

OJSC “Kreditprombank”
Financial Statements

Year ended 31 December 2008

Together with Independent Auditors’ Report

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INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS AND THE SUPERVISORY BOARD OF OPEN JOINT STOCK COMPANY "KREDITPROMBANK"

We have audited the accompanying financial statements of Open Joint Stock Company "Kreditprombank", which comprise the balance sheet as at 31 December 2008, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2008, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young Audit Services LLC

18 February 2010

Balance sheet**As of 31 December 2008***(Thousands of Ukrainian hryvnia)*

	Notes	2008	2007
Assets			
Cash and cash equivalents	6	1,259,216	2,098,018
Amounts due from credit institutions	7	19,484	63,292
Loans to customers	9	11,170,094	8,404,631
Available-for-sale investment securities	10	925,593	792,047
Property and equipment	11	278,266	254,070
Current tax asset	12	4,335	3,598
Other assets	14	37,047	33,261
Total assets		13,694,035	11,648,917
Liabilities			
Amounts due to the National Bank of Ukraine	15	863,504	91,373
Amounts due to credit institutions	16	4,700,042	4,457,260
Amounts due to customers	17	5,282,205	4,145,638
Debt securities issued	18	1,299,862	1,616,475
Deferred tax liabilities	12	4,114	45,380
Subordinated debt	19	236,303	154,977
Other liabilities	14	44,083	24,340
Total liabilities		12,430,113	10,535,443
Equity			
	20		
Share capital		1,377,200	877,200
Share premium		1,632	1,632
Revaluation reserve		87,174	76,741
(Accumulated deficit)/Retained earnings		(202,084)	157,901
Total equity		1,263,922	1,113,474
Total equity and liabilities		13,694,035	11,648,917

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

V.D. Leonidov

Chairman



M. I. Meteyko

Chief Financial Office



16 February 2010

The accompanying notes on pages 5 to 44 are an integral part of these financial statements.

Income statement**For the year ended 31 December 2008***(Thousands of Ukrainian hryvnia)*

	<i>Notes</i>	2008	2007
Interest income			
Loans to customers		1,506,786	942,172
Available-for-sale investment securities		127,503	51,154
Amounts due from credit institutions		43,611	42,835
		1,677,900	1,036,161
Interest expense			
Amounts due to customers		(604,301)	(374,730)
Amounts due to credit institutions		(294,174)	(218,908)
Debt securities issued		(174,127)	(87,848)
Amounts due to the National Bank of Ukraine		(29,714)	(7,965)
Subordinated debt		(14,800)	(8,855)
		(1,117,116)	(698,306)
Net interest income			
Allowance for loan impairment	9	(779,224)	(47,459)
Net interest income after allowance for loan impairment		(218,440)	290,396
Non-interest income			
Net fee and commission income	22	89,881	56,332
Net gains from available-for-sale investment securities	23	(22,474)	19,810
Net gains/(losses) from foreign currencies and precious metals:			
- dealing		83,834	24,065
- translation differences		79,602	(6,049)
Other income		14,036	6,925
Non-interest income		244,879	101,083
Non-interest expense			
Personnel expenses	24	(206,231)	(144,146)
Depreciation	11	(48,083)	(33,336)
Other administrative and operating expenses	24	(178,398)	(136,910)
Other impairment and provisions	13	(99)	(296)
Non-interest expense		(432,811)	(314,688)
Loss / Profit before income tax expense			
		(406,372)	76,791
Income tax benefit/(expense)	12	40,999	(21,170)
(Loss)/ Profit for the year		(365,373)	55,621

The accompanying notes on pages 5 to 44 are an integral part of these financial statements.

Statement of Changes in Equity**For the year ended 31 December 2008***(Thousands of Ukrainian hryvnia)*

	Share capital	Share premium	(Accumulated deficit)/ Retained earnings	Revaluation reserve	Total equity
31 December 2006	677,200	1,632	98,859	60,342	838,033
Loss on available-for-sale investment securities, net of tax			-	(456)	(456)
Realised gains on investment securities available-for-sale reclassified to the income statement, net of tax			-	(1,074)	(1,074)
Revaluation of property, net of tax			-	21,350	21,350
Depreciation of revaluation reserve, net of tax			3,421	(3,421)	-
Total income for the year recognised directly in equity			3,421	16,399	19,820
Profit for the year			55,621		55,621
Total income for the year			59,042	16,399	75,441
Issue of share capital (Note 20)	200,000				200,000
31 December 2007	877,200	1,632	157,901	76,741	1,113,474
Loss on available-for-sale investment securities, net of tax			-	(3,419)	(3,419)
Realised gains on investment securities available-for-sale reclassified to the income statement, net of tax			-	456	456
Revaluation of property, net of tax			-	18,784	18,784
Depreciation of revaluation reserve, net of tax			5,388	(5,388)	-
Total income for the year recognised directly in equity			5,388	10,433	15,821
Loss for the year			(365,373)		(365,373)
Total loss for the year			(359,985)	10,433	(349,582)
Issue of share capital (Note 20)	500,000				500,000
31 December 2008	1,377,200	1,632	(202,084)	87,174	1,263,922

The accompanying notes on pages 5 to 44 are an integral part of these financial statements.

CASH FLOW STATEMENT*(Thousands of Ukrainian hryvnia)*

	<i>Notes</i>	2008	2007
Cash flows from operating activities			
Interest received		1,500,368	1,002,317
Interest paid		(1,093,308)	(699,508)
Fees and commissions received		103,554	95,702
Fees and commissions paid		(13,965)	(11,675)
Dealing in foreign currencies		92,844	24,038
Other operating income		13,299	6,925
Personnel expenses		(202,266)	(138,393)
Other administrative and operating expenses		(177,146)	(135,654)
Net cash generated from operating activities before changes in operating assets and liabilities		223,380	143,752
<i>Net (increase)/ decrease in operating assets</i>			
Amounts due from credit institutions		82,406	335,858
Loans to customers		(899,803)	(3,743,239)
Other assets		15,590	17,013
<i>Net increase/ (decrease) in operating liabilities</i>			
Amounts due to credit institutions		(380,214)	1,574,007
Amounts due to customers		252,685	944,480
Other liabilities		(59,409)	(1,023)
Net cash used in operating activities before income taxes		(765,365)	(729,152)
Corporate income tax paid		(6,278)	(17,093)
Net cash used in operating activities		(771,643)	(746,245)
Cash flows from investing activities			
Purchase of available-for-sale investment securities		(3,182,614)	(612,214)
Proceeds from sale of available-for-sale investment securities		2,940,990	19,837
Proceeds from sale of property and equipment		3,175	764
Acquisition of property and equipment		(49,672)	(85,801)
Net cash used in investing activities		(288,121)	(677,414)
Cash flows from financing activities			
Proceeds (repayment) from debt securities issued		-	1,504,575
Repayment of debt securities issued		(317,122)	-
Issue of share capital		500,000	200,000
Proceeds from subordinate debt		-	151,500
Net cash generated from financing activities		182,878	1,856,075
Effect of exchange rates changes on cash and cash equivalents		38,084	19,303
Net increase in cash and cash equivalents		(838,802)	451,719
Cash and cash equivalents, beginning of the year	6	2,098,018	1,646,299
Cash and cash equivalents, end of the year	6	1,259,216	2,098,018

The accompanying notes on pages 5 to 44 are an integral part of these financial statements.

(Thousands of Ukrainian hryvnia, unless otherwise indicated)

1. Principal activities

Open Joint-Stock company “Kreditprombank” (the “Bank”) was initially founded under the name of Inkombank Ukraine and was registered by the National Bank of Ukraine (“NBU”) on 20 May 1997. On 14 September 1999, due to changes in ownership of the Bank, the Bank changed its name to Kreditprombank.

The Bank’s principal business activity is corporate and retail banking operations within Ukraine.

The Bank’s head office is located in Kyiv. As at 31 December 2008, the Bank had 12 branches and 182 operating outlets (2007: 12 branches and 170 operating outlets) throughout Ukraine. The Bank’s registered legal address is 38, Druzhby Narodiv Ave., Kyiv, Ukraine

The Bank is ultimately controlled by Mr. Konstantinos Papounidis.

2. Basis of preparation

General

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

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

These financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies below. For example, available-for-sale investment securities and buildings have been measured at fair value.

These financial statements are presented in thousands of Ukrainian hryvnia (“UAH”) unless otherwise indicated.

Inflation accounting

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

3. Summary of significant accounting policies

Changes in accounting policies

During the year, the Bank has adopted the following new and amended IFRS. Adoption of these standards did not have any effect on the financial performance or position of the Bank.

The principal effects of these changes are as follows:

IFRIC 11 “IFRS 2 - Group and Treasury Share Transactions”

IFRIC Interpretation 11 became effective for annual periods beginning on or after 1 March 2007 and requires arrangements whereby an employee is granted rights to an entity’s equity instruments to be accounted for as an equity-settled scheme, even if the entity buys the instruments from another party, or the shareholders provide the equity instruments needed. This Interpretation has no impact on the Bank.

IFRIC 12 “Service Concession Arrangements”

IFRIC Interpretation 12 was issued in November 2006 and became effective for annual periods beginning on or after 1 January 2008. This Interpretation applies to service concession operators and explains how to account for the obligations undertaken and rights received in service concession arrangements. This Interpretation has no impact on the Bank.

(Thousands of Ukrainian hryvnia, unless otherwise indicated)

IFRIC 14 “LAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction”

IFRIC Interpretation 14 was issued in July 2007 and became effective for annual periods beginning on or after 1 January 2008. This Interpretation provides guidance on how to assess the limit on the amount of surplus in a defined benefit scheme that can be recognized as an asset under IAS 19 Employee Benefits. This Interpretation has no impact on the financial position or performance of the Bank.

Reclassification of Financial Assets – Amendments to IAS 39 “Financial instruments: Recognition and measurement” and IFRS 7 “Financial instruments: Disclosures”

Amendments to IAS 39 and IFRS 7 were issued on 13 October 2008 and allow reclassification of non-derivative financial assets out of the held for trading category in particular circumstances. The amendments also allow transfer of certain financial assets from the available for sale category to loans and receivables category. The effective date of those amendments is 1 July 2008. Any reclassification made in periods beginning on or after 1 November 2008 shall take effect only from the date when the reclassification is made. The Bank did not reclassify any financial assets from held for trading or available-for-sale categories and hence these amendments did not have any impact on the financial position or performance of the Bank.

Financial assets

Initial recognition

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

Date of recognition

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

Loans and receivables

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

Available-for-sale financial assets

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

Determination of fair value

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

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

Offsetting

Financial assets and liabilities are offset and the net amount is reported in the balance sheet when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise the

(Thousands of Ukrainian hryvnia, unless otherwise indicated)

asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the balance sheet.

Reclassification of financial assets

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

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

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, amounts due from the NBU, and amounts due from credit institutions that mature within ninety days of the date of origination and are free from contractual encumbrances.

Precious metals

Gold and other precious metals are recorded at the NBU bid prices, which approximate fair values and are quoted at a discount to London Bullion Market rates. Changes in the NBU bid prices are recorded as translation differences in net gains/loss from foreign currencies and precious metals.

Repurchase and reverse repurchase agreements and securities lending

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

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

Derivative financial instruments

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

Promissory notes

Promissory notes purchased are included in available-for-sale investment securities, or in amounts due from credit institutions or in loans to customers, depending on their substance and are accounted for in accordance with the accounting policies for these categories of assets.

Borrowings

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

(Thousands of Ukrainian hryvnia, unless otherwise indicated)

Gains and losses are recognised in the income statement when the borrowings are derecognised as well as through the amortisation process.

