OJSC Kredobank

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

31 December 2008

CONTENTS

PRICEWATERHOUSECOOPERS

Limited Liability Company Audit Firm
"PricewaterhouseCoopers (Audit)"
75 Zhylyanska Str.
Kyiv, 01032, Ukraine
Telephone +380 44 490 6777
Facsimile +380 44 490 6738

INDEPENDENT AUDITOR'S REPORT

To the Shareholders and Board of Directors of Kredobank:

1 We have audited the accompanying financial statements of Kredobank (the "Bank") which comprise the balance sheet as of 31 December 2008 and the income statement, 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 2008, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

LLC AF Pricewaterhousecoopers (Audit)

1 April 2009
Kyiv, Ukraine

OJSC Kredobank
Balance Sheet

In thousands of Ukrainian hryvnias	Note	31 December 2008	31 December 2007
ASSETS			
Cash and cash equivalents	7	533,088	439,049
Securities at fair value through profit or loss	8	24,254	208,516
Due from other banks	9	5,017	99,871
Loans and advances to customers	10	4,548,212	3,430,606
Investment securities available-for-sale	11	83,624	30
Current income tax prepayment		7,254	-
Deferred income tax asset	24	124,169	22,294
Intangible assets	12	24,331	15,659
Premises, leasehold improvements and equipment	12	368,528	339,977
Other financial assets	13	7,397	5,060
Other non-financial assets	13	27,813	31,160
TOTAL ASSETS		**5,753,687**	**4,592,222**
LIABILITIES			
Due to other banks	14	1,711,007	856,269
Customer accounts	15	3,531,590	3,160,783
Debt securities in issue	16	75,010	25,400
Current income tax liability	24	-	576
Other financial liabilities	17	13,619	7,147
Other non-financial liabilities	17	12,339	6,624
Subordinated debt	18	293,773	111,864
TOTAL LIABILITIES		**5,637,338**	**4,168,663**
EQUITY			
Share capital	19	580,877	450,057
Accumulated deficit		(464,528)	(26,498)
TOTAL EQUITY		**116,349**	**423,559**
TOTAL LIABILITIES AND EQUITY		**5,753,687**	**4,592,222**

Approved for issue and signed on behalf of the Board of Directors on __________ 2009.

I. M. Feskiv
Chairman of the Board

ВІДКРИТЕ АКЦІОНЕРНЕ ТОВАРИСТВО "КРЕДОБАНК" КРЕДОБАНК 09807862 * ЛЬВІВ * УКРАЇНА *

V.V. Lototskyy
Chief Accountant

The notes set out on pages 5 to 66 form an integral part of these financial statements.

In thousands of Ukrainian hryvnias	Note	2008	2007
Interest income	20	699,663	489,458
Interest expense	20	(409,470)	(291,727)
Net interest income		**290,193**	**197,731**
Provision for loan impairment	10	(568,002)	(21,776)
(Net interest expense)/ net interest income after provision for loan impairment		**(277,809)**	**175,955**
Fee and commission income	21	84,097	63,411
Fee and commission expense	21	(3,601)	(3,675)
Gains less losses from trading in foreign currencies		20,100	13,955
Foreign exchange translation losses less gains		(3,327)	(505)
Losses less gains from securities at fair value through profit or loss		(9,261)	(310)
Impairment of investment securities available-for-sale	11	(11,184)	-
Provision for other financial and non-financial assets	13	(7,314)	(1,462)
Provision for credit related commitments	28	(359)	(439)
Other operating income	22	8,273	7,480
Administrative and other operating expenses	23	(339,520)	(238,320)
(Loss)/profit before tax		**(539,905)**	**16,090**
Income tax credit/(expense)	24	101,875	(6,648)
(Loss)/profit for the year		**(438,030)**	**9,442**

In thousands of Ukrainian hryvnias	**Note**	**Share capital**	**Accumulated deficit**	**Total equity**
Balance at 31 December 2006		**273,307**	**(35,940)**	**237,367**
Profit for the year		-	9,442	9,442
Total recognised income for 2007		-	9,442	9,442
Share issue	19	176,750	-	176,750
Balance at 31 December 2007		**450,057**	**(26,498)**	**423,559**
Loss for the year		-	(438,030)	(438,030)
Total recognised loss for 2008		-	(438,030)	(438,030)
Share issue	19	130,820	-	130,820
Balance at 31 December 2008		**580,877**	**(464,528)**	**116,349**

OJSC Kredobank
Statement of Cash Flows

In thousands of Ukrainian hryvnias	Note	2008	2007
Cash flows from operating activities			
Interest received		633,163	480,784
Interest paid		(388,868)	(273,160)
Fees and commissions received		84,097	72,869
Fees and commissions paid		(3,601)	(3,675)
Income received from trading in foreign currencies		20,100	13,645
Other operating income received		8,273	7,480
Staff costs paid		(140,528)	(91,708)
Administrative and other operating expenses paid		(145,178)	(120,597)
Income tax paid		7,830	(13,141)
Cash flows from operating activities before changes in operating assets and liabilities		**75,288**	**72,497**
Net decrease/(increase) in securities at fair value through profit or loss		184,262	(73,940)
Net decrease/(increase) in due from other banks		121,967	(25,674)
Net increase in loans and advances to customers		(596,804)	(1,028,135)
Net (increase)/decrease in other financial and non-financial assets		(11,076)	12,855
Net decrease in amounts due to National Bank of Ukraine		-	(53,000)
Net increase in due to other banks		391,849	318,205
Net (decrease)/increase in customer accounts		(244,715)	727,121
Net increase in other financial and non-financial liabilities		5,184	5,743
Net cash used in operating activities		**(74,045)**	**(44,328)**
Cash flows from investing activities			
Acquisition of investment securities available-for-sale	11	(500,101)	-
Proceeds from disposal and redemption of investment securities available-for-sale	11	407,622	-
Acquisition of premises and equipment	12	(86,102)	(163,696)
Proceeds from disposal of premises and equipment		958	759
Acquisition of intangible assets	12	(10,443)	(12,794)
Net cash used in investing activities		**(188,066)**	**(175,731)**
Cash flows from financing activities			
Proceeds from subordinated debt	18	88,500	37,875
Issue of ordinary shares	19	130,820	176,750
Issue of debt securities		49,517	25,000
Net cash from financing activities		**268,838**	**239,625**
Effect of exchange rate changes on cash and cash equivalents		**87,313**	**7,175**
Net increase in cash and cash equivalents		**94,040**	**26,741**
Cash and cash equivalents at the beginning of the year		439,048	412,308
Cash and cash equivalents at the end of the year	3, 7	**533,088**	**439,049**

1 Introduction

These financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2008 for Open Joint Stock Company Kredobank (the "Bank").

The Bank was incorporated and is domiciled in Ukraine. The Bank is a joint stock company limited by shares and was set up in accordance with Ukrainian regulations. As of 31 December 2008 and 2007 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.

On 29 April 2009 a new Joint Stock Company Law enters into force, which provides that joint stock companies may be either public or private. The new Joint Stock Company Law establishes additional requirements for the banks to bring their statutory documents in compliance with this requirement until 29 April 2011.

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 (Ukraina). In November 2005, the shareholders of the Bank made the decision to change the name to Kredobank. The Bank operates under general banking licence #43 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 20 October 2007. 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 (2007: UAH 50 thousand) per individual in case bank liquidation procedure is started.

The Bank has 27 (2007: 24) 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 continues to display certain characteristics of an emerging market. These characteristics include, but are not limited to, the existence of a currency that is not freely convertible outside of Ukraine, restrictive currency controls, and high inflation of 22.3% for the year ended 31 December 2008 (2007: 16.6%). The financial situation in the Ukrainian market significantly deteriorated during 2008, particularly in the fourth quarter.

The ongoing global financial and economic crisis that emerged out of the severe reduction in global liquidity which commenced in the middle of 2007 (often referred to as the "Credit Crunch") has resulted in, among other things, a lower level of capital market funding, lower liquidity levels across the banking sector and the wider economy, and, at times, higher interbank lending rates and very high volatility in stock and currency markets. The uncertainties in the global financial markets have also led to failures of banks and other financial sector participants and to bank rescues in the United States of America, Western Europe, Ukraine and elsewhere. Since October 2008 the NBU introduced temporary administration at a number of Ukrainian banks due to their liquidity problems. The full extent of the impact of the ongoing financial crisis is proving to be difficult to anticipate or completely guard against.

2 Operating Environment of the Bank (Continued)

As a result of the global financial crisis, the Ukrainian economy experienced a reduced level of capital inflow and a decrease in demand for exports. Additionally, the country ratings by international rating agencies were downgraded in October 2008. These factors, together with increasing domestic uncertainty, led to volatility in the currency exchange market and resulted in significant downward pressure on the Ukrainian hryvnia relative to major foreign currencies. Since October 2008 the NBU has been entering the market to support the national currency. The official UAH to US Dollar (USD) exchange rate of the National Bank of Ukraine devalued by 58.4% from UAH 4.861 at 30 September 2008 to UAH 7.70 at 31 December 2008.

In the light of the current economic turmoil, 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 and the next tranche of SDR 1.25 billion was due in February 2009, however at the time of issue of these financial statements it has not been received. The major condition for qualifying for the loan is 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. The loan is expected to have a positive effect on the Ukrainian economy, however the receipt of the next tranches is subject to the IMF's conclusion on progress made by Ukraine in addressing structural issues.

A number of measures have been undertaken to support the Ukrainian financial markets, including the following:

- On 13 October 2008 National Bank of Ukraine took the decision to impose a limitation on pre-term withdrawal of deposits. Additional restrictions were imposed on credit and currency transactions, which significantly reduced the volume of lending operations.
- On 31 October 2008 the Parliament of Ukraine adopted the Law On Immediate Measures for Prevention of Negative Consequences of Financial Crisis and Changes to Certain Legal Acts of Ukraine, which, in particular, raised the guarantee repayment of individual deposit from Individual Deposits Guarantee Fund to UAH 150,000 per individual in case bank liquidation procedures are commenced.
- The list of assets which can be pledged under refinancing agreements with the NBU was significantly extended.
- The NBU significantly increased volumes of liquidity support provided to Ukrainian banks; during October-December 2008 the total volume of liquidity support operations including overnight loans, loans sold through auctions and other facilities amounted to UAH 99 billion.
- Mandatory reserves requirements were eased to provide additional liquidity to the banking sector.

