credit limits for the existing bank card portfolio.

Internal Control and Fraud Management Division

The Internal Control and Fraud Management Division's principal task is to combine the efforts of the Group's divisions involved in research, risk management and risk analysis related to the fraudulent operations by assessing, controlling, and confirming assumption made on the basis of the analysis of operations, subsequently initiating reviews and testing the assumptions and predictions, developing business decisions on the improvement of operations security and minimising the risks on the basis of the data received in the result of the aforesaid work.

Internal Controls

PrivatBank also has a system of internal controls, which is supervised and monitored by its Internal Audit Department and Financial Monitoring Department.

Internal Audit Department

The Internal Audit Department is responsible for independent evaluation of PrivatBank's internal control system. Acting as an instrument of the Supervisory Board, this department monitors operational business processes, risks as well as the support and control processes and functions within the scope of an approved work plan. Internal audit activities include, among others, review and evaluation of the sufficiency and effectiveness of the corporate governance, risk management and internal control systems, including those relating to anti-money laundering and counter-terrorist financing activities, as well as of the quality of employee performance of their duties in light of PrivatBank's policies.

The purpose of the Internal Audit Department is to provide PrivatBank's Supervisory Board and Management Board with practical, accurate and prompt confirmation of the effectiveness of the Group's risk management, corporate governance and internal control, thereby increasing the value and effectiveness of the implementation of balanced and appropriate improvements of the internal control system in PrivatBank.

The Internal Audit Department is a stand-alone business unit that is subordinate to PrivatBank's Supervisory Board, reports to the board and acts on the basis of the regulations approved by board. Mr V. V. Vetluzhskikh is the head of the Internal Audit Department. In any administrative or employment issue that does not require the Supervisory Board's resolution, the affairs of the Internal Audit Department are managed by the Chairman of the Bank's Management Board. To avoid any potential conflict of interest, the head of the Internal Audit Department is not authorised to sign for or on behalf of PrivatBank any accounting, contractual or other legally binding documents.

Financial Monitoring Department

The Financial Monitoring Department is headed by Mr. Igor Teriohin, who is also a member of the Management Board and reports directly to the Chairman of the Management Board.

The Financial Monitoring Department is primarily responsible for the operation of PrivatBank's financial monitoring system. It also develops and monitors the observance of financial monitoring rules and programmes, which set out detailed policies and procedures aimed at preventing PrivatBank and its officers from conducting money-laundering activities on behalf of counterparties or activities connected with the financing of terrorism. The Financial Monitoring Department analyses daily banking operations, verifies information received from the head office, branches and outlets on operations that are subject to monitoring and submits required information to the relevant state authorities. In order to reduce risks related to money laundering and the financing of terrorism, the Financial Monitoring Department has implemented a system of continuous internal and external training and professional development of PrivatBank's employees (including senior managers) in financial monitoring, including testing staff at least once per year.

PrivatBank's "know your customer" policies and procedures, which are aimed at reducing reputational, operational, legal and concentration risks and avoiding financial losses, place particular emphasis on the importance of identifying customers and their sources of wealth and evaluating risks relating to their operations with PrivatBank. Management believes that these procedures are generally in line with best international practices. For more information, see "*Banking Sector and Regulation in Ukraine—Anti-Money Laundering*".

Reporting Systems

Information Technology Systems

All significant information on historic and current cash flows and asset transfers is consolidated in the Group's information and reporting system. The system generates a number of reports on a daily basis, including the maturity and cost structure of assets and liabilities, historic cash flows, potential and contingent lending projects (e.g. loans under negotiation and available credit lines), and a breakdown of assets and liabilities by department. The system also creates monthly reports, which include forecasts for long-term balance sheet and interest rate sensitivity analyses of different maturity and cost scenarios and their potential financial results.

Back Office Functions

PrivatBank's risk management bodies exercise their risk management functions through the back office's centralised online supervision (on a real-time basis with transaction authorisation) over banking operations in PrivatBank. If any operation does not meet PrivatBank's established requirements, the transaction will not be authorised. Back office monitors limits on transactions of individual customers, legal entities, interbank operations and maintains the unified client database.

PrivatBank's back office is responsible for the supervision of compliance with specified limits, which are entered into the reporting systems by the Treasury and the Finance and Risk Division. As a general policy matter, short-term risks are the responsibility of the Treasury while longer-term risks are the responsibility of the Finance and Risk Division. Back office procedures and information technology systems are designed to prevent the completion of any transaction that exceeds a specified limit. Any position violating a limit is reversed, hedged or, in certain exceptional circumstances, allocated to a personal credit limit of the relevant Deputy Chairman after he has given his authorisation. In many situations, a decision regarding possible limit violations is taken by the Chairman of the Management Board.

Credit Risk

In response to the economic and financial downturn in 2008, the Group changed its procedures on the selection of borrowers and adopted a proactive approach where the Group itself looks for customers that have performed well in the course of the crisis and thereafter, and have maintained a solid credit history and an extensive business network. The Group has a strategic focus on secured short-term loans to corporate customers and selected SME customers with loans of up to and including U.S.$25,000.

The general principles of PrivatBank's credit policy are outlined in the Group's Credit Manual. The Credit Manual regulates every significant aspect of the lending operations of the Group and outlines procedures for analysing the financial position of borrowers and the valuation of any proposed collateral and specifies the requirements for loan documentation and the procedures for the monitoring of loans.

The Group has a prudent collateral policy based on a thorough review and assessment of the value of collateral internally by its employees. The Group's goal is to ensure that there is sufficient collateral to cover a particular loan even if the quality of that loan should deteriorate in value. For more information on breakdown of loans and advances to customers by type of collateral, see *"Management's Discussion and Analysis of Financial Condition and Results of Operations—Loan Portfolio—Collateral". See also "Risk Factors—Risks relating to the Bank—To the extent the Group's loans are secured, the value or liquidity of the collateral securing such loans may decline"*.

A substantial portion of the Group's loan portfolio generally include acceleration clauses in case of the deterioration of the financial position of borrowers. Credit products are, except in very unusual circumstances, only made available to customers that hold accounts with the Group.

The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to a single borrower, or groups of affiliated borrowers. Such risks are monitored on a revolving basis and are subject to review at least annually or more frequently. Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and principal payment obligations and by changing the lending limits where appropriate. Exposure to credit risk is also managed, in part, by obtaining collateral and corporate and personal guarantees.

Basic information on the level of credit risk, including reports on the loan portfolio and the volume of problem assets broken down by a credit programme and a manager, is posted on the Group's internal website. This information is updated daily and can be viewed both as at the current date and over a period of time. There are specific sections of the Group's website dedicated to problem assets for both corporate and retail customers and the portfolio of corporate loans.

Loan Approval Procedure

PrivatBank's loan approval procedure, which also applies to the extension of microfinancing loans is as follows. Loans of up to and including U.S.$200,000 are considered by the middle-offices of PrivatBank subject to their approval by the Credit Committee of the head-office; loans in excess of U.S.$200,000 are considered and approved by either small credit committees of the head office or by the Credit Committee of the head office. In the latter case, middle-offices conduct only customer service.

At the head office, the Credit Experts Division conducts centralised activities with the clients of the Group, including analyses of credit projects, monitoring and reappraisal of collateral, and monitoring of borrower financial performance. Support and control of this division is responsible for formation of the contractual database supporting active operations and booking on the internal accounts/monitoring of the transactions.

The Chairman of the Management Board approves third-party loans in the amount of up to and including U.S.$2 million and any loans to related parties in the amount of up to and including U.S.$500,000. Loans to third parties exceeding U.S.$2 million and loans to related parties exceeding U.S.$500,000 must be approved by the Supervisory Board.

Loan Monitoring

The Group re-assesses the credit risk on each loan on an ongoing basis by (i) monitoring the financial and market position of the borrower; and (ii) assessing quality and sufficiency of collateral for the loan. The financial and market position of the borrower is regularly reviewed and, on the basis of such review, the internal credit rating of the borrower may be revised. The review is based on the flow of funds into the customer's accounts, its most recent financial statements and other business and financial information submitted by the borrower or otherwise obtained by the Group.

The current market value of collateral is monitored and reviewed regularly to assess its sufficiency with respect to the loan in question. The frequency of reviews depends on the security provided and the degree of volatility of the asset's market price.

Provisioning Policy for Statutory Reporting Purposes

In calculating impairment reserves, PrivatBank classifies assets and provided financial obligations under the following quality classes:

- I (the highest)—no risk or minimal risk;
- II—moderate risk;
- III—substantial risk;
- IV—high risk; and
- V (the lowest)—the risk is realised (bad debt).

PrivatBank separates financial assets in its credit portfolio into substantial and unsubstantial financial assets. Unsubstantial financial assets consist of personal loans, including loans to entities that carry out entrepreneurial activities, the total outstanding amount of which does not exceed UAH 50,000. PrivatBank evaluates the risk of such assets on a portfolio basis and calculates the amount of reserves based on the number of days past due, not taking into account the security provided under such financial assets. All other assets are categorised as substantial, and PrivatBank evaluates the risk with respect to these assets on an asset-by-asset basis.

PrivatBank classifies assets and provided financial obligations under certain quality classes based on an evaluation of the debtor's financial position and the status of the debtor's performance of its obligations under the loan. PrivatBank evaluates the financial position of an entity by calculating an integrated index of financial position using a model based on the type of economic activity performed by the entity and whether the loan is large, intermediate or small. PrivatBank evaluates the debtor's financial position based on quantitative and qualitative indicators, such as monthly aggregate income decreased by aggregate costs, coefficients which characterise the debtor's current ability to pay and whether the debtor owns any property. The status of the debtor's debt management is determined based on the number of calendar days of the delay in repaying the debt.

The table below sets forth the matrix for defining assets by quality classes.

Risk evaluation methods	The debtor's legal status	Financial position	Determining status of debt management by the debtor				
			1. Delay in payment (0-7 days)	2. Delay in payment (8-30 days)	3. Delay in payment (31-90 days)	4. Delay in payment (91-180 days)	5. Delay in payment (181+ days)
Individual basis	Substantial assets of the debtor (which is an entity)	**"1"**	I	I	III	IV	V
		"2"	I	I	III	IV	V
		"3"	I	II	III	IV	V
		"4"	I	II	III	IV	V
		"5"	II	II	III	IV	V
		"6"	II	III	IV	IV	V
		"7"	II	III	IV	IV	V
		"8"	II	III	IV	IV	V
		"9"	II	III	IV	V	V
	Substantial assets of the debtor (which is an individual)	**"A"**	I	II	III	IV	V
		"B"	I	II	III	IV	V
		"C"	II	III	IV	IV	V
		"D"	II	III	IV	V	V
Portfolio appraisal	Unsubstantial assets of the debtor (which is an individual)		I	II	III	IV	V

For each quality class, the NBU establishes range boundaries for defining the risk index of the loan, as set out in the following table:

Quality class	**Value of risk index**
I	0.01–0.06
II	0.07–0.20
III	0.21–0.50
IV	0.51–0.99
V	1

In order to define the risk index of the loan within the established boundaries, additional factors are applied, including debt cover ratio, product market, existence of business plans, the debtor's credit ratings and credit record and other factors that may affect timeliness and completeness of loan repayment.

When calculating reserves, PrivatBank decreases the risk connected with the assets and provided financial obligations by the security value with relevant liquidity rates, as set out in the table below.

Security group		Liquidity rate
I.	Financial guarantees provided by the Cabinet of Ministers of Ukraine, by national governments, banks with a credit rating not lower than "A-" or by multipartite banks; property rights to monetary assets placed in deposit accounts in a creditor bank or a bank with a credit rating not lower than "A-"; registered savings (depository) certificates of the creditor bank; or banking metals.	1.0
II.	Financial guarantees provided by national governments, banks with a credit rating below "BBB" or banks of Ukraine; property rights to monetary assets placed in a bank with a credit rating not lower than investment grade.	0.8
III.	Residential immovable property or cars.	0.7
IV.	Non-residential immovable property, integral property complexes, equipment or modes of transport (excluding cars).	0.6
V.	Securities recorded in exchange register, investment certificates, mortgage bonds, goods for sale or goods in process, property rights to immovable property, biological assets or property rights to other assets (including products, goods, further yield, animal yield and funds receipt).	0.4

At each the accounting date, PrivatBank calculates the amount of reserves under a loan as an excess amount of the loan's book value over the current value of future cash flows under the loan. Future cash flows consist of the sum of expected incoming payment under the principal amount of loan and the interest and the amount of money from the pledge enforcement, taking into account the liquidity rate of the security. Future cash flows are initially calculated considering the risk index of the loan. Current value of future cash flows is calculated by discounting valuated future cash flows using the initial effective interest rate.

Assessment of Provision for Loan Impairment for IFRS Reporting Purposes

Impairment losses are recognised in the consolidated statement of comprehensive income for the year when incurred as a result of one or more events, so-called loss events, that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If the Group determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. The primary factors that the Group considers in determining whether a financial asset is impaired are its overdue status and availability of sources to redeem the debt (including enforceability of the relevant collateral, if any).

The following other principal criteria are also used to determine whether there is objective evidence that an impairment loss has occurred:

- any instalment is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;
- the borrower experiences a significant financial difficulty as evidenced by the borrower's financial information that the Group obtains;
- the borrower considers bankruptcy or a financial reorganisation;
- there is an adverse change in the payment status of the borrower as a result of changes in the national or local economic conditions that impact the borrower; or

- the value of collateral significantly decreases as a result of deteriorating market conditions.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets and the experience of management in respect of the extent to which amounts will become overdue as a result of past loss events and the success of recovery of overdue amounts. Past experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods and to remove the effects of past conditions that do not exist currently. Past experience is the basis for the estimation of the loss identification period, in particular the time lag between the actual loss event and identification of the loss event by the Group. This approach ensures that the impact of losses which have not yet been specifically identified is included in the estimation of loan loss impairment.

If the terms of an impaired financial asset held at amortised cost are renegotiated or otherwise modified because of financial difficulties of the borrower or issuer, impairment is measured using the original effective interest rate before the modification of terms.

Impairment losses are always recognised through an allowance account to write down the asset's carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the original effective interest rate of the asset. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account through profit or loss for the year.

Uncollectible assets are written off against the related impairment loss provision after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to impairment loss account in the consolidated statement of comprehensive income.

Problem Loan Recovery

The Group monitors its loan portfolio on a regular basis in order to timely reveal and commence work with "problem loans" and borrowers. The Group approved various programmes for handling non-performing loans based on a type of product. Such work is carried out by a number of credit collection units, which ultimately report to the Credit Committee. Such monitoring units, amongst other things:

- remind borrowers of their repayment obligations and demand repayments;

- after scheduled repayment dates, send borrowers formal letters and contact them through the automated telephone service and SMS;

- search for additional contact information in relation to borrowers;

- meet borrowers to negotiate the repayment of outstanding amounts;
- enforce collateral (by way of requisition for sale or taking custody of the assets) pending repayment in full during the negotiation and/or court proceedings;
- initiate court proceedings or other legal actions;
- in the event of any criminal action in relation to a borrower (such as cases of fraud or certain problematic corporate loans) involve departments of the Ministry of Internal Affairs of Ukraine;
- update internal registers of unreliable borrowers based on the information available from public sources; and
- co-operate with the state execution service following the completion of legal proceedings.

Sector Concentrations

The Credit Committee on a quarterly basis reviews and adopts sector exposure adjustments in response to submissions of the Risk Management Division. For information on the development of the Group's loans and advances to individuals and legal entities and the Group's sector concentration, see "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Loan Portfolio*".

Related Party Lending

The Group conducts its business with related parties on a commercial, arm's-length basis. Each loan request from a related party is subject to the same credit approval procedures as are applied to any other loan applicant. See *"Credit Risk—Loan Approval Procedure"*. Total exposure to related parties is subject to NBU regulation and is limited to 30 per cent. of PrivatBank's share capital. The exposure to a single related party is also limited by the NBU and must be less than five per cent. of share capital. See *"Banking Sector and Regulation in Ukraine—Banking Supervision—Mandatory Ratios—Credit Risk Requirements"*.

Market Risk

The Group has exposure to market risks arising from open positions in interest rates, equity products and currencies, all of which are exposed to general and specific market movements. The Management Board sets limits on the amount of risk that may be accepted, which is monitored on a daily basis. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

Currency Risk

Currency risk is the risk that the value of financial instruments owned by the Group will fluctuate due to changes in foreign exchange rates. The Group's major currency positions are in Ukrainian hryvnia, U.S. dollars and euros.

The following table sets forth the Group's net currency positions as at 31 December 2011:

	Monetary financial assets	Monetary financial liabilities	Swaps, spots and forwards	Net balance sheet position
		(millions of UAH)		
U.S. dollars	44,586	45,735	(11,541)	(12,690)
Euros	3,932	14,955	10,517	(506)
Other	6,658	6,376	806	1,088
Total	**55,176**	**67,066**	**(218)**	**(12,108)**

The Group's policy in respect of open currency positions is restricted under Ukrainian law to certain thresholds and strictly monitored by the NBU on a daily basis. See *"Banking Sector and Regulation in Ukraine—Banking Supervision—Mandatory Ratios—Currency Position Requirements"*.

In order to hedge its currency risk, the Group enters into arrangements with other banks pursuant to which the Group makes term deposits with other banks and accepts term deposits for the same term from the same counterparty banks in a different currency.

As at 30 September 2012, the Group had outstanding loans and advances to customers totalling UAH 77,653 million (compared to UAH 67,715 million as at 31 December 2011, UAH 51,620 million as at 31 December 2010 and UAH 36,608 million as at 31 December 2009) issued in Ukrainian hryvnia, the terms of which included an obligation of the respective borrowers to pay a compensation to the Group in the event that the official exchange rate of hryvnia depreciated against the U.S. dollar. The Group has accounted for the contract to receive compensation as a financial derivative with the fair value of UAH 2,724 million as at 30 September 2012 (compared to UAH 1,484 million as at 31 December 2011, UAH 1,678 million as at 31 December 2010 and UAH 2,005 million as at 31 December 2009) estimated using a valuation technique. This valuation technique takes into account expected movements in exchange rates, discount factor and credit risk. Changing the assumptions about expected exchange rates may result in a different profit or loss. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Contingencies, Commitments and Derivative Financial Instruments—Derivative Financial Instruments*".

Interest Rate Risk

The Group is exposed to interest rate risk, principally as a result of lending at fixed interest rates, in amounts and for periods, which differ from those of term borrowings at fixed interest rates. In practice, interest rates are generally fixed on a short-term basis. Also, interest rates that are contractually fixed on both assets and liabilities are usually renegotiated to reflect current market conditions.

The Management Board sets limits on the level of mismatch of interest rates on assets and liabilities sensitive to interest rates, which is monitored regularly. In the absence of any available hedging instruments, the Group normally seeks to match its interest rate positions.

The Finance and Risk Division and the Credit Committee are both responsible for interest rate risk management. The Finance and Risk Division establishes the principal policies and approaches to interest rate risk management and the Credit Committee conducts weekly monitoring and revision of interest rates for various currencies within certain time limits and product categories. The Group regularly monitors interest rate risk by means of interest rate gap analysis, which is based on ordering assets and liabilities sensitive to interest rates into a number of time bands. Fixed interest rate assets and liabilities are arranged by the time remaining until maturity, while assets and liabilities with a variable interest rate are arranged by the nearest possible term of repricing. The net sensitivity gap between assets and liabilities in a given time band represents the volume sensitive to changes of market interest rates. The product of this difference and the presumed change of interest rates represent the approximate changes of net interest income. A negative net sensitivity gap in a given time band, which means that interest-bearing liabilities exceed interest-earning assets in that time band, represents a risk of a decline in net interest income in the event of increases in market interest rates. A positive net sensitivity gap in a given time band, which means that interest-earning assets exceed interest-bearing liabilities, represent a risk of a decline in net interest income in the event of a decline in market interest rates.

The table below summarises the Group's exposure to interest rate risks as at 31 December 2011. Included in the table are the Group's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

	Demand and less than 1 month	**From 1 to 3 months**	**From 3 to 12 months**	**More than 1 year**	**Non-monetary**	**Total**
			(millions of UAH)			
31 December 2011						
Total financial assets........	31,994	18,532	63,998	22,342	7	136,873
Total financial liabilities	27,992	28,490	47,853	15,671	-	120,006
Net interest sensitivity gap at 31 December 2011.....	**4,002**	**(9,958)**	**16,145**	**6,671**	**7**	**16,867**
31 December 2010						
Total financial assets........	29,542	7,474	51,650	29,498	82	118,246
Total financial liabilities	27,476	19,441	44,749	14,099	-	105,765
Net interest sensitivity gap at 31 December 2010.....	**2,066**	**(11,967)**	**6,901**	**15,399**	**82**	**12,481**

Liquidity Risk

Liquidity risk is the risk of mismatches between maturities of assets and liabilities, which may result in the Group being unable to meet its obligations in a timely manner. For liquidity risk management, the Treasury maintains a liquidity portfolio designed to provide support to the payment capacity of the Group in the event that assets and liabilities fluctuate away from internal forecasts. The Treasury constantly reviews and improves the methodology for calculating and structuring the liquidity portfolio. To date, the Group has been effective in managing assets and liabilities fluctuations through adjustments in its liquidity portfolio.

The following table shows the Group's net liquidity position by expected maturities as at 31 December 2011:

	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	Over 1 year	No stated maturity	Total
			(millions of UAH)			
Assets						
Cash and cash equivalents and mandatory reserves	21,363	-	-	-	-	21,363
Due from other banks	343	621	3,155	529	-	4,648
Loans and advances to customers	9,608	17,521	59,331	20,970	-	107,430
Embedded derivatives	50	63	915	456	-	1,484
Investment securities available for sale	72	-	92	609	7	780
Investment securities held to maturity	-	-	-	24	-	24
Other financial assets	524	174	368	78	-	1,144
Total financial assets	**31,960**	**18,379**	**63,861**	**22,666**	**7**	**136,873**
Liabilities						
Due to the NBU	124	248	1,115	4,338	-	5,825
Due to other banks and other financing institutions	415	97	969	972	-	2,453
Customer accounts	26,966	24,028	45,040	8,175	-	104,209
Debt securities in issue	-	3,767	305	1,528	-	5,600
Other financial liabilities	367	5	16	113	-	501
Subordinated debt	1	27	-	1,390	-	1,418
Total financial liabilities	**27,873**	**28,172**	**47,445**	**16,516**	**-**	**120,006**
Net liquidity gap at 31 December 2011	**4,087**	**(9,793)**	**16,416**	**6,150**	**7**	**16,867**
Cumulative liquidity gap at 31 December 2011	**4,087**	**(5,706)**	**10,710**	**16,860**	**16,867**	**-**

The Group has developed specific approaches to liquidity issues based on medium-term (i.e. three to twelve months), short-term (i.e. two to 15 weeks) and current (i.e. up to 14 days) time periods in order to comply with the liquidity requirements of NBU. With respect to medium-term liquidity, the Treasury, in co-ordination with the Finance and Risk Division, performs an analysis of the Group's payments calendar over this period and considers contingency options available to the Group in the event that unfavourable developments or crisis situations occur.

Decisions on short-term liquidity management are taken by the Treasury. These decisions are based on an analysis of the volatility of various assets and liabilities. Estimates are made after application of internally developed models as to the volume and likelihood of unexpected withdrawals of funds and the probability that additional funding might be required. In order to minimise unanticipated changes in funding, the Group separately analyses the possible consequences of the withdrawal of a large amount of funds by major customers. Customer managers and senior management work closely with major customers to co-ordinate plans with regard to movement of funds.

Decisions with respect to current liquidity management are taken by the head of Treasury. Reports on actions taken are made to the Credit Committee. The Group's payments calendar for each upcoming 14-day period is analysed, and decisions taken on the attraction of short-term interbank deposits, the immediate sale of securities from the Treasury portfolio, and other facilities available to the Group. The Treasury implements decisions on a real-time basis.

Operational Risk

Operational risk is managed by a system of internal controls. See *“Risk Management—Internal Controls”*.

Legal Risk

The Group’s Compliance Department is responsible for overseeing the Group’s legal compliance. The Group uses standardised master agreements, developed by the Compliance Department, for entering into contracts with counterparties. The Compliance Department individually reviews and approves all non-standard agreements.

MANAGEMENT

Management

PrivatBank's Charter was approved at the General Shareholders' Meeting on 12 April 2012, registered with the NBU on 15 June 2012 and with the executive committee of the Dnipropetrovsk City Council on 20 June 2012. PrivatBank is principally governed by its shareholders through their General Shareholders' Meetings, the Supervisory Board and the Management Board. Shareholders elect the members of the Supervisory Board and the Supervisory Board in turn elects members of the Management Board. The Management Board is responsible for the general management of PrivatBank, including PrivatBank's strategic and operational plans. Set out below is a general description of the corporate powers of the General Shareholders' Meeting, the Supervisory Board and the Management Board.

PrivatBank's internal audit bodies, appointed by its shareholders through their General Shareholders' Meetings and the Supervisory Board, respectively, are the Audit Commission and the Internal Audit Division. See further "*Risk Management—Internal Controls—Internal Audit Division*".

General Shareholders' Meeting

The General Shareholders' Meeting is the supreme governing body of PrivatBank. An annual General Shareholders' Meeting must be held not later than 30 April of each year and extraordinary General Shareholders' Meetings may be convened by the Supervisory Board on its own initiative, or at the request of the Management Board, the Audit Commission, or a shareholder or shareholders owning in aggregate at least 10 per cent. of the ordinary shares as at the date of the request.

The authority of the General Shareholders' Meeting includes, *inter alia*:

- determining the main areas of operations of PrivatBank;
- approving amendments to the Charter;
- approving changes to the share capital of PrivatBank;
- appointing and dismissing the Chairman and the members of the Supervisory Board as well as the Chairman and the members of the Audit Commission;
- approving the annual results of PrivatBank (including its subsidiaries) and approving reports and conclusions drawn by the Audit Commission and the external auditor;
- approving the distribution of PrivatBank's profits; and
- terminating the business operations of PrivatBank, appointing the liquidation commission and approving the liquidation balance sheet.

The powers listed above lie within the exclusive scope of authority of the General Shareholders' Meeting and may not be delegated to the other governing bodies of PrivatBank.

Supervisory Board

The Supervisory Board is not directly involved in the day-to-day management of PrivatBank but plays a significant role overseeing PrivatBank's general management and establishing

PrivatBank's strategy, excluding matters that are the exclusive responsibility of the General Shareholders' Meeting. The Supervisory Board also represents the interests of PrivatBank's shareholders between meetings of the General Shareholders' Meeting. The responsibilities of the Supervisory Board include, *inter alia*:

- convening annual and extraordinary General Shareholders' Meetings, except for certain cases specified in the Joint Stock Companies Law;

- approving the agenda of a General Shareholders' Meeting;

- determining the record date for (i) shareholders entitled to receive personal notice of a General Shareholders' Meeting and (ii) shareholders entitled to participate in a General Shareholders' Meeting in addition to other issues in connection with the preparation for, and holding of, a General Shareholders' Meeting;

- taking decisions on PrivatBank's participation in financial and industrial groups and other alliances and on the establishment of other legal entities;

- placing securities other than shares;

- re-selling previously repurchased PrivatBank's shares;

- determining the market price of PrivatBank's shares to be placed, sold or repurchased, as provided for by the Joint Stock Companies Law;

- electing and removing the chairman and members of the Management Board, approving the terms of the contracts to be entered into with the chairman and members of the Management Board, and determining the amount of the remuneration;

- electing PrivatBank's external auditor and determining the terms of the contract to be entered into with such auditor including the amount of remuneration;

- approving major and interested party transactions in cases specified by the Joint Stock Companies Law;

- electing and removing PrivatBank's depositary and approving the contract with the depositary; and

- attending to other issues, as provided for by the Joint Stock Companies Law and the Charter.

By resolution of the General Shareholders' Meeting, the Supervisory Board may be charged with certain functions assigned to the scope of competence of the General Shareholders' Meeting, except for functions that belong to the exclusive competence of the General Shareholders' Meeting.

Under the Joint Stock Companies Law and the Charter, a decision of a General Shareholders' Meeting determines the actual number of members of the Supervisory Board. According to the decision of the General Shareholders' Meeting on 8 August 2011, the Supervisory Board is comprised of three members. According to the Joint Stock Companies Law and the Charter, members of the Supervisory Board are elected by the General Shareholders' Meeting. At least once every three years, the agenda for the General Shareholders' Meeting must include the election and removal of the members of the Supervisory Board, the approval of the terms of contracts with such members and determination of the amount of remuneration. If upon the expiry of a three-year period no decision to re-elect or remove a member of the Supervisory Board is taken by the General Shareholders' Meeting, the term of office of such member of the Supervisory Board is deemed to be automatically prolonged until such later date when the General Shareholders' Meeting takes a decision to re-elect or remove such member. Moreover, pursuant to the Joint Stock Companies Law, the General Shareholders' Meeting may terminate the appointment of any member of the Supervisory Board at any time prior to the expiry of their current three-year term. Members of the Supervisory Board may be re-elected an unlimited number of times. Meetings of the Supervisory Board are called by its chairman or at the request of another member of the Supervisory Board, Audit Commission, Management Board (or any of its members) or other persons determined by the Charter. The Supervisory Board must hold regular meetings at least once every three months. The current members of the Supervisory Board, as elected by the General Shareholders' Meeting on 8 August 2011, are as follows:

Name	Year of Appointment	Position	Other Management Positions within the Group
Gennady Bogolyubov	2003	Chairman	Member of the Board of Directors of Closed Joint Stock Company "MoscomPrivatBank"
Igor Kolomoyskiy	2004	Member	Member of the Board of Directors of Closed Joint Stock Company "MoscomPrivatBank"
Alexey Martynov	2000	Member	Member of the Board of Directors of Closed Joint Stock Company "MoscomPrivatBank"

The business address of each of the members of the Supervisory Board is 30, Naberezhna Peremohy, Dnipropetrovsk, Ukraine 49094.

Mr. Gennady Bogolyubov (born 20 January 1962) has been the Chairman of the Supervisory Board since 2003. He graduated from the Dnipropetrovsk Institute of Civil Engineering in 1984, where he studied industrial and civil engineering. Mr. Bogolyubov a member of the Supervisory Board of PJSC Ukrnafta.

Mr. Igor Kolomoyskiy (born 13 February 1963) has been a member of the Supervisory Board since 2004. Mr. Kolomoyskiy is also a member of the Supervisory Board of PJSC Ukrnafta. He graduated from the Dnipropetrovsk Metallurgical Institute in 1985, where he studied metallurgy engineering.

Mr. Alexey Martynov (born 6 June 1966) has been a member of the Supervisory Board since 2000. Mr. Martynov is also a director of "Solm Ltd.". He graduated from the Dnipropetrovsk State University in 1989, where he studied electric engineering.

Mr. Bogolyubov and Mr. Kolomoyskiy collectively, directly and indirectly, own approximately 92.5 per cent. of PrivatBank's share capital. See "*Shareholders" and "Related Party Transactions*".

Management Board and Senior Management of the Group

Management Board

The Management Board is an executive body of PrivatBank and is responsible for the day-to-day management of PrivatBank. It is accountable to the General Shareholders' Meeting and to the Supervisory Board to which it reports on a regular basis. The Management Board organises and manages the operations of PrivatBank, which includes monitoring the implementation of resolutions approved by the General Shareholders' Meeting and the Supervisory Board. The powers of the Management Board include, *inter alia*:

- approving regulations governing the operations of structural units of PrivatBank;
- approving strategic and business plans and budgets;
- approving the establishment of PrivatBank's branches and representative offices;
- approving transactions which involve the disposal of movable and immovable property and cash, subject to value thresholds set by the Supervisory Board, the Joint Stock Companies Law and the Charter;
- approving current operating plans and steps to complete such plans;
- approving the receipt and extension of long-term loans;
- determining the amount, source, and procedures for the utilisation of the funds necessary for the charter activities of PrivatBank;
- issuing appropriate instructions to the managers of branches and representative offices;
- organising the maintenance of PrivatBank's accounts and reports; and
- submitting the annual report and balance sheet for approval by the General Shareholders' Meeting.

The actual number of members on the Management Board is determined by the Charter. As at the date of this Prospectus, the Management Board is comprised of 16 members. According to the Charter, members of the Management Board are elected by the Supervisory Board for a period of three years. If upon the expiry of a three-year period, no decision is taken by the Supervisory Board to re-elect or remove a member of the Management Board, the term of office of such member is deemed to be prolonged until such later date when the Supervisory Board takes a decision to re-elect or remove such member. Pursuant to the Joint Stock Companies Law and PrivatBank's Regulation on Management Board, the Supervisory Board may terminate the appointment of any member of the Management Board at any time prior to the expiry of their current three-year term if such member (i) is found to be incompetent, (ii) abuses his/her power, (iii) discloses commercial or other sensitive information of or relating to PrivatBank, or (iv) commits any other action which causes harm to PrivatBank or its shareholders. Members of the Management Board may be re-elected an unlimited number of times. Meetings of the Management Board are called by its chairman or by any member of the Management Board. The Management Board must hold meetings at least once every three months.

The current members of the Management Board are as follows:

Name	Year of Appointment	Position	Other management positions within the Group
Aleksandr Dubilet....	1997	Chairman of the Management Board	Chairman of the Board of Directors of Closed Joint Stock Company “MoscomPrivatBank”
			Chairman of the Supervisory Board of Joint Stock Company “PrivatBank” (Georgia)
Yuri Pikush.............	2002	General Deputy Chairman of the Management Board	Member of the Strategic Committee
			Member of the Credit Committee
			Member of the Board of Directors of Closed Joint Stock Company “MoscomPrivatBank”
			Chairman of the Board of AS “PrivatBank”
			Deputy Chairman of the Supervisory Board of Joint Stock Company “PrivatBank” (Georgia)
Vladimir Yatsenko ..	2002	First Deputy Chairman of the Management Board	Head of Corporate Business
			Head of Credit Collection Division
			Member of the Board of Directors of Closed Joint Stock Company “MoscomPrivatBank”
Timur Novikov........	2002	First Deputy Chairman of the Management Board	Member of the Board of AS “PrivatBank”
			Head of Investment Business
Nikita Volkov..........	2004	First Deputy Chairman of the Management Board	Head of Information Technology Department
Yuri Kandaurov.......	2002	Deputy Chairman of the Management Board	Head of Retail Banking
			Member of the Strategic Committee
			Member of the Credit Committee
			Member of the Board of AS “PrivatBank”
Tatyana Guryeva	2004	Deputy Chairperson of the Management Board	Head of Customer Services
Lyubov Chmona......	2002	Deputy Chairperson of the Management Board	Head of Budgeting Services for VIP Corporate Business
Lyudmila Shmalchenko...........	2005	Deputy Chairperson of the Management Board	Head of Treasury
Vladimir Zavorotny................	1997	Deputy Chairman of the Management Board	Director of PrivatBank’s Kyiv Regional Head Office
Oleg Gorohovskiy ...	2005	Deputy Chairman of the Management Board	Head of Credit Cards and Salary Programmes Department
Alexander Vityaz.....	2009	Deputy Chairman of the Management Board	Head of Electronic Business
			Member of the Strategic

Name	Year of Appointment	Position	Other management positions within the Group
			Committee
Stanislav Kryzhanovskyy........	2009	Deputy Chairman of the Management Board	Head of Security
Dmitry Dubilet	2011	Deputy Chairman of the Management Board	Head of General Marketing and Advertising
Lyubov Korotina	2000	Member of the Management Board	Chief Accountant
Igor Teriohin	2005	Member of the Management Board	Member of the Strategic Committee
			Head of Financial Monitoring

The business address of each of the members of the Management Board is 30, Naberezhna Peremohy, Dnipropetrovsk, Ukraine 49094.

Mr. Aleksandr Dubilet (born 25 October 1962) has been the Chairman of the Management Board of PrivatBank since 1997. From 1994 to 1997, he served as the First Deputy Chairman of the Management Board of PrivatBank. In 1984, Mr. Dubilet graduated from the Dnipropetrovsk Metallurgical Institute with distinction, where he studied economics. Mr. Dubilet holds a PhD in economics.

Mr. Yuri Pikush (born 26 March 1962) has been the General Deputy Chairman of the Management Board since 2002. From 1992 to 2002, he held the positions of the Deputy Chairman of the Management Board and the First Deputy Chairman of the Management Board of PrivatBank. In 1985, Mr. Pikush graduated from the Dnipropetrovsk Metallurgical Institute, where he studied the electrometallurgy of steel- and ferro-alloys. In 1992, he graduated from the Dnipropetrovsk Metallurgical Academy, where he studied metallurgy economics and management. In 2007, he graduated from the Dnipropetrovsk National University, where he studied finance and from the Ukrainian Academy of the Banking Business of the NBU, where he studied finance and accounting. Mr. Pikush holds a PhD in finance.

Mr. Vladimir Yatsenko (born 18 November 1969) has been the First Deputy Chairman of the Management Board since 2002 and is currently the Head of Corporate Business and of the Credit Collection Division of PrivatBank. From 1995 to 1999 he served as the Head of Interbank Business and the Head of Currency Department of PrivatBank. From 1997 to 2002, he served as the Deputy Chairman of the Management Board. In 1992, Mr. Yatsenko graduated from the Dnipropetrovsk State University with distinction, where he studied computer sciences, systems and networks.

Mr. Timur Novikov (born 2 April 1973) has been the First Deputy Chairman of the Management Board since 2002 and is currently the Head of Investment Business of PrivatBank. From 1998 to 2002, he served as the Deputy Chairman of the Management Board. From 1997 to 1998, he served as the Head of the International Trade Financing and Documentary Operations Department and the Head of the International Corporate Operations Department of PrivatBank. In 1995, Mr. Novikov graduated from the Dnipropetrovsk Mining Academy, where he studied engineering and economics and in 1998 from the Kyiv Higher Banking School of the International Institute of Market Relations and Entrepreneurship, where he studied finance.

Mr. Nikita Volkov (born 8 November 1962) has been the First Deputy Chairman of the Management Board since 2004. From 1997 to 2004, he held the position of the Deputy Chairman of the Management Board. He also held a number of positions within PrivatBank in the information technology sector. In 1984, Mr. Volkov graduated from the Dnipropetrovsk Metallurgical Institute, where he studied metallurgy economics and management.

Mr. Yuri Kandaurov (born 12 April 1963) has been the Deputy Chairman of the Management Board since 2002. Since 1999, he has served as the Head of Retail Banking of PrivatBank, and from 1995 to 1999, he served as the Head of the Risk Management Department of PrivatBank. Mr. Kandaurov graduated from the Dnipropetrovsk Mining Institute in 1995, where he studied economics, and from the Kyiv-Mohyla Business School in 2007, where he studied business administration.

Ms. Tatyana Guryeva (born 13 March 1961) has been the Deputy Chairman of the Management Board since 2004 and has also been the Head of Customer Services since 2004. She graduated from the Dnipropetrovsk National University in 1985, where she studied history, and the Kyiv High Banking School of the International Institute of Market Relations and Entrepreneurship in 1999 where she studied banking.

Ms. Lyubov Chmona (born 7 October 1958) has been the Deputy Chairman of the Management Board since 2002. From the beginning of 1999 to 2002, Ms. Chmona held a variety of positions at PrivatBank, including chief economist of the credit and investment department and the Head of the Corporate Department for VIP Customers. Ms. Chmona graduated from the Kyiv Economic Institute in 1980, where she studied economics.

Ms. Lyudmila Shmalchenko (born 24 February 1968) has been the Deputy Chairman of the Management Board since 2005 and has also been the Head of Treasury since 2005. From 2004 to 2009, Ms. Shmalchenko was a member of the Board of AS “PrivatBank”. Ms. Shmalchenko graduated from the Dnipropetrovsk Metallurgical Institute in 1990, where she studied economics.

Mr. Vladimir Zavorotny (born 30 November 1958) has been the Deputy Chairman of the Management Board since 1997 and the Director of the Kyiv Regional Head Office of PrivatBank since 1992. He graduated from the Agricultural Academy of Ukraine in 1980, where he studied electric engineering, and from the Ukrainian Banking Academy in 2003, where he studied economics and banking.

Mr. Oleg Gorohovskiy (born 19 September 1974) has been the Deputy Chairman of the Management Board since 2005 and the Head of Credit Cards and Salary Programmes Department since 2011. From 2005 to 2008, he served as the Head of the “VIP” Individual Customers Department and from 2008 to 2011 as the Head of Credit Cards Department of PrivatBank. Mr. Gorohovskiy graduated from the Dnipropetrovsk Metallurgical Academy in 1996, where he studied economics.

Mr. Alexander Vityaz (born 20 July 1969) has been the Deputy Chairman of the Management Board since 2009 and the Head of the Electronic Business since 2002. From 1996 to 2000 he worked in the Donetsk regional office of PrivatBank. He is currently also a member of the Strategic Committee and from 2004 to 2010 was a member of the Board of AS “PrivatBank”. Mr. Vityaz graduated from the Donetsk Polytechnic Institute in 1992, where he studied applied mathematics.

Mr. Stanislav Kryzhanovskyy (born 25 November 1960) has been the Deputy Chairman of the Management Board and the Head of Security since 2009. Prior to joining PrivatBank, Mr. Kryzhanovskyy served for the Ministry of Internal Affairs of Ukraine.

Mr. Kryzhanovskyy graduated from the Kryvyy Rih Mining Institute in 1983, where he studied industrial and civil engineering and the Kharkiv State Law Academy in 1995, where he studied law.

Mr. Dmitry Dubilet (born 27 May 1985) has been the Deputy Chairman of the Management Board and Head of General Marketing and Advertising of PrivatBank since 2011. From 2000, Mr. Dubilet held various positions within PrivatBank, including as the Call Centre operator and network programmer. Mr. Dubilet graduated from the Taras Shevchenko Kyiv University in 2006, where he studied international information, and from the London Business School in 2011, where he studied business administration. Mr. Dubilet also served as a director of LLC "Highway" from 2007 to 2010 and as a director of LLC "Fine Web" from 2009 to 2010. Mr. Dmitry Dubilet is the son of Mr. Aleksandr Dubilet.

Ms. Lyubov Korotina (born 1 February 1965) has been a member of the Management Board since 2000 and the Chief Accountant of PrivatBank since 1994. Ms. Korotina graduated from the Odessa Economic Institute in 1992, where she studied accounting.

Mr. Igor Teriohin (born 26 August 1960) has been a member of the Management Board since 2005 and the Head of the Financial Monitoring Department since 2003. He graduated from the Dnipropetrovsk Metallurgical Institute in 1983, where he studied pressure treatments of metals and also from the Kyiv Higher School of Banking in 1999, where he studied banking.

Senior Management

The following persons are the senior managers of PrivatBank who are relevant to establishing that PrivatBank has the appropriate expertise and experience for the management of its business (the "**Senior Managers**").

The business address of each of the senior managers identified below is 30, Naberezhna Peremohy, Dnipropetrovsk, Ukraine 49094.

Ms. Olga Khlynina (born 30 June 1956) has served PrivatBank since 1994 and has been the Head of the Human Resources Department since 2004. She graduated from the Dnipropetrovsk Chemistry and Technology Institute in 1978, where she studied chemistry technology, and from the Kyiv Higher Banking School of the International Institute of Market Relations and Entrepreneurship in 1998, where she studied finance.

Mr. Vadim Kovalev (born 17 April 1961) has served PrivatBank since 1993 and has been the Head of the Risk Management Department since 2009 and the First Deputy Chairman of the Board of Closed Joint Stock Company "MoscomPrivatBank" since 2006. He graduated from the Dnipropetrovsk Metallurgical Institute in 1985, where he studied metallurgy engineering. He also graduated from the Kyiv Higher School of Banking in 1999, where he studied banking, and from the Kyiv-Mohyla Business School in 2009, where he studied business administration.

Other Directorships

In addition to the directorships of PrivatBank and certain subsidiaries listed above, the members of the Supervisory Board, the members of the Management Board and the Senior Managers currently hold the following directorships, are members of the following administrative, management or supervisory bodies or are members of the following partnerships:

Name	Current Positions
Gennady Bogolyubov	Member of the Supervisory Board of PJSC Ukrnafta
Igor Kolomoyskiy	Member of the Supervisory Board of PJSC Ukrnafta
Alexey Martynov	Director of LLC “Solm Ltd”
Timur Novikov	Member of the Supervisory Board of PJSC Ukrnafta

Remuneration of Directors and Management

The aggregate amount of remuneration paid or accrued by the Group (including any contingent or deferred compensation) to the members of the Supervisory Board, the members of the Management Board and to the Senior Managers, as a group, for services in all capacities to the Group during the year ended 31 December 2011 was UAH 31 million in salaries, bonuses, pension contributions and other benefits in kind.

Other than stated above, during the year ended 31 December 2011, no amount was set aside or accrued by the Group for the members of the Supervisory Board, the members of the Management Board or to the Senior Managers to provide pension, retirement or similar benefits.

Employment Contracts with the Members of the Supervisory Board and the Management Board

Each member of the Management Board, being employed by PrivatBank, is entitled to the statutory termination benefits in accordance with Ukrainian labour law, which generally includes the payment for all the days of annual vacation which have not been used by the employee. PrivatBank may terminate the contracts with the members of the Management Board in accordance with the general provisions envisaged by the Ukrainian labour law, if, *inter alia*, the member of the Management Board commits serious breaches of duties or is guilty of any gross misconduct in connection with the handling of money or valuables. The contracts of the members of the Management Board do not provide for the payment of benefits upon termination of their employment, other than as prescribed by law.

The amount of remuneration and benefits paid to all members of the Management Board, regardless of whether such remuneration or benefits is paid by PrivatBank or by any of its subsidiaries, is established by the Supervisory Board.

Members of the Supervisory Board do not have employment contracts within the meaning of Ukrainian labour law. Each member has instead entered into a commercial contract with PrivatBank. Such contracts of the members of the Supervisory Board and the Ukrainian labour law do not provide for the payment of benefits upon termination of their contracts.

Management Incentive Programme

In 2002, PrivatBank’s majority shareholders offered nineteen of PrivatBank’s key managers an option to purchase ordinary shares in PrivatBank. All nineteen managers chose to participate in the offer and purchased in total 217,600 ordinary shares for approximately UAH 117 per ordinary share. The terms of the purchase permitted the managers to defer payment of the purchase price for up to ten years. On 14 June 2011, seventeen of the nineteen managers who, as at such date, had not paid for such shares in full, entered into supplemental agreements which permitted them to defer the payment of the purchase price for a further ten years.

In addition, in 2010, PrivatBank's majority shareholders launched a management incentive programme (the "**2010 Management Incentive Programme**"), which was approved by the Supervisory Board in April 2011. Under the 2010 Management Incentive Programme, the majority shareholders offered 41 managers of the Group (including 14 out of the 16 current members of the Management Board) to purchase ordinary shares at a discount to their fair value, with the right to defer payment of the purchase price until 31 May 2021 (or, if earlier, within 20 working days of the sale of the shares to a third party).

Under the 2010 Management Incentive Programme, in May 2011, 41 managers purchased 4,066,493 ordinary shares for approximately UAH 120 per share. This constituted an aggregate discount to fair value of UAH 500 million. See Note 30 to the Consolidated Financial Statements.

Each manager who purchased ordinary shares in 2002 and/or under the 2010 Management Incentive Programme also entered into a share repurchase agreement with one of the majority shareholders on or around 31 May 2011. The share repurchase agreements are valid for five years and provide that all of the ordinary shares purchased by managers shall be repurchased at the option of either party at any time. Where PrivatBank initiates such a repurchase, the ordinary shares shall be repurchased at 2.5 times nominal value (currently UAH 576.12), whereas if a manager initiates such a repurchase, the ordinary shares shall be repurchased at two times nominal value. In addition, PrivatBank is required to notify the participating managers of a planned initial public offering six months before it takes place and, if neither party to a share repurchase agreement initiates the repurchase within three months after such notification, the share redemption agreement shall be terminated.

Conflicts of Interests

Mr. Gennady Bogolyubov and Mr. Igor Kolomoyskiy have direct and indirect interests in companies with which the Group has engaged in transactions, including those in the ordinary course of business. In particular, PrivatBank has granted loans to and received deposits from entities under common control or otherwise related to it in the past. Any such related party lending is subject to the same approval processes within PrivatBank as loans to unrelated third parties and is the subject of separate NBU regulation. Although PrivatBank aims to conduct all transactions with entities under common control or otherwise related to it on market terms and in accordance with applicable Ukrainian law, potential conflicts of interest between duties of Mr. Gennady Bogolyubov and Mr. Igor Kolomoyskiy to the Group and private interests may arise in the future. See "*Shareholders*" and "*Related Party Transactions*".

Other than as stated above, there are no actual or potential conflicts of interest between any duties owed by members of the Supervisory Board or members of the Management Board, or Senior Managers to PrivatBank and their private interests and/or other duties.

Other than as stated above, none of the members of the Supervisory Board or the members of the Management Board, or Senior Managers are related to one another for the purposes of the Prospectus Regulations.

SHAREHOLDERS

Shareholders

As at the date of this Prospectus, the nominal value of the share capital of the bank was UAH 14,897,555,475.00 comprised of 64,645,500 ordinary registered shares with a nominal value of UAH 230.45 each.

The table below sets forth certain information regarding ownership of the shares as at the date of this Prospectus:

	Shares Owned	
Shareholder	*Number*	*%*[1]
Mr. Bogolyubov	21,849,620	33.7991
Mr. Kolomoyskiy	21,849,621	33.7991
Triantal Investments Ltd[2]	16,154,900	24.9900
Others	4,791,359	7.4118
Total	**64,645,500**	**100.00**

(1) Percentage shareholding of ordinary shares.
(2) Triantal Investments Ltd. is 100 per cent. indirectly beneficially owned by Mr. Gennady Bogolyubov and Mr. Igor Kolomoyskiy.

Mr. Gennady Bogolyubov and Mr. Igor Kolomoyskiy together, directly and indirectly, own 92.59 per cent. of PrivatBank's share capital. As at 30 September 2012, Mr. Bogolyubov and Mr. Kolomoyskiy directly or indirectly owned 46.27 per cent. and 46.32 per cent., respectively, of PrivatBank's share capital.

Triantal Investments Ltd. is a company incorporated as a private limited company in Cyprus with registered number 193150, having its registered office at Omirou, 3 Agios Nikolaos, P.C. 3095, Limassol, Cyprus, 100 per cent. indirectly beneficially owned by Mr Bogolyubov and Mr Kolomoyskiy.

The controlling shareholders have the right to, among others, elect or appoint members of the Supervisory Board, approve major transactions, declare dividends, if any, and influence other policy decisions. In addition, the controlling shareholders may engage in business activities with entities that compete with the Group.

Save as disclosed above, there are no other persons who could, directly or indirectly, exercise control over PrivatBank.

Rights of PrivatBank's Shareholders

Under the Bank's charter and Ukrainian legislation, the Bank's shareholders have the right to:

- participate in the management of the Bank pursuant to the procedures set out in the Bank's charter;
- receive dividends;
- receive a share in the proceeds upon the Bank's liquidation;
- have access to information and documents relating to the Bank's activities and financial condition;

- exercise the pre-emptive rights to purchase shares additionally issued by the Bank;
- dispose of their shares in the Bank's pursuant to the procedures established by the Bank's charter and Ukrainian law; and
- exercise other rights provided by Ukrainian law and the Bank's charter

Restriction on Agreements with Related Parties, Including Controlling Shareholders

Ukrainian law provides that agreements with related parties, including controlling shareholders, entered into by a Ukrainian bank cannot provide for more favourable terms and conditions than agreements with other parties. Otherwise, such agreements may be declared void by a court. In addition, the NBU sets mandatory ratios in order to restrict certain transactions with insiders, including controlling shareholders, such as loans, guarantees and sureties.

RELATED PARTY TRANSACTIONS

In the ordinary course of its business, the Group has engaged, and continues to engage, in transactions with related parties. Parties are considered to be related if one party has the ability to control the other party or to exercise significant influence over the other party in making financial or operational decisions or if such parties are under common control.

For the purposes of the Consolidated Financial Statements, parties are considered to be related if (i) one party has the ability to control the other party; (ii) the parties are under common control; or (iii) one party can exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Customer accounts of related parties accounted for 3.8 per cent. of the Group's total customer accounts as at 30 September 2012, compared to 3.8 per cent as at 31 December 2011, 2.7 per cent. and 4.7 per cent. as at 31 December 2010 and 31 December 2009, respectively. Loans and advances to related parties (before impairment) accounted for 9.8 per cent. of the Group's total loans and advances to customers (before impairment) as 30 September 2012, compared to 6.9 per cent at 31 December 2011, compared to 10.6 per cent. and 7.9 per cent. as at 31 December 2010 and 31 December 2009, respectively.

The Group seeks to conduct all transactions with entities under common control or otherwise related to it on market terms and in accordance with applicable laws. The terms and conditions of sales to related parties are determined based on arrangements specific to each contract or transaction. However, there can be no assurance that any or all of these transactions have been or will be conducted on market terms.

Mr. Bogolyubov and Mr. Kolomoyskiy own and/or control a number of businesses in Ukraine and abroad, including a holding in JSC "Ukrnafta" (Ukraine), the largest Ukrainian oil company. PrivatBank currently provides (and may continue to provide) loans to counterparties of its shareholders' oil trading businesses. Based on the NBU's definitions and IFRS, PrivatBank's lending to the oil industry does not constitute lending to related parties.

In addition, Mr. Bogolyubov owns Consolidated Minerals Limited (Jersey), operating manganese ore extraction facilities in Australia and Ghana. Mr. Kolomoyskiy is the second largest shareholder of Evraz Group SA., an international and vertically integrated steel, mining and vanadium business.

Significant transactions with related parties as at the dates indicated are set out in the following table:

	As at 31 December			As at 30 September
	2009	2010	2011	2012
	(*millions of UAH*)			
				(unaduited)
Gross amount of loans and advances to customers	6,168	10,881	8,466	13,396
Impairment provisions for loans and advances to customers	(2,288)	(2,594)	(3,693)	(4,051)
Embedded derivatives	225	251	60	71
Loans and advances to customers written off as uncollectable	-	(83)	(17)	(848)
Other financial assets	2	175	46	7
Other assets	414	279	217	163
Customer accounts	2,686	2,331	3,966	4,467
Subordinated debt	125	140	156	155
Other financial liabilities	10	-	-	-

The income and expense items with related parties for the respective periods were as follows:

	For the year ended 31 December			For the nine months ended 30 September
	2009	2010	2011	2012
	(*millions of UAH*)			
				(unaduited)
Interest income	1,296	1,021	1,311	800
Interest expense	(216)	(431)	(376)	(239)
Provision for loan impairment	(1,029)	(223)	(1,099)	(1,189)
Fee and commission income	65	47	54	52
Losses less gains from embedded derivatives	(104)	(214)	(171)	(4)
Other operating income	6	9	10	-
Administrative and other operating expenses, excluding management remuneration	(454)	(47)	(33)	(76)

Other rights and obligations with related parties as at the end of the respective periods were as follows:

	As at 31 December			As at 30 September
	2009	2010	2011	2012
	(*millions of UAH*)			
				(unaduited)
Guarantees issued	7	5	15	9
Import letters of credit	70	2	-	-
Less: Provision for credit-related commitments	(33)	(2)	-	-

Aggregate amounts lent to and repaid by related parties for the respective periods were as follows:

	For the year ended 31 December			For the year ended 30 September
	2009	2010	2011	2012
	(*millions of UAH*)			
				(unaduited)
Amounts lent to related parties during the period	8,038	13,590	12,512	8,731
Amounts repaid by related parties during the period	8,734	8,753	17,243	3,984

THE ISSUER

The Issuer, UK SPV Credit Finance plc, was incorporated in England and Wales on 24 January 2007 (registered number 06065720), as a public company with limited liability under the Companies Act 1985. The registered office of the Issuer is at 5th Floor, 6 St. Andrew Street, London EC4A 3AE. The telephone number for the Issuer is +44 20 7832 4900. The Issuer has no subsidiaries.

Principal Activities

The Issuer has been established as a special purpose vehicle for the purpose of issuing asset backed securities. The principal objects of the Issuer are set out in clause 4 of its Memorandum of Association and are, among other things, to acquire, hold and manage financial assets, to lend or advance money and to give credit to any persons for any purpose whatsoever within the United Kingdom or elsewhere, to carry on business as a financial institution, to manage and administer loan portfolios, to borrow, raise and secure the payment of money including by the creation and issue of bonds, debentures, notes or other securities charged on the whole or any part of the Issuer's property or assets.

PricewaterhouseCoopers LLP (UK) have audited the financial statements of the Issuer as at and for the years ended 31 December 2011 and 31 December 2010.

Directors and Secretary

The directors of the Issuer and their respective business addresses are:

Name	Business Address	Position
Roy Neil Arthur	5th Floor, 6 St. Andrew Street, London EC4A 3AE	Director
Joint Corporate Services Limited (Company number 03570684)	5th Floor, 6 St. Andrew Street, London EC4A 3AE	Corporate Director
Praxis Mgt Limited (Company number 03577176)	5th Floor, 6 St. Andrew Street, London EC4A 3AE	Corporate Director

Neither Joint Corporate Services Limited nor Praxis Mgt Limited has any conflicts as individuals, or any potential conflicts, between its duties to the Issuer and its private interests or other duties.

The company secretary of the Issuer is Joint Secretarial Services Limited, a company registered in England and Wales (registered number 03570682), whose business address is 5th Floor, 6 St. Andrew Street, London EC4A 3AE. The directors of Joint Secretarial Services Limited are as follows:

Name	Business Address	Position
Tariq Husain	5th Floor, 6 St. Andrew Street, London EC4A 3AE	Director
Roy Neil Arthur	5th Floor, 6 St. Andrew Street, London EC4A 3AE	Director
Vincent Cheshire	5th Floor, 6 St. Andrew Street, London EC4A 3AE	Director
Michael Charles Adams	5th Floor, 6 St. Andrew Street, London EC4A 3AE	Director

Joint Secretarial Services Limited does not have any conflicts, or any potential conflicts, between its duties to the Issuer and its private interests or other duties.

Joint Corporate Services Limited is a corporate director of the Issuer and is registered in England and Wales (registered number 03570684); its directors are as follows:

Name	Business Address	Position
Tariq Husain	5th Floor, 6 St. Andrew Street, London EC4A 3AE	Director
Roy Neil Arthur	5th Floor, 6 St. Andrew Street, London EC4A 3AE	Director
Vincent Cheshire	5th Floor, 6 St. Andrew Street, London EC4A 3AE	Director
Michael Charles Adams	5th Floor, 6 St. Andrew Street, London EC4A 3AE	Director

Praxis Mgt Limited is a corporate director of the Issuer and is registered in England and Wales (registered number 03577176); its directors are as follows:

Name	Business Address	Position
Tariq Husain	5th Floor, 6 St. Andrew Street, London EC4A 3AE	Director
Roy Neil Arthur	5th Floor, 6 St. Andrew Street, London EC4A 3AE	Director
Michael Charles Adams	5th Floor, 6 St. Andrew Street, London EC4A 3AE	Director

None of Tariq Husain, Michael Charles Adams nor Roy Neil Arthur have any conflicts, or any potential conflicts, between their duties to the Issuer and their private interests or other duties.

Capitalisation and Indebtedness

The capitalisation and indebtedness of the Issuer as at the date of this Prospectus is as follows:

Share Capital

Authorised Share Capital	Issued Share Capital	Nominal Value of each Share	Shares Fully Paid Up	Shares Quarter Paid Up	Paid Up Share Capital
£50,000..	£50,000	£1	2	49,998	£12,501.50

49,999 of the issued shares (being 49,998 shares of £1 each, each of which is paid up as to 25 pence and one share of £1 which is fully paid) in the Issuer are held by UK Credit Finance Limited. The remaining one share in the Issuer (which is fully paid) is held by TMF Trustee Limited (registered number 03814168) (the "**Nominee Trustee**") as nominee for UK Credit Finance Limited. The entire issued share capital of UK Credit Finance Limited is held by TMF Trustee Limited (registered number 03814168) (the "**Share Trustee**") as trustee of UK

Credit Finance Trust pursuant to the Declaration of Trust declared by the Share Trustee on 30 January 2007.

Loan Capital

The Issuer issued the Existing Notes on 24 September 2010 for the sole purpose of financing the 2010 Loan to PrivatBank and will issue the Notes on the Closing Date.

Except as set out above, the Issuer has no outstanding loan capital, borrowings, indebtedness or contingent liabilities and the Issuer has not created any mortgages or charges nor has it given any guarantees as at the date hereof.

Auditors

PricewaterhouseCoopers LLP, chartered accountants and statutory auditors (a member of the Institute of Chartered Accountants in England and Wales), are the Issuer's independent auditors. The address of PricewaterhouseCoopers LLP is 7 More London, Riverside, London, SE1 2RT.

THE LOAN AGREEMENT

The following is the text of the Loan Agreement, save for the signature page and the schedules:

This Agreement is made on 25 February 2013 **between**:

(1) **PUBLIC JOINT-STOCK COMPANY COMMERCIAL BANK PRIVATBANK**, incorporated under the laws of Ukraine, whose registered office is at 50 Naberezhna Peremohy, Dnipropetrovsk, Ukraine 49094, as borrower (the "**Borrower**"); and

(2) **UK SPV CREDIT FINANCE PLC**, incorporated under the laws of England, whose registered office is at Fifth Floor, 6 St. Andrew Street, London EC4A 3AE, United Kingdom as lender (the "**Lender**").

WHEREAS:

The Lender has at the request of the Borrower agreed to make available to the Borrower a single credit term loan in the amount of U.S.$175,000,000 on the terms and subject to the conditions of this Agreement.