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

Leases

i. Operating – Bank as lessee

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

ii. Operating – Bank as lessor

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

Impairment of financial assets

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

Amounts due from credit institutions and loans to customers

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

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

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

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

(Thousands of Ukrainian hryvnia, unless otherwise indicated)

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

Available-for-sale investment securities

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

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

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

Renegotiated loans

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original or current effective interest rate.

Asset management

The Bank acts as an asset manager for a number of construction financing funds. The Bank acts as an agent in such arrangements and its responsibility is limited to fiduciary duties, which are commonly applied in the asset management business. Accordingly, the Bank does not recognise liabilities relating to the funds under management, but assesses the need to recognise any provisions related to additional guarantees issued by the Bank with respect to the activities of such funds. Funds under management are not legal entities under the laws of Ukraine. The management of fund activity is effectively delegated to the Bank. The funds keep their current accounts in the Bank to the extent to which the funds are not invested in eligible assets, which meet the investment profile for the fund.

Derecognition of financial assets and liabilities

Financial assets

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

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

Where the Bank has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Bank's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee

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over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

Financial liabilities

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

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

Financial guarantees

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

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

Taxation

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

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

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

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

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

Property and equipment

Equipment is carried at cost or restated cost (for assets acquired prior to 31 December 2000), excluding the costs of day-to-day servicing, less accumulated depreciation and any accumulated impairment.

The carrying values of equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

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

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

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An annual transfer from the revaluation reserve to retained earnings is made for the difference between depreciation based on the revalued carrying amount of the assets and depreciation based on the assets' original cost. Additionally, accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

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

	<u>Years</u>
Buildings	20
Furniture and equipment	2-5
Computers	4
Motor vehicles	4-5

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

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

Provisions

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

Retirement and other benefit obligations

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

Share capital

Ordinary shares classified as equity. Any excess of the fair value of consideration received over the par value of shares issued is recognised as share premium. Share capital contributions received before 31 December 2000 are recognised at restated cost following the application of IAS 29 “Financial Reporting in Hyperinflationary Economies”.

Segment reporting

A segment is a distinguishable component of the Bank that is engaged in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. Segment income, segment expenses and segment performance include transfers between business segments and between geographical segments.

Contingencies

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

(Thousands of Ukrainian hryvnia, unless otherwise indicated)

Recognition of income and expense

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

Interest and similar income and expense

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

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

Fee and commission income

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

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

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

- Fee income from providing transaction services

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

Foreign currency translation

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

Differences between the contractual exchange rate of a transaction in a foreign currency and the NBU exchange rate on the date of the transaction are included in net gains/(losses) from dealing in foreign currencies. The official NBU exchange rates at 31 December 2008 and 2007, were UAH 7.7 and UAH 5.05 to 1 US dollar and UAH 10.85546 and UAH 7.41946 to 1 euro, respectively. As at 16 February 2010, the exchange rate of the Ukrainian hryvnia as established by NBU was UAH 8.002 to 1 US dollar and UAH 10.888 to 1 euro.

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Future changes in accounting policies

Standards and interpretations issued but not yet effective

Improvements to IFRS

In May 2008, the IASB issued amendments to IFRS, which resulted from the IASB’s annual improvements project. They comprise amendments that result in accounting changes for presentation, recognition or measurement purposes as well as terminology or editorial amendments related to a variety of individual IFRS standards. Most of the amendments are effective for annual periods beginning on or after January 1, 2009, with earlier application permitted. The Bank is currently evaluating the potential impact that the adoption of the amendments will have on its financial statements.

In April 2009 the IASB issued the second omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. Most of the amendments are effective for annual periods beginning on or after 1 January 2010. There are separate transitional provisions for each standard. Amendments included in April 2009 “Improvements to IFRS” will have no impact on the accounting policies, financial position or performance of the Bank, except the following amendments resulting in changes to accounting policies, as described below.

- IFRS 5 Non-current Assets Held for Sale and Discontinued Operations: clarifies that the disclosures required in respect of non-current assets and disposal groups classified as held for sale or discontinued operations are only those set out in IFRS 5. The disclosure requirements of other IFRSs only apply if specifically required for such non-current assets or discontinued operations. The Bank expects that this amendment will have no impact on the Bank’s financial statements.
- IFRS 8 Operating Segment Information: clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker. As the Bank’s chief operating decision maker does review segment assets and liabilities, the Bank will continue to disclose this information.
- IAS 7 Statement of Cash Flows: Explicitly states that only expenditure that results in recognising an asset can be classified as a cash flow from investing activities.
- IAS 36 Impairment of Assets: The amendment clarifies that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in IFRS 8 before aggregation for reporting purposes. The amendment will have no impact on the Bank’s financial statements.

IAS 1 Presentation of Financial Statements (Revised)

A revised IAS 1 was issued in September 2007, and becomes effective for annual periods beginning on or after 1 January 2009. This revised Standard separates owner and non-owner changes in equity. The statement of changes in equity will include only details of transactions with owners, with non-owner changes in equity presented as a single line. In addition, the Standard introduces the statement of comprehensive income: it presents all items of recognised income and expense, either in one single statement, or in two linked statements. The Bank decided to have two statements. .

IAS 23 “Borrowing Costs”(Revised)

A revised IAS 23 Borrowing costs was issued in March 2007, and becomes effective for financial years beginning on or after 1 January 2009. The standard has been revised to require capitalisation of borrowing costs when such costs relate to a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. In accordance with the transitional requirements in the Standard, the Bank will adopt this as a prospective change. Accordingly, borrowing costs will be capitalised on qualifying assets with a commencement date after 1 January 2009. No changes will be made for borrowing costs incurred to this date that have been expensed.

IAS 24 “Related party disclosures” (Revised)

The revised IAS 24, issued in November 2009, simplifies the disclosure requirements for government-related entities and clarifies the definition of a related party. Previously, an entity controlled or significantly influenced by a government was required to disclose information about all transactions with other entities controlled or significantly influenced by the same government. The revised standard requires disclosure about these transactions only if they are individually or collectively significant. The revised IAS 24 is effective for annual periods beginning on or after 1 January 2011, with earlier application permitted. The amendment will have no impact on the Bank’s financial statements.

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Amendments to IAS 32 “Financial Instruments: Presentation” and IAS 1 “Presentation of Financial Statements” – Puttable Financial Instruments and Obligations Arising on Liquidation

These amendments were issued in February 2008, and become effective for annual periods beginning on or after 1 January 2009. The amendments require puttable instruments that represent a residual interest in an entity to be classified as equity, provided they satisfy certain conditions. These amendments will have no impact on the Bank.

Amendments to IAS 32 “Financial Instruments: Presentation”: Classification of Rights Issues”

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

Amendment to IAS 39 “Financial Instruments: recognition and measurement ” - Eligible Hedged Items.

The amendment to IAS 39 was issued in August 2008, and becomes effective for annual periods beginning on or after 1 July 2009. The amendment addresses the designation of a one-sided risk in a hedged item, and designation of inflation as a hedged risk or portion in particular situations. It clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as hedged item. Management does not expect the amendment to IAS 39 to affect the Bank’s financial statements as the Bank has not entered into any such hedges.

Amendments to IFRS 1 “First-time Adoption of IFRSs” and IAS 27 “Consolidated and Separate Financial Statements” - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate

These amendments were issued in May 2008, and become effective for annual periods beginning on or after 1 January 2009. The revision to IAS 27 will have to be applied prospectively. The amendments to IFRS 1 allow an entity to determine the cost of investments in a subsidiary, jointly controlled entity or associate in its opening IFRS financial statements in accordance with IAS 27 or using a deemed cost. The amendment to IAS 27 requires all dividends from a subsidiary, jointly controlled entity or associate to be recognized in the income statement in the separate financial statements. The new requirements affect only the parent’s separate financial statements and do not have an impact on the consolidated financial statements.

Amendments to IFRS 2 “Share-based Payment”- Vesting Conditions and Cancellations

Amendment to IFRS 2 were issued in January 2008 and become effective for annual periods beginning on or after 1 January 2009. This amendment clarifies the definition of vesting conditions and prescribes the accounting treatment of an award that is effectively cancelled because a non-vesting condition is not satisfied. This amendment will have no impact on the financial position or performance of the Bank .

Amendments to IFRS 2 “Share-based Payment”- Group Cash-settled Share-based Payment Transactions

The amendment to IFRS 2 was issued in June 2009 and become effective for financial years beginning on or after 1 January 2010. The amendment clarifies the scope and the accounting for group cash-settled share-based payment transactions. This amendment also supersedes IFRIC 8 and IFRIC 11. This amendment will have no impact on the Bank’s financial statements.

IFRS 3 “Business Combinations” (revised in January 2008) and IAS 27 “Consolidated and Separate Financial Statements” (revised in January 2008).

The revised standards were issued in January 2008 and become effective for financial years beginning on or after 1 July 2009. Revised IFRS 3 introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results. Revised IAS 27 requires that a change in the ownership interest of a subsidiary is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give raise to a gain or loss. Furthermore, the revised standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes introduced by the revised Standards must be applied prospectively and will affect only future acquisitions and transactions with minority interests.

IFRS 7 “Financial Instruments: Disclosures”

The amendments to IFRS 7 were issued in March 2009, to enhance fair value and liquidity disclosures. With respect to fair value, the amendments require disclosure of a three-level fair value hierarchy, by class, for all financial instruments recognised at fair value and specific disclosures related to the transfers between levels in the hierarchy and detailed disclosures related to level 3 of the fair value hierarchy. In addition, the amendments modify the required liquidity disclosures with respect to derivative transactions and assets used for liquidity management. The Bank will make appropriate disclosures in its financial statements as at 31 December 2009.

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IFRS 8 “Operating Segments”

IFRS 8 becomes effective for annual periods beginning on or after 1 January 2009. This Standard requires disclosure of information about the Bank’s operating segments and replaces the requirement to determine primary (business) and secondary (geographical) reporting segments of the Bank. Adoption of this Standard will not have any impact on the financial position or performance of the Bank. The Bank determined that the operating segments would be the same as the business segments previously identified under IAS 14 “Segment Reporting”.

IFRS 9 “Financial Instruments”

In November 2009 the IASB issued the first phase of IFRS 9 Financial instruments. This Standard will eventually replace IAS 39 Financial Instrument: Recognition and Measurement. IFRS 9 becomes effective for financial years beginning on or after 1 January 2013. Entities may adopt the first phase for reporting periods ending on or after 31 December 2009. The first phase of IFRS 9 introduces new requirements on classification and measurement of financial assets. In particular, for subsequent measurement all financial assets are to be classified at amortised cost or at fair value through profit or loss with the irrevocable option for equity instruments not held for trading to be measured at fair value through other comprehensive income. The Bank now evaluates the impact of the adoption of new Standard and considers the initial application date.

IFRIC 13 “Customer Loyalty Programmes”

IFRIC Interpretation 13 was issued in June 2007 and becomes effective for annual periods beginning on or after 1 July 2008. This Interpretation requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted and therefore part of the fair value of the consideration received is allocated to the award credits and deferred over the period that the award credits are fulfilled. The Bank expects that this interpretation will have no impact on the Bank’s financial statements as no such schemes currently exist.

IFRIC 15 “Agreements for the Construction of Real Estate”

IFRIC Interpretation 15 was issued in July 2008 and is applicable retrospectively for annual periods beginning on or after 1 January 2009. IFRIC 15 clarifies when and how revenue and related expenses from the sale of a real estate unit should be recognized if an agreement between a developer and a buyer is reached before the construction of the real estate is completed. The interpretation also provides guidance on how to determine whether an agreement is within the scope of IAS 11 “Construction Contracts” or IAS 18 “Revenue” and supersedes the current guidance for real estate in the Appendix to IAS 18. The Bank expects that this interpretation will have no impact on the Bank’s financial statements.