The volume of wholesale financing has significantly reduced since August 2007. Such circumstances may affect the ability of the Bank to obtain new borrowings and re-finance its existing borrowings at terms and conditions similar to those applied to earlier transactions. As a result of unfavourable market conditions, the volume of operations on interbank market has decreased significantly. The primary factors influencing the given dynamics are overall illiquid market conditions between Ukrainian banks and a tightening of the NBU's monetary policy.

Borrowers of the Bank may be adversely affected by the financial and economic environment which could in turn impact 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 significant impact on borrowers' ability to service the loans. Deteriorating economic conditions for borrowers may also have an impact on management's cash flow forecasts and assessment of the impairment of financial and non-financial assets. To the extent that information is available, management has properly reflected revised estimates of expected future cash flows in its 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 balance sheet date 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 recent volatility in global financial markets resulting in there being a low level of liquidity for certain types of assets. As a result, the actual realisable value on foreclosure may differ from the value ascribed in estimating allowances for impairment.

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.

The fair values of quoted investments in active markets are based on current bid prices (financial assets) or offer prices (financial liabilities). If there is no active market for a financial instrument, the Bank establishes fair value using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants. The valuation models reflect current market conditions at the measurement date which may not be representative of market conditions either before or after the measurement date. As at the balance sheet date management has reviewed its models to ensure they appropriately reflect current market conditions, including the relative liquidity of the market and credit spreads.

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, and other legal and fiscal impediments contribute to the challenges faced by banks currently operating in Ukraine.

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

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

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 mandatory reserve 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)

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.

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 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; or
- the value of collateral significantly decreases as a result of deteriorating market conditions.

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

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

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.

3 Summary of Significant Accounting Policies (Continued)

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.

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

Credit related commitments. The Bank enters into credit related commitments, including commitments to extend credit, letters of credit and financial guarantees. Financial guarantees represent irrevocable assurances to make payments in the event that a customer cannot meet its obligations to third parties and carry the same credit risk as loans. Financial guarantees and commitments to provide a loan are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the commitment, except for commitments to originate loans if it is probable that the 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 each balance sheet date, 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 balance sheet date.

Investment securities available-for-sale. This classification includes investment securities which the Bank 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. The Bank classifies investments as available-for-sale at the time of purchase.

Investment securities available-for-sale are carried at fair value. Interest income on available-for-sale debt securities is calculated using the effective interest method and recognised in profit or loss. Dividends on available-for-sale equity instruments are recognised in profit or loss 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 deferred in equity until the investment is derecognised or impaired, at which time the cumulative gain or loss is removed from equity to profit or loss.

Impairment losses are recognised in profit or loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of investment securities available-for-sale. A significant or prolonged decline in the fair value of an equity security below its cost is an indicator that it is impaired. The cumulative impairment loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss. Impairment losses on equity instruments are not reversed through profit or loss. 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 current period's profit or loss.

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 balance sheet 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 or other borrowed funds.

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.

3 Summary of Significant Accounting Policies (Continued)

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 each reporting date management assesses whether there is any indication of impairment of premises, leasehold improvements and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in the income statement. 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.

Depreciation. Land is not depreciated. Depreciation on other items of premises, leasehold improvements and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives:

	Useful lives in years
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 each balance sheet date.

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.

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 property and equipment, other financial assets or 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.

3 Summary of Significant Accounting Policies (Continued)

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 balance sheet 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 balance sheet date. The income tax charge/(credit) comprises current tax and deferred tax and is recognised in the income statement except if it is recognised directly in equity because it relates to transactions that are also recognised, in the same or a different period, 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 balance sheet 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 and liabilities are netted only within the individual companies of the Bank. 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.

Uncertain tax positions. The Bank's uncertain tax positions are reassessed by management at every balance sheet date. 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 balance sheet date 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 balance sheet date.

3 Summary of Significant Accounting Policies (Continued)

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 in the income statement 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 respective balance sheet dates. 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 2008 the principal rate of exchange used for translating foreign currency balances were as follows:

	31 December 2008, UAH	**31 December 2007, UAH**
1 US dollar (USD)	7.700000	5.05000
1 euro (EUR)	10.85546	7.41946
1 Russian Rouble (RUR)	0.262080	0.20579

3 Summary of Significant Accounting Policies (Continued)

Offsetting. Financial assets and liabilities are offset and the net amount reported in the balance sheet 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.

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. A segment is a distinguishable component of the Bank that is engaged either in providing products or services (business segment) or in providing products or services within a particular economic environment (geographical segment), and which is subject to risks and rewards that are different from those of other segments. Segments with a majority of revenue earned from sales to external customers and 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 effect of reclassifications is as follows:

In thousands of Ukrainian hryvnias	**As originally presented**	**Adjustment**	**As adjusted**
Increase in			
- Other non-financial assets	-	31,160	31,160
- Other financial assets	-	5,060	5,060
- Other financial liabilities	-	7,147	7,147
- Other non-financial liabilities	-	6,624	6,624
- Interest income	480,000	9,458	489,458
Decrease in			
- Other assets	25,711	(25,711)	-
- Non-current assets held for sale	10,509	(10,509)	-
- Other liabilities	13,771	(13,771)	-
- Fee and commission income (credit services)	9,458	(9,458)	-

Amendments of the financial statements after issue. The Bank's shareholders and management have the power to amend the financial statements after issue.

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 the income statement, 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 3,108 thousand (31 December 2007: UAH 1,908 thousand) higher or UAH 3,108 thousand (31 December 2007: UAH 1,908 thousand) lower.

Tax legislation. Ukrainian tax, currency and customs legislation is subject to varying interpretations. Refer to Note 28.

Deferred income tax asset recognition. The recognised deferred tax asset represents income taxes recoverable through future deductions from taxable profits and is recorded on the balance sheet. 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 accordingly is expected to generate the sustainable profits in the future. The loss incurred in 2008 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 believe 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 32.

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 464,528 thousand as at 31 December 2008 and, as of that date, the Bank's capital adequacy is significantly less than what is required to meet generally accepted standards and regulatory requirements. As disclosed in Note 33, 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. Certain steps outlined in this agreement have been already completed at the time of issue of these financial statements. The Bank's majority shareholder, PKO BP A.S 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 24 February 2009. In February 2009 the shareholders of the Bank decided to increase share capital by UAH 1,024,100 thousand and during February 2009 the Bank received the first payment in the amount of UAH 500,500 thousand. As disclosed in Note 33, following receipt of these funds and changes in the NBU regulatory requirements, the Bank's regulatory capital became compliant with the NBU requirements.

5 Adoption of New or Revised Standards and Interpretations

Certain new interpretations became effective for the Bank from 1 January 2008:

- ***IFRIC 11, IFRS 2—Group and Treasury Share Transactions*** (effective for annual periods beginning on or after 1 March 2007);

- ***IFRIC 12, Service Concession Arrangements*** (effective for annual periods beginning on or after 1 January 2008); and

- ***IFRIC 14, IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*** (effective for annual periods beginning on or after 1 January 2008).

These interpretations did not have any significant effect on the Bank's financial statements.

Reclassification of Financial Assets—Amendments to IAS 39, Financial Instruments: Recognition and Measurement, and IFRS 7, Financial Instruments: Disclosures **and a subsequent amendment, *Reclassification of Financial Assets: Effective Date and Transition.*** The amendments allow entities the options (a) to reclassify a financial asset out of the held for trading category if, in rare circumstances, the asset is no longer held for the purpose of selling or repurchasing it in the near term; and (b) to reclassify an available-for-sale asset or an asset held for trading to the loans and receivables category, if the entity has the intention and ability to hold the financial asset for the foreseeable future or until maturity (subject to the asset otherwise meeting the definition of loans and receivables). The amendments may be applied with retrospective effect from 1 July 2008 for any reclassifications made before 1 November 2008; the reclassifications allowed by the amendments may not be applied before 1 July 2008 and retrospective reclassifications are only allowed if made prior to 1 November 2008. Any reclassification of a financial asset made on or after 1 November 2008 takes effect only from the date when the reclassification is made. The Bank has not elected to make any of the optional reclassifications during the period.

6 New Accounting Pronouncements

Certain new standards and interpretations have been published that are mandatory for the Bank's accounting periods beginning on or after 1 January 2009 or later periods and which the Bank has not early adopted:

IFRS 8, Operating Segments (effective for annual periods beginning on or after 1 January 2009). 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. Management is currently assessing what impact the standard will have on segment disclosures in the Bank's financial statements.

Puttable Financial Instruments and Obligations Arising on Liquidation—IAS 32 and IAS 1 Amendment (effective for annual periods beginning on or after 1 January 2009). The amendment requires classification as equity of some financial instruments that meet the definition of financial liabilities. The Bank does not expect the amendment to affect its financial statements.

IAS 23, Borrowing Costs (revised March 2007; effective for annual periods beginning on or after 1 January 2009). The main change to IAS 23 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. An entity is, therefore, required to capitalise such borrowing costs as part of the cost of the asset. The revised standard applies prospectively to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009. The Bank does not expect the amendment to the standard to have a material effect on its financial statements.

IAS 1, Presentation of Financial Statements (revised September 2007; effective for annual periods beginning on or after 1 January 2009). The main change in IAS 1 is the replacement of the income statement by a statement of comprehensive income which will also include all non-owner changes in equity, such as the revaluation of available-for-sale financial assets. Alternatively, entities will be allowed to present two statements: a separate income statement and a 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 Bank expects the revised IAS 1 to affect the presentation of its financial statements but to have no impact on the recognition or measurement of specific transactions and balances.

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 any effect on its financial statements.

Vesting Conditions and Cancellations—Amendment to IFRS 2, Share-based Payment (issued in January 2008; effective for annual periods beginning on or after 1 January 2009). The amendment clarifies 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 Bank does not expect the amendment to have any effect on its financial statements.

6 New Accounting Pronouncements (Continued)

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. 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.

IFRIC 13, Customer Loyalty Programmes (effective for annual periods beginning on or after 1 July 2008). 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. IFRIC 13 is not relevant to the Bank's operations because the Bank does not operate any loyalty programmes.

IFRIC 15, Agreements for the Construction of Real Estate (effective for annual periods beginning on or after 1 January 2009). 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. IFRIC 15 is not relevant to the Bank's operations because it does not have any agreements for the construction of real estate.

IFRIC 16, Hedges of a Net Investment in a Foreign Operation (effective for annual periods beginning on or after 1 October 2008). 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 gain or loss recycled from the currency translation reserve to profit or loss is calculated on disposal of the hedged foreign operation. Reporting entities will apply IAS 39 to discontinue hedge accounting prospectively when their hedges do not meet the criteria for hedge accounting in IFRIC 16. IFRIC 16 does not have any impact on these financial statements as the Bank does not apply hedge accounting.

Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate—IFRS 1 and IAS 27 Amendment (issued in May 2008; effective for annual periods beginning on or after 1 January 2009). 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 rather than as a recovery of the investment. The amendments will not have any impact on the Bank's financial statements.

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)

Improvements to International Financial Reporting Standards (issued in May 2008). In 2007, 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 Bank does not expect the amendments to have any material effect on its financial statements.

IFRIC 17, Distribution of Non-Cash Assets to Owners (effective for annual periods beginning on or after 1 July 2009). The amendment 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 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.

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.

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.

Improving Disclosures about Financial Instruments - Amendment to IFRS 7, Financial Instruments: Disclosures (issued in March 2009; effective for annual periods beginning on or after 1 January 2009). The amendment requires enhanced disclosures about fair value measurements and liquidity risk. The entity will be 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 Bank is currently assessing the impact of the amendment on disclosures in its financial statements.

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

In thousands of Ukrainian hryvnias	2008	2007
Cash on hand	209,766	183,844
Cash balances with the NBU	104,978	134,701
Correspondent accounts with other banks		
- Ukraine	115	-
- Other countries	218,229	65,335
Placements with other banks with original maturities of less than three months	-	55,169
Total cash and cash equivalents	**533,088**	**439,049**

As at 31 December 2008 the mandatory reserve balance is calculated on the basis of a simple average over a monthly period (2007: monthly period) and should be maintained at the level of 0.5 to 5 percent (31 December 2007: 0.5 to 5 percent) of certain obligations of the Bank. As such, the balance can vary from day-to-day. The Bank's mandatory reserve balance for December 2008 was UAH 114,439 thousand (for December 2007: UAH 85,723 thousand). The Bank may satisfy its mandatory reserve requirement only with the balance on account with the National Bank of Ukraine (2007: balance on account with the National Bank of Ukraine). Mandatory reserve balance is non-interest bearing.

As at 31 December 2008, in accordance with the NBU regulations, the Bank was required to maintain a balance on account with NBU at a level not less than 90% (2007: 100%) of the mandatory reserve balance for the preceding month. The Bank will not be subject to any sanctions if it fails to comply with this requirement less than 30 times within a 3 months period.

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

In thousands of Ukrainian hryvnias	Cash on hand	Cash balances with the NBU	Correspondent accounts with other banks	Placements with other banks with original maturities of less than three months	Total
Neither past due nor impaired					
- Cash on hand	209,766	-	-	-	209,766
- National Bank of Ukraine	-	104,978	-	-	104,978
- Aa1 – Aa3	-	-	208,136	-	208,136
- B1 – B3	-	-	2,030	-	2,030
- C1 – C3	-	-	5,493	-	5,493
- D1 – D3	-	-	1,953	-	1,953
- Unrated	-	-	732	-	732
Total cash and cash equivalents	**209,766**	**104,978**	**218,344**	**-**	**533,088**

At 31 December 2008 the Bank had balances with one counterparty bank with aggregated amount of UAH 181,888 thousand or 82 % of the total amount of correspondent accounts with other banks. This balance was received from PKO BP S.A. (Poland) for the purposes of financing lending operations of the Bank in US dollars.

7 Cash and Cash Equivalents (Continued)

The credit quality of cash and cash equivalents balances may be summarised as follows at 31 December 2007:

In thousands of Ukrainian hryvnias	Cash on hand	Cash balances with the NBU	Correspondent accounts with other banks	Placements with other banks with original maturities of less than three months	Total
Neither past due nor impaired					
- Cash on hand	183,844	-	-	-	183,844
- National Bank of Ukraine	-	134,701	-	-	134,701
- Aa1 – Aa3	-	-	58,922	18,715	77,637
- B1 – B3	-	-	5,538	25,348	30,886
- Unrated	-	-	875	11,106	11,981
Total cash and cash equivalents	**183,844**	**134,701**	**65,335**	**55,169**	**439,049**

Interest rate analysis of cash and cash equivalents is disclosed in Note 26. Information on related party balances is disclosed in Note 32.

8 Securities at Fair Value Through Profit or Loss

In thousands of Ukrainian hryvnias	2008	2007
Ukrainian government bonds	-	100,710
Corporate bonds	24,254	83,658
Investment certificates	-	24,148
Total debt securities	24,254	208,516
Total securities at fair value through profit or loss	**24,254**	**208,516**

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.

8 Securities at Fair Value Through Profit or Loss (Continued)

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 2008 is as follows:

In thousands of Ukrainian hryvnias	**Ukrainian government bonds**	**Corporate bonds**	**Investment certificates**	**Total**
Neither past due nor impaired (at fair value)				
- 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**

Analysis by credit quality of debt securities at fair value through profit or loss outstanding at 31 December 2007 is as follows:

In thousands of Ukrainian hryvnias	**Ukrainian government bonds**	**Corporate bonds**	**Investment certificates**	**Total**
Neither past due nor impaired (at fair value)				
- Ukrainian government	100,710	-	-	100,710
- uaBBB- to uaBBB+ rated	-	14,858	-	14,858
- uaBB- to uaBB+ rated	-	44,171	-	44,171
- uaB- to uaB+ rated	-	12,702	-	12,702
- Unrated	-	10,807	24,148	34,955
Total neither past due nor impaired amounts	**100,710**	**82,538**	**24,148**	**207,396**
Past due (at fair value)				
- less than 30 days overdue	-	1,120	-	1,120
Total past due amounts	**-**	**1,120**	**-**	**1,120**
Total debt securities designated at fair value through profit or loss	**100,710**	**83,658**	**24,148**	**208,516**

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

As at 31 December 2007, Ukrainian government bonds with carrying amount of UAH 59,657 thousand were pledged as security under a short-term loan received from one Ukrainian bank. Refer to Note 14.

Interest rate analysis of securities at fair value through profit or loss is disclosed in Note 26.

9 Due from Other Banks

In thousands of Ukrainian hryvnias	2008	2007
Short term placements with other banks	-	95,950
Guarantee deposits	5,017	3,921
Total due from other banks	**5,017**	**99,871**

As at 31 December 2008 guarantee deposits include an equivalent amount of UAH 5,017 thousand (2007: UAH 3,921 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 2008 is presented in the table below. The analysis is based on ratings assigned by one of the international credit rating agencies, Moody's.

In thousands of Ukrainian hryvnias	Short term placements with other banks	Guarantee deposits	Total
Neither past due nor impaired			
- B1 – B3	-	2,139	2,139
- D1 – D3	-	2,878	2,878
Total due from other banks	**-**	**5,017**	**5,017**

Analysis by credit quality of amounts due from other banks outstanding at 31 December 2007 is as follows:

In thousands of Ukrainian hryvnias	Short term placements with other banks	Guarantee deposits	Total
Neither past due nor impaired			
- Aa1 – Aa3	95,950	-	99,871
- B1 – B3	-	3,921	3,921
Total due from other banks	**95,950**	**3,921**	**98,871**

As at 31 December 2007, short-term placements with other banks include loans in the amount of UAH 95,950 thousand in US dollars with four OECD banks under a short-term credit facility received from the shareholder (2006: nil).

Refer to Note 30 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 26.

10 Loans and Advances to Customers

In thousands of Ukrainian hryvnias	2008	2007
Corporate loans	3,564,134	2,671,322
Loans to individuals - consumer loans	562,608	315,020
Loans to individuals - mortgage loans	1,123,987	591,592
Reverse sale and repurchase agreements	28,517	1,305
Less: Provision for loan impairment	(731,034)	(148,633)
Total loans and advances to customers	**4,548,212**	**3,430,606**

At 31 December 2008 loans and advances to customers of UAH 28,517 thousand (2007: UAH 1,305 thousand) are effectively collateralised by securities purchased under reverse sale and repurchase agreements at a fair value of UAH 3,850 thousand (2007: UAH 1,010 thousand), of which the Bank has a right to sell or repledge securities with a fair value of UAH 3,850 thousand (2007: UAH 1,010 thousand).

As at 31 December 2008 loans and advances to customers in the amount of UAH 142,976 thousand (2007: UAH 104,803 thousand) were effectively collateralised by customer deposits in the amount of UAH 165,427 thousand (2007: UAH 135,242 thousand). Refer to Note 15.

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

In thousands of Ukrainian hryvnias	Corporate loans	Consumer loans	Mortgage loans	Reverse sale and repurchase agreements	Total
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 difference	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**

Movements in the provision for loan impairment during 2007 are as follows:

In thousands of Ukrainian hryvnias	Corporate loans	Consumer loans	Mortgage loans	Reverse sale and repurchase agreements	Total
Provision for loan impairment at 1 January 2007	**123,180**	**3,958**	**-**	**-**	**127,138**
Provision for impairment during the year	6,602	7,758	7,121	295	21,776
Amounts written off during the year as uncollectible	(547)	-	-	-	(547)
Translation differences	140	126	-	-	266
Provision for loan impairment at 31 December 2007	**129,375**	**11,842**	**7,121**	**295**	**148,633**

10 Loans and Advances to Customers (Continued)

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

In thousands of Ukrainian hryvnias	2008 Amount	2008 %	2007 Amount	2007 %
Individuals	1,686,595	32	906,612	25
Trade	1,218,116	23	931,882	26
Manufacturing	637,666	12	414,897	12
Agriculture and food processing	608,468	12	430,913	12
Real estate and construction	332,692	6	214,810	6
Other services	210,083	4	249,637	7
Sports and recreation services	137,788	3	92,784	3
Transportation	98,132	2	85,909	2
Financial services	97,459	2	101,185	3
Mining	69,881	1	42,281	1
Hotels	56,500	1	-	-
Other	125,866	2	108,329	3
Total loans and advances to customers (before impairment)	**5,279,246**	**100**	**3,579,239**	**100**

At 31 December 2008 the Bank had 10 borrowers (2007: 5 borrowers) with aggregated loan amounts above UAH 40,000 thousand. The total aggregate amount of these loans was UAH 616,054 thousand (2007: UAH 225,447 thousand) or 12 % of the gross loan portfolio (2007: 6 %).

