

PJSC «KREDOBANK»

**International Financial Reporting Standards
Financial Statements and
Independent Auditor's Report**

31 December 2009

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders and Management Board of PJSC Kredobank:

- 1 We have audited the accompanying financial statements of Public Joint Stock Company Kredobank (the "Bank") which comprise the statement of financial position as of 31 December 2009 and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

- 2 Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. 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.

Auditor's Responsibility

- 3 Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.
- 4 An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

- 6 In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as of 31 December 2009, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

LLC AF "PricewaterhouseCoopers (Audit)"

11 March 2010
Kyiv, Ukraine

PJSC «KREDOBANK»
Statement of Financial Position

	Note	31 December 2009	31 December 2008	1 January 2008
<i>In thousands of Ukrainian hryvnias</i>				
ASSETS				
Cash and cash equivalents and mandatory reserves	7	1,060,316	533,088	439,049
Securities at fair value through profit or loss	8	11,685	24,254	208,516
Due from other banks	9	6,058	5,017	99,871
Loans and advances to customers	10	3,669,552	4,548,212	3,430,606
Investment securities available-for-sale	11	51,386	83,624	30
Current income tax prepayment		7,928	7,254	-
Deferred income tax asset	26	200,238	124,169	22,294
Intangible assets	12	26,214	24,331	15,659
Premises, leasehold improvements and equipment	12	378,079	368,528	339,977
Other financial assets	13	2,179	7,397	5,060
Other non-financial assets	14	23,065	27,813	31,160
TOTAL ASSETS		5,436,700	5,753,687	4,592,222
LIABILITIES				
Due to other banks	15	996,341	1,711,007	856,269
Customer accounts	16	3,604,289	3,531,590	3,160,783
Debt securities in issue	17	308	75,010	25,400
Current income tax liability		-	-	576
Other financial liabilities	18	10,241	13,619	7,147
Other non-financial liabilities	19	13,278	12,339	6,624
Subordinated debt	20	159,842	293,773	111,864
TOTAL LIABILITIES		4,784,299	5,637,338	4,168,663
EQUITY				
Share capital	21	1,550,969	580,877	450,057
Accumulated deficit		(898,568)	(464,528)	(26,498)
TOTAL EQUITY		652,401	116,349	423,559
TOTAL LIABILITIES AND EQUITY		5,436,700	5,753,687	4,592,222

Approved for issue and signed on behalf of the Management Board on 11 March 2010.

I. M. Feskiv
 Chairman of the Board

V.V. Lototsky
 Chief Accountant



PJSC «KREDOBANK»
Statement of Comprehensive Income

<i>In thousands of Ukrainian hryvnias</i>	Note	2009	2008
Interest income	22	840,379	699,663
Interest expense	22	(483,671)	(409,470)
Net interest income		356,708	290,193
Provision for loan impairment	10	(694,840)	(568,002)
Net interest margin after provision for loan impairment		(338,132)	(277,809)
Fee and commission income	23	110,444	84,097
Fee and commission expense	23	(5,097)	(3,601)
Gains less losses from trading in foreign currencies		26,097	20,100
Foreign exchange translation gains less losses/(losses less gains)		2,815	(3,327)
Losses less gains from securities at fair value through profit or loss		(6,677)	(9,261)
Impairment of investment securities available-for-sale	11	(5,753)	(11,184)
Provision for other financial and non-financial assets		(3,291)	(7,314)
Provision for credit related commitments		(2,018)	(359)
Other operating income	24	6,274	8,273
Administrative and other operating expenses	25	(348,779)	(339,520)
Loss before tax		(564,117)	(539,905)
Income tax credit	26	76,069	101,875
Loss for the year		(488,048)	(438,030)
Other comprehensive income for the year		-	-
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		(488,048)	(438,030)

Approved for issue and signed on behalf of the Management Board on 11 March 2010.

I. M. Feskiy
Chairman of the Board



V.V. Lototskyy
Chief Accountant

PJSC «KREDOBANK»
Statement of Changes in Equity

<i>In the usands of Ukrainian hryvnias</i>	Note	Share capital	Accumulated deficit	Total equity
Balance at 1 January 2008		450,057	(26,498)	423,559
Total comprehensive loss for 2008		-	(438,030)	(438,030)
Share issue	21	130,820	-	130,820
Balance at 31 December 2008		580,877	(464,528)	116,349
Total comprehensive loss for 2009		-	(488,048)	(488,048)
Share issue	21	1,024,100	-	1,024,100
Reversal of hyperinflation adjustment	21	(54,008)	54,008	-
Balance at 31 December 2009		1,550,969	(898,568)	652,401

Approved for issue and signed on behalf of the Management Board on 11 March 2010.

I. M. Feskiv
 Chairman of the Board



V.V. Lototskyy
 Chief Accountant

PJSC «KREDOBANK»
Statement of Cash Flows

<i>In thousands of Ukrainian hryvnias</i>	Note	2009	2008
Cash flows from operating activities			
Interest received		633,409	633,163
Interest paid		(500,076)	(388,868)
Fees and commissions received		116,664	84,097
Fees and commissions paid		(11,317)	(3,601)
Income received from trading in foreign currencies		26,097	20,100
Other operating income received		4,177	8,273
Staff costs paid		(142,104)	(140,528)
Administrative and other operating expenses paid		(159,419)	(129,518)
Income tax paid		(674)	(7,830)
Cash flows (used in)/ from operating activities before changes in operating assets and liabilities		(33,243)	75,288
Net decrease in securities at fair value through profit or loss		6,824	184,262
Net (increase)/decrease in due from other banks		(1,504)	121,967
Net increase in mandatory deposits with the NBU		(54,184)	-
Net decrease/(increase) in loans and advances to customers		482,943	(596,804)
Net decrease/(increase) in other financial and non-financial assets		5,997	(11,076)
Net (decrease)/increase in due to other banks		(762,958)	391,849
Net increase/(decrease) in customer accounts		10,503	(244,715)
Net (decrease)/increase in other financial and non-financial liabilities		(5,820)	5,184
Net cash used in operating activities		(351,442)	(74,045)
Cash flows from investing activities			
Acquisition of investment securities available-for-sale	11	(231,194)	(500,101)
Proceeds from disposal and redemption of investment securities available-for-sale	11	263,680	407,622
Acquisition of premises and equipment	12	(49,500)	(86,102)
Proceeds from disposal of premises and equipment		3,218	958
Acquisition of intangible assets	12	(9,288)	(10,443)
Net cash used in investing activities		(23,084)	(188,066)
Cash flows from financing activities			
Proceeds from subordinated debt	20	159,806	88,500
Repayment of subordinated debt	20	(289,222)	-
Issue of ordinary shares	21	1,024,100	130,820
Issue of debt securities		-	49,517
Redemption of debt securities		(74,222)	-
Net cash from financing activities		820,462	268,837
Effect of exchange rate changes on cash and cash equivalents		27,108	87,314
Net increase in cash and cash equivalents		473,044	94,040
Cash and cash equivalents at the beginning of the year		533,088	439,048
Cash and cash equivalents at the end of the year	3, 7	1,006,132	533,088

Approved for issue and signed on behalf of the Management Board on 11 March 2010.

I. M. Feskiv
 Chairman of the Board



V.V. Lototskyy
 Chief Accountant

1 Introduction

These financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2009 for Public Joint Stock Company Kredobank (the "Bank").

The Bank was incorporated and is domiciled in Ukraine. The Bank is a public joint stock company limited by shares and was set up in accordance with Ukrainian regulations. As of 31 December 2009 and 2008 the Bank's immediate parent company was PKO BP S.A. (Poland). The bank is a part of the PKO BP S.A. Group ("PKO BP S.A Group" or the "Group"). The Group is ultimately controlled by the State Treasury of Poland.

Principal activity. The Bank's principal business activity is commercial and retail banking operations within Ukraine. The Bank was founded in 1990 as a joint stock company. Initially registered by the USSR State Bank, the Bank was re-registered by the National Bank of Ukraine (the "NBU") on 14 October 1991 under the name of West-Ukrainian Commercial Bank. In 2002, the Bank was renamed as Kredyt Bank (Ukraine). In November 2005, the shareholders of the Bank made the decision to change the name to Kredobank. Under the decision of Extraordinary General Shareholders Meeting on 26 November 2009, the Bank changed its name to Public Joint Stock Company "KREDOBANK" in order to bring its activities into compliance with the requirements of the Law of Ukraine On Joint Stock Companies.

The Bank operates under general banking licence issued by the NBU on 27 January 2006. This licence provides the Bank with the right to conduct banking operations, including currency operations. The Bank also possesses licences for securities operations and custodial services from the State Commission for Securities and Stock Market issued on 19 October 2007 (due to change in the Bank's name the licence data was re-issued on 25 January 2010). The Bank participates in the State deposit insurance scheme (registration # 51 dated 28 March 2006), which operates according to the Law №2740-III "On Individuals Deposits Guarantee Fund" dated 20 September 2001 (as amended). Individuals Deposits Guarantee Fund guarantees repayment of individual deposits up to UAH 150 thousand (2008: UAH 150 thousand) per individual in case bank liquidation procedure is started.

The Bank has 20 (2008: 27) branches within Ukraine.

Registered address and place of business. The Bank's registered address and place of business is:

Saharova str, 78
79026 Lviv,
Ukraine.

Presentation currency. These financial statements are presented in Ukrainian hryvnias ("UAH"), unless otherwise stated.

2 Operating Environment of the Bank

Ukraine displays certain characteristics of an emerging market, including but not limited to, the existence of a currency that is not freely convertible outside of Ukraine, restrictive currency controls, high inflation of 12.3% for 2009 (2008: 22.3%) and high interest rates. The financial situation in the Ukrainian financial and corporate sectors significantly deteriorated since mid-2008. The global financial crisis has had a severe effect on the Ukrainian economy:

- Lower commodity prices and decrease in external demand have resulted in lower income from exports and thus lower domestic demand. Ukraine's economy contracted in 2009, real GDP decreased by approximately 14% and the volume of industrial production decreased by 22% compared to 2008.
- The rise in Ukrainian and emerging market risk premia resulted in a steep increase in foreign financing costs.
- The depreciation of the Ukrainian hryvnia against major foreign currencies increased the burden of foreign currency corporate and retail debt, which has risen considerably in recent years. The official UAH to US Dollar (USD) exchange rate of the NBU devalued from UAH 4.861 at 30 September 2008 to UAH 7.985 at 31 December 2009 and UAH 7.9824 at the date of issuance of these financial statements.
- The country ratings by international rating agencies were downgraded in October 2008, February 2009 and November 2009. As at 31 December 2009 Ukraine's long-term foreign currency ratings were 'B-' by Fitch Ratings, 'B2' by Moody's and 'CCC+' by Standard & Poor's.
- The level of non-performing loans in corporate and retail portfolios of Ukrainian banks increased considerably in 2009.
- Since October 2008 the NBU introduced temporary administration at a number of Ukrainian banks due to their liquidity problems and started liquidation procedures at a number of banks.
- As a result of global volatility in financial and commodity markets, among other factors, there has been a significant decline in the Ukrainian stock market since mid-2008.

Management is unable to predict all developments which could have an impact on the banking sector and the wider economy and consequently what effect, if any, they could have on the future financial position of the Bank.

In the light of the current economic turmoil, the International Monetary Fund (the IMF) has agreed to issue an SDR 11 billion stabilizing loan to Ukraine if the country complies with certain requirements. The first tranche of SDR 3 billion has been received in November 2008, the second tranche of SDR 1.9 billion was received in May 2009, the third tranche of SDR 2.1 billion was received in July 2009 and the fourth tranche of SDR 2.5 billion was expected in November 2009. The major condition for qualifying for the loan was the development and ratification of a government anti-crisis package aiming to stabilize the economy, including determining the shortfall in capital and liquidity existing in the banking sector and taking the necessary steps to address the shortfalls.

However completion of the first review of Ukraine's economic performance under the Stand-By Arrangement was significantly delayed and the release of the second tranche was approved only after the Executive Board of the IMF granted waivers of non-observance of certain performance criteria.

The allocation of the fourth tranche, worth SDR 2.5 billion, was scheduled for November 2009 following the third review of the IMF's cooperation program with Ukraine. The IMF mission completed its work in Kyiv late in October 2009, however, IMF was not satisfied with the measures taken by the Ukrainian government in order to overcome the negative consequences of the financial crisis. Therefore IMF delayed granting the fourth tranche.

Borrowers of the Group were adversely affected by the financial and economic environment, which in turn impacted their ability to repay the amounts owed. As a significant part of loans to customers was issued in foreign currencies, UAH depreciation against these currencies had a significant impact on borrowers' ability to service the loans. Deteriorating economic conditions for borrowers were reflected in revised estimates of expected future cash flows in impairment assessments.

2 Operating Environment of the Bank (Continued)

The amount of provision for impaired loans is based on management's appraisals of these assets at the end of the reporting period after taking into consideration the cash flows that may result from foreclosure less costs for obtaining and selling the collateral.

The market in Ukraine for many types of collateral, especially real estate, has been severely affected by the volatile global financial markets, resulting in a low level of liquidity for certain types of assets. In some cases the Group has also experienced unforeseeable delays in recovering collateral. As a result, the actual realisable value on future foreclosure may differ from the value ascribed in estimating allowances for impairment at the end of the reporting period. Under IFRS, impairment losses on financial assets expected as a result of future events, no matter how likely, cannot be recognised until such events arise.

The volume of wholesale financing available in particular from overseas has significantly reduced since August 2007. Such circumstances may affect the ability of the Group to obtain new borrowings and re-finance its existing borrowings at terms and conditions similar to those applied to earlier transactions.

The tax, currency and customs legislation within Ukraine is subject to varying interpretations and frequent changes. Furthermore, the need for further developments in the bankruptcy laws, the formalised procedures for the registration and enforcement of collateral, political instability and other legal and fiscal impediments contribute to the challenges faced by banks currently operating in Ukraine. The future economic direction of Ukraine is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory and political developments.

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

3 Summary of Significant Accounting Policies

Basis of preparation. These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention, as modified by the initial recognition of financial instruments based on fair value, and by the revaluation of available-for-sale financial assets, and financial instruments categorised as at fair value through profit or loss. The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated (refer to Note 5).

Going concern. Management prepared these financial statements on a going concern basis. Refer to Note 4 for uncertainties related to events and conditions that may cast a significant doubt upon the Bank's ability to continue as a going concern.

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

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

3 Summary of Significant Accounting Policies (Continued)

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

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

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

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

Initial recognition of financial instruments. Derivatives and other financial instruments at fair value through profit or loss are initially recorded at fair value. All other financial instruments are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date that the Group commits to deliver a financial asset. All other purchases are recognised when the entity becomes a party to the contractual provisions of the instrument.

Derecognition of financial assets. The Group derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all the risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose restrictions on the sale.

Cash and cash equivalents. Cash and cash equivalents are items which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents include unrestricted balances with the NBU and all interbank placements with original maturities of less than three months. Funds restricted for a period of more than three months on origination are excluded from cash and cash equivalents. Cash and cash equivalents are carried at amortised cost.

3 Summary of Significant Accounting Policies (Continued)

Mandatory cash balances with the NBU. Mandatory cash balances with the NBU are carried at amortised cost and represent mandatory reserve deposits placed on separate account with the NBU which are not available to finance the Bank's day to day operations and hence are not considered as part of cash and cash equivalents for the purposes of the consolidated statement of cash flows.

Securities at fair value through profit or loss. Securities at fair value through profit or loss are financial assets designated irrevocably, at initial recognition, into this category. Management designates securities into this category only if (a) such classification eliminates or significantly reduces an accounting mismatch that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or (b) a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information on that basis is regularly provided to and reviewed by the Bank's key management personnel.

Securities at fair value through profit or loss are carried at fair value. Interest earned on securities at fair value through profit or loss calculated using the effective interest method is presented in profit or loss for the year as interest income. Dividends are included in dividend income within other operating income when the Bank's right to receive the dividend payment is established and it is probable that the dividends will be collected. All other elements of the changes in the fair value and gains or losses on derecognition are recorded in profit or loss for the year as gains less losses from securities at fair value through profit or loss in the period in which they arise.

Due from other banks. Amounts due from other banks are recorded when the Bank advances money to counterparty banks with no intention of trading the resulting unquoted non-derivative receivable due on fixed or determinable dates. Amounts due from other banks are carried at amortised cost.

Loans and advances to customers. Loans and advances to customers are recorded when the Bank advances money to purchase or originate an unquoted non-derivative receivable from a customer due on fixed or determinable dates and has no intention of trading the receivable. Loans and advances to customers are carried at amortised cost.

Impairment of financial assets carried at amortised cost. Impairment losses are recognised in profit or loss for the year when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If the Bank determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. The primary factors that the Bank considers in determining whether a financial asset is impaired are its overdue status and realisability of related collateral, if any.

The following other principal criteria are also used to determine whether there is objective evidence that an impairment loss has occurred:

- any instalment is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;
- the borrower experiences a significant financial difficulty as evidenced by the borrower's financial information that the Bank obtains;
- the borrower considers bankruptcy or a financial reorganisation;
- there is an adverse change in the payment status of the borrower as a result of changes in the national or local economic conditions that impact the borrower;
- the value of collateral significantly decreases as a result of deteriorating market conditions;
- changes to contract with borrower in respect of extension of maturity, changes in payment schedule and other changes to initial contractual terms in order to avoid worsening of the borrower's solvency.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

3 Summary of Significant Accounting Policies (Continued)

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets and the experience of management in respect of the extent to which amounts will become overdue as a result of past loss events and the success of recovery of overdue amounts. Past experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods and to remove the effects of past conditions that do not exist currently.

If the terms of an impaired financial asset held at amortised cost are renegotiated or otherwise modified because of financial difficulties of the borrower or issuer, impairment is measured using the original effective interest rate before the modification of terms.

Impairment losses are always recognised through an allowance account to write down the asset's carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the original effective interest rate of the asset. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account through profit or loss for the year.

Uncollectible assets are written off against the related impairment loss provision after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to impairment loss account in profit or loss for the year.

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

Credit related commitments. The Bank enters into credit related commitments, including commitments to extend loans, letters of credit and financial guarantees. Financial guarantees represent irrevocable assurances to make payments in the event that a customer cannot meet its obligations to third parties and carry the same credit risk as loans. Financial guarantees and commitments to provide a loan are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the commitment, except for commitments to originate loans if it is probable that the Bank will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination; such loan commitment fees are deferred and included in the carrying value of the loan on initial recognition. At the end of each reporting period, the commitments are measured at the higher of (i) the remaining unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the commitment at the end of each reporting period.

