PJSC “KREDOBANK”

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

31 December 2010

CONTENTS

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders and Management Board of Public Joint Stock Company Kredobank:

1 We have audited the accompanying financial statements of Public Joint Stock Company Kredobank (the "Bank") which comprise the statement of financial position as of 31 December 2010 and the statements of comprehensive income, changes in equity and 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, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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 2010, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

LLC AF "PricewaterhouseCoopers (Audit)"

9 March 2011

Kyiv, Ukraine

In thousands of Ukrainian hryvnias	Note	31 December 2010	31 December 2009
ASSETS			
Cash and cash equivalents and mandatory reserves	7	593,624	1,060,316
Securities at fair value through profit or loss	8	-	11,685
Due from other banks	9	4,235	6,058
Loans and advances to customers	10	3,128,171	3,669,552
Investment securities available-for-sale	11	411,968	51,386
Current income tax prepayment		5,548	7,928
Deferred income tax asset	26	131,658	200,238
Intangible assets	12	29,385	26,214
Premises, leasehold improvements and equipment	12	365,538	378,079
Other financial assets	13	2,166	2,179
Other non-financial assets	14	52,625	23,065
TOTAL ASSETS		**4,724,918**	**5,436,700**
LIABILITIES			
Due to other banks	15	511,749	996,341
Customer accounts	16	2,977,342	3,604,289
Debt securities in issue	17	-	308
Other financial liabilities	18	32,340	10,241
Other non-financial liabilities	19	11,685	13,278
Subordinated debt	20	276,659	159,842
TOTAL LIABILITIES		**3,809,775**	**4,784,299**
EQUITY			
Share capital	21	1,918,969	1,550,969
Accumulated deficit		(1,003,826)	(898,568)
TOTAL EQUITY		**915,143**	**652,401**
TOTAL LIABILITIES AND EQUITY		**4,724,918**	**5,436,700**

Approved for issue and signed on behalf of the Management Board on 9/03/2011.

Радослав Хоц
Заступник Голови Правління
ПАТ "КРЕДОБАНК"

I. M. Feskiv
Chairman of the Board

V.V. Lototskyy
Chief Accountant

ПУБЛІЧНЕ АКЦІОНЕРНЕ ТОВАРИСТВО "КРЕДОБАНК"
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09807862
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In thousands of Ukrainian hryvnias	Note	2010	2009
Interest income	22	556,238	840,379
Interest expense	22	(373,684)	(483,671)
Net interest income		**182,554**	**356,708**
Provision for loan impairment	10	(20,319)	(694,840)
Net interest income/(negative interest margin) after provision for loan impairment		**162,235**	**(338,132)**
Fee and commission income	23	110,329	110,444
Fee and commission expense	23	(4,459)	(5,097)
Gains less losses from trading in foreign currencies		6,758	26,097
Foreign exchange translation gains less losses		3,310	2,815
Losses less gains from securities at fair value through profit or loss		(10,478)	(6,677)
Impairment of investment securities available-for-sale	11	(5,533)	(5,753)
Reversal of provision/ (provision) for other financial and non-financial assets		562	(3,291)
Reversal of provision/ (provision) for credit related commitments		2,069	(2,018)
Other operating income	24	9,464	6,274
Administrative and other operating expenses	25	(310,935)	(348,779)
Loss before tax		**(36,678)**	**(564,117)**
Income tax (expense)/ credit	26	(68,580)	76,069
Loss for the year		**(105,258)**	**(488,048)**
OTHER COMPREHENSIVE INCOME FOR THE YEAR		-	-
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		(105,258)	(488,048)

Approved for issue and signed on behalf of the Management Board on ......9/03/ 2011.

Радослав Хоц
Заступник Голови Правління

I. M. Paskiv
Chairman of the Board

V.V. Lototskyy
Chief Accountant

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In thousands of Ukrainian hryvnias	Note	Share capital	Accumulated deficit	Total equity
Balance at 1 January 2009		**580,877**	**(464,528)**	**116,349**
Total comprehensive loss for 2009		-	(488,048)	(488,048)
Share issue	21	1,024,100	-	1,024,100
Reversal of hyperinflation adjustment	21	(54,008)	54,008	-
Balance at 31 December 2009		**1,550,969**	**(898,568)**	**652,401**
Total comprehensive loss for 2010		-	(105,258)	(105,258)
Share issue	21	368,000	-	368,000
Balance at 31 December 2010		**1,918,969**	**(1,003,826)**	**915,143**