Information about collateral at 31 December 2008 is as follows:

In thousands of Ukrainian hryvnias	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	**3,564,134**	**562,608**	**1,123,987**	**28,517**	**5,279,246**

Information about collateral at 31 December 2007 is as follows:

In thousands of Ukrainian hryvnias	Corporate loans	Consumer loans	Mortgage loans	Reverse sale and repurchase agreements	Total
Unsecured loans	311,832	68,549	13,177	-	393,558
Loans collateralised by:					
- residential real estate	86,546	2,454	359,430	-	448,430
- other real estate	1,338,298	1,384	183,087	-	1,522,769
- cash deposits	81,968	20,745	2,090	-	104,803
- other assets	852,678	221,888	33,808	1,305	1,109,679
Total loans and advances to customers	**2,671,322**	**315,020**	**591,592**	**1,305**	**3,579,239**

10 Loans and Advances to Customers (Continued)

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

In thousands of Ukrainian hryvnias	Corporate loans	Consumer loans	Mortgage loans	Reverse sale and repurchase agreements	Total
Neither past due nor impaired					
- 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 2008	388,625	164	1,218	-	390,007
Total neither past due nor impaired	**1,611,898**	**379,922**	**642,556**	**-**	**2,634,376**
Past due but not impaired					
- 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**
Loans individually determined to be impaired (gross)					
- 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 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 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 that 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 that 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.

10 Loans and Advances to Customers (Continued)

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.

Analysis by credit quality of loans outstanding at 31 December 2007 is as follows:

In thousands of Ukrainian hryvnias	Corporate loans	Consumer loans	Mortgage loans	Reverse sale and repurchase agreements	Total
Neither past due nor impaired					
- High grade	1,137,640	265,502	465,739	-	1,868,881
- Standard grade	793,623	26,333	60,437	1,305	881,698
- Sub-standard grade	39,315	20,621	29,874	-	89,810
- Loans renegotiated in 2007	307,358	95	6,704	-	314,157
Total neither past due nor impaired	**2,277,936**	**312,551**	**562,754**	**1,305**	**3,154,546**
Past due but not impaired					
- less than 30 days overdue	47,576	1,294	800	-	49,670
- 30 to 90 days overdue	6,313	3	-	-	6,316
Total past due but not impaired	**53,889**	**1,297**	**800**	**-**	**55,986**
Loans individually determined to be impaired (gross)					
- less than 30 days overdue	243,496	-	28,027	-	271,523
- 30 to 90 days overdue	2,554	-	-	-	2,554
- 90 to 180 days overdue	8,315	5	-	-	-
- 180 to 360 days overdue	5,793	459	-	-	1,095
- over 360 days overdue	79,339	708	11	-	80,058
Total individually impaired loans (gross)	**339,497**	**1,172**	**28,038**	**-**	**368,707**
Less impairment provisions	**(129,375)**	**(11,842)**	**(7,121)**	**(295)**	**(148,633)**
Total loans and advances to customers	**2,541,947**	**303,178**	**584,471**	**1,010**	**3,430,606**

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 balance sheet date. 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.

10 Loans and Advances to Customers (Continued)

The primary factors that the Bank considers in determining whether a loan is impaired are its overdue status and realisability of related collateral, if any. As a result, the Bank presents above an ageing analysis of loans that are individually determined to be impaired.

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:

In thousands of Ukrainian hryvnias	**Corporate loans**	**Consumer loans**	**Mortgage loans**	**Reverse sale and repur-chase agreements**	**Total**
Fair value of collateral - loans past due but not impaired					
- residential real estate	72,171	2,642	174,972	-	249,785
- other real estate	570,691	659	126,101	-	697,451
- cash deposits	29,041	10,913	1,053	-	41,007
- other assets	439,481	68,751	8,692	-	516,924
Fair value of collateral - individually impaired loans					
- residential real estate	6,884	-	3,494	-	10,378
- other real estate	718,151	-	38,093	-	756,244
- cash deposits	10,138	-	-	-	10,138
- other assets	228,947	-	1,213	3,850	234,010
Total	**2,075,504**	**82,965**	**353,618**	**3,850**	**2,515,937**

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 2007 was as follows:

In thousands of Ukrainian hryvnias	**Corporate loans**	**Consumer loans**	**Mortgage loans**	**Reverse sale and repur-chase agreements**	**Total**
Fair value of collateral - loans past due but not impaired					
- residential real estate	8,999	-	1,852	-	10,851
- other real estate	306,226	-	213	-	306,439
- cash deposits	2,044	-	-	-	2,044
- other assets	94,353	2,958	-	-	97,311
Fair value of collateral - individually impaired loans					
- residential real estate	-	-	-	-	-
- other real estate	473	-	-	-	473
- cash deposits	573	-	-	-	573
- other assets	195,148	-	-	-	195,148
Total	**607,816**	**2,958**	**2,065**	**-**	**612,839**

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 residential real estate at the balance sheet 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 30 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 26. Information on related party balances is disclosed in Note 32.

11 Investment Securities Available-for-Sale

In thousands of Ukrainian hryvnias	**2008**	**2007**
Ukrainian government bonds	40,624	-
Corporate bonds	42,970	-
Total debt securities	83,594	-
Corporate shares	30	30
Total investment securities available-for-sale	**83,624**	**30**

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

In thousands of Ukrainian hryvnias	**Ukrainian government bonds**	**Corporate bonds**	**Total**
Neither past due nor impaired			
- 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**
Debt securities individually determined to be impaired (gross)			
- 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**

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

11 Investment Securities Available-for-Sale (Continued)

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:

In thousands of Ukrainian hryvnias	Note	2008	2007
Carrying amount at 1 January		**30**	**929**
Impairment of investment securities available-for-sale		(11,184)	(9)
Interest income accrued	20	23,098	-
Interest income received		(20,799)	-
Purchases		500,101	-
Disposals		(407,622)	(890)
Carrying amount at 31 December		**83,624**	**30**

12 Premises, Leasehold Improvements, Equipment and Intangible Assets

In thousands of Ukrainian hryvnias	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
Cost at 1 January 2007		102,524	73,768	30,091	8,812	44,016	**259,211**	9,563	**268,774**
Accumulated depreciation		(13,427)	(27,428)	(14,000)	(4,777)	-	**(59,632)**	(4,165)	**(63,797)**
Carrying amount at 1 January 2007		**89,097**	**46,340**	**16,091**	**4,035**	**44,016**	**199,579**	**5,398**	**204,977**
Additions		577	48,637	18,648	4,117	89,861	**161,840**	12,794	**174,634**
Transfers		31,465	-	-	-	(31,465)	-	-	-
Disposals		(63)	(111)	(114)	-	-	**(288**	(5)	**(293)**
Depreciation charge	23	(2,331)	(10,262)	(7,026)	(1,535)	-	**(21,154)**	(2,528)	**(23,682)**
Carrying amount at 31 December 2007		**118,745**	**84,604**	**27,599**	**6,617**	**102,412**	**339,977**	**15,659**	**355,636**
Cost at 31 December 2007		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 31 December 2007		**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)	**(10,580)**
Depreciation charge	23	(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	**529,089**
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**

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

13 Other Financial and Non-financial Assets

In thousands of Ukrainian hryvnias	Note	2008	2007
Other financial assets			
Accrued income		7,936	6,042
Receivables from securities		5,735	294
Derivative financial instruments	29	725	-
Less: Provision for other financial assets		(6,999)	(1,276)
Total other financial assets		**7,397**	**5,060**
Other non-financial assets			
Prepayments for goods and for construction in progress		13,861	13,723
Repossessed collateral		7,487	10,509
Prepayments for services		3,128	6,858
Prepaid expenses		3,113	-
Prepayments for taxes (other than income tax)		2,911	2,938
Inventory		1,388	1,141
Other		2,031	506
Less: Provision for other non-financial assets		(6,106)	(4,515)
Total other non-financial assets		**27,813**	**31,160**
Total other financial and non-financial assets		**35,210**	**36,220**

Repossessed 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.

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

In thousands of Ukrainian hryvnias	2008	2007
Provision for impairment at 1 January	**1,276**	**801**
Provision for impairment of other assets during the year	5,723	583
Amounts written off during the year as uncollectible	-	(132)
Translation differences	-	24
Provision for impairment at 31 December	**6,999**	**1,276**

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

In thousands of Ukrainian hryvnias	2008	2007
Provision for impairment at 1 January	**4,515**	**4,018**
Provision for impairment of other assets during the year	1,591	879
Amounts written off during the year as uncollectible	-	(469)
Translation differences	-	87
Provision for impairment at 31 December	**6,106**	**4,515**

14 Due to Other Banks

In thousands of Ukrainian hryvnias	2008	2007
Correspondent accounts and overnight placements of other banks	6,269	2,743
Term placements and loans from other banks	1,704,738	793,526
Sale and repurchase agreements with other banks	-	60,000
Total due to other banks	**1,711,007**	**856,269**

As at 31 December 2008, term deposits and loans include UAH 1,539,663 thousand (2007: UAH 420,743 thousand) received from PKO BP S.A (Poland).

As at 31 December 2008, term deposits and loans include loans of UAH 103,403 thousand (2007: UAH 55,141 thousand) received from the EBRD for financing loan facilities to customers.

As at 31 December 2007 loans from other banks include an amount of UAH 60,052 thousand, which was collateralised by the Bank's securities designated at fair value through profit or loss in the amount UAH 59,657 thousand. Refer to Note 8.

Refer to Note 30 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 26. Information on related party balances is disclosed in Note 32.

15 Customer Accounts

In thousands of Ukrainian hryvnias	2008	2007
Legal entities		
- Current/settlement accounts	577,437	542,750
- Term deposits	516,191	617,085
Individuals		
- Current/demand accounts	267,142	306,869
- Term deposits	2,170,820	1,694,079
Total customer accounts	**3,531,590**	**3,160,783**

15 Customer Accounts (Continued)

Economic sector concentrations within customer accounts are as follows:

	2008		2007	
In thousands of Ukrainian hryvnias	**Amount**	**%**	**Amount**	**%**
Individuals	2,437,962	69	2,000,948	63
Transport and communication	218,124	6	322,550	10
Trade	216,804	6	195,201	7
Real estate	160,246	5	165,705	5
Manufacturing	156,111	5	160,106	5
Financial services	130,352	4	127,354	4
Services	95,387	3	132,303	4
Agriculture	20,753	1	8,244	-
Other	95,851	3	48,372	2
Total customer accounts	**3,531,590**	**100**	**3,160,783**	**100**

At 31 December 2008 the Bank had 16 customers (2007: 15 customers) with balances above UAH 10,000 thousand. The aggregate balance of these customers was UAH 438,671 thousand (2007: UAH 603,060 thousand) or 12% (2007: 19%) of total customer accounts.