IFRIC 16 “Hedges of a Net Investment in a Foreign Operation”

IFRIC Interpretation 16 was issued in July 2008 and is applicable for annual periods beginning on or after 1 October 2008. This Interpretation provides guidance on identifying the foreign currency risks that qualify for hedge accounting in the hedge of net investment, where within the group the hedging instrument can be held and how an entity should determine the amount of foreign currency gain or loss, relating to both the net investment and the hedging instrument, to be recycled on disposal of the net investment. The Bank expects that this interpretation will have no impact on the Bank’s financial statements.

IFRIC 17 “Distribution of Non-Cash Assets to Owners”

IFRIC Interpretation 17 was issued on 27 November 2008 and is effective for annual periods beginning on or after 1 July 2009. IFRIC 17 applies to pro rata distributions of non-cash assets except for common control transactions and requires that a dividend payable should be recognised when the dividend is appropriately authorised and is no longer at the discretion of the entity; an entity should measure the dividend payable at the fair value of the net assets to be distributed; an entity should recognise the difference between the dividend paid and the carrying amount of the net assets distributed in profit or loss. The Interpretation also requires an entity to provide additional disclosures if the net assets being held for distribution to owners meet the definition of a discontinued operation. The Bank expects that his interpretation will have no impact on the Bank’s financial statements.

IFRIC 18 “Transfers of Assets from Customers”

IFRIC 18 was issued in January 2009 and becomes effective for financial years beginning on or after 1 July 2009 with early application permitted, provided valuations were obtained at the date those transfers occurred. This interpretation should be applied prospectively. IFRIC 18 provides guidance on accounting for agreements in which an entity receives from a customer an item of property, plant and equipment that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services or to do both. The interpretation clarifies the circumstances, in which the definition of an asset is met, the recognition of the asset and its measurement on initial recognition, the identification of the separately identifiable services, the recognition of revenue and the accounting for transfers of cash from customers. IFRIC 18 will have no impact on the financial position or performance of the Bank, as the Bank does not receive assets from customers.

Amendments to IFRIC 9 “Reassessment of Embedded Derivatives”

The amendments require entities to assess whether to separate an embedded derivative from a host contract in the case where the entity reclassifies a hybrid financial asset out of the fair value through profit or loss category. This

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assessment is to be made based on circumstances that existed on the later of the date the entity first became a party to the contract and the date of any contract amendments that significantly change the cash flows of the contract. The amendments are applicable for annual periods ending on or after 30 June 2009. The Bank expects that his amendment will have no impact on the Bank's financial statements.

4. Significant accounting judgements and estimates

Judgements

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

Classification of securities

Securities owned by the Bank comprise Ukrainian State and corporate bonds, promissory notes and corporate shares. Upon initial recognition, the Bank designates all securities as available-for-sale financial assets with recognition of changes in fair value through equity.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Fair value of financial instruments

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

Allowance for impairment of loans and receivables

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

Fair value of premises

As stated in Note 3, the premises of the Bank are subject to revaluation on a regular basis. Such revaluations are based on the results of work of independent valuers. The basis for their work is the sales comparison approach which is further confirmed by the income capitalisation approach. When performing the revaluation certain judgements and estimates are applied by the valuers in determination of the comparison of premises to be used in the sales comparison approach, the useful life of the assets revalued, the capitalisation rate to be applied for the income capitalisation approach.

Related party transactions

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

Deferred tax asset recognition

As at 31 December 2008, the Bank has recognised a deferred tax net asset of UAH 67,282 thousand (2007: UAH 16,536 thousand). The Bank's management believes that within a reasonable period the Bank will have sufficient taxable profit that will enable it to utilise its deferred tax benefit.

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5. Segment information

The primary segment reporting format is determined to be business segments as the Bank’s risks and rates of return are affected predominantly by differences in the products and services produced. Secondary information is not reported geographically due to the fact that the Bank operates solely in Ukraine, which is the primary location of the Bank’s assets and location of its clients. The operating businesses are organised and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets.

For management purposes, the Bank is organised into four business segments:

Retail banking overdrafts,	Principally handling individual customers’ deposits, and providing consumer loans, credit cards facilities and funds transfer facilities.
Corporate banking	Principally handling loans and other credit facilities and deposit and current accounts for corporate and institutional customers.
Financial institutions	Principally handling loans and deposits to financial institutions.
Other/Unallocated	Other central functions which are not identified as a separate business segments.

Primary segment information – business segments

The following table presents income and profit and certain asset and liability information regarding the Bank’s business segments for the year ended 31 December 2008:

	<i>Retail banking</i>	<i>Corporate banking</i>	<i>Financial institutions</i>	<i>Other/ Unallocated</i>	<i>Total</i>
External income					
Interest income	532,083	686,771	268,204	190,842	1,677,900
Interest expense	(366,903)	(481,568)	(189,435)	(79,210)	(1,117,116)
Net interest income	165,179	205,204	78,770	111,631	560,784
Allowance for loan impairment	(477,709)	(301,515)			(779,224)
Net interest income after allowance for loan impairment	(312,530)	(96,311)	78,770	111,631	(218,440)
Net fee and commission income	31,112	63,285	(4,503)	(13)	89,881
Other non-interest income	21,124	11,901	9,443	143,214	185,683
Non-interest expense	(105,927)	(41,316)	(11,313)	(304,940)	(463,496)
Segment results	(366,221)	(62,441)	72,397	(50,107)	(406,372)
Income tax expense					40,999
Profit for the year					(365,373)
Assets and liabilities					
Segment assets	3,379,449	7,790,645	1,534,931	989,010	13,694,035
Total assets					13,694,035
Segment liabilities	(3,697,481)	(1,584,724)	(5,471,354)	(1,676,554)	(12,430,113)
Total liabilities					(12,430,113)

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The following table presents income and profit and certain asset and liability information regarding the Bank's business segments for the year ended 31 December 2007:

	<i>Retail banking</i>	<i>Corporate banking</i>	<i>Financial institutions</i>	<i>Other/ Unallocated</i>	<i>Total</i>
External income					
Interest income	277,810	664,363	42,835	51,153	1,036,161
Interest expense	(251,315)	(223,505)	(123,038)	(100,448)	(698,306)
Net interest income	26,495	440,858	(80,203)	(49,295)	337,855
Allowance for loan impairment	(22,251)	(25,208)	-	-	(47,459)
Net interest income after allowance for loan impairment	4,244	415,650	(80,203)	(49,295)	290,396
Net fee and commission income	20,485	42,452	(5,033)	(1,572)	56,332
Other non-interest income	12,298	7,763	3,352	21,338	44,751
Non-interest expense	(103,066)	(40,008)	(3,043)	(168,571)	(314,688)
Segment results	(66,039)	425,856	(84,927)	(198,099)	76,791
Income tax expense					(21,170)
Profit for the year					55,621
Assets and liabilities					
Segment assets	2,705,316	5,699,315	2,317,896	926,390	11,648,917
Total assets					11,648,917
Segment liabilities	(1,205,589)	(2,875,688)	(3,438,094)	(3,016,072)	(10,535,443)
Total liabilities					(10,535,443)

6. Cash and cash equivalents

Cash and cash equivalents comprise:

	2008	2007
Cash on hand	169,103	275,045
Current account with the National Bank of Ukraine	67,493	151,889
Current accounts with other credit institutions	601,369	691,180
Time deposits with credit institutions up to 90 days	421,251	979,904
Cash and cash equivalents	1,259,216	2,098,018

The current account with the National Bank of Ukraine represents amounts deposited with the NBU relating to daily settlements and other activities. The Bank is also required to maintain, in the form of a non-interest earning cash deposit, certain cash reserves with the NBU (obligatory reserve), which are computed as a percentage of certain of the Bank's liabilities less cash on hand and other eligible balances. There are no restrictions on the withdrawal of funds from the NBU, however, if minimum average reserve requirements are not met, the Bank could be subject to certain penalties. The Bank was obligated to and maintained the minimal cumulative average reserve calculated on a daily basis over a monthly period. The average daily requirement for the period from 1 to 31 December 2008 was UAH 145,370 thousand (2007: UAH 189,087 thousand). The Bank met the NBU obligatory reserve requirements as at 31 December 2008 and 2007.

As at 31 December 2008 UAH 80,850 thousand on the Bank's current account with the NBU are subject to a conditional write-off in case of any breach of the loan contract with an Ukrainian bank due to the fault of the Bank.

As at 31 December 2008, current accounts and time deposits up to 90 days with other credit institutions include UAH 406,390 thousand (2007: UAH 987,980 thousand) placed with a number of Ukrainian banks. The Bank

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simultaneously received UAH 406,279 thousand (2007: UAH 1,001,302 thousand) on current accounts from the same Ukrainian banks (Note 16), which are not subject to off-set.

As at 31 December 2008, current accounts and time deposits up to 90 days with other credit institutions include UAH 528,965 thousand (2007: UAH 111,388 thousand) placed with a number of Ukrainian banks. The Bank has received loans amounting to UAH 529,060 thousand (2007: UAH 45,450 thousand) from the same Ukrainian banks (Note 16), which are not subject to off-set.

7. Amounts due from credit institutions

Amounts due from credit institutions comprise:

	<u>2008</u>	<u>2007</u>
Guarantee deposits	19,484	23,548
Reverse repurchase agreements for more than 90 days	-	39,744
Amounts due from credit institutions	<u>19,484</u>	<u>63,292</u>

As at 31 December 2008, guarantee deposits were placed mainly in respect of customers' transactions, such as letters of credit, performance guarantees and card transactions.

8. Derivative financial instrument

	<u>2008</u>		<u>2007</u>			
	<i>Notional principal</i>	<i>Fair values</i>	<i>Notional principal</i>	<i>Fair value</i>		
		<i>Asset</i>	<i>Liability</i>		<i>Asset</i>	<i>Liability</i>
Foreign exchange contracts						
Forwards – foreign	154,000		6,772	106,865	1,761	
Swaps – domestic	298,144		2,238	804,682	2,094	
Total derivative assets/liabilities		<u>-</u>	<u>9,010</u>		<u>3,855</u>	<u>-</u>

As at 31 December 2008, the Bank has positions in the following types of derivatives:

Forwards

Forwards contracts are contractual agreements to buy or sell a specified financial instrument at a specific price and date in the future. Forwards are customised contracts transacted in the over-the-counter market.

Swaps

Swaps are contractual agreements between two parties to exchange movements in foreign currency rates. Management believes that offsetting loans with the same counterparty bank nominated in different currencies are, in substance, equivalent to a currency swap. These transactions have been recorded on a net basis as derivative financial instruments rather than amounts due to/from credit institutions.

9. Loans to customers

Loans to customers comprise:

	<u>2008</u>	<u>2007</u>
Corporate customers	8,477,862	5,841,697
Retail customers	3,792,440	2,774,623
Gross loans to customers	<u>12,270,302</u>	<u>8,616,320</u>
Less – Allowance for impairment	(1,100,208)	(211,689)
Loans to customers	<u>11,170,094</u>	<u>8,404,631</u>

(Thousands of Ukrainian hryvnia, unless otherwise indicated)

Allowance for impairment of loans to customers

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

	<i>Corporate customers</i>	<i>Retail customers</i>	<i>Total</i>
At 1 January 2008	142,382	69,307	211,689
Charge for the year	477,709	301,515	779,224
Amounts written off	(7,968)	(2,960)	(10,928)
Exchange differences	75,093	45,130	120,223
At 31 December 2008	687,216	412,992	1,100,208
Individual impairment	622,020	291,493	913,513
Collective impairment	65,196	121,499	186,695
	687,216	412,992	1,100,208
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	3,858,649	814,552	4,673,201
	119,866	47,673	167,539
At 1 January 2007	119,866	47,673	167,539
Charge for the year	25,208	22,251	47,459
Amounts written off	(1,992)	(275)	(2,267)
Exchange differences	(700)	(342)	(1,042)
At 31 December 2007	142,382	69,307	211,689
Individual impairment	109,127	14,611	123,738
Collective impairment	33,255	54,696	87,951
	142,382	69,307	211,689
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	1,053,630	14,611	1,068,241

Interest income accrued on loans, for which individual impairment allowances have been recognised, as at 31 December 2008, comprised UAH 87,913 thousand (2007: UAH 14,108 thousand).