It is agreed as follows:

1. DEFINITIONS AND INTERPRETATION

1.1 Definitions

In this Agreement the following terms have the meanings given to them in this Clause 1.1:

"**Account**" means an account in the name of the Lender with Deutsche Bank AG, London Branch, account number 0196713 0000 USD 001 CTA, MTAG 19671301 (with payment details as follows: Correspondent Bank; Deutsche Bank Trust Company Americas, SWIFT: BKTRUS33, Account with Bank: Deutsche Bank AG, London Branch, SWIFT: DEUTGB2L, Beneficiary name: UK SPV Credit Finance plc, LPN Secured Account, Beneficiary IBAN: GB93 DEUT 40508119671301);

"**Affiliate**" of any specified Person means (i) any other Person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified Person; (ii) any other Person who is a director or officer (A) of such specified Person; (B) of any Subsidiary of such specified Person; or (C) of any Person described in Clause (i) above. For the purpose of this definition: "**control**" when used with respect to any Person means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise and the terms "**controlling**" and "**controlled**" have meanings correlative to the foregoing;

"**Agency**" means any agency, authority, central bank, department, committee, government, legislature, minister, ministry, official or public or statutory person (whether autonomous or not) of, or of the government of, any state or supra-national body;

"**Agency Agreement**" means the paying agency agreement relating to the Notes dated 28 February 2013 between the Lender (as issuer of the Notes), the Trustee and the Agents named therein;

"**Agents**" means the Principal Paying Agent and any other agents named in, or appointed under, the Agency Agreement and "**Agent**" means any one of the Agents;

"**Auditors**" means LLC Audit firm "PricewaterhouseCoopers (Audit)" or any internationally recognised firm of accountants approved by the Lender (and, following the execution of the Loan Administration Assignment, the Trustee without regard to the Lender), such approval not to be unreasonably withheld;

"**Authorised Signatory**" means, in the case of the Borrower, any of the persons referred to in the certificate listed as item 3 in Schedule 1 (*Conditions Precedent Documents*) hereto and, in the case of the Lender, a duly authorised officer of the Lender, from time to time;

"**Banking Business**" means, in relation to the Borrower or any of its Material Subsidiaries, any type of banking business (including, without limitation, any factoring, consumer credit, mortgages, issuance of banking guarantees and letters of credit (and related cash cover provision), bills of exchange and promissory notes and payments under such guarantees, letters of credit and promissory notes, trading of securities, fund management and professional securities market participation business) which it conducts or may conduct pursuant to its licences issued by the appropriate authorities and accepted market practice and any applicable law;

"**Capital Stock**" means, with respect to any Person, any and all shares, interests, participations, rights to purchase, warrants, options, or other equivalents (however designated) of capital stock of a corporation and any and all equivalent ownership interests in a Person other than a corporation, in each case whether now outstanding or hereafter issued;

A "**Change of Control**" shall be deemed to have occurred when a Change of Control Event occurs and such event results in a Rating Decline;

A "**Change of Control Event**" shall be deemed to have occurred at each time (whether or not approved by the board of directors of the Borrower) that the individuals referred to in the Prospectus dated 25 February 2013 relating to the Notes as the owners of the majority of the share capital of the Borrower at the date thereof cease to own together, directly or indirectly more than 50 per cent. of the issued or allotted ordinary charter capital carrying voting rights;

"**Change of Control Payment Date**" means the date specified as such in the notice from the Borrower to the Lender pursuant to Clause 6.4 (*Prepayment in the event of a Change of Control*);

"**Double Tax Treaty**" means the Convention of 10 February 1993 between the Government of the United Kingdom of Great Britain and Northern Ireland and the Government of Ukraine for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income and Capital Gains;

"**Drawdown Date**" means 28 February 2013 or, if different, the date on which the Notes are issued and the subscription monies therefor are paid under the Subscription Agreement;

"**Event of Default**" means any circumstances described as such in Clause 14 (*Events of Default*);

"**Fees Letter**" means the fees letter dated on or about 25 February 2013 between, amongst others, the Borrower and the Lender;

"**Funding Document**" means this Agreement, the Fees Letter, the Subscription Agreement, the Trust Deed and the Agency Agreement entered into in connection with the issue of the Notes and the Notes themselves;

"**Group**" means the Borrower and its Subsidiaries from time to time taken as a whole;

"**IFRS**" means International Financial Reporting Standards, including International Accounting Standards and Interpretations, issued by the International Accounting Standards Board as amended, supplemented or re-issued from time to time;

"**incur**" means issue, assume, guarantee, incur or otherwise become liable for; provided, however, that any Indebtedness or Capital Stock of a Person existing at the time such Person becomes a Subsidiary (whether by merger, consolidation, acquisition or otherwise) or is merged into a Subsidiary will be deemed to be incurred or issued by the parent company or such Subsidiary (as the case may be) at the time such Person becomes a Subsidiary of such parent company or is so merged into such Subsidiary;

"**Indebtedness**" means any indebtedness, in respect of any Person for, or in respect of, moneys borrowed or raised including, without limitation, any amount raised by acceptance under any acceptance credit facility; any amount raised pursuant to any note purchase facility or the issue of bonds, notes, debentures, loan stock or any similar instrument; any amount raised pursuant to any issue of shares which are expressed to be redeemable; any amount raised under any other transaction (including any forward sale or purchase agreement) having the economic effect of a borrowing; and the amount of any liability in respect of any guarantee or indemnity for any of the items referred to above, provided that such defined term does not include any indebtedness owed to the state budget, local budget and non-budgetary funds on account of taxes which are not overdue;

"**Independent Appraiser**" means an investment banking firm of international standing or any third party appraiser of international standing selected by the Borrower, provided, however that such firm or third party appraiser is not an Affiliate of the Borrower;

"**Interest Payment Date**" means 28 February and 28 August in each year in which the Loan remains outstanding with the last Interest Payment Date falling on the Repayment Date;

"**Interest Period"** means any of those periods mentioned in Clause 4 (*Interest Periods*);

"**Interest Rate**" means 10.875 per cent.;

"**Joint Lead Managers**" means Credit Suisse Securities (Europe) Limited, J.P. Morgan Securities plc and UBS Limited;

"**Lien**" means any mortgage, pledge, encumbrance, lien, charge or other security interest (including, without limitation, anything analogous to any of the foregoing under the laws of any jurisdiction);

"**Loan**" has the meaning set forth in Clause 2.1 (*Grant of the Loan*);

"**Loan Administration Assignment**" means the assignment by the Lender to the Trustee of the Transferred Rights pursuant to the Trust Deed;

"**Loan Date**" means the date on which the Notes are issued and the subscription monies therefore are paid in accordance with the Subscription Agreement;

"**Material Subsidiary**" means, at any given time, any Subsidiary of the Borrower (a) whose total assets or gross revenues (or, where the Subsidiary in question prepares consolidated accounts, whose total consolidated assets or gross consolidated revenues, as the case may be) represent at least 10 per cent. of the total assets, or, as the case may be, total revenues of the Borrower and its Subsidiaries and, for these purposes (i) the total assets and gross revenues of such Subsidiary shall be determined by reference to its then most recent audited financial statements (or, if none, its then most recent management accounts); and (ii) the total assets and gross revenues of the Borrower shall be determined by reference to the Borrower's then most recent audited financial statements (or, if none, its then most recent management accounts), in each case prepared in accordance with IFRS; or (b) to which is transferred the whole or substantially the whole of the undertaking and assets of a Subsidiary of the Borrower which immediately before the transfer is a Material Subsidiary of the Borrower. A certificate signed by two officers of the Borrower (at least one of whom shall be the principal executive officer, principal accounting officer or principal financial officer of the Borrower) that, in their opinion, a Subsidiary of the Borrower is or is not a Material Subsidiary, accompanied by a report by the Auditors addressed to the Management Board of the Borrower as to proper extraction of the figures used by such officers of the Borrower in determining the Material Subsidiaries of the Borrower and mathematical accuracy of the calculations shall, in the absence of manifest error, be conclusive and binding on all parties and the Trustee;

"**NBU**" means the National Bank of Ukraine;

"**Negative Ratings Event"** means that at any time within 90 days (which period shall be extended so long as the corporate credit rating of the Borrower or the credit rating in respect of the Notes is under publicly announced consideration for possible downgrade by any Rating Agency) after the announcement of any reorganisation or other type of corporate reconstruction as referred to in Clause 13.5 (*Mergers*) the corporate rating of the Borrower or the rating of the Notes is decreased or downgraded by a Rating Agency by one or more Rating Categories below the corporate rating of the Borrower or the rating of the Notes as of the date hereof (or if a Rating Agency has not assigned any such rating as of the date hereof, below the first such rating assigned to the Borrower or the Notes by that Rating Agency after the date hereof) as a result of such reorganisation or other type of corporate reconstruction, as specified by the relevant Rating Agency;

"**Notes**" means the U.S.$175,000,000 10.875 per cent. loan participation notes due 2018 proposed to be issued by the Lender pursuant to the Trust Deed on or about 28 February 2013 for the sole purpose of financing the Loan;

"**Officers' Certificate**" means a certificate signed on behalf of the Borrower by two officers of the Borrower (at least one of whom shall be the principal executive officer, principal accounting officer or principal financial officer of the Borrower) and in the appropriate form set out in Schedule 2 (*Form of Officers' Certificate*) hereto;

"**Permitted Liens**" means a Lien upon, or with respect to, any present or future assets or revenues which is created pursuant to any securitisation, asset-backed financing, or similar financing transaction; provided, however, that the principal amount raised pursuant to any such financing, when aggregated with the principal amount raised pursuant to any financing referred to in the second sentence of Clause 13.6 (*Disposals*), does not exceed at any time 35 per cent. of the Borrower's total assets, as determined at any such time by reference to the then most recent quarterly balance sheet of the Borrower prepared in accordance with IFRS;

"**Person**" means any individual, company, corporation, firm, partnership, joint venture, association, trust, organisation, state or agency of a state or any other entity, whether or not having separate legal personality;

"**Potential Event of Default**" means any event which would become (with the passage of time, the giving of notice and/or the making of a determination under this Agreement), an Event of Default;

"**Principal Paying Agent**" means Deutsche Bank AG, London Branch;

"**Profit Account**" means the account in the name of the Lender with HSBC Bank plc, account number 67401470;

"**Rating Agency**" means Moody's Investors Service Limited ("**Moody's**") or Fitch Ratings Ltd ("**Fitch**"), or any of their successors or any rating agency substituted for any of them (or any permitted substitute of them) by the Borrower, from time to time with the prior written approval of the Lender (and, following the Loan Administration Assignment, the Trustee without regard to the Lender);

"**Rating Categories**" means (1) with respect to Fitch, any of the following categories (any of which may or may not include a "+" or "-"): AAA, AA, A, BBB, BB, B, CCC, CC, C and D (or equivalent successor categories); (2) with respect to Moody's, any of the following categories (any of which may or may not include a "1", "2" or "3"): Aaa, Aa, A, Baa, Ba, B, Caa, Ca, C and D (or equivalent successor categories); and (3) the equivalent of any such categories of Fitch or Moody's used by another rating agency, if applicable;

"**Rating Decline**" means that at any time within 90 days (which period shall be extended so long as the corporate credit rating of the Borrower or the credit rating in respect of the Notes is under publicly announced consideration for possible downgrade by any Rating Agency) after:

(a) in the case of a Change of Control Event, the announcement or the occurrence of such Change of Control Event; or

(b) in the case of a disposal in accordance with Clause 13.6 (*Disposals*), the announcement or occurrence of the relevant transaction or series of transactions,

the corporate rating of the Borrower or the rating of the Notes is decreased or downgraded by a Rating Agency by one or more Rating Categories below the corporate rating of the Borrower or the rating of the Notes as of the date hereof (or if a Rating Agency has not assigned any such rating as of the date hereof, below the first such rating assigned to the Borrower or the Notes by that Rating Agency after the date hereof) as a result of such transaction or series of transactions, as specified by the relevant Rating Agency;

"**Registrar**" means the Registrar appointed pursuant to the Agency Agreement;

"**Relevant Event**" has the meaning given thereto in the Trust Deed;

"**Relevant Indebtedness**" means any Indebtedness in the form of or represented by any bond, note, debenture, stock, loan stock, certificate or other instrument which is for the time being or is intended to be listed, quoted or traded on any stock exchange or any securities market (including, without limitation, any over-the-counter market):

(a) denominated, payable or optionally payable in a currency other than hryvnia; and

(b) not initially distributed primarily to investors inside Ukraine;

"**Repayment Date**" means 28 February 2018 or, if such day is not a Business Day, the next succeeding Business Day;

"**Reserved Rights**" has the meaning given thereto in the Trust Deed;

"**Same-Day Funds**" means U.S. dollar funds settled through the New York Clearing House Interbank Payments System or such other funds for payment in U.S. dollars as the Lender may at any time determine to be customary for the settlement of international transactions in New York City of the type contemplated hereby;

"**Stock Exchange**" means the regulated market of The Irish Stock Exchange Limited;

"**Subscription Agreement**" means the subscription agreement relating to the Notes dated 25 February 2013 between the Lender, the Borrower and the Joint Lead Managers;

"**Subsidiary**" means a company or corporation (A):

(a) which is controlled, directly or indirectly, by another company or corporation (B); or

(b) more than half the issued share capital of which is beneficially owned, directly or indirectly, by B, and, for these purposes, A shall be treated as being controlled by B if B is able to direct A's affairs and/or to control the composition of A's board of directors or equivalent body;

"**Tax**" or "**Taxes**" means any taxes, levies, duties, imposts, assessments, governmental charges or other charges or withholding of a similar nature (including interest and penalties thereon);

"**Transferred Rights**" has the meaning given thereto in the Trust Deed;

"**Trust Deed**" means the trust deed relating to the Notes dated 28 February 2013 between the Lender and the Trustee as amended from time to time;

"**Trustee**" means Deutsche Trustee Company Limited, as trustee under the Trust Deed and any successor thereto as provided thereunder; and

"**Ukraine**" means Ukraine and any province or political sub-division thereof or therein.

1.2 **Interpretation**

Any reference in this Agreement to:

1.2.1 the "**Borrower**" or "**Lender**" includes its and any subsequent successors, assignees and chargees in accordance with their respective interests, including, without limitation, in the case of the latter, any entity substituted in place of the Lender as issuer of the Notes pursuant to clause 16.4 of the Trust Deed;

1.2.2 a "**Business Day**" means a day (other than a Saturday or Sunday) on which banks generally are open for business in New York City, London and Kyiv;

1.2.3 the "**equivalent**" on any given date in one currency (the "**first currency**") of an amount denominated in another currency (the "**second currency**") is a reference to the amount of the first currency which could be purchased with the amount of the second currency at the spot rate of exchange quoted for the purchase of the first currency with the second currency on the relevant Reuters page or, where the first currency is hryvnia and the second currency is U.S. dollars (or vice versa), by the NBU, at or about 10.00 a.m. (New York City time) or, as the case may be, 1.00 p.m. (Kyiv time) on such date;

1.2.4 a "**month**" means a period starting on one day in a calendar month and ending on the numerically corresponding day in the next succeeding calendar month save that, where any such period would otherwise end on a day which is not a Business Day, it shall end on the next succeeding Business Day, unless that day falls in the next calendar month, in which case it shall end on the immediately preceding Business Day, provided that, if a period starts on the last Business Day in a calendar month or if there is no numerically corresponding day in the month in which that period ends, that period shall end on the last Business Day in that later month (and references to "**months**" shall be construed accordingly);

1.2.5 "**repay**" (or any derivative form thereof), subject to any contrary indication, includes prepay (or, as the case may be, the corresponding derivative form thereof); and

1.2.6 "**VAT**" means:

(a) any tax imposed in compliance with the Council Directive of 28 November 2006 on the common system of value added tax (EC Directive 2006/112); and

(b) any other tax of a similar nature, whether imposed in a member state of the European Union in substitution for, or levied in addition to, such tax referred to in paragraph (a) above or imposed elsewhere.

1.3 Currency References

"**U.S.$**" and "**U.S. dollars**" denote the lawful currency of the United States of America and "***hryvnia***" denotes the lawful currency of Ukraine.

1.4 Statutes

Any reference in this Agreement to a statute shall be construed as a reference to such statute as the same may have been, or may from time to time be, amended or re-enacted.

1.5 Headings

Clause and Schedule headings are for ease of reference only.

1.6 Amended Documents

Save where the contrary is indicated, any reference in this Agreement to this Agreement, the Fees Letter or any other agreement or document shall be construed as a reference to this Agreement, the Fees Letter or, as the case may be, such other agreement or document as the same may have been, or may from time to time be, amended, varied, novated or supplemented.

2. THE LOAN

2.1 Grant of the Loan

The Lender grants to the Borrower and the Borrower hereby agrees to borrow from the Lender upon the terms and subject to the conditions hereof, a single disbursement term loan facility in the amount of U.S.$175,000,000 (the "**Loan**").

2.2 Purpose and Application

The Loan is intended to be used by the Borrower for general corporate purposes and, without affecting the obligations of the Borrower in any way, the Lender shall not be obliged to concern itself with such application.

3. AVAILABILITY OF THE LOAN

3.1 Drawdown

Subject to the conditions hereof, the Loan will be available by way of a single advance which will be made by the Lender to the Borrower, and the Borrower will draw down the Loan, on the Drawdown Date by payment of the Loan in accordance with the following payment instructions: JPMorgan Chase Bank, New York; swift code: CHASUS33; account number: USD 001-1-000080; for the account of the Borrower; swift code PBANUA2X, provided that the Loan will only be advanced if:

3.1.1 the Lender has confirmed to the Borrower that it has received all of the documents listed in Schedule 1 (*Conditions Precedent Documents*) hereto and that each is in form and substance satisfactory to the Lender, save as the Lender may otherwise agree;

3.1.2 the Lender has received (i) the full amount of the proceeds of the issue of the Notes pursuant to the Subscription Agreement and such proceeds shall be and remain available in full to be on-lent to the Borrower and (ii) in full the amount referred to in Clause 3.2 (*Payment of Fees*); and

3.1.3 as at the Drawdown Date (i) no Event of Default or Potential Event of Default have or has occurred; (ii) the representations and warranties of the Borrower set out in Clause 10 (*Representations and Warranties of the Borrower*) are true and accurate with respect to the facts and circumstances then subsisting and (iii) the Borrower is in full compliance with all of its obligations under this Agreement and there shall have been no breach of any such obligations.

3.2 Payment of Fees

In consideration of the Lender advancing the Loan to the Borrower, the Borrower hereby agrees that it shall pay, in Same-Day Funds under the Fees Letter all amounts required to be paid by the Borrower under paragraph 2 of the Fees Letter by 4.30 p.m. (London time) on 26 February 2013.

4. INTEREST PERIODS

The period for which the Loan is outstanding shall be divided into successive semi-annual periods, each of which (other than the first, which shall commence on (and shall include) the Drawdown Date) shall start on (and shall include) an Interest Payment Date and shall end on (but shall exclude) the first, or the next following, Interest Payment Date (each, an "**Interest Period**").

5. PAYMENT AND CALCULATION OF INTEREST

5.1 Payment of Interest

As set out in Clause 17.1 (*Payments to the Lender*), the Borrower shall, not later than 10.00 a.m. (New York City time) two Business Days prior to each Interest Payment Date, in respect of the relevant Interest Period, pay (a) to the Account accrued interest (calculated to the last day of the relevant Interest Period) on the outstanding principal amount of the Loan calculated in accordance with Clause 5.2 (*Calculation of Interest*); and (b) to the Profit Account additional interest calculated in accordance with Clause 5.3 (*Calculation of Additional Interest*).

5.2 Calculation of Interest

The Borrower will pay interest semi-annually in U.S. dollars to the Account on the outstanding principal amount of the Loan at the rate of 10.875 per cent. per annum (the "**Interest Rate**"). Interest shall accrue from day to day, starting from (and including) the Drawdown Date to (but excluding) the Repayment Date. The amount of interest payable in respect of the Loan for any Interest Period shall be calculated by applying the applicable Interest Rate to the outstanding principal amount of the Loan, dividing the product by two and rounding the resulting figure to the nearest cent (half a cent being rounded upwards). If interest is required to be calculated for any other period, it shall be calculated on the basis of a year of 360 days consisting of 12 months of 30 days each and, in the case of an incomplete month, the actual number of days elapsed.

5.3 Calculation of Additional Interest

The Borrower will pay additional interest semi-annually in U.S. dollars to the Profit Account on the outstanding principal amount of the Loan at the rate per annum of 0.0048 per cent. Additional interest shall accrue from day to day, starting from (and including) the Drawdown Date to (but excluding) the Repayment Date. The amount of additional interest payable in respect of the Loan for any Interest Period shall be calculated by applying 0.0048 per cent. to the outstanding principal amount of the Loan, dividing the product by two and rounding the resulting figure to the nearest cent (half a cent being rounded upwards). If additional interest is required to be calculated for any other period, it shall be calculated on the basis of a year of 360 days consisting of 12 months of 30 days each and, in the case of an incomplete month, the actual number of days elapsed.

5.4 Assumption when Calculating Interest

Whenever under this Agreement interest is to be calculated to the last day of an Interest Period and the calculation is required to be made before such last day, the parties shall assume that the amount of the Loan outstanding on the day of the calculation is also the amount of the Loan outstanding on the last day of the relevant Interest Period.

6. REPAYMENT AND PREPAYMENT

6.1 Repayment

As set out in Clause 17.1 (*Payments to the Lender*) but except as otherwise provided herein, the Borrower shall, not later than 10.00 a.m. (New York City time) two Business Days prior to the Repayment Date, repay in full the outstanding principal amount of the Loan and, to the extent not already paid in accordance with Clause 5.1 (*Payment of Interest*) pay all interest accrued in respect of the last Interest Period (calculated to the Repayment Date) to the Account.

6.2 Prepayment for Tax Reasons and Change in Circumstances

If, as a result of any amendments to or change in the Double Tax Treaty or the laws or regulations of Ukraine or the United Kingdom or of any political subdivision thereof or any authority therein having power to tax (the "**Taxing Jurisdiction**") or any change in the application thereof or the enforcement of the security provided for in the Trust Deed, the Borrower would thereby be required to increase the payment of principal or interest or any other payment due hereunder as provided in Clause 7.1 (*Additional Amounts*) or to pay additional amounts as provided in Clause 7.3 (*Tax Indemnity*), or, if (for whatever reason) the Borrower would have to or has been required to pay additional amounts pursuant to Clause 9 (*Changes in Circumstances*), and, in any such case, such obligation cannot be avoided by the Borrower taking reasonable measures available to it, then the Borrower may, upon not less than 30 days' prior written notice to the Lender (and, following the execution of the Loan Administration Assignment, the Trustee) to that effect, providing the documentary evidence specified in the next sentence in a form reasonably satisfactory to the Lender (and, following the execution of the Loan Administration Assignment, satisfactory to the Trustee without regard to the Lender) and specifying the date of prepayment, prepay the whole (but not part only) of the outstanding principal amount of the Loan, together with any amounts then payable under Clauses 7.1 (*Additional Amounts*) or 7.3 (*Tax Indemnity*) and accrued interest, and any other amounts outstanding hereunder. Prior to the delivery of any notice of prepayment pursuant to this Clause 6.2, the Borrower shall deliver to the Lender (and, following the execution of the Loan Administration Assignment, the Trustee) an Officers' Certificate stating that the Borrower would be required to so increase the amount payable or to pay additional amounts and such obligation cannot be avoided by the Borrower taking reasonable measures, supported by an opinion of an independent tax adviser of recognised standing in the relevant tax jurisdiction.

6.3 Prepayment upon Illegality

If, at any time after the date of this Agreement, it is or would be unlawful or contrary to any applicable law or regulation or regulatory requirement or directive of any agency or any state or otherwise for the Lender to allow all or part of the Loan or the Notes to remain outstanding or for the Lender to maintain or give effect to any of its obligations in connection with this Agreement and/or to charge or receive or to be paid interest at the rate applicable in relation to the Loan (an "**Illegality**"), then upon notice by the Lender to the Borrower, copied to the Trustee, in writing (setting out in reasonable detail the nature and extent of the relevant circumstances), the Borrower and the Lender shall, to the extent reasonably practicable in the circumstances and at the expense of the Borrower, consult in good faith as to a basis which eliminates the application of such Illegality; provided however, that the Lender shall be under no obligation to continue such consultation if, in the sole opinion of the Lender, it is not possible to eliminate the application of such Illegality. If such a basis has not been agreed, then the Borrower shall prepay the Loan in whole together with all accrued and unpaid interest and any other amounts outstanding hereunder on the date which is 90 days from the date of such notification or such earlier date as may be required by law.

6.4 Prepayment in the event of a Change of Control

Promptly, and in any event within 15 calendar days after the date of any Change of Control the Borrower shall deliver to the Lender and the Trustee a notice in the form of an Officers' Certificate:

6.4.1 stating that a Change of Control has occurred; and

6.4.2 specifying the Change of Control Payment Date, as the case may be, which date shall be a Business Day falling not less than 30 calendar days nor more than 60 calendar days after the date such notice is delivered.

As set out in Clause 17.1 (*Payments to the Lender*), the Borrower shall, no later than 10.00 a.m. (New York City time) two Business Days prior to the Change of Control Payment Date, prepay the Loan together with (i) all accrued and unpaid interest and (ii) any other amounts outstanding hereunder.

6.5 Notice of Prepayment/Repayment

Any notice of prepayment given by the Borrower pursuant to Clause 6.2 (*Prepayment for Tax Reasons and Change in Circumstances*) or Clause 6.4 (*Prepayment in the event of a Change of Control*) or by the Lender pursuant to Clause 6.3 (*Prepayment upon Illegality*) shall be irrevocable, shall specify the date upon which such prepayment is to be made and shall oblige the Borrower to make such prepayment or repayment on such date. No such notice pursuant to Clause 6.2 (*Prepayment for Tax Reasons and Change in Circumstances*) shall be given earlier than 90 calendar days prior to the earliest date on which the Borrower would be obliged to pay such amounts under Clause 7.1 (*Additional Amounts*) or Clause 7.3 (*Tax Indemnity*).

6.6 Prepayment on Acceleration of the Notes

If the Notes become due and payable before the Redemption Date (as defined in the Terms and Conditions of the Notes), the Borrower may prepay the outstanding principal amount of the Loan.

6.7 Costs of Prepayment/Repayment

As set out in Clause 17.1 (*Payments to the Lender*), the Borrower shall, not later than 10.00 a.m. (New York City time) two Business Days prior to the date of prepayment or repayment, pay all accrued interest (calculated to (but excluding) the date of such prepayment or repayment) on the principal amount to be repaid or prepaid and all other amounts owing to the Lender hereunder. The Borrower shall indemnify the Lender on demand against any costs and expenses reasonably incurred and properly documented by the Lender on account of any prepayment or repayment made in accordance with this Clause 6 (*Repayment and Prepayment*).

6.8 No Reborrowing

No amount prepaid or repaid under this Agreement may subsequently be reborrowed.

6.9 Reduction of Loan Upon Cancellation of Notes

The Borrower or any member of the Group may from time to time purchase Notes in the open market or by tender or by private agreement at any price. If such Notes are surrendered by the

Borrower or any member of the Group to the Lender, as issuer of the Notes, for cancellation (together with an authorisation addressed to the Registrar under the Agency Agreement to cancel such Notes), the Loan shall be deemed to have been prepaid in an amount corresponding to the aggregate principal amount of the Notes surrendered for cancellation, together with accrued interest and other amounts (if any) thereon, and no further payments shall be made or required to be made by the Borrower in respect of such amounts.

7. TAXES

7.1 Additional Amounts

All payments to be made by the Borrower hereunder shall be made in full without set off or counterclaim and free and clear of and without deduction or withholding for or on account of any present or future Taxes imposed or levied by or on behalf of any taxing authority of or in, or having authority to tax in, the United Kingdom or Ukraine or any country or state from or through which the Borrower makes payment hereunder in connection herewith ("**Relevant Taxes**"), unless such withholding or deduction of Relevant Taxes is required by law, in which case the Borrower shall, on the due date for such payment, increase the amounts payable as may be necessary to ensure that the Lender receives a net amount in U.S. dollars which (unless such Tax is in respect of United States Internal Revenue Code sections 1471-1474 (including any agreement with a governmental authority concluded thereunder)) , following any such deduction or withholding on account of Relevant Taxes, shall be equal to the full amount which it would have received had the payment not been made subject to Relevant Taxes so withheld or deducted and shall deliver to the Lender without undue delay, evidence satisfactory to the Lender of such deduction or withholding and of the accounting therefor to the relevant authority. If the Lender pays any amount in respect of such Relevant Taxes, the Borrower shall reimburse the Lender in U.S. dollars on demand an amount equal to such payment(s). If the Borrower becomes subject at any time to any taxing jurisdiction other than the United Kingdom or Ukraine, as the case may be, references in this Clause 7.1 to the United Kingdom and/or Ukraine shall be construed as references to the United Kingdom and/or Ukraine and/or such other jurisdiction.

7.2 Double Tax Treaty Relief; Deductions or Withholdings

The Borrower shall use reasonable and timely efforts to assist the Lender in ensuring that all payments of interest by the Borrower to the Lender under this Agreement may be made without deduction on account of the generally applicable withholding tax established by applicable Ukrainian legislation. The Lender shall use reasonable and timely efforts to assist the Borrower, to the extent reasonably practicable in the circumstances, to obtain relief from Ukrainian income tax pursuant to the Double Tax Treaty.

7.3 Tax Indemnity

Without prejudice to the provisions of Clause 7.1 (*Additional Amounts*), if the Lender notifies the Borrower that:

7.3.1 the Lender (as issuer of the Notes) is obligated to make any deduction or withholding for or on account of any Taxes from any payment which the Lender (as issuer of the Notes) is obliged to make under or in respect of the Notes, and the Lender (as issuer of the Notes) is required under the terms and conditions of the Notes to pay additional amounts to the holders of the Notes in connection therewith, the Borrower agrees to pay to the Lender, at least two Business Days prior to the date on which payment is due on the Notes (and otherwise in accordance with the terms of this Agreement), such additional amounts as are (net of any Tax) equal to the additional payments which the Lender would be required to make under the terms and conditions of the Notes in order that the net amount received by each holder of Notes is equal to the amount which such holder would have received had no such withholding or deduction been required to be made under or in respect of the Notes;

7.3.2 the Lender (as issuer of the Notes) is required to pay any Tax (other than UK corporation tax on its retained profit as defined for the purposes of the Taxation of Securitisation Companies Regulations 2006 (SI 2006/3296)) in relation to any payment received by it under this Agreement or any Funding Document, or if any liability in respect of any such payment is at any time asserted, imposed, levied or assessed against the Lender, the Borrower shall, as soon as reasonably practicable following, and in any event within 60 calendar days of, written demand made by the Lender, indemnify the Lender against such properly documented payment or liability, together with any interest, penalties, costs and expenses payable or incurred in connection therewith; and

7.3.3 the Lender (as issuer of the Notes) is obliged to make any withholding or deduction for or on account of any Taxes imposed by any taxing authority in the United Kingdom or Ukraine under or in respect of any Funding Document, the Borrower agrees to pay to the Lender, as soon as reasonably practicable following, and in any event within 60 calendar days of, a written demand made by the Lender, such additional amounts as are (net of any Tax) equal to the additional payments which the Lender would be required to make under the terms of such Funding Documents in order that the net amount received by each payee is equal to the amount which such payee would have received had no such withholding or deduction been required to be made under or in respect of the relevant Funding Document.

Provided, however, that the Lender shall upon the receipt of any reimbursement of the sums paid pursuant to Clause 7.3.1 or 7.3.3 (including, without limitation, in any case falling within Clause 7.3.1, in the event that the holders of the Notes are not entitled to such additional payments under the terms and conditions of the Notes and excluding any credit, relief, remission or repayment which is subject to Clause 7.5 (*Tax Credits and Tax Refunds*)) pay such amounts so reimbursed to the Borrower to the extent that the Lender determines in its absolute discretion (acting in good faith) that to do so will leave it (after the payment) in no better and no worse an after-Tax position than it would have been in had no such deduction or withholding been made or required to be made (it being understood that the Lender shall have no obligation to determine whether any holder of Notes or any payee is entitled to such additional amount).

For the avoidance of doubt, the provisions of this Clause 7.3 shall not apply to any withholding or deductions of Taxes with respect to the Loan which are subject to payment of additional amounts under Clause 7.1 (*Additional Amounts*).

7.4 Tax Claims

If the Lender intends to make a claim pursuant to Clause 7.3 (*Tax Indemnity*), it shall notify the Borrower thereof as soon as reasonably practicable after the Lender becomes aware of any obligation to make any such withholding or deduction or to pay any such Tax.

7.5 Tax Credits and Tax Refunds

7.5.1 If an additional amount is paid under Clause 7.1 (*Additional Amounts*) or 7.3 (*Tax Indemnity*) by the Borrower for the benefit of the Lender and the Lender determines in its absolute discretion (acting in good faith) that it has received or been granted and has used a credit against, a relief or remission for, or a repayment of, any Tax, then, if and to the extent that the Lender, in its absolute discretion (acting in good faith), determines that such credit, relief, remission or repayment is in respect of or calculated with reference to the deduction or withholding giving rise to such additional payment or, in the case of an additional payment made or indemnity payment pursuant to Clause 7.3 (*Tax Indemnity*), with reference to the liability, expense, cost or loss to which the payment giving rise to the additional payment or indemnity payment relates, the Lender shall, to the extent that it can do so without prejudice to the retention of the amount of such credit, relief, remission or repayment, pay to the Borrower such amount as the Lender shall, in its absolute discretion (acting in good faith), have concluded to be attributable to such deduction or withholding or, as the case may be, such liability, expense, cost or loss, provided that the Lender shall not be obliged to make any payment under this Clause 7.5 in respect of such credit, relief, remission or repayment until the Lender is, in its absolute discretion (acting in good faith), satisfied that its tax affairs for its tax year in respect of which such credit, relief, remission or repayment was obtained have been finally settled and provided that the Lender shall not be obliged to make any such payment if and to the extent that the Lender determines in its absolute discretion (acting in good faith) that to do so would leave it (after the payment) in no better and no worse an after-Tax position than it would have been in had the increased or additional or indemnified amount not been required under Clauses 7.1 (*Additional Amounts*) or 7.3 (*Tax Indemnity*). Any such payment shall, in the absence of manifest error and subject to the Lender specifying in writing in reasonable detail the calculation of such credit, relief, remission or repayment and of such payment and providing relevant supporting documents evidencing such matters, be conclusive evidence of the amount due to the Borrower hereunder and shall be accepted by the Borrower in full and final settlement of its rights of reimbursement hereunder in respect of such deduction or withholding.

7.5.2 If as a result of a failure to obtain relief from deduction or withholding of any Tax imposed by the Ukrainian tax authorities (a) such Tax is deducted or withheld by the Borrower and pursuant to Clause 7.1 (*Additional Amounts*) an increased amount is paid by the Borrower to the Lender in respect of such deduction or withholding, and (b) following the deduction or withholding of Tax as referred to above, the Borrower applies on behalf of the Lender to the relevant Ukrainian tax authorities for a tax refund and such tax refund is credited by the Ukrainian tax authorities to a bank account of the Lender, the Lender shall as soon as reasonably possible notify the Borrower of the receipt of such tax refund and promptly transfer an amount no greater than the tax refund to the extent that the Lender determines in its absolute discretion (acting in good faith) that to do so will leave it (after the payment) in no better and no worse an after-Tax position than it would have been in had no such withholding or deduction been made or required to be made to a bank account of the Borrower provided that such an account has been specified for that purpose by the Borrower.

7.5.3 Nothing contained in Clause 7.4 (*Tax Claims*) or this Clause 7.5 (*Tax Credits and Tax Refunds*) shall interfere with the right of the Lender to arrange its Tax affairs generally in whatever manner it thinks fit nor oblige the Lender to disclose confidential information or any information relating to its Tax affairs generally or any computations in respect thereof.

7.6 Tax Position of the Lender

The Lender represents that it (i) is a financial institution which at the date hereof is a resident of the United Kingdom for the purposes of the Double Tax Treaty and is liable to taxation in the United Kingdom on the basis of its registration as a legal entity, location of its management body or another similar criterion (rather than merely on income from sources in the United Kingdom or connected with property located in the United Kingdom), and that it has received, and will be able to receive certification to this effect from the United Kingdom tax authorities, (ii) does not have a permanent establishment in Ukraine; and (iii) does not have any current intentions to effect, during the term of the Loan, any corporate action or reorganisation or change of taxing jurisdiction that would result in the Lender ceasing to be a resident of the United Kingdom.

7.7 Delivery of Forms

The Lender shall use its reasonable endeavours to, within 30 days of the request of the Borrower (to the extent that the Lender is reasonably able to do so under applicable law), deliver to the Borrower, at the Borrower’s cost, a duly completed certificate issued by the competent taxing authority in the United Kingdom confirming that the Lender is a tax resident in the United Kingdom and (to the extent reasonably practicable) such other information or forms, including a power of attorney in form and substance acceptable to the Borrower authorising it to file the certificate on behalf of the Lender with the relevant tax authority, as may need to be duly completed and delivered by the Lender to enable the Borrower to apply to obtain relief from deduction or withholding of Ukrainian tax or, as the case may be, to apply to obtain a tax refund if a relief from deduction or withholding of Ukrainian tax has not been obtained on the basis of the relevant provisions of the Double Tax Treaty. The certificate shall (where required) be duly signed by the Lender and the Lender shall use its reasonable endeavours to procure the stamping or other approval thereof by the competent tax authority in the United Kingdom. If a relief from deduction or withholding of Ukrainian tax or a tax refund under this Clause 7.7 has not been obtained and further to an application of the Borrower to the relevant Ukrainian tax authorities the latter requests the Lender’s hryvnia bank account details, the Lender shall (subject to it determining that such action is not adverse to its interests, such determination to be made reasonably) at the request of the Borrower (i) use reasonable efforts to procure that such hryvnia bank account of the Lender is duly opened and maintained; and (ii) thereafter furnish the Borrower with the details of such hryvnia bank account. The Borrower shall pay for all costs associated, if any, with opening and maintaining such hryvnia bank account. Nothing contained in this Clause 7.7 shall interfere with the right of the Lender to arrange its affairs generally in whatever manner it thinks fit nor oblige the Lender to disclose confidential information or any information relating to its affairs generally.

8. TAX RECEIPTS

8.1 Notification of Requirement to Deduct Tax

If, at any time, the Borrower is required by law to make any deduction or withholding from any sum payable by it hereunder (or if thereafter there is any change in the rates at which or the manner in which such deductions or withholdings are calculated), the Borrower shall promptly notify the Lender.

8.2 Evidence of Payment of Tax

If the Borrower makes any payment hereunder in respect of which it is required to make any deduction or withholding, it shall pay the full amount required to be deducted or withheld to the relevant tax or other authority (subject to any right which the Borrower may have to contest such payment) within the time allowed for such payment under applicable law and shall deliver to the Lender, within 45 days after it has made such payment to the applicable authority, an original receipt (or a certified copy thereof) issued by such authority evidencing the payment to such authority of all amounts so required to be deducted or withheld in respect of such payment. The Borrower shall also provide an English translation of such receipts.

9. CHANGES IN CIRCUMSTANCES

9.1 Increased Costs

If, by reason of (i) any change in, repeal of or introduction of any Tax, law (including any statute, treaty, order, decree, ordinance or similar legislative or executive action), regulation, regulatory requirement or official directive (whether or not having the force of law but, if not having the force of law, the observance of which is in accordance with the generally accepted accounting or financial practice of financial institutions in the country concerned), letter, instruction, request, notice, guideline, policy or practice statement (whether or not having the force of law but, if not having the force of law, the observance of which is in accordance with the generally accepted accounting or financial practice of financial institutions in the country concerned) or in the decision or ruling on, or the interpretation or application thereof by any other person charged with the administration thereof or other competent authority in Ukraine or the United Kingdom, which, in each case, occurs on or after the date of this Agreement; and/or (ii) any compliance by the Lender in respect of the Loan with any request, policy or guideline (whether or not having the force of law but, if not having the force of law, the observance of which is in accordance with the generally accepted accounting or financial practice of financial institutions in the country concerned) from or of any central or other fiscal, monetary or other authority, agency or any official of any such authority:

9.1.1 the Lender incurs or will incur an additional or increased cost as a result of the Lender entering into or performing its obligations (including the obligation to advance the Loan) under this Agreement (excluding UK corporation tax on its retained profit as defined for the purposes of the Taxation of Securitisation Companies Regulations 2006 (SI 2006/3296)); or

9.1.2 the Lender becomes or will become liable to make any additional payment on account of Tax or otherwise (excluding UK corporation tax on its retained profit as defined for the purposes of the Taxation of Securitisation Companies Regulations 2006 (SI 2006/3296)) on or calculated by reference to the amount of the Loan and/or to any sum received or receivable by the Lender hereunder, or the rate of return from the Loan or the Lender's (or its Affiliate's) overall capital or the amount of principal, interest or other amount payable to or received by the Lender hereunder is reduced; or

9.1.3 the Lender makes any payment or foregoes any interest or other return on or calculated by reference to the gross amount of any sum receivable by it from the Borrower hereunder or makes any payment or forgoes any interest or other return on or calculated by reference to the gross amount of the Loan,

then, subject in each case to Clause 9.2 (*Increased Costs Claims*), upon demand by the Lender to the Borrower:

(a) (in the case of Clauses 9.1.1, 9.1.2 and 9.1.3) the Borrower shall on demand pay to the Lender such additional amount as shall be necessary to compensate the Lender for such increased costs, payment or foregone interest or other return; and

(b) (in the case of Clause 9.1.2) the Borrower shall, at the time the amount so reduced would otherwise have been payable, pay to the Lender such additional amount as shall be necessary to compensate the Lender for such reduction,

provided, however that in each case the amount of such increased cost, reduced amount or payment made or foregone shall be deemed not to exceed an amount equal to the proportion which is directly attributable to this Agreement.

9.2 **Increased Costs Claims**

If the Lender intends to make a claim pursuant to Clause 9.1 (*Increased Costs*), it shall promptly notify the Borrower thereof and provide (to the extent reasonably practicable) a description in writing in reasonable detail of the relevant reason (as described in Clause 9.1 (*Increased Costs*)) including a description of the relevant affected jurisdiction or country and the date on which the change in circumstances took effect. This written description shall (to the extent reasonably practicable) demonstrate the connection between the change in circumstance and the additional costs and shall be accompanied by relevant supporting documents evidencing the matters described therein.

9.3 **Mitigation**

If circumstances arise which would result in any payment being required to be made by the Borrower pursuant to Clauses 7.1 (*Additional Amounts*), 7.3 (*Tax Indemnity*) or 9 (*Changes in Circumstances*), then, without in any way limiting, reducing or otherwise qualifying the rights of the Lender or the Borrower's obligations under any of the above mentioned provisions, the Lender shall as soon as reasonably practicable upon becoming aware of the same notify the Borrower thereof and, in consultation with the Borrower and to the extent it can lawfully do so and without prejudice to its own position, take reasonable steps (at the Borrower's expense) to remove such circumstances or mitigate the effects of such circumstances including (without limitation) by the transfer of its rights or obligations under this Agreement to another financial institution, provided that the Lender shall be under no obligation to take any such action if it would breach any provisions of any Funding Document.

10. REPRESENTATIONS AND WARRANTIES OF THE BORROWER

The Borrower makes the representations and warranties set out in Clause 10.1 (*Status*) to Clause 10.14 (*Compliance with Laws*) (inclusive) and acknowledges that the Lender has entered into this Agreement in reliance on those representations and warranties.

10.1 **Status**

It and each of its Material Subsidiaries is validly existing under Ukrainian law, is not in liquidation, temporary administration or bankruptcy, has full power and authority to own, lease and operate its properties and conduct its business as currently conducted, and that the Borrower is able lawfully to execute and perform its obligations under this Agreement.

10.2 **Governmental Approvals**

All actions or things required to be taken, fulfilled or done by the laws and regulations of Ukraine (including without limitation, authorisation, order, licence or qualification of or with any court or governmental agency), and all registrations, filings or notarisations required by the laws and regulations of Ukraine in order to ensure:

10.2.1 that the Borrower and each of its Subsidiaries is able to own its assets and carry on its business as currently conducted and, if not, the absence of which could not reasonably be expected to have a material adverse effect on the Borrower's ability to perform its obligations under this Agreement; and

10.2.2 the due execution, delivery, validity and performance by the Borrower of this Agreement, have been obtained, fulfilled or done and are in full force and effect (other than the registration of this Agreement with the NBU as referred to in Clause 25 (*NBU Registration Requirements*).

10.3 **Pari passu Obligations**

Under the laws of Ukraine in force at the date of this Agreement, the claims of the Lender against the Borrower under this Agreement will rank at least *pari passu* in right of payment with the claims of all its other unsecured and unsubordinated creditors save those whose claims are preferred by any bankruptcy, insolvency, liquidation, moratorium or similar laws of general application.

10.4 **No Deduction**

Without prejudice to the provisions of Clause 7.1 (*Additional Amounts*), under the laws of Ukraine in force at the relevant date, in accordance with the terms of the Double Tax Treaty and subject to the satisfaction by the Lender of certain conditions set forth therein, in particular as provided in Clause 7.6 (*Tax Position of the Lender*), and of certain requirements of applicable Ukrainian legislation, in particular as provided in Clause 7.7 (*Delivery of Forms*), payments of principal and/or interest by the Borrower to the Lender under this Agreement may be made without deduction or withholding for or on account of Tax imposed, levied, collected, withheld or assessed by or on behalf of Ukraine or any political subdivision or authority thereof or therein having power to tax.

10.5 **Governing Law**

Under the laws of Ukraine in force at the date of this Agreement, in any proceedings taken in Ukraine in relation to this Agreement, the choice of English law as the governing law of this Agreement and any arbitral award with respect to this Agreement obtained in the United Kingdom will be recognised and enforced in Ukraine after compliance with the applicable procedural rules in Ukraine.

10.6 **Validity and Admissibility in Evidence**

All acts, conditions and things required to be done, fulfilled and performed (other than by the Lender) to make this Agreement admissible in evidence in Ukraine (whether in arbitration proceedings or otherwise) have been done, fulfilled and performed (other than the registration of this Agreement with the NBU as referred to in Clause 25 (*NBU Registration Requirements*).

10.7 **Valid and Binding Obligations**

The obligations expressed to be assumed by the Borrower in this Agreement are legal, valid and binding and, subject to applicable bankruptcy, insolvency, moratorium and similar laws affecting creditors' rights generally and to general principles of equity, enforceable against it in accordance with their terms.

10.8 **No Stamp Taxes**

Under the laws of Ukraine in force at the date of this Agreement, the execution and delivery of this Agreement is not subject to any Taxes in Ukraine (including, without limitation, any registration or transfer tax, stamp duty or similar levy).

10.9 **No Default**

No event has occurred or circumstance has arisen which would constitute an Event of Default or Potential Event of Default.

10.10 **No Material Proceedings**

There are no lawsuits, litigation or other legal or administrative or arbitration proceedings current or pending or, to the best of the knowledge and belief of the Borrower, threatened before any court, tribunal, arbitration panel or Agency which might (a) prohibit the execution and delivery of this Agreement or the Borrower's compliance with its obligations hereunder or (b) adversely affect the right and power of the Borrower to enter into this Agreement; or (c) have a material adverse effect on the business, financial condition or prospects of the Borrower or on the Borrower's ability to perform or comply with its obligations under this Agreement.

10.11 **No Material Adverse Change**

Since 31 December 2011 there has been no material adverse change or any development involving a prospective material adverse change in the financial condition, business prospects, properties, shareholders' equity or results of operations of the Group.

10.12 **No Undisclosed Material Assets or Liabilities**

Neither the Borrower nor any other member of the Group had, as at the date as of which the audit report of the Auditors on the financial statements of the Borrower for the year ended 31 December 2011 was prepared, any material assets or liabilities (contingent or otherwise) which were not disclosed (including in the notes thereto) or adequately reserved against in accordance with IFRS, nor were there at that date any unrealised or anticipated losses of the Borrower or the Group arising from commitments entered into by it which were not so disclosed or reserved against.

10.13 **Execution of Agreement**

Its execution and delivery of this Agreement and its exercise of its rights and performance of its obligations hereunder do not and will not:

10.13.1 conflict with or result in a breach of any of the terms of, or constitute a default under, any instrument, agreement or order to which the Borrower or any of its Material Subsidiaries is a party or by which it or its properties is bound;

10.13.2 conflict with the provisions of the constitutional documents of the Borrower or any resolution of its shareholders; or

10.13.3 give rise to any Event of Default or Potential Event of Default or moratorium in respect of any of the obligations of the Borrower or any of its Material Subsidiaries or the creation of any lien, encumbrance or other security interest (howsoever described) in respect of any of the assets of the Borrower or any of its Material Subsidiaries, which, in any case, could reasonably be expected to have a material adverse effect on the Borrower's ability to perform its obligations under this Agreement.

10.14 Compliance with Laws

Neither the entry into nor the performance by the Borrower of its obligations under this Agreement will violate any laws or regulations of Ukraine or any directives of governmental authorities therein having the force of law, and (a) the Borrower is in compliance in all material respects with all applicable provisions of the law and regulations of Ukraine; and (b) no Material Subsidiary is in violation of any applicable provision of the laws and regulations of Ukraine, except for such violations which would not have a material adverse effect on the Borrower's ability to perform its obligations under this Agreement.

10.15 Repetition

Each of the representations and warranties contained in Clause 10 (*Representations and Warranties of the Borrower*) shall be deemed to be repeated by the Borrower on the Drawdown Date.

11. REPRESENTATIONS AND WARRANTIES OF THE LENDER

The Lender makes the representations and warranties set out in Clause 7.6 (*Tax Position of the Lender*) and this Clause 11 and acknowledges that the Borrower has entered into this Agreement in reliance on those representations and warranties.

11.1 Status and Capacity

The Lender is duly incorporated under the laws of the United Kingdom and has full power and capacity to execute this Agreement, the Trust Deed, the Agency Agreement and the Subscription Agreement and to undertake and perform the obligations expressed to be assumed by it herein and therein.

11.2 Execution of Agreement

The execution of this Agreement, the Trust Deed, the Agency Agreement and the Subscription Agreement and the undertaking and performance by the Lender of the obligations expressed to be assumed by it herein and therein will not conflict with, or result in a breach of or default under, the laws of England or any agreement or instrument to which it is a party or by which it is bound or in respect of indebtedness in relation to which it is a surety.

11.3 Valid and Binding Obligations

This Agreement, the Trust Deed, the Agency Agreement and the Subscription Agreement, constitute legal, valid and binding obligations of the Lender enforceable in accordance with their terms, subject to applicable bankruptcy, insolvency, liquidation, administration, moratorium, reorganisation and similar laws affecting creditors' rights generally, and subject, as to enforceability, to general principles of equity.

11.4 Consents and Approvals

All authorisations, consents, approvals and actions required by the Lender for or in connection with the execution of this Agreement, the Trust Deed, the Agency Agreement and the Subscription Agreement and the performance by the Lender of the obligations expressed to be undertaken by it herein and therein have been obtained and are in full force and effect.

12. INFORMATION

The Borrower shall supply or procure to be supplied to the Lender (in sufficient copies as may reasonably be required by the Lender) (and, following the execution of the Loan Administration Assignment, as may be required by the Trustee) all such information as the Stock Exchange (or any other or further stock exchange or stock exchanges or any other relevant authority or authorities on which the Notes may, from time to time, be listed or admitted to trading) may require in connection with the listing or admittance to trading of the Notes.

13. COVENANTS

The covenants in this Clause 13 remain in force from the date of this Agreement for so long as the Loan or any part of it is or may be outstanding.

13.1 Maintenance of Legal Validity

Save as provided in the proviso to the next sentence, the Borrower shall obtain, comply with the terms of and do all that is necessary to maintain in full force and effect all authorisations, approvals, licences and consents and make or cause to be made all registrations, recordings and filings required in or by the laws and regulations of Ukraine to enable it lawfully to enter into and perform its obligations under this Agreement and to ensure the legality, validity, enforceability or admissibility in evidence in Ukraine of this Agreement. The Borrower shall promptly pay all amounts payable in respect of fees, expenses and payments under indemnities as required by this Agreement ("**Relevant Payments**"), provided that, in the event that the Borrower is prevented from paying such amounts by virtue of any requirement of applicable law, of the NBU or of any other relevant authority, the Borrower undertakes that it will use its best efforts to promptly obtain and maintain in full force any necessary licences or other authorisation to enable it to make the Relevant Payments and shall, as soon as practicable thereafter, make all Relevant Payments under this Agreement.

13.2 Notification of Default

The Borrower shall promptly inform the Lender (and, following the Loan Administration Assignment, the Trustee) of the occurrence of any Event of Default or Potential Event of Default and, upon receipt of a written request to that effect from the Lender (or, following the Loan Administration Assignment, the Trustee), confirm to the Lender or, as the case may be, the Trustee that, save as previously notified to the Lender or as notified in such confirmation, no Event of Default or Potential Event of Default has occurred.

13.3 Claims Pari passu

The Borrower shall ensure that at all times the claims of the Lender against it under this Agreement rank at least *pari passu* with the claims of all other unsecured and unsubordinated creditors of the Borrower, save for those claims that are preferred by any bankruptcy, insolvency, liquidation or similar laws of general application.

13.4 Negative Pledge

The Borrower shall not and shall not permit any of its Material Subsidiaries to, directly or indirectly, create, incur or suffer to exist any Lien, other than any Permitted Lien, on any of its/their assets, now owned or hereafter acquired, securing any Relevant Indebtedness, unless the Loan is secured equally and rateably with such other Relevant Indebtedness.

13.5 Mergers

The Borrower shall not, and shall ensure that none of its Material Subsidiaries will, without the prior written consent of the Lender (and, following the Loan Administration Assignment, the Trustee), enter into any reorganisation (whether by way of a consolidation, merger, split-up, spin-off, accession, division, separation or transformation, as these terms are construed by applicable Ukrainian legislation), or participate in any other type of corporate reconstruction, if any such reorganisation or other type of corporate reconstruction would have (i) a material adverse effect on the business, financial condition or prospects of the Borrower or the Borrower's ability to perform or comply with its obligations under this Agreement; or (ii) a Negative Ratings Event.

13.6 Disposals

The Borrower shall not, and shall ensure that none of its Material Subsidiaries will, sell, lease, transfer or otherwise dispose of, to a Person other than the Borrower or a Subsidiary of the Borrower, as the case may be, by one or more transactions or series of transactions (whether related or not), the whole or any part of its revenues or its assets which together constitute more than 20 per cent. of the gross revenues or assets of the Group, unless such transaction(s) is/are (a) on an arm's-length basis and on commercially reasonable terms; and (b) has/have been approved by a resolution of the appropriate decision making body of the Borrower resolving that the transaction complies with the requirements of this Clause 13.6 (*Disposals*). The restrictions set forth in this Clause 13.6 shall not apply to any sale by the Borrower of its loan assets in any securitisation, asset-backed financing or similar financing transaction, provided that the aggregate value of the assets which are the subject of all such securitisations, asset-backed financing or similar financing transactions does not at any time exceed 35 per cent. of the Borrower's total assets, as determined at any such time by reference to the most recent quarterly balance sheet of the Borrower prepared in accordance with IFRS.

13.7 Transactions with Affiliates

The Borrower shall not, and shall ensure that none of its Subsidiaries, directly or indirectly, will, conduct any business, enter into or permit to exist any transaction or series of related transactions (including the purchase, sale, transfer, assignment, lease, conveyance or exchange of any property or the rendering of any service) with, or for the benefit of, any Affiliate (an "**Affiliate Transaction**") including intercompany loans unless the terms of such Affiliate Transaction are no less favourable to the Borrower or such Subsidiary, as the case may be, than those that could be obtained in a comparable arm's-length transaction with a Person that is not an Affiliate of the Borrower or any of its Subsidiaries.

This Clause 13.7 shall not apply to (i) any Affiliate Transaction made pursuant to a contract existing on the Loan Date (excluding any amendments or modifications thereof made after the Loan Date); or (ii) transactions between or among all or any of the Borrower and/or its Subsidiaries.

13.8 Payment of Taxes

The Borrower shall, and shall ensure that its Subsidiaries will, pay or discharge or cause to be paid or discharged, before the same shall become overdue, all Taxes, assessments and governmental charges levied or imposed upon, or upon the income, profits or property of the

Borrower and its Subsidiaries; provided, however that none of the Borrower nor any Subsidiary shall be required to pay or discharge or cause to be paid or discharged any such Tax, assessment or charge (a) whose amount, applicability or validity is being contested in good faith by appropriate proceedings and for which adequate reserves in accordance with IFRS or other appropriate provision has been made; or (b) whose amount, together with any other unpaid or undischarged Taxes, assessments and governmental charges does not in the aggregate exceed U.S.$5,000,000 (or its equivalent in other currencies).

13.9 Withholding Tax Exemption

The Borrower shall give to the Lender all assistance it requires to ensure that, upon the Borrower's request and at the beginning of each calendar year, the Lender can provide the Borrower with the documents required under Ukrainian law for the relief of the Lender from Ukrainian withholding tax.

13.10 Financial Information

So long as the Loan (or any part thereof) remains outstanding hereunder, the Borrower shall deliver to the Lender (and, following the execution of the Loan Administration Assignment, the Trustee):

13.10.1 not later than seven months after the end of each of its financial years, copies of the Borrower's audited consolidated financial statements for such financial year, prepared in accordance with IFRS;

13.10.2 not later than 75 days after the end of the second quarter of each of its financial years, copies of the Borrower's unaudited consolidated financial statements for six months, prepared in accordance with IFRS; and

13.10.3 without undue delay, such additional information regarding the financial position or the business of the Borrower as the Lender (and, following the execution of the Loan Administration Assignment, the Trustee) may reasonably request including for the purposes of providing certification to the Trustee pursuant to the Trust Deed.

13.11 Maintenance of Capital Adequacy

The Borrower shall not, and shall ensure that each Subsidiary which carries on a Banking Business shall not, permit its total capital ratio to fall below the minimum total capital adequacy ratio required by the NBU and, in the case of a Subsidiary which carries on a Banking Business outside Ukraine, the relevant banking authority responsible for setting and/or supervising capital adequacy for financial institutions in the relevant jurisdiction in which such Subsidiary carries on its Banking Business.

13.12 Restricted Payments

13.12.1 Subject to Clause 13.12.2 the Borrower shall not, and shall not permit any of its Subsidiaries to, directly or indirectly:

(i) declare or pay dividends, in cash or otherwise, or make any other distributions (whether by way of redemption, acquisition or otherwise) in respect of its share capital; or

(ii) voluntarily purchase, redeem or otherwise retire for value any Capital Stock or subordinated debt, any such action being referred to herein as a "**Restricted Payment**".

13.12.2 The Borrower and any of its Subsidiaries may make a Restricted Payment if at the time of such payment no Event of Default has occurred or would result therefrom.

13.13 Limitation on Restrictions on Distributions from Material Subsidiaries

The Borrower shall not other than pursuant to Clause 13.12 (*Restricted Payments*) above, permit any of its Material Subsidiaries to, create or otherwise cause or permit to exist or become effective any consensual encumbrance or consensual restriction on the ability of any Material Subsidiary to pay dividends or make any other distributions on its share capital; make any loans or advances or pay any Indebtedness owed to the Borrower; or transfer any of its property or assets to the Borrower, other than encumbrances or restrictions existing under (i) applicable law; (ii) the Notes and/or the Trust Deed and (iii) any other agreement in effect prior to the date of the Agreement and advised in writing to the Lender (or, following the execution of the Loan Administration Assignment, the Trustee).

13.14 Compliance Certificates

On each Interest Payment Date, the Borrower shall deliver to the Lender (and, following the execution of the Loan Administration Assignment, the Trustee), written notice in the form of an Officers' Certificate stating whether any Event of Default or Potential Event of Default has occurred and, if it has occurred and shall be continuing, what action the Borrower is taking or proposes to take with respect thereto.

13.15 Status, Verification

Neither the Lender nor the Trustee shall be under any obligation to verify the authenticity of any Officers' Certificate or any other certificate received by it or to approve the selection of any Auditors or Rating Agency or be responsible for determining the existence of any Potential Event of Default or any Event of Default. The Lender and the Trustee shall each be at liberty to accept any aforementioned Officers' Certificate as sufficient evidence of any fact or matter stated in any such Officers' Certificate and neither the Lender nor the Trustee shall be bound to call for further evidence or be responsible for any loss that may be occasioned by acting on such Officers' Certificate.

14. EVENTS OF DEFAULT

Each of Clause 14.1 (*Failure to Pay*) to Clause 14.10 (*Judgments*) describes circumstances which constitute an Event of Default for the purposes of this Agreement. If one or more Event of Default shall occur, the Lender (or, following the Loan Administration Assignment, the Trustee without regard to the Lender) shall be entitled to the remedies set forth in Clause 14.11 (*Acceleration*).

14.1 Failure to Pay

The Borrower fails to pay any sum due from it hereunder at the time, in the currency and in the manner specified herein, and such failure is not remedied within five Business Days of the due date for payment.

14.2 Obligations

The Borrower defaults in the performance of any of its other obligations under this Agreement and such default is not remedied within 15 days after the Lender (or, following the

Loan Administration Assignment, the Trustee) has given notice of it to the Borrower requiring the same to be remedied.

14.3 **Cross Default**

Any Indebtedness of the Borrower or any of its Subsidiaries becomes due and payable prior to the stated maturity thereof (other than at the option of the debtor) following a default of the Borrower or any of its Subsidiaries, or the Borrower or any of its Subsidiaries shall fail to make any payment in respect of any Indebtedness of the Borrower or any of its Subsidiaries on the date on which such payment is due and payable provided that the aggregate amount of the relevant Indebtedness in respect of which one or more of the events mentioned in this Clause 14.3 shall have occurred equals or exceeds U.S.$20,000,000 (or its equivalent in any other currency or currencies).

14.4 **Validity and Illegality**

(a) The validity of this Agreement is contested by the Borrower or the Borrower shall deny any of its obligations under this Agreement; or (b) (save as provided in Clause 13.1 (*Maintenance of Legal Validity*)) it is, or will become, unlawful for the Borrower to perform or comply with any of its obligations under or in respect of this Agreement; or (c) any of such obligations shall become unenforceable or cease to be legal, valid and binding in a manner which has a material adverse effect on the rights or claims of the Lender under this Agreement.

14.5 **Authorisations**

Any regulation, decree, consent, approval, licence or other authority necessary to enable the Borrower to enter into or (save as provided in Clause 13.1 (*Maintenance of Legal Validity*)) perform its obligations under this Agreement or for the validity or enforceability thereof shall expire or be withheld, revoked or terminated or otherwise cease to remain in full force and effect or shall be modified in a manner which adversely affects any rights or claims of the Lender.

14.6 **Insolvency, etc.**

(i) The Borrower or any of its Material Subsidiaries becomes insolvent or is unable to pay its debts as they fall due; (ii) an administrator or liquidator of the Borrower or any of its Material Subsidiaries or the whole or a substantial part of the undertaking and assets of the Borrower or any of its Material Subsidiaries is appointed (or application for any such appointment is made); (iii) the Borrower or any of its Material Subsidiaries makes a general assignment of a general arrangement or general composition with or for the benefit of its creditors or declares a moratorium in respect of any of its Indebtedness; (iv) the Borrower ceases or threatens to cease to carry on all or any substantial part of the principal business that it carried on as at the date hereof; or (v) the general banking licence of the Borrower or, if applicable, any of its Material Subsidiaries is revoked.

14.7 **Winding up, etc.**

An order is made or an effective resolution is passed for the winding up, liquidation or dissolution of the Borrower or any of its Material Subsidiaries (otherwise than, in the case of a Material Subsidiary of the Borrower, for the purposes of or pursuant to an amalgamation, reorganisation of restructuring whilst solvent).

14.8 Analogous Events

Any event occurs which under the laws of any relevant jurisdiction has an analogous effect to any of the events referred to in Clauses 14.6 (*Insolvency, etc.*) and 14.7 (*Winding up, etc.*).

14.9 Government Intervention

(i) All or a substantial part of the undertaking and assets or the Borrower or any of its Material Subsidiaries is condemned, seized or otherwise appropriated by any person acting under the authority of any Agency, national, regional or local government; or (ii) the Borrower or any of its Material Subsidiaries is prevented by any such person from exercising normal control over all or a substantial part of its undertaking and assets.

14.10 Judgments

The aggregate amount of unsatisfied judgments, decrees or orders of courts or other appropriate law enforcement bodies for the payment of money against the Borrower and/or any Material Subsidiaries of the Borrower exceeds U.S.$20,000,000 or the equivalent thereof in any other currency or currencies and there is a period of 60 days (or, if longer, the period therein specified for payment or on which such judgment, decree or order otherwise becomes enforceable) following the entry thereof during which all such judgments, decrees or orders are not discharged, waived or the execution thereof stayed and such default continues for five days.

14.11 Acceleration

If an Event of Default has occurred and is continuing, the Lender (and, following the Loan Administration Assignment, the Trustee and not the Lender) may by written notice to the Borrower declare the outstanding principal amount of the Loan to be immediately due and payable (whereupon the same shall become immediately due and payable together with accrued interest thereon and any other sums then owed by the Borrower hereunder) or declare the outstanding principal amount of the Loan to be due and payable on demand of the Lender (and, following the Loan Administration Assignment, the Trustee and not the Lender).

14.12 Amounts Due on Demand

If, pursuant to Clause 14.11 (*Acceleration*), the Lender (and, following the Loan Administration Assignment, the Trustee and not the Lender) declares the outstanding principal amount of the Advance to be due and payable on demand of the Lender (and, following the Loan Administration Assignment, the Trustee and not the Lender), then, and at any time thereafter, the Lender (and, following the Loan Administration Transfer, the Trustee and not the Lender) may by written notice to the Borrower require repayment of the outstanding principal amount of the Loan on such date as it may specify in such notice (whereupon the same shall become due and payable on such date together with accrued interest thereon and any other sums then owed by the Borrower hereunder) or withdraw its declaration with effect from such date as it may specify in such notice.

15. ACCRUAL OF INTEREST AND INDEMNITY

15.1 Borrower's Indemnity

The Borrower undertakes to the Lender that if the Lender, any of its Affiliates, or any director, officer, employee or agent of the Lender or any such Affiliate or the Trustee (each an "**indemnified party**") incurs any loss, liability, cost, claim, charge, expense (including without limitation, (i) any amount payable by the Lender under the Trust Deed and/or Agency Agreement, where such amount is subject to receipt by the Lender of the relevant amount from the Borrower; (ii) Taxes including, for the avoidance of doubt, and without limitation, any applicable stamp duties, stamp duty reserve tax or other duties payable, legal fees and expenses and demand or damage together with in each case any VAT (in accordance with Clause 18.4 (*VAT*)) thereon; and (iii) interest on late payment (where the Lender is required to pay interest as a result of a payment being made by the Lender after the due date for payment), and in respect of such loss an indemnified party shall exercise reasonable endeavours to provide any relevant documentation to the Borrower) (a "**Loss**") as a result of or in connection with any Event of Default or Potential Event of Default, the Loan, this Agreement (or enforcement thereof), or the issue, constitution, sale, listing or enforcement of the Notes or the Notes being outstanding or any combination of any of the foregoing or (in the case of interest on late payment) as a result of any sum due and payable by the Borrower hereunder (other than any amount of interest) not being paid on the due date therefor in accordance with the provisions of Clause 17 (*Payments*), the Borrower shall pay to the Lender on demand an amount equal to such Loss and all costs, charges and expenses which it or any indemnified party may pay or incur in connection with investigating, disputing or defending any such action or claim as such costs, charges and expenses are incurred, unless such loss was caused by such indemnified party's fraud, negligence, wilful default or wilful misconduct or arises out of a breach of the representations and warranties of the Lender under this Agreement or the Subscription Agreement. Except as expressly provided in the Trust Deed, the Lender shall not have any duty or obligation, whether as fiduciary or trustee, for any indemnified party or otherwise, to recover any such payment or to account to any other person for any amounts paid to it under this Clause 15.1.

15.2 Independent Obligation

Clause 15.1 (*Borrower's Indemnity*) constitutes a separate and independent obligation of the Borrower from its other obligations under or in connection with this Agreement or any other obligations of the Borrower in connection with the issue of the Notes by the Lender and shall not affect, or be construed to affect, any other provisions of this Agreement or any such other obligations.

15.3 Evidence of Loss

Subject as provided in Clause 17.4 (*Documents Evidencing Payment or Indemnification*), a certificate of the Lender (or the Trustee, as the case may be) setting forth the amount of the Loss, costs, charges and expenses described in Clause 15.1 (*Borrower's Indemnity*) and specifying the basis therefor and calculations thereof shall be conclusive evidence of the amount of such Loss, cost, charges and expenses.

15.4 Survival

The obligations of the Borrower pursuant to Clauses 7.1 (*Additional Amounts*), 17 (*Payments*) and 15.1 (*Borrower's Indemnity*) shall survive the execution and delivery of this Agreement, the drawdown of the Loan and the repayment of the Loan, in each case by the Borrower.

16. CURRENCY OF ACCOUNT AND PAYMENT

16.1 Currency of Account

The U.S. dollar is the currency of account and payment for each and every sum at any time due from the Borrower hereunder.

16.2 Currency Indemnity

If any sum due from the Borrower under this Agreement or any order or judgment given or made in relation hereto has to be converted from the currency (the "**first currency**") in which the same is payable hereunder or under such order or judgment into another currency (the "**second currency**") for the purpose of (a) making or filing a claim or proof against the Borrower; (b) obtaining an order or judgment in any court or other tribunal; or (c) enforcing any order or judgment given or made in relation hereto, the Borrower shall indemnify and hold harmless the Lender (and, following the execution of the Loan Administration Assignment, the Trustee) from and against any loss suffered or incurred as a result of any discrepancy between (i) the rate of exchange used for such purpose to convert the sum in question from the first currency into the second currency; and (ii) the rate or rates of exchange at which the Lender (and, following the execution of the Loan Administration Assignment, the Trustee) may in the ordinary course of business purchase the first currency with the second currency upon receipt of a sum paid to it in satisfaction, in whole or in part, of any such order, judgment, claim or proof.

17. PAYMENTS

17.1 Payments to the Lender

On each date on which this Agreement requires an amount denominated in U.S. dollars to be paid by the Borrower, the Borrower shall make the same available to the Lender by payment in U.S. dollars and in Same-Day Funds (or in such other funds as may for the time being be customary in London for the settlement in London of international banking transactions in U.S. dollars) not later than 10.00 a.m. (New York City time) two Business Days prior to the relevant Interest Payment Date, the Repayment Date or other such date to the Account other than amounts (i) payable under the Fees Letter; and (ii) payable in relation to Clause 15.1 (*Borrower's Indemnity*) which the Borrower shall pay to such account or accounts as the Lender and/or the Trustee shall notify to the Borrower from time to time; provided that, if at any time after the execution of the Loan Administration Assignment, the Trustee notifies the Borrower that a Relevant Event has occurred, the Borrower shall make all subsequent payments which would otherwise be made to the Account, to such other account as shall be notified by the Trustee to the Borrower. Without prejudice to its obligations under Clause 5.1 (*Payment of Interest*), the Borrower shall procure that, before 9.00 a.m. (New York City time) on the Banking Day before the due date of each payment made by it under this Clause 17.1, the bank effecting payment on its behalf confirms to the Lender or to such person as the Lender may direct by tested telex or authenticated SWIFT message the payment instructions relating to such payment. For these purposes, "**Banking Day**" means a day on which banks are open for general business in New York City and London.

17.2 Alternative Payment Arrangements

If, at any time, it shall become impracticable (by reason of any action of any governmental authority or any change of law, exchange control regulations or any similar event) for the Borrower to make any payments under this Agreement in the manner specified in Clause 17.1 (*Payments to the Lender*), then the Borrower may seek agreement with the Lender (or, after the delivery of any such notice, agree with the Trustee) on alternative arrangements for the payment to the Lender (or, as the case may be, the Trustee) of amounts due (prior to the delivery of any notice referred to in Clause 17.1 (*Payments to the Lender*)) under this Agreement provided that, in the absence of any such agreement with the Lender (or, as the case may be, the Trustee), the Borrower shall be obliged to make all payments due to the Lender in the manner specified above.

17.3 **No Set-off**

Save as expressly provided in this Agreement, all payments required to be made by the Borrower or the Lender hereunder shall be calculated without reference to any set-off or counterclaim and shall be made free and clear of and without any deduction for or on account of any set-off or counterclaim.

17.4 **Documents Evidencing Payment or Indemnification**

When a demand for payment or indemnification is made on the Borrower under Clause 6.7 (*Costs of Prepayment/Repayment*), Clause 16.2 (*Currency Indemnity*) or Clause 18 (*Costs and Expenses*), then, upon request by the Borrower, and to the extent necessary under Ukrainian legislation to enable the Borrower to make any such payment or indemnification, the Lender or the Trustee, as the case may be, shall (to the extent practicable) provide the Borrower with documents evidencing the amount to be paid or indemnified, together with a statement containing the calculation of such amount provided that nothing herein shall require the Lender to disclose any confidential information relating to the organisation of its or any other Person's affairs.

18. COSTS AND EXPENSES

18.1 **Transaction Expenses and Fees**

The Borrower agrees that it shall pay the fees and expenses of the Lender as specified in the Fees Letter.

18.2 **Preservation and Enforcement of Rights**

The Borrower shall, from time to time on demand of the Lender reimburse the Lender for all costs and expenses (including legal fees and expenses) together with any VAT thereon (in accordance with Clause 18.4 (*VAT*)) properly incurred in or in connection with the preservation and/or enforcement of any of its rights under this Agreement (except where the relevant claim is successfully defended by the Borrower).

18.3 **Stamp Taxes**

The Borrower shall pay all stamp, registration and other similar duties or taxes (including any interest or penalties thereon or in connection with) to which this Agreement or any judgment given against the Borrower in connection herewith is or at any time may be subject and shall, from time to time on demand of the Lender or the Trustee, indemnify the Lender and, as the case may be, the Trustee against any liabilities, losses, costs, expenses (including, without limitation, legal fees and any applicable VAT (in accordance with Clause 18.4 (*VAT*))) and claims, actions or demand resulting from any failure to pay or any delay in paying any such duty or tax.

18.4 **VAT**

18.4.1 All amounts expressed to be payable under this Agreement by the Borrower which (in whole or in part) constitute the consideration for any supply for VAT purposes are deemed to be exclusive of any VAT which is chargeable on that supply, and accordingly, if VAT is or becomes chargeable on any supply made by a person to the Borrower under this Agreement and such person is required to account to the relevant tax authority for the VAT, the Borrower must pay to such person (in addition to and at the same time as paying any other consideration for such supply) an amount equal to the amount of the VAT.