Investment securities available for sale. This classification includes investment securities which the Group intends to hold for an indefinite period of time and which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Investment securities available for sale are carried at fair value. Interest income on available-for-sale debt securities is calculated using the effective interest method and recognised in profit or loss for the year. Dividends on available-for-sale equity instruments are recognised in profit or loss for the year when the Bank's right to receive payment is established and it is probable that the dividends will be collected. All other elements of changes in the fair value are recognised in other comprehensive income until the investment is derecognised or impaired, at which time the cumulative gain or loss is reclassified from other comprehensive income to profit or loss for the year.

3 Summary of Significant Accounting Policies (Continued)

Impairment losses are recognised in profit or loss for the year when incurred as a result of one or more events (“loss events”) that occurred after the initial recognition of investment securities available for sale. A significant or prolonged decline in the fair value of an equity security below its cost is an indicator that it is impaired. The cumulative impairment loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised in profit or loss – is reclassified from other comprehensive income to profit or loss for the year. Impairment losses on equity instruments are not reversed and any subsequent gains are recognised in other comprehensive income. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss for the year.

Sale and repurchase agreements. Sale and repurchase agreements (“repo agreements”) which effectively provide a lender’s return to the counterparty are treated as secured financing transactions. Securities sold under such sale and repurchase agreements are not derecognised. The securities are not reclassified in the statement of financial position unless the transferee has the right by contract or custom to sell or repledge the securities, in which case they are reclassified as repurchase receivables. The corresponding liability is presented within amounts due to other banks.

Securities purchased under agreements to resell (“reverse repo agreements”) which effectively provide a lender’s return to the Bank are recorded as due from other banks or loans and advances to customers, as appropriate. The difference between the sale and repurchase price is treated as interest income and accrued over the life of repo agreements using the effective interest method.

Promissory notes purchased. Promissory notes purchased are included in due from other banks or in loans and advances to customers, depending on their substance and are recorded, subsequently remeasured and accounted for in accordance with the accounting policies for these categories of assets.

Premises, leasehold improvements and equipment. Premises, leasehold improvements and equipment are stated at cost, restated to the equivalent purchasing power of the Ukrainian hryvnia at 31 December 2000 for assets acquired prior to 1 January 2001, less accumulated depreciation and provision for impairment, where required.

Costs of minor repairs and maintenance are expensed when incurred. Costs of replacing major parts or components of premises and equipment items are capitalised and the replaced part is retired.

At the end of each reporting period management assesses whether there is any indication of impairment of premises, leasehold improvements and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset’s fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in profit or loss for the year. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset’s value in use or fair value less costs to sell.

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

Depreciation. Depreciation on premises, leasehold improvements and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives:

	<u>Useful lives in years</u>
Premises	50
Furniture and fixtures	10
Motor vehicles	4
Computers and equipment	5
Leasehold improvements	over the term of the underlying lease

The residual value of an asset is the estimated amount that the Bank would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The assets’ residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

3 Summary of Significant Accounting Policies (Continued)

Intangible assets. The Bank's intangible assets have definite useful life and primarily include capitalised computer software.

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring them to use.

Development costs that are directly associated with identifiable and unique software controlled by the Bank are recorded as intangible assets if an inflow of incremental economic benefits exceeding costs is probable. Capitalised costs include staff costs of the software development team and an appropriate portion of relevant overheads. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred. Capitalised computer software is amortised on a straight line basis over expected useful lives of 5 years.

Operating leases. Where the Bank is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Bank, the total lease payments are charged to profit or loss on a straight-line basis over the period of the lease.

Leases embedded in other agreements are separated if (a) fulfilment of the arrangement is dependent on the use of a specific asset or assets and (b) the arrangement conveys a right to use the asset.

When assets are leased out under an operating lease, the lease payments receivable are recognised as rental income on a straight-line basis over the lease term.

Due to other banks. Amounts due to other banks are recorded when money or other assets are advanced to the Bank by counterparty banks. The non-derivative liability is carried at amortised cost.

Customer accounts. Customer accounts are non-derivative liabilities to individuals, state or corporate customers and are carried at amortised cost.

Debt securities in issue. Debt securities in issue include bonds issued by the Bank. Debt securities are stated at amortised cost. If the Bank purchases its own debt securities in issue, they are removed from the statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains arising from retirement of debt.

Derivative financial instruments. Derivative financial instruments, including currency swaps are carried at their fair value.

All derivative instruments are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of derivative instruments are included in profit or loss. The Bank does not apply hedge accounting.

Certain derivative instruments embedded in other financial instruments are treated as separate derivative instruments when their risks and characteristics are not closely related to those of the host contract.

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

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxable profits or losses are based on estimates if financial statements are authorised prior to filing relevant tax returns. Taxes other than on income are recorded within administrative and other operating expenses.

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

3 Summary of Significant Accounting Policies (Continued)

Uncertain tax positions. The Bank's uncertain tax positions are reassessed by management at the end of each reporting period. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the end of each reporting period and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognised based on management's best estimate of the expenditure required to settle the obligations at the end of the reporting period.

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

Share capital. Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is recorded as share premium in equity.

Income and expense recognition. Interest income and expense are recorded for all debt instruments on an accrual basis using the effective interest method. This method defers, as part of interest income or expense, all fees paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Fees integral to the effective interest rate include origination fees received or paid by the entity relating to the creation or acquisition of a financial asset or issuance of a financial liability, for example fees for evaluating creditworthiness, evaluating and recording guarantees or collateral, negotiating the terms of the instrument and for processing transaction documents. Commitment fees received by the Bank to originate loans at market interest rates are integral to the effective interest rate if it is probable that the Bank will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination. The Bank does not designate loan commitments as financial liabilities at fair value through profit or loss.

When loans and other debt instruments become doubtful of collection, they are written down to the present value of expected cash inflows and interest income is thereafter recorded for the unwinding of the present value discount based on the asset's effective interest rate which was used to measure the impairment loss.

All other fees, commissions and other income and expense items are generally recorded on an accrual basis by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

Commissions and fees arising from negotiating, or participating in the negotiation of a transaction for a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses, and which are earned on execution of the underlying transaction, are recorded on its completion.

Foreign currency translation. The functional currency of the Bank is the currency of the primary economic environment in which the Bank operates. The Bank's presentation currency is the national currency of Ukraine, Ukrainian hryvnias ("UAH").

Monetary assets and liabilities are translated into the Bank's functional currency at the official exchange rate of the NBU at the end of the respective reporting period. Foreign exchange gains and losses resulting from the settlement of transactions and from the translation of monetary assets and liabilities into functional currency at year-end official exchange rates of the NBU are recognised in profit or loss. Translation at year-end rates does not apply to non-monetary items, including equity investments. Effects of exchange rate changes on the fair value of equity securities are recorded as part of the fair value gain or loss.

At 31 December 2009 the principal rate of exchange used for translating foreign currency balances were as follows:

	31 December 2009, UAH	31 December 2008, UAH
1 US dollar (USD)	7.985000	7.70000
1 euro (EUR)	11.448893	10.85546
1 Russian Rouble (RUR)	0.264020	0.26208

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

3 Summary of Significant Accounting Policies (Continued)

Staff costs and related contributions. Wages, salaries, contributions to the Ukrainian state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits are accrued in the year in which the associated services are rendered by the employees of the Bank.

Segment reporting. Operating segments are reported in a manner consistent with the internal reporting provided to the Board of the Bank being the Bank's chief operating decision maker. Segments whose revenue, result or assets are ten percent or more of all the segments are reported separately. Geographical segments of the Bank have been reported separately within these financial statements based on the ultimate domicile of the counterparty, e.g. based on economic risk rather than legal risk of the counterparty.

Changes in presentation. Where necessary, corresponding figures have been adjusted to conform to the presentation of the current year amounts.

The revised IAS 1, *Presentation of Financial Statements*, which became effective from 1 January 2009 requires an entity to present a statement of financial position as at the beginning of the earliest comparative period ('opening statement of financial position'), when the entity applies an accounting policy retrospectively or makes a retrospective restatement or when it reclassifies items in its financial statements. The opening statement of financial position is presented in these financial statements as a result of changes in presentation made following the adoption of the revised IAS 1 from 1 January 2009, including the introduction of the statement of comprehensive income.

The requirement to present the additional opening statement of financial position, when the entity has made a restatement or reclassification, extends to the information in the related notes. Management considered materiality and concluded that it is sufficient for an entity to present such information only in those notes that have been impacted by a restatement or a reclassification and state in the financial statements that the other notes have not been impacted by the restatement or reclassification. The omission of the notes to the additional opening statement of financial position is therefore, in management's view, not material.

The changes in presentation adopted in 2009 did not have any impact on the statement of financial position and the Bank therefore does not present in the notes information as of 1 January 2008.

4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies

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

Impairment losses on loans and advances. The Bank regularly reviews its loan portfolios to assess impairment. In determining whether an impairment loss should be recorded in profit or loss for the year, the Bank makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. To the extent that the assessed delay in repayment of principal on 5% of the total loans and advances to customers differs by +/- one month, the provision would be approximately UAH 1,000 thousand (31 December 2008: UAH 3,108 thousand) higher or UAH 1,000 thousand (31 December 2008: UAH 3,108 thousand) lower.

Impairment losses for individually significant loans are based on estimates of discounted future cash flows of the individual loans, taking into account repayments and realisation of any assets held as collateral against the loans. A 10% increase or decrease in the actual loss experience compared to the estimated future discounted cash flows from individually significant loans, which could arise from differences in amounts and timing of the cash flows, would result in an increase or decrease in loan impairment losses of UAH 89,746 thousand (2008: UAH 25,781 thousand), respectively.

Tax legislation. Ukrainian tax, currency and customs legislation is subject to varying interpretations. Refer to Note 30.

Deferred income tax asset recognition. The recognised deferred tax asset represents income taxes recoverable through future deductions from taxable profits and is recorded in the statement of financial position. Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable. The future taxable profits and the amount of tax benefits that are probable in the future are based on a medium term business plan prepared by management and extrapolated results thereafter. The business plan is based on management expectations that are believed to be reasonable under the circumstances. The Bank is expected to generate the sustainable profits in the future. The loss incurred in 2008 and 2009 year was a result of the need to significantly increase loan impairment provisions which arose from the adverse operating conditions described in Note 2. Having adequately provided for the impact of the economic crisis and having implemented key performance improvement measures, Management believes that it is appropriate to recognise the deferred tax asset.

Initial recognition of 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 judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analysis. Terms and conditions of related party balances are disclosed in Note 34.

4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies (Continued)

Going concern. Management prepared these financial statements on a going concern basis. In making this judgement management considered the Bank's financial position, current intentions, budgeted profitability of future operations and access to financial resources and analysed the impact of the recent financial crisis on future operations of the Bank. The Bank has accumulated losses of UAH 898,568 thousand as at 31 December 2009. In January 2009 the Bank signed an agreement with the NBU in respect of actions aimed at improvement of the Bank's financial position and performance and bringing the Bank's activities into compliance with banking regulations. The Bank's majority shareholder, PKO BP S.A. has issued a letter of support to the Bank stating that it will continue to provide the Bank with financial support to enable it to continue in operation for at least twelve months from 8 February 2010. Refer also to Note 35.

5 Adoption of New or Revised Standards and Interpretations

Certain new standards and interpretations became effective for the Bank from 1 January 2009:

IFRS 8, Operating Segments. The standard applies to entities whose debt or equity instruments are traded in a public market or that file, or are in the process of filing, their financial statements with a regulatory organisation for the purpose of issuing any class of instruments in a public market. IFRS 8 requires an entity to report financial and descriptive information about its operating segments, with segment information presented on a similar basis to that used for internal reporting purposes. The adoption of IFRS 8 has resulted in a change in the format of presenting segment information.

IAS 23, Borrowing Costs, revised in March 2007. The main change is the removal of the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that is not carried at fair value and that necessarily takes a substantial period of time to get ready for its intended use or sale (a qualifying asset) form part of the cost of that asset, if the commencement date for capitalisation is on or after 1 January 2009. Other borrowing costs are recognised as an expense using the effective interest method. Adoption of revised IAS 23 did not have an impact on these financial statements.

IAS 1, Presentation of Financial Statements, revised in September 2007. The main change in IAS 1 is the replacement of the income statement by a statement of comprehensive income which includes all non-owner changes in equity, such as the revaluation of available-for-sale financial assets. Alternatively, entities are allowed to present two statements: a separate income statement and a statement of comprehensive income. The Group has elected to present a single statement of comprehensive income. The revised IAS 1 also introduces a requirement to present a statement of financial position (balance sheet) at the beginning of the earliest comparative period whenever the entity restates comparatives due to reclassifications, changes in accounting policies, or corrections of errors. The revised IAS 1 had an impact on the presentation of the Group's financial statements but had no impact on the recognition or measurement of specific transactions and balances.

5 Adoption of New or Revised Standards and Interpretations (Continued)

Improvements to International Financial Reporting Standards (issued in May 2008). In 2008, the International Accounting Standards Board decided to initiate an annual improvements project as a method of making necessary, but non-urgent, amendments to IFRS. The amendments consist of a mixture of substantive changes, clarifications, and changes in terminology in various standards. The substantive changes relate to the following areas: classification as held for sale under IFRS 5 in case of a loss of control over a subsidiary; possibility of presentation of financial instruments held for trading as non-current under IAS 1; accounting for sale of IAS 16 assets which were previously held for rental and classification of the related cash flows under IAS 7 as cash flows from operating activities; clarification of definition of a curtailment under IAS 19; accounting for below market interest rate government loans in accordance with IAS 20; making the definition of borrowing costs in IAS 23 consistent with the effective interest method; clarification of accounting for subsidiaries held for sale under IAS 27 and IFRS 5; reduction in the disclosure requirements relating to associates and joint ventures under IAS 28 and IAS 31; enhancement of disclosures required by IAS 36; clarification of accounting for advertising costs under IAS 38; amending the definition of the fair value through profit or loss category to be consistent with hedge accounting under IAS 39; introduction of accounting for investment properties under construction in accordance with IAS 40; and reduction in restrictions over manner of determining fair value of biological assets under IAS 41. Further amendments made to IAS 8, 10, 18, 20, 29, 34, 40, 41 and to IFRS 7 represent terminology or editorial changes only, which the IASB believes have no or minimal effect on accounting. The amendments did not have significant impact on the Bank.

Puttable Financial Instruments and Obligations Arising on Liquidation — IAS 32 and IAS 1 Amendment. The amendment requires classification as equity of some financial instruments that meet the definition of financial liabilities. The amendment did not have an impact on these financial statements.

Vesting Conditions and Cancellations — Amendment to IFRS 2, Share-based Payment. The amendment clarified that only service conditions and performance conditions are vesting conditions. Other features of a share-based payment are not vesting conditions. The amendment specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The amendment did not have an impact on these financial statements.

IFRIC 13, Customer Loyalty Programmes. IFRIC 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. The amendment did not have an impact on these financial statements.

IFRIC 15, Agreements for the Construction of Real Estate. The interpretation applies to the accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors, and provides guidance for determining whether agreements for the construction of real estate are within the scope of IAS 11 or IAS 18. It also provides criteria for determining when entities should recognise revenue on such transactions. The amendment did not have an impact on these financial statements.

Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate — IFRS 1 and IAS 27 Amendment, issued in May 2008. The amendment allows first-time adopters of IFRS to measure investments in subsidiaries, jointly controlled entities or associates at fair value or at previous GAAP carrying value as deemed cost in the separate financial statements. The amendment also requires distributions from pre-acquisition net assets of investees to be recognised in profit or loss for the year rather than as a recovery of the investment. The amendment did not have an impact on these financial statements.

Improving Disclosures about Financial Instruments - Amendment to IFRS 7, Financial Instruments: Disclosures, issued in March 2009. The amendment requires enhanced disclosures about fair value measurements and liquidity risk. The entity is required to disclose an analysis of financial instruments using a three-level fair value measurement hierarchy. The amendment (a) clarifies that the maturity analysis of liabilities should include issued financial guarantee contracts at the maximum amount of the guarantee in the earliest period in which the guarantee could be called; and (b) requires disclosure of remaining contractual maturities of financial derivatives if the contractual maturities are essential for an understanding of the timing of the cash flows. An entity will further have to disclose a maturity analysis of financial assets it holds for managing liquidity risk, if that information is necessary to enable users of its financial statements to evaluate the nature and extent of liquidity risk. The enhanced disclosures are included in these financial statements.

5 Adoption of New or Revised Standards and Interpretations (Continued)

Embedded Derivatives - Amendments to IFRIC 9 and IAS 39, issued in March 2009. The amendments clarify that on reclassification of a financial asset out of the 'at fair value through profit or loss' category, all embedded derivatives have to be assessed and, if necessary, separately accounted for. The amendment did not have an impact on these financial statements.

IFRIC 16, Hedges of a Net Investment in a Foreign Operation. The interpretation explains which currency risk exposures are eligible for hedge accounting and states that translation from the functional currency to the presentation currency does not create an exposure to which hedge accounting could be applied. The IFRIC allows the hedging instrument to be held by any entity or entities within a group except the foreign operation that itself is being hedged. The interpretation also clarifies how the currency translation gain or loss reclassified from other comprehensive income to profit or loss is calculated on disposal of the hedged foreign operation. Reporting entities apply IAS 39 to discontinue hedge accounting prospectively when their hedges do not meet the criteria for hedge accounting in IFRIC 16. IFRIC 16 did not have an impact on these financial statements.

The International Financial Reporting Standard for Small and Medium-sized Entities (issued in July 2009) is a self-contained standard, tailored to the needs and capabilities of smaller businesses. Many of the principles of full IFRS for recognising and measuring assets, liabilities, income and expense have been simplified, and the number of required disclosures have been simplified and significantly reduced. The IFRS for SMEs may be applied by entities which publish general purpose financial statements for external users and do not have public accountability. The Bank is not eligible to apply the IFRS for SMEs due to the public accountability of its banking business.

Unless otherwise stated above, the amendments and interpretations did not have any significant effect on the Bank's financial statements.