Collateral and other credit enhancements

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

The main types of collateral obtained are as follows:

- For corporate lending, charges over real estate properties, equipment and other facilities, inventory and trade receivables,
- For retail lending, mortgages over residential properties and motor vehicles.

The Bank monitors the market value of collateral and matches it against the market value taking into account changes in market conditions.

(Thousands of Ukrainian hryvnia, unless otherwise indicated)

Concentration of loans to customers

As at 31 December 2008, the Bank had a concentration of loans represented by UAH 2,378,635 thousand due from the ten biggest third party borrowers (22% of gross loan portfolio) (2007: UAH 1,366,379 thousand or 16%). An allowance of UAH 128,677 thousand (2007: UAH 25,885 thousand) was made against these loans.

As at 31 December 2008, loans to customers of UAH 872,639 thousand (2007: UAH 286,065 thousand) were placed as collateral under loan agreements with the NBU and credit institutions (Note 15, 16).

Loans have been extended to the following types of customers:

	<u>2008</u>	<u>2007</u>
Private companies	8,273,644	5,638,703
State companies	204,218	202,994
Individuals	3,792,440	2,774,623
Loans to customers	<u>12,270,302</u>	<u>8,616,320</u>

Loans are made principally within Ukraine to the following product categories for retail customers and industry sectors for corporate customers:

	<u>2008</u>	<u>2007</u>
Mortgage loans	2,198,507	1,569,496
Consumer loans	611,796	398,373
Car loans	587,012	528,175
Micro loans	395,125	278,579
Retail customers	<u>3,792,440</u>	<u>2,774,623</u>
Construction	1,700,363	1,364,238
Trade	1,449,908	1,068,273
Engineering	1,352,605	667,944
Metallurgy	1,249,026	629,922
Food industry	978,741	970,702
Services	760,233	484,829
Production of energetic, non-energetic, chemical and oil materials	442,622	166,918
Agricultural	320,947	295,446
Other	223,417	193,425
Corporate customers	<u>8,477,862</u>	<u>5,841,697</u>
Loans to customers	<u>12,270,302</u>	<u>8,616,320</u>

10. Available-for-sale investment securities

	<u>2008</u>	<u>2007</u>
State bonds	35,635	623
Corporate bonds	807,143	552,956
Corporate shares	82,815	75,111
Promissory notes	-	163,357
Available-for-sale investment securities	<u>925,593</u>	<u>792,047</u>

Available-for-sale investment securities were re-measured by the Bank to their fair value as at 31 December 2008, which was determined by reference to quoted market bid prices or valuation technique based on observable market data. As a result, a fair value loss in the amount of UAH 4,558 thousand net of tax of UAH 1,140 thousand was recognised as a separate component of equity (2007: loss in the amount of UAH 608 thousand net of tax of UAH 152 thousand).

(Thousands of Ukrainian hryvnia, unless otherwise indicated)

11. Property and equipment

The movements of property and equipment were as follows:

	<i>Buildings and property</i>	<i>Computers</i>	<i>Furniture and equipment</i>	<i>Motor vehicles</i>	<i>Construc- tion in progress</i>	<i>Total</i>
Cost or revalued amount						
31 December 2007	190,321	64,314	35,930	13,236	11,919	315,720
Revaluation	17,269	-	-	-	-	17,269
Additions	4,762	14,988	10,742	2,768	16,412	49,672
Disposals	(1,914)	(573)	(356)	(1,783)	(534)	(5,160)
Transfers	25,409	-	-	-	(25,409)	-
31 December 2008	235,847	78,729	46,316	14,221	2,388	377,501
Accumulated depreciation						
31 December 2007	10,971	28,915	17,417	4,347		61,650
Revaluation	(8,190)	-	-	-		(8,190)
Charge for the year	22,731	14,549	8,206	2,597		48,083
Disposals	(151)	(562)	(320)	(1,275)		(2,308)
31 December 2008	25,361	42,902	25,303	5,669		99,235
Net book value:						
31 December 2007	179,350	35,399	18,513	8,889	11,919	254,070
31 December 2008	210,486	35,827	21,013	8,552	2,388	278,266

As at 31 December 2008, buildings include leasehold improvements at cost of UAH 83,875 thousand and accumulated depreciation of UAH 25,306 thousand.

As at 31 December 2008, buildings' cost revaluation of UAH 17,269 thousand includes UAH 414 thousand of revaluation recognised in profit or loss as it reverses a revaluation decrease of the same assets previously recognised in profit or loss.

	<i>Buildings and property</i>	<i>Computers</i>	<i>Furniture and equipment</i>	<i>Motor vehicles</i>	<i>Construc- tion in progress</i>	<i>Total</i>
Cost or revalued amount						
31 December 2006	131,710	41,988	18,943	9,173	9,575	211,389
Revaluation	21,978	-	-	-	-	21,978
Additions	1,902	23,334	17,588	5,873	37,105	85,802
Disposals	-	(1,008)	(601)	(1,810)	(30)	(3,449)
Transfers	34,731	-	-	-	(34,731)	-
31 December 2007	190,321	64,314	35,930	13,236	11,919	315,720
Accumulated depreciation						
31 December 2006	4,193	20,126	9,732	3,567		37,618
Revaluation	(6,489)	-	-	-		(6,489)
Charge for the year	13,267	9,768	8,226	2,075		33,336
Disposals	-	(979)	(541)	(1,295)		(2,815)
31 December 2007	10,971	28,915	17,417	4,347		61,650
Net book value:						
31 December 2006	127,517	21,862	9,211	5,606	9,575	173,771
31 December 2007	179,350	35,399	18,513	8,889	11,919	254,070

As at 31 December 2007, buildings include leasehold improvements at cost of UAH 56,947 thousand and accumulated depreciation of UAH 10,915 thousand.

In December 2006, the Bank revalued its buildings and, consequently changed its accounting policy for buildings from the cost model to the revaluation model. The valuation was performed by an independent appraiser as at 31 December 2008 (as well as at 31 December 2007) and the fair value was determined by reference to market-based evidence. If the buildings were measured using the cost model, the carrying amounts would be as follows:

(Thousands of Ukrainian hryvnia, unless otherwise indicated)

	<u>2008 revalued</u>	<u>2008 at cost</u>	<u>2007 revalued</u>	<u>2007 at cost</u>
Cost	151,972	39,334	132,274	36,728
Accumulated depreciation	-	(8,108)	-	(6,138)
Net carrying amount	<u>151,972</u>	<u>31,226</u>	<u>132,274</u>	<u>30,590</u>

12. Income tax

The corporate income tax expense comprises:

	<u>2008</u>	<u>2007</u>
Current tax charge	5,541	7,969
Deferred tax charge/(credit) – origination and reversal of temporary differences	(41,266)	19,808
Less: deferred tax recognised directly in equity	(5,274)	(6,607)
Income tax expense/(benefit)	<u>(40,999)</u>	<u>21,170</u>

In 2008 and 2007, Ukrainian corporate income tax was levied on taxable income less allowable expenses at the rate of 25%.

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

	<u>2008</u>	<u>2007</u>
Income/(loss) before income tax expense	(406,372)	76,791
Statutory tax rate	25%	25%
Theoretical income tax expense/(benefit) at the statutory rate	(101,593)	19,198
Non deductible expenditures:		
Charity	91	59
Marketing and advertising	221	242
Entertainment	710	643
Repair and maintenance	276	249
Other administrative	1,721	779
Change in unrecognised deferred tax assets	57,575	-
Income tax expense/(benefit)	<u>(40,999)</u>	<u>21,170</u>

Deferred tax assets and liabilities as at 31 December comprise:

	<u>Origination and reversal of temporary differences</u>			<u>Origination and reversal of temporary differences</u>			
	<u>2006</u>	<u>In the income statement</u>	<u>Directly in equity</u>	<u>2007</u>	<u>In the income statement</u>	<u>Directly in equity</u>	<u>2008</u>
Tax effect of deductible temporary differences:							
Allowances for impairment and provisions for other losses	9,651	(3,818)	-	5,833	114,043	-	119,876
Accruals	4,222	6,481	-	10,703	(5,722)	-	4,981
Gross deferred tax asset	13,873	2,663	-	16,536	108,321	-	124,857
Unrecognised deferred tax asset	-	-	-	-	(57,575)	-	(57,575)
Deferred tax asset	<u>13,873</u>	<u>2,663</u>	<u>-</u>	<u>16,536</u>	<u>50,746</u>	<u>-</u>	<u>67,282</u>
Tax effect of taxable temporary differences:							
Property and equipment	(19,670)	775	(7,117)	(26,012)	1,774	(6,261)	(30,499)
Valuation of financial instruments	(19,775)	(16,639)	510	(35,904)	(5,980)	987	(40,897)
Deferred tax liability	<u>(39,445)</u>	<u>(15,864)</u>	<u>(6,607)</u>	<u>(61,916)</u>	<u>(4,206)</u>	<u>(5,274)</u>	<u>(71,396)</u>
Net deferred tax liability	<u>(25,572)</u>	<u>(13,201)</u>	<u>(6,607)</u>	<u>(45,380)</u>	<u>46,540</u>	<u>(5,274)</u>	<u>(4,114)</u>

(Thousands of Ukrainian hryvnia, unless otherwise indicated)

13. Other impairment and provisions

The movements in allowances for other assets were as follows:

	<u>Other assets</u>
31 December 2006	480
Charge	296
Write-offs	(11)
Exchange difference	(31)
31 December 2007	734
Charge	99
Write-offs	(649)
Exchange difference	276
31 December 2008	460

Allowance for impairment of assets is deducted from the related assets.

14. Other assets and liabilities

Other assets comprise:

	<u>2008</u>	<u>2007</u>
Precious metals	22,005	14,936
Deferred expenses	7,013	5,438
Accrued income	2,334	2,059
Other prepayments	2,313	1,988
Transit accounts on card operations	1,887	2,163
Materials	1,016	1,427
Prepayments for property and equipment	355	1,168
Net position on derivative financial instruments	-	3,855
Settlements for foreign currencies	-	372
Other	584	589
	37,507	33,995
Less – Allowance for impairment of other assets	(460)	(734)
Other assets	37,047	33,261

Other liabilities comprise:

	<u>2008</u>	<u>2007</u>
Employees benefit accrual	16,206	12,241
Net position on derivative financial instruments	9,010	-
Deferred income	6,246	-
Guarantee fund liabilities	4,142	2,554
Accrued expense for services received	3,391	815
Transit accounts on card operations	1,030	1,248
Accrued other taxes	226	418
Transit accounts on client operations	-	1,803
Liabilities under finance lease agreements	-	233
Other	3,832	5,028
Other liabilities	44,083	24,340

15. Amounts due to the National Bank of Ukraine

As at 31 December 2008, amounts due to the NBU include refinancing loans of UAH 759,295 thousand (2007: nil) and credit lines received from the NBU under the Small and Medium Enterprise Support Programme of the EBRD in the amount of UAH 104,209 thousand (2007: UAH 91,373 thousand).

The credit lines under the Small and Medium Enterprise Support Programme and the loans made by it are denominated in US dollars and the Bank bears the credit risk on the loans it makes.

The refinancing loans from the NBU are secured by the different types of collateral: loan of UAH 220,000 thousand is covered by the portfolio of loans to customers (UAH 354,886 thousand), loan of UAH 27,000 thousand - bonds of the State mortgage organisation with par value UAH 35,000 thousand and loan of UAH 512,295 thousand - the Bank shares with nominal value of UAH 674,796 thousand.