18.4.2 Where this Agreement requires the Borrower to reimburse or indemnify a person for any loss, liability, cost, claim, charge or expense, the Borrower shall reimburse or indemnify (as the case may be) such person for the full amount of such loss, liability, cost, claim, charge or expense, including such part thereof as represents VAT, save to the extent that such person reasonably determines that it is entitled to credit or repayment in respect of such VAT from the relevant tax authority.

18.4.3 Any reference in this Clause 18.4 to any party to this Agreement shall, at any time when such party is treated as a member of a group or unity (or fiscal unity) for VAT purposes, include (where appropriate and unless the context otherwise requires) a reference to the person who is treated at that time as making the supply, or (as appropriate) receiving the supply, under the grouping rules (provided for in Article 11 of Council Directive 2006/112/EC (or as implemented by the relevant member state of the European Union) or any other similar provision in any jurisdiction which is not a member state of the European Union) so that a reference to a party shall be construed as a reference to that party or the relevant group or unity (or fiscal unity) of which that party is a member for VAT purposes at the relevant time or the relevant representative member (or head) of that group or unity (or fiscal unity) at the relevant time (as the case may be).

18.4.4 In relation to any supply made by a person to the Borrower under this Agreement, if reasonably requested by such person, the Borrower must promptly provide the person with details of the Borrower's VAT registration and such other information as is reasonably requested in connection with such person's VAT reporting requirements in relation to such supply.

18.5 **Costs relating to Amendments and Waivers**

The Borrower shall, from time to time on demand of the Lender (and, as the case may be, the Trustee) (and without prejudice to the provisions of Clause 15.1 (*Borrower's Indemnity*) and Clause 18.2 (*Preservation and Enforcement of Rights*)) compensate the Lender (and, as the case may be, the Trustee) at such daily and/or hourly rates as the Lender (or, as the case may be, the Trustee) shall from time to time reasonably determine for all amounts payable by the Lender to the Trustee or the corporate services provider for the Lender for their time expended and for all costs and expenses (including telephone, fax, copying, travel and personnel costs) the Lender (or, as the case may be, the Trustee) may incur, in connection with the Lender (and, as the case may be, the Trustee) taking such action as it may consider appropriate in connection with:

18.5.1 any meeting of the holders of the Notes or the granting or proposed granting of any waiver or consent requested under this Agreement by the Borrower;

18.5.2 any actual, potential or suspected breach by the Borrower of any of its obligations under this Agreement;

18.5.3 the occurrence of any event which is an Event of Default or a Potential Event of Default; or

18.5.4 any amendment or proposed amendment to or the granting or proposed granting of any waiver, determination or consent under this Agreement or any Funding Document requested by the Borrower.

19. ASSIGNMENTS AND TRANSFERS

19.1 Binding Agreement

This Agreement shall be binding upon and enure to the benefit of each party hereto and its or any subsequent successors and assigns.

19.2 No Assignments and Transfers by the Borrower

The Borrower shall not be entitled to assign or transfer all or any of its rights, benefits and obligations hereunder.

19.3 Assignments by the Lender

Subject to the provisions of Clause 4 of the Trust Deed, the Lender may not assign or transfer, in whole or in part, any of its rights and benefits or obligations under this agreement except for (i) the charge by way of first fixed charge granted by the Lender in favour of the Trustee (as Trustee); (ii) the absolute assignment by way of security by the Lender to the Trustee of certain rights, interests and benefits under this Agreement, in each case, pursuant to Clause 4 of the Trust Deed and (iii) pursuant to a substitution under the Trust Deed.

20. CALCULATIONS AND EVIDENCE OF DEBT

20.1 Evidence of Debt

The Lender shall maintain in accordance with its usual practice accounts evidencing the amounts from time to time lent by and owing to it hereunder; in any legal action or proceeding arising out of or in connection with this Agreement, in the absence of manifest error and subject to the provision by the Lender to the Borrower of written information describing in reasonable detail the calculation or computation of such amounts together with the relevant supporting documents evidencing the matters described therein, the entries made in such accounts shall be conclusive evidence of the existence and amounts of the obligations of the Borrower therein recorded.

20.2 Change of Circumstance Certificates

A certificate signed by two Authorised Signatories of the Lender describing in reasonable detail (a) the amount by which a sum payable to it hereunder is to be increased under Clause 7.1 (*Additional Amounts*); or (b) the amount for the time being required to indemnify it against any such cost, payment or liability as is mentioned in Clause 7.3 (*Tax Indemnity*) or Clause 9.1 (*Increased Costs*) or Clause 15.1 (*Borrower's Indemnity*) shall, in the absence of manifest error, be conclusive evidence of the existence and amounts of the specified obligations of the Borrower in relation to the Lender.

21. REMEDIES AND WAIVERS, PARTIAL INVALIDITY

21.1 Remedies and Waivers

No failure by the Lender (and, following the execution of the Loan Administration Assignment, the Trustee) to exercise, nor any delay by the Lender or the Trustee in exercising, any right or remedy hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any right or remedy prevent any further or other exercise thereof or the exercise of any other right or remedy. The rights and remedies herein provided are cumulative and not exclusive of any rights or remedies provided by law.

21.2 Partial Invalidity

If, at any time, any provision hereof is or becomes illegal, invalid or unenforceable in any respect under the law of any jurisdiction, neither the legality, validity or enforceability of the remaining provisions hereof nor the legality, validity or enforceability of such provision under the law of any other jurisdiction shall in any way be affected or impaired thereby.

22. NOTICES; LANGUAGE

22.1 Written Notice

All notices, requests, demands or other communication to be made under this Agreement shall be in writing and, unless otherwise stated, shall be delivered by fax or post.

22.2 Giving of Notice

Any communication or document to be delivered by one person to another pursuant to this Agreement shall (unless that other person has by 15 days' written notice specified another address) be made or delivered to that other person, addressed as follows:

(a) If to the Borrower:

50, Naberezhna Peremohy
Dnipropetrovsk
Ukraine 49094
Attention: Mrs Lyudmila Shmalchenko
Deputy Chairperson of the Management Board, Head of Treasury
Tel: +380 567 161 507
Fax: +380 567 161 870

(b) If to the Lender:

Fifth Floor
6 St. Andrew Street
London EC4A 3AE
Attention: The Directors
Fax: +44 20 7832 4901

and shall be deemed to have been delivered at the time when confirmation of its transmission has been recorded by the sender's fax machine at the end of the communication (in the case of any communication by fax) or (in the case of any communication made by letter) upon receipt by the addressee (in each case, if given during normal business hours of the recipient, and, if not given during such hours, on the immediately succeeding business day in the city of the addressee during which such normal business hours next occur).

22.3 English Language

Each communication and document delivered by one party to another pursuant to this Agreement shall be in the English language or accompanied by a translation into English certified (by an officer of the person delivering the same) as being a true and accurate translation. In the event of any discrepancies between the English and Ukrainian versions of such communication or document, or any dispute regarding the interpretation of any provision in the English or Ukrainian versions of such communication or document, the English version of such communication or document shall prevail, unless the document is a statutory or other official document.

22.4 Language of Agreement

This Agreement has been executed in both the English language and the Ukrainian language. In the event of any discrepancies between the English and Ukrainian versions of this Agreement, or any dispute regarding the interpretation of any provision in the English or Ukrainian versions of this Agreement, the English version of this Agreement shall prevail and any question of interpretation shall be addressed solely in the English language.

23. LAW, JURISDICTION AND ARBITRATION

23.1 Governing Law

This Agreement and any non-contractual obligations arising out of or in connection with it shall be governed by, and construed in accordance with, English law.

23.2 Jurisdiction

The parties irrevocably agree that any dispute arising out of or connected with this Agreement, including a dispute as to the validity, existence or termination of this Agreement or the consequences of its nullity and/or this Clause 23.2 (a "**Dispute**"), shall be resolved by arbitration in London, England, conducted in the English language by three arbitrators, in accordance with the LCIA Rules, which rules are deemed to be incorporated by reference into this Clause, save that Article 6 shall not apply and Article 5.6 of the LCIA Rules shall be amended as follows: "unless the parties agree otherwise, the third arbitrator, who shall act as chairman of the tribunal, shall be nominated by the two arbitrators nominated by or on behalf of the parties. If he is not so nominated within 30 days of the date of nomination of the later of the two party-nominated arbitrators to be nominated, he shall be chosen by the LCIA". The parties agree to exclude the jurisdiction of the English courts under section 45 of the Arbitration Act 1996.

23.3 Service of Process

The Borrower agrees that the service of process relating to any proceedings commenced in the English courts in support of, or in connection with, an arbitration commenced in accordance with Clause 23.2 (*Jurisdiction*) may be by delivery to Law Debenture Corporate Services Limited at its registered office for the time being, currently at Fifth Floor, 100 Wood Street, London EC2V 7EX. If such person is not or ceases to be effectively appointed to accept service of process, the Borrower shall immediately appoint a further person in the United Kingdom to accept service of process on its behalf and, failing such appointment within 15 days, the Lender (and, following the execution of the Loan Administration Assignment, the Trustee) shall be entitled to appoint such a person by written notice to the Borrower. Nothing in this Clause shall affect the right of the Lender (and, following the execution of the Loan Administration Assignment, the Trustee) to serve process in any other manner permitted by law.

24. CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999

Other than the Trustee, a person who is not a party to this Agreement has no rights under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of this Agreement, but this does not affect any right or remedy of a third party which exists or is available apart from that Act.

25. NBU REGISTRATION REQUIREMENTS

25.1 Effectiveness Requirement

This Agreement shall become effective on the date of its registration with the NBU as confirmed by the loan registration notice of the Borrower and a registration notation of the NBU.

25.2 Maximum Interest Rate

Notwithstanding any other provisions hereof to the contrary, if and to the extent required by the mandatory provisions of the regulations of the NBU governing the registration of loan agreements between Ukrainian borrowers and foreign lenders (and only until such requirement is in effect), the aggregate amount of all payments payable by the Borrower under this Agreement for the use of the Loan (i.e., all payments made by the Borrower pursuant to this Agreement other than repayments of the principal amount of the Loan, including, but not limited to, interest payments, fees and indemnity payments) shall not exceed the amount calculated by reference to the maximum interest rate established by the NBU for foreign currency loans from non-residents and effective at the date of registration of this Agreement with the NBU provided, however, that the non-payment of any such amounts pursuant to this Clause 25.2 shall constitute a failure to pay under Clause 14.1 (*Failure to Pay*) if such failure is not remedied within five Business Days of the due date for payment.

25.3 Amendments and Supplements

If and to the extent required by the mandatory provisions of the regulations of the NBU governing the registration of loan agreements between Ukrainian borrowers and foreign lenders (and only until such requirement is in effect) and applicable at the time of making any amendment or supplement to this Agreement, such amendment or supplement shall become effective only upon registration thereof with the NBU.

AS WITNESS the hands of the duly authorised representatives of the parties hereto the day and year first before written.

TERMS AND CONDITIONS OF THE NOTES

The following (other than the text in italics) is the text of the Terms and Conditions of the Notes, which (subject to modification) will be endorsed on each Definitive Certificate (if issued) and, subject to the provisions thereof, apply to the Global Certificates.

The U.S.$175,000,000 10.875 per cent. Loan Participation Notes due 2018 (the "**Notes**", which expression shall in these Terms and Conditions, unless the context otherwise requires, include any further notes issued pursuant to Condition 14 (*Further Issues*) and consolidated and forming a single series with the then outstanding Notes) of UK SPV Credit Finance plc (the "**Issuer**") are constituted and secured by, and are subject to, and have the benefit of, a trust deed (such trust deed as modified and/or restated and/or supplemented from time to time, the "**Trust Deed**") dated 28 February 2013 between the Issuer and Deutsche Trustee Company Limited as trustee (the "**Trustee**", which expression shall include its successor(s)) for the holders of the Notes (the "**Noteholders**").

The Issuer has authorised the creation, issue and sale of the Notes for the sole purpose of financing a U.S.$175,000,000 Loan (the "**Loan**") to PUBLIC JOINT-STOCK COMPANY COMMERCIAL BANK "PRIVATBANK" (the "**Bank**"). The Issuer and the Bank have recorded the terms of the Loan in an agreement (such agreement as modified and/or restated and/or supplemented from time to time, the "**Loan Agreement**") dated 25 February 2013 between the Issuer and the Bank.

In each case where amounts of principal, interest and additional amounts (if any) are stated herein or in the Trust Deed to be payable in respect of the Notes, the obligation of the Issuer to make any such payment shall constitute an obligation only to account to the Noteholders on each date upon which such amounts of principal, interest and additional amounts (if any) are due in respect of the Notes, for an amount equivalent to sums of principal, interest and additional amounts (if any) actually received by or for the account of the Issuer pursuant to the Loan Agreement (less any amounts in respect of the Reserved Rights (as defined in Condition 3 (*Security*))). Noteholders must therefore rely solely and exclusively on the covenant to pay under the Loan Agreement and the credit and financial standing of the Bank. Noteholders shall have no recourse (direct or indirect) to any other assets of the Issuer. None of the Noteholders, the Trustee or the other creditors (nor any other person acting on behalf of any of them) shall be entitled at any time to institute against the Issuer, or join in any institution against the Issuer of, any bankruptcy, administration, moratorium, reorganisation, controlled management, arrangement, insolvency, winding-up or liquidation proceedings or similar insolvency proceedings under any applicable bankruptcy or similar law in connection with any obligation of the Issuer relating to the Notes or otherwise owed to the creditors or the Trustee for so long as the Notes are outstanding, save for lodging a claim in the liquidation of the Issuer which is initiated by another party or taking proceedings to obtain a declaration or judgment as to the obligations of the Issuer.

In certain circumstances, the Trustee can (subject to it being indemnified and/or secured and/or pre-funded to its satisfaction) be required by Noteholders holding at least one-quarter of the principal amount of the Notes outstanding (as defined in the Trust Deed) or by an Extraordinary Resolution (as defined in the Trust Deed) of the Noteholders to exercise certain of its powers under the Trust Deed (including any rights arising under the Loan Administration Assignment (as defined in the Trust Deed)). It may not be possible for the Trustee to take certain actions in relation to the Notes and, accordingly, in such circumstances the Trustee will be unable to take action, notwithstanding the provision of an indemnity to it, and it will be for the Noteholders to take action directly.

The statements in these terms and conditions (the "**Conditions**") include summaries of, and are subject to, the detailed provisions of, and definitions in, the Trust Deed. Copies of the Trust Deed and an agency agreement (such agreement as modified and/or restated and/or supplemented from time to time, the "**Agency Agreement**") dated 28 February 2013 between the Issuer, Deutsche Bank Trust Company Americas and Deutsche Bank Luxembourg S.A., as registrar (the "**Registrar**", which expression includes any successor registrar appointed from time to time in connection with the Notes), the transfer agents named therein (the "**Transfer Agents**", which expression includes any successor or additional transfer agents appointment from time to time in connection with the Notes), Deutsche Bank AG, London Branch, as principal paying agent (the "**Principal Paying Agent**" and any other paying agents named therein or appointed thereunder and, together with the Principal Paying Agent, the "**Paying Agents**", which expressions shall include any successors) and the Trustee are available for inspection and collection during normal business hours by Noteholders (as defined below) at the specified office for the time being of the Trustee, being at the date hereof at Winchester House, 1 Great Winchester Street, London EC2N 2DB, United Kingdom, and at the Specified Office (as defined in the Agency Agreement) of each Paying Agent. References herein to the "**Agents**" are to the Registrar, the Principal Paying Agent, the Transfer Agents and the Paying Agents and any reference to an "**Agent**" is to any one of them. The Noteholders are entitled to the benefit of, are bound by and are deemed to have notice of all the provisions of the Trust Deed and those applicable to them of the Agency Agreement. Terms defined in the Trust Deed (including the Schedules thereto) shall have the same meaning when used herein, except as otherwise provided.

1. FORM, DENOMINATION AND TITLE

1.1 Form and denomination

The Notes are issued in registered form, without interest coupons attached, in the denominations of U.S.$200,000 each and integral multiples of U.S.$1,000 in excess thereof. Notes may be held in holdings in the aggregate principal amount of U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof (each, an "**Authorised Holding**").

1.2 Register

The Registrar will maintain a register (the "**Register**") in respect of the Notes in accordance with the provisions of the Agency Agreement. In these Conditions, the "**holder**" or "**Holder**" of a Note means the person in whose name such Note is for the time being registered in the Register (or, in the case of a joint holding, the first named thereof) and "**Noteholder**" shall be construed accordingly. A certificate (each, a "**Definitive Certificate**") will be issued to each Noteholder in respect of its registered holding. Each Definitive Certificate will be serially numbered with an identifying number which will be recorded in the Register.

1.3 Title

The holder of each Note will (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any interest in it, any writing on it, or its theft or loss) and no person will be liable for so treating the holder.

2. STATUS, LIMITED RECOURSE AND TRANSFERS

2.1 Status

The Notes constitute secured, limited recourse obligations of the Issuer. Recourse in respect of the Notes is limited in the manner described in Condition 2.2 (*Limited Recourse*) below. The Notes are secured in the manner described in Condition 3 (*Security*) and shall at all times rank *pari passu* and without any preference amongst themselves.

2.2 Limited Recourse

The sole purpose of the issue of the Notes is to provide the funds for the Issuer to finance the Loan. In each case where amounts of principal, interest and additional amounts (if any) are stated in these Conditions or in the Trust Deed to be payable in respect of the Notes, the Issuer shall pay to the Noteholders on each date upon which such amounts of principal, interest and additional amounts (if any) are due in respect of the Notes an amount equivalent to sums of principal, interest or additional amounts (if any) actually received by or for the account of the Issuer pursuant to the Loan Agreement and (to the extent necessary to make good any shortfall) income or proceeds from Permitted Investments (as defined in the Trust Deed) less any amount in respect of the Reserved Rights (as defined in Condition 3 (*Security*) below) and any shortfall shall remain due and shall be payable on such later date as is provided for under these Conditions. If or to the extent that the aggregate amounts received by the Issuer pursuant to the Loan Agreement and in respect of Permitted Investments on or prior to the earlier of the Redemption Date, the date on which the Notes are redeemed pursuant to Condition 6 (*Redemption and Purchase*) or Condition 13 (*Enforcement*) or the date on which a Relevant Event has occurred less any amount in respect of the Reserved Rights (as defined in Condition 3 (*Security*)), together with any amounts recovered on realisation of the Security Interests (as defined in Condition 3 (*Security*)), are insufficient to pay or discharge amounts of principal, interest and additional amounts (if any) that are stated in these Conditions or in the Trust Deed to be payable in respect of the Notes in full for any reason, the Issuer will have no liability to pay or otherwise make good any such insufficiency. Without prejudice to the foregoing, if the Issuer receives any amount (a "**relevant amount**") under the Loan Agreement in a currency other than U.S. dollars, the Issuer shall make any corresponding payment under these Conditions or the Trust Deed by paying such sum as the Issuer receives having converted the relevant amount into U.S. dollars (after deducting any costs of exchange) at the rate or rates of exchange at which the Issuer may in the ordinary course of business purchase U.S. dollars with the currency so received.

Any payment in respect of the Notes equivalent to the sums actually received (and not required to be repaid pursuant to appropriate Ukrainian bankruptcy legislation) by or for the account of the Issuer by way of principal, interest or additional amounts (if any) pursuant to the Loan Agreement (less any amounts in respect of the Reserved Rights) will be made *pro rata* among all Noteholders (as the case may be), on or as soon as practicable after the date of the receipt of, and in the currency of, and subject to the conditions attaching to, the equivalent payment pursuant to the Loan Agreement. The Issuer shall not be liable to make any payment in respect of the Notes other than as expressly provided in these Conditions and in the Trust Deed. The Issuer shall not be under any obligation to exercise in favour of the Noteholders any rights of set-off or of banker's lien or to combine accounts or counterclaim that may arise out of other transactions between the Issuer and the Bank.

It is a condition of the Notes that:

2.2.1 neither the Issuer nor the Trustee makes any representation or warranty in respect of, and shall at no time have any responsibility for or liability or obligation in respect of, or, save as otherwise expressly provided in the Trust Deed or in Condition 2.2.6 below, the performance and observance by the Bank of its obligations under the Loan Agreement or the recoverability of any sum of principal or interest (or any additional amounts) due or to become due from the Bank under the Loan Agreement;

2.2.2 neither the Issuer nor the Trustee shall at any time have any responsibility for, or obligation or liability in respect of, the condition (financial, operational or otherwise), creditworthiness, affairs, status, nature or prospects of the Bank;

2.2.3 neither the Issuer nor the Trustee shall at any time be liable for any misrepresentation or breach of warranty or any act, default or omission of the Bank under, or in respect of, the Loan Agreement;

2.2.4 neither the Issuer nor the Trustee shall at any time have any responsibility for, or liability or obligation in respect of, the performance and observance by the Principal Paying Agent or any Agent of their respective obligations under the Agency Agreement;

2.2.5 the financial servicing and performance of the terms of the Notes depend solely and exclusively upon performance by the Bank of its obligations under the Loan Agreement, its covenant to pay under the Loan Agreement and its credit and financial standing. The Bank has represented and warranted to the Issuer in the Loan Agreement that the Loan Agreement constitutes legal, valid and binding obligations of the Bank. The representations and warranties given by the Bank in Clause 10 (*Representation and Warranties of the Borrower*) of the Loan Agreement are given by the Bank to the Issuer for the benefit of the Issuer and neither the Trustee nor any Noteholder shall have any remedies or rights against the Bank that the Issuer may have with respect to such representations or warranties, other than any right the Trustee may have pursuant to the Loan Administration Assignment (as defined in Condition 3 (*Security*) below);

2.2.6 the Issuer and, pursuant to the Loan Administration Assignment, the Trustee will and are entitled to rely on self-certification by the Bank and, where applicable, certification by third parties as a means of monitoring whether the Bank is complying with its obligations under the Loan Agreement and shall not otherwise be responsible for investigating any aspect of the Bank's performance in relation to the Loan Agreement and, subject as further provided in the Trust Deed, neither the Issuer nor the Trustee will be liable for any failure to make any investigation which might be made by a lender or a security holder in relation to the Loan or the property which is the subject of the Security Interests and held by way of security for the Notes, as applicable, and the Trustee shall not be bound to enquire into or be liable for any defect or failure in the right or title of the Issuer to the property which is the subject of the Security Interests whether such defect or failure was known to the Trustee or might have been discovered upon examination or enquiry and whether capable of remedy or not, nor will it have any liability for the enforceability of the security created by the Security Interests whether or not as a result of any failure, omission or defect in registering or filing or otherwise protecting or perfecting such security and the Trustee will have no responsibility for the value of such security;

2.2.7 if the Bank is required by law to make any withholding or deduction for or on account of certain taxes from any payment under the Loan Agreement or if the Issuer is required by law to make any withholding or deduction for or on account of any tax from any payment in respect of the Notes, the sole obligation of the Issuer will be to pay to the Noteholders sums equivalent to the sums actually received (net of any tax) from the Bank pursuant to the Loan Agreement in respect of such payment, including, if applicable, additional amounts in respect of the tax required to be so withheld or deducted; the Issuer shall not be obliged to take any actions or measures as regards such deductions or withholdings other than those set out in Clause 7 (*Taxes*) of the Loan Agreement; and

2.2.8 neither the Issuer nor the Trustee shall at any time be required to expend or risk their own funds or otherwise incur any financial liability in the performance of their obligations or duties or the exercise of any right, power, authority or discretion pursuant to these Conditions until they have received the funds from the Bank that are necessary (in its opinion) to cover the costs and expenses in connection with such performance or exercise.

Save as otherwise expressly provided in these Conditions and in the Trust Deed, no proprietary or other direct interest in the Issuer's rights under or in respect of the Loan Agreement or the Loan exists for the benefit of the Noteholders. Subject to the terms of the Trust Deed, no Noteholder will have any entitlement to enforce any of the provisions in the Loan Agreement or have direct recourse to the Bank except through action by the Trustee in respect of the Security Interests. Neither the Issuer nor the Trustee (as the case may be) shall be required to take steps, actions or proceedings to enforce payment under the Loan Agreement unless, subject to the more detailed provisions of the Trust Deed, it has been indemnified and/or secured and/or pre-funded to its satisfaction against all liabilities, claims and demands to which it may thereby become liable and all costs, charges and expenses which may be incurred by it in connection therewith.

Payments made by the Bank under the Loan Agreement to, or to the order of, the Trustee or (subject to the provisions of the Trust Deed) the Principal Paying Agent will satisfy *pro tanto* the obligations of the Issuer in respect of the Notes.

Notwithstanding any other provisions of these Conditions and the provisions in the Trust Deed, the Trustee and the Noteholders shall have recourse only to the property subject to the Security Interests in accordance with the provisions of the Trust Deed. After realisation of the Security Interests which have become enforceable, the obligations of the Issuer with respect to the Trustee and the Noteholders in respect of the Notes shall be satisfied and none of the foregoing parties may take any further steps against the Issuer to recover any further sums in respect thereof and the right to receive any such sums shall be extinguished. In particular, neither the Trustee nor any Noteholder shall petition or take any other step for the winding-up of the Issuer.

Noteholders are deemed to have accepted and agreed that they will be relying solely and exclusively on the performance of the Bank of its obligations under the Loan Agreement which depends on the credit and financial standing of the Bank in respect of the financial servicing of the Notes.

2.3 **Transfers**

Subject to Conditions 2.6 (*Closed periods*) and 2.7 (*Regulations concerning transfers and registration*) below, a Note may be transferred upon surrender of the relevant Definitive Certificate, with the endorsed form of transfer duly completed, at the Specified Office of the Registrar or any Transfer Agent, together with such evidence as the Registrar or (as the case may be) such Transfer Agent may reasonably require to prove the title of the transferor and the authority of the individuals who have executed the form of transfer; provided, however, that a Note may not be transferred unless the principal amount of Notes transferred and (where not all of the Notes held by a holder are being transferred) the principal amount of the balance of Notes not transferred are Authorised Holdings. Where not all the Notes represented by the surrendered Definitive Certificate are the subject of the transfer, a new Definitive Certificate in respect of the balance of the Notes will be issued to the transferor.

2.4 Registration and delivery of Definitive Certificates

Within five business days of the surrender of a Definitive Certificate in accordance with Condition 2.3 (*Transfers*) above, the Registrar will register the transfer in question and deliver a new Definitive Certificate of a like principal amount to the Notes transferred to each relevant holder for collection at its Specified Office or (as the case may be) the Specified Office of any Transfer Agent or (at the request and risk of any such relevant holder) by uninsured first class mail (airmail if overseas) to the address specified for the purpose by such relevant holder. In this paragraph, "**business day**" means a day on which commercial banks are open for business (including dealings in foreign currencies) in the city where the Registrar or (as the case may be) the relevant Transfer Agent has its Specified Office.

2.5 No charge

The transfer of a Note will be effected without charge by or on behalf of the Issuer, the Registrar or any Transfer Agent but against such indemnity as the Registrar or (as the case may be) such Transfer Agent may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such transfer.

2.6 Closed periods

Noteholders may not require transfers to be registered during the period of 15 days ending on the due date for any payment of principal or interest in respect of the Notes.

2.7 Regulations Concerning Transfers and Registration

All transfers of Notes and entries on the Register are subject to the detailed regulations concerning the transfer of Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer with the prior written approval of the Trustee and the Registrar. A copy of the current regulations will be mailed (free of charge) by the Registrar to any Noteholder who requests in writing a copy of such regulations.

3 SECURITY

The obligations of the Issuer under the Notes and all other moneys payable under the Trust Deed are secured by the following security (together referred to as the "**Charge**"):

(i) a charge by way of first fixed security in favour of the Trustee of all its rights to principal, interest and other amounts paid and payable by the Bank to the Issuer as lender in respect of the Loan under the Loan Agreement;

(ii) a charge by way of first fixed security in favour of the Trustee of the right to receive all sums which may be paid or be or become payable by the Bank under any claim, award or judgment relating to the Loan Agreement;

(iii) a charge by way of first fixed security in favour of the Trustee of all its rights, title and interest in and to all sums of money now or in the future deposited in an account in the name of the Issuer with the Principal Paying Agent, account number 0196713 0000 USD 001 CTA, MTAG 19671301 together with the debts represented thereby (other than interest from time to time earned thereon) (the "**Account**"); and

(iv) a charge by way of first fixed security in favour of the Trustee of all its rights, title and interest in Permitted Investments (as defined in the Trust Deed) if any, (other than Reserved Rights (as defined below)) (the "**Charged Property**").

"**Reserved Rights**" means the Issuer's right to amounts in respect of any rights, interests and benefits of the Issuer under the following clauses of the Loan Agreement: Clause 3.2 (*Payment of Fees*), Clause 5.3 (*Calculation of Additional Interest*), Clause 6.3 (*Prepayment upon Illegality*) and Clause 6.4 (*Prepayment in the event of a Change of Control*) (other than the right to receive any amounts payable under such Clauses 6.3 and 6.4), Clause 6.7 (*Costs of Prepayment/Repayment)* (second sentence thereof), Clause 7.1 (*Additional Amounts*) (last sentence thereof), Clause 7.3.1 (other than the right to receive any amounts payable under such Clause 7.3.1) and, to the extent it does not relate to a withholding or deduction in respect of a payment to a Noteholder, Clause 7.3.2, Clause 7.5 (*Tax Credits and Tax Refunds*), Clause 7.7 (*Delivery of Forms)*, Clause 9 (*Changes in Circumstances*), Clause 10 (*Representations and Warranties of the Borrower*), Clause 15 (*Accrual of Interest and Indemnity*) and Clause 18 (*Costs and Expenses*).

The Issuer, pursuant to the Trust Deed, with full title guarantee will assign absolutely by way of security to the Trustee for the benefit of itself and the Noteholders all the rights, interests and benefits, both present and future, which have accrued or may accrue to the Issuer as lender under or pursuant to the Loan Agreement (including, without limitation, the right to declare the Loan immediately due and payable and to take proceedings to enforce the obligations of the Bank thereunder), other than and excluding the rights subject to the Charge described in Condition 3(i) above and the Reserved Rights (the "**Loan Administration Assignment**", and together with the Charge, the "**Security Interests**").

In certain circumstances, the Trustee may (subject to its being indemnified and/or secured and/or pre-funded to its satisfaction) be required in writing by Noteholders holding at least one-quarter of the principal amount of the Notes outstanding or by an Extraordinary Resolution (as defined in the Trust Deed) of the Noteholders to exercise certain of its powers under the Trust Deed (including those arising in connection with the Security Interests).

4. ISSUER'S COVENANT

As provided in the Trust Deed, so long as any of the Notes remain outstanding (as defined in the Trust Deed), the Issuer will not, without the prior written consent of the Trustee or an Extraordinary Resolution, agree to any amendment to or any modification or waiver of, or authorise any breach or proposed breach of, or give any consent under, the terms of the Loan Agreement and (to the extent reasonably practicable) will act at all times in accordance with any instructions of the Trustee from time to time with respect to the Loan Agreement, except as otherwise expressly provided in the Trust Deed or the Loan Agreement. Any such amendment, modification, waiver, consent or authorisation made with the consent of the Trustee shall be binding on the Noteholders and, unless the Trustee agrees otherwise, any such amendment or modification shall be notified by the Issuer to the Noteholders in accordance with Condition 15 (*Notices*).

5. INTEREST

The Notes shall carry interest at a rate equal to 10.875 per cent. per annum (the "**Rate of Interest**") which is equal to the rate of interest under the Loan Agreement as set out in Clause 5.2 (*Calculation of Interest*) of the Loan Agreement.

Interest shall accrue on the Notes from and including their issue date to, but excluding, the Redemption Date (as defined in Condition 6.1 (*Final Redemption*)).

The amount of interest payable on an Interest Payment Date shall be calculated by applying the Rate of Interest to the aggregate outstanding principal amount of the Notes, dividing the product by two and rounding the resultant figure to the nearest cent (half a cent being rounded upwards). If interest is required to be calculated for any other period, it will be calculated on the basis of a 360-day year consisting of 12 months of 30 days each and, in the case of an incomplete month, the number of days elapsed.

On each Interest Payment Date (or such later date as amounts equivalent to amounts of interest are received from the Bank) the Issuer shall account to the Noteholders for an amount equivalent to amounts of interest actually received by or for the account of the Issuer pursuant to Clause 5.2 (*Calculation of Interest*) of the Loan Agreement, provided that any interest payable under this Condition 5 not previously paid shall become due and payable on the earliest of the Redemption Date, the date on which the Notes are redeemed pursuant to Condition 6 (*Redemption and Purchase*) or Condition 13 *(Enforcement*) or the date on which a Relevant Event has occurred, in each case subject to Condition 2.2 *(Limited Recourse*).

In this Condition 5, "**Interest Payment Date**" means 28 February and 28 August of each year, commencing on 28 August 2013.

6. REDEMPTION AND PURCHASE

6.1 Final Redemption

All the Notes will be redeemed at their outstanding principal amount on 28 February 2018 or, if such a day is not a business day, the next succeeding business day (the "**Redemption Date**"), unless previously redeemed pursuant to this Condition 6 or Condition 13 (*Enforcement*).

In this Condition 6.1, "**business day**" means a day (other than a Saturday or Sunday) on which banks generally are open for business in New York City, London and Kyiv.

6.2 Mandatory Redemption

The Notes will be redeemed in whole, but not in part, at any time, on giving not less than 15 days' nor more than 90 days' notice to the Noteholders in accordance with Condition 15 (*Notices*) (which notice shall be irrevocable) at the outstanding principal amount thereof, together with interest accrued to the date fixed for redemption if, immediately before giving such notice, the Issuer satisfies the Trustee as set out below in this Condition 6.2 that:

(a) the Issuer has received a notice of prepayment from the Bank pursuant to Clause 6.2 (*Prepayment for Tax Reasons and Change in Circumstances*) of the Loan Agreement;

(b) the Issuer has delivered a notice to the Bank requiring the Bank to repay the whole (but not part only) of the Loan in accordance with the provisions of Clause 6.3 (*Prepayment upon Illegality*) of the Loan Agreement; or

(c) the Issuer has received a notice of Change of Control (as defined in the Loan Agreement) pursuant to Clause 6.4 (*Prepayment in the event of a Change of Control*) of the Loan Agreement.

Prior to the publication of any notice of redemption referred to in this Condition 6.2, the Issuer shall deliver to the Trustee a certificate signed by two officers of the Issuer stating (i) that the Issuer is entitled to effect such redemption in accordance with this Condition 6.2; (ii) the text of the Bank's notice of prepayment or details of the circumstances contemplated by Clause 6.2 (*Prepayment for Tax Reasons and Change in Circumstances*), Clause 6.4 (*Prepayment in the event of a Change of Control*) or Clause 6.3 (*Prepayment upon Illegality*) of the Loan Agreement, as the case may be; and (iii) the date fixed for redemption of the Notes. The Trustee shall accept the certificate of the Issuer as sufficient evidence of the satisfaction of the applicable condition set out above without liability to any person for so doing, which shall be conclusive and binding on all parties and the Noteholders.

Upon the expiry of any such notice as is referred to in this Condition 6.2, the Issuer shall be bound to redeem the Notes in accordance with this Condition 6, subject as provided in Condition 7 (*Payments*).

6.3 **No other Redemption**

The Issuer shall not be entitled to redeem the Notes otherwise than as provided in this Condition 6.

6.4 **Purchase**

The Bank or any of its subsidiaries may at any time purchase or otherwise acquire Notes in the open market or otherwise and at any price. Such Notes may be held, reissued, resold or surrendered by the purchaser through the Issuer to the Registrar for cancellation. Upon the cancellation of such Notes, the Loan shall be treated as prepaid by the Bank in an amount corresponding to the aggregate principal amount of the Notes surrendered for cancellation, together with accrued interest (if any) thereon and no further payment shall be made in respect of such Notes nor shall such Notes be reissued.

6.5 **Right to compel sale**

The Issuer may, with the prior approval of the Bank, compel any beneficial owner of Rule 144A Certificates (as defined in the Trust Deed) to sell its interest in such Notes, or may sell such interest on behalf of such holder, if such holder is not a qualified institutional buyer (as defined in Rule 144A under the Securities Act of 1933, as amended (the "**Securities Act**")) and a qualified purchaser (as defined in Section 2(a)(51) of the Investment Company Act of 1940, as amended) at a price equal to the lowest of (x) the purchase price therefor paid by the beneficial owner; (y) 100 per cent. of the principal amount thereof; or (z) the fair market value thereof.

7. **PAYMENTS**

7.1 **Payments**

Payments of principal shall be made by transfer to a U.S. dollar account maintained by the payee with a bank in New York City and (in the case of redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant Definitive Certificates at the Specified Office of any Paying Agent.

Payments of interest shall be made by transfer to a U.S. dollar account maintained by the payee with, a bank in New York City and (in the case of interest payable on redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant Definitive Certificates at the Specified Office of any Paying Agent.

All payments in respect of the Notes are subject in all cases to any applicable fiscal or other laws, regulations and directives in the place of payment or other laws to which the Issuer agrees to be subject and the Issuer will not be liable for any taxes or duties of whatever nature imposed or levied by such laws, regulations, directives or agreements, but without prejudice to the provisions of Condition 8 (*Taxation*). No commissions or expenses shall be charged to the Noteholders in respect of such payments.

Payment instructions (for value the due date, or, if the due date is not a business day, for value the next succeeding business day) will be initiated (i) (in the case of payments of principal and interest payable on redemption) on the later of the due date for payment and the day on which the relevant Definitive Certificate is surrendered (or, in the case of part payment only, endorsed) at the Specified Office of a Paying Agent; and (ii) (in the case of payments of interest payable other than on redemption) on the due date for payment. A Noteholder of a Note shall not be entitled to any interest or other payment in respect of any delay in payment resulting from the due date for a payment not being a business day. In this paragraph, "**business day**" means any day on which banks are open for general business (including dealings in foreign currencies) in New York City and, in the case of surrender (or, in the case of part payment only, endorsement) of a Definitive Certificate, in the place in which the Definitive Certificate is surrendered (or, as the case may be, endorsed).

If a Paying Agent makes a partial payment in respect of any Note, the Issuer shall procure that the amount and date of such payment are noted on the Register and, in the case of partial payment upon presentation of a Definitive Certificate, that a statement indicating the amount and the date of such payment is endorsed on the relevant Definitive Certificate.

Each payment in respect of a Note will be made to the person shown as the Noteholder in the Register at the opening of business in the place of the Registrar's Specified Office on the fifteenth day before the due date for such payment (the "**Record Date**").

7.2 **Initial Paying Agents**

The name of the Principal Paying Agent and its initial Specified Office is set out at the end of these Conditions. The Issuer reserves the right, subject to the prior written approval of the Trustee, at any time to vary or terminate the appointment of the Principal Paying Agent, or any of the Agents, and appoint additional or other agents provided that it will, subject to Condition 2.2.8, at all times maintain:

7.2.1 a paying agent with a Specified Office in a Member State of the European Union that will not be obliged to withhold or deduct tax pursuant to (or to any law implementing) European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000;

7.2.2 a Principal Paying Agent having a Specified Office in a major European city approved by the Trustee;

7.2.3 a United States Paying Agent, Registrar and Transfer Agent having a Specified Office in a major United States city approved by the Trustee; and

7.2.4 for so long as the Notes are admitted to trading on The Irish Stock Exchange Limited (the "**Irish Stock Exchange**"), a Paying Agent having a specified office in such place (if any) as may be required in accordance with the rules of such exchange.

Notice of any termination or appointment and of any changes in Specified Offices will be given to the Noteholders in accordance with Condition 15 (*Notices*).

7.3 **Payment obligations Limited**

Subject to and as further provided in Condition 2.2 (*Limited Recourse*), the obligations of the Issuer to make payments of principal, interest and additional amounts (if any) in respect of the Notes shall constitute an obligation only to account to the Noteholders on each Interest Payment Date or such other date upon which a payment is due in respect of the Notes for an amount equivalent to and in the same currency as amounts of principal, interest and/or additional amounts (if any) actually received by or for the account of the Issuer pursuant to the Loan Agreement or in respect of Permitted Investments less any amounts in respect of the Reserved Rights.

8. TAXATION

All payments of principal and interest by or on behalf of the Issuer in respect of the Notes shall be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatsoever nature ("**Taxes**") imposed or levied by or on behalf of the United Kingdom or Ukraine or any political subdivision or any authority thereof or therein having power to tax, unless such withholding or deduction of Taxes is required by law. In that case, the Issuer shall, subject as provided below, pay such additional amounts as may be necessary in order that the net amounts received by the Noteholders after the withholding or deduction shall equal the respective amounts which would have been receivable in respect of the Notes in the absence of the withholding or deduction, except that no additional amounts shall be payable in respect of any Note:

8.1 held by a Noteholder which is liable to Taxes in respect of such Note by reason of his having some connection with the United Kingdom or Ukraine other than the mere holding of the Note; or

8.2 where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to (or to any law implementing) European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000; or

8.3 (in the case of a Definitive Certificate) held by a Noteholder who would be able to avoid such withholding or deduction by presenting the relevant Definitive Certificate to another Paying Agent in a Member State of the European Union; or

8.4 where such withholding or Tax is in respect of United States Internal Revenue Code sections 1471-1474 (including any agreement with a governmental authority concluded thereunder); or

8.5 where the relevant Definitive Certificate is presented for payment by or on behalf of a Noteholder more than 30 days after the Relevant Date (as defined below) except to the extent that the relevant Noteholder would have been entitled to such additional amounts if it had presented the relevant Definitive Certificate for payment on the last day of such period of 30 days.

Notwithstanding the foregoing provisions, the Issuer shall only make such payments to the Noteholders to the extent and at such time as it shall have actually received an equivalent amount from the Bank under the Loan Agreement subject always to the provisions of Condition 2 (*Status, Limited Recourse and Transfers*).

To the extent that the Issuer does not receive from the Bank such equivalent amount in full, the Issuer shall account to each Noteholder for an additional amount equivalent to a *pro rata* proportion of such additional amount (if any) as is actually received (net of any tax) by, or for the account of, the Issuer pursuant to the provisions of the Loan Agreement on or as soon as may be practicable after the date of the receipt of, in the currency of, and subject to any conditions attaching to the payment of, such additional amount by the Issuer.

In these Conditions, "**Relevant Date**" means the date on which the payment in question first becomes due except that, if the full amount of the money payable has not been received by the Principal Paying Agent or the Trustee on or before the due date, it means the date on which (the full amount of the money having been so received) notice to that effect has been duly given to the Noteholders by the Issuer in accordance with Condition 15 (*Notices*).

Any reference in these Conditions to principal or interest shall be deemed to include any additional amounts in respect of principal or interest (as the case may be) which may be payable under this Condition 8 or any undertaking given in addition to or in substitution for this Condition pursuant to the Trust Deed or the Loan Agreement.

If the Issuer becomes subject at any time to any taxing jurisdiction other than the United Kingdom, references in these Conditions to the United Kingdom and/or Ukraine shall be construed as references to the United Kingdom and/or Ukraine and/or such other jurisdiction.

9. PRESCRIPTION

Definitive Certificates will become void unless presented for payment within periods of 10 years (in the case of principal) and five years (in the case of interest) from the Relevant Date in respect thereof, subject to the provisions of Condition 7 (*Payments*).

10. REPLACEMENT OF DEFINITIVE CERTIFICATES

If any Definitive Certificate is lost, stolen, mutilated, defaced or destroyed, it may, subject to all applicable laws and regulations and requirements of the Irish Stock Exchange, be replaced at the Specified Office of the Principal Paying Agent upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer may reasonably require. Mutilated or defaced Definitive Certificates must be surrendered before replacements will be issued.

11. TRUSTEE AND PAYING AGENTS

11.1 Indemnification of the Trustee

The Trust Deed and the Fees Letter (as defined in the Loan Agreement) contain, *inter alia*, provisions for the indemnification of the Trustee, provisions for its relief from responsibility, including relieving it from taking action unless indemnified and/or secured and/or pre-funded to its satisfaction, and provisions entitling it to be paid its costs and expenses in priority to the claims of the Noteholders.

The Trustee's responsibilities are solely those of trustee for the Noteholders on the terms of the Trust Deed. Accordingly, the Trustee makes no representations and assumes no responsibility for the validity or enforceability of the Loan Agreement or the security created in respect thereof or for the performance by the Issuer of its obligations under or in respect of the Notes and the Trust Deed or by the Bank in respect of the Loan Agreement. The Trustee is entitled to assume that the Bank is performing all of its obligations pursuant to the Loan Agreement and that no Event of Default, Potential Event of Default, Change of Control, Rating Decline, Negative Ratings Event (as each such term is defined in the Loan Agreement) or Relevant Event has occurred (and shall have no liability for doing so) until it has actual knowledge to the contrary.

The Trustee shall have no liability to Noteholders for any shortfall they may suffer if it is liable for tax in respect of any payments received by it or as a result of the Security Interests being held or enforced by it.

11.2 Trustee contracting with the Issuer and the Bank

The Trust Deed also contains provisions pursuant to which the Trustee is entitled, *inter alia*, (i) to enter into business transactions with the Issuer and/or the Bank and/or any subsidiary of the Issuer and/or the Bank and to act as trustee for the holders of any other securities issued or guaranteed by, or relating to, the Issuer and/or the Bank and/or any subsidiary of the Issuer and/or the Bank; (ii) to exercise and enforce its rights, comply with its obligations and perform its duties under or in relation to any such transactions or, as the case may be, any such trusteeship without regard to the interests of, or consequences for, the Noteholders; and (iii) to retain and not be liable to account for any profit made or any other amount or benefit received thereby or in connection therewith.

11.3 Trustee to have regard to interests of Noteholders as one class

In connection with the exercise by it of any of its trusts, powers, authorities and discretions (including, without limitation, any modification, waiver, authorisation, determination or substitution), the Trustee shall have regard to the general interests of the Noteholders as a class but shall not have regard to any interests arising from circumstances particular to individual Noteholders (whatever their number) and, in particular but without limitation, shall not have regard to the consequences of any such exercise for individual Noteholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory or any political subdivision thereof and the Trustee shall not be entitled to require, nor shall any Noteholder be entitled to claim, from the Issuer, the Trustee or any other person any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders except to the extent already provided for in Condition 8 (*Taxation*) and/or any undertaking given in addition to, or in substitution for, Condition 8 (*Taxation*) pursuant to the Trust Deed.

11.4 Agents

In acting under the Agency Agreement and in connection with the Notes, the Agents act solely as agents of the Issuer and (to the extent provided therein) the Trustee and do not assume any obligations towards or relationship of agency or trust for or with any of the Noteholders.

11.5 Trustee determinations and disclosure

The Trustee may, in making any determination under these Conditions, the Trust Deed or the Loan Agreement, act on the opinion or advice of, or information obtained from, any lawyer, banker, valuer, surveyor, broker, auctioneer, accountant, auditor or other expert and will not be responsible for any loss, liability, cost, claim, action, demand, expense or inconvenience which may result from it so acting or not acting notwithstanding that such opinion or advice (or the engagement letter relating thereto) contains a limitation on liability or, in the case of the auditors, disclaims all liability.

Unless ordered to do so by a court of competent jurisdiction, the Trustee shall not be required to disclose to any Noteholder any confidential financial or other information made available to the Trustee by the Issuer or the Bank.

12. MEETINGS OF NOTEHOLDERS, MODIFICATION, WAIVER, SUBSTITUTION AND APPOINTMENT

12.1 Meetings of Noteholders

The Trust Deed contains provisions for convening meetings of Noteholders to consider any matter affecting their interests, including any modification of, or any arrangement in respect of, the Notes or the Trust Deed. Noteholders will, in respect of any vote by poll, be entitled to one vote per U.S.$1,000 in principal amount of Notes held by them. Special quorum provisions apply for meetings of Noteholders convened for the purpose of amending certain terms concerning, *inter alia*, the amount payable on, and the currency of payment in respect of, the Notes and the amounts payable and currency of payment under the Loan Agreement.

Any resolution duly passed at a meeting of Noteholders will be binding on all the Noteholders, whether present or not.

In addition, a resolution in writing signed by or on behalf of all holders of Notes then outstanding who for the time being are entitled to receive notice of a meeting of Noteholders under the Trust Deed will take effect as if it were an Extraordinary Resolution. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more holders of Notes then outstanding.

12.2 Modification

The Trustee may agree, without the consent of the Noteholders, subject to the provisions of the Trust Deed, (a) to any modification of these Conditions and the Trust Deed and the Loan Agreement (other than in respect of a Reserved Matter) which, in the opinion of the Trustee, is not materially prejudicial to the interests of the Noteholders; or (b) to any modification of these Conditions and the Trust Deed and the Loan Agreement which, in the opinion of the Trustee, is of a formal, minor or technical nature or is made to correct a manifest error. The Trustee may also, subject to the provisions of the Trust Deed, waive or authorise or agree to the waiving or authorising of any breach or proposed breach by the Issuer of these Conditions or the Trust Deed, or by the Bank of the terms and conditions of the Loan Agreement, or determine that any event which would or might otherwise give rise to (i) a right of acceleration under the Loan Agreement; or (ii) a Relevant Event shall not be treated as such, if, in the opinion of the Trustee, to do so would not be materially prejudicial to the interests of the Noteholders. Any such modification, waiver or authorisation shall be binding on the Noteholders and, unless the Trustee agrees otherwise, any such modification shall be promptly notified to the Noteholders.

12.3 Substitution of the Issuer

The Trust Deed contains provisions to the effect that the Issuer may, having obtained the consent of the Trustee (which consent may be given without the consent of the Noteholders) and having complied with such requirements as the Trustee may direct in the interests of the Noteholders, substitute any entity in place of the Issuer as issuer and principal obligor in respect of the Notes and as principal obligor under the Trust Deed, subject to the relevant provisions of the Trust Deed and the substitute's rights under the Loan Agreement being charged and assigned, respectively, to, and to the satisfaction of, the Trustee as security for the payment obligations of the substitute obligor under the Trust Deed and the Notes. Such substitution shall be notified to the Noteholders as soon as practicable thereafter and in accordance with Condition 15 (*Notices*) and so long as the Notes are admitted to trading on the Irish Stock Exchange and the Irish Stock Exchange so requires, a supplement to the prospectus dated 25 February 2013 in respect of the Notes will be prepared and submitted to the Irish Stock Exchange.

12.4 Appointment or removal of Trustee

The Trust Deed contains provision for the appointment or removal of a Trustee by a meeting of Noteholders passing an Extraordinary Resolution (as defined in the Trust Deed), provided that in the case of the removal of a Trustee, at all times there remains a trustee in office in respect of the Notes. Any appointment or removal of a Trustee shall be notified to the Noteholders in accordance with Condition 15 (*Notices*). The Trustee may also resign such appointment giving not less than three months' notice to the Noteholders provided that such resignation shall not become effective unless there remains a Trustee in office after such resignation.

13. ENFORCEMENT

13.1 Enforcement by the Trustee

At any time after an Event of Default (as defined in the Loan Agreement) shall have occurred and be continuing, or a Relevant Event (as defined below) shall have occurred and be continuing, the Trustee may, at its discretion and without notice, institute such steps, actions or proceedings as it thinks fit to enforce its rights under the Trust Deed in respect of the Notes, but it shall not be bound to do so unless:

13.1.1 it has been so requested in writing by the holders of at least one-quarter in principal amount of the outstanding Notes or has been so directed by an Extraordinary Resolution; and

13.1.2 it has been indemnified and/or provided with security and/or pre-funded to its satisfaction against all liabilities, proceedings, claims and demands to which it may thereby become liable and all costs, charges and expenses which may be incurred by it in connection therewith.

In the case of an Event of Default or a Relevant Event the Trustee may, and shall if requested to do so by Noteholders holding at least one-quarter in principal amount of the Notes outstanding or if directed to do so by an Extraordinary Resolution and, in either case, subject to its being secured and/or indemnified and/or pre-funded to its satisfaction, (a) (in the case of an Event of Default) declare or require the Issuer to declare all amounts payable under the Loan Agreement by the Bank to be due and payable; or (b) (in the case of a Relevant Event) subject to Condition 2.2 (*Limited Recourse*), enforce the security created in the Trust Deed in favour of the Trustee. Subject to Condition 2.2.8 upon repayment of the Loan following an Event of Default, the Notes will be redeemed or repaid at their principal amount together with interest accrued to the date fixed for redemption and thereupon shall cease to be outstanding.

For the purposes of these Conditions, "**Relevant Event**" means any of (a) the failure by the Issuer to make any payment of principal or interest on the Notes when the same is due to be made by the Issuer and such failure is not remedied with five (5) Business Days (as defined in the Loan Agreement) of the due date for that payment; (b) the making of an order in proceedings in the United Kingdom in respect of the winding up or dissolution of the Issuer or for a composition with the Issuer's creditors; and (c) the passing of an effective resolution for the winding up or dissolution of the Issuer.

13.2 Enforcement by the Noteholder

No Noteholder may proceed directly against the Issuer unless the Trustee, having become bound to do so, fails to do so within a reasonable time and the failure is continuing.

14. FURTHER ISSUES

The Issuer may from time to time, without the consent of the Noteholders and in accordance with the Trust Deed, create and issue further notes having the same terms and conditions as the Notes in all respects (or in all respects except for the issue price, issue date and/or first payment of interest on such further notes) so as to be consolidated and form a single series with the Notes ("**Further Notes**"). Such Further Notes shall be issued under a deed supplemental to the Trust Deed. In relation to any issue of Further Notes (i) the Issuer will enter into a supplemental loan agreement with the Bank on substantially the same terms as the Loan Agreement (or on the same terms except for the first payment of interest) subject to any modifications which, in the sole opinion of the Trustee, would not materially prejudice the interests of the Noteholders; and (ii) the Security Interests granted in respect of the Notes will be amended or supplemented so as to secure amounts due in respect of such Further Notes also and/or the Issuer will provide a further fixed charge in favour of the Trustee in respect of certain rights and interests under the Loan Agreement or any further loan agreement and will assign absolutely certain of its rights and interests under the Loan Agreement or any further loan agreement and any loan assignment equivalent to the rights charged and assigned as security in relation to the Issuer's rights under the original Loan Agreement to secure amounts due on the Notes and such Further Notes.

15. NOTICES

Notices to Noteholders will be published in a daily newspaper having general circulation in London (which is expected to be the *Financial Times*) or, if in the opinion of the Trustee such publication shall not be practicable, in a leading English language daily newspaper of general circulation in Europe. So long as the Notes are listed on the Irish Stock Exchange and the guidelines of that exchange so require, notices to Noteholders will be valid if they are filed with the Companies Announcements Office of the Irish Stock Exchange. The Issuer shall also ensure that notices are duly published in a manner which complies with the rules and regulations of any stock exchange or the relevant authority on which the Notes are for the time being listed. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once, on the first date on which publication is made.

If it shall be impracticable to publish any notice to the Noteholders as provided above, then such notification to the Noteholders as shall be given in accordance with the rules of the Irish Stock Exchange shall constitute sufficient notice to the Noteholders for every purpose hereunder.

16. PROVISIONS OF INFORMATION

The Issuer and the Borrower shall, during any period in which they are not subject to or in compliance with the reporting requirements of Section 13 or 15(d) of the United States Securities Exchange Act of 1934 (the "**Exchange Act**") nor exempt from reporting pursuant to Rule 12g3 2(b) under the Exchange Act, duly provide to any holder of a Note which is a "restricted security" within the meaning of Rule 144(a)(3) under the Securities Act or to any prospective purchaser of such securities designated by such Noteholder, upon the written request of such Noteholder or (as the case may be) prospective Noteholder addressed to the Issuer, or the Borrower, as the case may be, and delivered to the Issuer or the Borrower, as the case may be, or to the Specified Office of the Registrar, the information specified in Rule 144A(d)(4) under the Securities Act.

17. GOVERNING LAW

The Trust Deed, the Loan Agreement, the Notes and any non-contractual obligations arising out of or in connection with them shall be governed by, and shall be construed in accordance with, English law.

18. CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999

No person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

SUMMARY OF PROVISIONS RELATING TO THE NOTES WHILE IN GLOBAL FORM

The following is a summary of the provisions to be contained in the Trust Deed to constitute the Notes and in the Global Certificates which will apply to, and in some cases modify, the Terms and Conditions of the Notes while the Notes are represented by the Global Certificates.

The Notes will be evidenced on issue either (i) in the case of Regulation S Notes, by a Regulation S Global Certificate deposited with, and registered in the name of a nominee for, a common depositary for Euroclear and Clearstream, Luxembourg; or (ii) in the case of Rule 144A Notes, by a Rule 144A Global Certificate deposited with a custodian for, and registered in the name of Cede & Co, as nominee of DTC.

Beneficial interests in the Regulation S Global Certificate may be held only through Euroclear or Clearstream, Luxembourg at any time. See "*Book-Entry Procedures for the Global Certificates*". On acquisition of a beneficial interest in a Regulation S Note, as represented by a Regulation S Global Certificate, the purchaser thereof will be deemed to represent, among other things, that it is not a U.S. person (as defined in Regulation S) and that, prior to the expiration of 40 day distribution compliance period (as defined in Regulation S), it will not offer, sell, pledge or otherwise transfer such interest except to a person whom the seller reasonably believes (i) to be a non-U.S. person in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S; or (ii) to be a person who is eligible to take delivery in the form of an interest in the Rule 144A Global Certificate. See "*Transfer Restrictions*".

Beneficial interests in the Rule 144A Global Certificate may only be held through DTC at any time. See "*Book-Entry Procedures for the Global Certificates*". By acquisition of a beneficial interest in a Rule 144A Global Certificate, the purchaser thereof will be deemed to represent, among other things, that it is a QIB that is also a QP and that, if in the future it determines to transfer such beneficial interest, it will transfer such interest in accordance with the procedures and restrictions contained in the Agency Agreement. See "*Transfer Restrictions*".

Beneficial interests in a Global Certificate will be subject to certain restrictions on transfer set forth in such Global Certificate and in the Agency Agreement, and with respect to the Rule 144A Global Certificate, as set forth in Rule 144A. The Rule 144A Global Certificate will bear the legends regarding such restrictions set forth under Transfer Restrictions. A beneficial interest in the Regulation S Global Certificate may be transferred to a person who takes delivery in the form of an interest in the Rule 144A Global Certificate, in denominations greater than or equal to the minimum denominations applicable to interests in the Rule 144A Global Certificate, and only upon receipt by the Registrar of a written certification (in the form provided in the Agency Agreement) to the effect that the transferor reasonably believes that the transferee is a QIB that is also a QP and that such transaction is in accordance with any applicable securities laws of any state of the United States or any other jurisdiction. Beneficial interests in the Rule 144A Global Certificate may be transferred to a person who takes delivery in the form of an interest in the Regulation S Global Certificate only upon receipt by the Registrar of a written certification (in the form provided in the Agency Agreement) from the transferor to the effect that the transfer is being made to a non-U.S. person and in accordance with Regulation S.

Any beneficial interest in the Regulation S Global Certificate that is transferred to a person who takes delivery in the form of an interest in the Rule 144A Global Certificate will, upon transfer, cease to be an interest in the Regulation S Global Certificate and become an interest in the Rule 144A Global Certificate and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in the Rule 144A Global Certificate for as long as it remains such an interest. Any beneficial interest in the Rule 144A Global Certificate that is transferred to a person who takes delivery in the form of an interest in the Regulation S Global Certificate will, upon transfer, cease to be an interest in the Rule 144A Global Certificate and become an interest in the Regulation S Global Certificate and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in the Regulation S Global Certificate for so long as it remains such an interest. No service charge will be made for any registration of transfer or exchange of Notes, but the Registrar may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith. Except in the limited circumstances described below, owners of beneficial interests in either the Regulation S Global Certificate or the Rule 144A Global Certificate will not be entitled to receive physical delivery of individual Notes in definitive form (the "**Definitive Certificates**"). The Notes are not issuable in bearer form.

Exchange

Each Global Certificate will be exchangeable, free of charge to the holder, in whole but not in part, for Definitive Certificates if: (i) interests in the relevant Global Certificate are held by or on behalf of (A) DTC, and DTC notifies the Issuer that it is no longer willing or able to discharge properly its responsibilities as depositary with respect to the Global Certificate or ceases to be a "clearing agency" registered under the Exchange Act or if at any time it is no longer eligible to act as such, and the Issuer is unable to locate a qualified successor within 90 days of receiving notice or becoming aware of such ineligibility on the part of DTC; or (B) Euroclear or Clearstream, Luxembourg, as the case may be, is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so, by the holder giving notice to the Registrar or any Transfer Agent; or (ii) if the Issuer would suffer a material disadvantage in respect of the Notes as a result of a change in the laws or regulations (taxation or otherwise) which would not be suffered were the Notes evidenced by Definitive Certificates and a notice to such effect signed by two directors of the Issuer is delivered to the Trustee, by the Issuer giving notice to the Registrar or any Transfer Agent and the Noteholders, of its intention to exchange the relevant Global Certificate for Definitive Certificates on or after the date specified in the notice.

The holder of the relevant Global Certificate may surrender such Global Certificate to or to the order of the Registrar or any Transfer Agent. In exchange for the relevant Global Certificate, as provided in the Agency Agreement, the Registrar will deliver, or procure the delivery of, an equal aggregate amount of duly executed and authenticated Definitive Certificates in or substantially in the form set out in the relevant schedule to the Trust Deed.

The Registrar will not register the transfer of, or exchange of interests in, a Global Certificate for interests evidenced by Definitive Certificates for a period of 15 calendar days ending on the date for any payment of principal or interest in respect of the Notes.

If only one of the Global Certificates (the "**Exchange Global Certificate**") becomes exchangeable for Definitive Certificates in accordance with the above paragraphs, transfers of Notes may not take place between, on the one hand, persons holding Definitive Certificates issued in exchange for beneficial interests in the Exchange Global Certificate and, on the other hand, persons wishing to purchase beneficial interests in the other Global Certificate.

Delivery

After the circumstances set out above have occurred, the relevant Global Certificate shall be exchanged in full for Definitive Certificates and the Issuer will, at the cost of the Borrower (but against such indemnity as the Registrar or any relevant Transfer Agent may require in respect of any tax or other duty of whatever nature which may be levied or imposed in connection with such exchange), cause sufficient Definitive Certificates to be executed and delivered to the Registrar for completion, authentication and dispatch to the relevant Noteholders. A person having an interest in a Global Certificate must provide the Registrar with (a) a written order containing instructions and such other information as the Issuer and the Registrar may require to complete, execute and deliver such Notes; and (b) in the case of the Rule 144A Global Certificate, a fully completed, signed certification substantially to the effect that the exchanging holder is not transferring its interest at the time of such exchange or, in the case of simultaneous sale pursuant to Rule 144A, a certification that the transfer is being made in compliance with the provisions of Rule 144A to a purchaser that the transferor reasonably believes to be a QIB that is also a QP. Definitive Certificates issued in exchange for a beneficial interest in the Rule 144A Global Certificate shall bear the legend applicable to transfers pursuant to Rule 144A, as set out under Transfer Restrictions.

Legends

The holder of a Definitive Certificate may transfer the Notes evidenced thereby in whole or in part (subject to the applicable minimum denomination) by surrendering it at the specified office of the Registrar or any Transfer Agent, together with the completed form of transfer thereon. Upon the transfer, exchange or replacement of a Definitive Note representing a Rule 144A Note (the “Rule 144A Definitive Certificate”) bearing the legend referred to under Transfer Restrictions, or upon specific request for removal of the legend on a Rule 144A Definitive Certificate, the Issuer will deliver only Rule 144A Definitive Certificates that bear such legend, or will refuse to remove such legend, as the case may be, unless there is delivered to the Issuer and the Registrar such satisfactory evidence, which may include an opinion of counsel, as may reasonably be required by the Issuer that neither the legend nor the restrictions on transfer set forth therein are required to ensure compliance with the provisions of the Securities Act and the Investment Company Act.

Amendments to the Terms and Conditions

In addition, the Global Certificates will contain a provision which modifies the Terms and Conditions of the Notes as they apply to the Notes evidenced by the Global Certificates.

Payments

Payments of principal and interest in respect of Notes evidenced by a Global Certificate will be made to the person who appears on the register of the Noteholders as holder of the Notes represented by a Global Certificate on the Clearing System Business Day immediately prior to the date of the relevant payment against presentation and, if no further payment falls to be made in respect of the relevant Notes, surrender of such Global Certificate to or to the order of the Principal Paying Agent or such other Paying Agent as shall have been notified to the relevant Noteholders for such purpose. Upon any payment of principal or interest on a Global Certificate, the amount so paid shall be endorsed by or on behalf of the Principal Paying Agent on behalf of the Issuer in the appropriate schedule to the relevant Global Certificate, which endorsement will be prima facie evidence that such payment has been made in respect of the relevant Notes. As used in this paragraph, “**Clearing System Business Day**” means Monday to Friday inclusive, except 25 December and 1 January.

Notices

Notwithstanding Condition 15 (*Notices*), so long as the Global Certificates are held by or on behalf of DTC, Euroclear, Clearstream, Luxembourg or any other clearing system, provided such other clearing system is regarded as a recognised clearing system by Irish Revenue Commissioners (an "**Alternative Clearing System**"), notices to Noteholders represented by the Global Certificates may be given by delivery of the relevant notice to DTC, Euroclear, Clearstream, Luxembourg or (as the case may be) such Alternative Clearing System, provided that, for so long as the Notes are listed on the Irish Stock Exchange, and the guidelines of the Irish Stock Exchange so require, notice shall also be given in accordance with the guidelines published by the Irish Stock Exchange. Notices will be deemed to have been given to the Noteholders on the second day after the day on which such notice is delivered to the relevant clearing system.

Meetings

The holder of the Global Certificate will be treated as being two persons for the purposes of any quorum requirements of, or the right to demand a poll at, a meeting of holders of the Notes.

Trustee Powers

In considering the interests of Noteholders while a Global Certificate is held on behalf of a clearing system, the Trustee may have regard to any information provided to it by such clearing system or its operator as to the identity (either individually or by category) of its accountholders with entitlements to such Global Certificate and may consider such interests as if such accountholders were the holders of such Global Certificate.

Prescription

Claims against the Issuer in respect of principal and interest on the Notes while the Notes are represented by the Global Certificates will be prescribed after 10 years (in the case of principal) and five years (in the case of interest) from the Relevant Date (as defined in Condition 8 (*Taxation*)).

Cancellation

Cancellation of any Note required by the Terms and Conditions of the Notes to be cancelled will be effected by reduction in the principal amount of the applicable Global Certificate.

TAXATION

The following is a general description of certain tax considerations relating to the Notes and the Loan. It does not purport to be a complete analysis of all tax considerations relating to the Notes or the Loan, whether in those countries or elsewhere. Prospective purchasers of the Notes should consult their tax advisers as to which countries' tax laws could be relevant to acquiring, holding and disposing of the Notes and receiving payments of interest, principal and/or other amounts under the Notes and the consequences of such actions under the tax laws of those countries. This summary is based upon the law as in effect on the date of this Prospectus. The information and analysis contained within this section are limited to taxation issues, and prospective investors should not apply any information or analysis set out below to other areas, including (but not limited to) the legality of transactions involving the Notes.

Also, investors should note that an appointment by an investor in the Notes, or any Person through which an investor holds Notes, of a custodian, collection agent or similar person in relation to such Notes in any jurisdiction may have tax implications. Investors should consult their own tax advisers in relation to the tax consequences for them of any such appointment.

Ukraine

General

The following summary is included for general information only. Potential investors in, and holders of, the Notes, should consult their own tax advisor as to the tax consequences of the acquisition, ownership and disposition of the Notes under the laws of Ukraine. This summary is based upon the Ukrainian tax laws and regulations as in effect on the date of this Prospectus. Such laws and regulations are subject to changes and varying interpretations, possibly with retroactive effects. As with other areas of Ukrainian law, tax legislation and practice in Ukraine is not as clearly established as that of more developed jurisdictions. It is possible, therefore, that the current interpretation of the law or understanding of the practice may change or that the law may be amended with retroactive effect. Accordingly, it is possible that payments to be made to the holders of the Notes could become subject to taxation or that rates currently applicable to such payments could be increased.