At 31 December 2008 included in customer accounts are deposits of UAH 6,495 thousand (2007: UAH 5,466 thousand) held as collateral for irrevocable commitments under import letters of credit. Refer to Note 28.

As at 31 December 2008 included in customer accounts are deposits totalling UAH 165,427 thousand (2007: UAH 135,242 thousand) held as collateral for loans granted to customers totalling UAH 142,976 thousand (2007: UAH 104,803 thousand). Refer to Note 10.

Refer to Note 30 for the disclosure of the fair value of each class of customer accounts. Interest rate analysis of customer accounts is disclosed in Note 26. Information on related party balances is disclosed in Note 32.

16 Debt Securities in Issue

In thousands of Ukrainian hryvnias	**2008**	**2007**
Bonds issued on domestic market		
A – series	25,380	25,400
B – series	49,630	-
Total debt securities in issue	**75,010**	**25,400**

16 Debt Securities in Issue (Continued)

At 31 December 2008 the Bank has debt securities in issue of UAH 75,010 thousand (2007: UAH 25,400 thousand) denominated in Ukrainian hryvnias. These bonds were issued with the following terms and conditions:

Series of bonds	Nominal value	Coupon rate	Yield to maturity	Maturity	Option on early repayment and interest change
A - Series	25,000	13.75%	24%	20 February 2012	February 2009
B - Series	50,750	13.00%	23%	20 June 2013	June 2009
Total debt securities in issue	**75,750**				

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

Refer to Note 30 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 26.

17 Other Financial and Non-financial Liabilities

In thousands of Ukrainian hryvnias	Note	2008	2007
Other financial liabilities			
Other accrued liabilities		6,161	6,021
Transit accounts		5,077	296
Derivative financial instruments	29	2,381	-
Other		-	830
Total other financial liabilities		**13,619**	**7,147**
Other non-financial liabilities			
Accrued employee benefit costs		6,277	3,199
Amounts payable to Individuals' Deposit Guarantee Fund		2,694	2,158
Taxes payable other than on income		932	358
Other		2,435	909
Total other non-financial liabilities		**12,338**	**6,624**
Total other financial and non-financial liabilities		**25,957**	**13,711**

Refer to Note 30 for disclosure of the fair value of each class of other financial liabilities.

18 Subordinated Debt

In thousands of Ukrainian hryvnias	**Effective interest rate 2008**	**Carrying value 2008**	**Carrying value 2007**
USD 10,000 thousand floating rate due 2016	Libor 1m + 2.3%	77,278	-
USD 7,500 thousand floating rate due 2013	Libor 1m + 3.0%	57,994	38,144
USD 7,500 thousand floating rate due 2015	Libor 1m + 2.3%	57,959	38,119
USD 7,000 thousand floating rate due 2013	Libor 1m + 3.0%	54,127	35,601
USD 6,000 thousand floating rate due 2016	Libor 1m + 3.5%	46,415	-
Total subordinated debt		**293,773**	**111,864**

During the year 2008 the Bank has received subordinated debts from PKO BP S.A (Poland) as follows:

- USD 10,000 thousand (UAH 50,500 thousand at the exchange rate at the date of receipt) subordinated debt with interest rate of Libor (1m) + 2.3% per annum. The agreement was registered by the National Bank of Ukraine on 29 April 2008. The debt matures on 15 April 2016;

- USD 6,000 thousand (UAH 38,000 thousand at the exchange rate at the date of receipt) subordinated debt with interest rate of Libor (1m) + 3.5% per annum. The agreement was registered by the National Bank of Ukraine on 10 September 2009. The debt matures on 4 September 2016.

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

Refer to Note 30 for the disclosure of the fair value of subordinated debt. Interest rate analysis of subordinated debt is disclosed in Note 26. Information on related party balances is disclosed in Note 32.

19 Share Capital

In thousands of Ukrainian hryvnias except for number of shares	**Number of outstanding shares**	**Nominal amount**	**Inflation adjustment**	**Total**
At 1 January 2007	**21,929,946,916**	**219,299**	**54,008**	**273,307**
New shares issued	17,675,000,000	176,750	-	176,750
At 31 December 2007	**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**

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 526,869 thousand (2007: UAH 396,049 thousand).

In September 2008, the shareholders of the Bank approved an issue of 13,082,000,000 ordinary shares. This share issue was registered by the State Commission of Securities and Stock Market and by the NBU on 11 November 2008 and 30 December 2008, respectively.

19 Share capital (Continued)

At 31 December 2008, the Bank's authorised share capital comprised 52,686,946,916 (2007: 39,604,946,916) ordinary shares, with a nominal value UAH 0.01 per share. All ordinary shares have equal voting rights. As at 31 December 2008 all ordinary shares issued were fully paid and registered.

The Bank's shareholders structure is presented as follows:

Shareholder	2008	2007
PKO BP S.A	98.58%	98.20%
Other (resident and non-resident shareholders)	1.42%	1.80%
	100.00%	**100.00%**

20 Interest Income and Expense

In thousands of Ukrainian hryvnias	2008	2007
Interest income		
Loans and advances to legal entities	446,363	340,202
Loans and advances to individuals	179,088	112,349
Interest income on impaired financial assets	43,453	13,680
Debt securities	23,098	18,085
Due from other banks	7,544	4,962
Other	117	180
Total interest income	**699,663**	**489,458**
Interest expense		
Term deposits of individuals	218,486	169,571
Term deposits of legal entities	90,564	72,441
Term placements of other banks	74,740	37,898
Subordinated debt	9,578	8,795
Amounts due to the National Bank of Ukraine	8,624	116
Debt securities in issue	7,108	2,732
Other	370	174
Total interest expense	**409,470**	**291,727**
Net interest income	**290,193**	**197,731**

Information on interest income and expense from transactions with related parties is disclosed in Note 32.

21 Fee and Commission Income and Expense

In thousands of Ukrainian hryvnias	2008	2007
Fee and commission income		
- Cash and settlement transactions	69,238	47,627
- Purchase and sale of foreign currency	11,373	10,861
- Guarantees issued (Note 27)	2,785	4,284
- Other	701	639
Total fee and commission income	**84,097**	**63,411**
Fee and commission expense		
- Cash and settlement transactions	1,504	1,444
- Transactions with securities	253	202
- Other	1,844	2,029
Total fee and commission expense	**3,601**	**3,675**
Net fee and commission income	**80,496**	**59,736**

Information on fee and commission expense from transactions with related parties is disclosed in Note 32.

22 Other Operating Income

In thousands of Ukrainian hryvnias	2008	2007
Income from insurance	4,567	2,512
Fines and penalties received	1,789	2,737
Sublease rental income	672	668
Gain on disposal of premises and equipment	958	759
Other	287	804
Total other operating income	**8,273**	**7,480**

23 Administrative and Other Operating Expenses

In thousands of Ukrainian hryvnias	Note	2008	2007
Staff costs		143,017	93,454
Depreciation and amortisation of premises, leasehold improvements, equipment and intangible assets	12	48,741	23,682
Operating lease expense for premises		44,418	34,459
Utilities		17,435	12,924
Security services		16,039	10,424
Communication		13,607	11,787
Contributions to Individuals Deposit Guarantee Fund		10,386	8,022
Professional services		9,348	5,851
Repairs and maintenance		8,837	6,844
Advertising and marketing services		4,312	4,811
Taxes other than on income		2,390	1,152
Charity		1,645	1,365
Other		19,345	23,544
Total administrative and other operating expenses		**339,520**	**238,319**

Included in staff costs are pension fund contributions of UAH 30,504 thousand (2007: UAH 20,367 thousand) and other social security contributions of UAH 3,310 thousand (2007: UAH 2,481 thousand).

24 Income Taxes

Income tax (credit)/expense comprises the following:

In thousands of Ukrainian hryvnias	2008	2007
Current tax	-	14,283
Deferred tax	(101,875)	(7,635)
Income tax (credit)/expense for the year	**(101,875)**	**6,643**

The income tax rate applicable to the majority of the Bank's income is 25% (2007: 25%). A reconciliation between the expected and the actual taxation charge is provided below.

In thousands of Ukrainian hryvnias	2008	2007
(Loss)/profit before tax	**(539,905)**	**16,090**
Theoretical tax (credit)/charge at statutory rate (2008: 25%; 2007: 25%)	(134,976)	4,022
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Income which is exempt from taxation	-	(1,582)
- Income recognised for tax purposes only	1,435	-
- Non-deductible expenses	8,367	4,208
- Deferred tax asset not recognised	23,299	-
Income tax (credit)/expense for the year	**(101,875)**	**6,648**

24 Income Taxes (Continued)

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% (2007: 25%).

In thousands of Ukrainian hryvnias	**31 December 2007**	**Credited/ (charged) to profit or loss**	**31 December 2008**
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**

In thousands of Ukrainian hryvnias	**31 December 2006**	**Credited/ (charged) to profit or loss**	**31 December 2007**
Tax effect of deductible/(taxable) temporary differences			
Premises and equipment	(2,206)	(3,304)	(5,510)
Loan impairment provision	17,024	5,568	22,592
Fair valuation of securities	(159)	2,253	2,094
Amounts due to customers	-	3,118	3,118
Net deferred tax asset	**14,659**	**7,635**	**22,294**
Recognised deferred tax asset	17,024		27,804
Recognised deferred tax liability	(2,365)		(5,510)
Net deferred tax asset	**14,659**		**22,294**

25 Segment Analysis

The Bank's primary format for reporting segment information is business segments and the secondary format is geographical segments.

Business segments. 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, foreign currency products.

- Treasury and Investment banking – debt and equity capital markets operations and securities trading, financial instruments trading and foreign exchange and banknote trading.

Transactions between the business segments are on normal commercial terms and conditions. Funds are ordinarily reallocated between segments, resulting in funding cost transfers disclosed in operating income. Interest charged for these funds is based on the Bank's cost of capital. There are no other material items of income or expense between the business segments. Segment assets and liabilities comprise operating assets and liabilities, being the majority of the balances sheet, but excluding taxation. Internal charges and transfer pricing adjustments have been reflected in the performance of each business segment.