(Thousands of Ukrainian hryvnia, unless otherwise indicated)

16. Amounts due to credit institutions

Amounts due to credit institutions comprise:

	<u>2008</u>	<u>2007</u>
Current accounts	533,993	1,724,333
Loans and time deposits	4,166,049	2,732,927
Due to credit institutions	<u>4,700,042</u>	<u>4,457,260</u>

As at 31 December 2008, the Bank attracted loan from a Ukrainian Bank in an amount of UAH 126,941 thousand with a condition to write-off UAH 80,850 thousand from the Bank's current account with the NBU (Note 6) in case of any breach of the contract due to the fault of the Bank.

Loans due to credit institutions of UAH 424,330 thousand are secured by the portfolio of loans to customers of UAH 517,753 thousand.

As at 31 December 2008, current accounts include UAH 406,279 thousand (2007: UAH 1,001,302 thousand) attracted from a number of Ukrainian banks. The Bank simultaneously placed UAH 406,390 thousand (2007: UAH 987,980 thousand) in current accounts with the same Ukrainian banks (Note 6).

As at 31 December 2008, loans and deposits include loans amounting to UAH 529,060 thousand (2007: UAH 45,450 thousand) received from a Ukrainian bank. The Bank has placed UAH 528,965 thousand (2007: UAH 111,388 thousand) in a current account with the same Ukrainian bank (Note 6).

All amounts discussed above were not subject to off-set.

At 31 December, 2008, the Bank was in breach of certain financial covenants imposed by the Bank's agreements with other credit institutions (see Note 21 - Financial covenants), which represented event of default. Subsequently, in February 2010, the Bank signed the Framework Restructuring Agreement (see Note 30) to restructure amounts due from credit institutions. As a result of this, event of default was rectified and had no impact on these financial statements.

17. Amounts due to customers

Amounts due to customers include the following:

	<u>2008</u>	<u>2007</u>
Current accounts		
- legal entities	439,338	374,791
- individuals	308,581	201,868
- due to the funds under the Bank's management (see below)	10,236	19,465
	<u>758,155</u>	<u>596,124</u>
Time deposits		
- legal entities	1,135,150	875,694
- individuals	3,388,900	2,673,820
	<u>4,524,050</u>	<u>3,549,514</u>
Due to customers	<u>5,282,205</u>	<u>4,145,638</u>
Held as a security under letters of credit and guarantees	670	4,706

As at 31 December 2008, the Bank had a concentration of deposits from legal entities represented by UAH 718,983 thousand due from the ten largest third party customers (14% of total amounts due to customers) (2007: UAH 303,455 thousand or 7%).

In accordance with the Ukrainian legislation, the Bank is obliged to repay individuals' deposits upon demand of a depositor.

Funds under the Bank's management

In 2006-2008, the Bank set up a number of construction financing funds and acts as a fund manager. Amounts due to the funds under the Bank's management are summarised as follows:

(Thousands of Ukrainian hryvnia, unless otherwise indicated)

	<u>2008</u>	<u>2007</u>
Funds attracted from individuals	294,146	114,413
Invested funds	(283,910)	(94,948)
Due to the fund under the Bank's management	<u>10,236</u>	<u>19,465</u>

Amounts due to customers include accounts with the following types of customers:

	<u>2008</u>	<u>2007</u>
Individuals	3,572,574	2,792,642
Private enterprises	1,495,471	1,200,609
Employees	124,907	83,046
State and budgetary organisations	79,017	49,877
Other	10,236	19,464
Amounts due to customers	<u>5,282,205</u>	<u>4,145,638</u>

An analysis of customer accounts by economic sector is as follows:

	<u>2008</u>	<u>2007</u>
Individuals	3,697,481	2,875,688
Metallurgy	546,480	173,331
Insurance	213,039	226,872
Trade	171,002	302,630
Agricultural	89,965	28,845
Services	80,845	143,985
Budget organizations	79,967	50,253
Construction	55,234	92,045
Engineering	21,174	132,319
Transport and communication	15,988	22,194
Energy	882	11,056
Other	310,148	86,420
Amounts due to customers	<u>5,282,205</u>	<u>4,145,638</u>

18. Debt securities issued

As at 31 December 2008, the Bank has issued bonds with a total carrying value of UAH 1,299,862 thousand (2007: UAH 1,616,475 thousand). Bonds issued by the Bank bear interest from 11% to 16% p.a. (2007: from 13% to 15% p.a.) and mature in 2009 – 2012.

19. Subordinated debt

In February 2007, the Bank obtained a loan from one of its shareholders in the amount of USD 15,000 thousand, with interest rate of 9% and the maturity on 29 January 2014. The carrying value of this loan as at 31 December 2008 is USD 15,344 thousand (UAH 118,152 thousand) (2007: UAH 77,489 thousand).

In August 2007, the Bank obtained another loan from the same shareholder with the principal of USD 15,000 thousand, interest rate of 9% and the maturity on 20 August 2015. The carrying value of this loan as at 31 December 2008 is USD 15,344 thousand (UAH 118,151 thousand) (2007: UAH 77,489 thousand).

20. Equity

Share capital

As at 31 December 2008, the Bank's authorised issued share capital comprised 135,000,000 (2007: 85,000,000) ordinary shares, with a nominal value of UAH 10 per share. All shares have equal voting rights. As at 31 December 2008, all shares were issued, fully paid and registered (2007: all shares were issued, fully paid and registered).

(Thousands of Ukrainian hryvnia, unless otherwise indicated)

The movement of authorised, fully paid and outstanding shares is as follows:

	Number of shares	Carrying amount UAR, UAH'000	Restated amount, UAH'000
31 December 2006	65,000,000	650,000	677,200
Shares paid-in	20,000,000	200,000	200,000
31 December 2007	85,000,000	850,000	877,200
Shares paid-in	50,000,000	500,000	500,000
31 December 2008	135,000,000	1,350,000	1,377,200

The respective interests of shareholders are as follows:

	2008		2007	
	Number of shares	Share in issued capital	Number of shares	Share in issued capital
Non-residents of Ukraine	117,513,500	87.00%	85,000,000	100.00%
Residents of Ukraine	17,486,500	13.00%	-	-
Total issued shares	135,000,000	100.00%	85,000,000	100.00%

As at the date of issue of these financial statements the Bank was restructuring its debts before lenders. The shareholding structure of the Bank the share capital amount will be changed upon completion of the debt restructuring process (Note 30).

Movements in other reserves

Movements in reserve were as follows:

	Revaluation reserve for property and equipment	Unrealised gains/(losses) on investment securities available- for-sale	Revaluation reserve
31 December 2006	59,268	1,074	60,342
Revaluation of buildings (Note 11)	28,467		28,467
Tax effect of revaluation of buildings	(7,117)		(7,117)
Depreciation of revaluation reserve, net of tax	(3,421)		(3,421)
Net unrealised losses on available-for-sale investments		(608)	(608)
Net realised gains on investment securities available-for-sale reclassified to the statement of income		(1,432)	(1,432)
Tax effect of net gains on investment securities available-for-sale		510	510
31 December 2007	77,197	(456)	76,741
Revaluation of buildings (Note 11)	25,045		25,045
Tax effect of revaluation of buildings	(6,261)		(6,261)
Depreciation of revaluation reserve, net of tax	(5,388)		(5,388)
Net unrealised losses on available-for-sale investments		(4,558)	(4,558)
Net realised losses on investment securities available-for-sale reclassified to the statement of income		608	608
Tax effect of net gains on investment securities available-for-sale		987	987
31 December 2008	90,593	(3,419)	87,174

Nature and purpose of other reserves

Revaluation reserve for property and equipment

The revaluation reserve for property and equipment is used to record increases in the fair value of buildings and decreases to the extent that such decrease relates to an increase on the same asset previously recognised in equity.

Unrealised gains/ (losses) on investment securities available-for-sale

This reserve records fair value changes on available-for-sale investments.

(Thousands of Ukrainian hryvnia, unless otherwise indicated)

The Bank's distributable reserves are determined by the amount of its reserves as disclosed in the accounts prepared in accordance with UAR. As at 31 December 2008, the Bank has distributable reserves amounting to UAH 44 thousand (2007: UAH 24,877 thousand). The amount of non-distributable reserves was UAH 180,401 thousand (2007: UAH 244,178 thousand). Non-distributable reserves are represented by additional paid-in capital, and a general reserve fund, which is created to cover general banking risks, including future losses and other unforeseen risks or contingencies.

21. Commitments and contingencies

Operating environment

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

The Ukrainian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. The ongoing global financial crisis has resulted in considerable instability in the capital markets, significant deterioration in the liquidity of banks, much tighter credit conditions where credit is available, and significant devaluation of the national currency against major currencies. Furthermore, in the fourth quarter of 2008, international agencies began to downgrade the country's credit ratings. Whilst the Ukrainian Government is introducing various stabilisation measures aimed at providing liquidity and supporting debt refinancing for Ukrainian banks, there continues to be uncertainty regarding access to capital and its cost for the Bank and its counterparties. These factors could affect the Bank's financial position, results of operations and business prospects.

In addition, the borrowers of the Bank may have been affected by a deterioration in their own liquidity, which could in turn impact their ability to repay the amounts due to the Bank. Due to the fall in values in both global and Ukrainian securities markets, the Bank may face the consequences of a significant decrease in the fair value of securities pledged as collateral against loans extended by the Bank. Similarly, the decrease in values in the Ukrainian real estate market may affect recoverability of the Bank's loans secured by pledges of property. To the extent that information is available, the Bank has reflected revised estimates of expected future cash flows in its impairment assessment.

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

Legal

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

Taxation

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

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

As at 31 December 2008, management believes that its interpretation of the relevant legislation is appropriate and that the Bank's tax and currency positions will be sustained.

(Thousands of Ukrainian hryvnia, unless otherwise indicated)

Financial commitments and contingencies

As at 31 December, the Bank's financial commitments and contingencies comprise the following:

	<u>2008</u>	<u>2007</u>
Credit related commitments		
Letters of credit	20,471	75,284
Promissory note avals	1,627	10,236
Guarantees	76,311	142,789
	<u>98,409</u>	<u>228,309</u>
Less – Cash held as security against letters of credit and guarantees	(670)	(4,706)
Financial commitments and contingencies	<u><u>97,739</u></u>	<u><u>223,603</u></u>

Financial covenants

The Bank is a party to various arrangements with other credit institutions, which contain financial covenants relating to the financial performance and general risk profile of the Bank. Under such covenants, the Bank is required to maintain a minimum international risk based capital adequacy ratio of 12%, to limit credit exposure to a single borrower and to ensure a certain level of operating activity. These financial covenants may restrict the Bank's ability to execute certain business strategies and enter into other significant transactions in the future.

As at 31 December 2008, the Bank was in breach of financial covenants related to liquidity ratio and ratios of quality of credit portfolio. According to the terms of the respective loan agreement, the lender may at its option, by notice to the Bank, declare all or any portion of the loan and accrued interest either due and payable on demand or immediately due and payable if the non-compliance was not remedied within 30 days. In the beginning of 2009 the Bank started debts restructuring negotiations with its lenders and they did not provide the Bank with a notice to withdraw loans immediately. Consequently the Bank did not make any changes in maturity of the amounts due to credit institutions in its liquidity disclosures (Notes 25 and 27). As at the date of issue of these financial statements the Bank was in process of restructuring its debts before lenders. The repayment terms and covenants of the debts will be significantly changed upon completion of the restructuring process (see Note 30).