Withholding Tax on Interest Payments and Principal Repayments under the Loan

The Tax Code envisages that income of legal entities which are non-residents of Ukraine derived from sources in Ukraine in the form of interest payments is subject to 15 per cent. withholding tax.

At the same time, section 160.2 of the Tax Code provides that this withholding tax may be reduced by the provisions of an applicable tax treaty on the avoidance of double taxation. The United Kingdom and Ukraine have entered into such a treaty, signed on 10 February 1993, effective since 11 August 1993 (the "**Double Tax Treaty**"), pursuant to which (Article 11) interest arising in Ukraine and paid to a resident of the United Kingdom shall be taxable only in the United Kingdom if such resident is the beneficial owner of the interest and subject to tax in respect of the interest in the United Kingdom. Under the Double Tax Treaty as currently applied, payments of interest on the Loan will not be subject to withholding tax, provided that certain conditions set forth in the Double Tax Treaty and under applicable Ukrainian legislation are duly satisfied. In particular, in order for the exemption from withholding under the Double Tax Treaty, to be applicable, the Lender must be: (a) a resident of the United Kingdom for the purposes of the Double Tax Treaty; (b) the beneficial owner of the interest payments received in the United Kingdom; and (c) subject to tax in respect of such interest payments in the United Kingdom. The exemption will only be available under the Double Tax Treaty if the Lender neither carries on business through a permanent establishment situated in Ukraine nor performs independent personal services from a fixed base in Ukraine. However, Ukraine does not have an established practice of interpreting the concept of beneficial ownership. Moreover, it is not clear how the test of taxation of interest payments in the United Kingdom will be interpreted and applied by the Ukrainian or United Kingdom authorities in practice. As a consequence, different interpretations are possible and the position could be taken that the Lender should not be viewed as the beneficial owner of the interest payments received in the United Kingdom. For tax law purposes, this concept was introduced in Ukraine by the new Tax Code. Under the relevant provisions of the Tax Code, for the purposes of double tax treaties of Ukraine, beneficial owner of an income is a person which is entitled to receive such income. The Tax Code further provides that a person that acts as agent, nominal holder (owner) or intermediary in respect of the income does not qualify as the beneficial owner of such income. While the existing clarifications of the Ukrainian tax authorities generally use the term "intermediary" in the meaning of an agent or broker (which does not cover the capacity in which the Issuer acts in connection with the Loan), it is unclear whether the tax authorities will use this interpretation in respect of the relevant provisions of the Tax Code and there have been a few cases where it has been interpreted to cover conduit companies. Although Ukrainian courts have not followed this approach, all tax disputes to date on the application of the concept of beneficial ownership have been decided in favour of taxpayers. Furthermore, the tax authorities have not used the beneficial ownership concept to deny treaty benefits to non-residents receiving interest income from Ukrainian sources and there is no established practice of interpretation or application of such a concept in Ukraine. However, different interpretations of the provisions of the new Tax Code are possible. In addition, the Ukrainian tax authorities and courts have not issued any clarification or rulings with respect to the entitlement of special purpose vehicles in capital markets transactions. Accordingly, in the case of adverse interpretation, the Issuer may be viewed by the Ukrainian tax authorities as failing to satisfy the beneficial ownership test in respect of interest income received from the Bank under the Loan Agreement. In such event, the payment of interest to the Issuer will not be exempt from the Ukrainian withholding tax.

In addition, Article 11(7) of the Double Tax Treaty contains a "main purpose" anti-avoidance position. There is no established practice by the Ukrainian tax authorities with respect to the application of this provision. However, if the Ukrainian tax authorities take a position that one of the main purposes of selecting the United Kingdom, the Lender's jurisdiction of residence, for this transaction was to avail the Bank of the tax benefits provided under the Double Tax Treaty, the Ukrainian tax authorities may invoke the anti-avoidance provisions of Article 11(7). In such circumstances, there is a risk that payments of interest by the Bank under the Loan Agreement would cease to have the benefit of the Double Tax Treaty.

Applicable Ukrainian legislation allows relief from Ukrainian withholding tax under the Double Tax Treaty if current confirmation of the UK recipient's tax residency in the United Kingdom issued by the taxing authority in the United Kingdom is available. In order to be valid, a new tax residency confirmation must be obtained for each tax year. The obtaining of this relief does not require the payee or payor to apply for and/or obtain any prior clearance for specific transactions from the Ukrainian tax authorities. Instead, the Ukrainian payor directly applies the rate under the Double Tax Treaty, provided that the current tax residence confirmation is available on or prior to the date of payment of the Ukrainian source income. Therefore, when making payments to the Lender under the Loan Agreement, the Bank will not make any deduction classified as Ukrainian withholding tax, provided that it has a current confirmation of tax residency of the Lender on or prior to the date of payment. If the UK recipient is listed in the S.W.I.F.T. International Bank Identifier Code, the tax residency confirmation is not required.

The Tax Code does not expressly exempt principal repayments from Ukrainian withholding tax. Specifically, section 160.1 of the Tax Code contains a "catch all" provision, under which "other income of a non resident (a permanent establishment of such or other non resident) from carrying out business activity on the territory of Ukraine" is subject to a 15 per cent. withholding tax. As there is no definition of "income" in the Tax Code, notwithstanding the fact that it does not fall within the corresponding definition under applicable Ukrainian accountancy standards which are relevant to the interpretation of terms used in the Tax Code which are not explicitly defined therein, there is a remote risk that the repayment of principal under the Loan Agreement may be regarded as the Ukrainian source income of the Issuer and, as such, subject to Ukrainian withholding tax at the rate of 15 per cent. Based on the professional tax advice it has received, the Bank is not aware of any situation in which the Ukrainian tax authorities have attempted to levy Ukrainian withholding tax on repayments of principal under a loan or credit transaction.

Consequences of Ukrainian Withholding

If any payments (including payments of interest) under the Loan Agreement are subject to any withholding tax, the Bank may, in certain circumstances specified in the Loan Agreement and subject to certain exceptions, become obliged to pay such additional amounts as may be necessary so that the net payments received by the Issuer or the Trustee, as the case may be, will not be less than the amount the Issuer or the Trustee, as the case may be, would have received in the absence of such withholding.

While there is doubt as to whether the gross up clauses contained in the Loan Agreement are enforceable under Ukrainian law (specifically, the Tax Code prohibits contractual provisions under which residents undertake to pay taxes for non-residents on their income received from sources in Ukraine; furthermore, in the past, the State Tax Service of Ukraine issued a letter indicating that tax gross-up, tax reimbursement and tax indemnity clauses of agreements between Ukrainian residents and their foreign counterparties contravene the requirements of Ukrainian legislation that prohibit the shifting of the foreign counterparty's tax payment obligation to the Ukrainian resident), a failure by the Bank to pay additional amounts due under the Loan Agreement would constitute a default under the Loan Agreement. In the event that the Bank would become obliged to pay additional amounts under the Loan Agreement, the Bank may prepay the principal amount of the Loan, together with the accrued interest, and thereupon (subject to receipt of the relevant funds from the Bank) all the outstanding Notes will be prepaid by the Issuer.

Tax on Issue of and Principal and Interest Payments under the Notes

No Ukrainian withholding tax will be applicable to the issue of the Notes or principal or interest payments on the Notes because the Notes will not be issued by the Bank, or from Ukraine and principal and interest payments on the Notes will not be made by the Bank, or from Ukraine.

Tax on Redemption of Notes

Principal payments on redemption of the Notes will not be subject to Ukrainian tax because such payments will not be made by a Ukrainian borrower.

Ukrainian Holders

A Ukrainian resident Noteholder, i.e., a qualifying physical person or a legal person organised under Ukrainian law, is subject to all applicable Ukrainian taxes.

Transfers of Notes by Non Ukrainian Investors to Ukrainian Investors

Ukrainian source profits of non-resident legal persons derived from trading securities are generally subject to 15 per cent. withholding tax and Ukrainian source income of non-resident individuals is, with certain exceptions, subject to 15 or 17 per cent. personal income tax. Both may be reduced by an applicable treaty on the avoidance of double taxation.

Non-resident Noteholders are, therefore, likely to be subject to Ukrainian withholding tax on any gain (or the gross amount of the proceeds if the gain cannot be quantified) on the disposal of Notes where the proceeds of such disposal are received from a source within Ukraine.

Ukrainian Stamp Duty

No Ukrainian stamp duty, transfer or similar tax will be payable by a Noteholder in respect of the subscription, issue, delivery or transfer of the Notes.

Transfer Pricing Rules

Despite the fact that Ukrainian transfer pricing rules are not yet aggressively applied on a consistent basis by the Ukrainian tax authorities, the scope of these rules is broad enough to apply to cross border transactions, irrespective of whether related parties are involved. For this reason, there is a risk that the Ukrainian tax authorities may attempt to apply transfer pricing rules to the amount of interest accrued and paid under the Loan, as a cross border transaction, for the purposes of profits tax deductions. Interest is currently allowed as a deduction, subject to certain limitations of interest deductibility in any given tax reporting period, if the amount of interest incurred in respect of a debt obligation does not exceed the market value. The applicable Ukrainian corporate profits tax legislation does not provide any definitive test for determining the market rate of interest and on 1 April 2011, a “safe harbour” rule was introduced permitting the deviation of contractual prices from arm’s length prices by no more than 20 per cent. However, there is a high possibility that in the near future the Ukrainian Parliament will pass a new transfer pricing law which would abolish this “safe harbour” for any transactions falling out of the range of market prices. For this reason, there is a slight risk that the interest rate under the Loan may be challenged by the Ukrainian tax authorities, which may result in the assessment of an additional tax liability to the Bank. If interest is increased due to gross up provisions, this will increase the transfer pricing risk, as the gross up can raise the interest rate above the market value.

United Kingdom

The following is a general and non-exhaustive summary of the United Kingdom withholding taxation treatment in relation to payments of principal and interest in respect of the Notes and the United Kingdom stamp duty and SDRT treatment in relation to the issue and transfer of Notes in each case based on United Kingdom law as applied in England and Wales and HM Revenue & Customs practice (which may not be binding on HM Revenue & Customs) as at the date hereof. The comments do not deal with other United Kingdom tax aspects of acquiring, holding or disposing of Notes. The comments relate only to the position of persons who are the absolute beneficial owners of their Notes and Coupons and may not apply to certain classes of persons such as dealers or certain professional investors. Any Noteholders who are in doubt as to their own tax position, or who may be subject to tax in a jurisdiction other than the United Kingdom, should consult their professional advisers.

Interest

While the Notes continue to be listed on a recognised stock exchange within the meaning of section 1005 of the Income Tax Act 2007, payments of interest by the Issuer may be made without withholding or deduction for or on account of United Kingdom income tax. The Irish Stock Exchange is a recognised stock exchange for these purposes. Securities will be treated as listed on the Irish Stock Exchange if they are both admitted to trading on the main market and are officially listed in Ireland in accordance with provisions corresponding to those generally applicable in countries in the European Economic Area.

If the Notes cease to be listed interest will generally be paid by the Issuer under deduction of United Kingdom income tax at the basic rate subject to particular reliefs that may apply in the case of particular recipients of interest.

If interest were paid under deduction of United Kingdom income tax (e.g. if the Notes lost their listing), Noteholders who are not resident in the United Kingdom may be able to recover all or part of the tax deducted if there is an appropriate provision in an applicable double taxation treaty.

Interest on the Notes has a United Kingdom source and accordingly may be chargeable to United Kingdom tax by direct assessment irrespective of the residence of the Noteholder. Where the interest is paid without withholding or deduction on account of United Kingdom tax, the interest will not be assessed to United Kingdom tax in the hands of holders of the Notes who are not resident in the United Kingdom, except where the Noteholder carries on a trade, profession or vocation through a branch or agency, or in the case of a corporate holder, carries on a trade through a permanent establishment in the United Kingdom, in connection with which the interest is received or to which the Notes are attributable, in which case (subject to exemptions for interest received by certain categories of agent) tax may be levied on the United Kingdom branch or agency, or permanent establishment.

Persons in the United Kingdom by or through whom interest is paid to another person who is an individual may be required to provide certain information to HM Revenue & Customs regarding the identity of the payee or person entitled to the interest and, in certain circumstances, such information may be exchanged with tax authorities in other countries.

Stamp Duty and Stamp Duty Reserve Tax

No United Kingdom stamp duty or stamp duty reserve tax is payable on the issue or transfer of a Note.

EU Directive on the Taxation of Savings Income

The EU has adopted a Directive regarding the taxation of savings income. The Directive requires Member States to provide to the tax authorities of other Member States details of payments of interest and other similar income paid by a person established within its jurisdiction to (or for the benefit of) an individual or to certain other persons in another Member State, except that Austria and Luxembourg will instead impose a withholding system for a transitional period (subject to a procedure whereby, on meeting certain conditions, the beneficial owner of the interest or other income may request that no tax be deducted) unless during such period they elect otherwise.

The European Commission has proposed certain amendments to the Directive, which may, if implemented, amend or broaden the scope of the requirements described above.

United States Federal Income Tax Considerations

The following discussion is a summary based on present law of certain US federal income tax considerations relevant to the purchase, ownership and disposition of the Notes. This discussion addresses only US Holders (as defined below) who purchase Notes in the original offering at the original offering price, hold the Notes as capital assets and use the US dollar as their functional currency. This discussion is not a complete description of all US tax considerations relating to the Notes. It does not address the tax treatment of prospective purchasers that will hold the Notes in connection with a permanent establishment. It also does not address the tax treatment of prospective purchasers subject to special rules, such as banks, dealers, traders that elect to mark to market, insurance companies, investors liable for the alternative minimum tax, US expatriates, tax-exempt entities or persons holding the Notes as part of a hedge, straddle, conversion or other integrated financial transaction. It also does not address the 3.8% Medicare contribution tax applicable to certain US Holders, or prospective purchasers of Further Notes, which may be issued at a discount or premium.

No authority directly addresses the US federal income tax characterisation of securities like the Notes. The Notes may be treated for such purposes as representing beneficial interests in the Loan, with any amounts received by the Issuer under the Loan but paid to third parties, as paid to them on behalf of the Bank rather than on behalf of Noteholders. This discussion assumes that treatment is correct and also assumes that the Loan is debt for US federal income tax purposes. No assurance can be given that the US Internal Revenue Service ("**IRS**") will not assert, or a court would not sustain, a position regarding the characterisation of the Notes that is contrary to this discussion and adopt an alternative characterisation. Such alternative characterisations include treatment of the Notes as obligations of or interests in the Issuer, which, if treated as debt of the Issuer, may be subject to special rules relating to accrual of contingent interest, and otherwise may be treated as equity in a passive foreign investment company. Prospective investors should seek advice from their own tax advisers as to the consequences to them of alternative characterisations of the Notes for US federal income tax purposes.

THE FOLLOWING STATEMENTS ABOUT US FEDERAL TAX ISSUES ARE MADE TO SUPPORT THE PROMOTION OR MARKETING OF THE NOTES. NO TAXPAYER CAN RELY ON THEM TO AVOID TAX PENALTIES. EACH PROSPECTIVE PURCHASER SHOULD SEEK ADVICE FROM AN INDEPENDENT TAX ADVISER ABOUT THE TAX CONSEQUENCES UNDER ITS OWN PARTICULAR CIRCUMSTANCES OF INVESTING IN NOTES UNDER THE LAWS OF THE UNITED KINGDOM, UKRAINE, THE UNITED STATES AND ITS CONSTITUENT JURISDICTIONS AND ANY OTHER JURISDICTION WHERE THE PURCHASER MAY BE SUBJECT TO TAXATION.

For purposes of this discussion, a "**US Holder**" is a beneficial owner of a Note that is for US federal income tax purposes (i) a citizen or individual resident of the United States, (ii) a corporation or other business entity created or organised under the laws of the United States or its political subdivisions, (iii) a trust subject to the control of a US person and the primary supervision of a US court or (iv) an estate the income of which is subject to US federal income taxation regardless of its source.

The tax treatment of a partner in an entity treated as a partnership for US federal income tax purposes that holds the Notes generally will depend upon the status of the partner and the activities of the partnership. An entity treated as a partnership for U.S. federal income tax purposes that acquires the Notes should consult its own tax advisers about the tax consequences for its partners.

Interest

A US Holder must include stated interest in gross income in accordance with its regular method of tax accounting. Interest, including any additional amounts paid on account of withholding tax, will be ordinary income from sources outside the United States.

A US Holder must accrue any original issue discount ("**OID**") into income on a constant yield to maturity basis whether or not it receives cash payments. The interest in the Loan represented by a Note will be issued with OID if its stated redemption price exceeds its issue price by as much as 0.25% multiplied by the number of complete years to maturity. The OID will be the amount by which the stated redemption price at maturity exceeds the issue price. The issue price of the interest in the Loan represented by a Note is the initial offering price at which a substantial amount of the Notes are sold to the public (excluding sales to brokers or similar persons). Stated redemption price at maturity is the sum of all payments due on the interest in the Loan represented by a Note other than payments of qualified stated interest. OID will be ordinary income from sources outside of the United States. A US Holder may elect to recognise all yield (including de minimis OID) using a constant yield method. The constant yield election generally applies only to the debt instrument with respect to which it is made, and it may not be revoked without the consent of the IRS.

To the extent payments of interest under the Loan are reduced by Ukrainian withholding tax, US Holders could not claim a foreign tax credit for US federal income tax purposes for the amount any such withholding tax unless they were viewed as the taxpayers with respect to that tax for Ukrainian law purposes . Each US Holder should consult its own tax adviser about its eligibility to credit or deduct Ukrainian withholding tax, if any is imposed on the Loan.

Disposition

A US Holder generally will recognise gain or loss on a sale, redemption or other disposition of a Note in an amount equal to the difference between the amount realised (less any accrued but unpaid interest, which will be taxable as interest) and the US Holder's adjusted tax basis in the Note. A US Holder's adjusted tax basis in a Note generally will be the amount paid for the Note, increased by any OID included in the US Holder's income, and reduced by any payments other than qualified stated interest.

Gain or loss on disposition of a Note generally will be US source capital gain or loss. Gain or loss will be long-term capital gain or loss if the US Holder has held the Note for more than one year. A non-corporate US Holder's long-term capital gain may be taxed at lower rates. Deductions for capital losses are subject to limitations.

Further Notes

Further Notes issued in additional offerings by the Issuer may not be fungible for US federal income tax purposes with the Notes issued in the original offering. Further Notes are not fungible unless they are issued in a qualified reopening of the offering. Whether the issuance of Further Notes is a qualified reopening depends on the interval after the original offering, the yield of the outstanding Notes at that time (based on their fair market value), whether the outstanding Notes were issued with original issue discount and whether any outstanding

Notes are publicly traded or quoted at the time of the new issuance. If issuance of the Further Notes is not a qualified reopening, the Further Notes may have original issue discount. If the Further Notes have original issue discount (or more original issue discount than the Notes), that may adversely affect the market value of the previously outstanding Notes unless the Further Notes can be distinguished from the Notes.

Information Reporting and Backup Withholding

Payments of interest, any accruals of OID and proceeds from the sale, redemption or other disposition of a Note may be reported to the US Internal Revenue Service unless the holder establishes a basis for exemption. Payments to non US Holders that provide certification of foreign status generally are exempt from information reporting. Backup withholding tax may apply to amounts subject to reporting if the holder fails to provide an accurate taxpayer identification number or to report its interest and dividends income. A holder can claim a credit against its US federal income tax liability for the amount of any backup withholding tax and a refund of any excess.

Certain US Holders are required to report to the Internal Revenue Service information with respect to Notes not held through an account with a US financial institution. Investors who fail to report required information could become subject to substantial penalties. Potential investors should consult their own tax advisers regarding the possible implications of this new legislation for their investment in Notes.

THE ABOVE DISCUSSION IS A GENERAL SUMMARY. IT DOES NOT COVER ALL TAX MATTERS THAT MAY BE OF IMPORTANCE TO A PARTICULAR INVESTOR. EACH PROSPECTIVE INVESTOR IS STRONGLY URGED TO CONSULT ITS OWN TAX ADVISOR ABOUT THE TAX CONSEQUENCES TO IT OF AN INVESTMENT IN THE NOTES.

SUBSCRIPTION AND SALE

Summary of Subscription Agreement

Credit Suisse Securities (Europe) Limited, J.P. Morgan Securities plc. and UBS Limited (collectively, the "**Joint Lead Managers**"), have, pursuant to the terms and conditions set forth in a subscription agreement dated 25 February 2013 (the "**Subscription Agreement**"), agreed with the Issuer, subject to the satisfaction of certain conditions set forth therein, to subscribe and pay for the Notes at the issue price of 100 per cent. of the principal amount of the Notes in the amounts set out below:

Joint Lead Managers	**Purchase commitment** (*US$*)
Credit Suisse Securities (Europe) Limited………	58,333,000
J.P. Morgan Securities plc……................................	58,333,000
UBS Limited...	58,334,000
	175,000,000

The Bank has agreed to pay certain commissions, fees, costs, expenses and taxes of the Issuer in connection with the Loan and the offering of the Notes and to reimburse the Joint Lead Managers, the Issuer and the Trustee for certain of their expenses in connection with the offering of the Notes. The Joint Lead Managers are entitled to be released and discharged from their obligations under the Subscription Agreement in certain circumstances prior to payment being made to the Issuer. For investors in the Notes, the yield to maturity is 10.875 per cent. per annum. This calculation is based on the coupon rate, length of time to maturity and market price. It assumes that the interest paid over the life of the Notes is reinvested at the same rate.

Selling Restrictions

United States

The Notes have not been and will not be registered under the Securities Act, or the securities laws of any State or other jurisdiction of the United States, and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except pursuant to an exemption from, or in a transaction not subject to the registration requirements of the Securities Act and, in each case, in circumstances that will not require the Issuer to register under the Investment Company Act.

Each Joint Lead Manager has severally (and not jointly nor jointly and severally) agreed that, except as permitted by the Subscription Agreement, it will not offer, sell or deliver the Notes (i) as part of their distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering and the Closing Date (the "**Distribution Compliance Period**"), within the United States or to, or for the account or benefit of, U.S. persons, and it will have sent to each dealer to which it sells Notes (other than pursuant to Rule144A) during the Distribution Compliance Period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons.

In addition, until 40 days after the commencement of the offering of the Notes, an offer or sale of Notes within the United States by a dealer that is not participating in the offering may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A.

Terms used in this section have the meanings given to them by Regulation S.

Notes offered and sold outside the United States to non-U.S. persons may be sold in reliance on Regulation S. The Subscription Agreement provides that the Joint Lead Managers may directly or through their respective U.S. broker-dealer affiliates arrange for the offer and resale of Notes only to persons whom they reasonably believe are QIBs and QPs who can represent that: (a) they are QPs who are QIBs within the meaning of Rule 144A; (b) they are not broker-dealers who own and invest on a discretionary basis less than US$25 million in securities of unaffiliated issuers; (c) they are not participant directed employee plans, such as a 401(k) plan; (d) they are acting for their own account, or the account of one or more QIBs each of which is also a QP; (e) they are not formed for the purpose of investing in the Issuer of the Notes; (f) each account for which they are purchasing will hold and transfer at least US$200,000 in principal amount of Notes at any time; (g) they understand that the Issuer may receive a list of participants holding positions in its securities from one or more book-entry depositaries; and (h) they will provide notice of the transfer restrictions set forth in this Prospectus to any subsequent transferees.

The Issuer, the Bank and the Joint Lead Managers reserve the right to reject any offer to purchase the Notes, in whole or in part, for any reason.

United Kingdom

Each Joint Lead Manager has severally (and not jointly nor jointly and severally) represented, warranted and agreed that:

(i) **Financial promotion**: it has only communicated or caused to be communicated, and will only communicate or cause to be communicated, any invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 (the "**FSMA**")) received by it in connection with the issue or sale of any Notes in circumstances in which section 21(1) of the FSMA does not apply to the Issuer; and

(ii) **General compliance**: it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

Ukraine

Each Joint Lead Manager has severally (and not jointly nor jointly and severally) represented, warranted and agreed that the Notes shall not be offered by any of them for circulation, distribution, placement, sale, purchase or other transfer in the territory of Ukraine. Accordingly, nothing in the Prospectus or any other documents, information or communications related to the Notes shall be interpreted as containing any offer or invitation to, or solicitation of, any such circulation, distribution, placement, sale, purchase or other transfer in the territory of Ukraine.

Ireland

Each Joint Lead Manager has severally (and not jointly nor joint and severally) represented, warranted and agreed that:

(a) it will not underwrite the issue of, or place the Notes, otherwise than in conformity with the provisions of the European Communities (Markets in Financial Instruments) Regulations 2007 (Nos. 1 to 3) (as amended), including, without limitation, Regulations 7 and 152 thereof, or any codes of conduct used in connection therewith and the provisions of the Investor Compensation Act 1998;

(b) it will not underwrite the issue of, or place, the Notes, otherwise than in conformity with the provisions of the Companies Acts 1963 – 2012 (as amended), the Central Bank Acts 1942 – 2011 (as amended) and any codes of conduct rules made under Section 117(1) of the Central Bank Act 1989;

(c) it will not underwrite the issue of, or place, or do anything in Ireland in respect of the Notes otherwise than in conformity with the provisions of the Prospectus (Directive 2003/71/EC) Regulations 2005 (as amended) and any rules issued under Section 51 of the Investment Funds, Companies and Miscellaneous Provisions Act 2005, by the Central Bank; and

(d) it will not underwrite the issue of, place or otherwise act in Ireland in respect of the Notes, otherwise than in conformity with the provisions of the Market Abuse (Directive 2003/6/ EC) Regulations 2005 (as amended) and any rules issued under Section 34 of the Investment Funds, Companies and Miscellaneous Provisions Act 2005 by the Central Bank.

General

Each Joint Lead Manager has severally (and not jointly nor jointly and severally) undertaken that it has, to the best of its knowledge and belief, complied and will comply in all material respects with applicable laws and regulations in each jurisdiction in which it offers, sells or delivers Notes or distributes this Prospectus (and any amendments thereof and supplements thereto) or any other offering or publicity material relating to the Notes, the Issuer or the Bank.

Certain of the Joint Lead Managers have, directly or indirectly through affiliates, provided investment and commercial banking, financial advisory and other services to the Group and their affiliates from time to time, for which they have received monetary compensation. Certain of the Joint Lead Managers may from time to time also enter into swap and other derivative transactions with the Issuer, the Bank and their affiliates. In addition, certain of the Joint Lead Managers and their affiliates may in the future engage in investment banking, commercial banking, financial or other advisory transactions with the Issuer, the Borrower or their affiliates.

The Bank is a party to the Subscription Agreement and has given certain representations and warranties, covenants and indemnities to the Joint Lead Managers and the Issuer therein.

Other than the approval of the Prospectus by the Central Bank, no action has been or will be taken in any jurisdiction by the Issuer, the Bank or any Joint Lead Manager that would, or is intended to, permit a public offering of the Notes, or possession or distribution of this Prospectus or any other offering material, in any country or jurisdiction where action for that purpose is required. Persons into whose hands this Prospectus comes are required by the Bank, the Issuer and the Joint Lead Managers to comply with all applicable laws and regulations in each country or jurisdiction in which they purchase, offer, sell or deliver Notes or have in their possession, distribute or publish this Prospectus or any other offering material relating to the Notes, in all cases at their own expense.

TRANSFER RESTRICTIONS

You are advised to consult legal counsel prior to making any offer, resale or other transfer offered hereby because of the following restrictions.

Rule 144A Notes

Each purchaser of Rule 144A Notes within the United States, by accepting delivery of this Prospectus and the Notes, will be deemed to have represented, agreed and acknowledged that:

(1) it is (a) a QIB that is also a QP; (b) not a broker-dealer which owns and invests on a discretionary basis less than U.S.$25 million in securities of unaffiliated issuers; (c) not a participant-directed employee plan, such as a 401(k) plan; (d) acquiring such Note for its own account, or for the account of a QIB that is also a QP; (e) not formed for the purpose of investing in the Notes or the Issuer; and (f) aware, and each beneficial owner of such Notes has been advised, that the seller of such Notes may be relying on the exemption from the provision of section 5 of the Securities Act provided by Rule 144A, and the Issuer is relying on an exemption from the Investment Company Act provided by section 3(c)(7) thereof;

(2) it will (a) along with each account for which it is purchasing, hold and transfer beneficial interests in the Rule 144A Notes in a principal amount that is not less than U.S.$200,000; and (b) provide notice of these transfer restrictions to any subsequent transferees. In addition, it understands that the Issuer may receive a list of participants holding positions in its securities from one or more book-entry depositaries;

(3) it understands that the Rule 144A Notes have not been and will not be registered under the Securities Act and may not be offered, sold, pledged or otherwise transferred except (a) in accordance with Rule 144A to a person that it or any person acting on its behalf reasonably believes is a QIB that is also a QP purchasing for its own account or for the account of one or more QIBs, each of which is also a QP; or (b) in an offshore transaction to non U.S. persons in accordance with Rule 903 or 904 of Regulation S, in each case in accordance with any applicable securities laws of any state or another jurisdiction of the United States;

(4) it understands that the Issuer has the power under the Trust Deed to compel any beneficial owner of Rule 144A Notes that is within the United States or is a U.S. person and is not a QIB and also a QP to sell its interest in the Rule 144A Notes, or may sell such interest on behalf of such owner. The Issuer has the right to refuse to honour the transfer of an interest in the Rule 144A Notes to a U.S. person who is not a QIB and also a QP;

(5) it understands that the Rule 144A Notes, unless otherwise agreed between the Issuer and the Trustee in accordance with applicable law, will bear a legend to the following effect:

THIS NOTE AND THE LOAN IN RESPECT THEREOF HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE “**SECURITIES ACT**”) OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (1) IN ACCORDANCE WITH RULE 144A UNDER THE SECURITIES ACT (“**RULE 144A**”) TO A PERSON THAT THE HOLDER OR ANY PERSON ACTING ON

ITS BEHALF REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A (A "**QIB**") THAT IS ALSO A QUALIFIED PURCHASER (A "**QP**") WITHIN THE MEANING OF SECTION 2(A)(51) OF THE U.S. INVESTMENT COMPANY ACT OF 1940, AS AMENDED (THE "**INVESTMENT COMPANY ACT**") PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ONE OR MORE QIBs, EACH OF WHICH IS A QP WHO THE HOLDER HAS INFORMED, IN EACH CASE, THAT SUCH OFFER, SALE, PLEDGE OR OTHER TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A, AND IN AN AMOUNT FOR EACH ACCOUNT OF NOT LESS THAN U.S.$200,000 PRINCIPAL AMOUNT OF NOTES AND THAT CAN REPRESENT, IN EACH CASE, THAT IT: (A) IS A QIB THAT IS ALSO A QP; (B) IS NOT A BROKER-DEALER WHICH OWNS AND INVESTS ON A DISCRETIONARY BASIS LESS THAN U.S.$25 MILLION IN SECURITIES OF UNAFFILIATED ISSUERS; (C) IS NOT A PARTICIPANT-DIRECTED EMPLOYEE PLAN, SUCH AS A 401(K) PLAN; (D) WAS NOT FORMED FOR THE PURPOSE OF INVESTING IN THE ISSUER OR THIS NOTE; (E) IS ACQUIRING THIS NOTE FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QIB THAT IS ALSO A QP, IN A PRINCIPAL AMOUNT THAT IS NOT LESS THAN U.S.$200,000 IN RELIANCE ON RULE 144A; (F) UNDERSTANDS THAT THE ISSUER MAY RECEIVE A LIST OF PARTICIPANTS HOLDING POSITIONS IN ITS SECURITIES FROM ONE OR MORE BOOK-ENTRY DEPOSITARIES; AND (G) WILL PROVIDE NOTICE OF THE FOREGOING TRANSFER RESTRICTIONS TO ANY SUBSEQUENT TRANSFEREE; OR (2) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR 904 OF REGULATION S UNDER THE SECURITIES ACT ("**REGULATION S**") TO OR FOR THE ACCOUNT OR BENEFIT OF A PERSON KNOWN TO THE TRANSFEROR NOT TO BE A U.S. PERSON (AS DEFINED IN REGULATION S), BY PRE-ARRANGEMENT OR OTHERWISE, IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES. THE HOLDER WILL, AND EACH SUBSEQUENT HOLDER IS REQUIRED TO, NOTIFY ANY PURCHASER FROM IT OF THE NOTES IN RESPECT HEREOF OF THE RESALE RESTRICTIONS REFERRED TO ABOVE. TRANSFER IN VIOLATION OF THE FOREGOING WILL BE OF NO FORCE OR EFFECT, WILL BE VOID AB INITIO, AND WILL NOT OPERATE TO TRANSFER ANY RIGHTS TO THE TRANSFEREE, NOTWITHSTANDING ANY INSTRUCTIONS TO THE CONTRARY TO THE ISSUER OF THIS NOTE, THE TRUSTEE OR ANY INTERMEDIARY. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF ANY EXEMPTION UNDER THE SECURITIES ACT FOR RESALES OF THIS NOTE.

THE BENEFICIAL OWNER HEREOF HEREBY ACKNOWLEDGES THAT IF AT ANY TIME WHILE IT HOLDS AN INTEREST IN THIS NOTE IT IS A U.S. PERSON WITHIN THE MEANING OF REGULATION S THAT IS NOT BOTH A QIB AND A QP, THE ISSUER MAY (1) COMPEL IT TO SELL ITS INTEREST IN THIS NOTE TO A PERSON WHO IS (A) A U.S. PERSON WHO IS A QIB AND ALSO A QP AND THAT IS, IN EACH CASE, OTHERWISE QUALIFIED TO PURCHASE THIS NOTE IN A TRANSACTION EXEMPT FROM REGISTRATION UNDER THE SECURITIES ACT OR (B) OUTSIDE THE UNITED STATES AND IS NOT A U.S. PERSON WITHIN THE MEANING OF REGULATION S OR (2) COMPEL THE BENEFICIAL OWNER TO SELL ITS INTEREST IN THIS NOTE TO THE BORROWER, THE ISSUER OR AN AFFILIATE OF EITHER OR TRANSFER ITS INTEREST IN THIS NOTE TO A PERSON DESIGNATED BY OR ACCEPTABLE TO THE ISSUER, IN ANY CASE, AT A PRICE EQUAL TO THE LESSER OF (X) THE PURCHASE PRICE THEREFOR PAID BY THE BENEFICIAL OWNER, (Y) 100 per cent. OF THE PRINCIPAL AMOUNT THEREOF OR (Z) THE FAIR MARKET VALUE THEREOF. THE ISSUER HAS THE RIGHT TO REFUSE TO HONOUR A TRANSFER OF AN INTEREST IN THIS NOTE TO A U.S. PERSON WHO

IS NOT A QIB AND ALSO A QP. THE ISSUER HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE INVESTMENT COMPANY ACT.

EACH BENEFICIAL OWNER HEREOF REPRESENTS AND WARRANTS THAT FOR SO LONG AS IT HOLDS THIS NOTE OR ANY INTEREST HEREIN: (1) IT IS NOT, AND IT IS NOT USING THE ASSETS OF, A BENEFIT PLAN INVESTOR AS DEFINED IN SECTION 3(42) OF THE UNITED STATES EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED ("**ERISA**"); (2) IT IS NOT AND IS NOT USING THE ASSETS OF A GOVERNMENTAL PLAN (AS DEFINED IN SECTION 3(32) OF ERISA), CHURCH PLAN (AS DEFINED IN SECTION 3(33) OF ERISA), OR NON-U.S. PLAN (AS DESCRIBED IN SECTION 4(B)(4) OF ERISA) SUBJECT TO LAWS WHICH ARE SUBSTANTIALLY SIMILAR TO THE PROHIBITED TRANSACTION PROVISIONS OF ERISA OR SECTION 4975 OF THE INTERNAL REVENUE CODE OF 1986, AS AMENDED, UNLESS THE PURCHASE AND HOLDING OF THIS NOTE WILL NOT VIOLATE SUCH SIMILAR LAW; AND (3) IT WILL NOT SELL OR OTHERWISE TRANSFER ANY NOTE OR INTEREST THEREIN TO ANY PERSON UNLESS THE SAME FOREGOING REPRESENTATIONS, WARRANTIES AND COVENANTS ARE DEEMED TO APPLY TO THAT PERSON;

(6) it understands and acknowledges that its purchase and holding of such Rule 144A Notes constitutes a representation and agreement by it that at the time of its purchase and throughout the period in which it holds such Rule 144A Notes or any interest therein: (a) it is not a benefit plan investor as defined in Section 3(42) of ERISA, as amended; (b) it is not and is not using the assets of a governmental plan (as defined in Section 3(32) of ERISA), church plan (as defined in Section 3(33) of ERISA), or non-U.S. plan (as described in Section 4(b)(4) of ERISA) subject to laws which are substantially similar to the prohibited transaction provisions of ERISA or Section 4975 of the Internal Revenue Code of 1986, as amended, unless the purchase and holding of such Rule 144A Notes will not violate such similar law; and (c) it will not sell or otherwise transfer any such Rule 144A Note or interest to any person unless the same foregoing representations and warranties are deemed to apply from that person;

(7) it acknowledges that the Issuer, the Bank, the Registrar, the Joint Lead Managers and their affiliates, and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements and agrees that, if any of the acknowledgements, representations or agreements deemed to have been made by it by its purchase of Rule 144A Notes is no longer accurate, it shall promptly notify the Issuer, the Borrower and the Joint Lead Managers. If it is acquiring any Notes as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each of those accounts and that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each account;

(8) it understands that the Rule 144A Notes will be evidenced by the Rule 144A Global Certificate. Before any interest in the Rule 144A Global Certificate may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in the Regulation S Global Certificate, it will be required to provide a Transfer Agent with a written certification (in the form provided in the Agency Agreement) as to compliance with the foregoing acknowledgements, representations and agreements and applicable securities laws; and

(9) it is relying on the information contained in this Prospectus in making its investment decision with respect to the Rule 144A Notes. It acknowledges that none of the

Issuer, the Bank, or the Joint Lead Managers has made any representation to it with respect to the Issuer or PrivatBank or the offering or sale of the Rule 144A Notes, other than the information contained in this Prospectus which has been delivered to it and upon which it is relying in making its investment decision with respect to the Rule 144A Notes. It has had access to such financial and other information concerning the Issuer and PrivatBank and the Rule 144A Notes as it has deemed necessary in connection with its decision to purchase the Rule 144A Notes, including an opportunity to ask questions of and request information from the Issuer, PrivatBank and the Joint Lead Managers.

Prospective purchasers are hereby notified that sellers of the Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.

Regulation S Notes

Each purchaser of Regulation S Notes outside the United States pursuant to Regulation S and each subsequent purchaser of such Regulation S Notes in resales prior to the expiration of the Distribution Compliance Period, by accepting delivery of this Prospectus and the Regulation S Notes, will be deemed to have represented, agreed and acknowledged that:

(1) it is, or at the time Regulation S Notes are purchased will be, the beneficial owner of such Regulation S Notes and (a) it is not a U.S. person and it is located outside the United States (within the meaning of Regulation S); and (b) it is not an affiliate of the Issuer, PrivatBank or a person acting on behalf of such an affiliate;

(2) it understands that such Regulation S Notes have not been and will not be registered under the Securities Act and that, prior to the expiration of the distribution compliance period, it will not offer, sell, pledge or otherwise transfer such Regulation S Notes except: (a) in accordance with Rule 144A to a person that it or any person acting on its behalf reasonably believes is a QIB that is also a QP purchasing for its own account or the account of a QIB that is also a QP; or (b) to a non-U.S. person in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S, in each case in accordance with any applicable securities laws of any State of the United States;

(3) the Issuer, the Bank, the Registrar, the Joint Lead Managers and their affiliates, and others will rely upon the truth and accuracy of the foregoing acknowledgments, representations and agreements and agree that, if any of the acknowledgements, representations or agreements deemed to have been made by it by its purchase of Notes is no longer accurate, it shall promptly notify the Issuer, the Bank and the Joint Lead Managers. If it is acquiring any Notes as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each such account and that it has full power to make the above acknowledgements, representations and agreements on behalf of each account;

(4) it understands that the Regulation S Notes offered in reliance on Regulation S will be represented by the Regulation S Global Certificate. Prior to the expiration of the Distribution Compliance Period, before any interest in the Regulation S Global Certificate may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in the Rule 144A Global Certificate, it will be required to provide a Transfer Agent with a written certification (in the form provided in the Agency Agreement) as to compliance with applicable securities laws;

(5) it understands that the Regulation S Notes, unless otherwise agreed between the Issuer and the Trustee in accordance with applicable law, will bear a legend to the following effect:

THIS NOTE AND THE LOAN IN RESPECT THEREOF HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**") OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED WITHIN THE UNITED STATES EXCEPT PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT.

EACH BENEFICIAL OWNER HEREOF REPRESENTS AND WARRANTS THAT FOR SO LONG AS IT HOLDS THIS NOTE OR ANY INTEREST HEREIN (1) IT IS NOT, AND IT IS NOT USING THE ASSETS OF, A BENEFIT PLAN INVESTOR AS DEFINED IN SECTION 3(42) OF THE UNITED STATES EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED ("**ERISA**"); (2) IT IS NOT AND IS NOT USING THE ASSETS OF A GOVERNMENTAL PLAN (AS DEFINED IN SECTION 3(32) OF ERISA), CHURCH PLAN (AS DEFINED IN SECTION 3(33) OF ERISA), OR NON-U.S. PLAN (AS DESCRIBED IN SECTION 4(B)(4) OF ERISA) SUBJECT TO LAWS WHICH ARE SUBSTANTIALLY SIMILAR TO THE PROHIBITED TRANSACTION PROVISIONS OF ERISA OR SECTION 4975 OF THE INTERNAL REVENUE CODE OF 1986, AS AMENDED, UNLESS THE PURCHASE AND HOLDING OF THIS NOTE WILL NOT VIOLATE SUCH SIMILAR LAW; AND (3) IT WILL NOT SELL OR OTHERWISE TRANSFER ANY NOTE OR INTEREST THEREIN TO ANY PERSON WITHOUT FIRST OBTAINING THE SAME FOREGOING REPRESENTATIONS, WARRANTIES AND COVENANTS FROM THAT PERSON;

(6) it understands and acknowledges that its purchase and holding of such Regulation S Notes constitutes a representation and agreement by it that at the time of its purchase and throughout the period in which it holds such Regulation S Notes or any interest therein (a) it is not a benefit plan investor as defined in Section 3(42) of ERISA, as amended; (b) it is not and is not using the assets of a governmental plan (as defined in Section 3(32) of ERISA), church plan (as defined in Section 3(33) of ERISA), or non-U.S. plan (as described in Section 4(b)(4) of ERISA) subject to laws which are substantially similar to the prohibited transaction provisions of ERISA or Section 4975 of the Internal Revenue Code of 1986, as amended, unless the purchase and holding of such Regulation S Notes will not violate such similar law; and (c) it will not sell or otherwise transfer any such Regulation S Note or interest to any person unless the same foregoing representations and warranties are deemed to apply to that person; and

(7) it understands that the Issuer may receive a list of participants holding positions in the Issuer's securities from one or more book-entry depositories.

BOOK-ENTRY PROCEDURES FOR THE GLOBAL CERTIFICATES

Custodial and depository links are to be established between DTC, Euroclear and Clearstream, Luxembourg to facilitate the initial issue of the Notes and cross market transfers of the Notes associated with secondary market trading. See *Book-Entry Ownership and Settlement and Transfer of Notes* below.

Investors may hold their interests in the Global Certificates directly through DTC, Euroclear or Clearstream, Luxembourg if they are accountholders ("**Direct Participants**") or indirectly ("**Indirect Participants**" and together with Direct Participants, "**Participants**") through organisations which are accountholders therein.

Euroclear and Clearstream, Luxembourg

Euroclear and Clearstream, Luxembourg each hold securities for their customers and facilitate the clearance and settlement of securities transactions through electronic book-entry transfer between their respective accountholders. Indirect access to Euroclear and Clearstream, Luxembourg is available to other institutions which clear through or maintain a custodial relationship with an accountholder of either system. Euroclear and Clearstream, Luxembourg provide various services including safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg also deal with domestic securities markets in several countries through established depository and custodial relationships. Euroclear and Clearstream, Luxembourg have established an electronic bridge between their two systems across which their respective customers may settle trades with each other. Their customers are worldwide financial institutions including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations.

DTC

DTC is a limited purpose trust company organised under the laws of the State of New York, a "banking organisation" under the laws of the State of New York, a member of the U.S. Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial code and a "clearing agency" registered pursuant to the provisions of Section 17A of the Exchange Act. DTC was created to hold securities for its Participants and to facilitate the clearance and settlement of securities transactions between Participants through electronic computerised book-entry changes in accounts of its Participants, thereby eliminating the need for physical movement of certificates. Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. Indirect access to DTC is available to others, such as banks, securities brokers, dealers and trust companies, which clear through or maintain a custodial relationship with a DTC Direct Participant, either directly or indirectly.

Investors may hold their interests in the Rule 144A Global Certificate directly through DTC if they are Direct Participants in the DTC system, or as Indirect Participants through organisations which are Direct Participants in such system.

DTC has advised the Issuer that it will take any action permitted to be taken by a holder of Notes only at the direction of one or more Direct Participants and only in respect of such portion of the aggregate principal amount of the Rule 144A Global Certificate as to which such Participant or Participants has or have given such direction. However, in the circumstances described under *Summary of Provisions Relating to the Notes while in Global Form*, DTC will surrender the Rule 144A Global Certificate for exchange for Definitive

Notes (which Definitive Notes will bear the legend applicable to transfers pursuant to Rule 144A).

Book-Entry Ownership

Euroclear and Clearstream, Luxembourg

The Regulation S Global Certificate representing the Regulation S Notes will have an ISIN and a Common Code and will be registered in the name of a nominee for, and deposited with a common depositary on behalf of, Euroclear and Clearstream, Luxembourg. The address of Euroclear is 1 Boulevard du Roi Albert II, 1210 Brussels, Belgium, and the address of Clearstream, Luxembourg is 42 Avenue JF Kennedy, L-1855, Luxembourg.

DTC

The Rule 144A Global Certificate representing the Rule 144A Notes will have an ISIN, a Common Code and a CUSIP number and will be deposited with a custodian (the "**DTC Custodian**") for, and registered in the name of Cede & Co. as nominee of, DTC. The DTC Custodian and DTC will electronically record the principal amount of the Notes held within the DTC system. The address of DTC is 55 Water Street, New York, New York 10041, United States of America.

Relationship of Participants with Clearing Systems

Each of the persons shown in the records of DTC, Euroclear, Clearstream, Luxembourg as the holder of a Note evidenced by a Global Certificate must look solely to DTC, Euroclear or Clearstream, Luxembourg (as the case may be) for his share of each payment made by the Issuer to the holder of such Global Certificate and in relation to all other rights arising under such Global Certificate, subject to and in accordance with the respective rules and procedures of DTC, Euroclear or Clearstream, Luxembourg (as the case may be). The Issuer expects that, upon receipt of any payment in respect of Notes evidenced by a Global Certificate, the common depositary by whom such Certificate is held, or the nominee in whose name it is registered, will immediately credit the relevant Participants' or accountholders' accounts in the relevant clearing system with payments in amounts proportionate to their respective beneficial interests in the principal amount of the relevant Global Certificate as shown on the records of the relevant common depositary or its nominee. The Issuer also expects that payments by Direct Participants in any clearing system to owners of beneficial interests in any Global Certificate held through such Direct Participants in any clearing system will be governed by standing instructions and customary practices. Save as aforesaid, such persons shall have no claim directly against the Issuer in respect of payments due on the Notes for so long as the Notes are evidenced by such Global Certificate, and the obligations of the Issuer will be discharged by payment to the registered holder, as the case may be, of such Global Certificate in respect of each amount so paid. None of the Issuer, the Trustee or any Agent (as defined in the Terms and Conditions of the Notes) will have any responsibility or liability for any aspect of the records relating to or payments made on account of ownership interests in any Global Certificate or for maintaining, supervising or reviewing any records relating to such ownership interests.

Settlement and Transfer of Notes

Subject to the rules and procedures of each applicable clearing system, purchases of Notes held within a clearing system must be made by or through Direct Participants, which will receive a credit for such Notes on the clearing system's records. The ownership interest of each actual purchaser of each such Note (the “**Beneficial Owner**”) will in turn be recorded on the Direct and Indirect Participants’ records.

Beneficial Owners will not receive written confirmation from any clearing system of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which such Beneficial Owner entered into the transaction.

Transfers of ownership interests in Notes held within the clearing system will be effected by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in such Notes, unless and until interests in any Global Certificate held within a clearing system are exchanged for Definitive Notes.

No clearing system has knowledge of the actual Beneficial Owners of the Notes held within such clearing system, and its records will reflect only the identity of the Direct Participants to whose accounts such Notes are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers. Conveyance of notices and other communications by the clearing systems to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

The laws of some jurisdictions may require that certain persons take physical delivery in definitive form of securities. Consequently, the ability to transfer interests in a Global Certificate to such persons may be limited. As DTC can only act on behalf of Direct Participants, who in turn act on behalf of Indirect Participants, the ability of a person having an interest in the Rule 144A Global Certificate to pledge such interest to persons or entities that do not participate in DTC, or otherwise take actions in respect of such interest, may be affected by a lack of physical certificate in respect of such interest.

Trading between Euroclear and/or Clearstream, Luxembourg Participants

Secondary market sales of book-entry interests in the Notes held through Euroclear or Clearstream, Luxembourg to purchasers of book-entry interests in the Notes held through Euroclear or Clearstream, Luxembourg will be conducted in accordance with the normal rules and operating procedures of Euroclear and Clearstream, Luxembourg and will be settled using the procedures applicable to conventional eurobonds.

Trading between DTC Participants

Secondary market sales of book-entry interests in the Notes between DTC Participants will occur in the ordinary way in accordance with DTC rules and will be settled using the procedures applicable to United States corporate debt obligations in DTC’s same-day funds settlement system in same-day funds, if payment is effected in U.S. dollars, or free of payment, if payment is not effected in U.S. dollars. Where payment is not effected in U.S. dollars, separate payment arrangements outside DTC are required to be made between the DTC Participants.

Trading between DTC Seller and Euroclear/Clearstream, Luxembourg Purchaser

When book-entry interests in Notes are to be transferred from the account of a DTC Participant holding a beneficial interest in the Rule 144A Global Certificate to the account of a Euroclear or Clearstream, Luxembourg accountholder wishing to purchase a beneficial interest in the Regulation S Global Certificate (subject to the certification procedures provided in the Agency Agreement), the DTC Participant will deliver instructions for delivery to the relevant Euroclear or Clearstream, Luxembourg accountholder to DTC by 12 noon, New York time, on the settlement date. Separate payment arrangements are required to be made between the DTC Participant and the relevant Euroclear or Clearstream, Luxembourg Participant. On the settlement date, the DTC Custodian of the Rule 144A Global Certificate will instruct the Registrar to: (i) decrease the amount of Notes registered in the name of Cede & Co. and evidenced by the Rule 144A Global Certificate of the relevant class; and (ii) increase the amount of Notes registered in the name of the nominee of the common depositary for Euroclear and Clearstream, Luxembourg and evidenced by the Regulation S Global Certificate. Book-entry interests will be delivered free of payment to Euroclear or Clearstream, Luxembourg, as the case may be, for credit to the relevant accountholder on the first business day following the settlement date.

Trading between Euroclear/Clearstream, Luxembourg Seller and DTC Purchaser

When book-entry interests in the Notes are to be transferred from the account of a Euroclear or Clearstream, Luxembourg accountholder to the account of a DTC Participant wishing to purchase a beneficial interest in the Rule 144A Global Certificate (subject to the certification procedures provided in the Agency Agreement), the Euroclear or Clearstream, Luxembourg Participant must send to Euroclear or Clearstream, Luxembourg delivery free of payment instructions by 7.45 p.m., Brussels or Luxembourg time, one business day prior to the settlement date. Euroclear or Clearstream, Luxembourg, as the case may be, will in turn transmit appropriate instructions to the common depositary for Euroclear and Clearstream, Luxembourg and the Registrar to arrange delivery to the DTC Participant on the settlement date. Separate payment arrangements are required to be made between the DTC Participant and the relevant Euroclear or Clearstream, Luxembourg accountholder, as the case may be. On the settlement date, the common depositary for Euroclear and Clearstream, Luxembourg will: (a) transmit appropriate instructions to the DTC Custodian of the Rule 144A Global Certificate who will in turn deliver such book-entry interests in the Notes free of payment to the relevant account of the DTC Participant; and (b) instruct the Registrar to (i) decrease the amount of Notes registered in the name of the nominee of the common depositary for Euroclear and Clearstream, Luxembourg and evidenced by the Regulation S Global Certificate; and (ii) increase the amount of Notes registered in the name of Cede & Co. and evidenced by the Rule 144A Global Certificate.

Although DTC, Euroclear and Clearstream, Luxembourg have agreed to the foregoing procedures in order to facilitate transfers of beneficial interests in Global Certificates among Participants and accountholders of DTC, Euroclear and Clearstream, Luxembourg, they are under no obligation to perform or continue to perform such procedure, and such procedures may be discontinued at any time. None of the Issuer, the Trustee or any agent will have the responsibility for the performance by DTC, Euroclear, Clearstream, Luxembourg or their respective Direct or Indirect Participants of their respective obligations under the rules and procedures governing their operations.

Pre-issue Trades Settlement

It is expected that delivery of the Notes will be made against payment therefor on the Closing Date, which could be more than three business days following the date of pricing. Under Rule 15c6-1 under the Exchange Act, trades in the United States secondary market generally are required to settle within three business days (T+3), unless the parties to any such trade expressly agree otherwise.

Accordingly, purchasers who wish to trade the Notes in the United States on the date of pricing or the next succeeding business days until three days prior to the Closing Date will be required, by virtue of the fact the Notes may be initially settled beyond T+3, to specify an alternate settlement cycle at the time of any such trade to prevent a failed settlement. Settlement procedures in other countries will vary.

Purchasers of the Notes may be affected by such local settlement practices, and purchasers of the Notes between the relevant date of pricing and the Closing Date should consult their own advisers.

CERTAIN ERISA CONSIDERATIONS

The United States Employee Retirement Income Security Act of 1974, as amended ("**ERISA**"), imposes fiduciary standards and certain other requirements on employee benefit plans subject thereto (collectively, "**ERISA Plans**"), including collective investment funds, separate accounts, and other entities or accounts whose underlying assets are treated as assets of such plans pursuant to the U.S. Department of Labour "plan assets" regulation, 29 CFR Section 2510.3-101, as modified by Section 3(42) of ERISA (the "**Plan Assets Regulation**"), and on those persons who are fiduciaries with respect to ERISA Plans.

Under a "look-through rule" set forth in the Plan Assets Regulation, if an ERISA Plan or a plan that is not subject to ERISA but that is subject to Section 4975 of the United States Internal Revenue Code of 1986, as amended (the "**Code**") (collectively, "**Plans**"), invests in an "equity interest" of an entity that is neither a "publicly offered security" nor a security issued by an investment company registered under the Investment Company Act, the Plan's assets include both the equity interest and an undivided interest in each of the entity's underlying assets, unless an exception applies. Under one such exception to this look-through rule, the underlying assets of an entity in which a Plan makes an equity investment will not be considered "plan assets" if benefit plan investors own less than 25 per cent. of the value of each class of equity interest in the entity. For purposes of this 25 per cent. determination, the value of equity interests held by persons (other than benefit plan investors) that have discretionary authority or control with respect to the assets of the entity or that provide investment advice for a fee (direct or indirect) with respect to such assets (or any affiliate of such a person) is disregarded. An equity interest does not include debt (as determined by applicable local law) which does not have substantial equity features. The term "benefit plan investor" is defined in Section 3(42) of ERISA as: (a) an employee benefit plan (as defined in Section 3(3) of ERISA) that is subject to part 4 of subtitle B of Title I of ERISA, (b) a plan to which Section 4975 of the Code applies, or (c) any entity whose underlying assets include "plan assets" by reason of any such plan's investment in the entity. Where the value of an equity interest in an entity relates solely to identified property of the entity, that property is treated as the sole property of a separate entity.

Because the Notes do not represent an interest in any property of the Issuer other than the Loan, they may be regarded for ERISA purposes as equity interests in a separate entity whose sole asset is the Loan. Further, neither the Issuer nor the Trustee will be able to monitor the Noteholders' possible status as benefit plan investors. Accordingly, the Notes are not permitted to be acquired by any benefit plan investor.

Governmental plans, certain church plans and certain non U.S. plans, while not subject to the prohibited transaction provisions of ERISA or the provisions of Section 4975 of the Code, may nevertheless be subject to federal, state, local, non U.S. or other laws or regulations (such as the prohibited transaction rules of Section 503 of the Code) that are substantially similar to the foregoing provisions of ERISA or the Code ("**Similar Laws**"). Fiduciaries of such plans should consult with their counsel before purchasing any of the Notes or any interest therein.

By its purchase and holding of the Notes or any interest therein, the purchaser thereof will be deemed to have represented and agreed that at the time of its purchase and throughout the period in which it holds such Notes or any interest therein: (a) it is not a benefit plan investor as defined in Section 3(42) of ERISA; (b) it is not and is not using the assets of a governmental plan, church plan or non-U.S. plan subject to Similar Laws unless the purchase and holding of such Notes will not violate any such Similar Laws; and (c) it will not sell or otherwise transfer any such Notes or interest to any person unless the same foregoing representations and warranties are deemed to apply from that person.

The foregoing discussion should not be construed as legal advice. Any potential purchaser of Notes should consult its legal counsel with respect to issues arising under ERISA, Section 4975 of the Code and any Similar Laws and make its own independent decisions.

GENERAL INFORMATION

1. Application has been made to list the Notes on the Irish Stock Exchange, through the Listing Agent, Arthur Cox Listing Services Limited ("ACLSL"). ACLSL is acting solely in its capacity as listing agent for the Issuer in relation to the Notes and is not itself seeking admission to the Official List or to trading on the Main Securities Market. It is expected that the listing of the Notes will be granted on or before 25 February 2013. Transactions will normally be effected for delivery on the third working day after the day of the transaction, subject only to the issue of the Global Certificates.

2. The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg and DTC. The International Securities Identification Number ("ISIN") of the Regulation S Global Certificate is XS0896890315 and the Common Code of the Regulation S Global Certificate is 089689031. The CUSIP number of the Rule 144A Global Certificate is 90277V AB4, the ISIN of the Rule 144A Global Certificate is US90277VAB45 and the Common Code of the Rule 144A Global Certificate is 089703182.

3. The Issuer estimates the amount of expenses related to the admission of the Notes to trading on the Irish Stock Exchange to be approximately €5,000.

4. No consents, approvals or orders of any regulatory authorities are required by the Issuer under the laws of the Ireland for the maintenance of and performance of its obligations under the Loan and for the issue of and performance of its obligations under the Notes.

5. The making of the Loan was approved by a resolution of the Supervisory Board of the Bank No. 5 dated 7 February 2013 and by a resolution of the Management Board of the Bank dated 11 February 2013, and the issue of the Notes and the making of the Loan were approved by a resolution of the Board of Directors of the Issuer on 25 February 2013. The Bank and the Issuer will obtain all necessary consents, approvals and authorisations in Ukraine and England, respectively, in connection with the Loan and the issue and performance of the obligations under the Notes.

6. There has been no significant change in the financial or trading position of the Bank or the Group since 30 September 2012 and no material adverse change in the prospects of the Bank or the Group since 31 December 2011.

7. There are no, and have not been, any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Bank is aware) which may have or have had during the 12 months prior to the date of this Prospectus a significant effect on the financial position or profitability of the Bank or the Group.

8. There has been no significant change in the financial or trading position of the Issuer since 31 December 2011 and no material adverse change in the prospects of the Issuer since 31 December 2011.

9. There are no, and have not been, any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) which may have or have had in the 12 months prior to the date of this Prospectus a significant effect on the financial position or profitability of the Issuer.

10. Neither the Bank nor the Issuer has entered into any material contracts outside the ordinary course of business which could result in the Bank, the Issuer or any member of the Group becoming subject to an obligation or entitlement that would be material to the Issuer's

ability to meet its obligations to Noteholders in respect of the Notes or the Bank's ability to meet its obligations under the Loan Agreement.

11. Until the maturity date or earlier repayment of the Notes, copies (and certified English translations where documents at issue are not in English) of the following documents may be inspected at and are available in physical form at the registered office of the Issuer and the specified offices of the Trustee and the Principal Paying Agent in London during usual business hours on any business day (Saturdays, Sundays and public holidays excepted):

(a) a copy of this Prospectus along with any supplement to this Prospectus;

(b) the Memorandum and Articles of Association of the Issuer;

(c) the charter of the Bank;

(d) the Annual Consolidated Financial Statements, including the related independent auditor's report in respect thereof, and the Interim Consolidated Financial Information, including the review report in respect thereof;

(e) the audited financial statements of the Issuer prepared in accordance with IFRS as at and for the years ended 31 December 2011 and 31 December 2010; and

(f) the Loan Agreement; and

(g) the Trust Deed and the Agency Agreement.

12. Deutsche Bank Luxembourg S.A. will act as Euro Registrar in relation to the Notes and Deutsche Bank Trust Company Americas as United States Registrar in relation to the Notes.

13. The loan to value ratio is 100 per cent.

14. The members of the Management Board of the Bank and, save as disclosed in the sections "Shareholders" and "Related Party Transactions", the members of the Supervisory Board of the Bank do not have any conflicts, or any potential conflicts, between their duties to the Bank and their private interests or other duties.

15. The following table sets forth information about the Group's significant subsidiaries as at the date of this Prospectus

	Country	**Group holding (per cent.)**
Moscomprivatbank	Russian Federation	70.04
JSC PrivatBank	Georgia	50.30
AS PrivatBank	Latvia	50.02

16. Appendix A "Banking Sector and Regulation in Ukraine" forms part of this Prospectus.

APPENDIX A

BANKING SECTOR AND REGULATION IN UKRAINE

Ukrainian Banking System

The current institutional framework of the Ukrainian banking sector is a two-tier structure made up of the NBU and commercial banks. As at 1 December 2012, there were a total of 176 commercial banks which have been granted licences by the NBU to perform banking transactions. The Ukrainian banking sector has a high level of concentration of capital. According to the NBU, as at 1 October 2012, approximately 52.4 per cent. of the banking sector's total assets were held by the 10 largest Ukrainian banks. As at 1 October 2012, the two state-owned banks, Ukreximbank and the Oschadbank held approximately 14.8 per cent. of the Ukrainian banking sector's total assets, 13.2 per cent. of the total loan portfolio and 12.5 per cent. of total retail deposits in Ukraine. After adopting anti-crisis legislation, Ukraine has recapitalised three commercial banks, namely Rodovid Bank, Kyiv and Ukrgazbank (with the state-owned stake ranging from 92.99 per cent. to 99.99 per cent.). As at 1 December 2012, 54 banks in Ukraine had some foreign capital, of which 22 were fully owned by foreign owners, and 39 per cent. of the total share capital of all Ukrainian banks was foreign-owned.

According to the NBU, as at 1 December 2012, the total assets of Ukrainian banks licenced to perform banking transactions amounted to UAH 1,264.7 billion. The total loan portfolio of such banks as at 1 December 2012 constituted UAH 828.9 billion, including UAH 614.8 billion of corporate loans and UAH 162.5 billion of retail loans.

According to the NBU, as at 1 January 2012, the paid share capital of Ukrainian banks that were licenced to perform banking transactions amounted to UAH 171.9 billion, an increase of 17.8 per cent. compared to 1 January 2011 and an increase of 44.2 per cent. compared to 1 January 2010. As at 1 December 2012, the paid share capital of Ukrainian banks amounted to UAH 174.5 billion, an increase of 1.6 per cent. compared to 1 January 2012. As at 1 January 2012, the total assets and total liabilities of all licenced Ukrainian banks amounted to UAH 1,054.3 billion and UAH 898.8 billion respectively, a respective increase of 11.9 per cent. and 11.7 per cent. compared to 1 January 2011 and an increase of 19.8 per cent. and an increase of 17.5 per cent. compared to 1 January 2010. As at 1 December 2012, the total assets and total liabilities of Ukrainian banks amounted to UAH 1,119.4 billion and UAH 951.5 billion respectively, an increase of 6.2 per cent. and 5.9 per cent., respectively, compared to 1 January 2012. As at 1 January 2012, the regulatory capital of Ukrainian banks amounted to UAH 178.5 billion, an increase of 10.9 per cent. compared to 1 January 2011 and an increase of 31.4 per cent. compared to 1 January 2010. As at 1 December 2012, the regulatory capital of Ukrainian banks amounted to UAH 178 billion, a decrease of 0.3 per cent. compared to 1 January 2012. See "—*Banking Supervision—Mandatory Ratios—Capital Requirements*" for a discussion of the difference between share capital and regulatory capital.

According to Decision No. 974 of the Banking Supervision and Regulation Commission of the NBU dated 13 December 2012, commercial banks operating in Ukraine are divided by the NBU into the following four groups according to the size of assets of the banks: (1) the first group includes banks with assets of more than UAH 20 billion; (2) the second group includes banks with assets of more than UAH 5 billion; (3) the third group includes banks with assets of more than UAH 3 billion; and (4) the fourth group includes banks with assets of up to UAH 3 billion. The composition of these groups may change during the year and does not always follow the criteria for group allocation described above. As at 15 January 2013, the first group consists of 15 banks; the second group consists of 20 banks; the third group consists of 25 banks; and the fourth group includes 116 banks.

Despite the NBU's rate-cutting policies, the average lending rate of Ukrainian commercial banks as at 1 October 2012 was 19.8 per cent. for loans in hryvnia and 7.3 per cent. for loans in foreign currency, according to NBU statistics.

Evolution of Ukrainian Banking Sector

Ukraine had 76 registered (commercial) banks in 1991. The total number of banks increased to 230 by 1995 and decreased to 198 by 1 July 2011. Since 1994, Ukreximbank and Oschadbank have been the only two wholly state-owned banks in Ukraine. No single bank currently has a dominant position in any banking business in Ukraine.

From 1991 to 1993, the Ukrainian banking industry underwent a period of re-organisation and rapid growth. Soviet-era banks were re-registered by the NBU and a number of the current leading Ukrainian banks were established or re-registered during this period. The total number of banks registered by the NBU almost doubled from 1991 to 1992 and again from 1992 to 1993. In 1994 and 1995, the NBU strengthened banking regulations and sought to bring domestic standards closer to international standards. As a result, twelve banks were liquidated after failing to comply with these more rigorous standards during this period. In response, the NBU introduced a number of mandatory financial ratios for banks. The NBU also implemented a national electronic payment system to facilitate electronic settlements within Ukraine. Further, the NBU tightened its monetary policy in order to address hyperinflation, which had reached 400 per cent. in 1994. This resulted in improved borrowing rates for Ukrainian businesses and consumers.

The period from 1996 to mid-1998 was a period of stabilisation in the Ukrainian banking system. The introduction of the hryvnia in 1996, together with a further tightening of the NBU's monetary and budget deficit policy, led to a further reduction in inflation and interest rate spreads. The banking sector's profit in 1996 was twice that of the previous year. However, the rapid growth of the Ukrainian banking sector was halted by the Russian financial crisis in August 1998, which resulted in the depreciation of the Ukrainian hryvnia (which fell from UAH 2.4 per U.S. Dollar to UAH 5.4 per U.S. dollar over a 17 month period). Sixteen banks were liquidated during 1998.