25 Segment Analysis (Continued)

Segment information for the main reportable business segments of the Bank for the years ended 31 December 2008 and 2007 is set out below:

In thousands of Ukrainian hryvnias	Retail banking	Corporate banking	Treasury and Investment banking	Unallocated	Eliminations	Total
2008						
External revenues	207,353	545,648	30,759	-	-	783,760
Revenues from other segments	62,182	-	117,416	-	(179,598)	-
Total revenues	**269,535**	**545,648**	**148,175**	**-**	**(179,598)**	**783,760**
Total revenues comprise:						
- Interest income	243,678	487,408	148,175	-	(179,598)	699,663
- Fee and commission income	25,857	58,240	-	-	-	84,097
Total revenues	**269,535**	**545,648**	**148,175**	**-**	**(179,598)**	**783,760**
Profit/(loss) before tax	**(208,049)**	**(156,409)**	**136,147**	**(131,996)**	**(179,598)**	**(539,905)**
Income tax credit						101,875
Loss						**(438,030)**
Segment assets	**1,708,258**	**3,068,397**	**678,662**	**166,947**	**-**	**5,622,264**
Current and deferred tax assets						**131,423**
Total assets						**5,753,687**
Total segment liabilities	**2,450,421**	**1,096,743**	**2,080,050**	**10,124**	**-**	**5,637,338**
Other segment items						
Capital expenditure	(46,342)	(11,585)	(965)	(37,653)	-	(96,545)
Depreciation and amortisation expense	(23,396)	(5,849)	(487)	(19,009)	-	(48,741)
Impairment losses charged to profit or loss	(157,607)	(410,395)	-	-	-	(568,002)

25 Segment Analysis (Continued)

In thousands of Ukrainian hryvnias	Retail banking	Corporate banking	Treasury and Investment banking	Other/Unallocated	Eliminations	Total
2007						
External revenues	128,565	401,077	23,227	-	-	552,869
Revenues from other segments	65,982	-	16,943	-	(82,925)	-
Total revenues	**194,547**	**401,077**	**40,170**	**-**	**(82,925)**	**552,869**
Total revenues comprise:						
- Interest income	179,727	352,486	40,170	-	(82,925)	489,458
- Fee and commission income	14,820	48,591	-	-	-	63,411
Total revenues	**194,547**	**401,077**	**40,170**	**-**	**(82,925)**	**552,869**
Profit/(loss) before tax	**(25,126)**	**216,321**	**4,593**	**(96,773)**	**(82,925)**	**16,090**
Income tax expense						(6,648)
Profit						**9,442**
Segment assets	1,067,903	2,588,969	752,395	160,661	-	4,569,928
Current and deferred tax assets	-	-	-	-	-	22,294
Total assets						**4,592,222**
Total segment liabilities	**2,007,547**	**1,161,557**	**993,677**	**5,882**	**-**	**4,168,663**
Other segment items						
Capital expenditure	(80,322)	(20,954)	(1,746)	(71,591)	-	(174,613)
Depreciation and amortisation expense	(10,893)	(2,842)	(237)	(9,710)	-	(23,682)
Impairment losses charged to profit or loss	(14,879)	(6,897)	-	-	-	(21,776)

25 Segment Analysis (Continued)

Geographical segments. Segment information for the main geographical segments of the Bank is set out below for the years ended 31 December 2008 and 2007.

In thousands of Ukrainian hryvnias	Ukraine	OECD	Non-OECD	Total
2008				
Segment assets	5,533,918	215,784	3,985	5,753,687
External revenues	-	-	-	-
Capital expenditure	27,175	-	-	27,175
Credit related commitments (Note 28)	108,825	-	-	108,825
2007				
Segment assets	4,412,267	173,094	6,861	4,592,222
External revenues	-	-	-	-
Capital expenditure	9,534	-	-	9,534
Credit related commitments (Note 28)	52,741	-	-	52,741

External revenues and assets and credit related commitments have generally been allocated based on domicile of the counterparty. Cash on hand, premises, leasehold improvements and equipment and capital expenditure have been allocated based on the country in which they are physically held.

26 Financial Risk Management

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

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 balance sheet. For guarantees and commitments to extend credit, the maximum exposure to credit risk is the amount of the commitment. Refer to Note 28. The credit risk is mitigated by collateral and other credit enhancements as disclosed in Notes 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 are approved regularly by management. Such risks are monitored on a revolving basis and subject to an annual or more frequent review.

26 Financial Risk Management (Continued)

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

- Supervisory Board reviews and approves limits above USD 5 million;
- Management Board reviews and approves credit limits up to USD 5 million;
- Credit Committee of the Bank reviews and approves credit limits up to USD 2.5 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 frequently as-needed.

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 Board of Directors.

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, 11 and 13.

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.

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.

26 Financial Risk Management (Continued)

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 balance sheet 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 Financial Management Department on a daily basis. The Financial Management Departments reports to Asset and Liability Management Committee (ALCO).

The table below summarises the Bank's exposure to foreign currency exchange rate risk at the balance sheet date:

	At 31 December 2008				At 31 December 2007			
In thousands of Ukrainian hryvnias	Monetary financial assets	Monetary financial liabilities	Derivatives	Net balance sheet position	Monetary financial assets	Monetary financial liabilities	Derivatives	Net balance sheet position
Ukrainian hryvnias	1,516,104	1,896,955	(164,299)	(545,150)	2,109,921	2,025,863	-	84,058
US Dollars	2,939,789	3,010,047	162,642	92,384	1,552,506	1,569,394	-	(16,888)
Euros	733,284	706,690	-	26,594	525,417	527,284	-	(1,867)
Other	11,660	8,926	-	2,734	16,182	16,643	-	(461)
Total	**5,200,837**	**5,622,618**	**(1,657)**	**(423,438)**	**4,204,026**	**4,139,184**	-	**64,842**

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 balance sheet date, 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 28. 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.

The following table presents sensitivities of profit or loss and equity to reasonably possible changes in exchange rates applied at the balance sheet date relative to the functional currency of the respective Bank entities, with all other variables held constant:

	At 31 December 2008		At 31 December 2007	
In thousands of Ukrainian hryvnias	Impact on profit or loss	Impact on equity	Impact on profit or loss	Impact on equity
US Dollar strengthening by 45% (2007: strengthening by 3%)	41,573	41,573	(1,689)	(1,689)
US Dollar weakening by 10% (2007: weakening by 3%)	(9,238)	(9,238)	1,689	1,689
Euro strengthening by 45% (2007: strengthening by 10%)	11,967	11,967	(187)	(187)
Euro weakening by 10% (2007: weakening by 10%)	(2,659)	(2,659)	187	187
Total	**(72,207)**	**(72,207)**	-	-

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

26 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.

In thousands of Ukrainian hryvnias	**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**	**Non-monetary**	**Total**
31 December 2008							
Total financial assets	876,819	613,401	677,637	1,625,025	1,408,680	30	5,201,592
Total financial liabilities	(2,627,928)	(1,811,836)	(462,385)	(179,902)	(542,948)	-	(5,624,999)
Net interest sensitivity gap at 31 December 2008	**(1,751,109)**	**(1,198,435)**	**215,252**	**1,445,123**	**865,732**	**30**	**(423,407)**
31 December 2007							
Total financial assets	864,474	343,295	665,158	1,530,380	779,795	30	4,183,132
Total financial liabilities	(1,779,841)	(698,518)	(594,739)	(484,854)	(603,511)	-	(4,161,463)
Net interest sensitivity gap at 31 December 2007	**(915,367)**	**(355,223)**	**70,419**	**1,045,526**	**176,284**	**30**	**21,669**

All of the Bank's debt instruments reprice within 5 years (2007: all reprice within 5 years).

At 31 December 2008, if interest rates on financial instruments denominated in UAH at that date had been 450 basis points higher/lower with all other variables held constant, profit for the year would have been UAH 452 thousand (2007: UAH 155 thousand) higher/lower. Other components of equity would have been UAH 474 thousand (2007: nil) lower/higher, mainly as a result of a decrease/increase in the fair value of fixed rate financial assets classified as available-for-sale

At 31 December 2008, if interest rates on financial instruments denominated in USD at that date had been 100 basis points higher/lower with all other variables held constant, profit for the year would have been UAH 1,050 thousand (2007: UAH 228 thousand) lower/higher, mainly as a result of higher/lower interest expense on variable interest liabilities.

At 31 December 2008, if interest rates on financial instruments denominated in EUR at that date had been 100 basis points higher/lower with all other variables held constant, profit for the year would have been UAH 61 thousand (2007: UAH 39 thousand) lower/higher, mainly as a result of higher/lower interest expense on variable interest liabilities.

26 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:

	2008				2007			
In % p.a.	**UAH**	**USD**	**Euro**	**Other**	**UAH**	**USD**	**Euro**	**Other**
Assets								
Cash and cash equivalents	0%	0%	0%	0%	14%	10%	0%	0%
Debt securities at fair value through profit or loss	21%	-	-	-	16%	-	-	-
Due from other banks	-	0%	-	-	-	4%	-	-
Loans and advances to customers	21%	13%	12%	-	20%	12%	13%	-
Debt investment securities available-for-sale	21%	-	-	-	16%	-	-	-
Liabilities								
Due to other banks	-	6%	8%	0%	9%	5%	7%	5.%
Customer accounts								
- current and settlement accounts	0%	0%	0%	-	0%	0%	0%	-
- term deposits	14%	9%	8%	-	12%	8%	7%	-
Debt securities in issue	13%	-	-	-	14%	-	-	-
Subordinated debt	-	5%	-	-	-	4%	-	-

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

26 Financial Risk Management (Continued)

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 current balance sheet date 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.

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

In thousands of Ukrainian hryvnias	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	3,195,630	90,026	245,934	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	**3,581,161**	**1,795,537**	**248,301**	**5,624,999**
Non-financial liabilities	**12,339**	**-**	**-**	**12,339**
Total liabilities	**3,593,500**	**1,795,537**	**248,301**	**5,637,338**
Net balance sheet position	**1,940,418**	**(1,579,753)**	**(244,316)**	**116,349**
Credit related commitments	**108,825**	**-**	**-**	**108,825**

26 Financial Risk Management (Continued)

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.