6 New Accounting Pronouncements

Certain new standards and interpretations have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2010 or later periods and which the Group has not early adopted:

IFRIC 17, Distributions of Non-Cash Assets to Owners (effective for annual periods beginning on or after 1 July 2009). The interpretation clarifies when and how distribution of non-cash assets as dividends to the owners should be recognised. An entity should measure a liability to distribute non-cash assets as a dividend to its owners at the fair value of the assets to be distributed. A gain or loss on disposal of the distributed non-cash assets will be recognised in profit or loss for the year when the entity settles the dividend payable. IFRIC 17 is not relevant to the Bank's operations because it does not distribute non-cash assets to owners.

IFRIC 18, Transfers of Assets from Customers (effective for annual periods beginning on or after 1 July 2009). The interpretation clarifies the accounting for transfers of assets from customers, namely, the circumstances in which the definition of an asset is met; the recognition of the asset and the measurement of its cost on initial recognition; the identification of the separately identifiable services (one or more services in exchange for the transferred asset); the recognition of revenue, and the accounting for transfers of cash from customers. IFRIC 18 is not expected to have any impact on the Bank's financial statements.

Classification of Rights Issues - Amendment to IAS 32 (issued 8 October 2009; effective for annual periods beginning on or after 1 February 2010). The amendment exempts certain rights issues of shares with proceeds denominated in foreign currencies from classification as financial derivatives.

IAS 27, Consolidated and Separate Financial Statements (revised January 2008; effective for annual periods beginning on or after 1 July 2009). The revised IAS 27 will require an entity to attribute total comprehensive income to the owners of the parent and to the non-controlling interests (previously "minority interests") even if this results in the non-controlling interests having a deficit balance (the current standard requires the excess losses to be allocated to the owners of the parent in most cases). The revised standard specifies that changes in a parent's ownership interest in a subsidiary that do not result in the loss of control must be accounted for as equity transactions. It also specifies how an entity should measure any gain or loss arising on the loss of control of a subsidiary. At the date when control is lost, any investment retained in the former subsidiary will have to be measured at its fair value. The Bank does not expect the amended standard to have a material effect on its financial statements.

IFRS 3, Business Combinations (revised January 2008; effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009). The revised IFRS 3 will allow entities to choose to measure non-controlling interests using the existing IFRS 3 method (proportionate share of the acquiree's identifiable net assets) or at fair value. The revised IFRS 3 is more detailed in providing guidance on the application of the purchase method to business combinations. The requirement to measure at fair value every asset and liability at each step in a step acquisition for the purposes of calculating a portion of goodwill has been removed. Instead, in a business combination achieved in stages, the acquirer will have to remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognise the resulting gain or loss, if any, in profit or loss for the year. Acquisition-related costs will be accounted for separately from the business combination and therefore recognised as expenses rather than included in goodwill. An acquirer will have to recognise at the acquisition date a liability for any contingent purchase consideration. Changes in the value of that liability after the acquisition date will be recognised in accordance with other applicable IFRSs, as appropriate, rather than by adjusting goodwill. The revised IFRS 3 brings into its scope business combinations involving only mutual entities and business combinations achieved by contract alone. IFRS 3 is not relevant to the Bank as it does not expect a business combination to occur.

Eligible Hedged Items — Amendment to IAS 39, Financial Instruments: Recognition and Measurement (effective with retrospective application for annual periods beginning on or after 1 July 2009). The amendment clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation should be applied in particular situations. The amendment is not expected to have any impact on the Bank's financial statements as the Bank does not apply hedge accounting.

6 New Accounting Pronouncements (Continued)

IFRS 1, First-time Adoption of International Financial Reporting Standards (following an amendment in December 2008, effective for the first IFRS financial statements for a period beginning on or after 1 July 2009). The revised IFRS 1 retains the substance of its previous version but within a changed structure in order to make it easier for the reader to understand and to better accommodate future changes. The Bank concluded that the revised standard does not have any effect on its financial statements.

Group Cash-settled Share-based Payment Transactions - Amendments to IFRS 2, Share-based Payment (effective for annual periods beginning on or after 1 January 2010). The amendments provide a clear basis to determine the classification of share-based payment awards in both consolidated and separate financial statements. The amendments incorporate into the standard the guidance in IFRIC 8 and IFRIC 11, which are withdrawn. The amendments expand on the guidance given in IFRIC 11 to address plans that were previously not considered in the interpretation. The amendments also clarify the defined terms in the Appendix to the standard. The Bank does not expect the amendments to have any material effect on its financial statements.

Additional Exemptions for First-time Adopters - Amendments to IFRS 1, First-time Adoption of IFRS (effective for annual periods beginning on or after 1 January 2010). The amendments exempt entities using the full cost method from retrospective application of IFRSs for oil and gas assets and also exempt entities with existing leasing contracts from reassessing the classification of those contracts in accordance with IFRIC 4, 'Determining Whether an Arrangement Contains a Lease' when the application of their national accounting requirements produced the same result. The amendments will not have any impact on the Bank's financial statements.

Improvements to International Financial Reporting Standards (issued in April 2009; amendments to IFRS 2, IAS 38, IFRIC 9 and IFRIC 16 are effective for annual periods beginning on or after 1 July 2009; amendments to IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 36 and IAS 39 are effective for annual periods beginning on or after 1 January 2010). The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: clarification that contributions of businesses in common control transactions and formation of joint ventures are not within the scope of IFRS 2; clarification of disclosure requirements set by IFRS 5 and other standards for non-current assets (or disposal groups) classified as held for sale or discontinued operations; requiring to report a measure of total assets and liabilities for each reportable segment under IFRS 8 only if such amounts are regularly provided to the chief operating decision maker; amending IAS 1 to allow classification of certain liabilities settled by entity's own equity instruments as non-current; changing IAS 7 such that only expenditures that result in a recognised asset are eligible for classification as investing activities; allowing classification of certain long-term land leases as finance leases under IAS 17 even without transfer of ownership of the land at the end of the lease; providing additional guidance in IAS 18 for determining whether an entity acts as a principal or an agent; clarification in IAS 36 that a cash generating unit shall not be larger than an operating segment before aggregation; supplementing IAS 38 regarding measurement of fair value of intangible assets acquired in a business combination; amending IAS 39 (i) to include in its scope option contracts that could result in business combinations, (ii) to clarify the period of reclassifying gains or losses on cash flow hedging instruments from equity to profit or loss for the year and (iii) to state that a prepayment option is closely related to the host contract if upon exercise the borrower reimburses economic loss of the lender; amending IFRIC 9 to state that embedded derivatives in contracts acquired in common control transactions and formation of joint ventures are not within its scope; and removing the restriction in IFRIC 16 that hedging instruments may not be held by the foreign operation that itself is being hedged. The Bank does not expect the amendments to have any material effect on its financial statements.

Amendment to IAS 24, Related Party Disclosures (issued in November 2009 and effective for annual periods beginning on or after 1 January 2011). IAS 24 was revised in 2009 by: (a) simplifying the definition of a related party, clarifying its intended meaning and eliminating inconsistencies; and by (b) providing a partial exemption from the disclosure requirements for government-related entities. The Bank does not expect the amendments to have any material effect on its financial statements.

6 New Accounting Pronouncements (Continued)

IFRS 9, Financial Instruments Part 1: Classification and Measurement. IFRS 9 was issued in November 2009 and replaces those parts of IAS 39 relating to the classification and measurement of financial assets. Key features are as follows:

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.
- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent only payments of principal and interest (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.
- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.
- While adoption of IFRS 9 is mandatory from 1 January 2013, earlier adoption is permitted.

The Bank is considering the implications of the standard, the impact on the Bank and the timing of its adoption by the Bank.

Unless otherwise described above, the new standards and interpretations are not expected to significantly affect the Bank's financial statements.

7 Cash and Cash Equivalents and Mandatory Reserves

<i>In thousands of Ukrainian hryvnias</i>	2009	2008
Cash on hand	268,677	209,766
Cash balances with the NBU (other than mandatory reserve deposits)	136,868	104,978
Mandatory cash balances with the NBU	54,184	-
Correspondent accounts with other banks	600,587	218,344
- Ukraine	117	115
- Other countries	600,470	218,229
Total cash and cash equivalents and mandatory reserves	1,060,316	533,088

As at 31 December 2009 the mandatory reserve requirement is calculated on the basis of a simple average over a monthly period (2008: monthly period) and should be maintained at the level of 0 to 7 percent (31 December 2008: 0 to 5 percent) of certain obligations of the Bank. As such, the balance can vary from day-to-day. The Bank's mandatory reserve requirement for December 2009 was UAH 107,408 thousand (for December 2008: UAH 114,439 thousand). The Bank may satisfy its mandatory reserve requirement only with the balance on account with the National Bank of Ukraine (2008: balance on account with the National Bank of Ukraine).

As at 31 December 2009 the Bank has to deposit on separate account with the NBU the amount of 50% of mandatory reserve balance for the preceding month (2008: no requirement to place deposit on a separate account). This deposit amounts to UAH 54,184 thousand and carries interest at rate of 30% of discount rate set by the NBU. As the respective liquid assets are not available to finance the Bank's day-to-day operations, for the purposes of the cash flow statement the mandatory reserve balance kept on a separate account with the NBU is excluded from cash and cash equivalents. As at 31 December 2009 cash and cash equivalents for the purposes of the statement of cash flows was UAH 1,006,132 thousand (2008: UAH 533,088 thousand).

As at 31 December 2009, in accordance with the NBU regulations the Bank was required to maintain the daily balance on account with the NBU at the level not less than 90% of the mandatory reserve deposit for the preceding month (2008: not less than 90% of the mandatory reserve balance for the preceding month). The Bank will not be subject to any sanctions if it fails to comply with the requirements less than 30 times within a 3 month period.

Interest rate analysis of cash and cash equivalents is disclosed in Note 28. Information on related party balances is disclosed in Note 34.

The credit quality of cash and cash equivalents and mandatory reserve balances may be summarised based on Moody's ratings as follows at 31 December 2009:

<i>In thousands of Ukrainian hryvnias</i>	Cash balances with the NBU, including mandatory reserves	Correspondent accounts with other banks	Total
<i>Neither past due nor impaired</i>			
- National Bank of Ukraine	191,052	-	191,052
- Aa1 – Aa3 rated	-	548,011	548,011
- A1 - A3 rated	-	48,488	48,488
- Baa1 - Baa3 rated	-	2	2
- Ba1 - Ba3 rated	-	29	29
- B1 – B3 rated	-	3,851	3,851
- Unrated	-	206	206
Total cash and cash equivalents and mandatory reserves, excluding cash on hand	191,052	600,587	791,639

7 Cash and Cash Equivalents and Mandatory Reserves (Continued)

The credit quality of cash and cash equivalents and mandatory reserve balances may be summarised based on Moody's ratings as follows at 31 December 2008:

<i>In thousands of Ukrainian hryvnias</i>	Cash balances with the NBU, including mandatory reserves	Correspondent accounts with other banks	Total
<i>Neither past due nor impaired</i>			
- National Bank of Ukraine	104,978	-	104,978
- Aa1 – Aa3 rated	-	208,136	208,136
- B1 – B3 rated	-	2,030	2,030
- C1 - C3 rated	-	5,493	5,493
- D1 - D3 rated	-	1,953	1,953
- Unrated	-	732	732
Total cash and cash equivalents and mandatory reserves, excluding cash on hand	104,978	218,344	323,322

8 Securities at Fair Value Through Profit or Loss

<i>In thousands of Ukrainian hryvnias</i>	2009	2008
Corporate bonds	11,685	24,254
Total debt securities	11,685	24,254
Total securities at fair value through profit or loss	11,685	24,254

The Bank irrevocably designated the above securities, which are not part of its trading book, as at fair value through profit or loss. The securities meet the criteria for classification as at fair value through profit or loss because key management personnel assesses performance of the investments based on their fair values in accordance with a strategy documented in the business plan.

Securities designated at fair value through profit or loss are carried at fair value which also reflects any credit risk related write-downs. As the securities are carried at their fair values based on observable market data, the Bank does not analyse or monitor impairment indicators. Analysis by credit quality of debt securities designated at fair value through profit or loss outstanding at 31 December 2009 is as follows:

<i>In thousands of Ukrainian hryvnias</i>	Corporate bonds	Total
<i>Neither past due nor impaired (at fair value)</i>		
- uaB- to uaB+ rated	11,178	11,178
- Unrated	507	507
Total debt securities designated at fair value through profit or loss	11,685	11,685

Analysis by credit quality of debt securities at fair value through profit or loss outstanding at 31 December 2008 is as follows:

<i>In thousands of Ukrainian hryvnias</i>	Corporate bonds	Total
<i>Neither past due nor impaired (at fair value)</i>		
- uaBB- to uaBB+ rated	3,954	3,954
- Unrated	20,300	20,300
Total debt securities designated at fair value through profit or loss	24,254	24,254

Credit analysis above is presented based on the credit ratings assigned by the Ukrainian rating agency, Credit-Rating.

Interest rate analysis of securities at fair value through profit or loss is disclosed in Note 28.

9 Due from Other Banks

<i>In thousands of Ukrainian hryvnias</i>	2009	2008
Guarantee deposits	6,058	5,017
Total due from other banks	6,058	5,017

As at 31 December 2009 guarantee deposits include an equivalent amount of UAH 6,058 thousand (2008: UAH 5,017 thousand) due from two Ukrainian banks placed as guarantee deposits in US dollars for card settlements and transfers. Such placements are normally non-interest bearing.

Amounts due from other banks are not collateralised. Analysis by credit quality of amounts due from other banks outstanding at 31 December 2009 is presented in the table below. The analysis is based on ratings assigned by one of the international credit rating agencies Moody's.

<i>In thousands of Ukrainian hryvnias</i>	Guarantee deposits	Total
<i>Neither past due nor impaired</i> - B3 rated	6,058	6,058
Total due from other banks	6,058	6,058

Analysis by credit quality of amounts due from other banks outstanding at 31 December 2008 is as follows:

<i>In thousands of Ukrainian hryvnias</i>	Guarantee deposits	Total
<i>Neither past due nor impaired</i> - B1 – B3 rated	2,139	2,139
- D1 - D3 rated	2,878	2,878
Total due from other banks	5,017	5,017

Refer to Note 32 for the estimated fair value of each class of amounts due from other banks. Interest rate analysis of due from other banks is disclosed in Note 28.

10 Loans and Advances to Customers

<i>In thousands of Ukrainian hryvnias</i>	2009	2008
Corporate loans	3,456,527	3,564,134
Loans to individuals - consumer loans	409,940	562,608
Loans to individuals - mortgage loans	1,031,792	1,123,987
Reverse sale and repurchase agreements	38,502	28,517
Less: Provision for loan impairment	(1,267,209)	(731,034)
Total loans and advances to customers	3,669,552	4,548,212

At 31 December 2009 loans and advances to customers of UAH 38,502 thousand (2008: UAH 28,517 thousand) are effectively collateralised by securities purchased under reverse sale and repurchase agreements at a fair value of UAH 9,765 thousand (2008: UAH 3,850 thousand), of which the Bank has a right to sell or repledge securities with a fair value of UAH 9,765 thousand (2007: UAH 3,850 thousand).

As at 31 December 2009 loans and advances to customers in the amount of UAH 130,346 thousand (2008: UAH 142,976 thousand) were effectively collateralised by customer deposits in the amount of UAH 163,771 thousand (2008: UAH 165,427 thousand). Refer to Note 16.

Movements in the provision for loan impairment during 2009 are as follows:

	Corporate loans	Consumer loans	Mortgage loans	Reverse sale and repurchase agreements	Total
<i>In thousands of Ukrainian hryvnias</i>					
Provision for loan impairment at 1 January 2009	522,556	56,315	127,496	24,667	731,034
Provision for impairment during the year	488,514	55,268	146,988	4,070	694,840
Amounts written off during the year as uncollectible	(140,077)	(8,242)	(18,553)	-	(166,872)
Translation differences	5,632	761	1,814	-	8,207
Provision for loan impairment at 31 December 2009	876,625	104,102	257,745	28,737	1,267,209

Movements in the provision for loan impairment during 2008 are as follows:

	Corporate loans	Consumer loans	Mortgage loans	Reverse sale and repurchase agreements	Total
<i>In thousands of Ukrainian hryvnias</i>					
Provision for loan impairment at 1 January 2008	129,375	11,842	7,121	295	148,633
Provision for impairment during the year	386,023	42,244	115,363	24,372	568,002
Amounts written off during the year as uncollectible	(8,102)	(23)	-	-	(8,125)
Translation differences	15,260	2,252	5,012	-	22,524
Provision for loan impairment at 31 December 2008	522,556	56,315	127,496	24,667	731,034

10 Loans and Advances to Customers (Continued)

Economic sector risk concentrations within the customer loan portfolio are as follows:

<i>In thousands of Ukrainian hryvnias</i>	2009		2008	
	Amount	%	Amount	%
Individuals	1,441,732	29	1,686,595	32
Trade	1,105,218	22	1,218,116	23
Manufacturing	783,107	16	637,666	12
Agriculture and food processing	602,196	12	608,468	12
Real estate and construction	235,554	5	332,692	6
Other services	206,640	4	210,083	4
Sports and recreation services	131,919	3	137,788	3
Transportation	123,712	3	98,132	2
Financial services	99,612	2	97,459	2
Mining	86,835	2	69,881	1
Hotels	67,764	1	56,500	1
Other	52,472	1	125,866	2
Total loans and advances to customers (before impairment)	4,936,761	100	5,279,246	100

At 31 December 2009 the Bank had 9 borrowers (2008: 10 borrowers) with aggregated loan amounts above UAH 40,000 thousand. The total aggregate amount of these loans was UAH 481,659 thousand (2008: UAH 616,054 thousand) or 10 % of the gross loan portfolio (2008: 12% of the gross loan portfolio).