From mid-1998 to mid-2001, the Ukrainian banking system underwent a period of modernisation. In 1998, the NBU promulgated international accounting standards for Ukrainian banks. Banks with foreign capital entered the market and introduced new banking services and products. In 2001, Ukraine was placed on the list of Non-Cooperative Countries and Territories of the Financial Action Task Force (the "**FATF**") as a result of its non-cooperation with the FATF and its failure to enact anti-money laundering legislation that met international standards. Nevertheless, total loans and assets in the banking sector continued to grow. At the beginning of 2004, the FATF removed Ukraine from its list of Non-Cooperative Countries and Territories. In January 2006, it ended formal monitoring of Ukraine. During the period from 2004 to 2008, a number of foreign banks acquired majority stakes in leading Ukrainian banks, including Bank Aval (Raiffeisen International Bank-Holding AG), UkrSibbank (BNP Paribas), Raiffeisenbank Ukraina (OTP Bank), TAS-Kommerzbank (Swedbank AB), Ukrsotsbank (Bank Austria-Creditanstalt AG, a subsidiary of UniCredit Group), Bank Forum (CommerzBank AG), Pravex (Intesa Sanpaolo S.p.A.) and smaller banks including Mriya (VTB), Index-Bank (Credit Agricole), Prestige Bank (Erste Bank), HVB Ukraine (Bank Pekao), Bank NRB (Sberbank), International Commerce Bank (Piraeus Bank), Electron Bank (Austrian Volksbanken) and Marine Transport Bank (Marfin Popular Bank). Starting from 2006, banks may be established only in the form of an open joint-stock company (from 2009 in the form of a public joint-stock company) or cooperative bank. As a result, it is no longer permitted to establish banks in the form of a limited liability company). In June 2009, the Parliament adopted a law amending the Banking Law, according to which the minimum share capital requirement for all banks established after the date when the amendments became effective is UAH 75 million. On 15 February 2011, Parliament further increased the minimum share capital amount for banks to UAH 120 million by adopting the respective amendments which came into effect on 17 June 2011. All banks established prior to such amendments coming into effect are obliged to increase their share capital at least to the minimum amount by 17 June 2016.

Recent Developments

In March 2011, the CMU and the NBU decided that deposits held with Rodovid Bank would be transferred to and paid by Oschadbank. In order for this to occur, the CMU and the NBU issued additional shares in Oschadbank for the amount of UAH 604 million. On 14 September 2011, the CMU approved an instruction which provides for the establishment of a "bad" bank on the basis of Rodovid Bank to manage Rodovid Bank's problematic assets. This "bad" bank will manage the debt collection and recovery for the problem assets of Rodovid Bank. On 15 September 2011, the NBU terminated the temporary administration of Rodovid Bank. Aside from the specific legislation on Rodovid Bank, the transfer of problematic assets of banks capitalised by the State to "bad" banks is currently being reviewed in the context of the banking system as a whole and may lead to further legislation on these matters. On 23 December 2011, the NBU approved a resolution providing for the terms of the registration, licensing and commencement of activity for a "bad" bank to manage Rodovoid Bank's problematic assets, as well as its supervision which became effective on 5 February 2012.

Legislative Framework for the Ukrainian Banking Sector

The NBU regulates the banking activities of Ukrainian banks in accordance with, among other laws, the Law of Ukraine "On the National Bank of Ukraine" dated 20 May 1999 (the "**National Bank Law**"), the Banking Law, Ukrainian legislation on joint stock companies and other business entities, as well as various NBU regulations. These laws and regulations set out the list of banking operations and other transactions that may be performed by banks and establish the framework for the registration and licensing of banks and the regulation of banking activities by the NBU.

Banks are permitted to perform the operations specified in their banking licence issued to them by the NBU. On the basis of their banking licence, banks may perform the following banking operations: (i) taking deposits from legal entities and individuals; (ii) opening and servicing current accounts of customers and correspondent banks, including transferring funds from these accounts by means of payment instruments and placing funds on these accounts; (iii) placement of funds received from customers on deposits and current accounts on their own behalf, under their own terms and at their own risk. Only a bank is allowed to provide banking services in Ukraine. A bank may also provide its customers (except for other banks) with financial services as listed in the Law of Ukraine "On Financial Services and Regulation of Financial Services Markets" dated 12 July 2001. Apart from the provision of financial services a bank may also conduct the following activities: (i) investing; (ii) issuing its own securities; (iii) issuing, distribution and conducting lotteries; (iv) safekeeping and renting individual banking safes for storing; (v) encashment and transporting of currency valuables; (vi) maintaining of securities registers (except for its own shares); (vii) providing consulting and informational services with respect to banking operations and other financial services.

Under the Banking Law, banks may not engage in manufacturing, commodities trading (except for trading in precious metals and coins) or insurance activities (except for insurance brokerage).

As at the date of this Prospectus, banks are prohibited from providing foreign currency loans to individual borrowers; however, there are currently no restrictions on foreign currency loans to legal entities.

Role of the NBU

The NBU is the central bank of Ukraine. Established in 1991 and governed in accordance with the Constitution of Ukraine and the National Bank Law, the NBU is a specialised state institution whose principal objective is to ensure the external and internal stability of the national currency. The NBU has broad regulatory and supervisory functions in the banking sector, and is empowered to, among others, develop and conduct monetary policy, organise banking settlements and the foreign exchange system, ensure stability of the monetary, financial and banking systems of Ukraine, and protect the interests of commercial bank depositors. The NBU sets the official exchange rate of the national currency against foreign currencies, the discount rate and other interest rates. The NBU is also responsible for the accumulation and custody of the state's gold and currency reserves. In addition, it registers commercial banks, issues licences, supervises the operations of Ukrainian banks and determines the procedures for providing emergency funds to commercial banks. The NBU also establishes procedures for operation of payment systems in Ukraine, including clearing and settlement procedures for payments.

In July 2010, the Parliament approved a law which significantly amended the legislative framework that governs the activities of the NBU in order to comply with the arrangements reached by Ukraine with the IMF and the World Bank. The primary purpose of this law is to strengthen the independence of the NBU. Among other things, the law tightens qualification requirements for members of the NBU Council and the Board.

Monetary Policy

The NBU is responsible for implementing monetary policy. Currently, the NBU implements monetary policy through instruments such as mandatory reserve requirements for banks, setting interest rates, refinancing commercial banks, deposit operations, REPO-operations and stabilising loans for banks with temporary problems. From November 2012, the NBU is also authorised to impose temporary requirements for mandatory sale of foreign currency revenues and change maximum periods for settlements under export and import contracts. The main channel for the release of funds into circulation is the foreign currency market. With signs of the economy beginning to stabilise after the financial crisis in 1998 and the ensuing economic instability in the region, the NBU reduced the discount rate from 45 per cent. at the beginning of 2000 to 12.5 per cent. by the end of 2001 (after the economy had began to stabilise following the regional financial crisis of 1998), and to 7.0 per cent. by the end of 2002. Since then, the discount rate has been subject to periodic changes by the NBU and ranged from 7.5 per cent. to 9.5 per cent. during 2004-2007. In 2008 the discount rate rose to 10 per cent. as at 1 January 2008 and up to 12 per cent. as at 30 April 2008. In 2009 the discount rate decreased to 11 per cent. as at 15 June 2009 and to 10.25 as at 12 August 2009. In 2010, the NBU further decreased the discount rate to 9.5 per cent. on 8 June 2010, 8.5 per cent. on 8 July 2010 and 7.75 per cent. on 10 August 2010. As of 22 February 2013, the discount rate of the NBU is 7.5 per cent. Since 1 March 2004, the NBU has been separately determining interest rates on overnight unsecured loans (10.5 per cent. for example as at 1 February 2013) and overnight loans secured by state securities (8.5 per cent. as at 1 February 2013).

The main goal of the NBU's monetary policy in 2012, as declared by the NBU, was to maintain the stability of the hryvnia. In order to achieve this goal the NBU intends to maintain pricing stability in Ukraine and to ensure that CPI stays at 7.9 per cent. in 2012 and reduces to five to six per cent. in 2014. The main goal of NBU's monetary policy in 2013 remains to maintain the stability of the national currency and maintain moderate CPI.

Registration and Licensing

Companies that plan to provide banking services are registered with a state registrar upon the approval of the NBU of their statutory documents. The NBU grants banking licences, general and individual currency licences and written permits for investment activities. The NBU may suspend or revoke banking and currency licences and written permits. The NBU maintains the State Register of Banks of Ukraine.

Supervision and Control

The NBU oversees the banks' compliance with mandatory ratios, limits and reserve requirements, imposes sanctions for violations of such ratios, limits and requirements, establishes reporting requirements and accounting rules and procedures for banks, oversees banks' operations and transactions and regulates the direct and indirect acquisition of shareholdings in banks reaching or exceeding 10, 25, 50 and 75 per cent. thresholds. From December 2011, the Banking Law was amended to empower the NBU to supervise banking groups on a consolidated basis. See "**—***Banking Group Supervision.*"

Transactions with Banks

The NBU lends to banks, maintains other banks' correspondent accounts, provides cash and settlement services to banks, issues guarantees to banks, carries out transactions with sovereign debt securities, trades bullion and precious stones, and purchases and sells foreign currency. The NBU may not own capital in other banks, commercial entities and institutions, perform real estate transactions (except as necessary for its own operations), or engage in trading, manufacturing, insurance or other activities which do not directly relate to its functions.

Exchange Control

In accordance with Ukrainian foreign currency legislation, the NBU has substantial powers to regulate foreign currency operations. In accordance with the Decree of the Cabinet of Ministers of Ukraine "On the System of Currency Regulation and Currency Control", dated 19 February 1993, the NBU is empowered, among other things, to implement the government's foreign currency policy, to determine the procedures for purchasing and carrying out transactions with foreign currency, to issue and revoke licences for foreign currency operations, to determine the methodology for setting and applying foreign currency exchange rates, and to stipulate uniform accounting and reporting procedures for banks.

Governing Bodies of the NBU

The principal governing bodies of the NBU are the Council and the Board. The Council, being the highest governing body of the NBU, consists of 15 members, seven of whom are appointed by Parliament and seven of whom are appointed by the President of Ukraine. The Governor of the NBU (nominated by the President of Ukraine and appointed by Parliament for a seven-year term) acts *ex officio* as the fifteenth member of the Council. The Council is responsible, in particular, for formulating the principles of Ukraine's monetary policy and has the right to submit recommendations to the Board within the framework of such principles. The Board, which is comprised of 11 members, including the Governor, his or her deputies and other members of the Board, is responsible for implementing Ukraine's monetary policy, the development and implementation of other NBU policies and the management of the NBU.

The NBU organisation includes its headquarters in Kyiv, branches (or territorial departments), clearing units, the Mint, a banknote paper factory, the State Treasury of Ukraine, the Central Depository, other specialised units, banking educational institutions and operational service units.

According to the National Bank Law, neither the state nor the NBU are liable for the other's obligations, unless either has accepted such liability under an agreement or such liability is imposed by Ukrainian legislation. The NBU is legally and financially independent of the Ukrainian Government. Under the National Bank Law, the NBU is generally not permitted to extend loans to the state budget for the purpose of covering the state budget expenditures.

Banking Supervision

Under the National Bank Law and the Banking Law, the NBU is authorised to adopt binding regulations concerning banking and foreign currency operations. The NBU has actively used this power in recent years, creating a detailed and extensive body of regulations. The NBU adopted the Banking Regulation Instruction which provides for capital adequacy, liquidity and other ratios. The NBU also sets auditing and other requirements for commercial banks.

Some of the principal features of the supervisory regime governing banks in Ukraine are set out below.

Mandatory Ratios

The NBU is authorised to introduce mandatory ratios for Ukrainian banks. The Banking Regulation Instruction envisages five different types of mandatory ratios/requirements: capital requirements, liquidity requirements, credit risks requirements, investment risk requirements and currency position requirements.

Capital Requirements

The NBU has established requirements for minimum regulatory capital, regulatory capital adequacy and regulatory capital to total assets ratio which are binding on banks in Ukraine.

A bank's regulatory capital (being the sum of its principal (or core) capital, which consists of among other items, its share capital, share premium, retained earnings and certain reserve funds, and additional capital, which consists of, among other items, assets revaluation reserves, general loan loss reserves and subordinated debt) must not be less than UAH 120 million and in any event not less than the share capital of the bank. This regulatory capital requirement may be subject to periodic increases.

The regulatory capital adequacy requirement is intended to ensure that Ukrainian banks are able to discharge their liabilities in full when due. The minimum regulatory capital adequacy requirement set by the NBU is 10 per cent. of a bank's risk-weighted assets (or 15 per cent. in the case of banks that have been operating for less than 12 months, and 12 per cent. for banks that have been operating for between 12 and 24 months). Risk-weighted assets are calculated by applying various risk weightings to the bank's assets and off-balance sheet commitments according to the terms set by the NBU.

The regulatory capital to total assets ratio reflects the amount of regulatory capital necessary for banks to perform "active" operations. The regulatory capital to total assets ratio must be at least nine per cent.

From 1 January 2013, a ratio of regulatory capital to obligations came into effect, indicating sufficiency of bank's own funds to repay obligations to its depositors and creditors. The regulatory capital to obligations ratio must be at least 10 per cent.

Liquidity Requirements

The NBU has also established three separate liquidity ratios: the instant liquidity ratio, the current liquidity ratio and short-term liquidity ratio. The instant liquidity ratio is set by the NBU in order to ensure that a bank may meet its liabilities from highly liquid assets, and is calculated as the ratio of a bank's correspondent account funds and cash to its current liabilities. According to the Banking Regulation Instruction, a bank must have an instant liquidity ratio of at least 20 per cent.

The current liquidity ratio is set in order to determine a bank's ability to match its liquid assets to liabilities of corresponding maturity. The current liquidity ratio is calculated with respect to the bank's liabilities with maturities of up to 31 days (inclusive). A bank's current liquidity ratio (being the ratio of the bank's primary and secondary liquid assets, including cash, banking metals, cash held on correspondent accounts with the NBU (excluding funds of statutory provisions of a bank in the NBU) and other banks and debt securities issued or refinanced by the NBU, to liabilities with maturities of up to 31 days) must be at least 40 per cent.

The short-term liquidity ratio is set in order to determine a bank's ability to meet its short-term liabilities from its liquid assets. A bank's short-term liquidity ratio (being the ratio of liquid assets to short-term liabilities with maturities of less than one year) must be at least 60 per cent. According to the NBU's definition, liquid assets include cash, banking metals, amounts in correspondent accounts maintained with NBU (excluding the funds placed as reserves), short term deposits with the NBU, loans granted to legal entities, state agencies, municipal agencies and individuals, excluding arrears loans, debt securities of state agencies in the bank's trading portfolio, available for sale and held to maturity securities, and the positive difference between the sums on corresponding accounts, deposits and loans provided to other banks and the sums on corresponding accounts, deposits and loans granted by other banks. Short-term liabilities include funds of the NBU maintained on the corresponding account with the bank, deposits of the NBU, loans granted by the NBU, the negative difference between the sums on corresponding accounts, deposits and loans provided to other banks and the sums on corresponding accounts, deposits and loans granted by other banks, loans granted by the international financial institutions, funds of the bank's customers, funds of the state budget of Ukraine, securities debt instruments issued by the bank, arrears deposits with other banks, arrears loans provided by other bank, indebtedness of the assets acquisition, subordinated loan of the bank, and liabilities under all types of guarantees and committed credit lines to banks and customers.

With effect from 3 August 2012, the NBU set a current liquidity ratio of at least 40 per cent. and a short-term liquidity ratio of at least 60 per cent. for banking groups.

Credit Risk Requirements

The Banking Regulation Instruction provides for four types of maximum borrowing limits: (a) the maximum credit risk per borrower; (b) the maximum total amount of large credit risks; (c) the maximum total amount of loans, guarantees and sureties per insider; and (d) the maximum total amount of loans, guarantees and sureties granted to all insiders.

The maximum credit risk per borrower (or group of borrowers, if any one borrower owns more than ten per cent. of the shares of the other, or any third party owns more than 10 per cent. of the shares of each such borrower, or the borrowers use the loan proceeds jointly or for providing a further loan to a third party which is a customer of the lending bank) is calculated as the ratio of all of the bank's financial claims outstanding with respect to a particular borrower to the bank's regulatory capital, and may not exceed 25 per cent. However, bank's internal regulations may establish a more stringent limit on loans to a single borrower. Notwithstanding the above borrowing limit, Ukrainian banking regulations permit banks to advance a loan to a borrower which would result in the bank exceeding the maximum credit risk amount per borrower provided the bank fulfils the following conditions: (i) the bank complies with the applicable capital ratio; and (ii) the loan is secured either by a pledge of proprietary rights over the monies deposited with the lender bank or by the pledge of savings/deposit certificates issued by the lender bank for the term of the loan or by an unconditional commitment granted to the bank by the government or central bank of a "class A state" (states which have official ranking of "class A state" provided by one of the top ranking agencies (Moody's, Fitch and S&P)), the International Bank for Reconstruction and Development, the EBRD or the IFC, or, for loans with a maturity of up to one year, banks having an investment grade credit rating assigned by one of the major credit rating agencies.

Under the Banking Regulation Instruction, credit risks are considered to be large if the amount of all loans, including off-balance sheet commitments such as guarantees granted to a single borrower or a group of affiliated borrowers, equals or exceeds 10 per cent. of the bank's regulatory capital. The maximum total amount of large credit risks may not exceed 800 per cent. of the bank's regulatory capital. If the maximum total amount of large credit risks is exceeded, the regulatory capital adequacy ratio is required to be doubled, if such excess is less than 50 per cent. and tripled, if such excess is more than 50 per cent.

The maximum total amount of loans, guarantees and sureties per insider is required to be less than five per cent. of the share capital of a bank.

Banks must also comply with the maximum total amount of loans, guarantees and sureties granted to all insiders ratio. This ratio is calculated as the ratio of total indebtedness of all of the bank's insiders and aggregate amount of the off-balance commitments granted by the bank to all its insiders to the amount of the bank's share capital and may not exceed 30 per cent. The bank's internal regulations may establish a more stringent limit on the maximum total amount of loans, guarantees and sureties granted to insiders.

Investment Requirements

The Bank may conduct those investment activities specified on a written permit issued by the NBU. In addition, provided that the Bank is in compliance with regulatory capital requirements, the following investment activities may be conducted by the Bank without obtaining a written permit from the NBU: (i) investment into a financial institution in the amount not exceeding 1 per cent. of the Bank's share capital; and (ii) investment into a credit history bureau. However, banks are not allowed to invest in companies where shareholders/participants have unlimited liability under their charter.

The Banking Law and the Banking Regulation Instruction provide for two mandatory ratios related to investment risk: the aggregate investment risk ratio and the single issuer investment risk ratio. The single issuer investment risk ratio, which limits the risk connected with investments (whether direct or portfolio) in equity of a single issuer, is calculated as a ratio of the amount invested in the equity securities and/or share capital of such issuer and the amount of the bank's share capital and the ratio may not exceed 15 per cent. The aggregate investment risk ratio limits the risk connected with total equity investments (whether direct or portfolio) of a bank. The aggregate investment risk ratio is calculated as a ratio of the total equity investments against the amount of the bank's share capital and may not exceed 60 per cent.

Currency Position Requirements

The open currency position limits are determined by the NBU in respect of foreign currencies and banking metals. The NBU may establish the following limits: the general open currency position, the general long and short open currency positions. The general long open position limit may not exceed five per cent. of the bank's regulatory capital and the general short open position limit may not exceed 10 per cent. of the bank's regulatory capital.

Banking Group Supervision

From December 2011 the NBU has been able to exercise supervision over banking groups on a consolidated basis. A 'banking group' is defined as a group of legal entities under common control that consists of a parent bank and its Ukrainian and foreign subsidiaries and/or associated financial institutions, or two or more financial institutions the banking activity of which is prevailing. The NBU sets special regulatory, monitoring and risk management requirements for banking groups. Each banking group is obliged to appoint one of its members as an entity that will be responsible for compliance with the NBU requirements applicable to the banking group. Banking groups will be obliged to comply with certain ratios.

The total amount of direct and/or indirect investment of the members of a banking group into any one non-financial company cannot exceed 15 per cent. of the consolidated regulatory capital of the banking group. At the same time, the total amount of direct and/or indirect investment of the members of a banking group into all non-financial companies cannot exceed 60 per cent. of the consolidated regulatory capital of the banking group.

The total volume of credit risk generating transactions between banking group members and a related non-financial company cannot exceed five per cent. of the consolidated share capital of the banking group. At the same time, the total volume of credit risk generating transactions between banking group members and all their related non-financial companies cannot exceed 20 per cent. of the consolidated share capital of the banking group. The list of such credit risk generating transactions is determined by the NBU.

In case of violations of banking group supervision rules, the NBU may impose sanctions ranging from additional ratios to prohibitions of certain intragroup transactions and demands for the bank to dispose of certain members of the banking group, etc.

Compulsory Reserve Requirements

Reserve Requirements

In 2001, the NBU adopted regulations relating to the mandatory reserves of commercial banks which provide that the NBU will impose sanctions for the failure to maintain the prescribed amounts of mandatory reserves. Such sanctions are payable from a bank's profits. Currently, commercial banks are required annually to transfer to their reserves not less than five per cent. of their profit, unless and until such reserves are equal to 25 per cent. of their regulatory capital. The NBU may require commercial banks to increase their mandatory reserve amounts.

The NBU established these mandatory reserve requirements in order to maintain the liquidity of the banking system and the stability of the Ukrainian hryvnia. Banks are required to maintain certain reserves in correspondent and/or separate accounts with the NBU. There are no restrictions on the withdrawal of funds from the NBU. However, if the minimum average reserve requirements are not met, a bank may be subject to penalties. Reserve requirements are calculated as a percentage of certain of the bank's liabilities. As of the date of this Prospectus, the reserves are required to be not less than the sum of 10 per cent. of demand deposits and current accounts of customers in foreign currency; nine per cent. of short-term deposits of customers in foreign currency; three per cent. of long-term deposits of customers in foreign currency; and three per cent. of amounts in foreign currency (except Russian roubles) received from non-resident banks and financial organisations. Currently, the amount that is required to be reserved for demand and term deposits and current accounts of customers in hryvnia as well as amounts received from non-resident banks and financial organisations in Russian roubles and hryvnia is equal to zero per cent.

In addition, Ukrainian banks are required to maintain reserves for short-term (less than 183 days) funds (e.g. loans and deposits) received from non-residents at a level of 20 per cent. of the aggregate amount of such funds. Overnight loans and deposits, as well as loans and deposits guaranteed by the Government or received from international financial organisations, to which Ukraine is a member, are exempt from the above reserve requirements. A bank is required to maintain 50 per cent. of the amount of the mandatory reserves formed during its previous reporting period in a separate correspondent account with the NBU.

Banks are required to file information regarding their reserves with the NBU and its regional units promptly after the end of each reporting period. Amounts deposited with the NBU in compliance with the compulsory reserve requirements may not be subject to attachment. In the event of the revocation of a bank's banking licence, such amounts are included in the pool of assets generally available for distribution amongst the bank's creditors in the order established by applicable Ukrainian legislation.

Provisioning and Loss Allowances

In March 2012, the NBU adopted a new regulation governing loan loss provisioning of Ukrainian banks. The regulation adjusted NBU provisioning requirements to implement basic IFRS standards and BIS recommendations. The banks were recommended to test such requirements and to adjust their provisions by 20 December 2012. Starting from 1 January 2013, the banks are obliged to create and adjust their provisions pursuant to the new regulation.

Banks must comply with mandatory requirements to cover net loan risks and review those provisions on a monthly basis. Some loan products, such as credit transactions between entities within the system of one bank (for banks 100 per cent. owned by foreign entities - credit transactions with the parent company if such company is assigned an investment-grade credit rating), uncommitted off-balance sheet credit lines (other than credit lines extended to banks) and funds transferred to the NBU, securities issued by central state executive authorities and the NBU as well as shares in stock exchanges, securities depositaries, payment systems and credit bureaus do not require any provisions.

Other loans are classified into five quality groups: the first with no or minimal risk, those associated with moderate risk, substantial risk, high risk and realised risk. The new provisioning regulation introduced formulae for calculating of the provisioning amounts instead of fixed loan percentage rates as applied before. The formulae allow taking into account reliability level of the borrower, debt servicing, liquidity of the respective security, etc.

Protection of Depositors

On 22 September 2012, the Law of Ukraine "On System of Guaranteeing Deposits of Individuals" (the "**Deposits Securing Law**") came into effect and introduced the current system of securing deposits held by individuals in Ukrainian banks. Pursuant to the Deposits Securing Law, Ukrainian commercial banks must be members of the Deposits Guarantee Fund, established under the Presidential Decree and operating according to the Deposits Securing Law, and are obliged to transfer to the Deposits Guarantee Fund an initial contribution in the amount of one per cent. of their registered share capital (payable once within 30 days after obtaining a banking licence). The amount of the regular contribution payable to the Deposits Guarantee Fund by Ukrainian banks is determined quarterly on the last day of the quarter at a rate of 0.5 per cent. in hryvnia and 0.8 per cent. in foreign currency of the average amount of daily balance of remaining sums on deposit accounts, including interest accrued, and is payable quarterly on the 15th day of the month, following the reported quarter. The Deposits Guarantee Fund may also require Ukrainian banks to make a special contribution if the revenues of the Deposits Guarantee Fund are not sufficient to repay and service loans borrowed by the Deposits Guarantee Fund in order to meet compensation claims following the collapse of one or more banks. The amount of such special contribution is determined by the Administration of the Deposits Guarantee Fund but may not exceed the amount of regular contributions paid by the bank during the preceding year. The Deposits Guarantee Fund guarantees deposits with commercial banks, including interest, to a maximum of UAH 200,000 per depositor with each such bank. Deposits are recognised as "unavailable", and therefore eligible for compensation from the funds held by the Deposits Guarantee Fund, on the date of adoption of decision on cancellation of bank's licence and liquidation of the bank. As at 1 February 2013, the Deposits Guarantee Fund had 173 member banks. As at 1 January 2013, the total amount of funds accumulated by the Deposits Guarantee Fund was equal to UAH 6,092 billion.

Reporting Requirements

Banks are required to submit and publish annual reports that contain audited financial statements or consolidated financial statements, if they have affiliates under their control, as well as a general description of the bank's business. Financial statements must include a balance sheet, an income statement, a cash flow statement and a shareholders' equity statement and explanatory notes. The general description section describes the basic features of a bank's business and its organisation and management. Interim financial statements are submitted by banks on a quarterly basis and consist of a balance sheet, an income statement, certain explanatory notes (including, dividends, potential liabilities of the bank and certain indicators of the bank's activities) and a cover letter. The purpose of the cover letter is to describe and explain events and operations that are important for a fair presentation of the financial position of a bank and are material. Banks are also required to submit to the NBU statistical data on a daily, monthly and quarterly basis to enable the ongoing review and monitoring by the NBU of their performance and financial position.

Starting from June 2011, the Banking Law and the Law of Ukraine "On Accounting and Financial Statements in Ukraine", dated 16 July 1999 (the "**Accounting and Financial Statements Law**") requires banks to prepare their financial statements in accordance with IFRS as implemented by the NBU. Prior to these legislative amendments, on 27 December 2007, the NBU adopted resolution No. 480 "On the Procedure for Preparation and Disclosure of Financial Statements of the Ukrainian Banks", which introduced new rules for the preparation of financial statements based on the IFRS requirements for the disclosure of information in financial statements, as well as on Ukrainian accounting standards requirements, and the regulations of the NBU. Banks have been required to do so from the

2008 annual financial statements. In 2012, the Accounting and Financial Statements Law was further amended to require banks and other public joint stock companies to prepare their financial in accordance with IFRS.

The NBU may at any time conduct full or selective audits of any bank filings and may inspect any of the banks' books and records. The NBU may also require banks to broaden the scope of audits of banks. Banks are not allowed to use the same auditing firm for more than seven consecutive years. Auditing firms are required to notify the NBU about any distortions and other issues they discover during the audit of banks and, starting from December 2011, banking groups, which may lead to insolvency, including any significant loss of regulatory capital.

Accounting Practices

The NBU has established a standard format for the presentation of financial and statistical data and the recording of banking transactions. The Banking Law requires the annual balance sheet and other financial statements of banks to be certified by an independent licenced auditor. In accordance with the amendments to the Banking Law, a bank is not allowed to involve the same auditor for seven consecutive years.

Insolvency Regime

In Ukraine, solvency restoration and bankruptcy proceedings in respect of Ukrainian banks are generally governed by the provisions of the Banking Law and Deposits Securing Law. A Ukrainian bank may be restored to solvency by means of a temporary administration procedure directed and supervised by the Deposits Guarantee Fund.

Temporary Administration

Under Banking Law, a bank is determined to be insolvent in two stages. At the first stage, a bank is determined to be "problematic" if any of the below events occur: (i) regulatory capital or other capital ratios of the bank have decreased by 10% or more within a reporting month; (ii) the bank has not performed demand of any depositor or other creditor which became due five or more business days before; (iii) the bank systematically fails to comply with anti-money laundering legislation; (iv) the bank has failed to comply with reporting requirements; (v) the bank systematically fails to support functioning of the risk management system which creates risk for interests of depositors or other creditors. After the bank is determined to be "problematic", a 180-day remedy period starts. During remedy period a bank must remedy violations, which caused such bank to be determined as "problematic". A bank is considered "insolvent" if any of the following events occur: (i) the bank has not remedied violations, which caused such bank to be determined as "problematic" within 180 days; (ii) regulatory capital or any other compulsory capital requirement of the bank has decreased to one-third of the minimum amount, provided under Ukrainian law; (iii) the bank has failed to meet 10 per cent. or more of its aggregate overdue liabilities within the period of at least ten business days.

After a bank is determined to be insolvent, the Deposits Guarantee Fund becomes a temporary administrator of the bank. The Deposits Guarantee Fund appoints an authorized representative ("**Administrator**") who replaces all of the bank's governing bodies for the entire term of the temporary administration (for all banks up to three months with an extended term of six months for systemic banks), and would be authorised to carry out any acts aimed at the bank's financial rehabilitation, including but not limited to: (i) making any decision that was under the authority of governing bodies of the bank; (ii) entering into any agreement on behalf of the bank that are necessary for operational activity of the bank; (iii) continuing, limiting or cancelling any operations of the bank; and (iv) within 30 days from commencing temporary administration, initiating review of agreements of the bank, concluded during the year preceding commencement of temporary administration. Any agreements that upon the results of such review, meet any of the following criteria are invalid and the Administrator is entitled to claim in court for full restitution, meaning that the bank will be required to repay all amounts received from the transferee and the transferee will be required to return the assets to the bank (or, if such return is not possible, to pay to the Ukrainian bank the value of the assets): (i) property of the bank was or will be disposed of not on the arm's-length conditions; (ii) loan agreements that provide for privileges of the borrower which are not granted in arm's-length agreements; (iii) loan agreements and other commercial agreements aimed at stripping of assets from the bank; (iv) agreements providing for any payment or transaction with property of the bank, which grant additional privileges to particular creditors of the bank; (v) related party transactions if such transactions contradict legislation of Ukraine or create a threat to depositors and creditors of the bank; and (vi) commercial transactions where payments significantly exceed market price of goods purchased by the bank. In each case, a dissatisfied counterparty would be entitled to challenge the temporary administrator's decision in court and, where applicable, to demand compensation by the Ukrainian bank for any damages resulting from such decision.

Within 30 days upon commencement of the temporary administration (this term may be extended to 60 days upon the decision of the Executive Administration of the Deposits Guarantee Fund), the Executive Administration of the Deposits Guarantee Fund must approve the regulation plan. The regulation plan provides for actions to be taken in order to remove the bank from the market in one of the following ways: (i) liquidation of the insolvent bank with reimbursement to the individuals depositors from the Deposits Guarantee Fund; (ii) liquidation of the insolvent bank with disposal of all or part of its assets and obligations to the recipient bank; (iii) establishment of, and sale to the investor of, the transitory bank, with transfer of assets and obligations of the insolvent bank to the transitory bank and liquidation of the insolvent bank; (iv) disposal of all or part of assets and obligations of the insolvent bank to the recipient bank with cancellation of banking licence issued to the insolvent bank and its further liquidation; and (v) sale of the insolvent bank to an investor.

Disposal of Assets and Obligations of Insolvent Bank

Transfer of the assets and/or liabilities of a bank to a recipient bank by the Administrator is possible upon positive conclusion of the NBU about the financial state of the recipient bank and its ability to satisfy obligations of the insolvent bank to third parties. The recipient bank is selected on the basis of an auction subject to the recipient bank providing a written consent to accept assets and obligations of the insolvent bank. Value of assets is determined on the basis of an auction, with obligations transferred at their balance sheet value.

Sale of Insolvent Bank

After the decision on sale of the insolvent bank is made, the Administrator acquires the right to dispose of shares of the insolvent bank on behalf of any shareholder without any additional documents or instructions. Sale of the insolvent bank is performed under the share purchase agreement at the price of such sale, determined on the basis of auction. Sale of the insolvent bank does not require to obtain any consents or waivers from other shareholders.

Establishment and Sale of Transitory Bank

The transitory bank is established in the form of a public joint stock company by way of separating certain assets and obligations of the insolvent bank. The investor is determined on the basis of an auction. The transitory bank is sold to the investor at the price, determined on the basis of an auction.

During the term of operation of the temporary administration of a Ukrainian bank, a none of the following will apply: (i) satisfaction of claims of depositors and other creditors of the bank; (ii) enforcement of claims at the expense of property of the bank or arrest of the bank's property; (iii) accrual of any financial sanctions for the non-performance of the bank's payment obligations (including default interest, penalties and fines); and (iv) rights of set-off, if they violate priority of creditor's claims provided by applicable law. Applicable legislation exempts the following payments from the moratorium: ongoing operational activities of the bank, including payroll liabilities, copyright liabilities, obligations in respect of personal injuries to the bank's employees; as well as claims of depositors under agreements, if due, in the amount, not exceeding maximum amount of reimbursement provided by applicable law.

Insolvency Liquidation Procedure

A bank may be liquidated under the following grounds: (i) by decision of shareholders of the bank; or (ii) if the NBU revokes the bank's banking licence at its initiative or upon request of the Deposits Guarantee Fund. The NBU is authorised to revoke the bank's banking licence if: (i) it is discovered that documents provided for issuance of the banking licence contain incorrect information; or (ii) the bank has not performed any banking operation within a year after obtaining the licence. The Deposits Guarantee Fund may request revocation of the bank's banking licence and liquidate the bank when: (i) revocation of banking licence is provided in the regulation plan; and (ii) the term of temporary administration has expired and/or the regulation plan was not fulfilled.

Upon revocation of a banking licence of an insolvent bank, the Deposits Guarantee Fund becomes a liquidator of the bank and commences liquidation proceedings. The Deposits Guarantee Fund is required to publish information about liquidation of the bank on its website within one business day and to arrange publication of a notice in official sources within seven calendar days upon adoption of a decision on liquidation of the insolvent bank. The Deposits Guarantee Fund appoints an authorised representative to conduct liquidation. Upon appointment of the authorized person of the Deposits Guarantee Fund: (i) authority of all governing bodies is terminated; (ii) banking activity of the bank stops if it is necessary to preserve or increase liquidation estate; (iii) all of bank's payment obligations that existed prior to the revocation of the banking licence will become due and payable; (iv) no interest or default-related penalties provided for the agreements which are payable by the Ukrainian bank will further accrue; (v) information on financial state of the bank ceases to be confidential; and (vi) limitations on disposal and transfer of bank's property are imposed; and (vii) all public encumbrances over the bank's property cease to exist.

Creditors are entitled to submit their claims against the bank to the liquidator within 30 days period after the date of publication of the notice. Creditors' claims filed after the expiry of the 30 days are deemed to have been discharged.

The liquidator must, within 90 days of the date of publication of the notice of liquidation, consider all claims filed by the bank's creditors, determine their amount and assign them to the respective priority category. Claims for the payment of fees and expenses incurred in connection with the liquidation and claims secured by pledges and mortgages are satisfied outside of the order of priority established by the applicable legislation. The former are satisfied during the course of the liquidation proceedings and in accordance with the schedule provided by the Deposits Securing Law. Proceeds from the sale of collateral are used solely for the satisfaction of claims secured by the collateral. The balance of the creditors' claims are satisfied upon the sale of the bank's assets in the following order of priority: first, liabilities resulting from death or personal injury; second, payroll liabilities incurred prior to the commencement of the liquidation proceedings; third, debt obligations to the Deposits Guarantee Fund; fourth, obligations to individual depositors in amount exceeding the sum paid by the Deposits Guarantee Fund; fifth, liabilities to the National Bank of Ukraine with respect to decrease of security value, provided by a bank in relation to refinancing loan; sixth, liabilities to individuals with respect to blocked payments (except liabilities to individual entrepreneurs); seventh, all other claims, save for the claims under the subordinated debt, and eighth, claims under the subordinated debt.

Anti-Money Laundering

In 2002, the Ukrainian Parliament adopted the Law of Ukraine "On Combating the Legalisation (Laundering) of Income Obtained by Criminal Means, or Terrorism Financing" (the "**Anti-Money Laundering Law**"), which has been further amended. Banks are required to comply with the provisions of the Anti-Money Laundering Law relating to, among other things, the development of appropriate internal standards and procedures, customer identification, monitoring of customer operations and reporting of operations to the specially authorised governmental body, the State Service for Financial Monitoring of Ukraine (the "**SSFM**"). The Anti-Money Laundering Law requires that banks monitor and report any transactions if the amount of a single transaction is equal to or exceeds UAH 150,000 (or its equivalent in foreign currencies) and the transaction has certain characteristics as set forth in the Anti-Money Laundering Law, including, *inter alia*, one or more of the following: the transaction involves a cash payment; one or more of the parties is resident or has a bank account in a country that does not participate in international efforts to combat money-laundering (which generally corresponds to the list of Non-Cooperative Countries and Territories maintained by FATF); the transaction with certain types of securities; or the transaction involves the provision of loans to financial institutions other than banks. In addition, banks are required to monitor any transaction involving any individual or organisation that is connected with terrorist activities (according to information provided by the SSFM) and any legal entity controlled by them or their agents. If bank officers suspect that a transaction is being conducted in order to legalise any funds received as a result of illegal activity or to finance terrorist activities, they are required to report such operations whether or not they qualify as monitored transactions.

Credit History Bureaus

Credit history bureaus collect, store and use borrowers' credit history information. Credit history bureaus in Ukraine are primarily regulated by the Credit History Law.

Credit history bureaus must have a minimum share capital of UAH 5 million and may commence their operations upon receipt of a licence from the National Commission for State Regulation of Financial Services Markets, which regulates credit history bureaus and maintains the "Unified Register of Credit History Bureaus".

The credit history of a borrower is based on a borrower's credit history information. Such information may be obtained from either: (1) a lender, typically a bank, which has entered into an agreement with a credit history bureau, provided such lender has written consent of a borrower to release such information; or (2) state registries and other publicly available sources.

The credit history of a borrower contains data relating to: (1) personal details; (2) financial obligations under a loan transaction; (3) information gathered from state registries as well as other publicly available sources; and (4) information relating to the usage of such credit history information in the past.

Credit history bureaus are required to update their files by no later than 7 business days upon receipt of new information. Information in relation to a loan transaction is required to be stored for ten years following the date of its termination. Credit history bureaus provide information in the form of credit reports only to lenders, which have contractual arrangements with credit history bureaus for receipt and use of such information, and to other credit history bureaus. A borrower can access its credit history from credit history bureaus and may raise an objection in relation to the information contained therein except for its credit score.

Currency Derivatives

Ukrainian banks are allowed to enter into currency derivatives which are expressly permitted by the NBU. According to the NBU's Resolution No. 281, dated 10 August 2005, which authorised the Regulation on the Rules and Terms for Foreign Currency Trading (the "**Foreign Currency Trading Regulation**"), the NBU expressly permits certain currency forwards and swaps.

Currency Forwards

Ukrainian banks are allowed to enter into currency forward transactions to hedge currency fluctuation risks provided that both currencies are classified within the first group of the NBU's foreign currencies classifier, which includes freely convertible currencies, including U.S. dollar, euro, Pound sterling, etc. (the "**NBU Classifier**"). In addition, Ukrainian banks are also allowed to enter into currency forward transactions involving hryvnia and one of the currencies classified within the first group of the NBU Classifier provided such transactions relate to goods import and export transactions. All currency forward transactions must not exceed 365 calendar days.

Currency Swaps

As at May 2011, Ukrainian banks are allowed to enter into currency swap transactions provided that a respective currency is classified within the first group of the NBU Classifier. The permitted currency swap transactions include: (i) foreign currency sale, purchase and exchange transactions in the domestic currency market (i.e. conducted amongst Ukrainian banks as well as amongst Ukrainian banks and the NBU) and (ii) foreign currency exchange transactions in the international currency market. Prior to May 2011, currency swap transactions were limited only to transactions amongst Ukrainian banks and the NBU. All currency swap transactions must not exceed 365 calendar days.

Finance Lease

Finance leases are primarily regulated by the Law of Ukraine "On Finance Lease" dated 16 December 1997. Ukrainian law allows any movable assets or real estate to be leased under a finance lease agreement, except for land plots and other natural objects (i.e., natural resources), integral property complexes and their structural units.

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PRIVATBANK GROUP

Condensed Consolidated Interim Financial Information for the Nine Month Period Ended 30 September 2012 (Unaudited)

CONTENTS

CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

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REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

To the Shareholders and Management Board of PrivatBank:

Introduction

We have reviewed the accompanying condensed consolidated interim statement of financial position of Public Joint Stock Company Commercial Bank PrivatBank (the "Bank") and its subsidiaries (the "Group") as of 30 September 2012 and the related condensed consolidated statements of comprehensive income, changes in equity and cash flows for the nine-month period then ended. Management is responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with International Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this condensed consolidated interim financial information based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of interim financial information performed by the independent auditor of the entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial information is not prepared, in all material respects, in accordance with International Accounting Standard 34 "Interim Financial Reporting".

LLC AF PricewaterhouseCoopers (Audit)

26 December 2012
Kyiv, Ukraine

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

In millions of Ukrainian hryvnias	Note	30 September 2012 (unaudited)	31 December 2011
ASSETS			
Cash and cash equivalents and mandatory reserves	7	25,193	21,363
Due from other banks		7,725	4,648
Loans and advances to customers	8	117,240	107,430
Embedded derivatives	18	2,724	1,484
Investment securities available-for-sale		854	780
Investment securities held to maturity		189	24
Current income tax prepayment		4	6
Deferred income tax asset		74	32
Goodwill		47	47
Premises, leasehold improvements and equipment and intangible assets		3,634	3,318
Other financial assets		864	1,144
Other assets		727	655
TOTAL ASSETS		**159,275**	**140,931**
LIABILITIES			
Due to the NBU	9	4,786	5,825
Due to other banks and other financing institutions	9	4,271	2,453
Customer accounts	10	118,379	104,209
Debt securities in issue	11	7,314	5,600
Current income tax liability		65	60
Deferred income tax liability		1,124	1,181
Provisions for liabilities and charges, other financial and non-financial liabilities		1,033	1,000
Subordinated debt		1,382	1,418
TOTAL LIABILITIES		**138,354**	**121,746**
EQUITY			
Share capital	12	14,897	13,545
Share premium	12	20	20
Revaluation reserve for premises		557	571
Revaluation reserve of investment securities available-for-sale		214	-
Currency translation reserve		284	329
Retained earnings and other reserves		4,466	4,570
Net assets attributable to the Bank's owners		**20,438**	**19,035**
Non-controlling interest		**483**	**150**
TOTAL EQUITY		**20,921**	**19,185**
TOTAL LIABILITIES AND EQUITY		**159,275**	**140,931**

Approved for issue and signed on behalf of the Management Board on 26 December 2012.

Olexandr V. Dubilet
Chairman of the Board

Lubov V. Korotina
Chief Accountant

The notes set out on pages 6 to 31 form an integral part of this condensed consolidated interim financial information.

In millions of Ukrainian hryvnias	Note	Nine months ended 30 September 2012 (unaudited)	Nine months ended 30 September 2011 (unaudited)
Interest income	13	14,680	14,123
Interest expense	13	(7,822)	(7,032)
Net interest income		**6,858**	**7,091**
Provision for impairment of loans and advances to customers	8	(4,672)	(4,301)
Net interest income after provision for impairment of loans and advances to customers		**2,186**	**2,790**
Fee and commission income	14	2,767	2,326
Fee and commission expense	14	(423)	(318)
Gains less losses from embedded derivatives		872	231
Gains less losses from trading in foreign currencies		553	393
Foreign exchange translation losses less gains		(36)	(117)
Reversal of impairment/(impairment) of investment securities available-for-sale		9	(16)
Provision for credit related commitments	17	(26)	(5)
Other operating income		120	65
Other gains less losses		7	133
Administrative and other operating expenses	15	(4,956)	(4,421)
Profit before tax		**1,073**	**1,061**
Income tax expense		(56)	(55)
Profit for the period		**1,017**	**1,006**
Other comprehensive income:			
Revaluation of investment securities available-for-sale		214	-
Exchange differences on translation to presentation currency		(11)	18
Other comprehensive income for the period		**203**	**18**
Total comprehensive income for the period		**1,220**	**1,024**
Profit/(loss) is attributable to			
Owners of the Bank		1,038	1,040
Non-controlling interest		(21)	(34)
Profit for the period		**1,017**	**1,006**
Total comprehensive income/(loss) is attributed to:			
Owners of the Bank		1,252	1,057
Non-controlling interest		(32)	(33)
Total comprehensive income for the period		**1,220**	**1,024**

Condensed Consolidated Interim Statement of Changes in Equity (Unaudited)

In millions of Ukrainian hryvnias	Note	Attributable to Owners of the Bank: Share capital	Share premium	Revaluation reserve for premises	Revaluation reserve of investment securities available-for-sale	Currency translation reserve	Retained earnings and other reserves	Total	Non-controlling interest	Total equity
Balance at 1 January 2011		**8,860**	**-**	**518**	**-**	**341**	**4,326**	**14,045**	**124**	**14,169**
Profit/(loss) for the period		-	-	-	-	-	1,040	1,040	(34)	1,006
Currency translation differences		-	-	-	-	17	-	17	1	18
Total comprehensive income/(loss) for the period		-	-	-	-	17	1,040	1,057	(33)	1,024
Paid-in share capital	12	3,385	20	-	-	-	-	3,405	-	3,405
Capitalisation of dividends	12	1,300	-	-	-	-	(1,300)	-	-	-
Other changes in interest attributable to owners of the Bank and non-controlling interest		-	-	-	-	-	-	-	(6)	(6)
Balance at 30 September 2011		**13,545**	**20**	**518**	**-**	**358**	**4,066**	**18,507**	**85**	**18,592**

The notes set out on pages 6 to 31 form an integral part of this condensed consolidated interim financial information.

Condensed Consolidated Interim Statement of Changes in Equity (Unaudited)

In millions of Ukrainian hryvnias	Note	Attributable to Owners of the Bank							Non-controlling interest	Total equity
		Share capital	Share premium	Revaluation reserve for premises	Revaluation reserve of investment securities available-for-sale	Currency translation reserve	Retained earnings and other reserves	Total		
Balance at 1 January 2012		**13,545**	**20**	**571**	**-**	**329**	**4,570**	**19,035**	**150**	**19,185**
Profit/(loss) for the period		-	-	-	-	-	1,038	1,038	(21)	1,017
Revaluation of investment securities available-for-sale, net of tax		-	-	-	214	-	-	214	-	214
Currency translation differences		-	-	-	-	-	-	-	(11)	(11)
Total comprehensive income/(loss) for the period		-	-	-	214	-	1,038	1,252	(32)	1,220
Capitalisation of dividends	12	1,352	-	-	-	-	(1,352)	-	-	-
Other changes in interest attributable to owners of the Bank and non-controlling interest		-	-	(14)	-	(45)	210	151	365	516
Balance at 30 September 2012		**14,897**	**20**	**557**	**214**	**284**	**4,466**	**20,438**	**483**	**20,921**

In millions of Ukrainian hryvnias	Note	Nine months ended 30 September 2012 (unaudited)	Nine months ended 30 September 2011 (unaudited)
Cash flows from operating activities			
Interest received		14,170	13,636
Interest paid		(7,623)	(6,874)
Fees and commissions received		2,767	2,326
Fees and commissions paid		(423)	(318)
Income received from embedded derivatives		215	558
Income received/(loss incurred) from derivatives arising from swap, forward and spot transactions		13	103
Income received from trading in foreign currencies		553	393
Other operating income received		120	65
Staff costs paid		(2,535)	(2,481)
Administrative and other operating expenses paid, except for staff costs paid		(2,113)	(1,639)
Income tax paid		(175)	(221)
Cash flow from operating activities before changes in operating assets and liabilities		**4,969**	**5,548**
Changes in operating assets and liabilities			
Net increase in mandatory reserve balances		(468)	(393)
Net (increase)/decrease in due from other banks		(3,038)	72
Net increase in loans and advances to customers		(14,525)	(24,011)
Net decrease/(increase) in other financial assets		282	(127)
Net increase in other assets		(70)	(116)
Net decrease in due to the NBU		(1,039)	(1,115)
Net increase/(decrease) in due to other banks and other financing institutions		1,811	(954)
Net increase in customer accounts		13,811	19,421
Net decrease in provisions for liabilities and charges, other financial and non-financial liabilities		(29)	(19)
Net cash from/(used in) operating activities		**1,704**	**(1,694)**
Cash flows from investing activities			
Acquisition of of investment securities available-for-sale		-	(946)
Proceeds from redemption of investment securities available-for-sale		119	-
Acquisition of investment securities held to maturity		(165)	-
Proceeds from redemption of investment securities held to maturity		-	512
Proceeds from disposal of premises, leasehold improvements and equipment		110	72
Acquisition of premises, leasehold improvements and equipment		(685)	(473)
Net cash used in investing activities		**(621)**	**(835)**
Cash flows from financing activities			
Issue of ordinary shares		-	3,405
Cash inflows on transactions with non-controlling interest		510	41
Proceeds from debt securities issued		5,510	-
Repayment and repurchase of debt securities issued		(3,809)	(385)
Net cash from financing activities		**2,211**	**3,061**
Effect of exchange rate changes on cash and cash equivalents		**68**	**(390)**
Net increase in cash and cash equivalents		**3,362**	**142**
Cash and cash equivalents at the beginning of the year		18,590	17,491
Cash and cash equivalents at the end of the period	7	**21,952**	**17,633**

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

1 Introduction

This condensed consolidated interim financial information has been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" for the nine months ended 30 September 2012 for PJSC Commercial Bank PrivatBank (the “Bank”) and its subsidiaries (together referred to as the “Group” or “PrivatBank Group”).

The Bank was initially registered as a commercial entity with limited liability, re-organised into a closed joint stock entity in 2000. In 2009 the Bank changed its legal form to a public joint stock company limited by shares in accordance with changes in Ukrainian legislation. As of 30 September 2012 and 31 December 2011 the ultimate major shareholders of the Bank were Mr I.V. Kolomoyskiy and Mr G.B. Bogolyubov who as of 30 September 2012 owned directly or indirectly respectively 46.26% (31 December 2011: 46.25%) and 46.33% (31 December 2011: 46.25%) of the outstanding shares and neither of which individually controlled the Bank. The major shareholders of the Bank do not have a contractual agreement on joint control of the Bank.

Chairman of the Supervisory Board:	Mr. G.B. Bogolyubov
Members of the Supervisory Board:	Mr. I.V. Kolomoyskiy
	Mr. A.G. Martynov

As of the date of issuing of the consolidated interim financial information composition of the Management Board was as follows:

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

Principal activity. The Bank’s principal business activity is commercial and retail banking operations within Ukraine. The Bank has operated under a full banking licence issued by the National Bank of Ukraine (the “NBU”) since March 1992. The Bank participates in the state deposit insurance scheme (registration #113 dated 2 September 1999), which operates according to the Law №2740-III “On Individuals Deposits Guarantee Fund” dated 20 September 2001 (as amended). Individuals Deposits Guarantee Fund guarantees repayment of individual deposits up to UAH 200 thousand (31 December 2011: UAH 150 thousand) per individual in case bank liquidation procedure is started.

As of 30 September 2012 the Bank had 34 branches and 3,375 outlets within Ukraine and a branch in Cyprus (31 December 2011: 34 branches, 3,362 outlets in Ukraine and a branch in Cyprus). Additionally, as of 30 September 2012 and 31 December 2011 the Bank had subsidiary banks in the Russian Federation, Latvia, Georgia and representative offices in Kyiv (Ukraine), Moscow (Russia), Almaty (Kazakhstan), London (United Kingdom) and Beijing (China), other small subsidiary companies in Ukraine and three consolidated special purpose entities in the United Kingdom.

1 Introduction (Continued)

The principal subsidiaries included in the consolidated interim financial information, were as follows:

Name	Nature of business	Country of registration	Percentage of legal interest in subsidiary 30 September 2012	31 December 2011
Moscomprivatbank	Banking	Russian Federation	59.33%	92.34%
JSC PrivatBank	Banking	Georgia	50.30%	50.30%
AS PrivatBank	Banking	Latvia	50.02%	75.02%

As a result of additional capital increase in 2012, the share of the Group in Moscomprivatbank was decreased from 92.34% as of 31 December 2011 to 59.33% as of 30 September 2012. As a result of additional capital increase and sale of shares in 2012, the share of the Group in AS PrivatBank Latvia was decreased from 75.02% as of 31 December 2011 to 50.02% as of 30 September 2012.

Registered address and place of business. The Bank's registered address is:

50, Naberezhna Peremohy Str.,
49094, Dnipropetrovsk,
Ukraine.

Presentation currency. This condensed consolidated interim financial information is presented in millions of Ukrainian hryvnias ("UAH million"), unless otherwise stated.

2 Operating Environment of the Group

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

The latest global financial crisis has had a severe effect on the Ukrainian economy and the financial situation in the Ukrainian financial and corporate sectors significantly deteriorated since mid-2008. In 2010, 2011 and during nine months of 2012, the Ukrainian economy experienced a moderate recovery of economic growth. The recovery was accompanied by lower refinancing rates and stabilisation of the exchange rate of the Ukrainian hryvnia against major foreign currencies. Money market liquidity levels increased in 2010 and in the first half of 2011, but the second half of 2011 and during nine months of 2012 the banking sector again experienced liquidity constraints.

The ongoing international sovereign debt crisis, stock market volatility and other risks could have a negative effect on the Ukrainian financial and corporate sectors.

Borrowers of the Group were adversely affected by the financial and economic environment, which in turn impacted their ability to repay the amounts owed. Some loans to customers were issued in foreign currencies, UAH depreciation against these currencies had a significant impact on borrowers' ability to service these loans. Deteriorating economic conditions for borrowers were reflected in revised estimates of expected future cash flows in impairment assessments.

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

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

2 Operating Environment of the Group (Continued)

Management determined loan impairment provisions by considering the economic situation and outlook at the end of the reporting period and applied the ‘incurred loss’ model required by the applicable accounting standards. These standards require recognition of impairment losses that arose from past events and prohibit recognition of impairment losses that could arise from future events, no matter how likely those future events are. Refer to Note 4.

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

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

3 Basis of Preparation and Summary of Significant Accounting Policies

Basis of Preparation. This condensed consolidated interim financial information for the nine months ended 30 September 2012 has been prepared in accordance with IAS 34 “Interim Financial Reporting”. This condensed consolidated interim financial information should be read in conjunction with the Bank’s annual consolidated financial statements for the year ended 31 December 2011, which have been prepared in accordance with IFRSs.

The Bank operates in an industry where significant seasonal or cyclical variations in operating income are not experienced during the financial year.

The accounting policies and methods of computation adopted in the preparation of the condensed consolidated interim financial information are consistent with those followed in the preparation of the Bank’s annual consolidated financial statements for the year ended 31 December 2011, except as noted below and for adoption of the new standards and interpretations as described in Note 5.

Any further changes to this condensed consolidated interim financial information require approval of the Management Board who authorised this condensed consolidated interim financial information for issue.

Income taxes. Income tax expense is recognised in each interim period based on the best estimate of the weighted average effective annual income tax rate expected for the full financial year. Amounts accrued for income tax expense in one interim period may have to be adjusted in a subsequent interim period of that financial year if the estimate of the weighted average effective annual income tax rate changes. Interim period income tax expense is accrued using the tax rate that would be applicable to expected total annual earnings; that is, the estimated average annual effective income tax rate is applied to the pre-tax income of the interim period.

Foreign currency translation. The functional currency of each of the Group’s consolidated entities is the currency of the primary economic environment in which the entity operates. The functional currency of the Bank, and the Group’s presentation currency, is the national currency of Ukraine, Ukrainian hryvnia (“UAH”).

The principal rates of exchange used for translating foreign currency balances were as follows:

	30 September 2012, UAH	31 December 2011, UAH
1 US Dollar (USD)	7.993000	7.989800
1 Euro (EUR)	10.290188	10.298053
1 Russian Ruble (RUB)	0.256230	0.249530
1 Latvian Lat (LVL)	14.778383	14.732551
1 Georgian Lari (GEL)	4.829899	4.818006

4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies

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

Impairment losses on loans and advances. The Group regularly reviews its loan portfolios to assess impairment. In determining whether an impairment loss should be recorded in profit or loss for the year, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. A 10% increase or decrease in actual loss experience compared to the loss estimates used would result in an increase or decrease in loan impairment losses of UAH 681 million or UAH 681 million (30 September 2011: an increase or decrease in loan impairment losses of UAH 716 million or UAH 716 million), respectively. Impairment losses for individually significant loans are based on estimates of discounted future cash flows of the individual loans, taking into account repayments and realisation of any assets held as collateral against the loans. A 10% increase or decrease in the actual loss experience compared to the estimated future discounted cash flows from individually significant loans, which could arise from differences in amounts and timing of the cash flows, would result in an increase or decrease in loan impairment losses of UAH 944 million or UAH 1,215 million (30 September 2011: increase or decrease in loan impairment losses of UAH 653 million or UAH 785 million), respectively.

Assessment of loans and advances issued to a group of borrowers-oil traders for impairment. The Group regularly reviews its outstanding loans and advances issued to the oil traders who are engaged in wholesale and retail sale of petrol, oil and oil products. Certain of these companies work closely with each other. As of 30 September 2012 gross amount of such loans was UAH 39,438 million (2011: UAH 39,436 million). In determining whether an impairment loss should be recorded in profit or loss for the year, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans issued to oil traders before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in an oil traders group, or regulatory, industry or national economic conditions that correlate with defaults on assets in the oil traders group. Management uses estimates based on historical loss experience for assets with credit risk flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. The fair value of collateral substantially contributes to the assessment of whether there is an impairment of loans issued to oil traders. Refer to Note 8.

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

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

Fair value of derivatives. The fair values of financial derivatives that are not quoted in active markets are determined by using valuation techniques. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. To the extent practical, models use only observable data, however areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair values.

As of 30 September 2012 the Bank had loans and advances to customers totalling UAH 77,653 million (31 December 2011: UAH 67,715 million) issued in UAH with the condition of compensation to be received by the Bank in the event that the official exchange rate of UAH depreciates against USD. The contract to receive compensation was accounted for by the Bank as an embedded derivative with the fair value of UAH 2,724 million as of 30 September 2012 (31 December 2011: UAH 1,484 million) estimated using a valuation technique. This valuation technique takes into account expected movements in exchange rates, discount factor and credit risk. Changing the assumptions about expected exchange rates may result in a different profit. All contracts mature from 2012 to 2014, inclusive. If the expected UAH/USD exchange rate for these years would be higher/lower by 5%, the fair value of the derivative and profit or loss would increase by UAH 6,435 million and decrease by UAH 205 million (30 September 2011: 5%; increase by UAH 4,058 million and decrease by UAH 514 million). If the discount rate used for fair valuation of the derivatives as of 30 September 2012 would be higher/lower by 100 basis points, the fair value of the derivative and profit or loss would decrease/increase by UAH 22 million (30 September 2011: UAH 11 million). If the credit risk of counterparties as of 30 September 2012 would be higher/lower by 10%, the fair value of the derivative and profit or loss would decrease/increase by UAH 127 million (30 September 2011: UAH 89 million). Refer to Note 18. Analysis of deviation of sensitivity of fair value of derivative is done for each estimate separately not taking into the account changes in other estimates.

Tax legislation. Ukrainian and Russian tax, currency and customs legislation is subject to varying interpretations.

5 Adoption of New or Revised Standards and Interpretations

The following new standards and interpretations became effective for the Group from 1 January 2012:

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

Other revised standards and interpretations: The amendment to IAS 12 "Income taxes", which introduced a rebuttable presumption that an investment property carried at fair value is recovered entirely through sale, did not have an impact on this condensed consolidated interim financial information.

6 New Accounting Pronouncements

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2013 or later, and which the Group has not early adopted.

Improvements to International Financial Reporting Standards (issued in May 2012 and effective for annual periods beginning 1 January 2013). The improvements consist of changes to five standards. IFRS 1 was amended to (i) clarify that an entity that resumes preparing its IFRS financial statements may either repeatedly apply IFRS 1 or apply all IFRSs retrospectively as if it had never stopped applying them, and (ii) to add an exemption from applying IAS 23"Borrowing costs", retrospectively by first-time adopters. IAS 1 was amended to clarify that explanatory notes are not required to support the third balance sheet presented at the beginning of the preceding period when it is provided because it was materially impacted by a retrospective restatement, changes in accounting policies or reclassifications for presentation purposes, while explanatory notes will be required when an entity voluntarily decides to provide additional comparative statements. IAS 16 was amended to clarify that servicing equipment that is used for more than one period is classified as property, plant and equipment rather than inventory. IAS 32 was amended to clarify that certain tax consequences of distributions to owners should be accounted for in the income statement as was always required by IAS 12. IAS 34 was amended to bring its requirements in line with IFRS 8. IAS 34 will require disclosure of a measure of total assets and liabilities for an operating segment only if such information is regularly provided to chief operating decision maker and there has been a material change in those measures since the last annual consolidated financial statements. The Group is currently assessing the impact of the amendments on its consolidated financial statements.

Transition Guidance Amendments to IFRS 10, IFRS 11 and IFRS 12 (issued in June 2012 and effective for annual periods beginning 1 January 2013). The amendments clarify the transition guidance in IFRS 10 "Consolidated Financial Statements". Entities adopting IFRS 10 should assess control at the first day of the annual period in which IFRS 10 is adopted, and if the consolidation conclusion under IFRS 10 differs from IAS 27 and SIC 12, the immediately preceding comparative period (that is, year 2012 for a calendar year-end entity that adopts IFRS 10 in 2013) is restated, unless impracticable. The amendments also provide additional transition relief in IFRS 10, IFRS 11 "Joint Arrangements" and IFRS 12 "Disclosure of Interests in Other Entities", by limiting the requirement to provide adjusted comparative information only for the immediately preceding comparative period. Further, the amendments will remove the requirement to present comparative information for disclosures related to unconsolidated structured entities for periods before IFRS 12 is first applied. The Group is currently assessing the impact of the amendments on its consolidated financial statements.

6 New Accounting Pronouncements (Continued)

Amendments to IFRS 1 "First-time adoption of International Financial Reporting Standards - Government Loans" (issued in March 2012 and effective for annual periods beginning 1 January 2013). The amendments, dealing with loans received from governments at a below market rate of interest, give first-time adopters of IFRSs relief from full retrospective application of IFRSs when accounting for these loans on transition. This will give first-time adopters the same relief as existing preparers. The amendments will not have an impact on its consolidated financial statements.

Other revised standards and interpretations: IFRIC 20 "Stripping Costs in the Production Phase of a Surface Mine", considers when and how to account for the benefits arising from the stripping activity in mining industry. The interpretation will not have an impact on the Group's consolidated financial statements.

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

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

7 Cash and Cash Equivalents and Mandatory Reserves

In millions of Ukrainian hryvnias	**30 September 2012 (unaudited)**	**31 December 2011**
Cash on hand	4,707	3,749
Cash balances with the NBU	3,372	2,424
Cash balances with the Central Bank of Russian Federation	1,729	1,507
Cash balances with the Central Bank of Latvia	1,102	492
Cash balances with the Central Bank of Cyprus	124	258
Cash balances with the Central Bank of Georgia	419	248
Correspondent accounts and overnight placements with other banks		
- Ukraine	173	191
- Other countries	13,567	12,494
Total cash and cash equivalents and mandatory reserves	**25,193**	**21,363**

As of 30 September 2012 the required mandatory reserve balance with the National Bank of Ukraine is calculated on the basis of a simple average over a monthly period (31 December 2011: simple average over a monthly period) and should be maintained at the level of 0 to 10 per cent (31 December 2011: 0 to 8 per cent) of certain obligations of the Bank depending on its maturity and currency. As such, mandatory reserve balance with the National Bank of Ukraine can vary from day-to-day. As of 30 September 2012 the Bank's mandatory reserve balance was UAH 2,531 million (December 2011: UAH 2,091 million).

As of 30 September 2012 in accordance with the NBU regulations the Bank was required to maintain the balance on accounts with the NBU at the level of 100% (31 December 2011: 95%) of the mandatory reserve balance for the preceding month. The Bank will not be subject to any sanctions if it fails to comply with the required minimum balance on the correspondent account less than 10 times within a 3 month period. As of 30 September 2012 it was also required to maintain the balance on the separate account with the NBU at the level not less than 50% of the mandatory reserves balance for the preceding month (31 December 2011: not less than 70% of the mandatory reserves balance for the preceding month), as a part of the total required level of mandatory reserves; the amount is subject to interest payments from the side of the NBU at a rate of 2.250% (30% of the NBU official interest rate), provided that the Bank is in compliance with the mandatory reserve requirements (31 December 2011: the interest was 2.325%, which was calculated as 30% of the NBU official interest rate).

7 Cash and Cash Equivalents and Mandatory Reserves (Continued)

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

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

As of 30 September 2012 this reserve of UAH 20 million (31 December 2011: UAH 56 million) has been placed on a separate account.

As of 30 September 2012 the mandatory reserve balances of the Bank's subsidiaries in Russia, Latvia, Cyprus and Georgia that should be kept with respective central banks were UAH 690 million (31 December 2011: mandatory reserves in Russia, Latvia, Cyprus and Georgia were UAH 731 million).

As the respective liquid assets are not freely available to finance the Bank's day-to-day operations, for the purposes of the consolidated cash flow statement, the mandatory reserve balance is excluded from cash and cash equivalents of UAH 3,241 thousand, that is 100% of the mandatory reserve balance with the NBU and other Central Banks (31 December 2011: UAH 2,773 million, that is 95% of the mandatory reserve balance with the NBU and 100% of the mandatory reserve balance with other Central Banks).

In millions of Ukrainian hryvnias	**30 September 2012 (unaudited)**	**31 December 2011**
Total cash and cash equivalents and mandatory reserves	25,193	21,363
Less mandatory reserves balances	(3,241)	(2,773)
Cash and cash equivalents for the purposes of the consolidated statement of cash flows	**21,952**	**18,590**

As of 30 September 2012 mandatory reserve balance with the NBU of UAH 1,294 million (31 December 2011: UAH 484 million) have been pledged as a collateral for the refinancing loan received from the NBU. Refer to Notes 9 and 17.

Financing transactions that did not require the use of cash and cash equivalents and were excluded from the consolidated statement of cash flows are as follows:

In millions of Ukrainian hryvnias	**Nine months ended 30 September 2012 (unaudited)**	**Nine months ended 30 September 2011 (unaudited)**
Non-cash financing activities		
Dividends	(1,352)	(1,300)
Increase in share capital	1,352	1,300
Non-cash financing activities	-	-

8 Loans and Advances to Customers

In millions of Ukrainian hryvnias	30 September 2012 (unaudited)	31 December 2011
Corporate loans	108,807	96,825
Loans to individuals - card	18,842	16,817
Loans to individuals - mortgage	4,529	4,997
Loans to individuals - other	1,047	928
Loans to individuals - consumer	1,046	966
Loans to individuals - auto	867	1,454
Loans to small and medium enterprises (SME)	1,173	1,393
Less: Provision for loan impairment	(19,071)	(15,950)
Total loans and advances to customers	**117,240**	**107,430**

As of 30 September 2012 interest income of UAH 1,557 million (31 December 2011: UAH 1,113 million) was accrued on loans and advances to customers impaired at the end of the reporting period.

Movements in the provision for loan impairment for the nine month period ended 30 September 2012 are as follows:

	Corporate	Loans to individuals					SME	Total
In millions of Ukrainian hryvnias	loans	Card	Mortgage	Auto	Consumer	Other		
Provision for loan impairment at 1 January 2012	**13,740**	**618**	**1,061**	**254**	**12**	**21**	**244**	**15,950**
Provision for impairment during the period	3,746	825	8	183	42	196	167	5,167
Amounts written off during the period as uncollectible	(1,016)	(405)	(86)	(260)	(36)	(61)	(186)	(2,050)
Currency translation differences	-	4	-	-	-	-	-	4
Provision for loan impairment at 30 September 2012	**16,470**	**1,042**	**983**	**177**	**18**	**156**	**225**	**19,071**

The provision for impairment for the nine month period ended 30 September 2012 differs from the amount presented in profit or loss for the period due to UAH 495 million recoveries of amounts previously written off as uncollectible. The amount of the recovery was credited directly to provisions in the statement of comprehensive income for the nine month period ended 30 September 2012.