The geographical concentration of the Bank's assets and liabilities at 31 December 2007 is set out below:

In thousands of Ukrainian hryvnias	Ukraine	OECD	Non-OECD	Total
Assets				
Cash and cash equivalents	355,044	77,144	6,861	439,049
Securities at fair value through profit or loss	208,516	-	-	208,516
Due from other banks	3,921	95,950	-	99,871
Loans and advances to customers	3,430,606	-	-	3,430,606
Investment securities available-for-sale	30	-	-	30
Other financial assets	5,060	-	-	5,060
Total financial assets	**4,003,177**	**173,094**	**6,861**	**4,183,132**
Non-financial assets	**409,090**	**-**	**-**	**409,090**
Total assets	**4,412,267**	**173,094**	**6,861**	**4,592,222**
Liabilities				
Due to other banks	157,388	692,222	6,659	856,269
Customer accounts	3,160,783	-	-	3,160,783
Debt securities in issue	25,400	-	-	25,400
Other financial liabilities	7,147	-	-	7,147
Subordinated debt	-	111,864	-	111,864
Total financial liabilities	**3,350,718**	**804,086**	**6,659**	**4,161,463**
Non-financial liabilities	**7,200**	**-**	**-**	**7,200**
Total liabilities	**3,357,918**	**804,086**	**6,659**	**4,168,663**
Net balance sheet position	**1,054,349**	**(630,992)**	**202**	**423,559**
Credit related commitments	**52,741**	**-**	**-**	**52,741**

Other risk concentrations. Management monitors and discloses concentrations of credit risk by obtaining reports listing exposures to borrowers with aggregated loan balances in excess of 10% of net assets. Refer to Notes 9, 10 and 15.

26 Financial Risk Management (Continued)

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.

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 74% at 31 December 2008 (2007: 43%).

- 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 2008 (2007: 53%).

- 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 29% at 31 December 2008 (2007: 22%).

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 2008 by their remaining contractual maturity. The amounts disclosed in the maturity table are the contractual undiscounted cash flows, including contractual amounts to be exchanged under gross settled currency swaps, and gross loan commitments. Such undiscounted cash flows differ from the amount included in the balance sheet because the balance sheet amount is based on discounted cash flows.

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

26 Financial Risk Management (Continued)

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

In thousands of Ukrainian hryvnias	**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**
Liabilities						
Due to other banks	138,415	82,455	84,114	1,192,965	729,536	2,227,485
Customer accounts – individuals	765,200	707,333	354,383	351,324	1,109,303	3,287,543
Customer accounts – legal entities	771,977	240,550	90,910	13,594	12,422	1,129,453
Debt securities in issue	-	78,882	-	-	-	78,882
Subordinated debt	2,309	5,677	6,813	107,594	256,309	378,702
Other financial liabilities	13,619	-	-	-	-	13,619
Foreign exchanges swaps	164,299	-	-	-	-	164,299
Gross credit related commitments	116,574	-	-	-	-	116,574
Total potential future payments for financial obligations	**1,972,393**	**1,114,897**	**536,220**	**1,665,477**	**2,107,570**	**7,396,557**

The maturity analysis of financial liabilities at 31 December 2007 is as follows:

In thousands of Ukrainian hryvnias	**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**
Liabilities						
Due to other banks	367,794	101,401	105,937	172,561	120,778	868,471
Customer accounts – individuals	427,431	463,379	446,759	483,902	1,033,325	2,854,796
Customer accounts – legal entities	859,009	200,966	141,147	25,602	109	1,226,833
Debt securities in issue	-	25,973	-	-	-	25,973
Subordinated debt	1,196	2,158	2,589	20,715	117,743	144,401
Other financial liabilities	7,147	-	-	-	-	7,147
Gross credit related commitments	59,102	-	-	-	-	59,102
Total potential future payments for financial obligations	**1,721,679**	**793,877**	**696,432**	**702,780**	**1,271,955**	**5,186,723**

As disclosed in Note 28, as at 31 December 2008 the Bank breached certain financial covenants set by loan agreements with EBRD, therefore all loans from EBRD were classified on demand.

Payments in respect of gross settled forwards will be accompanied by related cash inflows which are disclosed at their present values in Note 28. 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.

26 Financial Risk Management (Continued)

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 2008:

In thousands of Ukrainian hryvnias	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
Other financial assets	7,397	-	-	-	-	7,397
Total financial assets	**978,481**	**561,359**	**672,661**	**1,600,670**	**1,388,421**	**5,201,592**
Liabilities						
Due to other banks	20,895	17,432	6,075	972,400	694,205	1,711,007
Customer accounts	1,504,636	900,653	402,511	180,841	542,949	3,531,590
Debt securities in issue	-	75,010	-	-	-	75,010
Other financial liabilities	13,619	-	-	-	-	13,619
Subordinated debt	1,173	-	-	53,900	238,700	293,773
Total financial liabilities	**1,540,323**	**993,095**	**408,586**	**1,207,141**	**1,475,854**	**5,624,999**
Net liquidity gap at 31 December 2008	**(561,842)**	**(431,736)**	**264,075**	**393,529**	**(87,433)**	**(423,407)**
Cumulative liquidity gap at 31 December 2008	**(561,842)**	**(993,578)**	**(729,503)**	**(335,974)**	**(423,407)**	

The above analysis is based on expected maturities. The entire portfolio of securities at fair value through profit or loss is therefore classified within demand and less than one month based on management's assessment of the portfolio's realisability.

As disclosed in Note 28, as at 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.

26 Financial Risk Management (Continued)

The analysis by expected maturities may be summarised as follows at 31 December 2007:

In thousands of Ukrainian hryvnias	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	439,049	-	-	-	-	439,049
Securities at fair value through profit or loss	208,516	-	-	-	-	208,516
Due from other banks	95,950	3,921	-	-	-	99,871
Loans and advances to customers	111,978	343,295	665,158	1,530,380	779,795	3,430,606
Investment securities available-for-sale	-	-	-	-	30	30
Other financial assets	5,060	-	-	-	-	5,060
Total financial assets	**860,553**	**347,216**	**665,158**	**1,530,380**	**779,825**	**4,183,132**
Liabilities						
Due to other banks	367,552	100,341	104,826	166,087	117,463	856,269
Customer accounts	1,267,877	598,177	489,913	318,767	486,049	3,160,783
Debt securities in issue	-	25,400	-	-	-	25,400
Other financial liabilities	7,147	-	-	-	-	7,147
Subordinated debt	764	-	-	-	111,100	111,864
Total financial liabilities	**1,643,340**	**723,918**	**594,739**	**484,854**	**714,612**	**4,161,463**
Net liquidity gap at 31 December 2007	**(782,787)**	**(376,702)**	**70,419**	**1,045,526**	**65,213**	**21,669**
Cumulative liquidity gap at 31 December 2007	**(782,787)**	**(1,159,489)**	**(1,089,070)**	**(43,544)**	**21,669**	

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.

Liquidity requirements to support calls under guarantees and standby letters of credit are considerably less than the amount of the commitment 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 does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

27 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 balance sheet. The amount of capital that the Bank managed as of 31 December 2008 was UAH 116,349 thousand (2007: UAH 423,559 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:

In thousands of Ukrainian hryvnias	**2008**	**2007**
Primary capital	478,649	422,084
Additional capital	208,416	118,819
Total regulatory capital	**687,065**	**540,903**

After year end adjustments posted in the Bank's records maintained under Ukrainian accounting standards in respect of provision for loan impairment of UAH 413,301 thousand, the Bank as at 31 December 2008 breached NBU requirements in respect of minimum level of capital adequacy ratios and other regulatory ratios linked to the size of regulatory capital. As disclosed in Note 33 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. Refer also to Note 33.

28 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.

28 Contingencies and Commitments (Continued)

Capital expenditure commitments. At 31 December 2008 the Bank has contractual capital expenditure commitments in respect of premises and equipment totalling UAH 27,175 thousand (2007: UAH 9,534 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:

In thousands of Ukrainian hryvnias	2008	2007
Not later than 1 year	49,150	32,449
Later than 1 year and not later than 5 years	99,230	85,309
Later than 5 years	490	2,728
Total operating lease commitments	**148,870**	**120,486**

Compliance with covenants. The Bank is subject to certain covenants related primarily to its term placements and 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 per 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 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 disclosed in the note 14. The Bank sent letters to EBRD to inform about non-compliance with covenants as at 31 December 2008 and requested respective waivers. As at the date of issue of these financial statements the Bank had not received a waiver from EBRD.

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.

28 Contingencies and Commitments (Continued)

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the 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:

In thousands of Ukrainian hryvnias	Note	2008	2007
Import letters of credit		5,959	25,180
Guarantees issued		110,615	33,922
Less: Provision for credit related commitments		(1,254)	(895)
Less: Cash covered credit related commitments	15	(6,495)	(5,466)
Total credit related commitments		**108,825**	**52,741**

Credit related commitments are denominated in currencies as follows:

In thousands of Ukrainian hryvnias	Note	2008	2007
Ukrainian hryvnias		15,870	32,076
US Dollars		63,954	8,908
Euros		28,751	11,550
Other		250	207
Total		**108,825**	**52,741**

As at 31 December 2008 all commitments to extend credit are revocable and amounted to UAH 214,321 thousand (2007: UAH 245,061 thousand). Commitments to extend credit represent unused portion of authorisations to extend credit in the form of loans and advances to customers. 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. 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.

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 1,254 thousand at 31 December 2008 (2007: UAH 895 thousand).

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

	Note	2008		2007	
In thousands of Ukrainian hryvnias		Asset pledged	Related liability	Asset pledged	Related liability
Gross receivables under currency swaps		162,642	164,299		-
Securities at fair value through profit or loss	8, 14	-	-	59,657	60,052
Total		**162,642**	**164,299**	**59,657**	**60,052**

29 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 balance sheet date, 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 respective balance sheet date. The contracts are short term in nature.