Information about collateral at 31 December 2009 is as follows:

<i>In thousands of Ukrainian hryvnias</i>	Corporate loans	Consumer loans	Mortgage loans	Reverse sale and repurchase agreements	Total
Unsecured loans	488,983	126,805	100,780	-	716,568
Loans collateralised by:					
- residential real estate	119,193	4,759	595,465	-	719,417
- other real estate	1,808,802	4,200	293,476	-	2,106,478
- cash deposits	127,809	2,398	49	-	130,256
- other assets	911,740	271,778	42,022	38,502	1,264,042
Total loans and advances to customers (before impairment)	3,456,527	409,940	1,031,792	38,502	4,936,761

Information about collateral at 31 December 2008 is as follows:

<i>In thousands of Ukrainian hryvnias</i>	Corporate loans	Consumer loans	Mortgage loans	Reverse sale and repurchase agreements	Total
Unsecured loans	527,597	175,715	102,762	-	806,074
Loans collateralised by:					
- residential real estate	115,952	5,472	671,976	-	793,400
- other real estate	1,781,626	5,366	288,511	-	2,075,503
- cash deposits	122,208	19,613	1,155	-	142,976
- other assets	1,016,751	356,442	59,583	28,517	1,461,293
Total loans and advances to customers (before impairment)	3,564,134	562,608	1,123,987	28,517	5,279,246

Other assets mainly include property rights for future real estate and equipment. The disclosure above represents the lower of the carrying value of the loan or collateral taken; the remaining part is disclosed within the unsecured exposures. The carrying value of loans was allocated based on liquidity of the assets taken as collateral.

10 Loans and Advances to Customers (Continued)

Analysis by credit quality of loans outstanding at 31 December 2009 is as follows:

	Corporate loans	Consumer loans	Mortgage loans	Reverse sale and repurchase agreements	Total
<i>In thousands of Ukrainian hryvnias</i>					
<i>Neither past due nor impaired</i>					
- High grade	115,501	195,138	355,187	1,203	667,029
- Standard grade	62,222	30,410	53,511	-	146,143
- Sub-standard grade	13,099	9,906	12,401	-	35,406
- Loans renegotiated in 2009	64,827	9,806	29,627	-	104,260
Total neither past due nor impaired	255,649	245,260	450,726	1,203	952,838
<i>Past due but not impaired</i>					
- less than 30 days overdue	32,566	5,682	10,791	-	49,039
- 30 to 90 days overdue	72,080	18,255	46,806	-	137,141
Total past due but not impaired	104,646	23,937	57,597	-	186,180
<i>Loans individually and collectively determined to be impaired (gross)</i>					
- less than 30 days overdue	1,107,268	861	69,319	22,111	1,199,559
- 30 to 90 days overdue	277,506	27	37,130	3,665	318,328
- 90 to 180 days overdue	404,455	20,370	61,407	-	486,232
- 180 to 360 days overdue	675,967	40,786	139,262	6,142	862,157
- over 360 days overdue	631,036	78,699	216,351	5,381	931,467
Total individually and collectively impaired loans (gross)	3,096,232	140,743	523,469	37,299	3,797,743
Less impairment provisions	(876,625)	(104,102)	(257,745)	(28,737)	(1,267,209)
Total loans and advances to customers	2,579,902	305,838	774,047	9,765	3,669,552

The Bank classifies loans and advances to customers by credit quality in accordance with classification prescribed by the NBU regulations. Current and not impaired loans are split by the Bank into the following credit risk categories:

High grade. This category represents loans classified under NBU regulations as standard grade. This category includes exposures with insignificant credit risk which is characterised by strong financial position of the borrower and good loan servicing;

Standard grade. This category represents loans classified under NBU regulations as loans under control. This category includes exposures with insignificant credit risk which however may increase as a result of unfavourable conditions; these are exposures to borrowers with good financial standing and good repayment history or borrowers with strong financial position and payment history with delays not exceeding 90 days.

Sub-standard loans. This category includes exposures with significant credit risk which is characterised by weak financial position of the borrower and good loan servicing or good financial position of the borrower and poor loan servicing.

10 Loans and Advances to Customers (Continued)

Analysis by credit quality of loans outstanding at 31 December 2008 is as follows:

	Corporate loans	Consumer loans	Mortgage loans	Reverse sale and repurchase agreements	Total
<i>In thousands of Ukrainian hryvnias</i>					
<i>Neither past due nor impaired</i>					
- High grade	598,518	350,799	572,311	-	1,521,628
- Standard grade	550,821	26,807	62,829	-	640,457
- Sub-standard grade	73,934	2,152	6,198	-	82,284
- Loans renegotiated in 2009	388,625	164	1,218	-	390,007
Total neither past due nor impaired	1,611,898	379,922	642,556	-	2,634,376
<i>Past due but not impaired</i>					
- less than 30 days overdue	439,793	74,779	173,174	-	687,746
- 30 to 90 days overdue	327,929	40,380	139,708	-	508,017
Total past due but not impaired	767,722	115,159	312,882	-	1,195,763
<i>Loans individually and collectively determined to be impaired (gross)</i>					
- less than 30 days overdue	290,320	-	-	28,517	318,837
- 30 to 90 days overdue	248,813	-	7,206	-	256,019
- 90 to 180 days overdue	161,505	28,237	41,400	-	231,142
- 180 to 360 days overdue	198,113	18,530	69,025	-	285,668
- over 360 days overdue	285,763	20,760	50,918	-	357,441
Total individually and collectively impaired loans (gross)	1,184,514	67,527	168,549	28,517	1,449,107
Less impairment provisions	(522,556)	(56,315)	(127,496)	(24,667)	(731,034)
Total loans and advances to customers	3,041,578	506,293	996,491	3,850	4,548,212

The Bank applied the portfolio provisioning methodology prescribed by IAS 39, *Financial Instruments: Recognition and Measurement*, and created portfolio provisions for impairment losses that were incurred but have not been specifically identified with any individual loan by the end of the reporting period. The Bank's policy is to classify each loan as 'neither past due nor impaired' until specific objective evidence of impairment of the loan is identified. The impairment provisions may exceed the total gross amount of individually impaired loans as a result of this policy and the portfolio impairment methodology.

Neither past due nor impaired, but renegotiated loans represent the carrying amount of loans that would otherwise be past due or impaired whose terms have been renegotiated. Past due but not impaired loans primarily include collateralised loans where the fair value of collateral covers the overdue interest and principal repayments. The amount reported as past due but not impaired is the whole balance of such loans, not only the individual instalments that are past due.

10 Loans and Advances to Customers (Continued)

The fair value of collateral in respect of loans past due but not impaired and in respect of loans individually determined to be impaired at 31 December 2009 was as follows:

	Corporate loans	Consumer loans	Mortgage loans	Reverse sale and repurchase agreements	Total
<i>In thousands of Ukrainian hryvnias</i>					
<i>Fair value of collateral - loans past due but not impaired</i>					
- residential real estate	3,861	533	38,513	-	42,907
- other real estate	127,443	449	29,888	-	157,780
- cash deposits	19,134	254	37	-	19,425
- other assets	101,546	18,348	4,132	-	124,026
<i>Fair value of collateral - individually impaired loans</i>					
- residential real estate	104,865	1,864	211,800	-	318,529
- other real estate	1,985,710	1,585	250,912	-	2,238,207
- cash deposits	85,884	418	-	-	86,302
- other assets	1,015,337	71,142	7,995	-	1,094,474
Total	3,443,780	94,593	543,277	-	4,081,650

Other assets mainly include property rights for future real estate and equipment.

The fair value of collateral in respect of loans past due but not impaired and in respect of loans individually determined to be impaired at 31 December 2008 was as follows:

	Corporate loans	Consumer loans	Mortgage loans	Reverse sale and repurchase agreements	Total
<i>In thousands of Ukrainian hryvnias</i>					
<i>Fair value of collateral - loans past due but not impaired</i>					
- residential real estate	51,402	1,270	93,455	-	146,127,
- other real estate	317,885	424	77,171	-	395,480,
- cash deposits	24,604	790	635	-	26,029,
- other assets	236,697	31,595	5,941	-	274,233,
<i>Fair value of collateral - individually impaired loans</i>					
- residential real estate	25,576	1,235	77,183	-	103,994,
- other real estate	928,391	188	77,238	-	1,005,817,
- cash deposits	14,576	10,123	418	-	25,117,
- other assets	381,932	27,984	3,395	3,850	417,161,
Total	1,981,063	73,609	335,436	3,850	2,393,958

The fair value of residential real estate at the reporting date was estimated by indexing the values determined by the Bank's internal credit department staff at the time of loan inception for the average changes in residential real estate prices by city and region. The fair value of other real estate and other assets was determined by the Bank's credit department using the Bank's internal guidelines.

Refer to Note 32 for the estimated fair value of each class of loans and advances to customers. Interest rate analysis of loans and advances to customers is disclosed in Note 28. Information on related party balances is disclosed in Note 34.

11 Investment Securities Available-for-Sale

<i>In thousands of Ukrainian hryvnias</i>	2009	2008
Ukrainian government bonds	45,826	40,624
Corporate bonds	5,530	42,970
Total debt securities	51,356	83,594
Corporate shares	30	30
Total investment securities available-for-sale	51,386	83,624

At 31 December 2009 included in investment securities available for sale are securities pledged under sale and repurchase agreements whose fair value is UAH 45,826 thousand.

Analysis by credit quality of debt securities outstanding at 31 December 2009 is as follows:

<i>In thousands of Ukrainian hryvnias</i>	Ukrainian govern- ment bonds	Corporate bonds	Total
<i>Neither past due nor impaired</i>			
- Ukrainian government	45,826	-	45,826
- Unrated	-	1,490	1,490
Total neither past due nor impaired	45,826	1,490	47,316
<i>Debt securities individually determined to be impaired (gross)</i>			
- less than 30 days overdue	-	9,646	9,646
- 30 to 90 days overdue	-	4,565	4,565
- overdue over 360 days	-	6,612	6,612
Total individually impaired debt securities (gross)	-	20,823	20,823
Less impairment provision	-	(16,783)	(16,783)
Total debt securities available-for-sale	45,826	5,530	51,356

11 Investment Securities Available-for-Sale (Continued)

Credit analysis above is presented based on the credit ratings assigned by the Ukrainian rating agency, Credit-Rating.

Analysis by credit quality of debt securities outstanding at 31 December 2008 is as follows:

<i>In thousands of Ukrainian hryvnias</i>	Ukrainian govern- ment bonds	Corporate bonds	Total
<i>Neither past due nor impaired</i>			
- Ukrainian government	40,624	-	40,624
- uaBBB- to uaBBB+ rated	-	28,614	28,614
- uaBB- to uaBB+ rated	-	7,004	7,004
- Unrated	-	5,028	5,028
Total neither past due nor impaired	40,624	40,646	81,270
<i>Debt securities individually determined to be impaired (gross)</i>			
- less than 30 days overdue	-	13,508	13,508
Total individually impaired debt securities (gross)	-	13,508	13,508
Less impairment provision	-	(11,184)	(11,184)
Total debt securities available-for-sale	40,624	42,970	83,594

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

The debt securities are not collateralised.

The movements in investment securities available-for-sale are as follows:

<i>In thousands of Ukrainian hryvnias</i>	Note	2009	2008
Carrying amount at 1 January		83,624	30
Impairment of investment securities available-for-sale		(5,753)	(11,184)
Interest income accrued	22	27,584	23,098
Interest income received		(21,583)	(20,799)
Purchases		231,194	500,101
Disposals		(263,680)	(407,622)
Carrying amount at 31 December		51,386	83,624

Interest rate analysis of investment securities available for sale is disclosed in Note 28.

12 Premises, Leasehold Improvements, Equipment and Intangible Assets

	Note	Premises and leasehold improvements	Computer and equipment	Furniture and fixtures	Motor vehicles	Construction in progress	Total premises, leasehold improvements and equipment	Computer software licences	Total
<i>In thousands of Ukrainian hryvnias</i>									
Cost at 1 January 2008		134,503	122,294	48,625	12,929	102,412	420,763	22,352	443,115
Accumulated depreciation		(15,758)	(37,690)	(21,026)	(6,312)	-	(80,786)	(6,693)	(87,479)
Carrying amount at 1 January 2008		118,745	84,604	27,599	6,617	102,412	339,977	15,659	355,636
Additions		-	28,843	6,864	2,821	47,574	86,102	10,443	96,545
Transfers		38,278	-	-	-	(38,278)	-	-	-
Disposals		(4,686)	(2,913)	(1,028)	(1,900)	-	(10,527)	(54)	(10,581)
Depreciation charge	25	(12,338)	(25,864)	(6,716)	(2,106)	-	(47,024)	(1,717)	(48,741)
Carrying amount at 31 December 2008		139,999	84,670	26,719	5,432	111,708	368,528	24,331	392,859
Cost at 31 December 2008		168,095	148,224	54,461	13,850	111,708	496,338	32,741	529,079
Accumulated depreciation		(28,096)	(63,554)	(27,742)	(8,418)	-	(127,810)	(8,410)	(136,220)
Carrying amount at 31 December 2008		139,999	84,670	26,719	5,432	111,708	368,528	24,331	392,859
Additions		-	15,198	23,684	2,125	8,493	49,500	9,288	58,788
Transfers		12,152	-	-	-	(12,152)	-	-	-
Disposals		(966)	(384)	(690)	(13)	-	(2,053)	(2)	(2,055)
Depreciation charge	25	(9,781)	(18,868)	(6,966)	(2,281)	-	(37,896)	(7,403)	(45,299)
Carrying amount at 31 December 2009		141,404	80,616	42,747	5,263	108,049	378,079	26,214	404,293
Cost at 31 December 2009		174,238	149,929	75,511	11,634	108,049	519,361	41,695	561,056
Accumulated depreciation		(32,834)	(69,313)	(32,764)	(6,371)	-	(141,282)	(15,481)	(156,763)
Carrying amount at 31 December 2009		141,404	80,616	42,747	5,263	108,049	378,079	26,214	404,293

Construction in progress consists mainly of construction and refurbishment of branch premises. Upon completion, assets are transferred to premises.

13 Other Financial Assets

<i>In thousands of Ukrainian hryvnias</i>	Note	2009	2008
Receivables from operations with securities		8,935	5,735
Accrued income		5,622	2,610
Receivables from operations with customers and banks		1,822	4,639
Receivables from operations with plastic cards		156	687
Derivative financial instruments	31	19	725
Less: Provision for other financial assets		(14,375)	(6,999)
Total other financial assets		2,179	7,397

Movements in the provision for impairment of other financial assets during 2009 are as follows:

<i>In thousands of Ukrainian hryvnias</i>	Receivables from operations with securities	Accrued income	Receivables from operations with customers and banks	Total
Provision for impairment at 1 January 2009	5,735	556	708	6,999
Provision for impairment during the year	3,200	3,884	292	7,376
Provision for impairment at 31 December 2009	8,935	4,440	1,000	14,375

Movements in the provision for impairment of other financial assets during 2008 are as follows:

<i>In thousands of Ukrainian hryvnias</i>	Receivables from operations with securities	Accrued income	Receivables from operations with customers and banks	Total
Provision for impairment at 1 January 2009	-	225	1,051	1,276
Provision/ (reversal of provision) for impairment during the year	5,735	331	(343)	5,723
Provision for impairment at 31 December 2009	5,735	556	708	6,999

13 Other Financial Assets (Continued)

Analysis by credit quality of other financial assets at 31 December 2009 is as follows:

	Receivables from operations with securities	Accrued income	Receivables from operations with customers and banks	Receivables from operations with plastic cards	Derivative financial instruments	Total
<i>In thousands of Ukrainian hryvnias</i>						
<i>Neither past due nor impaired</i>						
- Collected or settled after the end of the reporting period	-	1,175	821	156	19	2,171
Total neither past due nor impaired	-	1,175	821	156	19	2,171
<i>Receivables individually determined to be impaired (gross)</i>						
- less than 30 days overdue	294	318	-	-	-	612
- 30 to 90 days overdue	-	1,137	-	-	-	1,137
- 91 to 180 days overdue	3,200	-	-	-	-	3,200
- 181 to 360 days overdue	-	-	-	-	-	-
- over 360 days overdue	5,441	2,992	1,001	-	-	9,434
Total individually impaired (gross)	8,935	4,447	1,001	-	-	14,383
Less impairment provision	(8,935)	(4,440)	(1,000)	-	-	(14,375)
Total other financial receivables	-	1,182	822	156	19	2,179

Analysis by credit quality of other financial assets at 31 December 2008 is as follows:

	Receivables from operations with securities	Accrued income	Receivables from operations with customers and banks	Receivables from operations with plastic cards	Derivative financial instruments	Total
<i>In thousands of Ukrainian hryvnias</i>						
<i>Neither past due nor impaired</i>						
- Collected or settled after the end of the reporting period	-	1,843	1,158	687	725	4,413
Total neither past due nor impaired	-	1,843	1,158	687	725	4,413
<i>Receivables individually determined to be impaired (gross)</i>						
- less than 30 days overdue	294	211	-	-	-	505
- 30 to 90 days overdue	-	-	-	-	-	-
- 91 to 180 days overdue	5,441	-	1,760	-	-	7,201
- 181 to 360 days overdue	-	-	-	-	-	-
- over 360 days overdue	-	556	1,721	-	-	2,277
Total individually impaired (gross)	5,735	767	3,481	-	-	9,983
Less impairment provision	(5,735)	(556)	(708)	-	-	(6,999)
Total other financial receivables	-	2,054	3,931	687	725	7,397

The primary factors that the Bank considers in determining whether a receivable is impaired are its overdue status and realisability of related collateral, if any. As a result, the Bank presents above an ageing analysis of receivables that are individually determined to be impaired. Other receivables are not collateralised.

Information on related party balances is disclosed in Note 34.

14 Other Non-financial Assets

<i>In thousands of Ukrainian hryvnias</i>	2009	2008
Reposessed collateral	7,359	7,487
Prepayments for goods and construction in progress	4,823	13,861
Receivables from settlements with employees and other	4,142	2,031
Prepaid expenses	3,402	3,113
Prepaid taxes other than income tax	3,367	2,911
Prepayment for services	2,633	3,128
Inventory	1,248	1,388
Provision for impairment of other non-financial assets	(3,909)	(6,106)
Total other non-financial assets	23,065	27,813

Reposessed collateral represents real estate assets acquired by the Bank in settlement of overdue loans. The Bank expects to dispose of the assets in the foreseeable future. The assets were initially recognised at fair value when acquired.

15 Due to Other Banks

<i>In thousands of Ukrainian hryvnias</i>	2009	2008
Correspondent accounts and overnight placements of other banks	14,037	6,269
Term placements and loans from other banks	931,844	1,704,738
Sale and repurchase agreements with the NBU	50,460	-
Total due to other banks	996,341	1,711,007

As at 31 December 2009, term deposits and loans include UAH 745,539 thousand (2008: UAH 1,539,663 thousand) received from PKO BP S.A (Poland) and correspondent accounts and overnight placements of other banks include UAH 1,230 thousand of balances on accounts of PKO BP S.A (Poland).