Movements in the provision for loan impairment for the nine month period ended 30 September 2011 are as follows:

	Corporate	Loans to individuals					SME	Total
In millions of Ukrainian hryvnias	loans	Card	Mortgage	Auto	Consumer	Other		
Provision for loan impairment at 1 January 2011	**9,620**	**347**	**1,330**	**425**	**6**	**196**	**557**	**12,481**
Provision/(reversal of provision) for impairment during the period	3,532	538	80	165	14	(136)	225	4,418
Amounts written off during the period as uncollectible	(470)	(252)	(303)	(297)	(9)	(10)	(473)	(1,814)
Currency translation differences	(23)	(11)	9	-	-	-	(1)	(26)
Provision for loan impairment at 30 September 2011	**12,659**	**622**	**1,116**	**293**	**11**	**50**	**308**	**15,059**

8 Loans and Advances to Customers (Continued)

The provision for impairment for the nine month period ended 30 September 2011 differs from the amount presented in profit or loss for the period due to UAH 117 million recoveries of amounts previously written off as uncollectible. The amount of the recovery was credited directly to provisions in the statement of comprehensive income for the nine month period ended 30 September 2011.

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

	30 September 2012 (unaudited)		31 December 2011	
In millions of Ukrainian hryvnias	Amount	%	Amount	%
Oil trading	39,438	29	39,436	32
Loans to individuals	26,331	19	25,162	20
Manufacturing and chemicals	13,994	10	10,485	8
Ferroalloy trading and production	12,707	9	10,937	9
Agriculture, agricultural machinery and food industry	12,134	9	14,049	11
Commerce, finance and securities trading	11,575	9	8,756	7
Ski resorts, tourism and football clubs	5,384	4	4,178	4
Air transportation	5,284	4	2,394	2
Real estate construction	5,246	4	4,791	4
Small and medium enterprises (SME)	1,173	1	1,393	1
Other	3,045	2	1,799	2
Total loans and advances to customers (before impairment)	**136,311**	**100**	**123,380**	**100**

Disclosed in oil trading industry are UAH 39,438 million or 29% of gross loans and advances, (31 December 2011: UAH 39,436 million or 32%) issued to companies engaged in wholesale and retail sale of petrol, oil and oil products. Certain of these companies work closely with each other. As of 30 September 2012 loans issued to these companies of UAH 38,925 million (31 December 2011: UAH 39,436 million) were collateralised with inventory of oil, gas and oil products of the collateral value of UAH 2,018 million (31 December 2011: UAH 2,727 million), property rights for advances made by borrowers of UAH 2,028 million (31 December 2011: UAH 3,480 million) and corporate rights for shares in the share capital of borrowers and their guarantors with the collateral value of UAH 31,514 million (31 December 2011: UAH 31,499 million). Collateral value of corporate rights for shares was determined based on the fair value of petrol stations, petrol storages, oil refineries and gas and oil production fields owned by these borrowers, their shareholders and guarantors. Collateral agreements are concluded under the UK Law. The fair value of collateral substantially contributes to the assessment of whether there is an impairment of loans issued to oil traders.

Apart from the loans issued to related parties, disclosed in the Note 19, the Group has loans issued to the entities in which major shareholders of the Bank individually directly or through intermediaries beneficially own less than 50% of the share capital, however that ownership does not allow these entities to be treated as related to the Group in accordance with the IAS 24 “Related party disclosure” (as revised in November 2009).

As of 30 September 2012 the total aggregate amount of loans to the top 10 borrowers of the Group amounted to UAH 12,070 million (31 December 2011: UAH 14,774 million) or 9% of the gross loan portfolio (31 December 2011: 12%).

As of 30 September 2012 the Group had 1 borrower (31 December 2011: 1 borrower) with aggregate loan balances in excess of 10% of the net assets or UAH 2,092 million (31 December 2011: UAH 1,919 million). The total aggregate amount of these loans was UAH 2,702 million (31 December 2011: UAH 2,843 million).

As of 30 September 2012 mortgage loans of UAH 334 million (31 December 2011: UAH 383 million) have been pledged as collateral with respect to the mortgage bonds issued. Refer to Notes 11 and 17.

8 Loans and Advances to Customers (Continued)

As of 30 September 2012 loans issued to two corporate borrowers (31 December 2011: two corporate borrowers) of UAH 668 million (31 December 2011: UAH 675 million) were pledged as collateral under the NBU refinancing. Refer to Notes 9 and 17.

As at 30 September 2012 the Group has USD denominated loans in the equivalent of UAH 1,598 million, proceeds from which in the amount of UAH 1,485 million are held on the current accounts with the Group. Balances on the current accounts are pledged for the loans issued.

As of 30 September 2012 the Group issued loans of UAH 264 million to two corporate borrowers that placed UAH 263 million on the current account with the Bank. As of 30 September 2012 balances on the current accounts were not pledged under the loans issued.

Analysis by credit quality of loans outstanding as at 30 September 2012 is as follows:

	Corporate	Loans to individuals					SME	Total
In millions of Ukrainian hryvnias	loans	Card	Mortgage	Auto	Consumer	Other		
Neither past due nor impaired								
- Large borrowers with credit history with the Group over two years	54,349	-	-	-	-	413	-	54,762
- Large new borrowers with credit history with the Group less than 2 years	13,937	-	-	-	-	-	-	13,937
- Loans to medium size borrowers	7,124	-	-	-	-	142	28	7,294
- Loans to small borrowers	412	-	-	-	-	-	431	843
- Loans between UAH 1-100 million	-	26	157	-	-	-	-	183
- Loans less than UAH 1 million	-	16,491	1,572	411	962	201	-	19,637
Total neither past due nor impaired	**75,822**	**16,517**	**1,729**	**411**	**962**	**756**	**459**	**96,656**
Past due but not impaired								
- less than 30 days overdue	73	965	171	46	37	23	40	1,355
- 30 to 90 days overdue	1,482	402	117	38	20	11	42	2,112
Total past due but not impaired	**1,555**	**1,367**	**288**	**84**	**57**	**34**	**82**	**3,467**
Loans individually determined to be impaired (gross)								
- Not overdue	25,717	-	3	-	-	204	-	25,924
- less than 30 days overdue	70	-	6	1	-	-	-	77
- 30 to 90 days overdue	2,802	-	8	1	-	-	-	2,811
- 90 to 180 days overdue	1,343	359	104	32	21	7	35	1,901
- 180 to 360 days overdue	994	465	152	38	6	2	75	1,732
- over 360 days overdue	504	134	2,239	300	-	44	522	3,743
Total individually impaired loans (gross)	**31,430**	**958**	**2,512**	**372**	**27**	**257**	**632**	**36,188**
Less impairment provisions	(16,470)	(1,042)	(983)	(177)	(18)	(156)	(225)	(19,071)
Total loans and advances to customers	**92,337**	**17,800**	**3,546**	**690**	**1,028**	**891**	**948**	**117,240**

8 Loans and Advances to Customers (Continued)

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

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

The Group applied the portfolio provisioning methodology prescribed by IAS 39, *Financial Instruments: Recognition and Measurement,* and created portfolio provisions for impairment losses that were incurred but have not been specifically identified with any individual loan by the end of reporting period. The Group's policy is to classify each loan as 'neither past due nor impaired' until specific objective evidence of impairment of the loan is identified. The impairment provisions may exceed the total gross amount of individually impaired loans as a result of this policy and the portfolio impairment methodology.

The primary factors that the Group considers in determining whether a loan is impaired are its overdue status, a significant financial difficulty as evidenced by the borrower's financial information and realisability of related collateral, if any. As a result, the Group presents above an ageing analysis of loans that are individually determined to be impaired.

8 Loans and Advances to Customers (Continued)

Past due but not impaired loans, represent collateralised loans where the fair value of collateral covers the overdue interest and principal repayments, except for card loans and consumer loans for which impairment is recognised starting from 90 days past due. The amount reported as past due but not impaired is the whole balance of such loans, not only the individual instalments that are past due.

The Group believes that loans and advances to large and small sized borrowers with longer credit history are of a higher credit quality than the rest of the loan portfolio.

As at 30 September 2012 loans issued to the borrowers other than those engaged in oil trading of UAH 40,361 million (31 December 2011: UAH 31,521 million) were collateralised with corporate rights for shares in the share capital of these borrowers and their guarantors with the collateral value of UAH 55,028 million (31 December 2011: UAH 46,818 million). Collateral agreements are concluded under the UK Law. The fair value of collateral substantially contributes to the assessment of whether there is an impairment of loans issued.

Information on loans and advances to customers from transactions with related parties is disclosed in Note 19.

9 Due to the NBU and Due to Other Banks and Other Financing Institutions

Due to the NBU at 30 September 2012 and 31 December 2011:

In millions of Ukrainian hryvnias	**30 September 2012 (unaudited)**	**31 December 2011**
Term borrowings from the NBU	4,786	5,825
Total due to the NBU	**4,786**	**5,825**

Assets pledged under the NBU loans are as follows:

In millions of Ukrainian hryvnias	**Note**	**30 September 2012 (unaudited)**	**31 December 2011**
Mandatory reserve balance with the NBU	7	1,294	484
Loans and advances to customers	8	668	675
Investment securities held to maturity		160	-
Premises		952	954
Assets owned by related and third parties, some of those are borrowers of the Bank		4,923	5,734

Due to other banks and other financing institutions at 30 September 2012 and 31 December 2011:

In millions of Ukrainian hryvnias	**30 September 2012 (unaudited)**	**31 December 2011**
Long-term loans under the credit lines from other financing institutions	1,363	774
Term placements of other commercial banks	1,257	1,401
Correspondent accounts and overnight placements of other banks	847	268
Pledge deposits of other banks	804	10
Total due to other banks and other financial institutions	**4,271**	**2,453**

10 Customer Accounts

In millions of Ukrainian hryvnias	**30 September 2012 (unaudited)**	**31 December 2011**
Individuals		
- Term deposits	77,706	66,536
- Current/demand accounts	16,095	12,967
Legal entities		
- Term deposits	10,329	9,147
- Current/settlement accounts	14,249	15,559
Total customer accounts	**118,379**	**104,209**

Economic sector concentrations within customer accounts are as follows:

	30 September 2012 (unaudited)		**31 December 2011**	
In millions of Ukrainian hryvnias	**Amount**	**%**	**Amount**	**%**
Individuals	93,801	79	79,503	76
Trade	6,114	5	9,207	9
Services	5,197	5	3,478	3
Manufacturing	3,825	3	4,764	5
Agriculture	3,576	3	2,618	3
Transport and communication	2,179	2	1,458	1
Machinery	370	1	477	1
Other	3,317	2	2,704	2
Total customer accounts	**118,379**	**100**	**104,209**	**100**

At 30 September 2012 the aggregate balances of top 10 customers of the Group amount to UAH 6,714 million (31 December 2011: UAH 9,576 million) or 6% (2011: 9%) of total customer accounts.

At 30 September 2012 included in customer accounts are deposits of UAH 6 million (31 December 2011: UAH 30 million) held as collateral for irrevocable commitments under import letters of credit, guarantees issued by the Group. Refer to Note 17.

At 30 September 2012 included in customer accounts are deposits of UAH 3,409 million (31 December 2011: UAH 2,445 million) held as collateral for loans and advances to customers, issued by the Group.

11 Debt Securities in Issue

In millions of Ukrainian hryvnias	**30 September 2012 (unaudited)**	**31 December 2011**
Private placements of bonds	5,528	560
Eurobonds	1,589	4,785
Mortgage bonds	196	254
Promissory notes	1	1
Total debt securities in issue	**7,314**	**5,600**

In February 2007 the Group issued USD denominated Eurobonds with a par value of USD 500 million (UAH 2,525 million at the exchange rate at the date of the issue) which matured in February 2012. The bonds carried a coupon rate of 8% per annum. The Eurobonds were listed on the Swiss Stock Exchange. In February 2012 the Group redeemed the remaining part of Eurobonds with par value of USD 399 million.

11 Debt Securities in Issue (Continued)

In September 2010 the Group issued USD denominated Eurobonds with a par value of USD 200 million (UAH 1,583 million at exchange rate at the date of issue) maturing in September 2015. The bonds carry a coupon rate of 9.375% per annum. The Eurobonds are listed on the London Stock Exchange.

As of 30 September 2012 the Group issued private placements of bonds (also refer to Note 17):

Date of placement	Interest rate	Currency	Maturity date	Principal amount, UAH million
April 2012	12%	UAH	February 2015	3,500
July 2012	12%	UAH	June 2015	1,200
August 2012	12%	UAH	June 2015	810

12 Share Capital

In millions of UAH except for number of shares	Number of outstanding shares, in millions	Nominal amount
At 1 January 2011	48.49	8,860
New shares issued	16.15	3,385
Increase in the nominal amount of the shares through capitalisation of dividends		1,300
At 30 September 2011	**64.64**	**13,545**
At 31 December 2011	64.64	13,545
Increase in the nominal amount of the shares through capitalisation of dividends		1,352
At 30 September 2012	**64.64**	**14,897**

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

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

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

The total authorised number of ordinary shares is 64.64 million shares (2011: 64.64 million shares) with a par value of UAH 230.45 per share (2011: UAH 209.53 per share). All issued ordinary shares are fully paid. Each ordinary share carries one vote.

13 Interest Income and Expense

In millions of Ukrainian hryvnias	**Nine months ended 30 September 2012 (unaudited)**	**Nine months ended 30 September 2011 (unaudited)**
Interest income		
Loans and advances to legal entities	8,556	8,918
Loans and advances to individuals	5,882	4,919
Due from other banks	125	126
Other	117	160
Total interest income	**14,680**	**14,123**
Interest expense		
Term deposits of individuals	5,509	4,679
Current/settlement accounts	770	666
Term deposits of legal entities	541	654
Debt securities in issue	401	316
Due to the NBU	381	494
Due to other banks and other financing institutions	140	157
Subordinated debt	63	50
Other	17	16
Total interest expense	**7,822**	**7,032**
Net interest income	**6,858**	**7,091**

Information on interest income and expense from transactions with related parties is disclosed in Note 19.

14 Fee and Commission Income and Expense

In millions of Ukrainian hryvnias	**Nine months ended 30 September 2012 (unaudited)**	**Nine months ended 30 September 2011 (unaudited)**
Fee and commission income		
Settlement transactions	1,783	1,526
Cash collection and cash transactions	850	706
Other	134	94
Total fee and commission income	**2,767**	**2,326**
Fee and commission expense		
Cash and settlement transactions	402	300
Other	21	18
Total fee and commission expense	**423**	**318**
Net fee and commission income	**2,344**	**2,008**

Information on fee and commission income from transactions with related parties is disclosed in Note 19.

15 Administrative and Other Operating Expenses

In millions of Ukrainian hryvnias	Nine months ended 30 September 2012 (unaudited)	Nine months ended 30 September 2011 (unaudited)
Staff costs	2,568	2,557
Rent	467	386
Contributions to Individual Deposits Guarantee Fund	293	238
Depreciation and amortisation of premises, leasehold improvements and equipment and intangible assets	270	300
Maintenance of premises, leasehold improvements and equipment	234	180
Mail and telecommunication	227	158
Utilities and household expenses	226	181
Taxes other than on income	111	82
Security	103	94
Advertising and marketing	76	54
Transportation	45	51
Other	336	140
Total administrative and other operating expenses	**4,956**	**4,421**

Included in staff costs is unified social contribution of UAH 625 million (30 September 2011: unified social contributions of UAH 623 million). Pension contributions are made into the State pension fund which is a defined contribution plan.

Information on administrative and other operating expenses from transactions with related parties is disclosed in Note 19.

16 Segment Analysis

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

(a) Description of products and services from which each reportable segment derives its revenue

The Group is organized on a basis of four main business segments:

- Retail banking – representing private banking services, private customer current accounts, savings, deposits, investment savings products, custody, credit and debit cards, consumer loans and mortgages.
- Corporate banking – representing direct debit facilities, current accounts, deposits, overdrafts, loan and other credit facilities, foreign currency and derivative products.
- Investment banking – representing financial instruments trading, structured financing, corporate leasing, merger and acquisitions advice.
- Treasury – representing interbank loans, deposits, foreign currency exchange operations, arrangement of funding in the international markets, asset and liabilities management, issue of senior bonds and assets backed securities, project financing, negotiation of limits for trade financing with financial institutions.

Transactions between the business segments are on normal commercial terms and conditions. Funds are ordinarily reallocated between segments, resulting in funding cost transfers disclosed in operating income. There are no other material items of income or expense between the business segments. Segment assets and liabilities comprise operating assets and liabilities, being the majority of the balance sheet, but excluding taxation and head office overheads. Internal charges and transfer pricing adjustments have been reflected in the performance of each business segment.

16 Segment Analysis (Continued)

Segment financial information reviewed by the CODM does not include information of the Group's subsidiaries and head office functional departments. Regular review of these subsidiary banks is delegated to the local management teams. The CODM obtains financial statements of the Bank's subsidiaries. Management considered that information on subsidiary banks is available less frequently in concluding that segments exclude details of the subsidiaries. Head office functional departments do not earn revenues or earn revenues that are only incidental to the activities of the Group and is not considered by the CODM as an operating segment.

The CODM reviews financial information of the Bank prepared based on Ukrainian accounting standards adjusted to meet the requirements of the NBU accounting rules and before consolidation of subsidiaries. Such financial information differs in certain aspects from the International Financial Reporting Standards:

- funds are generally reallocated between segments at internal interest rates set by the treasury department, which are determined by reference to market interest rate benchmarks, contractual maturities for loans and observed actual maturities of customer accounts balances;
- income taxes are not allocated to segments;
- loan loss provisions are recognised based on the statutory accounting rules;
- loans and advances to customers are written-off based on statutory requirements;
- fair value of derivative is not recognised in statutory accounts;
- managing its open currency position the Group enters into swap transactions that are recognised at cost; and
- consolidation of subsidiaries.

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

Segment information for the reportable segments for the nine month period ended 30 September 2012 is set out below:

In millions of Ukrainian hryvnias	Retail banking	Corporate banking	Investment banking	Treasury	Total reportable segments
Total reportable segment assets	**23,060**	**93,840**	**1,248**	**45,245**	**163,393**
Total reportable segment liabilities	**81,861**	**23,091**	**380**	**40,781**	**146,113**

Segment information for the reportable segments for the nine month period ended 30 September 2012 is set out below:

In millions of Ukrainian hryvnias	Retail banking	Corporate banking	Investment banking	Treasury	Total reportable segments
30 September 2012					
External revenues	6,962	9,368	39	370	16,739
Revenues from other segments	3,914	(5,130)	(115)	1,650	319
Total revenues	**10,876**	**4,238**	**(76)**	**2,020**	**17,058**
Segment result	**1,660**	**154**	**(63)**	**557**	**2,308**

16 Segment Analysis (Continued)

Segment information for the reportable segments for the year ended 31 December 2011 is set out below:

In millions of Ukrainian hryvnias	Retail banking	Corporate banking	Investment banking	Treasury	Total reportable segments
Total reportable segment assets	**22,304**	**83,246**	**1,203**	**37,557**	**144,310**
Total reportable segment liabilities	**69,236**	**23,007**	**523**	**35,326**	**128,092**

Segment information for the reportable segments for the nine month period ended 30 September 2011 is set out below:

In millions of Ukrainian hryvnias	Retail banking	Corporate banking	Investment banking	Treasury	Total reportable segments
30 September 2011					
External revenues	5,765	9,594	50	298	15,707
Revenues from other segments	3,420	(5,139)	(99)	2,177	359
Total revenues	**9,185**	**4,455**	**(49)**	**2,475**	**16,066**
Segment result	**1,162**	**153**	**(55)**	**867**	**2,127**

Reconciliation of reportable segment revenues, profit or loss, assets and liabilities

Total consolidated revenues comprise interest income, fee and commission income and other operating income.

In millions of Ukrainian hryvnias	30 September 2012 (unaudited)	30 September 2011 (unaudited)
Total revenues for reportable segments	**17,058**	**16,066**
(a), (f) Recognition of embedded derivatives and embedded derivatives with expired underlying contracts	99	(176)
(b) Consolidation adjustments	1,433	1,409
(c) Other adjustments	(705)	(426)
(d) Unallocated expenses	(318)	(359)
Total consolidated revenues	**17,567**	**16,514**

16 Segment Analysis (Continued)

Reconciliation of reportable profit or loss:

In millions of Ukrainian hryvnias	30 September 2012 (unaudited)	30 September 2011 (unaudited)
Total reportable segment result	**2,308**	**2,127**
(a), (f) Recognition of embedded derivatives and embedded derivatives with expired underlying contracts	971	63
(b) Consolidation adjustments	(238)	85
(c) Other adjustments	(225)	(163)
(d) Unallocated expenses less revenues	(1,122)	(1,106)
(e) (Provision)/release of provision for impairment	(621)	55
Profit before tax	**1,073**	**1,061**

Reconciliation of material items of assets at 30 September 2012 and at 31 December 2011 is as follows:

In millions of Ukrainian hryvnias	30 September 2012 (unaudited)	31 December 2011
Total reportable segment assets	**163,393**	**144,310**
(a), (f) Recognition of embedded derivatives and embedded derivatives with expired underlying contracts	2,683	1,711
(b) Consolidation adjustments	13,856	10,582
(c) Other adjustments	(737)	(921)
(d) Unallocated assets	567	566
(e) Release of provision for impairment	1,589	2,604
(g) Swap and spot operations at fair value	(22,076)	(17,921)
Total consolidated assets	**159,275**	**140,931**

Reconciliation of material items of liabilities at 30 September 2012 and at 31 December 2011 is as follows:

In millions of Ukrainian hryvnias	30 September 2012 (unaudited)	31 December 2011
Total reportable segment liabilities	**146,113**	**128,092**
(b) Consolidation adjustments	13,304	10,764
(c) Other adjustments	(339)	(401)
(d) Unallocated liabilities	91	41
(g) Swap and spot operations at fair value	(22,076)	(17,921)
(h) Deferred income tax liability	1,261	1,171
Total consolidated liabilities	**138,354**	**121,746**

The reconciling items are attributable to the following:

(a), (f) – Embedded derivatives and embedded derivatives with expired underlying contracts are accounted for at the fair value for IFRS purposes. In statutory accounts results from operations with embedded derivatives and embedded derivatives with expired underlying contracts are accounted when cash is received within interest income.

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

16 Segment Analysis (Continued)

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

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

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

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

(b) Analysis of revenues by products and services

The Group's revenues are analysed by products and services in Note 13 (interest income), Note 14 (fee and commission income).

(c) Geographical information

Revenues for each individual country for which the revenues are material are reported separately as follows:

In millions of Ukrainian hryvnias	**30 September 2012 (unaudited)**	**30 September 2011 (unaudited)**
Ukraine	15,264	15,084
Other countries	2,303	1,430
Total consolidated revenues	**17,567**	**16,514**

The analysis is based on domicile of the customer. Revenues from off-shore companies of Ukrainian customers are reported as revenues from Ukraine. Revenues comprise interest income, fee and commission income and other operating income.

The Bank does not analyse the capital expenditure, current and deferred income tax in segment reporting.

(d) Major customers

The Group does not have customers from which the Group collects revenues exceeding 10% of the total revenue of the Group.

17 Contingencies and Commitments

Capital expenditure commitments. At 30 September 2012 the Group has contractual capital expenditure commitments in respect of construction of premises, purchase of computers and furniture and equipment totalling UAH 101 million (31 December 2011: UAH 78 million). The Group believes that future net income and funding will be sufficient to cover this and any similar such commitments.

Credit related commitments. The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate or cash deposits and therefore carry less risk than a direct borrowing.

In millions of Ukrainian hryvnias	**30 September 2012 (unaudited)**	**31 December 2011**
Guarantees issued	825	1,167
Import letters of credit	518	559
Irrevocable commitments to extend credit	83	84
Less: Cash covered letters of credit	(6)	(30)
Less: Provision for credit related commitments	(28)	(2)
Total credit related commitments	**1,392**	**1,778**

The total outstanding contractual amount of undrawn credit lines, letters of credit, and guarantees does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded. The fair value of credit related commitments as of 30 September 2012 and 31 December 2011 was insignificant.

As of 30 September 2012 the Group had undrawn credit limits on credit cards of UAH 21,933 million (31 December 2011: UAH 13,834 million) that are available to credit cardholders. These credit limits are revocable. The Group on a regular basis monitors activity on the cards and based on the frequency and pattern of withdrawals and repayments done by borrowers is able to reduce limits on credit cards unilaterally. Provision for undrawn credit limits on credit cards was not significant as of 30 September 2012 and 31 December 2011.

As of 30 September 2012 irrevocable commitments under letters of credit and guarantees issued by the Group of gross amount of UAH 12 million (31 December 2011: UAH 30 million) are secured by deposits of UAH 6 million (31 December 2011: UAH 30 million). Refer to Note 10.

Fiduciary assets. These assets are not included in the Group's consolidated statement of financial position as they are not assets of the Group. Nominal values disclosed below are normally different from the fair values of respective securities. The fiduciary assets held by the Group on behalf of its customers fall into the following categories:

In millions of Ukrainian hryvnias	**30 September 2012 Nominal value**	**31 December 2011 Nominal value**
Shares of Ukrainian companies	6,004	5,886
Domestic corporate bonds	1,689	2,541
Investment certificates	1,621	1,671

17 Contingencies and Commitments (Continued)

Funds under trust management. Funds under trust management represent assets managed and held by the Group on behalf of customers. The Group earns commission income for holding such assets. The Group is not subject to interest, credit, liquidity and currency risk with respect of these assets in accordance with the agreements concluded with the customers. Loans are granted on behalf of customers who have remitted a deposit as collateral for the loans. As of 30 September 2012 assets under trust management amounted to UAH 391 million (31 December 2011: UAH 437 million).

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

In millions of Ukrainian hryvnias	**Note**	**30 September 2012 (unaudited)** Asset pledged and reserved	**30 September 2012 (unaudited)** Related liability/ commitment	**31 December 2011** Asset pledged and reserved	**31 December 2011** Related liability/ commitment
Gross receivables under swap, forward and spot agreements		24,354	24,353	19,803	19,841
Due from other banks		326	265	-	-
Loans and advances to customers	8, 11	334	196	383	254
Cash balances with the NBU, premises, loans and advances to customers, investment securities held to maturity	7, 8,9	3,074	4,786	2,113	5,825
Total		**28,088**	**29,600**	**22,299**	**25,920**

As of 30 September 2012 the Group pledged its USD denominated term placement with two OECD banks of UAH 5,517 million under USD denominated loan issued by these banks to a Group's customers. These funds were used for purchase of private placements of bonds for UAH 5,510 million issued by the Bank. Refer to Note 11.

As of 31 December 2011 the Group pledged its USD denominated term placement with an OECD bank of UAH 2,892 million under USD denominated loan issued by this bank to a Group's customer. A customer of the Group placed UAH 2,892 million on a current account with the Bank which is not pledged. Refer to Note 10.

18 Derivative Financial Instruments

Foreign exchange and other derivative financial instruments entered into by the Group are generally traded in an over-the-counter market with professional market counterparties on standardised contractual terms and conditions. Derivatives have potentially favourable (assets) or unfavourable (liabilities) conditions as a result of fluctuations in market interest rates, foreign exchange rates or other variables significantly from time to time.

The table below sets out fair values, at the end of the reporting period, of currencies receivable or payable under foreign exchange forward contracts entered into by the Group and presented within other financial assets and other financial liabilities. The table reflects gross positions before the netting of any counterparty positions (and payments) and covers the contracts with settlement dates after the respective end of the reporting period. The contracts are short term in nature.

	30 September 2012 (unaudited)		31 December 2011	
In millions of Ukrainian hryvnias	Contracts with positive fair value	Contracts with negative fair value	Contracts with positive fair value	Contracts with negative fair value
Foreign exchange swaps, forwards and spots: fair values, at the end of the reporting period date, of				
- USD receivable on settlement (+)	7,292	1,209	4,129	2
- USD payable on settlement (-)	(1,816)	(14,058)	(201)	(15,471)
- Euros receivable on settlement (+)	34	14,024	128	14,056
- Euros payable on settlement (-)	(7,087)	(43)	(3,634)	(33)
- UAH receivable on settlement (+)	-	-	120	60
- UAH payable on settlement (-)	-	(962)	-	-
- RUB receivable on settlement (+)	1,794	-	-	1,307
- Other currencies receivable on settlement (+)	-	1	-	1
- Other currencies payable on settlement (-)	(170)	(217)	(477)	(25)
Net fair value of foreign exchange swaps, forwards and spots	**47**	**(46)**	**65**	**(103)**

At 30 September 2012, the Group had outstanding obligations from unsettled spot transactions with foreign currencies of UAH 22,497 million (31 December 2011: UAH 18,805 million). These transactions are presented in consolidated statement of financial position on a net basis. The net fair value of unsettled spot transactions is insignificant.

For the nine month period ended 30 September 2012 the Group received a gain of UAH 13 million (30 September 2011: a gain of UAH 103 million) resulting from foreign exchange swaps, forwards and spots that is accounted for in other gains less losses/(losses less gains) of the consolidated statement of comprehensive income.

As of 30 September 2012 the Group had outstanding derivatives embedded in loans issued to customers which were separated from the host instrument and carried at fair value of UAH 2,724 million (31 December 2011: UAH 1,484 million). For the nine month period ended 30 September 2012 the Group recognised a gain of UAH 872 million (30 September 2011: a gain of UAH 231 million) in respect of change in fair value of a financial derivative that arises on the issue of UAH denominated loans with the condition of compensation in the case of UAH devaluation against USD. This embedded derivative is represented by a currency option maturing in up to 3 years. The strike price was from UAH 7.98 to UAH 7.99 per USD 1 (31 December 2011: UAH 7.93 to UAH 7.99 per USD 1).

19 Related Party Transactions

Parties are generally considered to be related if the parties are under common control, joint control or one party has the ability to control the other party or can exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

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

At 30 September 2012 and 31 December 2011, the outstanding balances with related parties were as follows:

	30 September 2012 (unaudited)			**31 December 2011**		
In millions of Ukrainian hryvnias	**Significant share - holders**	**Manage- ment**	**Companies under control of major shareholders**	**Significant share - holders**	**Manage- ment**	**Companies under control of major shareholders**
Gross amount of loans and advances to customers (contractual interest rate: 2012: UAH - 12%, USD - 11%, EUR - 11%; 2011: UAH - 13%, USD - 12%, EUR - 12%)	-	6	13,390	-	4	8,462
Impairment provisions for loans and advances to customers	-	-	(4,051)	-	-	(3,693)
Loans and advances to customers written off as uncollectable	-	-	(848)	-	-	(17)
Financial derivatives	-	-	71	-	-	60
Other financial assets	-	-	7	-	-	46
Other assets	-	-	163	-	-	217
Customer accounts (contractual interest rate: 2012: UAH - 7%, USD - 7%, EUR - 11%; 2011: UAH - 6%, USD - 2%, EUR - 10%)	813	76	3,578	283	69	3,614
Subordinated debt (contractual interest rate: 2012: UAH - 6%, RUR - 1%; 2011: UAH - 6%, RUR - 1%)	-	-	155	-	-	156

19 Related Party Transactions (Continued)

The income and expense items with related parties for the nine month period ended 30 September 2012 and 30 September 2011 were as follows:

In millions of Ukrainian hryvnias	30 September 2012 (unaudited)			30 September 2011 (unaudited)		
	Significant share - holders	Manage- ment	Companies under control of major shareholders	Significant share - holders	Manage- ment	Companies under control of major shareholders
Interest income	9	-	791	9	-	1,052
Interest expense	(28)	(5)	(206)	(44)	(3)	(200)
Provision for loan impairment	-	-	(1,189)	-	-	(853)
Fee and commission income	-	-	52	2	-	37
Losses less gains from financial derivatives	-	-	(4)	-	-	11
Other operating income	-	-	-	-	-	5
Administrative and other operating expenses, excluding management remuneration	-	-	(76)	-	-	(138)

At 30 September 2012 and 31 December 2011, other rights and obligations with related parties were as follows:

In millions of Ukrainian hryvnias	30 September 2012 (unaudited)	31 December 2011
	Companies under control of major shareholders	Companies under control of major shareholders
Guarantees issued	9	15
Total credit related commitments	**9**	**15**

Aggregate amounts lent to and repaid by related parties during the nine month period ended 30 September 2012 and 30 September 2011 were:

In millions of Ukrainian hryvnias	30 September 2012 (unaudited)			30 September 2011 (unaudited)		
	Significant share - holders	Manage- ment	Companies under control of major shareholders	Significant share - holders	Manage- ment	Companies under control of major shareholders
Amounts lent to related parties during the period	1,184	14	7,533	932	24	10,011
Amounts repaid by related parties during the period	1,193	14	2,777	932	22	13,731

The remuneration of members of the Management Board comprised salaries, discretionary bonuses, pension contributions and other short-term benefits totalling UAH 19 million for the nine month period ended 30 September 2012 (30 September 2011: UAH 19 million).

20 Events After the End of the Reporting Period

In November 2012 the share capital of Moscomprivatbank, the Group’s subsidiary in the Russian Federation, was increased by UAH 231 million. The share of the Group was increased from 59.33% to 70.04%.

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

PRIVATBANK GROUP

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

31 December 2011

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INDEPENDENT AUDITOR'S REPORT

CONSOLIDATED FINANCIAL STATEMENTS

Independent Auditor's Report

To the Shareholders and Management Board of PrivatBank:

1 We have audited the accompanying consolidated financial statements of Public Joint Stock Company Commercial Bank PrivatBank (the "Bank") and its subsidiaries (the "Group") which comprise the consolidated statements of financial position as of 31 December 2011, 2010 and 2009 and the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

6 In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2011, 2010 and 2009, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

LLC AF "PricewaterhouseCoopers (Audit)"

Kyiv, Ukraine
16 January 2013

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

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

Yuriy P. Pikush
General Deputy Chairman of the Board

Lubov I. Korotina
Chief Accountant

In millions of Ukrainian hryvnias	**Note**	**2011**	**2010**	**2009**
Interest income	19	19,408	15,813	15,966
Interest expense	19	(9,329)	(8,950)	(7,295)
Net interest income		**10,079**	**6,863**	**8,671**
Provision for impairment of loans and advances to customers	9	(5,627)	(3,408)	(4,363)
Net interest income after provision for impairment of loans and advances to customers		**4,452**	**3,455**	**4,308**
Fee and commission income	20	3,191	3,035	2,119
Fee and commission expense	20	(462)	(301)	(232)
Gains less losses from embedded derivatives	27, 28	27	147	128
Gains less losses from trading in foreign currencies		563	597	564
Foreign exchange translation (losses less gains)/gains less losses		(152)	32	(7)
(Impairment)/reversal of impairment of investment securities available-for-sale		(14)	8	(31)
Release of provision/(provision) for credit related commitments	26	-	41	(14)
Other operating income		110	155	141
Other gains less losses/(losses less gains)	27	144	(42)	(13)
Administrative and other operating expenses	21	(6,320)	(5,616)	(4,919)
Profit before tax		**1,539**	**1,511**	**2,044**
Income tax expense	22	(46)	(71)	(715)
Profit for the year		**1,493**	**1,440**	**1,329**
Other comprehensive income:				
Increase in the fair value of premises	10	-	59	44
Reversal of impairment through other comprehensive income	10	-	5	-
Decrease in the fair value of premises	10	-	(103)	(370)
Exchange differences on translation to presentation currency		2	(18)	90
Income tax recorded in other comprehensive income	22	75	6	82
Other comprehensive income/(loss) for the year		**77**	**(51)**	**(154)**
Total comprehensive income for the year		**1,570**	**1,389**	**1,175**
Profit/(loss) is attributable to:				
Owners of the Bank		1,516	1,610	1,379
Non-controlling interest		(23)	(170)	(50)
Profit for the year		**1,493**	**1,440**	**1,329**
Total comprehensive income/(loss) is attributed to:				
Owners of the Bank		1,568	1,589	1,159
Non-controlling interest		2	(200)	16
Total comprehensive income for the year		**1,570**	**1,389**	**1,175**

In millions of Ukrainian hryvnias	**Note**	**Attributable to owners of the Bank**						**Non-controlling interest**	**Total equity**
		Share capital	**Additional capital**	**Revaluation reserve for premises**	**Currency translation reserve**	**Retained earnings**	**Total**		
Balance at 1 January 2009		**5,939**	**462**	**908**	**330**	**2,097**	**9,736**	**94**	**9,830**
Profit/(loss) for the year		-	-	-	-	1,379	1,379	(50)	1,329
Premises:									
- Increase in fair value	10	-	-	44	-	-	44	-	44
- Decrease in the fair value	10	-	-	(370)	-	-	(370)	-	(370)
Income tax recorded in other comprehensive income	22	-	-	82	-	-	82	-	82
Currency translation differences		-	-	-	24	-	24	66	90
Other comprehensive (loss)/income		-	-	(244)	24	-	(220)	66	(154)
Total comprehensive income for the year		-	-	(244)	24	1,379	1,159	16	1,175
Realised revaluation reserve on premises		-	-	(36)	-	36	-	-	-
Paid-in share capital	17	1,000	-	-	-	-	1,000	-	1,000
Capitalisation of dividends	17	1,125	-	-	-	(1,125)	-	-	-
Other changes in interest attributable to non-controlling interest		-	-	-	-	-	-	45	45
Balance at 31 December 2009		**8,064**	**462**	**628**	**354**	**2,387**	**11,895**	**155**	**12,050**

In millions of Ukrainian hryvnias	**Note**	**Share capital**	**Additional capital**	**Revaluation reserve for premises**	**Currency translation reserve**	**Retained earnings**	**Total**	**Non-controlling interest**	**Total Equity**
		Attributable to owners of the Bank							
Balance at 31 December 2009		**8,064**	**462**	**628**	**354**	**2,387**	**11,895**	**155**	**12,050**
Profit/(loss) for the year		-	-	-	-	1,610	1,610	(170)	1,440
Premises:									
- Increase in fair value	10	-	-	57	-	-	57	2	59
- Reversal of impairment through other comprehensive income	10	-	-	3	-	-	3	2	5
- Decrease in the fair value	10	-	-	(69)	-	-	(69)	(34)	(103)
Income tax recorded in other comprehensive income	22	-	-	1	-	-	1	5	6
Currency translation differences		-	-	-	(13)	-	(13)	(5)	(18)
Other comprehensive (loss)/income		-	-	(8)	(13)	-	(21)	(30)	(51)
Total comprehensive income/(loss) for the year		-	-	(8)	(13)	1,610	1,589	(200)	1,389
Share grant		-	-	-	-	497	497	3	500
Capitalisation of dividends	17	1,049	-	-	-	(1,049)	-	-	-
Transfer of effect of hyperinflation	17	(253)	-	-	-	253	-	-	-
Reclassification	18	-	(462)	-	-	462	-	-	-
Other changes in interest attributable to owners of the Bank and non-controlling interest		-	-	(102)	-	166	64	166	230
Balance at 31 December 2010		**8,860**	**-**	**518**	**341**	**4,326**	**14,045**	**124**	**14,169**

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

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

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

1 Introduction

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

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

As of 31 December 2011 composition of the Supervisory Board was as follows:

Chairman of the Supervisory Board:	Mr. G.B. Bogolyubov
Members of the Supervisory Board:	Mr. I.V. Kolomoyskiy
	Mr. A.G. Martynov

As of 31 December 2011 composition of the Management Board was as follows:

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

Principal activity. The Bank's principal business activity is commercial and retail banking operations within Ukraine. The Bank has operated under a full banking licence issued by the National Bank of Ukraine (the "NBU") since March 1992. The Bank participates in the state deposit insurance scheme (registration #113 dated 2 September 1999), which operates according to the Law №2740-III "On Individuals Deposits Guarantee Fund" dated 20 September 2001 (as amended). As at 31 December 2011, 2010 and 2009 Individuals Deposits Guarantee Fund guarantees repayment of individual deposits up to UAH 150 thousand per individual in case bank liquidation procedure is started.

As of 31 December 2011 the Bank had 34 branches and 3,362 outlets within Ukraine and a branch in Cyprus (2010: 34 branches, 3,162 outlets in Ukraine and a branch in Cyprus; 2009: 36 branches, 3,102 outlets in Ukraine and a branch in Cyprus). Additionally, as of 31 December 2011, 2010 and 2009 the Bank had subsidiary banks in the Russian Federation, Latvia, Georgia and representative offices in Kyiv (Ukraine), Moscow (Russia), Almaty (Kazakhstan), London (United Kingdom) and Beijing (China), other small subsidiary companies in Ukraine and three special purpose entities in the United Kingdom.

1 Introduction (Continued)

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

Name	Nature of business	Country of registration	Percentage of ownership 31 December 2011	31 December 2010	31 December 2009
Moscomprivatbank	Banking	Russian Federation	92.34%	92.34%	92.34%
JSC PrivatBank	Banking	Georgia	50.30%	61.30%	75.00%
AS PrivatBank	Banking	Latvia	75.02%	75.02%	50.04%

As a result of an additional capital increase in 2010, the share of the Group in JSC PrivatBank Georgia was decreased from 75.00% to 61.30%. However, the Group retained its 75.00% of the voting rights as of 31 December 2010. As a result of additional capital increase in 2011, the share of the Group in JSC PrivatBank Georgia was decreased from 61.30% to 50.30%. However, the Group retained its 82.70% of the voting rights as of 31 December 2011.

As a result of an additional capital increase in 2009, the share of the Group in AS PrivatBank Latvia was decreased from 95.07% to 50.04% and subsequently in 2010 was increased from 50.04% to 75.02% due to additional share issue. However, the Group continues to have 98.70% of voting rights as of 31 December 2011 (31 December 2010: 98.70%; 31 December 2009: 95.07%).

Registered address and place of business. The Bank's registered address is:

50, Naberezhna Peremohy Str.,
49094, Dnipropetrovsk,
Ukraine.

Presentation currency. These consolidated financial statements are presented in millions of Ukrainian hryvnias ("UAH million"), unless otherwise stated.

2 Operating Environment of the Group

Ukraine continues to display certain characteristics of an emerging market. These characteristics include, but are not limited to, the existence of a currency that is not freely convertible outside of Ukraine, restrictive currency controls, and inflation of 4.6% for 2011 (2010: 9.1%; 2009: 12.3%).

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

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

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

2 Operating Environment of the Group (Continued)

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

Borrowers of the Group were adversely affected by the financial and economic environment, which in turn impacted their ability to repay the amounts owed. As a significant part of loans to customers was issued in foreign currencies, UAH depreciation against these currencies since mid-2008 till the end of 2009 had a significant impact on borrowers' ability to service the loans. Deteriorating economic conditions for borrowers were reflected in revised estimates of expected future cash flows in impairment assessments.

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

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

The tax, currency and customs legislation within Ukraine is subject to varying interpretations and frequent changes (Note 26). The need for further developments in the bankruptcy laws, formalised procedures for the registration and enforcement of collateral, and other legal and fiscal impediments continue to contribute to the challenges faced by banks operating in Ukraine.

On 2 December 2010, the Ukrainian Parliament adopted the new Tax Code. The Tax Code became effective from 1 January 2011, with the Corporate Profits Tax section coming into effect from 1 April 2011. Among the main changes, the Tax Code provides for the significant reduction of the corporate tax rate: 23% for 1 April - 31 December 2011, 21% for 2012, 19% for 2013, and 16% from 2014 onwards. The Tax Code also introduced new approaches to the determination of revenue and costs, new tax depreciation rules for fixed assets and intangibles, new approach to recognition of foreign exchange differences, which now became more close to the financial accounting rules. Refer to Note 22.

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

3 Summary of Significant Accounting Policies

Basis of preparation. These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention, as modified by the initial recognition of financial instruments based on fair value, and by the revaluation of premises, derivatives, available-for-sale financial assets, and financial instruments categorised as at fair value through profit or loss. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated (refer to Note 5).

Consolidated financial statements. Subsidiaries are those companies and other entities (including special purpose entities) in which the Group, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies so as to obtain benefits. The existence and effect of potential voting rights that are presently exercisable or presently convertible are considered when assessing whether the Group controls another entity. Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are deconsolidated from the date that control ceases.

3 Summary of Significant Accounting Policies (Continued)

The Group holds less than 50% of voting rights in four fully consolidated entities. The Group has the power to govern the financial and operating policies in these entities through contractual arrangements with other shareholders. The Group retains a significant beneficial interest in their activities which are predominantly financed by the Group, as, in substance, the Group has rights to obtain the majority of the benefits of the SPEs and therefore may be exposed to risks incident to the activities of these SPEs.

The acquisition method of accounting is used to account for the acquisition of subsidiaries. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest.

The Group measures non-controlling interest on a transaction by transaction basis, either at: (a) fair value, or (b) the non-controlling interest's proportionate share of net assets of the acquiree.

Goodwill is measured by deducting the net assets of the acquiree from the aggregate of the consideration transferred for the acquiree, the amount of non-controlling interest in the acquiree and fair value of an interest in the acquiree held immediately before the acquisition date. Any negative amount (“negative goodwill”) is recognised in profit or loss, after management reassesses whether it identified all the assets acquired and all liabilities and contingent liabilities assumed and reviews appropriateness of their measurement.

The consideration transferred for the acquiree is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed, including fair value of assets or liabilities from contingent consideration arrangements but excludes acquisition related costs such as advisory, legal, valuation and similar professional services. Transaction costs incurred for issuing equity instruments are deducted from equity; transaction costs incurred for issuing debt are deducted from its carrying amount and all other transaction costs associated with the acquisition are expensed.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. The Bank and all of its subsidiaries use uniform accounting policies consistent with the Group’s policies.

Non-controlling interest is that part of the net results and of the net assets of a subsidiary attributable to interests which are not owned, directly or indirectly, by the Bank. Non-controlling interest forms a separate component of the Group’s equity.

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

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

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

In other than active markets, the most recent arms length transactions are the basis of current fair values. Recent transaction prices are appropriately adjusted if they do not reflect current fair values, for example because the transaction was a distress sale. Fair value is not the amount that an entity would receive or pay in a forced transaction, involuntary liquidation or distress sale.

3 Summary of Significant Accounting Policies (Continued)

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

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition and includes transaction costs. Measurement at cost is only applicable to investments in equity instruments that do not have a quoted market price and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments.

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

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

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

Initial recognition of financial instruments. Trading securities, derivatives and other financial instruments at fair value through profit or loss are initially recorded at fair value. All other financial instruments are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at settlement date, which is the date that the Group delivers a financial asset. All other purchases are recognised when the entity becomes a party to the contractual provisions of the instrument.

Derecognition of financial assets. The Group derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all the risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

3 Summary of Significant Accounting Policies (Continued)

Cash and cash equivalents. Cash and cash equivalents are items which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. All short term interbank placements, beyond overnight placements, are included in due from other banks. Amounts, which relate to funds that are of a restricted nature, are excluded from cash and cash equivalents. Cash and cash equivalents include cash on hand, unrestricted demand and overnight deposits with central and other banks. Cash and cash equivalents are carried at amortised cost.

Mandatory cash balances with the Central Banks. Mandatory cash balances with the Central Banks are carried at amortised cost and are not available to finance the Group's day to day operations and hence are not considered as part of cash and cash equivalents for the purposes of the consolidated statement of cash flows.

Trading securities. Trading securities are financial assets which are either acquired for generating a profit from short-term fluctuations in price or trader's margin, or are securities included in a portfolio in which a pattern of short-term trading exists. The Group classifies securities into trading securities if it has an intention to sell them within a short period after purchase, i.e. within 3 months. The Group may choose to reclassify a non-derivative trading financial asset out of the fair value through profit or loss category if the asset is no longer held for the purpose of selling it in the near term. Financial assets other than loans and receivables are permitted to be reclassified out of fair value through profit or loss category only in rare circumstances arising from a single event that is unusual and highly unlikely to reoccur in the near term. Financial assets that would meet the definition of loans and receivables may be reclassified if the Group has the intention and ability to hold these financial assets for the foreseeable future or until maturity.

Trading securities are carried at fair value. Interest earned on trading securities calculated using the effective interest method is presented in the consolidated statement of comprehensive income as interest income. Dividends are included in dividend income within other operating income when the Group's right to receive the dividend payment is established and it is probable that the dividends will be collected. All other elements of the changes in the fair value and gains or losses on derecognition are recorded in the consolidated statement of comprehensive income as gains less losses from trading securities in the period in which they arise.

Due from other banks. Amounts due from other banks are recorded when the Group advances money to counterparty banks with no intention of trading the resulting unquoted non-derivative receivable due on fixed or determinable dates. Amounts due from other banks are carried at amortised cost.

Other securities at fair value through profit or loss. Other securities at fair value through profit or loss are financial assets designated irrevocably, at initial recognition, into this category. Management designates securities into this category only if (a) such classification eliminates or significantly reduces an accounting mismatch that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or (b) a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information on that basis is regularly provided to and reviewed by the Group's key management personnel. Recognition and measurement of this category of financial assets is consistent with the above policy for trading securities.

Loans and advances to customers. Loans and advances to customers are recorded when the Group advances money to purchase or originate an unquoted non-derivative receivable from a customer due on fixed or determinable dates and has no intention of trading the receivable. Loans and advances to customers are carried at amortised cost.

For the purposes of credit quality analysis the Group categorises loans and advances to corporate clients, SME and private entrepreneurs into large, medium and small borrowers based on the size of the loan exposure:

Large borrowers	Above UAH 100 million
Loans to medium size borrowers	From UAH 1 million to UAH 100 million
Loans to small borrowers	Less than UAH 1 million

For the purposes of credit quality analysis the Group categorises loans and advances to individuals based on the size of the loan exposure:

Loans between UAH 1-100 million
Loans less than UAH 1 million

3 Summary of Significant Accounting Policies (Continued)

Impairment of financial assets carried at amortised cost. Impairment losses are recognised in the consolidated statement of comprehensive income for the year when incurred as a result of one or more events (“loss events”) that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If the Group determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. The primary factors that the Group considers in determining whether a financial asset is impaired are its overdue status and realisability of related collateral, if any.

The following other principal criteria are also used to determine whether there is objective evidence that an impairment loss has occurred:

- any instalment is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;
- the borrower experiences a significant financial difficulty as evidenced by the borrower’s financial information that the Group obtains;
- the borrower considers bankruptcy or a financial reorganisation;
- there is an adverse change in the payment status of the borrower as a result of changes in the national or local economic conditions that impact the borrower; or
- the value of collateral significantly decreases as a result of deteriorating market conditions.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors’ ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets and the experience of management in respect of the extent to which amounts will become overdue as a result of past loss events and the success of recovery of overdue amounts. Past experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods and to remove the effects of past conditions that do not exist currently. Past experience is the basis for the estimation of the loss identification period, in particular the time lag between the actual loss event and identification of the loss event by the Group. This approach ensures that the impact of losses which have not yet been specifically identified is included in the estimation of loan loss impairment.

If the terms of an impaired financial asset held at amortised cost are renegotiated or otherwise modified because of financial difficulties of the borrower or issuer, impairment is measured using the original effective interest rate before the modification of terms. The renegotiated asset is then derecognized and a new asset is recognized at its fair value only if the risks and rewards of the asset substantially changed.

Impairment losses are always recognised through an allowance account to write down the asset’s carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the original effective interest rate of the asset. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor’s credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account through profit or loss for the year.

Uncollectible assets are written off against the related impairment loss provision after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to impairment loss account in the consolidated statement of comprehensive income.

3 Summary of Significant Accounting Policies (Continued)

Credit related commitments. The Group enters into credit related commitments, including commitments to extend credit, letters of credit and financial guarantees. Financial guarantees represent irrevocable assurances to make payments in the event that a customer cannot meet its obligations to third parties and carry the same credit risk as loans. Financial guarantees and commitments to provide a loan are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the commitment, except for commitments to originate loans if it is probable that the Group will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination; such loan commitment fees are deferred and included in the carrying value of the loan on initial recognition. At the end of each reporting period, the commitments are measured at the higher of (i) the remaining unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the commitment at the end of the reporting period.

Investment securities available-for-sale. This classification includes investment securities which the Group intends to hold for an indefinite period of time and which may be sold in response to the needs for liquidity or changes in interest rates, exchange rates or equity prices. The Group classifies investments as available-for-sale at the time of purchase.

Investment securities available-for-sale are carried at fair value. Interest income on available-for-sale debt securities is calculated using the effective interest method and recognised in profit or loss for the year. Dividends on available-for-sale equity instruments are recognised in the consolidated statement of comprehensive income for the year when the Group's right to receive payment is established and it is probable that the dividends will be collected. All other elements of changes in the fair value are recognised in other comprehensive income until the investment is derecognised or impaired, at which time the cumulative gain or loss is removed from other comprehensive income to profit or loss for the year.

Impairment losses are recognised in profit or loss for the year when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of investment securities available-for-sale. A significant or prolonged decline in the fair value of an equity security below its cost is an indicator that it is impaired. The cumulative impairment loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised in profit or loss – is removed from other comprehensive income to profit or loss for the year. Impairment losses on equity instruments are not reversed and any subsequent gains are recognised in other comprehensive income. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss for the year.

Investment securities held to maturity. This classification includes quoted non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has both the intention and ability to hold to maturity. Management determines the classification of investment securities held to maturity at their initial recognition and reassesses the appropriateness of that classification at each balance sheet date. Investment securities held to maturity are carried at amortised cost.

Promissory notes purchased. Promissory notes purchased are included in trading securities, due from other banks or in loans and advances to customers, depending on their substance and are recorded, subsequently remeasured and accounted for in accordance with the accounting policies for these categories of assets.

Goodwill. Goodwill is carried at cost less accumulated impairment losses, if any. The Group tests goodwill for impairment at least annually and whenever there are indications that goodwill may be impaired. Goodwill is allocated to the cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the business combination. Such units or group of units represent the lowest level at which the Group monitors goodwill and are not larger than an operating segment. Gains or losses on disposal of an operation within a cash generating unit to which goodwill has been allocated include the carrying amount of goodwill associated with the operation disposed of, generally measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit which is retained.

3 Summary of Significant Accounting Policies (Continued)

Premises, leasehold improvements and equipment. Premises, leasehold improvements and equipment are stated at cost or revalued amounts, as described below, less accumulated depreciation and provision for impairment, where required. Cost of premises and equipment of acquired subsidiaries is the estimated fair value at the date of acquisition.

Premises are subject to revaluation with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Increases in the carrying amount arising on revaluation are credited to other comprehensive income and increase the revaluation surplus in equity. Decreases that offset previous increases of the same asset are recognised in other comprehensive income and decrease the previously recognised revaluation surplus in equity; all other decreases are charged to profit or loss for the year. The revaluation reserve for premises and equipment included in equity is transferred directly to retained earnings when the revaluation surplus is realised on the retirement or disposal of the asset; in the latter case, the amount of the surplus realised is the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost. At the date of revaluation accumulated depreciation is eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

Management has updated the carrying value of premises carried on a revalued basis as of the reporting date using market based evidence and is satisfied that sufficient market based evidence of fair value is available to support the updated fair values.

Construction in progress is carried at cost less provision for impairment where required. Construction in progress is not depreciated until the asset is available for use.

All other items of premises and equipment are stated at cost less accumulated depreciation and impairment losses, if any.

Costs of minor repairs and maintenance are expensed when incurred. Costs of replacing major parts or components of premises and equipment items are capitalised and the replaced part is retired.

At each reporting date management assesses whether there is any indication of impairment of premises, leasehold improvements and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in profit or loss for the year to the extent it exceeds the previous revaluation surplus in equity. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in profit or loss for the year.

Depreciation. Land is not depreciated. Depreciation on other items of premises, leasehold improvements and equipment is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives as follows:

Premises	50 years
Computers	4-10 years
Furniture and equipment	4-10 years
Motor vehicles	10 years
Other	3-10 years

Leasehold improvements are depreciated over the term of the underlying lease. The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

3 Summary of Significant Accounting Policies (Continued)

Intangible assets. The Group's intangible assets other than goodwill have definite useful life and primarily include capitalised computer software.

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring them to use.

Development costs that are directly associated with identifiable and unique software controlled by the Group are recorded as intangible assets if an inflow of incremental economic benefits exceeding costs is probable. Capitalised costs include staff costs of the software development team and an appropriate portion of relevant overheads. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred. Capitalised computer software is amortised on a straight line basis over expected useful lives of 5 years.

Operating leases. Where the Group is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Group, the total lease payments are charged to profit or loss on a straight-line basis over the period of the lease.

Leases embedded in other agreements are separated if (a) fulfilment of the arrangement is dependent on the use of a specific asset or assets and (b) the arrangement conveys a right to use the asset.

Finance lease liabilities. Where the Group is a lessee in a lease which transferred substantially all the risks and rewards incidental to ownership to the Group, the assets leased are capitalised in premises, leasehold improvements and equipment at the commencement of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance lease balance outstanding. The corresponding rental obligations, net of future finance charges, are included in other financial liabilities. The interest cost is charged to profit or loss for the year over the lease period using the effective interest method. The assets acquired under finance leases are depreciated over their useful life or the shorter lease term if the Group is not reasonably certain that it will obtain ownership by the end of the lease term.

Due to other banks and other financing institutions. Amounts due to other banks and other financing institutions are recorded when money or other assets are advanced to the Group by counterparty banks or other financing institutions. The non-derivative liability is carried at amortised cost.

Customer accounts. Customer accounts are non-derivative liabilities to individuals, state or corporate customers and are carried at amortised cost.

Debt securities in issue. Debt securities in issue include Eurobonds, promissory notes and bonds issued by the Group. Debt securities are stated at amortised cost. If the Group purchases its own debt securities in issue, they are removed from the consolidated statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains arising from early retirement of debt.

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

Derivative financial instruments. Derivative financial instruments, including foreign exchange contracts, forward rate agreements, currency swaps and currency options are carried at their fair value.

All derivative instruments are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of derivative instruments are included in profit or loss for the year. The Group does not apply hedge accounting.

Certain derivative instruments embedded in other financial instruments are treated as separate derivative instruments when their risks and characteristics are not closely related to those of the host contract.

3 Summary of Significant Accounting Policies (Continued)

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

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

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

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxable profits or losses are based on estimates if consolidated financial statements are authorised prior to filing relevant tax returns. Taxes other than on income are recorded within administrative and other operating expenses.

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

Deferred income tax is provided on post acquisition retained earnings and other post acquisition movements in reserves of subsidiaries, except where the Group controls the subsidiary's dividend policy and it is probable that the difference will not reverse through dividends or otherwise in the foreseeable future.

3 Summary of Significant Accounting Policies (Continued)

Uncertain tax positions. The Group's uncertain tax positions are reassessed by management at the end of each reporting period. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the end of each reporting period and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognised based on management's best estimate of the expenditure required to settle the obligations at the end of the reporting period.

Provisions for liabilities and charges. Provisions for liabilities and charges are non-financial liabilities of uncertain timing or amount. They are accrued when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

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

Share capital. Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is recorded as share premium in equity.

Additional capital. Additional capital is recorded when a capital contribution is made by the Bank's shareholders other than the share capital issue. Additional capital is reclassified to retained earnings on expiry of contracts that gave rise to additional capital.

Share grant. The Group's major shareholders operate a share-based compensation plan for management of the Group. The fair value of the managers' services received in exchange for the share grant is recognised as an expense with corresponding increase in equity. If no vesting conditions are introduced, shares vest and the expense is recognized immediately upon the grant.

Dividends. Dividends are recorded in equity in the period in which they are declared. Any dividends declared after the end of reporting period and before the consolidated financial statements are authorised for issue are disclosed in the subsequent events note. The statutory accounting reports of the Bank are the basis for profit distribution and other appropriations. Ukrainian legislation identifies the basis of distribution as the retained earnings.

Income and expense recognition. Interest income and expense are recorded for all debt instruments on an accrual basis using the effective interest method. This method defers, as part of interest income or expense, all fees paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Fees integral to the effective interest rate include origination fees received or paid by the entity relating to the creation or acquisition of a financial asset or issuance of a financial liability, for example fees for evaluating creditworthiness, evaluating and recording guarantees or collateral, negotiating the terms of the instrument and for processing transaction documents. Commitment fees received by the Group to originate loans at market interest rates are integral to the effective interest rate if it is probable that the Group will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination. The Group does not designate loan commitments as financial liabilities at fair value through profit or loss.

When loans and other debt instruments become doubtful of collection, they are written down to the present value of expected cash inflows and interest income is thereafter recorded for the unwinding of the present value discount based on the asset's effective interest rate which was used to measure the impairment loss. All other fees, commissions and other income and expense items are generally recorded on an accrual basis by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided. Loan syndication fees are recognised as income when the syndication has been completed and the Group retains no part of the loan package for itself or retains a part at the same effective interest rate as for the other participants.

3 Summary of Significant Accounting Policies (Continued)

Commissions and fees arising from negotiating, or participating in the negotiation of a transaction for a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses, and which are earned on execution of the underlying transaction, are recorded on its completion. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-proportion basis. Asset management fees related to investment funds are recorded rateably over the period the service is provided. The same principle is applied for wealth management, financial planning and custody services that are continually provided over an extended period of time.

Foreign currency translation. The functional currency of each of the Group's consolidated entities is the currency of the primary economic environment in which the entity operates. The functional currency of the Bank, and the Group's presentation currency, is the national currency of Ukraine, Ukrainian hryvnia ("UAH").

Monetary assets and liabilities are translated into each entity's functional currency at the official exchange rate of the NBU at the respective reporting period. Foreign exchange gains and losses resulting from the settlement of transactions and from the translation of monetary assets and liabilities into each entity's functional currency at year-end official exchange rates of the NBU are recognised in profit or loss for the year. Translation at year-end rates does not apply to non-monetary items that are measured at historical cost. Non-monetary items measured at fair value in a foreign currency, including equity instruments, are translated using the exchange rates at the date when the fair value was determined. Effects of exchange rate changes on the fair value of equity securities are recorded as part of the fair value gain or loss. The results and financial position of each group entity are translated into the presentation currency as follows:

(i) assets and liabilities for each statement of financial position presented are translated at the closing rate at the end of the respective reporting period;
(ii) income and expenses are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions);
(iii) components of equity are translated at the historic rate; and
(iv) all resulting exchange differences are recognised in other comprehensive income.

When control over a foreign operation is lost, the previously recognised exchange differences on translation to a different presentation currency are reclassified from other comprehensive income to profit or loss for the year as part of the gain or loss on disposal. On partial disposal of a subsidiary without loss of control, the related portion of accumulated currency translation differences is reclassified to non-controlling interest within equity.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

The principal rates of exchange used for translating foreign currency balances were as follows:

	31 December 2011, UAH	**31 December 2010, UAH**	**31 December 2009, UAH**
1 US Dollar (USD)	7.989800	7.961700	7.985000
1 Euro (EUR)	10.298053	10.573138	11.448893
1 Russian Ruble (RUB)	0.249530	0.261240	0.264020
1 Latvian Lat (LVL)	14.732551	14.895939	16.141115
1 Georgian Lari (GEL)	4.818006	4.506898	4.765001

Fiduciary assets. Assets held by the Group in its own name, but on the account of third parties, are not reported in the consolidated statement of financial position. For the purposes of disclosure, fiduciary activities do not encompass safe custody functions. Commissions received from fiduciary activities are shown in fee and commission income.

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

3 Summary of Significant Accounting Policies (Continued)

Staff costs and related contributions. Wages, salaries, contributions to the state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits are accrued in the year in which the associated services are rendered by the employees of the Group. The Group has no legal or constructive obligation to make pension or similar benefit payments other than the payments to the statutory defined contribution scheme.

Segment reporting. Operating segments are reported in a manner consistent with the internal reporting provided to the Group's chief operating decision maker. Segments whose revenue, result or assets are ten percent or more of all the segments are reported separately.

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

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

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

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

3 Summary of Significant Accounting Policies (Continued)

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

Changes in presentation:

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

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

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

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

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

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

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

3 Summary of Significant Accounting Policies (Continued)

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

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

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

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

4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies

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

Impairment losses on loans and advances. The Group regularly reviews its loan portfolios to assess impairment. In determining whether an impairment loss should be recorded in profit or loss for the year, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. A 10% increase or decrease in actual loss experience compared to the loss estimates used would result in an increase or decrease in loan impairment losses of UAH 641 million or UAH 641 million (2010: increase or decrease in loan impairment losses of UAH 571 million or UAH 628 million; 2009: increase or decrease in loan impairment losses of UAH 490 million), respectively. Impairment losses for individually significant loans are based on estimates of discounted future cash flows of the individual loans, taking into account repayments and realisation of any assets held as collateral against the loans. A 10% increase or decrease in the actual loss experience compared to the estimated future discounted cash flows from individually significant loans, which could arise from differences in amounts and timing of the cash flows, would result in an increase or decrease in loan impairment losses of UAH 758 million or UAH 885 million (2010: increase or decrease in loan impairment losses of UAH 719 million or UAH 731 million; 2009: increase or decrease in loan impairment losses of UAH 500 million), respectively.

Assessment of loans and advances issued to a certain group of borrowers for impairment. The Group regularly reviews its outstanding loans and advances issued to the oil traders who are engaged in wholesale and retail sale of petrol, oil and oil products. Certain of these companies work closely with each other. As of 31 December 2011 gross amount of such loans was UAH 39,436 million (2010: UAH 32,104 million; 2009: UAH 21,994 million). In determining whether an impairment loss should be recorded in profit or loss for the year, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans issued to oil traders before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in an oil traders group, or regulatory, industry or national economic conditions that correlate with defaults on assets in the oil traders group. Management uses estimates based on historical loss experience for assets with credit risk characteristics. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. The fair value of collateral substantially contributes to the assessment of whether there is an impairment of loans issued to oil traders. Refer to Note 9.

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

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

Fair value of derivatives. The fair values of financial derivatives that are not quoted in active markets are determined by using valuation techniques. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. To the extent practical, models use only observable data, however areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair values.

As of 31 December 2011 the Bank had loans and advances to customers totalling UAH 67,715 million (2010: UAH 51,620 million; 2009: UAH 36,608 million) issued in UAH with the condition of compensation to be received by the Bank in the event that the official exchange rate of UAH depreciates against USD. The contract to receive compensation was accounted for by the Bank as a embedded derivative with the fair value of UAH 1,484 million as of 31 December 2011 (2010: UAH 1,678 million; 2009: UAH 2,005 million) estimated using a valuation technique. This valuation technique takes into account expected movements in exchange rates, discount factor and credit risk. Changing the assumptions about expected exchange rates may result in a different profit or loss. The major part of loan agreements mature from 2012 to 2014, inclusive (2010: from 2011 to 2014 inclusive; 2009: from 2010 to 2013 inclusive). If the expected UAH/USD exchange rate for these years would be higher/lower by 5%, the fair value of the derivative and profit or loss amount would increase by UAH 3,158 million and decrease by UAH 551 million (2010: 5%; increase by UAH 2,304 million and decrease by UAH 1,671 million; 2009: 5%; increase by UAH 1,518 and decrease by UAH 976 million). The increase in the fair value of embedded derivatives due to exchange rate movement may be potentially offset by deterioration of credit quality and may not be realised. If the discount rate used for fair valuation of the derivatives as of 31 December 2011 would be higher/lower by 100 basis points, the fair value of the derivative and profit or loss amount would decrease/increase by UAH 17 million (2010: 100 basis points; decrease/increase by UAH 10 million; 2009: 100 basis points; decrease/increase by UAH 134 million). If the credit risk of counterparties as of 31 December 2011 would be higher/lower by 10%, the fair value of the embedded derivative and profit or loss amount would decrease/increase by UAH 45 million (2010: 10%; decrease/increase by UAH 81 million; 2009: 10%; decrease/increase by UAH 200 million). Refer to Note 27.

Tax legislation. Ukrainian and Russian tax, currency and customs legislation is subject to varying interpretations. Refer to Note 26.