22. Net fee and commission income

Net fee and commission income comprises:

	<u>2008</u>	<u>2007</u>
Settlement operations	75,003	44,324
Currency conversion operations	18,183	16,547
Off-balance sheet operations	4,142	4,814
Securities operations	2,384	607
Other	4,134	1,715
Fee and commission income	<u>103,846</u>	<u>68,007</u>
Settlement operations	(7,958)	(8,652)
Off-balance sheet operations	(2,885)	-
Servicing of loans	(2,578)	(2,486)
Other	(544)	(537)
Fee and commission expense	<u>(13,965)</u>	<u>(11,675)</u>
Net fee and commission income	<u><u>89,881</u></u>	<u><u>56,332</u></u>

23. Net gains from investment securities available-for-sale

Net gains from investment securities available-for-sale comprise:

	<u>2008</u>	<u>2007</u>
Loss on sale of available-for-sale securities reclassified from equity (Note 20)	(608)	1,432
Realised gain on sale of investment securities available-for-sale	8,819	18,378
Net gains from investment securities available-for-sale	<u><u>8,211</u></u>	<u><u>19,810</u></u>

(Thousands of Ukrainian hryvnia, unless otherwise indicated)

24. Personnel, other administrative and operating expenses

Personnel, other administrative and operating expenses comprise:

	<u>2008</u>	<u>2007</u>
Salaries and bonuses	156,274	110,575
Other employment taxes	49,957	33,571
Personnel expenses	<u>206,231</u>	<u>144,146</u>
Occupancy and rent	72,241	42,359
Marketing and advertising	19,361	26,307
Expenses related to deposit insurance fund	15,533	8,777
Data processing	13,886	8,248
Security	9,391	5,190
Consulting	8,523	6,696
Repair and maintenance of property and equipment	7,412	9,178
Communications	7,000	5,955
Operating taxes	6,942	773
Office expenses	5,190	10,243
Business travel and related	4,921	3,554
Insurance	4,728	6,456
Charity	364	236
Other	2,906	2,938
Other administrative and operating expenses	<u>178,398</u>	<u>136,910</u>

The total amount of employee benefits paid to the members of the Management Board for 2008 is UAH 6,274 thousand including severance pay in the amount of UAH 576 thousand (2007: UAH 5,568 thousand). In 2008 and 2007 no bonuses were paid to the members of the Management Board.

25. Risk management

Introduction

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

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

The Bank's risk management system comprises:

- risk management organisational structure;
- internal regulations base (policies, procedures, and methodologies) to ensure the strict regulation of risk management processes;
- information system, which supports the Bank's activities in risk control and monitoring;
- regular reporting on risks levels.

Risk management structure

Supervisory Board

The Supervisory Board of the Bank determines and consolidates the Bank's risk management strategy.

Management Board

The Management Board of the Bank is responsible for the implementation of the risk management strategy. The Board develops internal regulations that deal with risk management policy, the methods and procedures by which risk is evaluated and the process by which risk management is monitored. The Board reports to the Supervisory Board regarding the realisation of the Bank's strategy and the management of considerable risks.

(Thousands of Ukrainian hryvnia, unless otherwise indicated)

The Bank has created two committees that are wholly concerned with risk management: the Credit and Investment Committee and the Assets and Liabilities Committee, which are supported by the Financial Risks Department.

Credit and Investment Committee (CIC)

The Credit and Investment Committee meets on a daily basis and is responsible for implementing the internal regulations set by the Board, including setting credit policy in line with these regulations, approving credit limits, including limits for financial counterparties, monitoring credit performance and the quality of the Bank’s loan portfolio and reviewing large projects and the credit policies of regional branches of the Bank.

Each regional branch of the Bank and each branch has its own Credit Committee that ultimately reports to the Head Office Credit and Investment Committee.

Asset and Liability Committee (ALCO)

The ALCO is responsible for overseeing the Bank’s assets and liabilities and liquidity and interest rate sensitivity analysis based on instructions and guidelines from the Board and its own assessments, and matches assets and liabilities with different maturities, develops various scenarios of the Bank’s balance sheet structure relating to liquidity and interest rate risks. It also periodically reviews the Bank’s asset and liability position and determines the strategy of the Bank’s asset and liability management. The ALCO also monitors and reviews interest rates in respect of the assets and liabilities of the Bank.

Financial Risk Management Department

The Financial Risk Management Department supports both the Credit and Investment Committee and the Assets and Liabilities Committee. In particular, it values individual and portfolio risks, proposes credit limits and monitors the Bank’s risk positions.

The Financial Risk Management Department oversees the development of and monitors and supervises compliance with cash balance limits, limits on cash in ATMs, limits on credits and open currency position limits and balance sheet risk management structural limits for regional branches. It also defines preliminary sizes of interbank limits and the credit limits of regional division heads for the Credit and Investment Committee’s approval.

Bank Treasury

Bank Treasury is responsible for managing the Bank’s assets and liabilities and ensures the Bank’s current liquidity.

Internal Audit

The Internal Audit Department is responsible for determining, reviewing and improving the Bank’s system of internal controls. The Internal Audit Department monitors the conformity of the Bank’s policies with current legislation and regulation, professional norms and ethics. It also ensures the conformity of the Bank’s accounting practices to Ukrainian accounting rules, and confirms the conformity of aggregate accounting statistics with primary document data.

Risk measurement and reporting systems

During the risk management process the Bank uses the index of losses. The Bank divides losses for: expected losses – an average amount of losses on active transactions; unexpected losses – possible worse deviations of the amount of actual losses from the amount of expected losses related to unexpected but rather possible events (generally, are calculated based on mathematical models); and extraordinary losses – related to the crises events (both at the level of the Bank and at the macroeconomic level).

The Bank measures risks using statistical methods which are based on probability values obtained from actual data with regard to market conditions. The Bank uses Value at Risk model and other statistical models. Assumptions and data which underlie these models are regularly reviewed and verified based on comparison with actual data (back testing).

During the risk analysis process the Bank considers the exposure of extreme circumstances (stress scenario) on the basis of which the extraordinary emergency measures are determined in the form of Contingency Plan.

The risk control process comprises risk planning and setting of limits. The Bank determines the level of risk which it is willing to accept for achieving its business goal and performing strategic tasks.

(Thousands of Ukrainian hryvnia, unless otherwise indicated)

To control the current level of the liquidity risk, the Bank uses external and internal limits which are communicated to other Bank's units in the form of ALCO decisions.

Limits set by the Bank for lending are approved by CIC and subdivided into individual credit risk limits, portfolio and specific transactions credit risk limits, limits of authorities in respect of making credit decisions.

The Bank monitors risks, examines the trends and analysis reasons for changes in the risk level. It regularly compares the projected and actual risk indicators, as well as determines correlation of different types of risks in order to develop and undertake the appropriate measures.

Information received in the result of the analysis is regularly presented in form of the report for examination by the Management Board, Asset and Liability Committee and Credit and Investment Committee.

Reports include the following information:

- amount of credit risk by industries, products, clients, and geographical regions;
- bad debt analysis;
- risk concentration analysis;
- observation of certain limits;
- reports on the liquidity risk, projected liquidity profile with due consideration of new agreements;
- cost of liabilities and profitability of assets;
- value at risk (VAR);
- liquidity ratios.

The Bank's Supervisory Board is informed about risk levels on the quarterly basis.

Risk mitigation

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

The Bank actively uses collateral to reduce its credit risks.

Excessive risk concentration

Risk concentrations arise when an asset or liability of the Bank which are characterized by common factor exceed a certain level of its equity. Such factors include:

- commitment to one borrower or small group of related borrowers;
- granting loans to two or more borrowers for financing the same project, in one industry or in the related industries, or to a group of interrelated companies;
- the Bank's investment(s) in one project, one industry or in a group of related industries or a group of related companies;
- one type of collateral used to secure assets of the Bank;
- joint source of repayment for several loans or investments.

To maintain a reasonable level of concentration, the Bank sets structural limits which are within prudential requirements.

Furthermore, the Bank's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio by the industry financed, loan products, maturities, amount, etc.

Identified concentrations of credit risks are controlled and managed accordingly.

Credit risk

Credit risk is the risk that the Bank will incur a loss because its customers, clients or counterparties failed to discharge their contractual obligations. The Bank manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits.

The Bank has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established by the use of the NBU credit risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject

(Thousands of Ukrainian hryvnia, unless otherwise indicated)

to regular revision. The credit quality review process allows the Bank to assess the potential loss resulting from risks to which it is exposed and take corrective actions.

Derivative financial instruments

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

Credit-related commitments risks

The Bank makes available to its customers guarantees which may require that the Bank make payments on their behalf. Such payments are collected from customers based on the terms of the letter of credit. They expose the Bank to similar risks to loans and these are mitigated by the same control processes and policies.

The table below shows the maximum exposure to credit risk for the components of the balance sheet, including derivatives. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting and collateral agreements and after deducting any allowance for impairment.

	<i>Notes</i>	<i>Gross maximum exposure 2008</i>	<i>Gross maximum exposure 2007</i>
Cash and cash equivalents (excluding cash on hand)	6	1,090,113	1,822,973
Amounts due from credit institutions	7	19,484	63,292
Loans to customers	9	11,170,094	8,404,631
Available-for-sale investment securities	10	842,778	716,936
Other assets	14	14,026	16,898
		13,136,495	11,024,730
Financial commitments and contingencies	21	98,409	228,309
Total credit risk exposure		13,234,904	11,253,039

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

For more detail on the maximum exposure to credit risk for each class of financial instrument, references shall be made to the specific notes.

Credit quality per class of financial assets

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

	<i>Notes</i>	<i>Neither past due nor impaired</i>			<i>Past due or individually impaired 2008</i>	<i>Total 2008</i>
		<i>High grade 2008</i>	<i>Standard grade 2008</i>	<i>Sub- standard grade 2008</i>		
Amounts due from credit institutions	7	19,484				19,484
Loans to customers	9					
Commercial lending		3,158,770	1,052,715	-	4,266,377	8,477,862
Individuals		2,317,079	229,460	1,499	1,244,402	3,792,440
		<u>5,475,849</u>	<u>1,282,175</u>	<u>1,499</u>	<u>5,510,779</u>	<u>12,270,302</u>
Available-for-sale investment securities	10	230,998			642,465	873,463
Total		<u>5,726,331</u>	<u>1,282,175</u>	<u>1,499</u>	<u>6,153,244</u>	<u>13,163,249</u>

(Thousands of Ukrainian hryvnia, unless otherwise indicated)

	Notes	Neither past due nor impaired			Past due or individually impaired 2007	Total 2007
		High grade 2007	Standard grade 2007	Sub-standard grade 2007		
Amounts due from credit institutions	7	63,292	-	-	-	63,292
Loans to customers	9					
Commercial lending		3,089,890	1,667,090	931	1,083,786	5,841,697
Individuals		2,238,825	298,568	100	237,130	2,774,623
		<u>5,328,715</u>	<u>1,965,658</u>	<u>1,031</u>	<u>1,320,916</u>	<u>8,616,320</u>
Available-for-sale investment securities	10	716,936	-	-	-	716,936
Total		<u>6,108,943</u>	<u>1,965,658</u>	<u>1,031</u>	<u>1,320,916</u>	<u>9,396,548</u>

An analysis of past due loans, by age, is provided below.

It is the Bank's credit risk management policy to maintain accurate and consistent risk ratings across the credit portfolio. This facilitates focused management of the applicable risks and the comparison of credit exposures across all lines of business, geographic regions and products. The rating system is supported by a variety of financial analytics, combined with processed market information.

The following table shows the principle according to which the credit quality grades were assigned to financial assets in the table above.