As at 31 December 2009, term deposits and loans include loans of UAH 90,642 thousand (2008: UAH 103,403 thousand) received from the EBRD for financing loan facilities to customers.

As at 31 December 2009 loans from the NBU include an amount of UAH 50,460 thousand, which was collateralised by the Bank's securities available for sale in the amount UAH 45,826 thousand. Refer to Note 11.

Refer to Note 32 for the disclosure of the fair value of each class of amounts due to other banks. Interest rate analysis of due to other banks is disclosed in Note 28. Information on related party balances is disclosed in Note 34.

16 Customer Accounts

<i>In thousands of Ukrainian hryvnias</i>	2009	2008
Legal entities		
- Current/settlement accounts	512,321	577,437
- Term deposits	477,871	516,191
Individuals		
- Current/demand accounts	329,877	267,142
- Term deposits	2,284,220	2,170,820
Total customer accounts	3,604,289	3,531,590

16 Customer Accounts (Continued)

Economic sector concentrations within customer accounts are as follows:

<i>In thousands of Ukrainian hryvnias</i>	2009		2008	
	Amount	%	Amount	%
Individuals	2,614,097	72	2,437,962	69
Manufacturing	283,350	8	156,111	4
Trade	214,612	6	216,804	6
Financial services	115,684	3	130,352	4
Other services	98,702	3	95,387	3
Real estate	56,787	2	160,246	5
Transport and communication	54,996	1	218,124	6
Agriculture	25,508	1	20,753	-
Other	140,553	4	95,851	3
Total customer accounts	3,604,289	100	3,531,590	100

At 31 December 2009 the Bank had 11 customers (2008: 16 customers) with balances above UAH 10,000 thousand. The aggregate balance of these customers was UAH 166,991 thousand (2008: UAH 438,671 thousand) or 5% (2008: 12%) of total customer accounts.

At 31 December 2009 included in customer accounts are deposits of UAH 4,524 thousand (2008: UAH 6,495 thousand) held as collateral for irrevocable commitments under import letters of credit. Refer to Note 30.

As at 31 December 2009 included in customer accounts are deposits totalling UAH 163,771 thousand (2008: UAH 165,427 thousand) held as collateral for loans granted to customers totalling UAH 130,256 thousand (2008: UAH 142,976 thousand). Refer to Note 10.

Refer to Note 32 for the disclosure of the fair value of each class of customer accounts. Interest rate analysis of customer accounts is disclosed in Note 28. Information on related party balances is disclosed in Note 34.

17 Debt Securities in Issue

<i>In thousands of Ukrainian hryvnias</i>	2009	2008
Bonds issued on domestic market		
A – series	308	25,380
B – series	-	49,630
Total debt securities in issue	308	75,010

At 31 December 2009 the Bank has debt securities in issue of UAH 308 thousand (2008: UAH 75,010 thousand) denominated in Ukrainian hryvnias. These bonds were issued with the following terms and conditions:

Series of bonds	Nominal value (in thousands of Ukrainian hryvnias)	Coupon rate	Yield to maturity	Maturity	Option on early repayment and interest change
A - Series	300	13.75%	22%	20 February 2012	February 2010
Total debt securities in issue	300				

Under the terms of bonds issue, the holders of the bonds have the right to present the bonds for early redemption at par.

Refer to Note 32 for the disclosure of the fair value of each class of debt securities in issue. Interest rate analyses of debt securities in issue are disclosed in Note 28.

18 Other Financial Liabilities

Other financial liabilities comprise of the following:

<i>In thousands of Ukrainian hryvnias</i>	Note	2009	2008
Other accrued liabilities		4,132	4,907
Transit accounts		3,065	5,077
Derivative financial instruments	31	-	2,381
Provision for credit related commitments		3,033	1,254
Other		11	-
Total other financial liabilities		10,241	13,619

Provision for credit related commitments represents specific provisions created for losses incurred on financial guarantees and letters of credit provided to borrowers whose financial conditions deteriorated.

Refer to Note 32 for disclosure of the fair value of each class of other financial liabilities.

19 Other Non-financial Liabilities

Other non-financial liabilities comprise of the following:

<i>In thousands of Ukrainian hryvnias</i>	2009	2008
Accrued employee benefit costs	7,862	6,277
Amounts payable to Individuals' Deposit Guarantee Fund	2,981	2,694
Taxes payable other than on income	944	932
Other	1,491	2,436
Total other non-financial liabilities	13,278	12,339

20 Subordinated Debt

<i>In thousands of Ukrainian hryvnias</i>	Effective interest rate 2009	Carrying value 2009	Carrying value 2008
USD 20,000 thousand floating rate due 2017	1-month Libor + 6,5%	159,842	-
USD 10,000 thousand floating rate due 2016	-	-	77,278
USD 7,500 thousand floating rate due 2013	-	-	57,994
USD 7,500 thousand floating rate due 2015	-	-	57,959
USD 7,000 thousand floating rate due 2013	-	-	54,127
USD 6,000 thousand floating rate due 2016	-	-	46,415
Total subordinated debt		159,842	293,773

During 2009 the Bank received from PKO BP S.A (Poland) subordinated debt in the amount of USD 20,000 thousand (UAH 159,806 thousand at the exchange rate at the date of receipt) at 1-month LIBOR+6,5% per annum. The agreement was registered by the National Bank of Ukraine on 9 November 2009. The debt matures on 6 November 2017.

In 2009 the Bank repaid before maturity subordinated debts totalling UAH 293,773 thousand (at the exchange rate at the end of previous year) in accordance with the NBU permission under condition of increase in capital through additional share issue.

The debt ranks after all other creditors in case of liquidation.

Refer to Note 32 for the disclosure of the fair value of subordinated debt. Interest rate analysis of subordinated debt is disclosed in Note 28. Information on related party balances is disclosed in Note 34.

21 Share Capital

<i>In thousands of Ukrainian hryvnias except for number of shares</i>	Number of outstanding shares	Nominal amount	Inflation adjustment	Total
At 1 January 2008	39,604,946,916	396,049	54,008	450,057
New shares issued	13,082,000,000	130,820	-	130,820
At 31 December 2008	52,686,946,916	526,869	54,008	580,877
New shares issued	102,410,000,000	1,024,100	-	1,024,100
Reversal of hyperinflation adjustment	-	-	(54,008)	(54,008)
At 31 December 2009	155,096,946,916	1,550,969	-	1,550,969

The nominal registered amount of the Bank's issued share capital prior to restatement of capital contributions made before 1 January 2001 to the purchasing power of the Ukrainian hryvnia at 31 December 2000 is UAH 1,550,969 thousand (2008: UAH 526,869 thousand).

The Management Board of the Bank approved a resolution № 32/2009 dated 24 July 2009 to transfer from retained earnings to share capital the monetary loss recognised in previous years on the restatement of share capital for the effects of hyperinflation. Following the transfer, the nominal registered amount of the Bank's issued share capital corresponds to the amount reported in these financial statements.

In February 2009, the shareholders of the Bank approved an issue of 102,410,000,000 ordinary shares. This share issue was registered by the State Commission of Securities and Stock Market and by the NBU on 26 March 2009 and 4 June 2009, respectively.

At 31 December 2009, the Bank's authorised share capital comprised 155,096,946,916 (2008: 52,686,946,916) ordinary shares, with a nominal value UAH 0.01 per share. All ordinary shares have equal voting rights. As at 31 December 2009 all ordinary shares issued were fully paid and registered.

The Bank's shareholders structure is presented as follows:

Shareholder	2009	2008
PKO BP S.A	99.49%	98.58%
Other (resident and non-resident shareholders)	0.51%	1.42%
Total	100.00%	100.00%

22 Interest Income and Expense

<i>In thousands of Ukrainian hryvnias</i>	2009	2008
Interest income		
Loans and advances to legal entities	140,058	446,363
Loans and advances to individuals	141,699	179,088
Interest income on impaired financial assets	528,548	43,453
Debt securities	27,584	23,098
Due from other banks	2,425	7,544
Other	65	117
Total interest income	840,379	699,663
Interest expense		
Term deposits of individuals	302,156	218,486
Term placements of other banks	85,121	74,740
Term deposits of legal entities	84,760	90,564
Subordinated debt	5,183	9,578
Debt securities in issue	4,904	7,108
Amounts due to the National Bank of Ukraine	1,333	8,624
Other	214	370
Total interest expense	483,671	409,470
Net interest income	356,708	290,193

Information on interest income and expense from transactions with related parties is disclosed in Note 34.

23 Fee and Commission Income and Expense

<i>In thousands of Ukrainian hryvnias</i>	2009	2008
Fee and commission income		
Cash and settlement transactions	88,602	69,238
Purchase and sale of foreign currency	18,525	11,373
Guarantees issued	2,236	2,785
Other	1,081	701
Total fee and commission income	110,444	84,097
Fee and commission expense		
Cash and settlement transactions	2,603	1,504
Transactions with securities	375	253
Other	2,119	1,844
Total fee and commission expense	5,097	3,601
Net fee and commission income	105,347	80,496

Information on fee and commission expense from transactions with related parties is disclosed in Note 34.

24 Other Operating Income

<i>In thousands of Ukrainian hryvnias</i>	2009	2008
Agency fees from insurance companies	2,097	4,567
Fines and penalties received	1,730	1,789
Gain on disposal of premises and equipment	1,300	958
Sublease rental income	773	672
Other	374	287
Total other operating income	6,274	8,273

25 Administrative and Other Operating Expenses

<i>In thousands of Ukrainian hryvnias</i>	Note	2009	2008
Staff costs		144,597	143,017
Operating lease expense for premises		49,286	44,418
Depreciation and amortisation of premises, leasehold improvements, equipment and intangible assets	12	45,299	48,741
Utilities		20,175	17,435
Communication		15,692	13,607
Security services		14,993	16,039
Contributions to Individuals Deposit Guarantee Fund		12,050	10,386
Repairs and maintenance		10,501	8,837
Professional services		6,172	9,348
Advertising and marketing services		3,584	4,312
Taxes other than on income		3,584	2,390
Charity		201	1,645
Other		22,645	19,345
Total administrative and other operating expenses		348,779	339,520

Included in staff costs are state pension fund contributions of UAH 30,107 thousand (2008: UAH 30,504 thousand) and other social security contributions of UAH 1,919 thousand (2008: UAH 3,310 thousand).

26 Income Taxes

Income tax credit comprises the following:

<i>In thousands of Ukrainian hryvnias</i>	2009	2008
Current tax	-	-
Deferred tax	(76,069)	(101,875)
Income tax credit for the year	(76,069)	(101,875)

The income tax rate applicable to the majority of the Bank's income is 25% (2008: 25%). A reconciliation between the expected and the actual taxation charge is provided below.

26 Income Taxes (Continued)

<i>In thousands of Ukrainian hryvnias</i>	2009	2008
Loss before tax	(564,117)	(539,905)
Theoretical tax (credit)/charge at statutory rate (2009: 25%; 2008: 25%)	(141,030)	(134,976)
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Income recognised for tax purposes only	1,285	1,435
- Non-deductible loan loss provisioning expense	46,946	-
- Debt forgiveness expenses not deductible for taxation purposes	30,056	-
- Other non-deductible expenses	9,973	8,367
- Deferred tax asset not recognised	-	23,299
- Recognition of previously unrecognised deferred tax asset	(23,299)	-
Income tax credit for the year	(76,069)	(101,875)

Differences between IFRS and statutory taxation regulations in Ukraine give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. There is no defined period for utilisation of unused tax credits in the Ukrainian tax legislation. The tax effect of the movements in these temporary differences is detailed below and is recorded at the rate of 25% (2008: 25%).

<i>In thousands of Ukrainian hryvnias</i>	31 December 2008	Credited/ (charged) to profit or loss	31 December 2009
Tax effect of deductible/(taxable) temporary differences			
Premises and equipment:	1,201	(13)	1,188
Loan impairment provision	108,880	(92,880)	16,000
Unamortised origination fees	10,253	(12,648)	(2,395)
Fair valuation of securities	(8,227)	7,136	(1,091)
Accrued expenses and other liabilities	5,645	(2,511)	3,134
Tax losses carried forward	-	180,580	180,580
Other	6,417	(3,595)	2,822
Net deferred tax asset	124,169	76,069	200,238
Recognised deferred tax asset	132,396		203,724
Recognised deferred tax liability	(8,227)		(3,486)
Net deferred tax asset	124,169		200,238

26 Income Taxes (Continued)

	31 December 2007	Credited/ (charged) to profit or loss	31 December 2008
<i>In thousands of Ukrainian hryvnias</i>			
Tax effect of deductible/(taxable) temporary differences			
Premises and equipment:	(5,510)	6,711	1,201
Loan impairment provision	22,592	86,288	108,880
Fair valuation of securities	2,094	(10,321)	(8,227)
Unamortised origination fees	3,118	7,135	10,253
Accrued expenses and other liabilities	-	5,645	5,645
Other	-	6,417	6,417
Net deferred tax asset	22,294	101,875	124,169
Recognised deferred tax asset	27,804		132,396
Recognised deferred tax liability	(5,510)		(8,227)
Net deferred tax asset	22,294		124,169

27 Segment Analysis

Starting from 1 January 2009, the Bank prepares its segment analysis in accordance with IFRS 8, *Operating segments*, which replaced IAS 14, *Segment reporting*. Comparatives were adjusted to conform to the presentation of current period amounts.

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

(a) Description of products and services from which each reportable segment derives its revenue

The Bank is organised on the basis of three main business segments:

- Retail banking – representing private banking services, private customer current accounts, savings, deposits, investment savings products, credit and debit cards, consumer loans and mortgages.
- Corporate banking – representing direct debit facilities, current accounts, deposits, overdrafts, loan and other credit facilities and foreign currency operations.
- Treasury and investment banking – representing financial instruments trading, structured financing, operations with foreign currency and banknotes.

(b) Factors that management used to identify the reportable segments

The Bank's segments are strategic business units that focus on different customers. They are managed separately because each business unit requires different marketing strategies and service level.

27 Segment Analysis (Continued)

(c) Measurement of operating segment profit or loss, assets and liabilities

The Management Board reviews financial information prepared based on Ukrainian accounting standards adjusted to meet the requirements of internal reporting. Such financial information differs in certain aspects from International Financial Reporting Standards:

- (i) the fair value changes in available for sale securities that are reported within the segments' profits or losses rather than in other comprehensive income;
- (ii) funds are generally reallocated between segments at internal interest rates set by the treasury department, which are determined by reference to market interest rate benchmarks, contractual maturities for loans and observed actual maturities of customer accounts balances;
- (iii) income taxes are not allocated to segments;
- (iv) loan provisions are recognized based on the NBU requirements rather than based on the incurred loss model prescribed in IAS 39; and
- (v) commission income related to lending is partially recognized immediately rather than deferred using the effective interest method.

The CODM evaluates performance of each segment based on profit before tax.

Reports include information on transfer (internal) results of reportable segments. Transfer result is calculated as difference between transfer income and transfer expense of each segment calculated at transfer prices set by major currencies and maturities. For corporate and retail segment transfer income is formed as estimated income from sale of attracted resources to Treasury and investment segment at transfer prices for such resources; transfer expenses are formed as estimated expenditure for purchase of resources from Treasury and investment segment at transfer prices for resources placed.

Calculation of transfer prices and transfer income/expense is performed in accordance with "Methodology for defining and applying transfer prices of resources in KREDOBANK system" approved by the decision of the Management Board (№ 41/2008 dated 18.12.2008).

27 Segment Analysis (Continued)

(d) Information about reportable segment profit or loss, assets and liabilities

Segment information for the reportable segments for the year ended 31 December 2009 is set out below:

	Retail banking	Corporate banking	Treasury and Investment banking	Unallocated	Elimina- tions	Total
<i>In thousands of Ukrainian hryvnias</i>						
Reportable segment assets	1,017,582	2,626,811	1,166,938	663,823	-	5,475,154
Reportable segment liabilities	2,621,257	991,858	1,182,276	88,555	-	4,883,946
Capital expenditure	-	-	-	(108,049)	-	(108,049)

Capital expenditure represents additions to non-current assets other than financial instruments and deferred tax assets.

	Retail banking	Corporate banking	Treasury and Investment banking	Unallo- cated	Elimina- tions	Total
<i>In thousands of Ukrainian hryvnias</i>						
2009						
<i>External revenues:</i>						
- Interest income	219,775	577,387	30,009	-	-	827,171
- Fee and commission income	31,732	107,130	597	-	-	139,459
- Other operating income	850	4,123	-	135	-	5,108
<i>Revenues from other segments</i>						
- Interest income	352,010	122,206	696,727	-	(1,170,943)	-
Total revenues	604,367	810,846	727,333	135	(1,170,943)	971,738
Interest expense	(479,453)	(603,342)	(570,206)	-	1,170,943	(482,058)
Provision for loan impairment	(288,347)	(354,915)	1,194	-	-	(642,068)
Impairment of investment securities available for sale	-	-	(25,111)	-	-	(25,111)
Provision for credit related commitments	-	1,345	-	-	-	1,345
Depreciation and amortisation	-	-	-	(41,316)	-	(41,316)
Fee and commission expense	(3,671)	(2,851)	(4,752)	-	-	(11,274)
Gains less losses from trading in foreign currencies	-	-	-	10,199	-	10,199
Foreign exchange translation gains less losses	-	-	-	2,544	-	2,544
Gains less losses from disposals of investment securities available for sale	-	-	(3,002)	-	-	(3,002)
Administrative and other operating expenses	-	-	-	(309,075)	-	(309,075)
Segment result	(167,104)	(148,917)	125,456	(337,513)	-	(528,078)

27 Segment Analysis (Continued)

Segment information for the reportable segments for the year ended 31 December 2008 is set out below:

	Retail banking	Corporate banking	Treasury and Investment banking	Unallo- cated	Elimina- tions	Total
<i>In thousands of Ukrainian hryvnias</i>						
Reportable segment assets	1,546,789	3,340,890	838,254	657,952	-	6,383,885
Reportable segment liabilities	2,435,015	1,080,756	2,250,854	81,379	-	5,848,004
Capital expenditure	-	-	-	(94,104)	-	(94,104)
<i>In thousands of Ukrainian hryvnias</i>						
	Retail banking	Corporate banking	Treasury and Investment banking	Unallo- cated	Elimina- tions	Total
2008						
<i>External revenues:</i>						
- Interest income	181,496	464,436	32,079	-	-	678,011
- Fee and commission income	32,487	77,139	845	-	-	110,471
- Other operating income	665	6,648	-	540	-	7,853
<i>Revenues from other segments</i>						
- Interest income	62,182	-	117,416	-	(179,598)	-
Total revenues	276,830	548,223	150,340	540	(179,598)	796,335
Interest expense	(218,486)	(89,772)	(107,204)	-	-	(415,462)
Provision for loan impairment	(107,036)	(113,424)	301	-	-	(220,159)
Impairment of investment securities available for sale	-	-	(14,277)	-	-	(14,277)
Provision for credit related commitments	-	(280)	-	-	-	(280)
Depreciation and amortisation	-	-	-	(48,413)	-	(48,413)
Fee and commission expense	(3,743)	(2,779)	(3,589)	-	-	(10,111)
Gains less losses from trading in foreign currencies	-	-	-	24,654	-	24,654
Foreign exchange translation losses less gains	-	-	-	(3,327)	-	(3,327)
Gains less losses from disposals of investment securities available for sale	-	-	(3,843)	-	-	(3,843)
Administrative and other operating expenses	-	-	-	(289,998)	-	(289,998)
Segment result	(52,435)	341,968	21,728	(316,544)	(179,598)	(184,881)

27 Segment Analysis (Continued)

(e) Reconciliation of reportable segment revenues, profit or loss, assets and liabilities

<i>In thousands of Ukrainian hryvnias</i>	2009	2008
Total revenues for reportable segments	971,738	796,335
Application of effective interest rate	6,557	523
Reclassification of commission income to gains from trading in foreign currencies	(15,898)	-
Netting of similar operations	(6,512)	(6,510)
Other	1,212	1,685
Total revenues	957,097	792,033

Total revenues comprise interest income, fee and commission income and other operating income.