Provision for credit related commitments. The Group regularly reviews its outstanding credit related commitments to assess whether any provision is required. In determining whether a provision should be recorded in profit or loss for the year, the Group makes judgements as to whether there is any observable data indicating that credit related commitment will be executed and whether the best estimate of the expenditure required to settle the commitment at the end of the period is lower than the remaining unamortised balance of the amount at initial recognition.

Management uses estimates based on historical loss experience for commitments with credit risk characteristics similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Share grant. In 2010, majority shareholders of the Group offered the opportunity to purchase shares of PrivatBank to the top managers of the Group with a discount to the nominal value of shares for services provided by top managers to the Group. The amount of UAH 500 million being difference between the fair value of shares as at the date of share grant and cost to purchase of these shares for management was recognised as a remuneration of top management of the Group within the administrative and other operating expenses with a respective credit to equity of the Group. If the fair value of shares of PrivatBank as at the date of share grant was higher/lower by 5%, staff costs in 2010 would increase/decrease by UAH 36 million. In addition, in 2010, majority shareholders of the Group offered the opportunity to purchase shares of PrivatBank to some of the top managers at the same terms for activity non-relating to PrivatBank Group. If the split of shares between those related and non-related to the Bank's activity had been different by +/-10%, staff costs would increase by UAH 100 million or decrease by UAH 100 million.

5 Adoption of New or Revised Standards and Interpretations

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

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

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

6 New Accounting Pronouncements

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

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

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

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

IFRS 10, Consolidated Financial Statements (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013), replaces all of the guidance on control and consolidation in IAS 27 "Consolidated and separate financial statements" and SIC-12 "Consolidation - special purpose entities". IFRS 10 changes the definition of control so that the same criteria are applied to all entities to determine control. This definition is supported by extensive application guidance. The Group is currently assessing the impact of the new standard on its consolidated financial statements.

IFRS 11, Joint Arrangements, (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013), replaces IAS 31 "Interests in Joint Ventures" and SIC-13 "Jointly Controlled Entities—Non-Monetary Contributions by Ventures". Changes in the definitions have reduced the number of types of joint arrangements to two: joint operations and joint ventures. The existing policy choice of proportionate consolidation for jointly controlled entities has been eliminated. Equity accounting is mandatory for participants in joint ventures. The Group is currently assessing the impact of the new standard on its consolidated financial statements.

6 New Accounting Pronouncements (Continued)

IFRS 12, Disclosure of Interest in Other Entities, (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013), applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. It replaces the disclosure requirements currently found in IAS 28 "Investments in associates". IFRS 12 requires entities to disclose information that helps financial statement readers to evaluate the nature, risks and financial effects associated with the entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities. To meet these objectives, the new standard requires disclosures in a number of areas, including significant judgments and assumptions made in determining whether an entity controls, jointly controls, or significantly influences its interests in other entities, extended disclosures on share of non-controlling interests in group activities and cash flows, summarised financial information of subsidiaries with material non-controlling interests, and detailed disclosures of interests in unconsolidated structured entities. The Group is currently assessing the impact of the new standard on its consolidated financial statements.

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

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

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

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

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

6 New Accounting Pronouncements (Continued)

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

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

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

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

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

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

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

7 Cash and Cash Equivalents and Mandatory Reserves

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

As at 31 December 2011, 2010 and 2009 mandatory reserve balance with the National Bank of Ukraine is calculated on the basis of a simple average over a monthly period and should be maintained at the level of 0 to 8 per cent (2010: 0 to 7 per cent; 2009: 0 to 7 per cent) of certain obligations of the Bank depending on its maturity and currency. As such, mandatory reserve balance with the National Bank of Ukraine can vary from day-to-day. For December 2011 the Bank's mandatory reserve average balance was UAH 2,091 million (December 2010: UAH 1,481 million; December 2009: UAH 1,042 million).

As at 31 December 2011 in accordance with the NBU regulations the Bank was required to maintain the balance on accounts with the NBU at the level of 95% (31 December 2010: 100%; 31 December 2009: 90%) of the mandatory reserve balance for the preceding month. The Bank will not be subject to any sanctions if it fails to comply with the requirements less than 30 times within a 3 month period. As at 31 December 2011 it was also required to maintain the balance on the separate account with the NBU at the level not less than 70% of the mandatory reserves balance for the preceding month (31 December 2010: not less than 100% of the mandatory reserves balance for the preceding month; 31 December 2009: not less than 50% of the mandatory reserves balance for the preceding month), as a part of the total required level of mandatory reserves; the amount is subject to interest payments from the side of the NBU at a rate of 2.325% (30% of the NBU official interest rate), provided that the Bank is in compliance with the mandatory reserve requirements (31 December 2010: the interest was 2.325%, which was calculated as 30% of the NBU official interest rate; 31 December 2009: the interest was 3.075%, which was calculated as 30% of the NBU official interest rate).

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

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

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

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

7 Cash and Cash Equivalents and Mandatory Reserves (Continued)

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

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

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

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

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

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

7 Cash and Cash Equivalents and Mandatory Reserves (Continued)

Analysis by credit quality of cash and cash equivalents and mandatory reserve balances may be summarised based on Moody's ratings at 31 December 2010 as follows:

In millions of Ukrainian hryvnias	Cash on hand	Cash balances with the Central Banks, including mandatory reserves	Correspondent accounts and overnight placements with other banks	Total
Neither past due nor impaired				
Cash on hand	5,088	-	-	5,088
Cash balances with the Central Banks	-	3,227	-	3,227
Aaa rated	-	-	17	17
Aa1 to Aa3 rated	-	-	9,798	9,798
A1 to A3 rated	-	-	394	394
Baa1 to Baa3 rated	-	-	102	102
Ba1 to Ba3 rated	-	-	11	11
B1 to B3 rated	-	-	132	132
Unrated	-	-	497	497
Total cash and cash equivalents and mandatory reserves	**5,088**	**3,227**	**10,951**	**19,266**

Analysis by credit quality of cash and cash equivalents and mandatory reserve balances summarised based on Moody's ratings at 31 December 2009 is as follows:

In millions of Ukrainian hryvnias	Cash on hand	Cash balances with the Central Banks, including mandatory reserves	Correspondent accounts and overnight placements with other banks	Total
Neither past due nor impaired				
Cash on hand	3,494	-	-	3,494
Cash balances with the Central Banks	-	2,865	-	2,865
Aaa rated	-	-	78	78
Aa1 to Aa3 rated	-	-	3,895	3,895
A1 to A3 rated	-	-	530	530
Baa1 to Baa3 rated	-	-	212	212
Ba1 to Ba3 rated	-	-	2	2
B1 to B3 rated	-	-	36	36
Unrated	-	-	343	343
Total cash and cash equivalents and mandatory reserves	**3,494**	**2,865**	**5,096**	**11,455**

Investing and financing transactions that did not require the use of cash and cash equivalents and were excluded from the consolidated statement of cash flows are as follows:

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

Geographical, maturity and interest rate analysis of cash and cash equivalents and mandatory reserves is disclosed in Note 24.

8 Due from Other Banks

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

Guarantee deposits represent balances placed with other banks as cover for letters of credit and for international payments. These are effectively restricted deposits, which are required to be maintained to complete the related trade finance activity. Refer to Note 26.

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

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

Amounts due from other banks are not collateralised. Analysis by credit quality of amounts due from other banks outstanding at 31 December 2010 is as follows:

In millions of Ukrainian hryvnias	**Term placements with other banks**	**Guarantee deposits with other banks**	**Total**
Neither past due nor impaired			
- Aaa rated	92	7	99
- Aa1 rated	318	-	318
- Aa2 rated	-	113	113
- Aa3 rated	406	317	723
- A1 rated	21	-	21
- Baa3 rated	988	-	988
- B1 rated	37	-	37
- Unrated	3,031	-	3,031
Total due from other banks	**4,893**	**437**	**5,330**

8 Due from Other Banks (Continued)

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

In millions of Ukrainian hryvnias	**Term placements with other banks**	**Guarantee deposits with other banks**	**Total**
Neither past due nor impaired			
- Aaa rated	191	10	201
- Aa1 rated	-	14	14
- Aa3 rated	268	276	544
- A1 rated	-	2	2
- B1 rated	47	-	47
- Unrated	3,261	-	3,261
Total due from other banks	**3,767**	**302**	**4,069**

Unrated amounts of due from other banks represent balances with Ukrainian banks and an OECD bank. As of 31 December 2011 the Group pledged its USD denominated term placement with this OECD bank of UAH 2,892 million for USD denominated loan issued by this bank to the Group's customer.

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

As an active participant in the banking markets, the Group has a significant concentration of credit risk with other financial institutions. In total, credit risk exposure to financial institutions is estimated to have amounted to gross amount of UAH 37,136 million (2010: UAH 21,922 million; 2009: UAH 16,615 million) comprising cash and cash equivalents, due from other banks and financial derivatives. Refer to Notes 7 and 27.

Refer to Note 28 for the estimated fair value of each class of amounts due from other banks. Geographical, maturity and interest rate analysis of due from other banks is disclosed in Note 24.

9 Loans and Advances to Customers

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

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

9 Loans and Advances to Customers (Continued)

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

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

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

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

In millions of Ukrainian hryvnias	Corporate loans	Loans to individuals: Cards	Mortgage	Auto	Consumer	Other	SME	Total
Provision for loan impairment at 1 January 2010	**6,988**	**896**	**1,478**	**682**	**44**	**170**	**1,187**	**11,445**
Provision/(reversal of provision) for impairment during the year	3,153	276	(27)	25	10	136	(43)	3,530
Amounts written off during the year as uncollectible	(493)	(820)	(104)	(280)	(46)	(104)	(583)	(2,430)
Currency translation differences	(28)	(5)	(17)	(2)	(2)	(6)	(4)	(64)
Provision for loan impairment at 31 December 2010	**9,620**	**347**	**1,330**	**425**	**6**	**196**	**557**	**12,481**

The provision for impairment during 2010 differs from the amount presented in profit or loss for the year due to UAH 122 million recoveries of amounts previously written off as uncollectible. The amount of the recovery was credited directly to provisions in the statement of comprehensive income for the year.

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

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

9 Loans and Advances to Customers (Continued)

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

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

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

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

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

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

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

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

9 Loans and Advances to Customers (Continued)

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

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

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

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

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

9 Loans and Advances to Customers (Continued)

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

In millions of Ukrainian hryvnias	Corporate loans	Loans to individuals: Cards	Mortgage	Auto	Consumer	Other	SME	Total
Neither past due nor impaired								
- Large borrowers with credit history with the Group over two years	35,831	-	-	-	-	439	-	36,270
- Large new borrowers with credit history with the Group less than 2 years	18,271	-	-	-	-	-	-	18,271
- Loans to medium size borrowers	5,699	-	-	-	-	432	162	6,293
- Loans to small borrowers	254	-	-	-	-	-	855	1,109
- Loans between UAH 1-100 million	-	11	312	-	-	-	-	323
- Loans less than UAH 1 million	-	8,611	2,184	1,454	598	178	-	13,025
Total neither past due nor impaired	**60,055**	**8,622**	**2,496**	**1,454**	**598**	**1,049**	**1,017**	**75,291**
Past due but not impaired								
- less than 30 days overdue	322	303	228	99	8	27	109	1,096
- 30 to 90 days overdue	67	138	133	43	4	23	71	479
Total past due but not impaired	**389**	**441**	**361**	**142**	**12**	**50**	**180**	**1,575**
Loans individually determined to be impaired (gross)								
- Not overdue	16,635	10	160	-	-	116	-	16,921
- less than 30 days overdue	1,159	1	11	-	-	-	-	1,171
- 30 to 90 days overdue	266	1	26	26	-	-	-	319
- 90 to 180 days overdue	165	102	136	89	8	18	68	586
- 180 to 360 days overdue	196	115	298	164	2	71	163	1,009
- over 360 days overdue	1,177	171	1,984	605	8	286	1,072	5,303
Total individually impaired loans (gross)	**19,598**	**400**	**2,615**	**884**	**18**	**491**	**1,303**	**25,309**
Less impairment provisions	(9,620)	(347)	(1,330)	(425)	(6)	(196)	(557)	(12,481)
Total loans and advances to customers	**70,422**	**9,116**	**4,142**	**2,055**	**622**	**1,394**	**1,943**	**89,694**

9 Loans and Advances to Customers (Continued)

Analysis by credit quality of loans outstanding at 31 December 2009 is as follows:

In millions of Ukrainian hryvnias	**Corporate loans**	**Loans to individuals**					**SME**	**Total**
		Cards	**Mortgage**	**Auto**	**Consumer**	**Other**		
Neither past due nor impaired								
- Large borrowers with credit history with the Group over two years	20,889	-	-	-	-	233	-	21,122
- Large new borrowers with credit history with the Group less than 2 years	7,995	-	-	-	-	-	-	7,995
- Loans to medium size borrowers	7,942	-	-	-	-	668	247	8,857
- Loans to small borrowers	387	-	-	-	-	-	1,569	1,956
- Loans between UAH 1-100 million	-	27	455	-	-	-	-	482
- Loans less than UAH 1 million	-	6,045	2,656	2,334	330	208	-	11,573
Total neither past due nor impaired	**37,213**	**6,072**	**3,111**	**2,334**	**330**	**1,109**	**1,816**	**51,985**
Past due but not impaired								
- less than 30 days overdue	247	19	443	302	7	26	275	1,319
- 30 to 90 days overdue	147	109	183	90	4	33	132	698
Total past due but not impaired	**394**	**128**	**626**	**392**	**11**	**59**	**407**	**2,017**
Loans individually determined to be impaired (gross)								
- Not overdue	13,503	15	254	4	2	2	2	13,782
- less than 30 days overdue	606	6	37	3	-	-	-	652
- 30 to 90 days overdue	1,036	3	28	3	-	-	5	1,075
- 90 to 180 days overdue	365	468	286	193	8	20	149	1,489
- 180 to 360 days overdue	1,510	454	1,779	609	16	191	1,069	5,628
- over 360 days overdue	101	329	340	216	41	2	385	1,414
Total individually impaired loans (gross)	**17,121**	**1,275**	**2,724**	**1,028**	**67**	**215**	**1,610**	**24,040**
Less impairment provisions	(6,988)	(896)	(1,478)	(682)	(44)	(170)	(1,187)	(11,445)
Total loans and advances to customers	**47,740**	**6,579**	**4,983**	**3,072**	**364**	**1,213**	**2,646**	**66,597**

The Group applied the portfolio provisioning methodology prescribed by IAS 39, *Financial Instruments: Recognition and Measurement,* and created portfolio provisions for impairment losses that were incurred but have not been specifically identified with any individual loan by the end of reporting period. The Group's policy is to classify each loan as 'neither past due nor impaired' until specific objective evidence of impairment of the loan is identified. The impairment provisions may exceed the total gross amount of individually impaired loans as a result of this policy and the portfolio impairment methodology.

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

9 Loans and Advances to Customers (Continued)

The primary factors that the Group considers in determining whether a loan is impaired are its overdue status, a significant financial difficulty as evidenced by the borrower's financial information and realisability of related collateral, if any. As a result, the Group presents above an ageing analysis of loans that are individually determined to be impaired.

Past due but not impaired loans, represent collateralised loans where the fair value of collateral covers the overdue interest and principal repayments, except for card loans and consumer loans for which impairment is recognised starting from 90 days past due. The amount reported as past due but not impaired is the whole balance of such loans, not only the individual instalments that are past due.

The Group believes that loans and advances to large and small size borrowers with longer credit history are of a higher credit quality than the rest of the loan portfolio.

The financial effect of collateral is presented by disclosing collateral values separately for (i) those assets where collateral and other credit enhancements are equal to or exceed carrying value of the asset ("over-collateralised assets") and (ii) those assets where collateral and other credit enhancements are less than the carrying value of the asset ("under-collateralised assets"). The tables below exclude cards and consumer loans, issues of which do not require any collateral.

The effect of collateral at 31 December 2011:

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

The effect of collateral at 31 December 2010:

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

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

Refer to Note 28 for the estimated fair value of each class of loans and advances to customers. Geographical, maturity and interest rate analysis of loans and advances to customers is disclosed in Note 24. Information on related party balances is disclosed in Note 30.

10 Premises, Leasehold Improvements and Equipment and Intangible Assets

In millions of Ukrainian hryvnias	Note	Premises	Leasehold improve-ments	Compu-ters	Motor vehicles	Furniture, equipment, intangible assets and other	Total
Carrying amount at 1 January 2009		**2,144**	**47**	**791**	**69**	**438**	**3,489**
Cost or valuation at 1 January 2009		2,172	150	1,283	106	690	4,401
Accumulated depreciation and amortisation		(28)	(103)	(492)	(37)	(252)	(912)
Additions		36	11	92	7	112	258
Disposals		(41)	(4)	(13)	(2)	(10)	(70)
Depreciation and amortisation charge	21	(44)	(28)	(235)	(14)	(79)	(400)
Impairment charge to profit or loss		(32)	-	-	-	-	(32)
Reversal of impairment through profit		4	-	-	-	-	4
Impairment charge through other comprehensive income		(370)	-	-	-	-	(370)
Increase in the fair value		44	-	-	-	-	44
Effect of translation to presentation currency		7	1	4	1	2	15
Carrying amount at 31 December 2009		**1,748**	**27**	**639**	**61**	**463**	**2,938**
Cost or valuation at 31 December 2009		1,799	123	1,249	105	765	4,041
Accumulated depreciation and amortisation		(51)	(96)	(610)	(44)	(302)	(1,103)
Additions		229	20	100	37	116	502
Disposals		(1)	(2)	(16)	(5)	(15)	(39)
Depreciation and amortisation charge	21	(35)	(23)	(163)	(8)	(90)	(319)
Impairment charge to profit or loss		(77)	-	-	-	-	(77)
Reversal of impairment through profit		4	-	-	-	-	4
Decrease in the fair value		(103)	-	-	-	-	(103)
Reversal of impairment through other comprehensive income		5	-	-	-	-	5
Increase in the fair value		59	-	-	-	-	59
Effect of translation to presentation currency		(3)	-	(3)	(1)	(2)	(9)
Carrying amount at 31 December 2010		**1,826**	**22**	**557**	**84**	**472**	**2,961**
Cost or valuation at 31 December 2010		1,910	141	1,322	132	863	4,368
Accumulated depreciation and amortisation		(84)	(119)	(765)	(48)	(391)	(1,407)
Additions		166	11	354	76	213	820
Disposals		(9)	(1)	(30)	(4)	(12)	(56)
Depreciation and amortisation charge	21	(47)	(23)	(170)	(11)	(152)	(403)
Effect of translation to presentation currency		(5)	2	-	-	(1)	(4)
Carrying amount at 31 December 2011		**1,931**	**11**	**711**	**145**	**520**	**3,318**
Cost or valuation at 31 December 2011		2,060	152	1,631	202	1,061	5,106
Accumulated depreciation and amortisation		(129)	(141)	(920)	(57)	(541)	(1,788)

10 Premises, Leasehold Improvements and Equipment and Intangible Assets (Continued)

Premises have been revalued at fair value at 31 December 2010 and at 31 December 2009. The valuation was carried out by a firm of valuers who hold a suitable professional qualification and who have recent experience in valuation of assets of similar location and category. The basis of valuation of premises was observable market prices in an active market and discounted cash flow techniques in the cases where there was no market-based evidence of fair value because of the specialised nature of the item of premises and the item is rarely sold. The main assumption used is the comparability of premises, for which selling prices were taken.

Included in the above carrying amount is UAH 721 million (2010: UAH 721 million; 2009: UAH 837 million) representing revaluation surplus relating to premises of the Group. As of 31 December 2011 a cumulative deferred tax liability of UAH 128 million (2010: UAH 203 million; 2009: UAH 209 million) was calculated with respect to this valuation adjustment and has been recorded directly to equity. At 31 December 2011 the carrying amount of premises would have been UAH 1,128 million (2010: UAH 1,059 million; 2009: UAH 843 million) had the assets been carried at cost less depreciation.

Included in the above category "Premises" are assets held under finance lease with the carrying amount of UAH 67 million (2010: UAH 71 million; 2009: UAH 60 million).

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

As of 31 December 2011 premises carried at UAH 954 million (2010: UAH 960 million; 2009: UAH 1,212 million) have been pledged to the NBU as collateral with respect to the refinancing loan. Refer to Note 12 and 26.

11 Other Financial Assets

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

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

11 Other Financial Assets (Continued)

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

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

11 Other Financial Assets (Continued)

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

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

11 Other Financial Assets (Continued)

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

In millions of Ukrainian hryvnias	**Receivables arising from embedded derivatives with expired underlying contracts**	**Receivables from operations with customers**	**Plastic cards receivables**	**Financial derivatives arising from swap, forward and spot transactions**	**Trading securities and other financial assets at fair value through profit or loss**	**Other**	**Total**
Neither past due nor impaired							
- Large customers with credit history over two years	1,440	-	-	-	-	22	1,462
- Small companies	-	57	52	-	18	26	153
- Large OECD banks	-	-	9	-	-	3	12
- Non-OECD banks	-	-	52	1	-	25	78
- Balances renegotiated during the year	-	-	1	-	-	44	45
Total neither past due nor impaired	**1,440**	**57**	**114**	**1**	**18**	**120**	**1,750**
Receivables individually determined to be impaired (gross)							
- Not overdue	-	61	-	-	-	-	61
- less than 30 days overdue	-	20	-	-	-	-	20
- 30 to 90 days overdue	-	8	-	-	-	-	8
- 90 to 180 days overdue	-	8	-	-	-	-	8
- 180 to 360 days overdue	-	3	-	-	-	-	3
- over 360 days overdue	-	25	16	-	-	14	55
Total receivables individually determined to be impaired	**-**	**125**	**16**	**-**	**-**	**14**	**155**
Less impairment provision	-	(74)	(16)	-	-	(14)	(104)
Total other financial assets	**1,440**	**108**	**114**	**1**	**18**	**120**	**1,801**

The primary factors that the Group considers in determining whether a receivable is impaired are its overdue status, a significant financial difficulty as evidenced by the borrower's financial information and realisability of related collateral, if any. As a result, the Group presents above an ageing analysis of receivables that are individually determined to be impaired. The rights to the leased assets revert to the Group in the event of default by the lessee.

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

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

Refer to Note 28 for the disclosure of the fair value of each class of other financial assets. Geographical, maturity and interest rate analysis of other financial assets is disclosed in Note 24. Information on related party balances is disclosed in Note 30.

12 Due to the NBU and Due to Other Banks and Other Financing Institutions

Due to the NBU at 31 December 2011, 2010 and 2009:

In millions of Ukrainian hryvnias	2011	2010	2009
Term borrowings from the NBU	5,825	7,312	8,310
Total due to the NBU	**5,825**	**7,312**	**8,310**

In October 2008 the Bank received a refinancing loan from the National Bank of Ukraine to support the Bank's liquidity. The refinancing loan of UAH 3,410 million was initially carried at fixed interest rate of 15% p.a. and initial maturity in October 2009. In October 2009 the NBU prolonged the existing refinancing loan. In December 2009 the NBU increased the exposure to UAH 8,310 million. Refinancing loans from the NBU initially carried fixed interest rates of 15% to 16.5% p.a. with maturities from September 2010 to October 2015.

In January 2010 the NBU increased the interest rate under the refinancing loan from 15-16.5% to 17.3% and in March 2010 decreased the interest rate from 17.3% to NBU discount rate (since 10 August 2010: 7.75%) + 2% in respect of the whole amount of loan outstanding. Refer to Note 31.

Assets pledged under the NBU refinancing loan are as follows:

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

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

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

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

Refer to Note 28 for the disclosure of the fair value of each class of amounts due to the NBU and other banks and other financing institutions. Geographical, maturity and interest rate analysis of due to the NBU and other banks and other financial institutions is disclosed in Note 24.

13 Customer Accounts

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

Economic sector concentrations within customer accounts are as follows:

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

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

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

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

Fair value of each class of customer accounts is disclosed in Note 28. Geographical, maturity and interest rate analysis of customer accounts is disclosed in Note 24. Information on related party balances is disclosed in Note 30.

14 Debt Securities in Issue

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

14 Debt Securities in Issue (Continued)

In February 2007 the Group issued USD denominated Eurobonds with a par value of USD 500 million (UAH 2,525 million at the exchange rate at the date of the issue) maturing in February 2012. The bonds carry a coupon rate of 8% per annum and yield to maturity of 9.31% (2010: 9.16%; 2009: 23.57%). The Eurobonds are listed on the Swiss Stock Exchange. Refer to Note 31.

In September 2010 the Group issued USD denominated Eurobonds with a par value of USD 200 million (UAH 1,583 million at exchange rate at the date of issue) maturing in September 2015. The bonds carry a coupon rate of 9.375% per annum and yield to maturity of 11.1%. The Eurobonds are listed on the London Stock Exchange.

As at 31 December 2011 the Group had UAH denominated bonds issued in November 2010 with a par value of UAH 300 million maturing in May 2012. The bonds were issued under the terms of a private placement.

As at 31 December 2011 the Group had UAH denominated bonds issued in December 2010 with a par value of UAH 250 million maturing in November 2013. The bonds were issued under the terms of a private placement.

In February 2007 the Group issued USD denominated Residential Mortgage Backed Floating Rate Notes (referred to as Mortgage bonds) with a par value of USD 180 million (UAH 909 million at the exchange rate at the date of the issue). The notes were issued in three series. The main features of the issues are described in the table below.

Notes	Principal amount, USD million	Initial interest rate	Step-up date	Interest rate after step-up date	Maturity date	Issue price
Class A	134	LIBOR + 2.1%	April 2014	LIBOR + 4.2%	December 2031	100%
Class B	37	LIBOR + 3.75%	April 2014	LIBOR + 7.5%	December 2031	100%
Class C	9	10%	-	-	December 2031	100%

The class C series bonds were repurchased by the Group according to the terms of issue.

As of 31 December 2011 Mortgage bonds with the total nominal value of USD 9 million or UAH 72 million at the exchange rate applicable as of 31 December 2011 (2010: USD 17 million or UAH 135 million at the exchange rate applicable as of 31 December 2010; 2009: USD 9 million or UAH 72 million at the exchange rate applicable as of 31 December 2009) were repurchased by the Group and removed from the consolidated statement of financial position, including all class C bonds repurchased according to the terms of the issue.

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

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

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

The fair value of each class of debt securities in issue is disclosed in Note 28. Geographical, maturity and interest rate analyses of debt securities in issue are disclosed in Note 24.

15 Provisions for Liabilities and Charges, Other Financial and Non-financial Liabilities

Provisions for liabilities and charges, other financial and non-financial liabilities comprise the following:

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

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

Refer to Note 28 for the disclosure of the fair value of each class of other financial liabilities. Geographical, maturity and interest rate analyses of other financial liabilities are disclosed in Note 24. Information on related party balances is disclosed in Note 30.

16 Subordinated Debt

In millions of Ukrainian hryvnias	**2011**	**2010**	**2009**
Subordinated debt provided by legal entities	1,405	1,379	1,425
Subordinated debt provided by individuals	13	-	13
Total subordinated debt	**1,418**	**1,379**	**1,438**

Subordinated debt represents long term borrowing agreements, which, in case of the Group's default, would be secondary to the Group's other obligations, including deposits and other debt instruments. In accordance with the Law of Ukraine on Banks and Banking Activities and the NBU regulations, subordinated debt cannot be withdrawn from the Bank for at least five years from the date of receipt.

The debts rank after all other creditors in case of liquidation. Refer to Note 25.

Included in subordinated debt, provided by legal entities, are USD denominated subordinated debts issued in February 2006 with a par value of USD 150 million (UAH 758 million at par at the exchange rate at the date of issue) at 8.75% per annum payable quarterly with contractual maturity in February 2016 and USD denominated subordinated debt issued in March 2005 in the amount of UAH 30 million at the exchange rate at the date of issue at par at 10% per annum payable monthly with contractual maturity in March 2010. Under subordinated debt issued in February 2006 the Group had a call option exercisable in February 2011 at par. The Group did not exercise this call option.

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

Refer to Note 28 for the disclosure of the fair value of subordinated debt. Geographical, maturity and interest rate analysis of subordinated debt is disclosed in Note 24. Information on related party balances is disclosed in Note 30.

17 Share Capital

In millions of UAH except for number of shares	Number of outstanding shares, in millions	Nominal amount	Inflation adjusted amount
At 1 January 2009	**42.28**	**5,686**	**5,939**
New shares issued	6.21	1,000	1,000
Increase in the nominal amount of the shares through capitalization of dividends	-	1,125	1,125
At 31 December 2009	**48.49**	**7,811**	**8,064**
Increase in the nominal amount of the shares through capitalization of dividends	**-**	1,049	1,049
Transfer of effect of hyperinflation	-	-	(253)
At 31 December 2010	**48.49**	**8,860**	**8,860**
Increase in the nominal amount of the shares through capitalization of dividends	-	1,300	1,300
New shares issued	16.15	3,385	3,385
At 31 December 2011	**64.64**	**13,545**	**13,545**

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

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

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

In March 2010 the shareholders made a decision to increase the nominal amount of the Bank's issued shares from UAH 161.08 per share to UAH 182.72 per share. The increase was followed by an increase in the share capital by capitalisation of dividends in the amount of UAH 1,049 million.

The Group decided to transfer the effect of hyperinflation recognised in the previous years in amount of UAH 253 million from the share capital to the retained earnings without any change of the net assets of the Group. This decision was approved by the shareholders meeting in June 2010.

18 Other Reserves

Revaluation reserve for available-for-sale securities is reclassified to profit or loss for the year when realised through sale or impairment. Revaluation reserve for premises is transferred to retained earnings when realised through depreciation, sale or other disposal. Currency translation reserve is reclassified to profit or loss for the year when realised through disposal of a subsidiary by sale, liquidation, repayment of share capital or abandonment of all, or part of, that subsidiary.

The Group decided to transfer additional capital recognised in the previous years in amount of UAH 462 million from the additional capital to the retained earnings without any change of the net assets of the Group due to the expiry of underlying contracts. The decision was approved by the shareholders meeting in June 2010.

19 Interest Income and Expense

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

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

20 Fee and Commission Income and Expense

In millions of Ukrainian hryvnias	2011	2010	2009
Fee and commission income			
Settlement transactions	2,045	1,662	790
Cash collection and cash transactions	1,018	1,261	1,238
Other	128	112	91
Total fee and commission income	**3,191**	**3,035**	**2,119**
Fee and commission expense			
Cash and settlement transactions	418	249	190
Other	44	52	42
Total fee and commission expense	**462**	**301**	**232**
Net fee and commission income	**2,729**	**2,734**	**1,887**

Information on fee and commission income from transactions with related parties is disclosed in Note 30.

21 Administrative and Other Operating Expenses

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

Included in staff costs is unified social contribution of UAH 858 million (2010: statutory pension contributions of UAH 567 million and social security contributions of UAH 71 million; 2009: statutory pension contributions of UAH 442 million and social security contributions of UAH 71 million). Pension contributions are made into the State pension fund which is a defined contribution plan.

Information on administrative and other operating expenses from transactions with related parties is disclosed in Note 30.

22 Income Taxes

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

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

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

In millions of Ukrainian hryvnias	**2011**	**2010**	**2009**
Profit before tax	**1,539**	**1,511**	**2,044**
Theoretical tax charge at statutory rate (2011: 23%; 2010: 25%; 2009: 25%)	354	378	511
Tax effect of items which are not deductible or assessable for taxation purposes:			
- Effect from change in rate of tax in Ukraine	(324)	(312)	-
- Income which is exempt from taxation	(60)	(110)	-
- Non-deductible expenses	30	175	144
- Unrecognised deferred tax assets	46	(60)	60
Income tax expense for the year	**46**	**71**	**715**

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

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

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

22 Income Taxes (Continued)

Differences between IFRS and statutory taxation regulations in Ukraine and other countries give rise to certain temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below:

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

22 Income Taxes (Continued)

In the context of the Group's current structure and Ukrainian tax legislation, tax losses and current tax assets of different group companies may not be offset against current tax liabilities and taxable profits of other group companies and, accordingly, taxes may accrue even where there is a consolidated tax loss. Therefore, deferred tax assets and liabilities are offset only when they relate to the same taxable entity and the same taxation authority.

In millions of Ukrainian hryvnias	**31 December 2009**	**(Charged)/ credited to profit or loss**	**Charged directly to other compre-hensive income**	**31 December 2010**
Tax effect of deductible temporary differences				
Accrued expenses and other liabilities	90	(26)	-	64
Deferral of transaction costs at initial recognition	39	(29)	-	10
Gross deferred tax asset	**129**	**(55)**	**-**	**74**
Less offsetting with deferred tax liability	(53)	9	-	(44)
Less: unrecognised deferred tax asset	(60)	60	-	-
Recognised deferred tax asset	**16**	**14**	**-**	**30**
Tax effect of taxable temporary differences				
Accrued income	(413)	74	-	(339)
Fair value of derivative financial instruments	(501)	84	-	(417)
Prepaid expenses and other assets	(278)	115	-	(163)
Premises, leasehold improvements and equipment	(247)	96	6	(145)
Trading securities and investment securities available-for-sale	(120)	7	-	(113)
Loan impairment provision	(108)	(289)	-	(397)
Gross deferred tax liability	**(1,667)**	**87**	**6**	**(1,574)**
Less offsetting with deferred tax asset	53	(9)	-	44
Recognised deferred tax liability	**(1,614)**	**78**	**6**	**(1,530)**

22 Income Taxes (Continued)

In millions of Ukrainian hryvnias	1 January 2009	(Charged)/ credited to profit or loss	Charged directly to other comprehensive income	31 December 2009
Tax effect of deductible temporary differences				
Accrued expenses and other liabilities	105	(15)	-	90
Deferral of transaction costs at initial recognition	(85)	124	-	39
Gross deferred tax asset	**20**	**109**	**-**	**129**
Less offsetting with deferred tax liability	77	(130)	-	(53)
Less: unrecognised deferred tax asset	-	(60)	-	(60)
Recognised deferred tax asset	**97**	**(81)**	**-**	**16**
Tax effect of taxable temporary differences				
Accrued income	(44)	(369)	-	(413)
Fair value of derivative financial instruments	(635)	134	-	(501)
Prepaid expenses and other assets	(84)	(194)	-	(278)
Premises, leasehold improvements and equipment	(408)	79	82	(247)
Trading securities and investment securities available-for-sale	90	(210)	-	(120)
Loan impairment provision	26	(134)	-	(108)
Gross deferred tax liability	**(1,055)**	**(694)**	**82**	**(1,667)**
Less offsetting with deferred tax asset	(77)	130	-	53
Recognised deferred tax liability	**(1,132)**	**(564)**	**82**	**(1,614)**

23 Segment Analysis

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

(a) Description of products and services from which each reportable segment derives its revenue

The Group is organised on the basis of four main business segments:

- Retail banking – representing private banking services, private customer current accounts, savings, deposits, investment savings products, custody, credit and debit cards, consumer loans and mortgages, derivative products.
- Corporate banking – representing direct debit facilities, current accounts, deposits, overdrafts, loan and other credit facilities, foreign currency and derivative products.
- Investment banking – representing financial instruments trading, structured financing, corporate leasing, merger and acquisitions advice.
- Treasury – representing interbank loans, deposits, foreign currency exchange operations, arrangement of funding in the international markets, asset and liabilities management, issue of senior bonds and assets backed securities, project financing, negotiation of limits for trade financing with financial institutions.

Transactions between the business segments are performed at internal interest rates set by the treasury department. Funds are ordinarily reallocated between segments, resulting in funding cost transfers disclosed in operating income. Interest charged for these funds is based on the Group's cost of capital. There are no other material items of income or expense between the business segments. Segment assets and liabilities comprise operating assets and liabilities, being the majority of the balances sheet, but excluding taxation. Internal charges and transfer pricing adjustments have been reflected in the performance of each business segment.

(b) Factors that management used to identify the reportable segments

The Group's segments are strategic business units that focus on different customers. They are managed separately because each business unit requires different marketing strategies and service level.

Segment financial information reviewed by the CODM does not include information of the Group's subsidiaries and head office functional departments. Regular review of these subsidiary banks is delegated to the local management teams. The CODM obtains financial statements of the Bank's subsidiaries. Management considered that information on subsidiary banks is available less frequently in concluding that segments exclude details of the subsidiaries. Head office functional departments do not earn revenues or earn revenues that are only incidental to the activities of the Group and is not considered by the CODM as an operating segment.

(c) Measurement of operating segment profit or loss, assets and liabilities

The CODM reviews financial information of the Bank prepared based on Ukrainian accounting standards adjusted to meet the requirements of the NBU accounting rules and before consolidation of subsidiaries. Such financial information differs in certain aspects from the International Financial Reporting Standards:

- funds are generally reallocated between segments at internal interest rates set by the treasury department, which are determined by reference to market interest rate benchmarks, contractual maturities for loans and observed actual maturities of customer accounts balances;
- income taxes are not allocated to segments;
- loan loss provisions are recognised based on the statutory accounting rules;
- loans and advances to customers are written-off based on statutory requirements;
- fair value of derivative are not recognised in statutory accounts;
- managing its open currency position the Group enters into swap transactions that are recognised at cost; and
- consolidation of subsidiaries.

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

23 Segment Analysis (Continued)

(d) Information about reportable segment profit or loss, assets and liabilities

Segment information for the reportable segments for the year ended 31 December 2011 is set out below:

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

23 Segment Analysis (Continued)

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

23 Segment Analysis (Continued)

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

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

23 Segment Analysis (Continued)

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

23 Segment Analysis (Continued)

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

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

23 Segment Analysis (Continued)

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

23 Segment Analysis (Continued)

Reconciliation of reportable segment revenues, profit or loss, assets and liabilities

Total consolidated revenues comprise interest income, fee and commission income and other operating income.

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

Reconciliation of reportable profit or loss:

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

Reconciliation of reportable assets:

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

23 Segment Analysis (Continued)

Reconciliation of reportable liabilities:

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

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

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

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

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

23 Segment Analysis (Continued)

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

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

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

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

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

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

23 Segment Analysis (Continued)

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

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

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

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

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

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

23 Segment Analysis (Continued)

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

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

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

In millions of Ukrainian hryvnias	Due to other banks and other financing institutions	Customer accounts	Debt securities in issue	Provisions for liabilities and charges, other financial and non-financial liabilities	Subor-dinated debt
Total amount for all reportable segment	**12,993**	**75,423**	**557**	**3,699**	**1,235**
(b) Consolidation adjustments	(2,180)	10,777	(104)	351	149
(c) Other adjustments	(47)	(755)	(33)	218	(5)
(g) Swap and spot operations at fair value	(1,165)	-	-	(2,263)	-
(f) Reclassifications	(5,741)	1,076	5,741	(1,076)	-
As reported under IFRS	**3,860**	**86,521**	**6,161**	**929**	**1,379**

23 Segment Analysis (Continued)

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

In millions of Ukrainian hryvnias	Cash and cash equivalents and mandatory reserves	Due from other banks	Loans and advances to customers	Financial derivatives	Other financial assets
Total amount for all reportable segment	**6,286**	**8,470**	**61,668**	**-**	**6,308**
(a) Recognition of embedded derivatives	-	-	(1,503)	2,005	-
(b) Consolidation adjustments	2,847	834	4,142	-	194
(c) Other adjustments	(497)	-	26	-	56
(e) Release of provision for impairment	-	274	329	-	-
(g) Swap and spot operations at fair value	-	(748)	-	-	(6,018)
(f) Reclassifications	2,819	(4,761)	1,935	-	(179)
(h) Recognition of embedded derivatives with expired underlying contract	-	-	-	-	1,440
As reported under IFRS	**11,455**	**4,069**	**66,597**	**2,005**	**1,801**

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

In millions of Ukrainian hryvnias	Due to other banks and other financing institutions	Customer accounts	Debt securities in issue	Provisions for liabilities and charges, other financial and non-financial liabilities	Subor-dinated debt
Total amount for all reportable segment	**7,193**	**49,995**	**1,290**	**7,151**	**1,300**
(b) Consolidation adjustments	(11)	6,684	718	448	141
(c) Other adjustments	7	41	(17)	39	(3)
(g) Swap and spot operations at fair value	(749)	-	-	(6,018)	-
(f) Reclassifications	(4,121)	413	4,121	(917)	-
As reported under IFRS	**2,319**	**57,133**	**6,112**	**703**	**1,438**

The reconciling items are attributable to the following:

(a), (h) – Embedded derivatives and embedded derivatives with expired underlying contract are accounted for at fair value for IFRS purposes. In statutory accounts results from operations with embedded derivatives and embedded derivatives with expired underlying contract are accounted for when cash is received within interest income.

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

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

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

23 Segment Analysis (Continued)

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

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

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

(j) – Share grant is recognised only in IFRS financial statements.

(e) Analysis of revenues by products and services

The Group's revenues are analysed by products and services in Notes 19 (interest income), Note 20 (fee and commission income).

(f) Geographical information

Revenues for each individual country for which the revenues are material are reported separately as follows:

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

The analysis is based on domicile of the customer. Revenues from off-shore companies of Ukrainian customers are reported as revenues from Ukraine. Revenues comprise interest income, fee and commission income and other operating income.

The Bank does not analyze the capital expenditure, current and deferred income tax in segment reporting.

(g) Major customers

The Group does not have customers with the revenues exceeding 10% of the total revenue of the Group.

24 Financial Risk Management

The risk management function within the Group is carried out in respect of financial risks, operational risks and legal risks. Financial risk comprises market risk (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The primary objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risks stays within these limits. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures to minimise operational and legal risks.

Risk Management Bodies

Risk management policy, monitoring and control are conducted by a number of bodies of the Group under the supervision of the credit committee (the "Credit Committee") and the Internal Control Committee. Other bodies responsible for risk management within the Group include the Treasury, Risk-Management Division and Fraud-Management Division, the Finance and Risk Division including the Financial Risks Department. The Group also has a system of internal controls which is supervised and monitored by its Internal Audit Department and Financial Monitoring Department.

24 Financial Risk Management (Continued)

Credit Committee

The Credit Committee, which is composed of the Chairman of the Bank, its Deputies, the Head of the Dnipropetrovsk regional branch, the Head of the Finance and Risk Division, Head of Risk-Management Division, Head of Internal Control and Fraud-Management Division, meets bi-weekly and is responsible for setting credit policy, approving loans over the prescribed lending limits and the limits for counterparty banks, monitoring loan performance and the quality of the Group's loan portfolio and reviewing large loan projects and the lending policies of the Bank's branches. The Credit Committee also monitors the interest rates set for a range of currencies by the Group's main competitors and the overall market situation and determines the Group's pricing policy on the basis of the above. In addition, due to the importance of liquidity risk management, the Credit Committee is also responsible for preparing and formulating management decisions with regard to increasing the Group's funding base.

Internal Control Committee

The Internal Control Committee is primarily responsible for reducing transaction risk, including assisting management in preventing fraud; enhancing the security of the Group's staff and its information systems, including the implementation of the Group's personnel security policy; and improving the Group's ability to resist internal and external threats to its systems, including threats to the Group's IT security. The Internal Control Committee meets monthly and the members in attendance vary depending on the topic of the meeting.

Treasury

Day-to-day asset and liability management is done by the Treasury. The Treasury is responsible for overseeing the Group's assets and liabilities and liquidity and interest rate sensitivity analysis based on instructions and guidelines from the Financial Risks Department and its own assessments. The Treasury is responsible for the operational aspects of asset and liability management.

Financial Risks Department

The Financial Risks Department calculates and monitors the Bank's compliance with the mandatory ratios set by the NBU, the requirement to maintain mandatory reserves on the Bank's correspondent account with the NBU and its internal liquidity ratios (in accordance with the Bank's internal Methodology for Liquidity Risk Assessment and Control). In carrying out these functions, the Financial Risks Department works with the Treasury, its back office, and depositary and credit service officers of the head office business divisions and the Credit Committee.

In order to monitor and control liquidity within the Bank and its branches and sub-branches, the Financial Risks Department prepares daily reports on the maximum liquidity gap by matching assets and liabilities with different maturities and currencies as well as providing daily forecasts of the Group's balances on its correspondent account with the NBU to ensure the Bank's compliance with the mandatory reserve requirement and with the instant, current and short-term liquidity ratios set by the NBU. The liquidity reports are maintained in an electronic database that is accessible by the Treasury and is used for purposes of liquidity management. In addition, the Financial Risks Department prepares guidelines for head office business divisions seeking to raise long-term funds and/or reviews decisions of the Credit Committee on the implementation of programmes to increase the Bank's funding base in order to ensure that the Group's short- and long-term liquidity requirements are met.

Risk-Management Division

The Risk-Management Division analyses the creditworthiness of counterparty banks, calculates provisions for the Group's active operations and limits for counterparty banks, monitors problem assets in the loan portfolio under credit programs, monitors compliance with interbank transaction limits, sets the lending authority limits of branch and sub-branch heads. It also determines the strategy and basic methodological approaches in the Group's risk management system and oversees its compliance with the requirements established by the NBU as well as the Group's internal guidelines.

24 Financial Risk Management (Continued)

Internal Control and Fraud-Management Division

The Internal Control and Fraud-Management Division reviews and checks the results of work performed by the divisions of the Group and assists in formulating management decisions on enhancing transactional security and reducing risk based on data derived from this verification process. In particular, the Internal Control and Fraud-Management Division develops methodologies for detecting suspicious and fraudulent transactions and for reducing errors in statistical analysis of data from the Group's accounting software and other sources, and verifies risk assumptions based on the results of such analyses.

Credit risk. The Group takes on exposure to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Exposure to credit risk arises as a result of the Group's lending and other transactions with counterparties giving rise to financial assets.

The Group's maximum exposure to credit risk is reflected in the carrying amounts of financial assets on the consolidated statement of financial position. For guarantees and commitments to extend credit, the maximum exposure to credit risk is the amount of the commitment. Refer to Note 26. The credit risk is mitigated by collateral and other credit enhancements.

The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, including those borrowers in the oil trading business.

The general principles of the Group's credit policy are outlined in the formal Group's Credit Policy. The formal and unified Group's Credit Manual regulates every significant aspect of the lending operations of the Group and outlines procedures for analysing the financial position of borrowers, or group of borrowers and the valuation of any proposed collateral and specifies the requirements for loan documentation and the procedures for the monitoring of loans.

The Group has collateral policy based on a thorough review and assessment of the value of collateral. A substantial portion of the Group's loan portfolio generally includes acceleration clauses in case of deterioration of the financial position of the borrower. Credit products are, except in very unusual circumstances, only made available to customers that hold accounts with the Group. This policy provides the dual benefits of additional security for the credit products and additional business for the Group in other areas of corporate banking services.

The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to a single borrower, or groups of affiliated borrowers. Such risks are monitored on a revolving basis and subject to an annual or more frequent review. Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and principal payment obligations and by changing the lending limits where appropriate. Exposure to credit risk is also managed, in part, by obtaining collateral and corporate and personal guarantees.

Basic information on the level of credit risk, including reports on the loan portfolio and the volume of problem assets broken down by credit programme and manager, is posted on the Group's internal website. This information is updated weekly and can be viewed both as of the current date and over a period of time. There are specific sections of the Group's website dedicated to problem assets for both corporate and retail clients and the portfolio of corporate loans.

Credit Committee on a monthly basis reviews the effectiveness of the credit policies for each business division and analysis information on the levels of non-performing loans.

Loan Approval Procedure

The lending policies and credit approval procedures of the Group are based on strict guidelines in accordance with the NBU regulations. The Group also has detailed regulations for collateral assessment, which is conducted by Group's trained specialists on collateral.

24 Financial Risk Management (Continued)

The Bank sets lending authority limits to limit risks to the Group arising from lending activities. Lending authority limits for senior managers of branches (comprising heads of branches, general and first deputy heads) are set twice per year by Risk-Management Division in the head office and approved by an order of the Bank together with proxies authorizing the relevant heads to make lending decisions. The lending authority limit of a branch or sub-branch head depends on the amount of own funds of a branch or subbranch, overall rating of a branch or sub-branch and its integrated lending activity efficiency rating.

Lending authority limits for junior managers (heads of departments and divisions) are set by the head of the relevant branch or sub-branch and apply to a particular individual.

If the amount of a proposed loan does not exceed the lending authority limit of a head of a branch or subbranch, the decision on granting the loan is taken by the credit committee of a branch. If the amount exceeds this limit, lending authority is granted from the head office in accordance with the Bank's credit procedures.

Off-Balance Sheet Policy

Credit risk for off-balance sheet financial instruments is defined as the possibility of sustaining a loss as a result of another party to a financial instrument failing to perform in accordance with the terms of the contract. The Group uses the same credit policies in respect of conditional obligations as it does for financial instruments accounted for in the consolidated statement of financial position, which include credit approval procedures, risk control limits and monitoring procedures.

Loan Monitoring

The Group's IT systems allow the Management monitoring of loans' performance on-line.

The Group reassesses the credit risk on each loan on an ongoing basis by (i) monitoring the financial and market position of the borrower and (ii) assessing the sufficiency of collateral for the loan. The financial and market position of the borrower is regularly reviewed and, on the basis of such review, the internal credit rating of the borrower may be revised. The review is based on the flow of funds into the customer's accounts, its most recent financial statements and other business and financial information submitted by the borrower or otherwise obtained by the Group.

The current market value of collateral is monitored regularly to assess its sufficiency with respect to the loan in question. The review of collateral is performed by independent appraisal companies. The frequency of such reviews depends on the security provided and the degree of volatility of the asset's market price.

Problem loans are identified on a daily basis based on signs of debt servicing deterioration. The Group carries out analyses of problem loans by collecting information about such loans, investigating the causes of problems and working out measures for their early redemption. On the basis of the findings of such analyses, a report is submitted to the Bank's Board regarding the problem loans in the Group's loan portfolio and the level of acceptable credit risk. To improve the quality of the loan portfolio, the Group applies a policy of on-line blocking the ability of a sub-branch or manager responsible for a particular lending programme to grant further loans if the percentage of non-performing loans issued by a particular sub-branch or manager exceeds the maximum permitted level of problem assets until this level decreases.

Management maintains individual records of significant number of Ukrainian retail customers, which constitutes the largest credit bureau in Ukraine, allowing the Group to mitigate credit risks by targeting borrowers, who have a good credit history.

Problem Loan Recovery

The Credit Committee has developed a systematic approach involving a comprehensive set of procedures intended to enable the Group to realise high possible level of repayment on nonperforming loans.

24 Financial Risk Management (Continued)

If a borrower does not perform its obligations under a loan agreement, it is the responsibility of the relevant credit officer to take initial actions to determine whether the cause of late payments is administrative or credit-related in nature. At this stage, the officers loan inspectors contact the borrower, request repayment and check the availability of any collateral. Loan inspector calls borrowers to remind them of their repayment obligation several days before the scheduled repayment date, and after such date to demand repayment (during day-time and night-time). If such measures do not result in the repayment of the loan and the non-performance exceeds 90 days, the loan is classified as a "problem loan". The Risk-Management Division, which is able to identify all problem loans in the Group, issues a banking order each month to transfer problem loans from the relevant credit unit's books to a specialised unit within Security Division (the "Security Service").

The Security Service is responsible for all loans issued by the Group classified as "problem loans", excluding loans where the total debt amounts to less than UAH 1,000 (which continue to be processed by the monitoring unit). The Security Service obtains and reviews all documentation relating to the borrower, performs an official internal investigation to identify the reasons for the problem, draws up a plan of action for the repayment of the debt and reviews the collateral (which may entail organising protection). In a number of enforcement actions the Group initiates court proceedings. The Security Service will often engage in negotiations with the borrower over a problem loan either concurrently with, or prior to, initiating court proceedings the collateral for sale at auction, to attach the borrower's account(s) with another bank or to take possession of property under a mortgage or transport facilities. If collateral is available, and upon satisfactory results of an analysis of whether the borrower is undergoing purely temporary business difficulties and of that borrower's willingness and capacity to repay its debt, negotiations usually aim at debt restructuring and include requirements to obtain additional collateral, personal guarantees by shareholders and management, increased interest rates and revised repayment schedules.

Other legal actions available to the Group include executive proceedings for the enforcement of debt and bankruptcy proceedings. In the event of any criminal action on the part of the borrower, irrespective of the borrower's readiness to repay its debt, the Group involves the relevant state authorities. The Credit Committee meets monthly to review the status of non-performing loans.

The Group maintains a policy that problem loans are not refinanced without convincing evidence that they will be repaid or reliably secured.

Related Party Lending

The Group conducts its business with related parties on a commercial basis. Each loan request from a related party is subject to the same credit approval procedures as are applied to any other loan applicant.

Market risk. The Group takes on exposure to market risks. Market risks arise from open positions in (a) currency, (b) interest rate and (c) equity products, all of which are exposed to general and specific market movements. Management sets limits on the value of risk that may be accepted, which is monitored on a daily basis. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

Currency risk. Currency risk is the risk that the value of financial instruments owned by the Group will fluctuate due to changes in foreign exchange rates. The Group's major currency positions are in Ukrainian hryvnia, U.S. dollars and Euros. In respect of currency risk, Management sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily.

The Group's policy in respect of open currency positions is restricted under Ukrainian law to certain thresholds and strictly monitored by the NBU on a daily basis. In order to hedge its currency risk, the Group enters into arrangements with other banks pursuant to which the Group makes term deposits with other banks and accepts term deposits for the same term from the same counterparty banks in a different currency.

The Group also enters into currency options in the Group's loan agreements with some customers requiring the customers to pay compensation in case of depreciation of the Ukrainian hryvnia relative to the U.S. dollar. Refer to Note 27.

24 Financial Risk Management (Continued)

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

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

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

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

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

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

Derivatives presented above are monetary financial assets or monetary financial liabilities, but are presented separately in order to show the Group's gross exposure.

Amounts disclosed in respect of derivatives represent the fair value, at the end of the reporting period, of the respective currency that the Group agreed to buy (positive amount) or sell (negative amount) before netting of positions and payments with the counterparty. The amounts by currency are presented gross as stated in Note 27. The net total represents the fair value of the currency derivatives.

24 Financial Risk Management (Continued)

Fair value of option derivative embedded in loans and advances to customers (refer to Note 27) was included in the table above together with host instruments into UAH denominated financial assets. The above analysis includes only monetary assets and liabilities. Investments in equities and non-monetary assets are not considered to give rise to any material currency risk.

The following table presents sensitivities of profit or loss for the year and equity to reasonably possible changes in exchange rates applied at the end of the reporting period relative to the functional currency of the respective Group entities, with all other variables held constant:

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

The exposure was calculated only for monetary balances denominated in currencies other than the functional currency of the respective entity of the Group.

Interest rate risk. The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. Management monitors on a daily basis and sets limits on the level of mismatch of interest rate repricing that may be undertaken.

The Group is exposed to interest rate risk, principally as a result of lending at fixed interest rates, in amounts and for periods, which differ from those of term borrowings at fixed interest rates. In practice, interest rates are generally fixed on a short-term basis. Also, interest rates that are contractually fixed on both assets and liabilities could be revised to reflect current market conditions.

The Board sets limits on the level of mismatch of interest rates on assets and liabilities sensitive to interest rates, which is monitored regularly. In the absence of any available hedging instruments, the Group normally seeks to match its interest rate positions.

24 Financial Risk Management (Continued)

The Finance and Risk Division and the Credit Committee are both responsible for interest rate risk management. The Finance and Risk Division establishes the principal policies and approaches to interest rate risk management and the Credit Committee conducts weekly monitoring and revision of interest rates for various currencies within certain time limits and product categories. The Group regularly monitors interest rate risk by means of interest rate gap analysis, which is based on ordering assets and liabilities sensitive to interest rates into a number of time bands. Fixed interest rate assets and liabilities are arranged by the time remaining until maturity, while assets and liabilities with a variable interest rate are arranged by the nearest possible term of repricing. The net sensitivity gap between assets and liabilities in a given time band represents the volume sensitive to changes of market interest rates. The product of this difference and the presumed change of interest rates represents the approximate changes of net interest income. A negative net sensitivity gap in a given time band, which means that interest-bearing liabilities exceed interest-earning assets in that time band, represents a risk of a decline in net interest income in the event of increases in market interest rates. A positive net sensitivity gap in a given time band, which means that interest-bearing assets exceed interest-earning liabilities in that time band, represent a risk of a decline in net interest income in the event of a decline in market interest rates.

The table below summarises the Group's exposure to interest rate risks. The table presents the aggregated amounts of the Group's financial assets and liabilities at carrying amounts, categorised by the earliest of contractual interest repricing or maturity dates.

In millions of Ukrainian hryvnias	**Demand and less than 1 month**	**From 1 to 3 months**	**From 3 to 12 months**	**More than 1 year**	**Non-monetary**	**Total**
31 December 2011						
Total financial assets	31,994	18,532	63,998	22,342	7	136,873
Total financial liabilities	27,992	28,490	47,853	15,671	-	120,006
Net interest sensitivity gap at 31 December 2011	**4,002**	**(9,958)**	**16,145**	**6,671**	**7**	**16,867**
31 December 2010						
Total financial assets	29,542	7,474	51,650	29,498	82	118,246
Total financial liabilities	27,476	19,441	44,749	14,099	-	105,765
Net interest sensitivity gap at 31 December 2010	**2,066**	**(11,967)**	**6,901**	**15,399**	**82**	**12,481**
31 December 2009						
Total financial assets	28,780	5,533	23,673	27,956	16	85,958
Total financial liabilities	24,445	10,326	25,606	15,293	60	75,730
Net interest sensitivity gap at 31 December 2009	**4,335**	**(4,793)**	**(1,933)**	**12,663**	**(44)**	**10,228**

All of the Group's debt instruments reprice within 5 years.

At 31 December 2011, if interest rates at that date had been 200 basis points lower/higher (2010: 200 basis points lower/higher; 2009: 200 basis points lower/higher) with all other variables held constant, profit for the year would have been UAH 137 million (2010: UAH 188 million; 2009: UAH 3 million) higher, mainly as a result of lower interest expense on variable interest liabilities. Other components of other comprehensive income would have been UAH 15 million (2010: UAH 12 million; 2009: nil) lower/higher, mainly as a result of a decrease/increase in the fair value of fixed rate financial assets classified as available-for-sale.

24 Financial Risk Management (Continued)

The Group monitors interest rates for its financial instruments. The table below summarises interest rates based on reports reviewed by key management personnel:

	2011				**2010**				**2009**			
In % p.a.	**USD**	**UAH**	**Euro**	**Other**	**USD**	**UAH**	**Euro**	**Other**	**USD**	**UAH**	**Euro**	**Other**
Assets												
Correspondent accounts and overnight deposits with other banks	0	0	0	1	4	0	2	0	0	0	2	2
Correspondent accounts with NBU, Central Bank of Russian Federation and Central Bank of Latvia, Central Bank of Cyprus and Central Bank of Georgia	-	2	1	0	-	0	-	0	-	0	-	0
Other debt securities at fair value through profit or loss	-	-	-	-	-	-	-	-	-	-	-	7
Due from other banks	4	0	3	1	6	0	3	3	5	1	3	0
Loans and advances to legal entities	11	12	11	5	13	14	10	10	14	19	10	30
Loans and advances to individuals	15	28	9	32	16	28	9	40	15	29	9	44
Debt investment securities held to maturity	8	-	-	2	8	-	-	5	-	-	-	-
Liabilities												
Due to the NBU	-	10	-	-	-	10	-	-	-	16	-	-
Correspondent accounts and overnight deposits of other banks	4	7	0	0	6	3	1	0	3	-	-	3
Term placements of other banks	9	-	8	10	1	-	3	9	1	-	3	7
Long-term loans under the credit lines from international financial institutions	-	-	4	-	-	-	3	3	-	-	4	-
Customer accounts												
- current accounts of customers	4	5	2	0	5	1	6	1	2	-	4	4
- term deposits of legal entities	7	4	7	5	9	10	10	7	11	14	11	11
- term deposits of individuals	8	14	7	8	9	17	8	11	12	21	12	15
Debt securities in issue	8	13	3	-	-	14	3	-	8	7	6	-
Subordinated debt	6	-	-	1	8	-	-	10	8	11	10	10
Other financial liabilities	11	-	-	-	8	-	-	-	11	-	-	1

The sign "-" in the table above means that the Group does not have the respective assets or liabilities in the corresponding currency.

The Group is exposed to prepayment risk through providing fixed or variable rate loans, including mortgages, which give the borrower the right to early repay the loans. The Group's current year profit and equity at the end of the reporting period would not have been significantly impacted by changes in prepayment rates because such loans are carried at amortised cost and the prepayment right is at or close to the amortised cost of the loans and advances to customers (2010: no material impact; 2009: no material impact).

24 Financial Risk Management (Continued)

Geographical risk concentrations. The geographical concentration of the Group's financial assets and liabilities at 31 December 2011 is set out below:

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

Assets, liabilities and credit related commitments have been based on the country in which the counterparty is located. Balances with Ukrainian counterparties actually outstanding to/from offshore companies of these Ukrainian counterparties are allocated to the caption “Ukraine”. Cash on hand, precious metals and premises and equipment have been allocated based on the country in which they are physically held.

24 Financial Risk Management (Continued)

The geographical concentration of the Group's financial assets and liabilities at 31 December 2010 is set out below:

In millions of Ukrainian hryvnias	Ukraine	OECD	Non OECD	Total
Assets				
Cash and cash equivalents and mandatory reserves	6,284	10,325	2,657	19,266
Due from other banks	354	4,742	234	5,330
Loans and advances to customers	72,380	2,453	14,861	89,694
Embedded derivatives	1,678	-	-	1,678
Investment securities available-for-sale	98	308	167	573
Investment securities held to maturity	400	-	188	588
Other financial assets	923	83	111	1,117
Total financial assets	**82,117**	**17,911**	**18,218**	**118,246**
Non-financial assets	**2,888**	**9**	**773**	**3,670**
Total assets	**85,005**	**17,920**	**18,991**	**121,916**
Liabilities				
Due to the NBU	7,312	-	-	7,312
Due to other banks and other financing institutions	263	2,938	659	3,860
Customer accounts	64,877	4,721	16,923	86,521
Debt securities in issue	10	6,078	73	6,161
Other financial liabilities	238	46	248	532
Subordinated debt	2	1,230	147	1,379
Total financial liabilities	**72,702**	**15,013**	**18,050**	**105,765**
Non-financial liabilities	**1,900**	**-**	**82**	**1,982**
Total liabilities	**74,602**	**15,013**	**18,132**	**107,747**
Net balance sheet position	**10,403**	**2,907**	**859**	**14,169**
Credit related commitments (Note 26)	**861**	**10**	**1,105**	**1,976**

24 Financial Risk Management (Continued)

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

In millions of Ukrainian hryvnias	Ukraine	OECD	Non OECD	Total
Assets				
Cash and cash equivalents and mandatory reserves	4,773	4,732	1,950	11,455
Due from other banks	452	3,617	-	4,069
Loans and advances to customers	51,730	1,758	13,109	66,597
Embedded derivatives	2,005	-	-	2,005
Investment securities available-for-sale	7	-	1	8
Investment securities held to maturity	23	-	-	23
Other financial assets	1,553	63	185	1,801
Total financial assets	**60,543**	**10,170**	**15,245**	**85,958**
Non-financial assets	**3,167**	**14**	**550**	**3,731**
Total assets	**63,710**	**10,184**	**15,795**	**89,689**
Liabilities				
Due to the NBU	8,310	-	-	8,310
Due to other banks and other financing institutions	169	1,962	188	2,319
Customer accounts	41,859	3,952	11,322	57,133
Debt securities in issue	46	5,884	182	6,112
Other financial liabilities	122	29	267	418
Subordinated debt	14	1,284	140	1,438
Total financial liabilities	**50,520**	**13,111**	**12,099**	**75,730**
Non-financial liabilities	**1,815**	**-**	**94**	**1,909**
Total liabilities	**52,335**	**13,111**	**12,193**	**77,639**
Net balance sheet position	**11,375**	**(2,927)**	**3,602**	**12,050**
Credit related commitments (Note 26)	**979**	**14**	**573**	**1,566**

Other risk concentrations. Management monitors and discloses concentrations of credit risk by obtaining reports listing exposures to borrowers with aggregated loan balances in excess of 10% of net assets. Refer to Notes 8 and 9.

Liquidity risk. Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Group is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan drawdowns, guarantees and from margin and other calls on cash-settled derivative instruments. The Group does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. Liquidity risk is managed by Treasury Department of the Group.

24 Financial Risk Management (Continued)

The Group has developed specific approaches to liquidity issues based on medium-term (i.e., three to twelve months), short-term (i.e., two to fifteen weeks) and current (i.e., up to fourteen days) time periods. With respect to medium-term liquidity, the Treasury, in co-ordination with the Financial Risks Department, performs an analysis of the Group's payments calendar over this period and considers contingency options available to the Group in the event that unfavourable developments or crisis situations occur.

Decisions on short-term liquidity management are taken by the Treasury. These decisions are based on an analysis of the volatility of various assets and liabilities. Estimates are made after application of internally developed models as to the volume and likelihood of unexpected withdrawals of funds and the probability that additional funding might be required. In order to minimise unanticipated changes in funding, the Group separately analyses the possible consequences of the withdrawal of a large amount of funds by major customers. Client managers and senior Group management work closely with major customers to coordinate plans with regard to movement of funds.

Decisions with respect to current liquidity management are taken by the head of Treasury. Reports on actions taken are made to the Credit Committee. The Group's payments calendar for each upcoming 14-day period is analysed, and decisions taken on the attraction of short-term interbank deposits, the immediate sale of securities from the Treasury portfolio, and other facilities available to the Group. The Treasury implements decisions on a real-time basis.

The Group seeks to maintain a stable funding base primarily consisting of amounts due to other banks, corporate and retail customer deposits and debt securities. The Group invests the funds in diversified portfolios of liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

The liquidity management of the Group requires considering the level of liquid assets necessary to settle obligations as they fall due; maintaining access to a range of funding sources; maintaining funding contingency plans; and monitoring balance sheet liquidity ratios against regulatory requirements. The Bank calculates liquidity ratios on a daily basis in accordance with the requirement of the National Bank of Ukraine. These ratios are:

- Instant liquidity ratio (N4), which is calculated as the ratio of highly-liquid assets to liabilities payable on demand. The ratio was 63% at 31 December 2011 (2010: 43%; 2009: 57%) with the minimum required limit of 20% (2010: 20%; 2009: 20%).
- Current liquidity ratio (N5), which is calculated as the ratio of liquid assets to liabilities maturing within 31 calendar days. The ratio was 77% at 31 December 2011 (2010: 75%; 2009: 80%) with the minimum required limit of 40% (2010: 40%; 2009: 40%).
- Short-term liquidity ratio (N6), which is calculated as the ratio of liquid assets to liabilities with original maturity of up to one year. The ratio was 124% at 31 December 2011 (2010: 112%; 2009: 45%) with the minimum required limit of 60% (2010: 60%; 2009: 20%).

The Treasury Department receives information about the liquidity profile of the financial assets and liabilities. The Treasury Department then provides for an adequate portfolio of short-term liquid assets, largely made up of short-term liquid trading securities, deposits with banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Group as a whole.

The daily liquidity position is monitored and regular liquidity stress testing under a variety of scenarios covering both normal and more severe market conditions is performed by the Treasury Department.

The tables below show liabilities at the reporting dates by their remaining contractual maturity. The amounts disclosed in the maturity table are the contractual undiscounted cash flows, including gross finance lease obligations (before deducting future finance charges), prices specified in deliverable forward agreements to purchase financial assets for cash, contractual amounts to be exchanged under gross settled currency swaps, and gross loan commitments. Such undiscounted cash flows differ from the amount included in the consolidated statement of financial position because amounts disclosed in consolidated statement of financial position are based on discounted cash flows.

When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the reporting date. Foreign currency payments are translated using the spot exchange rate at the end of the reporting period.