Rating system	Rating values		
	High grade	Standard grade	Sub-standard grade
Loans to commercial customers The NBU's classification system for corporate customers	1	2,3	4,5
Loans to individuals The NBU's classification system for individual customers	1	2,3	4,5

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

	Less than 30 days 2008	31 to 60 days 2008	61 to 90 days 2008	More than 90 days 2008	Total 2008
Loans to customers					
Commercial lending	309,023	59,600	39,104		407,727
Individuals	226,393	137,844	65,614		429,851
Total	<u>535,416</u>	<u>197,444</u>	<u>104,718</u>	<u>-</u>	<u>837,578</u>
	Less than 30 days 2007	31 to 60 days 2007	61 to 90 days 2007	More than 90 days 2007	Total 2007
Loans to customers					
Commercial lending	10,058	4,263	1,084	43,535	58,940
Individuals	67,293	29,155	21,100	104,970	222,518
Total	<u>77,351</u>	<u>33,418</u>	<u>22,184</u>	<u>148,505</u>	<u>281,458</u>

See Note 9 for more detailed information with respect to the allowance for impairment of loans to customers.

(Thousands of Ukrainian hryvnia, unless otherwise indicated)

Carrying amount per class of financial assets whose terms have been renegotiated

The table below shows the carrying amount for renegotiated financial assets, by class.

	<u>2008</u>	<u>2007</u>
Loans to customers		
Commercial lending	1,576,341	115,526
Individuals	118,031	51,158
Total	<u>1,694,372</u>	<u>166,684</u>

Impairment assessment

The Bank assesses whether evidences of impairment exist and analyzes their impact on future cash flows.

Evidences which are indicative of impairment are divisible into direct and indirect. They are determined based on existence of certain events in respect of a borrower or other events which may impact the borrower's creditworthiness. The default on loan is considered to occur if there are one or more significant evidences of impairment.

Direct evidences of impairment:

- payment is overdue by more than 90 days;
- a borrower is recognised bankrupt or insolvent;
- identification of significant evidences of impairment in respect of other debts of the borrower.

Indirect evidences of impairment include events which may have an adverse impact on the borrower's financial positions and are obtained from the reliable information sources, namely:

- borrower's financial and legal difficulties;
- non-fulfilment (partial non-fulfilment) of loan agreement, including delay in payment for more than 7 days;
- decrease in the borrower's creditworthiness;
- occurrence of adverse factors in respect of the borrowers business, deterioration in the industry operating environment, adverse changes in the market, etc;
- loan prolongation due to the borrower's financial difficulties.

The Bank addresses loan impairment assessment using two methods: individual assessment and collective assessment. The selection of the assessment method depends on the amount of debt and existence of direct evidences that the debt is impaired.

Individually assessed allowances

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

Collectively assessed allowances

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

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

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

(Thousands of Ukrainian hryvnia, unless otherwise indicated)

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

	2008				2007			
	Ukraine	OECD	CIS and other foreign banks	Total	Ukraine	OECD	CIS and other foreign banks	Total
Assets:								
Cash and cash equivalents	1,244,355	14,861	-	1,259,216	1,778,050	288,321	31,647	2,098,018
Amounts due from credit institutions	4,323	15,161	-	19,484	47,549	15,743	-	63,292
Loans to customers	11,170,094	-	-	11,170,094	8,404,631	-	-	8,404,631
Available-for-sale investment securities	842,778	-	-	842,778	716,936	-	-	716,936
Other assets	4,805	-	-	4,805	9,038	-	-	9,038
	13,266,355	30,022	-	13,296,377	10,956,204	304,064	31,647	11,291,915
Liabilities:								
Amounts due to the National Bank of Ukraine	863,504	-	-	863,504	91,373	-	-	91,373
Amounts due to credit institutions	1,497,952	3,146,756	55,334	4,700,042	2,130,372	2,326,883	5	4,457,260
Amounts due to customers	5,187,871	2,710	91,624	5,282,205	4,116,723	-	28,915	4,145,638
Debt securities issued	840,516	459,346	-	1,299,862	28,919	1,087,013	500,543	1,616,475
Subordinated debt	-	236,303	-	236,303	-	154,977	-	154,977
Other liabilities	33,469	-	-	33,469	19,332	-	-	19,332
	8,423,312	3,845,115	146,958	12,415,385	6,386,719	3,568,873	529,463	10,485,055
Net balance sheet position	4,843,043	(3,815,093)	(146,958)	880,992	4,569,485	(3,264,809)	(497,816)	806,860
Net off-balance sheet position	97,739	-	-	97,739	223,603	-	-	223,603

Liquidity risk and funding management

Liquidity risk is the risk that the Bank will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its core deposit base, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

The complex of measures aimed to management liquidity risk comprises of the following:

- liquidity risk management policy, techniques and procedures of risk assessment and control;
- monitoring of the cash flow at risk (CFaR) for controlling of quick liquidity risk;
- liquidity gap analysis;
- projection of cash flows from retail business;
- collection of requests for active-passive transactions;
- planning and budgeting;
- forecast of funds deficit / surplus, taking into account forecast and planned transactions;
- long-term funding matrix analysis;
- monitoring of funds available at money markets;
- setting liquidity gap limits on the Bank’s off-balance-sheet lending commitments;
- stress testing of the bank’s liquidity position;
- regular reporting of the liquidity risk level to ALCO and Supervisory Board.

(Thousands of Ukrainian hryvnia, unless otherwise indicated)

Analysis of financial liabilities by remaining contractual maturities

The table below summarizes the maturity profile of the Bank’s financial liabilities as at 31 December 2008 based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately. The table reflects the balances on client accounts within less than 3 months, however for internal analysis of liquidity position the Bank calculates expected cash flows under such transactions based on the historical data statistical analysis. Included in due to customers are term deposits of individuals. In accordance with the Ukrainian legislation, the Bank is obliged to repay such deposits upon demand of a depositor.

Financial liabilities	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
As at 31 December 2008					
Amounts due to the National Bank of Ukraine	32,759	871,448	55,495	-	959,702
Amounts due to credit institutions	1,841,581	2,293,529	829,375	336,120	5,300,605
Amounts due to customers	2,585,500	2,340,352	909,769	1,640	5,837,261
Subordinated debt	5,198	15,881	84,373	249,066	354,518
Debt securities issued	97,713	345,490	1,216,941	-	1,660,144
Other liabilities	33,469	-	-	-	33,469
Total undiscounted financial liabilities	4,596,220	5,866,700	3,095,953	586,826	14,145,699

Financial liabilities	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
As at 31 December 2007					
Amounts due to the National Bank of Ukraine	3,094	18,769	87,321	-	109,184
Amounts due to credit institutions	2,640,210	892,093	79,228	142,819	3,754,350
Amounts due to customers	1,910,725	3,066,599	1,274,913	4,912	6,257,149
Subordinated debt	3,485	10,378	55,335	180,626	249,824
Debt securities issued	47,132	141,395	2,035,533	-	2,224,060
Other liabilities	19,134	198	-	-	19,332
Total undiscounted financial liabilities	4,623,780	4,129,432	3,532,330	328,357	12,613,899

At 31 December, 2008, the Bank was in breach of certain financial covenants imposed by the Bank’s agreements with other credit institutions (see Note 21 - Financial covenants), which represented event of default. Subsequently, in February 2010, the Bank signed the Framework Restructuring Agreement (see Note 30) to restructure amounts due from credit institutions. As a result of this, event of default was rectified and had no impact on these financial statements.

The table below shows the contractual expiry by maturity of the Bank’s financial commitments and contingencies.

	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
2008	57,198	72,663	83,923	58,383	272,167
2007	92,731	56,691	143,371	195,334	488,127

The Bank expects that not all of the contingent liabilities or commitments will be drawn before expiry of the commitments.

The Bank’s capability to repay its liabilities relies on its ability to realise an equivalent amount of assets within the same period of time.

Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchanges, and equity prices. The Bank classifies exposures to market risk into either trading or non-trading portfolios. The market risk is managed and monitored based on a VaR methodology, which reflects the interdependency between risk variables and using other sensitivity analysis. Except for the concentrations within foreign currency, the Bank has no significant concentration of market risk.

Interest rate risk

(Thousands of Ukrainian hryvnia, unless otherwise indicated)

The interest rate risk is the existing or potential exposure for the income arising due to unfavourable fluctuations in interest rates or changes in the term structure of interest bearing assets and liabilities.

The Bank measures the interest rate risk by means of:

- assessment of interest rate gaps;
- setting and revision of the interest rate gap limits;
- stress-testing.

For assessment of interest rate gaps the Bank identifies assets and liabilities sensitive to interest rate changes and consolidates them into financial aggregates which are similarly affected by changes in interest rates. The Bank calculates interval gaps (interest rate positions) and cumulative gaps (positions accumulated by certain intervals) for each time interval remaining to the contractual maturity or revaluation.

	Less than 1 months	1 to 6 months	6 to 12 months	Over 12 months
As at 31 December 2008				
Ukrainian hryvnia	(446,898)	(1,009,160)	(1,013,958)	875,572
US dollars	(970,005)	(1,301,389)	(1,379,391)	707,969
Euro and other currencies	(278,980)	(529,308)	(660,775)	(186,649)
As at 31 December 2007				
Ukrainian hryvnia	(515,757)	(818,258)	(343,785)	326,945
US dollars	76,106	(228,514)	(1,121,128)	(73,895)
Euro and other currencies	(1,685)	(236,195)	(265,005)	(43,062)

The Bank sets limits on interest rate gaps by time intervals remaining to maturity or revaluation by currencies which are substantial for the Bank in terms of volumes, and exercises control over the observance of the set limits.

The Bank determines the value of the absolute interest rate risk or changes in net interest income using a scenario of parallel shifts in the yield curve by +100 bp and -100 bp, as well as other scenarios of changes in the yield curve which are deemed probable.

Currency	Increase in basis points 2008	Sensitivity of net interest income 2008	Increase in basis points 2007	Sensitivity of net interest income 2007
	Ukrainian hryvnia	+100 bp	(8,277)	+100 bp
US dollars	+100 bp	(11,838)	+100 bp	(6,367)
Euro	+100 bp	(4,775)	+100 bp	(860)
Currency	Decrease in basis points 2008	Sensitivity of net interest income 2008	Decrease in basis points 2007	Sensitivity of net interest income 2007
Ukrainian hryvnia	-100 bp	8,277	-100 bp	1,664
US dollars	-100 bp	11,838	-100 bp	6,367
Euro	-100 bp	4,775	-100 bp	860

Currency risk

The currency risk is the existing or potential exposure for the income arising due to unfavorable fluctuations in the foreign exchange rates and value of precious metals. The Bank determines its currency risk using the VaR model, i.e. the Bank's maximum loss corresponding to the selected confidence interval and relating to unfavorable fluctuations in foreign exchange rates. The Bank applies a portfolio approach for assessing currency risks inherent in a number of currencies and precious metals. The currency portfolio and precious metals VaR depends on the concentration of currencies and precious metals in the portfolio and also on the exchange rate changes correlation ratios.

The model assumes that any changes occurring in the risk factors affecting the normal market environment will follow a normal distribution. The distribution is calculated using equally weighted historical data. The use of VaR has limitations because it is based on historical correlations and volatilities in market data and assumes that future price movements will follow a statistical distribution. Due to the fact that VaR relies heavily on historical data to provide information and may not clearly predict the future changes and modifications of the risk factors, the probability of significant changes in market conditions may be underestimated if changes in risk factors fail to align with the normal distribution assumption. VaR may also be under- or over- estimated due to the assumptions placed on risk

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factors and the relationship between such factors for specific instruments. Even though positions may change throughout the day, the VaR only represents the risk of the portfolios at the close of each business day, and it does not account for any losses that may occur beyond the 99% confidence level.

The VaR that the Bank measures is an estimate, using a confidence level of 99% of the potential loss that is not expected to be exceeded, if the current market risk positions were to be held unchanged for ten days. The use of a 99% confidence level means that, within a one day horizon, losses exceeding the VaR figure should occur, on average, not more than once every hundred days.

Obtained data are subject to adjustment based on the results of model verification performed by comparing actual and projected growth of each currency exchange rate and precious metals which are taken into account in computations.