<i>In thousands of Ukrainian hryvnias</i>	2009	2008
Total reportable segment result	(528,079)	(184,881)
Differences in depreciation rates	(2,817)	(6,834)
Reinstatement of loans previously written off	9,279	-
Adjustment for fair value of securities	(4,192)	(2,324)
Adjustment for fair value of other assets	5,052	(4,221)
Application of effective interest rate	6,557	523
Additional accrual of provision for unused vacations of the Bank's employees	(1,910)	(2,490)
Adjustment of provision for credit related commitments	(3,363)	(176)
Adjustment of provision for loan impairment	(42,217)	(347,843)
Other	(2,427)	8,341
Loss before tax	(564,117)	(539,905)

<i>In thousands of Ukrainian hryvnias</i>	2009	2008
Total reportable segment assets	5,475,154	6,383,885
Adjustment of provision for loan impairment	26,993	(376,274)
Adjustment for deferred tax assets	158,810	97,512
Differences in depreciation rates	15,729	16,949
Adjustment for revaluation of premises	(206,885)	(213,170)
Accounting for swap operations on a net basis	(18,986)	(161,919)
Other	(14,115)	6,704
Total assets	5,436,700	5,753,687

<i>In thousands of Ukrainian hryvnias</i>	2009	2008
Total reportable segment liabilities	4,883,946	5,848,004
Adjustment for deferred tax liability in respect of revaluation of premises	(50,830)	(51,721)
Accounting for swap operations on a net basis	(18,986)	(161,918)
Other	(29,831)	2,973
Total liabilities	4,784,299	5,637,338

27 Segment Analysis (Continued)

Reconciliation of other material items of income or expenses for the year ended 31 December 2009 is as follows:

<i>In thousands of Ukrainian hryvnias</i>	Total amount for all reportable segments	Adjustment of provision for loan impairment	Application of effective interest rate	Reclassification of provision for repo operations	Reclassification of commission income to gains from trading in foreign currencies	Other	As reported under IFRS
Material income or expenses for year ended 31 December 2009							
<i>External revenues:</i>							
- Interest income	827,171	-	13,162	-	-	46	840,379
- Fee and commission income	139,459	-	(6,605)	-	(15,898)	(6,512)	110,444
- Other operating income	5,108	-	-	-	-	1,166	6,274
Interest expense	(482,058)	-	-	-	-	(1,613)	(483,671)
Provision for loan impairment	(642,068)	(42,175)	-	(19,876)	-	9,279	(694,840)
Impairment of investment securities available for sale	(25,111)	-	-	19,729	-	(371)	(5,753)
Provision for credit related commitments	1,345	-	-	-	-	(3,363)	(2,018)
Depreciation and amortisation	(41,316)	-	-	-	-	(3,983)	(45,299)
Fee and commission expense	(11,274)	-	-	-	-	6,177	(5,097)
Gains less losses from securities at fair value through profit or loss	-	-	-	-	-	(6,677)	(6,677)
Gains less losses from trading in foreign currencies	10,199	-	-	-	15,898	-	26,097
Foreign exchange translation gains less losses	2,544	(41)	-	-	-	312	2,815
Gains less losses from disposals of investment securities available for sale	(3,002)	-	-	-	-	3,002	-
Administrative and other operating expenses	(309,075)	-	-	-	-	2,304	(306,771)

The reconciling items are attributable to the following:

- (i) the Bank analyses in Segment reporting provision for impairment created in accordance with the NBU requirements;
- (ii) in Segment reporting commission income related to lending is partially recognized immediately rather than deferred using the effective interest method;
- (iii) provision for impairment of promissory notes reclassified under IFRS to loans and advances to customers, was reclassified to loan impairment provision;
- (iv) commission income from foreign currency operations was reclassified under IFRS to gains from trading in foreign currencies.

27 Segment Analysis (Continued)

Reconciliation of other material items of income or expenses for the year ended 31 December 2008 is as follows:

<i>In thousands of Ukrainian hryvnias</i>	Total amount for all reportable segments	Adjustment of provision for loan impairment	Application of effective interest rate	Adjustment for fair value of securities	Other	As reported under IFRS
Material income or expenses for year ended 31 December 2008						
<i>External revenues:</i>						
- Interest income	678,011	-	7,971	-	13,681	699,663
- Fee and commission income	110,471	-	(7,448)	-	(18,926)	84,097
- Other operating income	7,853	-	-	-	420	8,273
Interest expense	(415,462)	-	-	-	5,992	(409,470)
Provision for loan impairment	(220,159)	(347,843)	-	-	-	(568,002)
Impairment of investment securities available for sale	(14,277)	-	-	3,093	-	(11,184)
Provision for credit related commitments	(280)	-	-	-	(79)	(359)
Depreciation and amortisation	(48,413)	-	-	-	(328)	(48,741)
Fee and commission expense	(10,111)	-	-	-	6,510	(3,601)
Gains less losses from securities at fair value through profit or loss	475	-	-	(9,736)	-	(9,261)
Gains less losses from trading in foreign currencies	24,654	-	-	-	(4,554)	20,100
Foreign exchange translation gains less losses	(3,327)	-	-	-	-	(3,327)
Gains less losses from disposals of investment securities available for sale	(4,318)	-	-	4,318	-	-
Administrative and other operating expenses	(289,998)	-	-	-	(8,095)	(298,093)

The reconciling items are attributable to the following:

- (i) the Bank analyses in Segment reporting provision for impairment created in accordance with the NBU requirements;
- (ii) in Segment reporting commission income related to lending is partially recognized immediately rather than deferred using the effective interest method;
- (iii) fair value of securities for the purposes of Segment reporting is determined in accordance with the NBU regulations.

27 Segment Analysis (Continued)

Reconciliation of material assets and liabilities at 31 December 2009 is as follows:

<i>In thousands of Ukrainian hryvnias</i>	Total amount for all reportable segments	Adjustment of provision for loan impairment	Adjustment for deferred taxes	Differences in depreciation rates	Adjustment for revaluation of premises	Accounting for swap operations on a net basis	Other	As reported under IFRS
Assets at 31 December 2009	5,475,154	26,993	158,810	15,729	(206,885)	(18,986)	(14,115)	5,436,700
Cash and cash equivalents and mandatory reserves	1,063,825	-	-	-	-	-	(3,509)	1,060,316
Loans and advances to customers	3,625,846	26,578	-	-	-	-	17,128	3,669,552
Premises, leasehold improvements, equipment and intangible assets	587,622	-	-	15,729	(206,885)	-	7,827	404,293
Other reportable segment assets	197,861	415	158,810	-	-	(18,986)	(35,561)	302,539
Liabilities at 31 December 2009	4,883,946	-	-	-	(50,830)	(18,986)	(29,831)	4,784,299
Due to other banks	1,011,298	-	-	-	-	(18,986)	4,029	996,341
Customer accounts	3,609,701	-	-	-	-	-	(5,412)	3,604,289
Subordinated debt	159,842	-	-	-	-	-	-	159,842
Other reportable segment liabilities	103,105	-	-	-	(50,830)	-	(28,448)	23,827
Capital expenditure for 2009	(108,049)	-	-	-	-	-	-	(108,049)

The reconciling items are attributable to the following:

- (i) the Bank analyses in Segment reporting provision for impairment created in accordance with the NBU requirements;
- (ii) certain deferred tax assets were not recognized for the purposes of Segment reporting;
- (iii) premises and equipment are depreciated at different rates for the purposes of Segment reporting;
- (iv) for the purposes of Segment reporting premises are measured at revalued amounts;
- (v) for the purposes of Segment reporting swap operations are recognized on a gross basis as amounts due from banks and due to banks.

27 Segment Analysis (Continued)

Reconciliation of material assets and liabilities at 31 December 2008 is as follows:

<i>In thousands of Ukrainian hryvnias</i>	Total amount for all reportable segments	Adjustment of provision for loan impairment	Adjustment for deferred taxes	Differences in depreciation rates	Adjustment for revaluation of premises	Accounting for swap operations on a net basis	Other	As reported under IFRS
Assets at 31 December 2008	6,383,885	(376,274)	97,512	23,360	(213,170)	(161,919)	293	5,753,687
Cash and cash equivalents and mandatory reserves	536,589	-	-	-	-	(2,248)	(1,253)	533,088
Loans and advances to customers	4,886,592	(377,924)	-	-	-	-	39,544	4,548,212
Premises, leasehold improvements, equipment and intangible assets	571,651	-	-	23,360	(213,170)	-	11,018	392,859
Other reportable segment assets	389,053	1,650	97,512	-	-	(159,671)	(49,016)	279,528
Liabilities at 31 December 2008	5,848,004	-	-	-	(51,721)	(161,918)	2,973	5,637,338
Due to other banks	1,875,306	-	-	-	-	(164,299)	-	1,711,007
Customer accounts	3,521,477	-	-	-	-	-	10,113	3,531,590
Subordinated debt	293,773	-	-	-	-	-	-	293,773
Other reportable segment liabilities	157,448	-	-	-	(51,721)	2,381	(7,140)	100,968
Capital expenditure for 2008	(96,545)	-	-	-	-	-	-	(96,545)

The reconciling items are attributable to the following:

- (i) the Bank analyses in Segment reporting provision for impairment created in accordance with the NBU requirements;
- (ii) certain deferred tax assets were not recognized for the purposes of Segment reporting;
- (iii) premises and equipment are depreciated at different rates for the purposes of Segment reporting;
- (iv) for the purposes of Segment reporting premises are measured at revalued amounts;
- (v) for the purposes of Segment reporting swap operations are recognized on a gross basis as amounts due from banks and due to banks.

27 Segment Analysis (Continued)

(e) Analysis of revenues by products and services

The Group's revenues are analysed by products and services in Note 22 (interest income), Note 23 (fee and commission income) and in Note 24 (other operating income).

(f) Geographical information

Ukraine represents the only geographical segment, as majority of revenues and assets are attributable to Ukraine. The Bank has no material revenues from outside Ukraine and all its non-current assets other than financial instruments are attributable to Ukraine. Please refer also to Note 28 for geographical analysis of the Bank's assets and liabilities.

(g) Major customers

The Bank does not have customers with the revenues exceeding 10 % of the total revenue of the Bank.

28 Financial Risk Management

The risk management function within the Bank is carried out in respect of financial risks (credit, market and liquidity), operational risks and legal risks. Financial risk comprises market risk (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The primary objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risks stays within these limits. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures to minimise operational and legal risks.

Credit risk. The Bank takes on exposure to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Exposure to credit risk arises as a result of the Bank's lending and other transactions with counterparties giving rise to financial assets.

The Bank's maximum exposure to credit risk is reflected in the carrying amounts of financial assets on the statement of financial position. For guarantees and commitments to extend credit, the maximum exposure to credit risk is the amount of the commitment. Refer to Note 30. The credit risk is mitigated by collateral and other credit enhancements as disclosed in Note 10.

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers. Limits on the level of credit risk by product and industry sector are approved regularly by management. Such risks are monitored on a revolving basis and subject to an annual or more frequent review.

The Bank established authorized collective bodies which are responsible for approving credit limits for individual borrowers:

- Supervisory Board reviews and approves limits above USD 2.5 million;
- Management Board reviews and approves credit limits up to USD 2.5 million;
- Credit Committee of the Bank reviews and approves credit limits up to UAH 10 million and meets two times per week;
- Credit Committees of branches. Credit limits are established for the Credit Committees of branches, depending on branch credit portfolio quality, the quality of documentation submitted by the branch to the Credit Committee of the Bank. Credit Committees of branches meet frequently on as-needed basis;
- During loan restructuring authority for individual decision is provided to managers of restructuring and collection division with maximum limit up to UAH 2 million.

Loan applications originated by the relevant client relationship managers are passed on to the relevant credit committee for approval of credit limit. Exposure to credit risk is also managed, in part, by obtaining collateral and corporate and personal guarantees.

In order to monitor credit risk exposures, regular reports are produced by the credit department's officers based on a structured analysis focusing on the customer's business and financial performance. Any significant exposures against customers with deteriorating creditworthiness are reported to and reviewed by the Management Board.

The Bank's credit department reviews ageing analysis of outstanding loans and follows up on past due balances. Management therefore considers it appropriate to provide ageing and other information about credit risk as disclosed in Notes 8, 9, 10 and 11.

Credit risk for off-balance sheet financial instruments is defined as the possibility of sustaining a loss as a result of another party to a financial instrument failing to perform in accordance with the terms of the contract. The Bank uses the same credit policies in assuming conditional obligations as it does for on-balance sheet financial instruments, through established credit approvals, risk control limits and monitoring procedures.

28 Financial Risk Management (Continued)

Market risk. The Bank takes on exposure to market risks. Market risks arise from open positions in (a) currency, (b) interest rate and (c) equity products, all of which are exposed to general and specific market movements. Management sets limits on the value of risk that may be accepted, which is monitored on a daily basis. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

Currency risk. In respect of currency risk, management sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily. Currency risk results from the Bank having open positions in different currencies. Such positions are calculated as differences between assets and liabilities in the same currency as of the reporting date. The Bank evaluates, monitors and sets limits for long and short foreign exchange open positions by currency using hryvnia as its base currency. Open position limits are set at the level established by the NBU regulations calculated as a percentage of open currency position of regulatory capital of the Bank. Compliance with these limits is monitored by Market and Liquidity Risk Department on a daily basis. The Market and Liquidity Risk Department reports on a weekly basis to Asset, Liability and Tariffs Management Committee (ALTCO).

The table below summarises the Bank's exposure to foreign currency exchange rate risk at the end of the reporting period:

<i>In thousands of Ukrainian hryvnias</i>	At 31 December 2009				At 31 December 2008			
	Monetary financial assets	Monetary financial liabilities	Derivatives	Net position	Monetary financial assets	Monetary financial liabilities	Derivatives	Net position
Ukrainian hryvnias	1,810,430	1,759,321	(18,986)	32,123	1,516,104	1,896,955	(164,298)	(545,149)
US Dollars	2,215,650	2,221,587	19,005	13,068	2,939,789	3,010,047	162,642	92,384
Euros	759,988	777,866	-	(17,878)	733,284	706,690	-	26,594
British pounds	949	966	-	(17)	1,196	1,147	-	49
Russian Roubles	4,758	4,410	-	348	3,925	3,428	-	497
Other	9,352	6,871	-	2,481	6,539	4,351	-	2,188
Total	4,801,127	4,771,021	19	30,125	5,200,837	5,622,618	(1,656)	(423,437)

Derivatives presented above are monetary financial assets or monetary financial liabilities, but are presented separately in order to show the Bank's gross exposure.

Amounts disclosed in respect of derivatives represent the fair value, at the end of the reporting period, of the respective currency that the Bank agreed to buy (positive amount) or sell (negative amount) before netting of positions and payments with the counterparty. The amounts by currency are presented gross as stated in Note 31. The net total represents the fair value of the currency derivatives. The above analysis includes only monetary assets and liabilities. Investments in equities and non-monetary assets are not considered to give rise to any material currency risk.

28 Financial Risk Management (Continued)

The following table presents sensitivities of profit or loss and equity to reasonably possible changes in exchange rates applied at the end of the reporting period relative to the Bank's functional currency, with all other variables held constant:

<i>In thousands of Ukrainian hryvnias</i>	At 31 December 2009		At 31 December 2008	
	Impact on profit or loss	Impact on equity	Impact on profit or loss	Impact on equity
US Dollar strengthening by 20% (2008: strengthening by 17%)	2,617	2,617	15,705	15,705
US Dollar weakening by 20% (2008: strengthening by 17%)	(2,617)	(2,617)	(15,705)	(15,705)
Euro strengthening by 20% (2008: strengthening by 25%)	(3,576)	(3,576)	6,649	6,649
Euro weakening by 20% (2008: weakening by 25%)	3,576	3,576	(6,649)	(6,649)
Russian Rouble strengthening by 20% (2008: strengthening by 10%)	69	69	50	50
Russian Rouble weakening by 20% (2008: weakening by 10%)	(69)	(69)	(50)	(50)
Other currencies strengthening by 20% (2008: strengthening by 10%)	493	493	224	224
Other currencies weakening by 20% (2008: weakening by 10%)	(493)	(493)	(224)	(224)
Total	-	-	-	-

The following table presents sensitivities of profit and loss and equity to reasonably possible changes in exchange rates applied to the average exposure to currency risk during the year, with all other variables held constant:

<i>In thousands of Ukrainian hryvnias</i>	Average exposure during 2009		Average exposure during 2008	
	Impact on profit or loss	Impact on equity	Impact on profit or loss	Impact on equity
US Dollar strengthening by 20% (2008: strengthening by 17%)	2,555	2,555	10,756	10,756
US Dollar weakening by 20% (2008: strengthening by 17%)	(2,555)	(2,555)	(10,756)	(10,756)
Euro strengthening by 20% (2008: strengthening by 25%)	(3,400)	(3,400)	4,717	4,717
Euro weakening by 20% (2008: weakening by 25%)	3,400	3,400	(4,717)	(4,717)
Russian Rouble strengthening by 20% (2008: strengthening by 10%)	65	65	41	41
Russian Rouble weakening by 20% (2008: weakening by 10%)	(65)	(65)	(41)	(41)
Other currencies strengthening by 20% (2008: strengthening by 10%)	464	464	168	168
Other currencies weakening by 20% (2008: weakening by 10%)	(464)	(464)	(168)	(168)
Total	-	-	-	-

The exposure was calculated only for monetary balances denominated in currencies other than the functional currency of the Bank.