In thousands of Ukrainian hryvnias	Notes	2008 Contracts with positive fair value	2008 Contracts with negative fair value	2007 Contracts with positive fair value	2007 Contracts with negative fair value
Currency swap agreements: fair values, at the balance sheet date, of	26				
- USD receivable on settlement (+)		23,397	139,246	-	-
- UAH payable on settlement (-)		(22,672)	(141,627)	-	-
Net fair value of currency swap agreements	13, 17	**725**	**(2,381)**	-	-

30 Fair Value of Financial Instruments

Fair values of financial instruments are as follows at 31 December 2008:

In thousands of Ukrainian hryvnias	Fair value by measurement method: Quoted price in an active market	Valuation technique with inputs observable in markets	Valuation technique with significant non-observable inputs	Total fair value	Carrying value
FINANCIAL ASSETS					
Cash and cash equivalents					
- Cash on hand	-	209,766	-	209,766	209,766
- Balances with the NBU	-	104,978	-	104,978	104,978
- Correspondent accounts with other banks	-	218,344	-	218,344	218,344
Securities at fair value through profit or loss					
- Corporate bonds	3,954	20,300	-	24,254	24,254
Investment securities available for sale					
- Ukrainian government bonds	40,624	-	-	40,624	40,624
- Corporate bonds	35,618	7,352	-	42,970	42,970
- Corporate shares	-	-	30	30	30
Due from other banks					
- Guarantee deposits	-	5,017	-	5,017	5,017
Loans and advances to customers					
- Corporate loans	-	2,904,651	-	2,904,651	3,041,578
- Loans to individuals - consumer loans	-	496,300	-	496,300	506,293
- Loans to individuals – mortgage loans	-	203,672	-	203,672	996,491
- Reverse sale and repurchase agreements	-	3,850	-	3,850	3,850
Other financial assets	-	7,397	-	7,397	7,397
TOTAL FINANCIAL ASSETS	**80,196**	**4,181,627**	**30**	**4,261,853**	**5,201,592**
FINANCIAL LIABILITIES					
Due to other banks					
- Correspondent accounts of other banks	-	6,269	-	6,269	6,269
- Term placements and loans of other banks	-	1,639,237	-	1,639,237	1,704,738
Customer accounts					
- Current/settlement accounts of legal entities	-	577,441	-	577,437	577,437
- Term deposits of other legal entities	-	513,369	-	513,369	516,191
- Current/demand accounts of individuals	-	267,142	-	267,142	267,142
- Term deposits of individuals	-	1,794,834	-	1,794,834	2,170,820
Debt securities in issue					
- Bonds issued on domestic market	69,969	-	-	69,969	75,010
Other financial liabilities	-	13,619	-	13,619	13,619
Subordinated debt					
- Subordinated debt	-	293,773	-	293,773	293,773
TOTAL FINANCIAL LIABILITIES	**69,969**	**5,105,684**	**-**	**5,175,653**	**5,624,999**

30 Fair Value of Financial Instruments (Continued)

Fair values of financial instruments are as follows at 31 December 2007:

In thousands of Ukrainian hryvnias	Fair value by measurement method: Quoted price in an active market	Valuation technique with inputs observable in markets	Valuation technique with significant non-observable inputs	Total Fair value	Carrying value
FINANCIAL ASSETS					
Cash and cash equivalents					
- Cash on hand	-	183,844	-	183,844	183,844
- Balances with the NBU	-	134,701	-	134,701	134,701
- Correspondent accounts with other banks	-	65,335	-	65,335	65,335
- Placements with other banks with original maturities of less than three months	-	55,169	-	55,169	55,169
Securities at fair value through profit or loss					
- Ukrainian government bonds	100,710	-	-	100,710	100,710
- Corporate bonds	71,731	10,807	-	83,658	83,658
- Investment certificates	-	24,148	-	24,148	24,148
Investment Securities Available for Sale					
- Corporate shares	-	-	30	30	30
Due from other banks					
- Short-term placements with other banks	-	95,950	-	95,950	95,950
- Guarantee deposits	-	3,921	-	3,921	3,921
Loans and advances to customers					
- Corporate loans	-	2,484,699	-	2,484,699	2,541,947
- Loans to individuals - consumer loans	-	350,367	-	350,367	303,178
- Loans to individuals – mortgage loans	-	214,282	-	214,282	584,471
- Reverse sale and repurchase agreements	-	1,010	-	1,010	1,010
Other financial assets	-	5,060	-	5,060	5,060
TOTAL FINANCIAL ASSETS	**172,441**	**3,629,293**	**30**	**3,801,764**	**4,183,132**
FINANCIAL LIABILITIES					
Due to other banks					
- Correspondent accounts of other banks	-	2,743	-	2,743	2,743
- Term placements and loans of other banks	-	720,069	-	720,069	793,526
- Sale and repurchase agreements with other banks	-	60,000	-	60,000	60,000
Customer accounts					
- Current/settlement accounts of legal entities	-	542,750	-	542,750	542,750
- Term deposits of legal entities	-	613,245	-	613,245	617,085
- Current/demand accounts of individuals	-	306,869	-	306,869	306,869
- Term deposits of individuals	-	1,321,467	-	1,321,467	1,694,079
Debt securities in issue					
- Bonds issued on domestic market	24,713	-	-	24,713	25,400
Other financial liabilities	-	7,147	-	7,147	7,147
Subordinated debt					
- Subordinated debt	-	111,864	-	111,864	111,864
TOTAL FINANCIAL LIABILITIES	**24,713**	**3,686,154**	**-**	**3,710,867**	**4,154,612**

30 Fair Value of Financial Instruments (Continued)

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 amounts to UAH 11,184 thousand (2007: UAH 310 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:

	2008	2007
Due from other banks		
Correspondent accounts with other banks	0% to 1% p.a.	0% to 1% p.a.
Short-term placements with other banks	-	5% to 10% p.a.
Loans and advances to customers		
Corporate loans	12% to 19% p.a.	12% to 18% p.a.
Loans to individuals - consumer loans	25% to 30% p.a.	14% to 20% p.a.
Loans to individuals – mortgage loans	18% to 28% p.a.	16% to 19% p.a.
Due to other banks		
- Correspondent accounts and overnight placements of other banks	0% p.a.	0% p.a.
- Term placements and loans of other banks	4% to 7% p.a.	5% to 7% p.a.
- Sale and repurchase agreements with other banks	-	8% p.a.
Customer accounts		
- Term deposits of legal entities	8% to 13% p.a.	8% to 13% p.a.
- Term deposits of individuals	11% to 18% p.a.	8% to 16% p.a.

31 Presentation of Financial Instruments by Measurement Category

For the purposes of measurement, IAS 39, *Financial Instruments: Recognition and Measurement*, classifies financial assets into the following categories: (a) loans and receivables; (b) available-for-sale financial assets; (c) financial assets held to maturity and (d) financial assets at fair value through profit or loss ("FVTPL"). Financial assets at fair value through profit or loss have two subcategories: (i) assets designated as such upon initial recognition, and (ii) those classified as held for trading. The following table provides a reconciliation of classes of financial assets with these measurement categories as of 31 December 2008:

In thousands of Ukrainian hryvnias	**Loans and receivables**	**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**

As of 31 December 2008 and 31 December 2007 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.

31 Presentation of Financial Instruments by Measurement Category (Continued)

The following table provides a reconciliation of classes of financial assets with these measurement categories as of 31 December 2007:

In thousands of Ukrainian hryvnias	**Loans and receivables**	**Available-for-sale assets**	**Trading assets**	**Assets designated at FVTPL**	**Total**
ASSETS					
Cash and cash equivalents	439,049	-	-	-	439,049
Securities at fair value through profit or loss	-	-	-	208,516	208,516
Due from other banks					
- Short-term placements with other banks	95,950	-	-	-	95,950
- Guarantee deposits	3,921	-	-	-	3,921
Loans and advances to customers					
- Corporate loans	2,541,947	-	-	-	2,672,627
- Loans to individuals - consumer loans	303,178	-	-	-	500,657
- Loans to individuals – mortgage loans	584,471	-	-	-	405,955
- Reverse sale and repurchase agreements	1,010-	-	-	-	-
Investment securities available for sale	-	30	-	-	30
Other financial assets	5,060	-	-	-	5,060
TOTAL FINANCIAL ASSETS	**3,974,586**	**30**	**-**	**208,516**	**4,183,132**
NON-FINANCIAL ASSETS					**409,090**
TOTAL ASSETS					**4,592,222**

32 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 2008, the outstanding balances with related parties were as follows:

In thousands of Ukrainian hryvnias	Parent company	Entities under common control	Key management personnel
Due from 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	-	-

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

In thousands of Ukrainian hryvnias	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	-	-

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

In thousands of Ukrainian hryvnias	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

32 Related Party Transactions (Continued)

At 31 December 2007, the outstanding balances with related parties were as follows:

In thousands of Ukrainian hryvnias	Parent company	Entities under common control	Key management personnel
Due from other banks (contractual interest rate: USD 4%; PLN 7%)	2,416	-	-
Gross amount of loans and advances to customers (contractual interest rate: UAH 7%-8%; USD 13%%)	-	-	108
Impairment provisions for loans and advances to customers at 31 December	-	-	-
Due to other banks (contractual interest rate: USD 5%-7%; EUR 7%; PLN 5%)	422,757	-	-
Customer accounts (contractual interest rate: UAH 9%-13%; USD 5%-9%; EUR 5%-8%)	-	-	-
Subordinated debt (contractual interest rate: USD 7%-8%)	111,864	-	-

The income and expense items with related parties for 2007 were as follows:

In thousands of Ukrainian hryvnias	Parent company	Entities under common control	Key management personnel
Interest income	-	-	23
Interest expense	32,703	-	115
Provision for loan impairment	-	-	-
Fee and commission expense	4,508	-	-

Aggregate amounts lent to and repaid by related parties during 2007 were:

In thousands of Ukrainian hryvnias	Parent company	Entities under common control	Key management personnel
Amounts lent to related parties during the period	-	-	55
Amounts repaid by related parties during the period	-	-	(410)

32 Related Party Transactions (Continued)

Key management compensation is presented below:

In thousands of Ukrainian hryvnias	2008 Expense	2008 Accrued liability	2007 Expense	2007 Accrued liability
Short-term benefits:				
- Salaries	3,612	-	2,340	-
- Short-term bonuses	-	-	772	-
Post-employment benefits:				
- State pension and social security costs	530	-	427	-
Total	**4,142**	**-**	**3,538**	**-**

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

33 Events After the Balance Sheet Date

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.

In February 2009 the Bank's shareholders decided to increase share capital by issuance of additional ordinary shares totalling UAH 1,024,100 thousand. In February 2009 the Bank received the first payment from shareholders in the amount of UAH 500,500 thousand.

In February 2009 the NBU issued a regulation easing regulatory capital requirements for the period to 1 January 2011. In particular, starting from February 2009 banks are allowed to include into their regulatory capital calculations paid-in unregistered share capital contributions and subordinated debts at the current exchange rate. As a result of these changes and following the receipt of funds from shareholders of UAH 500,500 thousand, the Bank's regulatory capital adequacy ratio increased to 11.49 as at 1 March 2009.

On 12 February 2009 Fitch Ratings downgraded Ukraine's long-term foreign and local currency Issuer Default Ratings to 'B' from 'B+'. This reflects increased risk of a banking and currency crisis in Ukraine, due to intensified stress on the financial system and greater risks to successful implementation of Ukraine's IMF-supported programme. The Outlooks on both Issuer Default Ratings are "negative". The agency has also downgraded the Country Ceiling to 'B' from 'B+'.

On 25 February 2009 Ukraine's credit rating was cut two levels by Standard & Poor's due to political turmoil posing growing risks to the country's International Monetary Fund loan. The long-term foreign currency rating was lowered to CCC+. S&P left Ukraine's outlook "negative", indicating it may reduce the ratings further.