24 Financial Risk Management (Continued)

The maturity analysis of financial liabilities at 31 December 2011 is as follows:

In millions of Ukrainian hryvnias	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 12 months to 5 years	Over 5 years	Total
Liabilities						
Due to the NBU	172	338	1,468	4,957	-	6,935
Due to other banks and other financing institutions	951	126	958	986	152	3,173
Customer accounts	27,469	25,065	46,660	8,953	124	108,271
Debt securities in issue	-	3,833	381	1,928	50	6,192
Subordinated debt	9	46	81	1,680	-	1,816
Other financial liabilities	300	6	23	43	360	732
Gross settled swaps and forwards	19,861	-	-	-	-	19,861
Total contractual future payments for financial obligations	**48,762**	**29,414**	**49,571**	**18,547**	**686**	**146,980**
Credit related commitments, gross (Note 26)	**1,810**	**-**	**-**	**-**	**-**	**1,810**

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

In millions of Ukrainian hryvnias	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 12 months to 5 years	Over 5 years	Total
Liabilities						
Due to the NBU	184	360	1,586	6,948	-	9,078
Due to other banks and other financing institutions	2,094	587	639	176	325	3,821
Customer accounts	25,449	18,275	44,207	3,201	97	91,229
Debt securities in issue	9	27	133	6,122	82	6,373
Subordinated debt	5	54	55	324	1,370	1,808
Other financial liabilities	470	1	8	31	234	744
Gross settled swaps and forwards	5,653	-	-	-	-	5,653
Total contractual future payments for financial obligations	**33,864**	**19,304**	**46,628**	**16,802**	**2,108**	**118,706**
Credit related commitments, gross (Note 26)	**2,022**	**-**	**-**	**-**	**-**	**2,022**

24 Financial Risk Management (Continued)

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

In millions of Ukrainian hryvnias	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 12 months to 5 years	Over 5 years	Total
Liabilities						
Due to the NBU	122	232	2,030	8,950	1,495	12,829
Due to other banks and other financing institutions	433	244	13	1,147	684	2,521
Customer accounts	30,148	6,269	20,604	1,636	118	58,775
Debt securities in issue	18	740	619	5,333	236	6,946
Subordinated debt	1	66	54	294	1,441	1,856
Other financial liabilities	318	3	37	60	-	418
Gross settled SWAPs and forwards	7,468	-	-	-	-	7,468
Total contractual future payments for financial obligations	**38,508**	**7,554**	**23,357**	**17,420**	**3,974**	**90,813**
Credit related commitments, gross (Note 26)	**1,653**	**-**	**-**	**-**	**-**	**1,653**

Payments in respect of gross settled swaps and forwards will be accompanied by related cash inflows which are disclosed at their present values in Note 27. Customer accounts are classified in the above analysis based on contractual maturities. However, in accordance with Ukrainian Civil Code, individuals have a right to withdraw their deposits prior to maturity if they forfeit their right to accrued interest.

24 Financial Risk Management (Continued)

The Group does not use the above undiscounted maturity analysis to manage liquidity. Instead, the Group monitors expected maturities, which may be summarised as follows at 31 December 2011:

In millions of Ukrainian hryvnias	**Demand and less than 1 month**	**From 1 to 3 months**	**From 3 to 12 months**	**Over 1 year**	**No stated maturity**	**Total**
Assets						
Cash and cash equivalents and mandatory reserves	21,363	-	-	-	-	21,363
Due from other banks	343	621	3,155	529	-	4,648
Loans and advances to customers	9,608	17,521	59,331	20,970	-	107,430
Embedded derivatives	50	63	915	456	-	1,484
Investment securities available-for-sale	72	-	92	609	7	780
Investment securities held to maturity	-	-	-	24	-	24
Other financial assets	524	174	368	78	-	1,144
Total financial assets	**31,960**	**18,379**	**63,861**	**22,666**	**7**	**136,873**
Liabilities						
Due to the NBU	124	248	1,115	4,338	-	5,825
Due to other banks and other financing institutions	415	97	969	972	-	2,453
Customer accounts	26,966	24,028	45,040	8,175	-	104,209
Debt securities in issue	-	3,767	305	1,528	-	5,600
Other financial liabilities	367	5	16	113	-	501
Subordinated debt	1	27	-	1,390	-	1,418
Total financial liabilities	**27,873**	**28,172**	**47,445**	**16,516**	**-**	**120,006**
Net liquidity gap at 31 December 2011	**4,087**	**(9,793)**	**16,416**	**6,150**	**7**	**16,867**
Cumulative liquidity gap at 31 December 2011	**4,087**	**(5,706)**	**10,710**	**16,860**	**16,867**	
Credit related commitments, gross (Note 26)	**1,810**	**-**	**-**	**-**	**-**	**1,810**

24 Financial Risk Management (Continued)

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

In millions of Ukrainian hryvnias	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	Over 1 year	No stated maturity	Total
Assets						
Cash and cash equivalents and mandatory reserves	19,266	-	-	-	-	19,266
Due from other banks	3,279	922	775	354	-	5,330
Loans and advances to customers	4,467	6,132	52,016	27,079	-	89,694
Embedded derivatives	520	769	285	104	-	1,678
Investment securities available-for-sale	9	2	53	441	68	573
Investment securities held to maturity	426	-	137	25	-	588
Other financial assets	264	407	392	40	14	1,117
Total financial assets	**28,231**	**8,232**	**53,658**	**28,043**	**82**	**118,246**
Liabilities						
Due to the NBU	124	248	1,115	5,825	-	7,312
Due to other banks and other financing institutions	1,968	70	523	1,299	-	3,860
Customer accounts	24,688	17,418	42,539	1,876	-	86,521
Debt securities in issue	7	16	140	5,998	-	6,161
Other financial liabilities	453	9	3	67	-	532
Subordinated debt	2	41	-	1,336	-	1,379
Total financial liabilities	**27,242**	**17,802**	**44,320**	**16,401**	**-**	**105,765**
Net liquidity gap at 31 December 2010	**989**	**(9,570)**	**9,338**	**11,642**	**82**	**12,481**
Cumulative liquidity gap at 31 December 2010	**989**	**(8,581)**	**757**	**12,399**	**12,481**	
Credit related commitments, gross (Note 26)	**2,022**	**-**	**-**	**-**	**-**	**2,022**

24 Financial Risk Management (Continued)

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

In millions of Ukrainian hryvnias	**Demand and less than 1 month**	**From 1 to 3 months**	**From 3 to 12 months**	**Over 1 year**	**No stated maturity**	**Total**
Assets						
Cash and cash equivalents and mandatory reserves	11,455	-	-	-	-	11,455
Due from other banks	1,869	806	929	465	-	4,069
Loans and advances to customers	11,118	4,729	22,669	28,081	-	66,597
Embedded derivatives	574	336	1,005	90	-	2,005
Investment securities available-for-sale	-	-	-	-	8	8
Investment securities held to maturity	3	-	20	-	-	23
Other financial assets	386	306	1,063	38	8	1,801
Total financial assets	**25,405**	**6,177**	**25,686**	**28,674**	**16**	**85,958**
Liabilities						
Due to the NBU	-	-	998	7,312	-	8,310
Due to other banks and other financing institutions	371	234	42	1,672	-	2,319
Customer accounts	23,632	8,887	23,351	1,263	-	57,133
Debt securities in issue	11	689	435	4,977	-	6,112
Other financial liabilities	284	7	25	66	36	418
Subordinated debt	1	101	-	1,336	-	1,438
Total financial liabilities	**24,299**	**9,918**	**24,851**	**16,626**	**36**	**75,730**
Net liquidity gap at 31 December 2009	**1,106**	**(3,741)**	**835**	**12,048**	**(20)**	**10,228**
Cumulative liquidity gap at 31 December 2009	**1,106**	**(2,635)**	**(1,800)**	**10,248**	**10,228**	
Credit related commitments, gross (Note 26)	**1,653**	**-**	**-**	**-**	**-**	**1,653**

The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Group. It is unusual for banks ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Group and its exposure to changes in interest and exchange rates.

Management believes that in spite of a substantial portion of customer accounts being on demand, diversification of these deposits by number and type of depositors, and the past experience of the Group would indicate that these customer accounts provide a long-term and stable source of funding for the Group.

24 Financial Risk Management (Continued)

Liquidity requirements to support calls under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Group does not generally expect the third party to draw funds under the agreement. The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

25 Management of Capital

The Group's objectives when managing capital are (i) to comply with the capital requirements set by the National Bank of Ukraine, (ii) to safeguard the Group's ability to continue as a going concern and (iii) to maintain a sufficient capital base to achieve a capital adequacy ratio based on the Basel Accord of at least 8%. The Group considers total capital under management to be equity as shown in the consolidated statement of financial position. The amount of capital that the Group managed as of 31 December 2011 was UAH 19,185 million (2010: UAH 14,169 million; 2009: UAH 12,050 million). Compliance with capital adequacy ratios set by the National Bank of Ukraine is monitored monthly with reports outlining their calculation reviewed and signed by the Bank's Chairman and Chief Accountant. Other objectives of capital management are evaluated annually.

Under the current capital requirements set by the National Bank of Ukraine banks have to maintain a ratio of regulatory capital to risk weighted assets ("statutory capital ratio") above a prescribed minimum level. Regulatory capital is based on the Bank's reports prepared under Ukrainian accounting standards and comprises:

In millions of Ukrainian hryvnias	**2011**	**2010**	**2009**
Net assets unadjusted for accruals, provisions and taxes	15,402	11,395	8,390
Plus subordinated debt	1,198	1,194	1,210
Less investments into subsidiaries	(980)	(1,025)	(796)
Other	(2)	(2)	(2)
Total regulatory capital	**15,618**	**11,562**	**8,802**

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

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

Subordinated debt of Latvian subsidiary in the amount of UAH 117 million (2010: UAH 103 million; 2009: UAH 103 million) is not included within Tier 2 capital due to the absence of any limitations in accordance with Latvian legislation.

25 Management of Capital (Continued)

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

In November 2010 the Central bank of the Russian Federation issued to the Russian subsidiary of the Group a notice regarding non-compliance with capital ratio N1 as at 30 November 2010. This was caused by a change of calculation methodology and change of risk coefficients, used when weighting the loans, granted to the Cyprian branch of the Group from 20% to 150%. The Russian subsidiary was not in compliance with N1 ratio during November 2010 and the Central bank of Russian Federation introduced a limitation on the attraction of individual customer's funds for a period from 30 November 2010 to 30 May 2011. This limitation applies to the quantity of opened customer accounts that should not exceed the quantity as of 30 November 2010. In accordance with the Central Bank of the Russian Federation regulation, starting from 30 November 2010 calculation of capital ratio N1 is performed with an increased risk coefficient for the loans granted to the Cyprus branch of the Group (from 20% to 150%). As at 31 December 2010 the Russian subsidiary of the Group is in compliance with all limitations of the Central Bank of the Russian Federation. Starting from 15 December 2010 calculation of capital ratio N1 was changed in accordance with the Central Bank's requirements. On 25 May 2011 the Central Bank of the Russian Federation changed its order and abolished all limitations imposed.

26 Contingencies and Commitments

Legal proceedings. From time to time and in the normal course of business, claims against the Group are received. On the basis of its own estimates and both internal and external professional advice the Management is of the opinion that no material losses will be incurred in respect of claims.

Tax legislation. Ukrainian tax and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant authorities.

The Ukrainian tax authorities may be taking a more assertive and sophisticated approach in their interpretation of the legislation and tax examinations. Combined with a possible increase in tax collection efforts to respond to budget pressures, the above may lead to an increase in the level and frequency of scrutiny by the tax authorities and it is possible that transactions and activities that have not been challenged in the past may be challenged.

As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

Ukrainian transfer pricing legislation provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of all controllable transactions, provided that the transaction price differs from market price.

Controllable transactions include transactions with related parties, as determined under the Corporate Profit Tax (CPT) Law, whose definition is significantly different from IFRS, all transactions with non-residents (irrespective whether performed between related or unrelated parties) and transactions with non-standard CPT payers.

There is no formal guidance as to how these rules should be applied in practice. The procedure for assessing additional tax liabilities using transfer pricing rules requires the tax authorities to obtain a court decision approving the tax amount. It is not clear at the moment when (or if) new or more detailed transfer pricing regulations will be introduced. It is possible with the evolution of the interpretation of the transfer pricing rules in Ukraine and the changes in the approach of the Ukrainian tax authorities, that transfer prices could potentially be challenged. The impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the entity.

26 Contingencies and Commitments (Continued)

The Group includes companies incorporated outside of Ukraine. Tax liabilities of the Group are determined on the assumption that these companies are not subject to Ukrainian profits tax because they do not have a permanent establishment in Ukraine. Ukrainian tax laws do not provide detailed rules on taxation of foreign companies within a Ukrainian group. It is possible that with the evolution of the interpretation of these rules and the changes in the approach of the Ukrainian tax authorities, the non-taxable status of some or all of the foreign companies of the Group in Ukraine may be challenged. The impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the entity.

Ukrainian tax legislation does not provide definitive guidance in certain areas. From time to time, the Group adopts interpretations of such uncertain areas that reduce the overall tax rate of the Group. As noted above, such tax positions may come under heightened scrutiny. The impact of any challenge by the tax authorities cannot be reliably estimated; however, it may be significant to the financial condition and/or the overall operations of the entity.

Capital expenditure commitments. At 31 December 2011 the Group has contractual capital expenditure commitments in respect of construction of premises, purchase of computers, furniture and equipment totalling UAH 78 million (2010: UAH 44 million; 2009: UAH 17 million). The Group believes that future net income and funding will be sufficient to cover this and any similar such commitments.

Operating lease commitments. As of 31 December 2011, 2010 and 2009 the Group had no commitments under non-cancellable operating leases.

Compliance with covenants. The Group is subject to certain covenants related primarily to its foreign borrowings. In particular, the Bank is required to maintain certain level of share capital, a certain capital adequacy ratio, certain level of regulatory ratios. Non-compliance with such covenants may result in negative consequences for the Group including growth in the cost of borrowings and declaration of default. The Group was in compliance with covenants as of 31 December 2011, 2010 and 2009.

Credit related commitments. The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate or cash deposits and therefore carry less risk than a direct borrowing.

26 Contingencies and Commitments (Continued)

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments, if the unused amounts were to be drawn down. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group monitors the term to maturity of credit related commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments. Outstanding credit related commitments are as follows:

In millions of Ukrainian hryvnias	Note	2011	2010	2009
Guarantees issued		1,167	981	914
Import letters of credit		559	986	616
Irrevocable commitments to extend credit		84	55	123
Less: Cash covered letters of credit		(30)	(44)	(44)
Less: Provision for credit related commitments	15	(2)	(2)	(43)
Total credit related commitments		**1,778**	**1,976**	**1,566**

The total outstanding contractual amount of undrawn credit lines, letters of credit, and guarantees does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded. The fair value of credit related commitments was insignificant at 31 December 2011, 31 December 2010 and 31 December 2009.

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

Credit related commitments are denominated in currencies as follows:

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

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

Fiduciary assets. These assets are not included in the Group's consolidated statement of financial position as they are not assets of the Group. Nominal values disclosed below are normally different from the fair values of respective securities. The fiduciary assets held by the Group on behalf of its customers fall into the following categories:

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

26 Contingencies and Commitments (Continued)

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

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

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

Gross receivables under swap, forward and spot agreements presented above are recognised on a net basis in the consolidated statement of financial position, giving rise to a derivative financial asset or liability within other financial assets or other financial liabilities, respectively.

As disclosed in Note 8, balances due from other banks totalling UAH 499 million (2010: UAH 437 million; 2009: UAH 302 million) have been pledged as cover for letters of credit and international payments.

In addition, mandatory reserve balances in the amount of UAH 2,773 million (2010: UAH 1,775 million; 2009: UAH 1,141 million) represent mandatory reserve deposits which are not available to finance the Group's day to day operations as disclosed in Note 7.

27 Derivative Financial Instruments

Foreign exchange and other derivative financial instruments entered into by the Group are generally traded in an over-the-counter market with professional market counterparties on standardised contractual terms and conditions. Derivatives have potentially favourable (assets) or unfavourable (liabilities) conditions as a result of fluctuations in market interest rates, foreign exchange rates or other variables relative to their terms. The aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

The table below sets out fair values, at the end of the reporting period, of currencies receivable or payable under foreign exchange forward contracts entered into by the Group and presented within other financial assets and other financial liabilities. The table reflects gross positions before the netting of any counterparty positions (and payments) and covers the contracts with settlement dates after the respective end of the reporting period. The contracts are short term in nature.

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

At 31 December 2011, the Group had outstanding obligations from unsettled spot transactions with foreign currencies of UAH 18,805 million (2010: UAH 2,265 million; 2009: UAH 6,020 million). The net fair value of unsettled spot transactions is insignificant.

During the year ended 31 December 2011 the Group incurred gain of UAH 100 million (2010: a loss of UAH 45 million; 2009: a loss of UAH 36 million) resulting from foreign exchange spots, forwards and swaps that is accounted for in other gains less losses/(losses less gains) of the consolidated statement of comprehensive income.

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

28 Fair Value of Financial Instruments

(a) Fair values of financial instruments carried at amortised cost.

Fair values of financial instruments carried at cost or amortised cost are as follows:

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

28 Fair Value of Financial Instruments (Continued)

In millions of Ukrainian hryvnias	2011 Fair value	2011 Carrying value	2010 Fair value	2010 Carrying value	2009 Fair value	2009 Carrying value
FINANCIAL LIABILITIES						
Due to the NBU						
Due to the NBU	5,825	5,825	7,312	7,312	8,310	8,310
Due to other banks and other financing institutions						
Term placements of other banks	1,401	1,401	1,385	1,385	2,115	2,115
Long-term loans under the credit lines from other financing institutions	774	774	130	130	22	22
Correspondent accounts and overnight placements of other banks	268	268	2,341	2,341	181	181
Pledge deposits of other banks	10	10	4	4	1	1
Customer accounts						
Term deposits of individuals	66,793	66,536	52,922	52,635	32,035	32,035
Current/settlement accounts of other legal entities	15,559	15,559	10,965	10,965	8,108	8,108
Current/demand accounts of individuals	12,967	12,967	10,532	10,532	7,121	7,121
Term deposits of other legal entities	9,116	9,147	12,370	12,389	9,869	9,869
Debt securities in issue						
Eurobonds	4,425	4,785	4,952	4,999	2,856	3,757
Private placements of bonds	560	560	557	557	1,299	1,290
Mortgage bonds	254	254	477	477	745	745
Auto bonds	-	-	127	127	319	319
Promissory notes	1	1	1	1	1	1
Other financial liabilities						
Funds in the course of settlement	116	116	249	249	62	62
Liability for finance lease	107	107	67	67	110	110
Accounts payable	81	81	128	128	102	102
Other	94	94	67	67	125	125
Subordinated debt						
Subordinated debt	1,404	1,418	1,327	1,379	1,001	1,438
TOTAL FINANCIAL LIABILITIES, CARRIED AT COST OR AMORTISED COST	**119,755**	**119,903**	**105,913**	**105,744**	**74,382**	**75,711**

28 Fair Value of Financial Instruments (Continued)

(b) Analysis by fair value hierarchy of financial instruments carried at fair value.

For financial instruments carried at fair value, the level in the fair value hierarchy into which the fair values are categorised are as follows:

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

28 Fair Value of Financial Instruments (Continued)

(c) Reconciliation of movements in instruments belonging to the level 3 of the fair value hierarchy.

A reconciliation of movements in Level 3 of the fair value hierarchy of the financial derivatives for the year ended 31 December 2011, 2010 and 2009 is as follows:

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

Embedded derivatives are classified into level 3 instruments because these instruments require management to make assumptions about credit risk of the counterparty which are not supportable by observable market data.

The sensitivity to valuation assumptions is disclosed in the Note 4.

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by an active quoted market price. Where quoted market prices are not available, the Group used valuation techniques. Certain valuation techniques required assumptions that were not supported by observable market data. The total net fair value gain estimated using valuation techniques that was recognised in profit or loss amounts to UAH 262 million (2010: gain of UAH 179 million; 2009: gain of UAH 157 million). In addition, the Group recognised a loss on embedded derivative with expired underlying contracts of UAH 235 million (2010: loss of UAH 32 million; 2009: loss of UAH 29 million).

The fair value of floating rate instruments that are not quoted in an active market was estimated to be equal to their carrying amount. The fair value of unquoted fixed interest rate instruments was estimated based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity.

28 Fair Value of Financial Instruments (Continued)

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

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

29 Presentation of Financial Instruments by Measurement Category

For the purposes of measurement, IAS 39, *Financial Instruments: Recognition and Measurement,* classifies financial assets into the following categories: (a) loans and receivables; (b) available-for-sale financial assets; (c) financial assets held to maturity and (d) financial assets at fair value through profit or loss ("FVTPL"). Financial assets at fair value through profit or loss have two subcategories: (i) assets designated as such upon initial recognition, and (ii) those classified as held for trading. The following table provides a reconciliation of financial assets with these measurement categories as of 31 December 2011:

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

As of 31 December 2011 and 31 December 2010 all of the Group's financial liabilities except for derivatives were carried at amortised cost. Derivatives belong to the fair value through profit or loss measurement category.

29 Presentation of Financial Instruments by Measurement Category (Continued)

The following table provides a reconciliation of classes of financial assets with these measurement categories as of 31 December 2010:

In millions of Ukrainian hryvnias	Loans and receivables	Available-for-sale assets	Assets at FVTPL held for trading	Held to maturity	Total
ASSETS					
Cash and cash equivalents and mandatory reserves	19,266	-	-	-	19,266
Due from other banks					
Term placements with other banks	4,893	-	-	-	4,893
Guarantee deposits with other banks	437	-	-	-	437
Loans and advances to customers					
Corporate loans	70,422	-	-	-	70,422
Loans to individuals - cards	9,116	-	-	-	9,116
Loans to individuals - mortgage	4,142	-	-	-	4,142
Loans to individuals - auto	2,055	-	-	-	2,055
Loans to individuals - consumer	622	-	-	-	622
Loans to individuals - other	1,394	-	-	-	1,394
Loans to small and medium enterprises (SME)	1,943	-	-	-	1,943
Embedded derivatives	-	-	1,678	-	1,678
Investment securities available-for-sale					
Government bonds	-	449	-	-	449
Corporate bonds	-	29	-	-	29
Banking bonds	-	27	-	-	27
Unquoted shares	-	68	-	-	68
Investment securities held-to-maturity					
Government bonds	-	-	-	535	535
Corporate bonds	-	-	-	53	53
Other financial assets					
Embedded derivatives with expired underlying contracts	-	-	773	-	773
Plastic cards receivables	93	-	-	-	93
Receivables from operations with customers	73	-	-	-	73
Finance lease receivables	32	-	-	-	32
Trading securities and other financial assets at fair value through profit or loss	-	-	14	-	14
Financial derivatives arising from swap, forward and spot transactions	-	-	9	-	9
Other	123	-	-	-	123
TOTAL FINANCIAL ASSETS	**114,611**	**573**	**2,474**	**588**	**118,246**
NON-FINANCIAL ASSETS					**3,670**
TOTAL ASSETS					**121,916**

29 Presentation of Financial Instruments by Measurement Category (Continued)

The following table provides a reconciliation of classes of financial assets with these measurement categories as of 31 December 2009:

In millions of Ukrainian hryvnias	Loans and receivables	Available-for-sale assets	Assets at FVTPL held for trading	Held to maturity	Total
ASSETS					
Cash and cash equivalents and mandatory reserves	11,455	-	-	-	11,455
Due from other banks					
Term placements with other banks	3,767	-	-	-	3,767
Guarantee deposits with other banks	302	-	-	-	302
Loans and advances to customers					
Corporate loans	47,740	-	-	-	47,740
Loans to individuals - cards	6,579	-	-	-	6,579
Loans to individuals - mortgage	4,983	-	-	-	4,983
Loans to individuals - auto	3,072	-	-	-	3,072
Loans to individuals - consumer	364	-	-	-	364
Loans to individuals - other	1,213	-	-	-	1,213
Loans to small and medium enterprises (SME)	2,646	-	-	-	2,646
Embedded derivatives	-	-	2,005	-	2,005
Investment securities available-for-sale					
Unquoted shares	-	8	-	-	8
Investment securities held-to-maturity					
Government bonds	-	-	-	23	23
Other financial assets					
Embedded derivatives with expired underlying contracts	-	-	1,440	-	1,440
Plastic cards receivables	114	-	-	-	114
Receivables from operations with customers	108	-	-	-	108
Trading securities and other financial assets at fair value through profit or loss	-	-	18	-	18
Financial derivatives arising from swap, forward and spot transactions	-	-	1	-	1
Other	120	-	-	-	120
TOTAL FINANCIAL ASSETS	**82,463**	**8**	**3,464**	**23**	**85,958**
NON-FINANCIAL ASSETS					**3,731**
TOTAL ASSETS					**89,689**

As of 31 December 2011, 2010 and 2009 all of the Group’s financial liabilities except for derivatives were carried at amortised cost. Derivatives belong to the fair value through profit or loss measurement category.

30 Related Party Transactions

Parties are generally considered to be related if the parties are under common control or one party has the ability to control the other party or can exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

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

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

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

30 Related Party Transactions (Continued)

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

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

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

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

30 Related Party Transactions (Continued)

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

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

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

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

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

In addition, in 2010 majority shareholders of the Group offered the opportunity to purchase about 2 million shares of PrivatBank to key management personnel and other managers of the Group with a discount to the nominal value of shares for services provided by top managers to PrivatBank Group. No vesting conditions were in place. The fair value of share grant of UAH 500 million was recognised as a remuneration of top management of the Group for the services provided to the Group within the administrative and other operating expenses. The Group determined the fair value of shares as at the date of share grant using a valuation technique by estimating the price of these equity instruments that would have been set in an arm's length transaction between knowledgeable, willing parties. The significant inputs into the valuation technique were net assets of the Group and price / book value ratio of publicly traded banks adjusted for the factors and assumptions that knowledgeable, willing market participants would consider in setting the price. As at the date of share grant exercise price was about UAH 114 per share. Out of this amount, UAH 337 million relates to the key management personnel remuneration. As a result of this transaction management of the Group owns 9.99% of shares of PrivatBank.

31 Events After the End of the Reporting Period

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

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

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

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

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

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

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

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

Company Registration Number 6065720

UK SPV Credit Finance Plc

Directors' Report and Financial Statements

For the year ended 31 December 2011

UK SPV Credit Finance Plc

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Company information

The Board of Directors
Joint Corporate Services Limited
Praxis Mgt Limited
Tariq Husain (resigned 4 April 2011)
Roy Neil Arthur (appointed 4 April 2011)

Company Secretary
Joint Secretarial Services Limited

Registered Office
5th Floor
6 St Andrew Street
London EC4A 3AE

Independent Auditors
PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
7 More London, Riverside
London, SE1 2RT

Corporate Service Provider
TMF Management (UK) Limited
5th Floor
6 St Andrew Street
London EC4A 3AE

UK SPV Credit Finance Plc

Directors' report

The directors have pleasure in presenting their report and the audited financial statements of UK SPV Credit Finance Plc, (the "Company" or the "Issuer") for the year ended 31 December 2011.

Principal activities and review of business

The Company is a public limited company incorporated and domiciled in England and Wales. The Company is a special purpose entity established in order to issue fixed and floating rate notes, the proceeds from which are used to grant loans (each a "Loan" and together the "Loans") to Closed Joint Stock Company Commercial Bank "PrivatBank" (PrivatBank, the "Guarantor" or the "Borrower"), a bank organised and existing under the laws of Ukraine, as described in the Offering Circular dated 31 January 2007 (the "Offering Circular").

On 6 February 2007 the Company issued US$500,000,000 8.0% guaranteed fixed rate notes due 6 February 2012 (the "Initial Notes"). The Initial Notes are listed on the SWX Swiss Stock Exchange. On 24 September 2010 the Company issued US$200,000,000 9.375% guaranteed fixed rate notes due 23 September 2015 (the "Further Notes"). The Further Notes are listed on the London Stock Exchange. The Initial Notes and Further Notes together are the "Notes". The Notes issued by the Issuer are managed by UBS Investment Bank. On 6 February 2012 PrivatBank repaid to the Company the US$500,000,000 fixed rate notes. The Company repaid US$500,000,000 to the note holders on the same day.

Interest on the $500,000,000 Notes was paid semi-annually in February and August. The Company earns additional interest at the rate of 0.0048% per annum on the outstanding principal amount of the relevant Loan. Interest on the $200,000,000 Notes is payable semi-annually in arrears on 23 March and 23 September. The Company earns additional interest at the rate of 0.0048% per annum on the outstanding principal amount of the relevant Loan.

The Company's results for the year and its financial position at the end of the year are shown in the attached financial statements.

The key performance indicator ("KPI") of the Company is considered to be the net interest margin (net interest income divided by interest income). For 2011, the Company's net interest margin was 0.06% (2010: 0.06%).

Future developments

No significant change in the Company's business is expected in the foreseeable future.

Directors

The directors of the Company who were in office during the year and up to the date of signing the financial statements, were:

Joint Corporate Services Limited
Praxis Mgt Limited
Tariq Husain (resigned 4 April 2011)
Roy Neil Arthur (appointed 4 April 2011)

Directors' indemnities

As permitted by the Articles of Association, the Directors have the benefit of an indemnity which is a qualifying third party indemnity provision as defined by Section 234 of the Companies Act 2006. The indemnity was in force throughout the last financial year and is currently in force.

Company secretary

Joint Secretarial Services Limited

Directors' report *(continued)*

Principal risks and uncertainties

From the perspective of the Company, its principal risks and uncertainties are integral to the principal risks and uncertainties of PrivatBank and their management is undertaken by the management of PrivatBank. Accordingly, the principal risks and uncertainties of PrivatBank, which include those of the Company, are discussed in the Offering Circular, particularly the section Risk Factors and the financial statements of PrivatBank which are available at its website.

The Company's financial instruments comprise the Loans, cash and cash equivalents, and the Notes. The main risk arising from the Company's financial instruments is credit risk. Further information regarding the Company's financial risk management is given in note 11 to the financial statements.

Credit risk

The Company is subject to the risk of delays in receipt and risk of defaults on payments due from PrivatBank in respect of the Loans. The directors of the Company review information available to them including the latest financial information published by PrivatBank and make due enquiries of PrivatBank's management regarding the financial performance and position of PrivatBank and the business environment in which it operates in order to assess the credit risk related to the Loans.

Interest rate risk

Interest rate risk exists where assets and liabilities have interest rates set under a different basis or which reset at different times. The Company's exposure to interest rate risk is limited as the interest rate characteristics of its assets and liabilities are similar.

Liquidity risk

Liquidity risk is the risk that the Company may be unable to meet the payment obligations associated with its financial liabilities when they fall due. The Notes issued by the Company are guaranteed by PrivatBank and their repayment is entirely dependent on the repayment of the Loans.

Currency risk

All the Company's assets and liabilities are denominated in US dollars and therefore there is no significant foreign currency risk.

Going concern

The Company's business activities, together with the factors likely to affect its future development, performance and position and its principal uncertainties are set out above. The Notes issued by the Company are unconditionally and irrevocably guaranteed on a senior and unsecured basis by PrivatBank as to the payment of principal, interest and additional amounts, if any are payable under the Notes.

The directors have undertaken a review and concluded that the Company has adequate resources and suitable arrangements in place for it to be able to continue in operational existence for the foreseeable future. Therefore the directors consider it appropriate for the financial statements to be prepared on a going concern basis.

Creditor payment policy

The Company's policy concerning payment of its trade creditors is to pay in accordance with its contractual and other legal obligations. Due to the nature of the business, the main creditors are the noteholders. The Company does not follow any other code or standard on payment practice.

Directors' Report *(continued)*

Political and charitable donations

The Company made no political or charitable donations or incurred any political expenditure during the year.

Statement as to disclosure of information to auditors

In the case of each directors of the company at the date when this report was approved:

- so far as each of the directors is aware, there is no relevant audit information (as defined in the Companies Act 2006) of which the Company's auditors are unaware; and
- each of the directors has taken all the steps that he/she ought to have taken as a director to make himself/herself aware of any relevant audit information (as defined) and to establish that the Company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

For and on behalf of the board

Joint Corporate Services Limited
Director

Date: 28 June 2012

Praxis Mgt Limited
Director

Date: 28 June 2012

Statement of directors' responsibilities
for the year ended 31 December 2011

The directors are responsible for preparing the directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable International Financial Reporting Standards (IFRSs) as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

For and on behalf of the board

Joint Corporate Services Limited
Director

Date: 28 June 2012

Praxis Mgt Limited
Director

Date: 28 June 2012

Independent auditors' report to the members of UK SPV Credit Finance Plc

We have audited the financial statements of UK SPV Credit Finance Plc (the "Company") for the year ended 31 December 2011 which comprise the statement of comprehensive income, the statement of financial position, the statement of changes in equity, the statement of cash flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Respective responsibilities of directors and auditors

As explained more fully in the statement of directors responsibilities set out on page 6, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the directors' report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2011 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Peter Jeffrey

Peter Jeffrey (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
29 June 2012

Statement of comprehensive income

	Note	for the year ended 31 December 2011 US $	2010 US $
Interest income	4	58,783,602	45,060,823
Interest expense	5	(58,750,001)	(45,034,247)
Net interest income		33,601	26,576
Operating expenses	6	(2,807)	(1,159)
Profit before income tax		30,794	25,417
Income tax expense	7	(8,820)	(7,204)
Profit for the year		21,974	18,213
Total comprehensive income for the year		21,974	18,213

The results above arose wholly from continuing operations.

The accompanying notes on pages 12 to 17 are an integral part of these financial statements.

UK SPV Credit Finance Plc

Statement of financial position

Company Registration Number: 6065720

	Note	as at 31 December 2011 US $	2010 US $
Assets			
Loans to PrivatBank	8	**700,000,000**	**700,000,000**
Accrued interest receivable	8	**21,427,501**	**21,375,389**
Other receivables	8	**69,870**	**69,869**
Cash and cash equivalents		**184,142**	**98,111**
Total assets		721,681,513	721,543,369
Liabilities			
Notes	9	**700,000,000**	**700,000,000**
Accrued interest payable		**21,415,097**	**21,363,013**
Other payables		**70,375**	**7,830**
Current income tax liability		**8,513**	**6,973**
Total liabilities		721,493,985	721,377,816
Equity			
Share capital	10	**94,433**	**94,433**
Retained earnings		**93,095**	**71,120**
Total equity		187,528	165,553
Total equity and liabilities		721,681,513	721,543,369

The financial statements are approved and authorised for issue by the Board of Directors on 28 June 2012 and signed on its behalf by:

Joint Corporate Services Limited
Director

The accompanying notes on pages 12 to 17 are an integral part of these financial statements.

Statement of changes in equity

	Share capital US $	Retained earnings US $	Total US $
Balance as at 1 January 2010	94,433	52,908	147,341
Profit for the year	-	18,213	18,213
Balance as at 1 January 2011	**94,433**	**71,121**	**165,554**
Profit for the year	-	21,974	21,974
Balance as at 31 December 2011	**94,433**	**93,095**	**187,528**

The accompanying notes on pages 12 to 17 are an integral part of these financial statements.

Statement of cash flows

	for the year ended 31 December	
	2011	2010
	US $	US $
Cashflows from operating activities		
Profit before income tax	**30,794**	25,417
Adjustments for:		
Interest income	**(58,783,602)**	(45,060,823)
Interest expense	**58,750,001**	45,034,247
Increase (decrease) in trade and other payables	**64,059**	(3,289)
Corporation tax paid	**(8,820)**	(7,204)
Net cash used in operating activities	**52,430**	(11,652)
Investing activities		
Loans to Privatbank	**-**	200,000,000
Interest from loans to PrivatBank	**58,783,600**	40,024,000
Net cash used in investing activities	**58,783,600**	240,024,000
Financing activities		
Proceeds on issue of notes	**-**	(200,000,000)
Interest on notes paid	**(58,750,000)**	(40,000,000)
Net cash from financing activities	**(58,750,000)**	(240,000,000)
Net increase in cash and cash equivalents	**86,030**	12,348
Cash and cash equivalents at beginning of year	**98,111**	85,763
Cash and cash equivalents at 31 December	**184,142**	98,111

The accompanying notes on pages 12 to 17 are an integral part of these financial statements.

Notes to the financial statements
for the year ended 31 December 2011

1. GENERAL INFORMATION
UK SPV Credit Finance plc (the "Company") is a special purpose entity established in order to issue fixed and floating rate Notes (the "Notes"), the proceeds from which were used to grant loans to Closed Joint Stock Company Commercial Bank "PrivatBank" (PrivatBank, the "Guarantor" or the "Borrower"), a bank organised and existing under the laws of Ukraine, as described in the Offering Circular dated 31 January 2007 (the "Offering Circular"). The Offering Circular is available at the Company's registered office.

The Company is a public limited company incorporated and domiciled in England and Wales. The address of its registered office is given on page 2.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
The principal accounting policies applied in the preparation of these financial statement are set out below. These policies have been consistently applied to all the years presented unless otherwise stated.

Basis of preparation
The Company's financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRSs as adopted by the EU"), IFRIC Interpretations and the Companies Act 2006 applicable to companies reporting under IFRS. The financial statements have been prepared under the historical cost convention. As explained in the directors' report, the directors consider it appropriate for the financial statements to be prepared on a going concern basis.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The impairment of the loans to PrivatBank as explained in the directors' report and also below is considered an area where assumptions and estimates are significant to the financial statements and a higher degree of judgement and complexity are involved.

The Company mainly transacts in US$ and therefore, the US$ is its functional and presentational currency.

Standards affecting presentation and disclosure
The directors consider that there are no new or revised standards relevant to the Company which should be adopted and reported in the 2011 Financial Statements.

Early adoption of standards
At the date of authorisation of these financial statements, the following standards and interpretations were issued which have not been applied in these financial statements and were not yet effective (as at 1 January 2011):

- IFRS 9	Financial Instruments
- IFRS 10	Consolidated Financial Statements
- IFRS 11	Joint Arrangements
- IFRS 12	Disclosures of Interest in Other Entities
- IFRS 13	Fair Value Measurement
- IAS 19	Employee Benefits (Revised 2011)
- IAS 32 and IFRS 7	Offsetting Financial Assets and Financial Liabilities

The directors consider that adoption of the above amendments would not have a material impact on the Company's reported result.

Loans to PrivatBank
The loans to PrivatBank are initially recognised at fair value and subsequently measured at amortised cost using the effective interest rate method.

Appropriate allowances for estimated irrecoverable amounts are recognised in the statement of comprehensive income statement when there is objective evidence that the assets are impaired. The allowance is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows discounted at the applicable effective interest rate.

Notes to the financial statements
for the year ended 31 December 2011

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and cash equivalents
Cash and cash equivalents in the balance sheet comprise cash at bank.

Notes
The Notes are recognised initially at fair value being the principal issued less attributable transaction costs. Subsequent to initial recognition, the Notes are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement on an effective interest basis.

The Notes issued by the Company are unconditionally and irrevocably guaranteed on a senior and unsecured basis by PrivatBank as to the payment of principal, interest and additional amounts, if any. As a consequence, the directors believe that the Company is well placed to manage its business risks successfully despite the current uncertain economic outlook.

Interest income and expense
Interest income and expense is accounted for using the effective interest rate method. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability to that asset's or liability's net carrying amount.

Value added tax
Value added tax is not recoverable by the Company and is included with its related cost.

Income tax expense
Current tax is recognised at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the year end date. The Company is taxed under the Taxation of Securitisation Companies Regulations 2006.

Foreign currency
The transactions in foreign currency are recorded at the rate of exchange at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date. Non-monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at historical rates. These translation differences are dealt with in the income statement.

3. DIRECTORS AND EMPLOYEES
The directors received no emoluments for their services as directors to the Company during the current year (2010: $nil). The Company did not have any employees in the current year (2010: none).

4. INTEREST INCOME

	2011 US $	2010 US $
Interest on loan to PrivatBank	**58,783,602**	45,060,823

5. INTEREST EXPENSE
The interest expense relates to interest payable on the Notes.

6. OTHER OPERATING EXPENSES
The audit fee of $13,520 (2010: $17,956) for the audit of the Company's statutory financial statements is borne by PrivatBank.

Notes to the financial statements
for the year ended 31 December 2011

7. INCOME TAX EXPENSE
(a) Analysis of charge in the year

	2011 US $	2010 US $
Current tax:		
Current tax charge for the year	**8,820**	7,204
Income tax expense	**8,820**	7,204

(b) Reconciliation of effective tax rate
The charge for the year can be reconciled to the profit per the statement of comprehensive income as follows:

	2011 US $	2010 US $
Profit before tax	**30,794**	25,417
Add back: Penalty fees	**2,494**	-
	33,288	25,417
Tax at the UK corporation tax rate of 26.5% (2010:28%)	**8,820**	7,117
Securitisation Regulations	-	87
Income tax expense	**8,820**	7,204

The Finance Act 2005 provided that corporation tax for a 'securitisation company' within the meaning of the Act, would be calculated with reference to UK GAAP as applicable up to 31 December 2004, for accounting periods ending by 1 January 2008. Under the powers conferred by the Finance Act 2005, secondary legislation was enacted in November 2006 which ensures that, for periods commencing on or after 1 January 2007, corporation tax for a 'securitisation company' will be calculated by reference to the retained profit of the securitisation company.

The directors are satisfied that this Company meets the definition of a 'securitisation company' as defined by both The Finance Act 2005 and the subsequent secondary legislation and that no incremental unfunded tax liabilities will arise. The directors have elected that this Company be taxed by reference to the profit required to be retained in accordance with the applicable capital market arrangement.

As at 31 December 2011, there are no tax-related contingent assets or contingent liabilities in accordance with International Accounting Standard No. 37 'Provisions, Contingent Liabilities and Contingent Assets' (IAS37).

The standard rate of corporation tax in the United Kingdom changed from 28% to 26% with effect from 1 April 2011. Accordingly, the company's profit for this accounting period is taxed at a standard effective rate of 26.5%.

No timing differences have arisen during the period, which eliminated the need of producing the reconciliation note to the standard effective rate of corporation tax of 26.5% (2010: 28%).

During the year legislation was enacted to reduce the main rate of corporation tax from 26% to 25% with effect from 1 April 2012. The intention to reduce the UK corporation tax rate by a further 1% annually to 23% by 1 April 2014 has also been announced, this change has not yet been substantively enacted.

Notes to the financial statements
for the year ended 31 December 2011

8. LOANS, ACCRUED INTEREST INCOME AND OTHER RECEIVABLES

	As at 31 December 2011		As at 31 December 2010	
	Current	Non-current	Current	Non-current
	US $	US $	US $	US $
Loans to PrivatBank				
- Loan to PrivatBank due 2012	**500,000,000**	-	-	500,000,000
- Loan to PrivatBank due 2015	**-**	**200,000,000**	-	200,000,000
Accrued interest income	**21,427,501**	**-**	21,375,389	-
Amounts due from shareholders	**69,870**	**-**	69,869	-
	521,497,371	**200,000,000**	21,445,258	700,000,000

The loans to PrivatBank are intended to be used by PrivatBank for general banking purposes.

On 3 April 2009, PrivatBank repaid to the Company the $70,000,000 floating rate loan due 2013. The Company repaid $70,000,000 to the loan note holders on the same day. The $500,000,000 Loan outstanding at 31 December 2010 matured in February 2012 and bears a fixed interest rate of 8.0048% per annum. On 6 February 2012 PrivatBank repaid to the Company the US$500,000,000 fixed rate notes. The Company repaid US$500,000,000 to the note holders on the same day.

On 24 September 2010, PrivatBank borrowed another $200,000,000 fixed rate loan from the Company. The Loan matures in September 2015 and bears a fixed interest rate of 9.3798% per annum.

9. NOTES

As stated in the directors' report, the US$500,000,000 Notes outstanding at 31 December 2011 are listed on the Swiss Stock Exchange. The Notes mature in February 2012 and bear a fixed interest rate of 8.0% per annum. On 6 February 2012 PrivatBank repaid to the Company the US$500,000,000 fixed rate notes. The Company repaid US$500,000,000 to the note holders on the same day.

As stated in the directors' report, the notes issued on 24 September 2010 at US$200,000,000, are listed on the Swiss Stock Exchange, mature in September 2015 and bear a fixed interest rate of 9.375% per annum.

10. SHARE CAPITAL

	2011		2010	
	Number of shares	GBP	Number of shares	GBP
Authorised share capital				
Ordinary share capital of £1 each	**50,000**	**50,000**	50,000	50,000

	2011		2010	
	Number of shares	US $	Number of shares	US $
Issued, allotted and called up				
Ordinary share capital of £1 each	**50,000**	**94,433**	50,000	94,433

The entire issued share capital is held on trust by TMF Trustee Limited.

Notes to the financial statements
for the year ended 31 December 2011

11. FINANCIAL RISK MANAGEMENT
The Company's financial instruments comprise of the Loans to PrivatBank, cash and cash equivalents and the Notes.

Credit risk
The Company is subject to the risk of delays in receipt and risk of defaults on payments due from PrivatBank in respect of the Loans. The directors of the Company review information available to them including the latest financial information published by PrivatBank and make due enquiries of PrivatBank's management regarding the financial performance and position of PrivatBank and the business environment in which it operates in order to assess the credit risk related to the Loans to PrivatBank.

Liquidity risk
Liquidity risk is the risk that the Company may be unable to meet the payment obligations associated with its financial liabilities when they fall due. The Notes issued by the Company are guaranteed by PrivatBank.

Interest rate risk
Interest rate risk exists where assets and liabilities have interest rates set under a different basis or which reset at different times. The Company's exposure to interest rate risk is limited as the interest rate characteristics of its assets and liabilities are similar.

Currency risk
All the Company's assets and liabilities are denominated in US$ and therefore there is no significant foreign currency risk.

Capital risk management
The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern. The Company is not subject to any external capital requirements except for the minimum requirement under the Companies Act 2006. The Company has not breached the minimum requirement.

Fair values
The carrying amounts shown on the statement of financial position are considered a reasonable approximation of the fair value of all the Company's financial instruments except for the following:

	Carrying amount 2011 US $	Fair Value 2011 US $	Carrying amount 2010 US $	Fair Value 2010 US $
Loans to PrivatBank	**700,000,000**	**682,500,000**	700,000,000	682,500,000
Notes	**700,000,000**	**682,500,000**	700,000,000	682,500,000

Estimation of fair values
The fair value of the Notes is based on market prices. The fair value of the Loans is considered equal to the Notes fair value as the terms of the loan and Notes agreements match in all material respects.

12. RELATED PARTY TRANSACTIONS
The fees payable to the Company's directors for their services for the year ended on 31 December 2011 was $nil (2010: $nil). However, Praxis Mgt Limited, Joint Corporate Services Limited and TMF Trustee Limited (trustee of the shares in UK Credit Finance Limited) are subsidiaries of TMF Management (UK) Limited, which provides corporate services to the Company. Invoices issued by TMF Management (UK) Limited are paid for by PrivatBank, in accordance with the Offering Circular.

The Company has an outstanding receivable from UK Credit Finance Ltd as at 31 December 2011 of US $57,946 (31 December 2010: US $58,003).

Notes to the financial statements
for the year ended 31 December 2011

13. ULTIMATE CONTROLLING PARTY
UK SPV Credit Finance Plc is a company incorporated in Great Britain and registered in England and Wales.

49,999 shares in the company are held by UK Credit Finance Limited. TMF Trustee Limited, in its capacity as Trustee for the UK SPV Credit Finance Trust (a charitable trust established under the laws of England and Wales) holds the remaining one share in the company on behalf of UK Credit Finance Limited.

TMF Trustee Limited, in its capacity of Trustee for the UK SPV Credit Finance Trust, also holds the entire share capital of UK Credit Finance Limited.

The ultimate parent undertaking and controlling party is considered to be Closed Joint Stock Company Commercial Bank "PrivatBank", incorporated in Ukraine, which is the largest group whose published consolidated financial statements include the financial statements of the Company. The published financial statements of PrivatBank can be obtained from www.privatbank.ua/en.

Company Registration Number 6065720

UK SPV Credit Finance Plc

Directors' Report and Financial Statements

For the year ended 31 December 2010

UK SPV Credit Finance Plc

Contents

UK SPV Credit Finance Plc

Company information

The Board of Directors
Joint Corporate Services Limited
Praxis Mgt Limited
Tariq Husain (resigned 4 April 2011)
Roy Neil Arthur (appointed 4 April 2011)

Company Secretary
Joint Secretarial Services Limited

Registered Office
Pellipar House
1st Floor
9 Cloak Lane
London EC4R 2RU

Independent Auditors
PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
7 More London Riverside
London, SE1 2RT

Corporate Service Provider
TMF Management (UK) Limited
Pellipar House
1st Floor
9 Cloak Lane
London EC4R 2RU

UK SPV Credit Finance Plc

Directors' report

The directors have pleasure in presenting their report and the audited financial statements of UK SPV Credit Finance Plc, (the "Company" or the "Issuer") for the year ended 31 December 2010.

Principal activities and review of business

The Company is a public limited company incorporated and domiciled in England and Wales. The Company is a special purpose entity established in order to issue fixed rate notes, the proceeds from which were used to grant a loan (the "Loan") to Closed Joint Stock Company Commercial Bank "PrivatBank" (PrivatBank, the "Guarantor" or the "Borrower"), a bank organised and existing under the laws of Ukraine, as described in the Offering Circular dated 31 January 2007 (the "Offering Circular"). On 6 February 2007 the Company issued US$500,000,000 8.0% guaranteed fixed rate notes due 6 February 2012 (the "Notes"). On 3 April 2008 the Company issued further US$70,000,000 floating rate notes due 3 April 2013. The Notes issued by the Company are managed by UBS Investment Bank, and are listed on the SWX Swiss Stock Exchange. On 3 April 2009 Privatbank repaid to the Company the $70,000,000 floating rate loan due 2013. The Company repaid $70,000,000 to the note holders on the same day. On 24 September 2010 the Company issued US$200,000,000 9.375% guaranteed fixed rate notes due 23 September 2015 (the "Notes").

Interest on the $500,000,000 Notes is paid semi-annually in February and August. The Company earns additional interest at the rate of 0.0048% per annum on the outstanding principal amount of the Loan. Interest on the newly issued Notes at $200,000,000 is payable semi-annually in arrears in equal instalments on 23 March and 23 September in each. The Company earns additional interest at the rate of 0.0048% per annum on the outstanding principal amount of the Loan.

The Company's results for the year and its financial position at the end of the year are shown in the attached financial statements.

The key performance indicator ("KPI") of the Company is considered to be the net interest margin (net interest income divided by interest income). For 2010, the Company's net interest margin was 0.06% (2009: 0.06%).

Future developments

No significant change in the Company's business is expected in the foreseeable future.

Directors

The directors who served the Company during the year and up to the date of signing the financial statements, are as follows:

Joint Corporate Services Limited
Praxis Mgt Limited
Tariq Husain (resigned 4 April 2011)
Roy Neil Arthur (appointed 4 April 2011)

Company secretary

Joint Secretarial Services Limited

Directors' report *(continued)*

Principal risks and uncertainties

From the perspective of the Company, its principal risks and uncertainties are integral to the principal risks and uncertainties of PrivatBank and their management is undertaken by the management of PrivatBank. Accordingly, the principal risks and uncertainties of PrivatBank, which include those of the Company, are discussed in the Offering Circular, particularly the section Risk Factors and the financial statements of PrivatBank are available at its website.

The Company's financial instruments comprise the loan to PrivatBank, cash and cash equivalents, and the Notes. The main risk arising from the Company's financial instruments is credit risk. Further information regarding the Company's financial risk management is given in note 11 to the financial statements.

Credit risk

The Company is subject to the risk of delays in receipt and risk of defaults on payments due from PrivatBank in respect of the Loan. The directors of the Company review information available to them including the latest financial information published by PrivatBank and make due enquiries of PrivatBank's management regarding the financial performance and position of PrivatBank and the business environment in which it operates in order to assess the credit risk related to the Loan to PrivatBank.

Interest rate risk

Interest rate risk exists where assets and liabilities have interest rates set under a different basis or which reset at different times. The Company's exposure to interest rate risk is limited as the interest rate characteristics of its assets and liabilities are similar.

Liquidity risk

Liquidity risk is the risk that the Company may be unable to meet the payment obligations associated with its financial liabilities when they fall due. The Notes issued by the Company are guaranteed by PrivatBank and their repayment is entirely dependent on the repayment of the Loan to PrivatBank.

Currency risk

All the Company's assets and liabilities are denominated in USD and therefore there is no significant foreign currency risk.

Going concern

The Company's business activities, together with the factors likely to affect its future development, performance and position and its principal uncertainties are set out above. The Notes issued by the Company are unconditionally and irrevocably guaranteed on a senior and unsecured basis by PrivatBank as to the payment of principal, interest and additional amounts, if any are payable under the Notes.

The directors have undertaken a review and concluded that the Company has adequate resources and suitable arrangements in place for it to be able to continue in operational existence for the foreseeable future. Therefore the directors consider appropriate for the financial statements to be prepared on a going concern basis.

Creditor payment policy

The Company's policy concerning payment of its trade creditors is to pay in accordance with its contractual and other legal obligations. Due to the nature of the business, the main creditors are the noteholders. The Company does not follow any other code or standard on payment practice.

Directors' Report *(continued)*

Political and charitable donations

The Company made no political or charitable donations or incurred any political expenditure during the year.

Statement as to disclosure of information to auditors

In the case of each directors of the company at the date when this report was approved:

- so far as each of the directors is aware, there is no relevant audit information (as defined in the Companies Act 2006) of which the Company's auditors are unaware; and
- each of the directors has taken all the steps that he/she ought to have taken as a director to make himself/herself aware of any relevant audit information (as defined) and to establish that the Company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

For and on behalf of

Joint Corporate Services Limited
Director

Date: 30/6/11

Praxis Mgt Limited
Director

Date: 30/6/11

UK SPV Credit Finance Plc

Statement of directors' responsibilities
for the year ended 31 December 2010

The directors are responsible for preparing the directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable International Financial Reporting Standards (IFRSs) as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

For and on behalf of

Joint Corporate Services Limited
Director

Date: 30/6/11

Praxis Mgt Limited
Director

Date: 30/6/11

Independent auditors' report to the members of UK SPV Credit Finance Plc

We have audited the financial statements of UK SPV Credit Finance Plc for the year ended 31 December 2010 which comprise the statement of comprehensive income, the statement of financial position, the statement of changes in equity, the statement of cash flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Respective responsibilities of directors and auditors

As explained more fully in the statement of directors' responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2010 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Peter Jeffrey

Peter Jeffrey (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
30 June 2011

UK SPV Credit Finance Plc

Statement of comprehensive income

	Note	for the year ended 31 December 2010 US $	2009 US $
Interest income	4	**45,060,823**	41,696,361
Interest expense	5	**(45,034,247)**	(41,671,380)
Net interest income		**26,576**	24,981
Operating expenses	6	**(1,159)**	(683)
Profit before income tax		**25,417**	24,298
Income tax expense	7	**(7,204)**	(6,298)
Profit for the year		**18,213**	18,000
Total comprehensive income for the year		**18,213**	18,000

The results above arose wholly from continuing operations.

The accompanying notes on pages 12 to 16 are an integral part of these financial statements.

UK SPV Credit Finance Plc

Statement of financial position

Company Registration Number: 6065720

	Note	as at 31 December 2010 US $	2009 US $
Assets			
Loans to PrivatBank	8	**700,000,000**	500,000,000
Accrued interest receivable	8	**21,375,389**	16,338,566
Other receivables	8	**69,869**	69,869
Cash and cash equivalents		**98,111**	85,763
Total assets		**721,543,369**	516,494,198
Liabilities			
Notes	9	**700,000,000**	500,000,000
Accrued interest payable		**21,363,013**	16,328,766
Other payables		**7,830**	11,287
Current income tax liability		**6,973**	6,804
Total liabilities		**721,377,816**	516,346,857
Equity			
Share capital	10	**94,433**	94,433
Retained earnings		**71,120**	52,908
Total equity		**165,553**	147,341
Total equity and liabilities		**721,543,369**	516,494,198

The financial statements are approved and authorised for issue by the Board of Directors on 30 June 2011 and signed on its behalf by:

Joint Corporate Services Limited
Director

The accompanying notes on pages 12 to 16 are an integral part of these financial statements.

Statement of changes in equity

	Share capital US $	Retained earnings US $	Total US $
Balance as at 1 January 2009	94,433	34,908	129,341
Profit for the year	-	18,000	18,000
Balance as at 1 January 2010	**94,433**	**52,908**	**147,341**
Profit for the year	-	18,213	18,213
Balance as at 31 December 2010	**94,433**	**71,121**	**165,554**

The accompanying notes on pages 12 to 16 are an integral part of these financial statements.

Statement of cash flows

	for the year ended 31 December 2010 US $	2009 US $
Cashflows from operating activities		
Profit before income tax	**25,417**	24,298
Adjustments for:		
Interest income	**(45,060,823)**	(41,696,361)
Interest expense	**45,034,247**	41,671,380
Increase (decrease) in trade and other payables	**(3,289)**	3,588
Corporation tax paid	**(7,204)**	(6,895)
Net cash used in operating activities	**(11,652)**	(3,990)
Investing activities		
Loan to Privatbank	**200,000,000**	-
Repayment of loan to Privatbank	**-**	70,000,000
Bank interest received	**-**	-
Interest from loan to PrivatBank	**40,024,000**	43,363,805
Set-up costs paid out to various trade and other payables	**-**	(8,154)
Net cash used in investing activities	**240,024,000**	113,355,651
Financing activities		
Proceeds on issue of notes	**(200,000,000)**	-
Repayment of notes	**-**	(70,000,000)
Interest on notes paid	**(40,000,000)**	(43,338,125)
Net cash from financing activities	**(240,000,000)**	(113,338,125)
Net increase in cash and cash equivalents	**12,348**	13,536
Cash and cash equivalents at beginning of year	**85,763**	72,227
Cash and cash equivalents at 31 December	**98,111**	85,763

The accompanying notes on pages 12 to 16 are an integral part of these financial statements.

Notes to the financial statements
for the year ended 31 December 2010

1. GENERAL INFORMATION
UK SPV Credit Finance plc (the "Company") is a special purpose entity established in order to issue fixed and floating rate Notes (the "Notes"), the proceeds from which were used to grant a loan to Closed Joint Stock Company Commercial Bank "PrivatBank" (PrivatBank, the "Guarantor" or the "Borrower"), a bank organised and existing under the laws of Ukraine, as described in the Offering Circular dated 31 January 2007 (the "Offering Circular"). The Offering Circular is available at the Company's registered office.

The Company is a public limited company incorporated and domiciled in England and Wales. The address of its registered office is given on page 2.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
The principal accounting policies applied in the preparation of these financial statement are set out below. These policies have been consistently applied to all the years presented unless otherwise stated.

Basis of preparation
The Company's financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRSs as adopted by the EU"), IFRIC Interpretations and the Companies Act 2006 applicable to companies reporting under IFRS. The financial statements have been prepared under the historical cost convention. As explained in the directors' report, the directors consider it appropriate for the financial statements to be prepared on a going concern basis.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The impairment of the loan to PrivatBank as explained in the directors' report and also below is considered an area where assumptions and estimates are significant to the financial statements and a higher degree of judgement and complexity are involved.

Standards affecting presentation and disclosure
The directors consider that there are no new and revised standards relevant to the Company which should be adopted and reported in the 2010 Financial Statements.

Early adoption of standards
The directors consider that there are no standards relevant to the Company which should be adopted early.

Loan to PrivatBank
The loan to PrivatBank is initially recognised at fair value and subsequently measured at amortised cost using the effective interest rate method.

Appropriate allowances for estimated irrecoverable amounts are recognised in the statement of comprehensive income statement when there is objective evidence that the asset is impaired. The allowance is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows discounted at the applicable effective interest rate.

Cash and cash equivalents
Cash and cash equivalents in the balance sheet comprise cash at bank.

Interest-bearing Notes
Interest-bearing loans are recognised initially at fair value being the principal issued less attributable transaction costs. Subsequent to initial recognition, interest-bearing loans are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the year of the borrowings on an effective interest basis.

The loan Notes issued by the Company are unconditionally and irrevocably guaranteed on a senior and unsecured basis by PrivatBank as to the payment of principal, interest and additional amounts, if any payable under the Notes. As a consequence, the directors believe that the Company is well placed to manage its business risks successfully despite the current uncertain economic outlook.

Notes to the financial statements
for the year ended 31 December 2010

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Interest income and expense
Interest income and expense is accounted for using the effective interest rate method. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability to that asset's or liability's net carrying amount.

Value added tax
Value added tax is not recoverable by the Company and is included with its related cost.

Income tax expense
Current tax is recognised at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the year end date. The Company is taxed under the Taxation of Securitisation Companies Regulations 2006.

Foreign currency
The transactions in foreign currency are recorded at the rate of exchange at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date. Non-monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at historical rates. These translation differences are dealt with in the income statement.

3. DIRECTORS AND EMPLOYEES
The directors received no emoluments for their services as directors to the Company during the current year (2009: $nil). The Company did not have any employees in the current year (2009: none).

4. INTEREST INCOME

	2010 US $	2009 US $
Interest on loan to PrivatBank	**45,060,823**	41,696,361
Interest on cash and cash equivalents	**-**	-
	45,060,823	41,696,361

5. INTEREST EXPENSE
The interest expense relates to interest payable on the Notes.

6. OTHER OPERATING EXPENSES
The audit fee of $17,956 (2009: $35,042) for the audit of the Company's statutory financial statements is borne by PrivatBank.

7. INCOME TAX EXPENSE
(a) Analysis of charge in the year

	2010 US $	2009 US $
Current tax:		
Current tax charge for the year	**7,204**	6,804
Adjustment to prior year tax charge	**-**	(506)
Income tax expense	**7,204**	6,298

Notes to the financial statements
for the year ended 31 December 2010

7. INCOME TAX EXPENSE (continued)

(b) Reconciliation of effective tax rate

The charge for the year can be reconciled to the profit per the statement of comprehensive income as follows:

	2010 US $	2009 US $
Profit before tax	**25,417**	24,298
Tax at the UK corporation tax rate of 28% (2009:28%)	**7,117**	6,804
Securitisation Regulations	**87**	-
Adjustment to prior year tax charge	**-**	(506)
Income tax expense	**7,204**	6,298

The Finance Act 2005 provided that corporation tax for a 'securitisation company' within the meaning of the Act, would be calculated with reference to UK GAAP as applicable up to 31 December 2004, for accounting periods ending by 1 January 2008. Under the powers conferred by the Finance Act 2005, secondary legislation was enacted in November 2006 which ensures that, for periods commencing on or after 1 January 2007, corporation tax for a 'securitisation company' will be calculated by reference to the retained profit of the securitisation company.

The directors are satisfied that this Company meets the definition of a 'securitisation company' as defined by both The Finance Act 2005 and the subsequent secondary legislation and that no incremental unfunded tax liabilities will arise. The directors have elected that this Company be taxed by reference to the profit required to be retained in accordance with the applicable capital market arrangement.

As at 31 December 2010, there are no tax-related contingent assets or contingent liabilities in accordance with International Accounting Standard No. 37 'Provisions, Contingent Liabilities and Contingent Assets' (IAS37).

8. LOANS, ACCRUED INTEREST INCOME AND OTHER RECEIVABLES

	As at 31 December 2010		As at 31 December 2009	
	Current US $	Non-current US $	Current US $	Non-current US $
Loans to PrivatBank				
- Loan to PrivatBank due 2012	**-**	**500,000,000**	-	500,000,000
- Loan to PrivatBank due 2015	**-**	**200,000,000**	-	-
Accrued interest income	**21,375,389**	**-**	16,338,566	-
Amounts due from shareholders	**69,869**	**-**	69,869	-
	21,445,258	**700,000,000**	16,408,435	500,000,000

The loans to PrivatBank are intended to be used by PrivatBank for general banking purposes.

On 3 April 2009, PrivatBank repaid to the Company the $70,000,000 floating rate loan due 2013. The Company repaid $70,000,000 to the loan note holders on the same day. The $500,000,000 Loan outstanding at 31 December 2010 matures in February 2012 and bears a fixed interest rate of 8.0048% per annum.

On 24 September 2010, PrivatBank borrowed another $200,000,000 fixed rate loan from the Company. The Loan matures in September 2015 and bears a fixed interest rate of 9.3798% per annum.

Notes to the financial statements
for the year ended 31 December 2010

9. NOTES

As stated in the directors' report, the US$500,000,000 Notes outstanding at 31 December 2010 are listed on the Swiss Stock Exchange. The Notes mature in February 2012 and bear a fixed interest rate of 8.0% per annum.

As stated in the directors' report, the notes issued on 24 September 2010 at US$200,000,000, are listed on the Swiss Stock Exchange, mature in September 2015 and bear a fixed interest rate of 9.375% per annum.

10. SHARE CAPITAL

	2010		2009	
	Number of shares	GBP	Number of shares	GBP
Authorised share capital				
Ordinary share capital of £1 each	50,000	50,000	50,000	50,000

	2010		2009	
	Number of shares	US $	Number of shares	US $
Issued, allotted and called up				
Ordinary share capital of £1 each	50,000	94,433	50,000	94,433

The entire issued share capital is held on trust by TMF Trustee Limited.

11. FINANCIAL RISK MANAGEMENT
The Company's financial instruments comprise a Loans to PrivatBank, cash and cash equivalents and the Notes.

Credit risk
The Company is subject to the risk of delays in receipt and risk of defaults on payments due from PrivatBank in respect of the Loan. The directors of the Company review information available to them including the latest financial information published by PrivatBank and make due enquiries of PrivatBank's management regarding the financial performance and position of PrivatBank and the business environment in which it operates in order to assess the credit risk related to the Loan to PrivatBank.

Liquidity risk
Liquidity risk is the risk that the Company may be unable to meet the payment obligations associated with its financial liabilities when they fall due. The Notes issued by the Company are guaranteed by PrivatBank.

Interest rate risk
Interest rate risk exists where assets and liabilities have interest rates set under a different basis or which reset at different times. The Company's exposure to interest rate risk is limited as the interest rate characteristics of its assets and liabilities are similar.

Currency risk
All the Company's assets and liabilities are denominated in US$ and therefore there is no significant foreign currency risk.

Capital risk management
The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern. The Company is not subject to any external capital requirements except for the minimum requirement under the Companies Act 2006. The Company has not breached the minimum requirement.

An analysis of the undiscounted contractual cash flows of the financial liabilities is as follows:

Notes to the financial statements
for the year ended 31 December 2010

11. FINANCIAL RISK MANAGEMENT (continued)

Fair values

The carrying amounts shown on the statement of financial position are considered a reasonable approximation of the fair value of all the Company's financial instruments except for the following:

	Carrying amount 2010 US $	Fair Value 2010 US $	Carrying amount 2009 US $	Fair Value 2009 US $
Loans to PrivatBank	**700,000,000**	**682,500,000**	500,000,000	402,875,000
Notes	**700,000,000**	**682,500,000**	500,000,000	402,875,000

Estimation of fair values

The fair value of the Notes is based on market prices. The fair value of the Loans facility is considered equal to the Notes fair value as the terms of the loan and Notes agreements match in all material respects.

12. RELATED PARTY TRANSACTIONS

The Company is a special-purpose company controlled by its Board of Directors, which comprises of three Directors: Praxis Mgt Limited, Joint Corporate Services Limited and Roy Neil Arthur. The fees payable to these directors for their services for the year ended on 31 December 2010 was $nil (2009: $nil). However, Praxis Mgt Limited, Joint Corporate Services Limited and TMF Trustee Limited (trustee of the shares in UK Credit Finance Limited) are subsidiaries of TMF Management (UK) Limited, which provides corporate services to the Company. Invoices issued by TMF Management (UK) Limited are paid for by PrivatBank, in accordance with the Offering Circular.

13. ULTIMATE CONTROLLING PARTY

UK SPV Credit Finance Plc is a company incorporated in Great Britain and registered in England and Wales.

49,999 shares in the company are held by UK Credit Finance Limited. TMF Trustee Limited, in its capacity as Trustee for the UK SPV Credit Finance Trust (a charitable trust established under the laws of England and Wales) holds the remaining one share in the company.

TMF Trustee Limited, in its capacity of Trustee for the UK SPV Credit Finance Trust, also holds the entire share capital of UK Credit Finance Limited.

The ultimate parent undertaking and controlling party is considered to be Closed Joint Stock Company Commercial Bank "PrivatBank", incorporated in Ukraine, which is the largest group whose published consolidated financial statements include the financial statements of the Company. The published financial statements of PrivatBank can be obtained from www.privatbank.ua/en.

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