28 Financial Risk Management (Continued)

Interest rate risk. The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. Management monitors on a daily basis and sets limits on the level of mismatch of interest rate repricing that may be undertaken.

The table below summarises the Bank's exposure to interest rate risks. The table presents the aggregated amounts of the Bank's financial assets and liabilities at carrying amounts, categorised by the earlier of contractual interest repricing or maturity dates.

<i>In thousands of Ukrainian hryvnias</i>	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	Over 1 year	Non-monetary	Total
31 December 2009						
Total financial assets	1,567,792	396,603	711,665	2,125,086	30	4,801,176
Total financial liabilities	(2,569,386)	(1,749,331)	(389,040)	(63,264)	-	(4,771,021)
Net interest sensitivity gap at 31 December 2009						
	(1,001,594)	(1,352,728)	322,625	2,061,822	30	30,155
31 December 2008						
Total financial assets	876,819	613,401	677,637	3,033,705	30	5,201,592
Total financial liabilities	(2,627,928)	(1,811,836)	(462,385)	(722,850)	-	(5,624,999)
Net interest sensitivity gap at 31 December 2009						
	(1,751,109)	(1,198,435)	215,252	2,310,855	30	(423,407)

All of the Bank's debt instruments reprice within 5 years except fixed interest rate loans to customers totalling UAH 847,319 thousand which mature in 2015 – 2038 (2008: all reprice within 5 years except fixed interest rate loans to customers totalling UAH 1,060,674 thousand which mature in 2015 – 2038).

At 31 December 2009, if interest rates on financial instruments denominated in UAH at that date had been 200 basis points higher/lower with all other variables held constant, loss for the year would have been UAH 302 thousand higher/lower (2008: UAH 474 thousand higher/lower if interest rates had been 450 basis points higher/lower), mainly as a result of a decrease/increase in the fair value of fixed rate financial assets classified as available-for-sale and at fair value through profit or loss.

At 31 December 2009, if interest rates on financial instruments denominated in USD at that date had been 200 basis points higher/lower with all other variables held constant, loss for the year would have been UAH 10,586 thousand higher/lower (2008: UAH 1,050 thousand higher/lower if interest rates had been 100 basis points higher/lower), mainly as a result of higher/lower interest expense on variable interest liabilities.

At 31 December 2009, if interest rates on financial instruments denominated in EUR at that date had been 200 basis points higher/lower with all other variables held constant, loss for the year would have been UAH 758 thousand higher/lower (2008: UAH 61 thousand higher/lower if interest rates had been 100 basis points higher/lower), mainly as a result of higher/lower interest expense on variable interest liabilities.

28 Financial Risk Management (Continued)

The Bank monitors interest rates for its financial instruments. The table below summarises interest rates based on reports reviewed by key management personnel:

% per annum	2009				2008			
	UAH	USD	Euro	Other	UAH	USD	Euro	Other
Assets								
Cash and cash equivalents	0%	0%	0%	0%	0%	0%	0%	0%
Debt securities at fair value through profit or loss	21%	-	-	-	21%	-	-	-
Due from other banks	-	1%	-	-	-	0%	-	-
Loans and advances to customers	18%	12%	13%	-	21%	13%	12%	-
Debt investment securities available-for-sale	19%	-	-	-	21%	-	-	-
Liabilities								
Due to other banks	20%	2%	2%	0%	-	6%	8%	0%
Customer accounts								
- current and settlement accounts	4%	4%	2%	-	0%	0%	0%	-
- term deposits	21%	11%	9%	-	14%	9%	8%	-
Debt securities in issue	22%	-	-	-	13%	-	-	-
Subordinated debt	-	7%	-	-	-	5%	-	-

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

Other price risk. The Bank is exposed to prepayment risk through providing fixed rate loans, including mortgages, which give the borrower the right to early repay the loans. The Bank’s current year loss and equity at the end of the current reporting period would not have been significantly impacted by changes in prepayment rates because such loans are carried at amortised cost and the prepayment right is at or close to the amortised cost of the loans and advances to customers.

28 Financial Risk Management (Continued)

Geographical risk concentrations. The geographical concentration of the Bank's assets and liabilities at 31 December 2009 is set out below:

<i>In thousands of Ukrainian hryvnias</i>	Ukraine	OECD	Non-OECD	Total
Assets				
Cash and cash equivalents and mandatory reserves	459,846	596,501	3,969	1,060,316
Securities at fair value through profit or loss	11,685	-	-	11,685
Due from other banks	6,058	-	-	6,058
Loans and advances to customers	3,669,552	-	-	3,669,552
Investment securities available-for-sale	51,386	-	-	51,386
Other financial assets	2,170	7	2	2,179
Total financial assets	4,200,697	596,508	3,971	4,801,176
Non-financial assets	635,500	24	-	635,524
Total assets	4,836,197	596,532	3,971	5,436,700
Liabilities				
Due to other banks	123,309	871,101	1,931	996,341
Customer accounts	3,472,828	92,304	39,157	3,604,289
Debt securities in issue	308	-	-	308
Other financial liabilities	10,241	-	-	10,241
Subordinated debt	-	159,842	-	159,842
Total financial liabilities	3,606,686	1,123,247	41,088	4,771,021
Non-financial liabilities	13,274	3	1	13,278
Total liabilities	3,619,960	1,123,250	41,089	4,784,299
Net position	1,216,237	(526,718)	(37,118)	652,401
Credit related commitments	87,401	-	-	87,401

Assets, liabilities and credit related commitments have been classified based on the country in which the counterparty is located. Balances with Ukrainian counterparties actually outstanding to/from offshore companies of these Ukrainian counterparties are allocated to the caption "Ukraine". Cash on hand, premises, leasehold improvements and equipment have been allocated based on the country in which they are physically held.

28 Financial Risk Management (Continued)

The geographical concentration of the Bank's assets and liabilities at 31 December 2008 is set out below:

<i>In thousands of Ukrainian hryvnias</i>	Ukraine	OECD	Non-OECD	Total
Assets				
Cash and cash equivalents	314,859	215,784	2,445	533,088
Securities at fair value through profit or loss	24,254	-	-	24,254
Due from other banks	5,017	-	-	5,017
Loans and advances to customers	4,546,672	-	1,540	4,548,212
Investment securities available-for-sale	83,624	-	-	83,624
Other financial assets	7,397	-	-	7,397
Total financial assets	4,981,823	215,784	3,985	5,201,592
Non-financial assets	552,095	-	-	552,095
Total assets	5,533,918	215,784	3,985	5,753,687
Liabilities				
Due to other banks	3,129	1,705,511	2,367	1,711,007
Customer accounts	3,402,713	90,026	38,851	3,531,590
Debt securities in issue	75,010	-	-	75,010
Other financial liabilities	13,619	-	-	13,619
Subordinated debt	-	293,773	-	293,773
Total financial liabilities	3,494,471	2,089,310	41,218	5,624,999
Non-financial liabilities	12,339	-	-	12,339
Total liabilities	3,506,810	2,089,310	41,218	5,637,338
Net position	2,027,108	(1,873,526)	(37,233)	116,349
Credit related commitments	108,825	-	-	108,825

Other risk concentrations. Management monitors and discloses concentrations of credit risk by obtaining reports listing exposures to borrowers with aggregated loan balances in excess of 10% of net assets. Refer to Note 10.

Liquidity risk. Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Bank is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan drawdowns, guarantees and from margin and other calls on cash-settled derivative instruments. The Bank does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. Liquidity risk is managed by the Asset/Liability Committee of the Bank.

The Bank seeks to maintain a stable funding base primarily consisting of amounts due to other banks, corporate and retail customer deposits, debt securities and subordinated debts. The Bank invests the funds in diversified portfolios of liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

28 Financial Risk Management (Continued)

The liquidity management of the Bank requires considering the level of liquid assets necessary to settle obligations as they fall due; maintaining access to a range of funding sources; maintaining funding contingency plans; and monitoring balance sheet liquidity ratios against regulatory requirements. The Bank calculates liquidity ratios on a daily basis in accordance with the requirement of the National Bank of Ukraine. These ratios are:

- Instant liquidity ratio (N4), which is calculated as the ratio of highly-liquid assets to liabilities payable on demand. The ratio was 122% at 31 December 2009 (2008: 74%), with the required ratio being not less than 20%;
- Current liquidity ratio (N5), which is calculated as the ratio of liquid assets to liabilities maturing within 31 calendar days. The ratio was 57% at 31 December 2009 (2008: 58%), with the required ratio being not less than 40%;
- Short-term liquidity ratio (N6), which is calculated as the ratio of liquid assets to liabilities with original maturity of up to one year. The ratio was 34% at 31 December 2009 (2008: 29%), with the required ratio being not less than 20%.

The Treasury Department receives information about the liquidity profile of the financial assets and liabilities. The Treasury Department then provides for an adequate portfolio of short-term liquid assets, largely made up of liquid securities, deposits with banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Bank as a whole.

The table below shows liabilities at 31 December 2009 by their remaining contractual maturity. The amounts disclosed in the maturity table are the contractual undiscounted cash flows, including gross loan commitments and financial guarantees. Such undiscounted cash flows differ from the amount included in the statement of financial position because the amount in the statement of financial position is based on discounted cash flows. Financial derivatives are included at the contractual amounts to be paid or received, unless the Bank expects to close the derivative position before its maturity date in which case the derivatives are included based on the expected cash flows.

The table below shows maturity analysis of non-derivative financial assets at their carrying amounts and based on their contractual maturities except for assets that are readily saleable in case it would be necessary to meet cash outflows on financial liabilities. Such financial assets are included in the maturity analysis based on their expected date of disposal. Impaired loans are included at their carrying amounts net of impairment provisions and based on the expected timing of cash inflows. Derivatives are presented based on their contractual maturities.

When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the end of the reporting period. Foreign currency payments are translated using the spot exchange rate at the end of the reporting period.

28 Financial Risk Management (Continued)

The maturity analysis of financial instruments at 31 December 2009 is as follows:

<i>In thousands of Ukrainian hryvnias</i>	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 12 months to 5 years	Over 5 years	Total
Assets						
Cash and cash equivalents and mandatory reserves	1,060,316	-	-	-	-	1,060,316
Securities at fair value through profit or loss	-	-	11,685	-	-	11,685
Due from other banks	6,058	-	-	-	-	6,058
Loans and advances to customers	358,946	406,421	368,395	1,502,816	1,032,974	3,669,552
Investment securities available-for-sale	-	49,356	-	1,490	540	51,386
<i>Gross settled swaps:</i>						
- inflows	19,005	-	-	-	-	19,005
- outflows	(18,986)	-	-	-	-	(18,986)
Other financial assets	2,160	-	-	-	-	2,160
Total	1,427,499	455,777	380,080	1,504,306	1,033,514	4,801,176
Liabilities						
Due to other banks	238,219	20,818	11,394	383,607	443,653	1,097,691
Customer accounts	2,064,915	1,013,105	420,279	165,317	237,276	3,900,892
Debt securities in issue	-	41	33	366	-	440
Subordinated debt	1,810	4,479	5,393	43,143	190,289	245,114
Other financial liabilities	10,241	-	-	-	-	10,241
Financial guarantees	94,958	-	-	-	-	94,958
Total potential future payments for financial obligations	2,410,143	1,038,443	437,099	592,433	871,218	5,349,336
Liquidity gap arising from financial instruments	(982,644)	(582,666)	(57,019)	911,873	162,296	(548,160)

Liquidity requirements to support calls under guarantees and standby letters of credit are considerably less than the amount of the commitment disclosed in the above maturity analysis because the Bank does not generally expect the third party to draw funds under the agreement. The total outstanding contractual amount of commitments to extend credit as included in the above maturity table does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

28 Financial Risk Management (Continued)

The maturity analysis of financial instruments at 31 December 2008 is as follows:

<i>In thousands of Ukrainian hryvnias</i>	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 12 months to 5 years	Over 5 years	Total
Assets						
Cash and cash equivalents	533,088	-	-	-	-	533,088
Securities at fair value through profit or loss	24,254	-	-	-	-	24,254
Due from other banks	-	5,017	-	-	-	5,017
Loans and advances to customers	413,742	472,748	672,661	1,600,670	1,388,391	4,548,212
Investment securities available-for-sale	-	83,594	-	-	30	83,624
<i>Gross settled swaps:</i>						
- inflows	23,397	-	-	-	-	23,397
- outflows	(22,672)	-	-	-	-	(22,672)
Other financial assets	6,672	-	-	-	-	6,672
Total	978,481	561,359	672,661	1,600,670	1,388,421	5,201,592
Liabilities						
Due to other banks	138,415	82,455	84,114	1,192,965	729,536	2,227,485
Customer accounts	1,537,177	947,883	445,293	364,918	1,121,725	4,416,996
Debt securities in issue	-	78,882	-	-	-	78,882
Subordinated debt	2,309	5,677	6,813	107,594	256,309	378,702
<i>Gross settled swaps:</i>						
- inflows	(139,246)	-	-	-	-	(139,246)
- outflows	141,627	-	-	-	-	141,627
Other financial liabilities	11,238	-	-	-	-	11,238
Gross credit related commitments	116,574	-	-	-	-	116,574
Total potential future payments for financial obligations	1,808,094	1,114,897	536,220	1,665,477	2,107,570	7,232,258
Liquidity gap arising from financial instruments	(829,613)	(553,538)	136,441	(64,807)	(719,149)	(2,030,666)

28 Financial Risk Management (Continued)

As disclosed in Note 30, as at 31 December 2009 and 31 December 2008 the Bank breached certain financial covenants set by loan agreements with EBRD, therefore all loans from EBRD were classified on demand in the above analysis.

Payments in respect of gross settled foreign exchange swaps will be accompanied by related cash inflows which are disclosed at their present values in Note 31. Customer accounts are classified in the above analysis based on contractual maturities. However, in accordance with Ukrainian Civil Code, individuals have a right to withdraw their deposits prior to maturity if they forfeit their right to accrued interest.

The Bank does not use the above undiscounted maturity analysis to manage liquidity. Instead, the Bank monitors expected maturities, which may be summarised as follows at 31 December 2009:

<i>In thousands of Ukrainian hryvnias</i>	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 12 months to 5 years	Over 5 years	Total
At 31 December 2009						
Financial assets	1,427,499	455,777	380,080	1,504,306	1,033,514	4,801,176
Financial liabilities	2,286,682	973,259	389,045	431,293	690,742	4,771,021
Net liquidity gap based on expected maturities	(859,183)	(517,482)	(8,965)	1,073,013	342,772	30,155
At 31 December 2008						
Financial assets	978,481	561,359	672,661	1,600,670	1,388,421	5,201,592
Financial liabilities	1,540,323	993,095	408,586	1,207,141	1,475,854	5,624,999
Net liquidity gap based on expected maturities	(561,842)	(431,736)	264,075	393,529	(87,433)	(423,407)

As disclosed in Note 30, as at 31 December 2009 and 31 December 2008 the Bank breached certain financial covenants set by loan agreements with EBRD. Although the lender has the right to require early repayment of these loans, the Bank does not expect that such a request would be received. Therefore these loans were classified in the above table according to their expected maturity.

The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Bank. It is unusual for banks ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Bank and its exposure to changes in interest and exchange rates.

Management believes that in spite of a substantial portion of customer accounts being on demand, diversification of these deposits by number and type of depositors, and the past experience of the Bank would indicate that these customer accounts provide a long-term and stable source of funding for the Bank.

29 Management of Capital

The Bank's objectives when managing capital are (i) to comply with the capital requirements set by the National Bank of Ukraine, (ii) to safeguard the Bank's ability to continue as a going concern and (iii) to maintain a sufficient capital base to achieve a capital adequacy ratio based on the Basel Accord of at least 8%. The Bank considers total capital under management to be equity as shown in the statement of financial position. The amount of capital that the Bank managed as of 31 December 2009 was UAH 652,401 thousand (2008: UAH 116,349 thousand). Compliance with capital adequacy ratios set by the National Bank of Ukraine is monitored monthly with reports outlining their calculation reviewed and signed by the Bank's Chairman of the Board and Chief Accountant. Other objectives of capital management are evaluated annually.

Under the current capital requirements set by the National Bank of Ukraine banks have to maintain a ratio of regulatory capital to risk weighted assets ("statutory capital ratio") above a prescribed minimum level. Regulatory capital is based on the Bank's reports prepared under Ukrainian accounting standards and comprises:

<i>In thousands of Ukrainian hryvnias</i>	2009	2008
Primary capital	483,453	478,649
Additional capital	307,321	208,416
Total regulatory capital	790,774	687,065

In the first half of 2009 as a result of significant increase in loan impairment provisions, the Bank's regulatory capital significantly decreased which in turn resulted in breach of capital requirements (N1, N2 and N3), credit risk limits (N7, N8), investment limits (N11, N12) and open foreign currency position limits (N13, N13-1, N13-2) set by the NBU. However, after substantial increase of regulatory capital as a result of increase in share capital, these breaches were rectified.

As a result of changes in approach to calculation of open foreign currency position of the bank, namely excluding from the calculation provision for impairment of assets and credit related commitments, starting from 23 April 2009 on a daily basis the Bank is in breach of long open foreign currency position limit set by the NBU. To eliminate this breach the Bank developed Programme for bringing its open foreign currency position into compliance with the NBU requirements.

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

<i>In thousands of Ukrainian hryvnias</i>	2009	2008
Tier 1 capital		
Share capital	1,550,969	580,877
Accumulated deficit	(898,568)	(464,528)
Total tier 1 capital	652,401	116,349
Tier 2 capital		
Subordinated debt	159,842	58,175
Total tier 2 capital	159,842	58,175
Total capital	812,243	174,524

The Bank has complied with all externally imposed capital requirements as at 31 December 2009. Refer also to Note 30.