	<u>2008</u>	<u>2007</u>
Value under currency risk	58,606	1,933

Prepayment risk

Prepayment risk is the risk that the Bank may incur financial loss resulting from prepayment by clients or counterparties of their liabilities or their demand of execution of commitments by the Bank earlier or later than the expected dates.

To make allowance for the effect of changes in net interest income resulting from potential prepayment of financial instruments, the Bank uses a model under which the net interest income is calculated as an estimated indicator for the next year based on the volumes, rates and maturities of financial instruments accounted for by the Bank as at the reporting date. Changes in the net interest income resulting from potential prepayment of 10% of assets and liabilities are determined based on the volumes, rates and maturities of financial instruments which will remain in the Bank's balance sheet in 1 year. The calculation results are indicated below.

	<u>2008</u>	<u>2007</u>
Effect on net interest income	(79,633)	(45,638)

Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Bank cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Bank is able to manage the risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

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26. Fair values of financial instruments

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

	<i>Carrying value 2008</i>	<i>Fair value 2008</i>	<i>Unrecognised gain/(loss) 2008</i>	<i>Carrying value 2007</i>	<i>Fair value 2007</i>	<i>Unrecognised gain/(loss) 2007</i>
Financial assets						
Cash and cash equivalents	1,259,216	1,259,216	-	2,098,018	2,098,018	-
Amounts due from credit institutions	19,484	19,484	-	63,292	63,292	-
Loans to customers	11,170,094	9,693,973	(1,476,121)	8,404,631	8,426,029	21,398
Available-for-sale investment securities	925,593	925,593	-	792,047	792,047	-
Derivative financial assets	-	-	-	3,855	3,855	-
Financial liabilities						
Amounts due to the National Bank of Ukraine	863,504	863,504	-	91,373	91,373	-
Amounts due to credit institutions	4,700,042	4,700,042	-	4,457,260	4,457,260	-
Amounts due to customers	5,282,205	5,233,325	48,880	4,145,638	4,145,638	-
Debt securities issued	1,299,862	1,260,571	39,291	1,616,475	1,616,475	-
Subordinated debt	236,303	258,258	(21,955)	154,977	154,977	-
Derivative financial liability	9,010	9,010	-	-	-	-
Total unrecognised change in unrealised fair value			(1,409,905)			21,398

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

Assets for which fair value approximates carrying value

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

Fixed rate financial instruments

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

Financial instruments recorded at fair value

The following table shows an analysis of financial instruments recorded at fair value, between those whose fair value is based on quoted market prices, those involving valuation techniques where all the model inputs are observable in the market, and those where the valuation techniques involves the use of non-market observable inputs.

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	Quoted market price 2008	Valuation techniques – market observable inputs 2008	Total 2008
Financial assets			
Investment securities – available-for-sale	63,752	861,841	925,593
	63,752	861,841	925,593
Financial liabilities			
Derivative financial instruments	-	9,010	9,010
	-	9,010	9,010

	Quoted market price 2007	Valuation techniques – market observable inputs 2007	Total 2007
Financial assets			
Derivative financial instruments	-	3,855	3,855
Investment securities – available-for-sale	338,332	453,715	792,047
	338,332	457,570	795,902

Certain financial instruments are recorded at fair value using valuation techniques as current market transactions or observable market data are not available. Their fair value is determined using a valuation model that has been tested against the prices of actual market transactions and using the Bank's best estimate of the most appropriate model inputs.

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27. Maturity analysis of financial assets and liabilities

The table below shows an analysis of financial assets and liabilities according to when they are expected to be recovered or settled. See Note 25 “Risk management” for the Bank’s contractual undiscounted repayment obligations.

	2008			2007		
	Within one year	More than one year	Total	Within one year	More than one year	Total
Financial assets						
Cash and cash equivalents	1,259,216	-	1,259,216	2,098,018	-	2,098,018
Amounts due from credit institutions	6,263	13,221	19,484	58,696	4,596	63,292
Loans to customers	4,829,256	6,340,838	11,170,094	6,499,426	1,905,205	8,404,631
Available-for-sale investment securities	155,252	770,340	925,592	792,047	-	792,047
Other assets	4,805	-	4,805	4,811	-	4,811
Total	6,254,792	7,124,399	13,379,191	9,452,998	1,909,801	11,362,799
Financial liabilities						
Amounts due to the National Bank of Ukraine	810,265	53,239	863,504	91,373	-	91,373
Amounts due to credit institutions	3,912,318	787,724	4,700,042	3,582,506	874,754	4,457,260
Amounts due to customers	4,589,401	692,804	5,282,205	3,784,675	360,963	4,145,638
Debt securities issued	303,816	996,046	1,299,862	-	1,616,475	1,616,475
Subordinated debt	-	236,303	236,303	-	154,977	154,977
Other liabilities	17,263	-	17,263	7,091	-	7,091
Total	9,633,063	2,766,116	12,399,179	7,465,645	3,007,169	10,472,814
Net	(3,378,271)	4,358,283	980,012	1,987,353	(1,097,368)	889,985

In the Ukrainian marketplace, many short-term credits are granted with the expectation of renewing the loans at maturity. As such, the ultimate maturity of assets may be different from the analysis presented above. In addition, the maturity gap analysis does not reflect the historical stability of current accounts. Their liquidation has historically taken place over a longer period than indicated in the tables above. These balances are included in amounts due on demand in the tables above. Included in due to customers are term deposits of individuals. In accordance with the Ukrainian legislation, the Bank is obliged to repay such deposits upon the demand of a depositor.

At 31 December, 2008, the Bank was in breach of certain financial covenants imposed by the Bank’s agreements with other credit institutions (see Note 21 - Financial covenants), which represented event of default. Subsequently, in February 2010, the Bank signed the Framework Restructuring Agreement (see Note 30) to restructure amounts due from credit institutions. As a result of this, event of default was rectified and had no impact on these financial statements.

The Bank’s capability to repay its liabilities relies on its ability to realise an equivalent amount of assets within the same period of time. As at 31 December 2008 there is a significant cumulative liquidity gap between assets and liabilities maturing within one year, resulted primarily from the uncertainties relating to the current operating environment in Ukraine as discussed in Note 21.

Management of the Bank is taking additional measures to support the sustainability of the Bank’s business and, in particular, to manage the existing liquidity gap. Such measures include, but not limited to securing longer term financing from the NBU, additional funding from the Bank’s shareholders and negotiating of debts restructuring with lenders as discussed in Note 30.

Accordingly, management believes that the Bank will be able to continue as a going concern in foreseeable future and these financial statements are prepared on the respective basis.

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28. Related party transactions

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

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

The outstanding balances of related party transactions at the year end, and related expense and income for the year are as follows:

	2008			2007		
	<i>Entities with significant influence over the Bank</i>	<i>Entities under common control</i>	<i>Key management personnel</i>	<i>Entities with significant influence over the Bank</i>	<i>Entities under common control</i>	<i>Key management personnel</i>
Loans outstanding at 1 January, gross	-	-	289	-	-	185
Loans issued during the year	-	200	1,774	-	-	146
Loan repayments during the year	-	(50)	(456)	-	-	(42)
Loans outstanding at 31 December, gross	-	150	1,607	-	-	289
Less: allowance for impairment at 31 December	-	-	(11)	-	-	(7)
Loans outstanding at 31 December net	-	150	1,596	-	-	282
Interest income on loans	-	18	182	-	-	9
Deposits at 1 January	154,977	17,274	5,063	43,036	-	4,083
Transfer (due to change in shareholders' structure)	-	-	-	(43,036)	43,036	-
Deposits received during the year (Note 17)	81,326	242	17,129	154,977	-	5,681
Deposits repaid during the year	-	(14,204)	(14,114)	-	(25,762)	(4,701)
Deposits at 31 December	236,303	3,312	8,078	154,977	17,274	5,063
Interest expense on deposits	14,795	242	734	8,855	857	412

29. Capital adequacy

The Bank maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Bank's capital is monitored using, among other measures, the ratios established by the Basel Capital Accord 1988 and the ratios established by the NBU in supervising the Bank.

During the past year, the Bank had complied in full with all its externally imposed capital requirements.

The primary objective of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements.

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities.

NBU capital adequacy ratio

The NBU requires banks to maintain a capital adequacy ratio of 10% of risk-weighted assets, computed based on UAR.

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As of 31 December 2008 and 2007, the Bank’s capital adequacy ratio on this basis was as follows:

	<u>2008</u>	<u>2007</u>
Main capital	1,573,689	1,003,121
Additional capital	255,873	278,914
Total capital	<u>1,829,562</u>	<u>1,282,035</u>
Risk weighted assets	<u>14,248,925</u>	<u>9,984,977</u>
Capital adequacy ratio	12.84%	12.84%

Capital adequacy ratio under Basel Capital Accord 1988

The Bank’s capital adequacy ratio, computed in accordance with the Basel Capital Accord 1988, with subsequent amendments including the amendment to incorporate market risks, as at 31 December 2008 and 2007, comprised:

	<u>2008</u>	<u>2007</u>
Tier 1 capital	1,176,748	1,036,733
Tier 2 capital	323,477	231,718
Total capital	<u>1,500,225</u>	<u>1,268,451</u>
Risk weighted assets	<u>11,788,297</u>	<u>8,802,389</u>
Tier 1 capital ratio	9.98%	11.78%
Total capital ratio	12.73%	14.41%

30. Events after the balance sheet date

On 30 January 2009, the General Shareholders’ Meeting approved issue of new shares for a total amount of UAH 1,349,990 thousand. At the date of issue of these financial statements the shareholders have prepaid UAH 488,335 thousand of new shares in cash. The Bank is further required to approve the results of the share issue by the General Shareholders’ Meeting and register the share issue with appropriate Ukrainian regulatory authorities.

The Bank signed a Framework Restructuring Agreement (further – Agreement) which took effect on 1 February 2010, to restructure amounts due to credit institutions with the total carrying amount of UAH 3,010,203 thousand as at 31 December 2008 (nominal amount of USD 351,933 thousand and EUR 23,359 thousand). Under the terms of the Agreement:

- Liabilities with the nominal amount of USD 57,013 thousand and EUR 304 thousand are to be converted into Senior Debt 1 with the final maturity on 31 December 2014. Senior Debt 1 is to be repaid by annual instalments starting from December 2010;
- Liabilities with the nominal amount of USD 154,147 thousand and EUR 822 thousand are to be converted into Senior Debt 2 with the final maturity on 31 December 2013. Senior Debt 2 is to be repaid by semi-annual instalments in 2009 and 2010 starting from December 2009 and annual instalments thereafter. As the Agreement became effective on 1 February 2010, the first instalment is being paid in February 2010;
- Liabilities with the nominal amount of EUR 21,483 thousand are to be preserved as ECA Debt with the final maturity on 31 December 2017. ECA Debt is to be repaid by annual instalments starting from December 2010;
- Liabilities with the nominal amount of USD 38,009 thousand and EUR 203 thousand are to be converted into subordinated debt denominated in USD with the final maturity on 31 December 2015;
- Liabilities with the nominal amount of USD 102,765 thousand and EUR 548 thousand are to be converted into up to 49% of the Bank’s share capital;
- The shareholders of the Bank committed to convert their outstanding subordinated debt of USD 30,000 thousand into equity.

In addition, the Agreement provides a requirement for further support from the National Bank of Ukraine, the evidence of which support was accepted by the lenders for the purposes of the Agreement to become effective.

The Agreement includes a number of covenants, including timely submission of audited and unaudited financial statements, budgets, maintenance of the Bank’s corporate existence in compliance with all applicable laws and other. In addition, the Bank shall not declare or pay any dividends or other distributions to shareholders, incur any capital expenditure or commitment in excess of the maximum amount specified in the Bank’s budget, or enter into any non-arm length transactions.