30 Contingencies and Commitments

Legal proceedings. From time to time and in the normal course of business, claims against the Bank may be received. On the basis of its own estimates and both internal and external professional advice management is of the opinion that no material losses will be incurred in respect of claims and accordingly no provision has been made in these financial statements.

Tax legislation. Ukrainian tax and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Bank may be challenged by the relevant authorities.

The Ukrainian tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged.

As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

Capital expenditure commitments. At 31 December 2009 the Bank has contractual capital expenditure commitments in respect of premises and equipment totalling UAH 10,320 thousand (2008: UAH 27,175 thousand).

The Bank has already allocated the necessary resources in respect of these commitments. The Bank believes that future net income and funding will be sufficient to cover this and any similar such commitments.

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

<i>In thousands of Ukrainian hryvnias</i>	2009	2008
Not later than 1 year	34,314	49,150
Later than 1 year and not later than 5 years	42,862	99,230
Later than 5 years	426	490
Total operating lease commitments	77,602	148,870

Compliance with covenants. The Bank is subject to certain covenants related primarily to loans from other banks. Non-compliance with such covenants may result in negative consequences for the Bank including growth in the cost of borrowings and declaration of default.

There are certain financial covenants under agreements with European Bank for Reconstruction and Development. In particular, the Bank is required to maintain a certain level of capital to risk weighted assets ratio, highly liquid assets to demand deposits ratio, liquid assets to short-term liabilities ratio, open credit exposure ratio, maximum exposure to related parties to capital ratio, aggregate related party exposure ratio, share of problem loans to gross loans not more than 6% and to be in compliance with the NBU prudential requirements.

As at 31 December 2009 the Bank was not in compliance with financial covenants in respect of share of problem loans to gross loans (31 December 2008: the Bank was not in compliance with financial covenants in respect of capital to risk weighted assets ratio, share of problem loans to gross loans and NBU prudential requirements).

This non-compliance with loan covenants gives the EBRD legal right to demand early repayment of the loans. The Bank sent letters to EBRD to inform about non-compliance with covenants as at 31 December 2009. As at the date of issue of these financial statements the Bank had not received from EBRD neither requirement to early repay the loans nor a waiver from this requirement.

30 Contingencies and Commitments (Continued)

Credit related commitments. The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer can not meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate or cash deposits and therefore carry less risk than a direct borrowing.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments, if the unused amounts were to be drawn down. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Bank monitors the term to maturity of credit related commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments. Outstanding credit related commitments are as follows:

<i>In thousands of Ukrainian hryvnias</i>	Note	2009	2008
Guarantees issued		94,958	110,615
Import letters of credit		-	5,959
Less: Provision for credit related commitments	18	(3,033)	(1,254)
Less: Cash covered credit related commitments	16	(4,524)	(6,495)
Total credit related commitments		87,401	108,825

Credit related commitments are denominated in currencies as follows:

<i>In thousands of Ukrainian hryvnias</i>	2009	2008
Ukrainian hryvnias	15,891	15,870
US Dollars	22,114	63,954
Euros	49,330	28,751
Other	66	250
Total	87,401	108,825

As at 31 December 2009 all commitments to extend credit are revocable and amounted to UAH 179,447 thousand (2008: UAH 214,321 thousand).

The total outstanding contractual amount of commitments to extend credit, import letters of credit, and guarantees does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded. The fair value of credit related commitments was UAH 3,033 thousand at 31 December 2009 (2008: UAH 1,254 thousand).

Assets pledged and restricted. The Bank had assets pledged as collateral with the following carrying value:

<i>In thousands of Ukrainian hryvnias</i>	Note	2009		2008	
		Asset pledged	Related liability	Asset pledged	Related liability
Gross receivables under currency swaps	31	19,005	18,986	162,642	164,298
Investment securities available for sale	11, 15	45,826	50,460	-	-
Total		64,831	69,446	162,642	164,298

31 Derivative Financial Instruments

Foreign exchange derivative financial instruments entered into by the Bank are generally traded in an over-the-counter market with professional market counterparties on standardised contractual terms and conditions. Derivatives have potentially favourable (assets) or unfavourable (liabilities) conditions as a result of fluctuations in market interest rates, foreign exchange rates or other variables relative to their terms. The aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

The table below sets out fair values, at the end of the reporting period, of currencies receivable or payable under foreign exchange forward contracts entered into by the Bank. The table reflects gross positions before the netting of any counterparty positions (and payments) and covers the contracts with settlement dates after the end of the respective reporting period. The contracts are short term in nature.

	Note	2009		2008	
		Contracts with positive fair value	Contracts with negative fair value	Contracts with positive fair value	Contracts with negative fair value
<i>In thousands of Ukrainian hryvnias</i>					
Currency swap agreements: fair values, at the end of the reporting period, of					
- USD receivable on settlement (+)	28	19,005	-	23,397	139,246
- UAH payable on settlement (-)		(18,986)	-	(22,672)	(141,627)
Net fair value of currency swap agreements	13, 18	19	-	725	(2,381)

32 Fair Value of Financial Instruments

(a) Fair values of financial instruments carried at amortised cost.

Fair values of financial instruments carried at amortised cost are as follows:

<i>In thousands of Ukrainian hryvnias</i>	2009		2008	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Cash and cash equivalents and mandatory reserves	1,060,316	1,060,316	533,088	533,088
- Cash on hand	268,677	268,677	209,766	209,766
- Balances with the NBU	136,868	136,868	104,978	104,978
- Mandatory reserves with the NBU	54,184	54,184	-	-
- Correspondent accounts and overnight deposits with other banks	600,587	600,587	218,344	218,344
Due from other banks	6,058	6,058	5,017	5,017
- Guarantee deposits	6,058	6,058	5,017	5,017
Loans and advances to customers	3,669,552	2,906,673	4,548,212	3,608,473
- Corporate loans	2,555,157	2,317,647	3,000,403	2,865,329
- Loans to individuals - consumer loans	305,838	236,352	506,293	496,300
- Loans to private entrepreneurs	24,746	22,950	41,175	39,322
- Loans to individuals – mortgage loans	774,047	323,087	996,491	203,672
- Reverse sale and repurchase agreements	9,764	6,637	3,850	3,850
Other financial assets	2,160	2,160	6,672	6,672
Receivables from operations with clients and banks	822	822	3,931	3,931
Accrued income	1182	1182	2,054	2,054
Receivables from operations with plastic cards	156	156	687	687
TOTAL FINANCIAL ASSETS CARRIED AT AMORTISED COST	4,738,086	3,975,207	5,092,989	4,153,250

<i>In thousands of Ukrainian hryvnias</i>	2009		2008	
	Carrying amount	Fair value	Carrying amount	Fair value
Due to other banks	996,341	958,900	1,711,007	1,645,506
- Correspondent accounts of other banks	14,037	14,037	6,269	6,269
- Term placements and loans of other banks	982,304	944,863	1,704,738	1,639,237
Customer accounts	3,604,289	3,480,013	3,531,590	3,152,782
- Current/settlement accounts of legal entities	512,321	512,321	577,437	577,437
- Term deposits of other legal entities	477,871	473,983	516,191	513,369
- Current/demand accounts of individuals	329,877	329,877	267,142	267,142
- Term deposits of individuals	2,284,220	2,163,832	2,170,820	1,794,834
Debt securities in issue	308	274	75,010	69,969
- Bonds issued on domestic market	308	274	75,010	69,969
Other financial liabilities	10,241	10,241	12,492	12,492
Other accrued liabilities	4,132	4,132	6,161	6,161
Transit accounts	3,065	3,065	5,077	5,077
Provision for credit related commitments	3,033	3,033	1,254	1,254
Other	11	11	-	-
Subordinated debt	159,842	159,842	293,773	293,773
TOTAL FINANCIAL LIABILITIES CARRIED AT AMORTISED COST	4,771,021	4,609,270	5,623,872	5,174,522

32 Fair Value of Financial Instruments (Continued)

(b) Analysis by fair value hierarchy of financial instruments carried at fair value.

For financial instruments carried at fair value, the level in the fair value hierarchy into which the fair values are categorised are as follows:

	2009			2008		
	Quoted price in an active market (Level 1)	Valuation technique with inputs observable in markets (Level 2)	Valuation technique with significant non-observable inputs (Level 3)	Quoted price in an active market (Level 1)	Valuation technique with inputs observable in markets (Level 2)	Valuation technique with significant non-observable inputs (Level 3)
<i>In thousands of Ukrainian hryvnias</i>						
FINANCIAL ASSETS						
Securities at fair value through profit or loss						
- Corporate bonds	-	-	11,685	3,954	20,300	-
Investment securities available for sale						
- Ukrainian Government bonds	-	45,826	-	40,624	-	-
- Corporate bonds	-	-	5,530	35,618	7,352	-
- Corporate shares	-	-	30	-	-	30
Derivative financial instruments	-	19	-	-	725	-
TOTAL FINANCIAL ASSETS CARRIED AT FAIR VALUE	-	45,845	17,245	80,196	28,377	30

(c) Reconciliation of movements in instruments belonging to the level 3 of the fair value hierarchy.

A reconciliation of movements in Level 3 of the fair value hierarchy by class of instruments for the year ended 31 December 2009 is as follows:

	Securities at fair value through profit or loss	Investment securities available for sale
	Corporate bonds	Corporate bonds and shares
<i>In thousands of Ukrainian hryvnias</i>		
Fair value at 1 January 2009	24,254	43,000
Gains or losses recognised in profit or loss for the year	1,694	(325)
Purchases	-	43,278
Sales	(14,263)	(80,393)
Fair value at 31 December 2009	11,685	5,560
Cumulative revaluation gains less losses recognised in profit or loss for the current or prior years for assets held at 31 December 2009	2,152	(275)

32 Fair Value of Financial Instruments (Continued)

(d) The methods and assumptions applied in determining fair values.

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by an active quoted market price. Where quoted market prices are not available, the Bank used valuation techniques. Certain valuation techniques required assumptions that were not supported by observable market data. Changing any such used assumptions to a reasonably possible alternative would not result in significantly different profit, income, total assets or total liabilities. The total net fair value loss estimated using valuation techniques that was recognised in profit or loss for the year amounts to UAH 5,753 thousand (2008: UAH 11,184 thousand).

The fair value of floating rate instruments that are not quoted in an active market was estimated to be equal to their carrying amount. The fair value of unquoted fixed interest rate instruments was estimated based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Discount rates used depend on currency, maturity of the instrument and credit risk of the counterparty and were as follows:

	2009	2008
Loans and advances to customers		
Corporate loans	16.7%-27% per annum	12%-19% per annum
Loans to individuals - consumer loans	19.5%-29% per annum	25%-30% per annum
Loans to individuals – mortgage loans	18%-27% per annum	18%-28% per annum
Due to other banks		
- Correspondent accounts and overnight placements of other banks	0 % per annum	0% per annum
- Term placements and loans of other banks	2.5%-3.4% per annum	4%-7% per annum
Customer accounts		
- Term deposits of legal entities	10%-20% per annum	8%-13% per annum
- Term deposits of individuals	9%-22% per annum	11%-18% per annum

33 Presentation of Financial Instruments by Measurement Categories

For the purposes of measurement, IAS 39, *Financial Instruments: Recognition and Measurement*, classifies financial assets into the following categories: (a) loans and receivables; (b) available-for-sale financial assets; (c) financial assets held to maturity and (d) financial assets at fair value through profit or loss (“FVTPL”). Financial assets at fair value through profit or loss have two subcategories: (i) assets designated as such upon initial recognition, and (ii) those classified as held for trading. The following table provides a reconciliation of financial assets with these measurement categories as of 31 December 2009:

<i>In thousands of Ukrainian hryvnias</i>	Loans and receiv- ables	Available- for-sale assets	Trading assets	Assets designated at FVTPL	Total
ASSETS					
Cash and cash equivalents and mandatory reserves	1,060,316	-	-	-	1,060,316
Securities at fair value through profit or loss	-	-	-	11,685	11,685
Due from other banks					
- Guarantee deposits	6,058	-	-	-	6,058
Loans and advances to customers					
- Corporate loans	2,579,902	-	-	-	2,579,902
- Loans to individuals - consumer loans	305,838	-	-	-	305,838
- Loans to individuals – mortgage loans	774,047	-	-	-	774,047
- Reverse sale and repurchase agreements	9,765	-	-	-	9,765
Investment securities available-for-sale	-	51,386	-	-	51,386
Other financial assets	2,160	-	19	-	2,179
TOTAL FINANCIAL ASSETS	4,738,086	51,386	19	11,685	4,801,176
NON-FINANCIAL ASSETS					635,524
TOTAL ASSETS					5,436,700

As of 31 December 2009 and 31 December 2008 all of the Bank’s financial liabilities except for derivatives were carried at amortised cost. Derivatives belong to the fair value through profit or loss measurement category.

33 Presentation of Financial Instruments by Measurement Categories (Continued)

The following table provides a reconciliation of classes of financial assets with these measurement categories as of 31 December 2008:

<i>In thousands of Ukrainian hryvnias</i>	Loans and receiv- ables	Available- for-sale assets	Trading assets	Assets designated at FVTPL	Total
ASSETS					
Cash and cash equivalents	533,088	-	-	-	533,088
Securities at fair value through profit or loss	-	-	-	24,254	24,254
Due from other banks					
- Guarantee deposits	5,017	-	-	-	5,017
Loans and advances to customers					
- Corporate loans	3,041,578	-	-	-	3,041,578
- Loans to individuals - consumer loans	506,293	-	-	-	506,293
- Loans to individuals – mortgage loans	996,491	-	-	-	996,491
- Reverse sale and repurchase agreements	3,850	-	-	-	3,850
Investment securities available-for-sale	-	83,624	-	-	83,624
Other financial assets	6,672	-	725	-	7,397
TOTAL FINANCIAL ASSETS	5,092,989	83,624	725	24,254	5,201,592
NON-FINANCIAL ASSETS					552,095
TOTAL ASSETS					5,753,687

34 Related Party Transactions

Parties are generally considered to be related if the parties are under common control or one party has the ability to control the other party or can exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

At 31 December 2009, the outstanding balances with related parties were as follows:

<i>In thousands of Ukrainian hryvnias</i>	Parent company	Entities under common control	Key management personnel
Correspondent accounts with other banks	3,602	-	-
Gross amount of loans and advances to customers (contractual interest rate: in UAH – 13.0 – 25.0%; in USD – 17.3%)	-	29,410	648
Impairment provisions for loans and advances to customers at 31 December	-	(2,224)	(7)
Correspondent accounts and overnight placements of other banks	1,230	-	-
Term placements and loans from other banks (contractual interest rate: in EUR – 2.6 -2.97%; in USD – 2.04-2.79%, in PLN – 4.2%)	745,539	-	-
Customer accounts (contractual interest rate: in UAH – 20.5-23.75%; in EUR – 6.75-8%; in USD – 8.25-10.5%)	-	121	1,665
Subordinated debt (contractual interest rate: in USD – 6.73531%)	159,842	-	-

The income and expense items with related parties for 2009 were as follows:

<i>In thousands of Ukrainian hryvnias</i>	Parent company	Entities under common control	Key management personnel
Interest income	-	4,242	82
Interest expense	47,062	-	94
Provision for loan impairment	-	(1,870)	-
Fee and commission income	-	236	-
Fees and commission expense	1,798	2,336	-

34 Related Party Transactions (Continued)

At 31 December 2008, other rights and obligations with related parties were as follows:

<i>In thousands of Ukrainian hryvnias</i>	Parent company	Entities under common control	Key management personnel
Guarantees received	-	7,500	-
Loan commitments received	744,777	-	-
Loan commitments granted	-	2,101	40
Collateral received	-	32,885	-

Aggregate amounts lent to and repaid by related parties during 2009 were:

<i>In thousands of Ukrainian hryvnias</i>	Parent company	Entities under common control	Key management personnel
Amounts lent to related parties during the period	-	5,399	141
Amounts repaid by related parties during the period	-	-	55

At 31 December 2008, the outstanding balances with related parties were as follows:

<i>In thousands of Ukrainian hryvnias</i>	Parent company	Entities under common control	Key management personnel
Correspondent accounts with other banks	1,149	-	-
Gross amount of loans and advances to customers (contractual interest rate: UAH 16%; USD 13.5% - 17.3%)	-	20,564	562
Impairment provisions for loans and advances to customers at 31 December	-	(354)	(7)
Due to other banks (contractual interest rate: EUR 2.75% - 7.08%; USD 4.4% - 6.3%)	1,539,663	-	-
Customer accounts (contractual interest rate: UAH 10% - 23%; EUR 4.9% - 9.5%; USD 7.0% - 11.5%)	-	2	393
Subordinated debt (contractual interest rate: USD 4.2% - 5.4%)	293,773	-	-

34 Related Party Transactions (Continued)

The income and expense items with related parties for 2008 were as follows:

<i>In thousands of Ukrainian hryvnias</i>	Parent company	Entities under common control	Key management personnel
Interest income	133	1,654	47
Interest expense	43,065	-	79
Provision for loan impairment	-	(354)	-
Fee and commission expense	3,393	-	-

At 31 December 2008, other rights and obligations with related parties were as follows:

<i>In thousands of Ukrainian hryvnias</i>	Parent company	Entities under common control	Key management personnel
Loan commitments received	75,609	-	-
Loan commitments granted	-	-	30
Collateral received	-	32,881	-

Aggregate amounts lent to and repaid by related parties during 2008 were:

<i>In thousands of Ukrainian hryvnias</i>	Parent company	Entities under common control	Key management personnel
Amounts lent to related parties during the period	-	20,564	502
Amounts repaid by related parties during the period	-	-	48

Key management compensation is presented below:

<i>In thousands of Ukrainian hryvnias</i>	2009		2008	
	Expense	Accrued liability	Expense	Accrued liability
<i>Short-term benefits:</i>				
- Salaries	8,851	4,497	3,612	-
- Short-term bonuses	1,402	-	-	-
<i>Post-employment benefits:</i>				
- State pension and social security costs	320	81	530	-
Total	10,573	4,578	4,142	-

Short-term bonuses fall due wholly within twelve months after the end of the period in which management rendered the related services.

35 Events After the End of the Reporting Period

On 18 December 2009 the shareholders of the Bank took a decision to increase share capital of the Bank through additional issue of shares totalling UAH 368 million. In February 2010 the Bank received contribution from shareholders in the amount of USD 46.5 million.

In February 2010 the Bank received subordinated debt of USD 15 million from PKO BP S.A.