Approved for issue and signed on behalf of the Management Board on 9/03/ 2011

Радослав Код
Заступник Голови Правління
ПАТ "КРЕДОБАНК"

I. M. Feskiv
Chairman of the Board

V.V. Lototskyy
Chief Accountant

In thousands of Ukrainian hryvnias	Note	2010	2009
Cash flows from operating activities			
Interest received		473,654	633,409
Interest paid		(371,471)	(500,076)
Fees and commissions received		118,339	116,664
Fees and commissions paid		(12,469)	(11,317)
Income received from trading in foreign currencies		6,758	26,097
Other operating income received		6,667	4,177
Staff costs paid		(133,333)	(142,104)
Administrative and other operating expenses paid		(119,733)	(159,419)
Income tax paid		-	(674)
Cash flows used in operating activities before changes in operating assets and liabilities		**(31,588)**	**(33,243)**
Net decrease in securities at fair value through profit or loss		548	6,824
Net decrease/(increase) in due from other banks		1,808	(1,504)
Net decrease/(increase) in mandatory deposits with the NBU		53,370	(54,184)
Net decrease in loans and advances to customers		532,009	482,943
Net (increase)/decrease in other financial and non-financial assets		(13,368)	5,997
Net decrease in due to other banks		(479,786)	(762,958)
Net (decrease)/increase in customer accounts		(586,269)	10,503
Net increase/(decrease) in other financial and non-financial liabilities		16,307	(5,820)
Net cash used in operating activities		**(506,969)**	**(351,442)**
Cash flows from investing activities			
Acquisition of investment securities available-for-sale	11	(4,272,786)	(231,194)
Proceeds from disposal and redemption of investment securities available-for-sale	11	3,925,733	263,680
Acquisition of premises and equipment	12	(28,182)	(49,500)
Proceeds from disposal of premises and equipment		4,833	3,218
Acquisition of intangible assets	12	(13,675)	(9,288)
Net cash used in investing activities		**(384,077)**	**(23,084)**
Cash flows from financing activities			
Proceeds from subordinated debt	20	120,140	159,806
Repayment of subordinated debt	20	-	(289,222)
Issue of ordinary shares	21	368,000	1,024,100
Redemption of debt securities		(300)	(74,222)
Net cash from financing activities		**487,840**	**820,462**
Effect of exchange rate changes on cash and cash equivalents		**(10,117)**	**27,108**
Net (decrease)/increase in cash and cash equivalents		**(413,323)**	**473,044**
Cash and cash equivalents at the beginning of the year		1,006,132	533,088
Cash and cash equivalents at the end of the year	3, 7	**592,809**	**1,006,132**

Approved for issue and signed on behalf of the Management Board on 09/03/ 2011.

Радослав Хоц
Заступник Голови Правління
ПАТ "КРЕДОБАНК"

I. M. Feskiv
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ПУБЛІЧНЕ АКЦІОНЕРНЕ ТОВАРИСТВО "КРЕДОБАНК" КРЕДОБАНК 09807862 ЛЬВІВ • УКРАЇНА

1 Introduction

These financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2010 for Public Joint Stock Company “Kredobank” (the “Bank”).

The Bank was incorporated and is domiciled in Ukraine. The Bank is a public joint stock company limited by shares and was set up in accordance with Ukrainian regulations. As of 31 December 2010 and 2009 the Bank’s immediate parent company was PKO BP S.A. (Poland). The Bank is a part of the PKO BP S.A. Group (“PKO BP S.A Group” or the “Group”). The Group is ultimately controlled by the State Treasury of Poland.

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

The Bank operates under general banking licence issued by the NBU on 27 January 2006. This licence provides the Bank with the right to conduct banking operations, including currency operations. The Bank also possesses licences for securities operations and custodial services from the State Commission for Securities and Stock Market issued on 19 October 2007 (due to change in the Bank’s name the licence was re-issued on 25 January 2010). The Bank participates in the State deposit insurance scheme (registration # 51 dated 28 March 2006), which operates according to the Law №2740-III “On Individuals Deposits Guarantee Fund” dated 20 September 2001 (as amended). Individuals Deposits Guarantee Fund guarantees repayment of individual deposits up to UAH 150 thousand (2009: UAH 150 thousand) per individual in case bank liquidation procedure is started.

As at 31 December 2010 the Bank has 1 branch and 137 outlets (2009: 20 branches and 142 outlets) within Ukraine. During 2010 the Bank performed reorganisation of the Bank’s network, 24 outlets have been closed and 19 branches have been reorganised as outlets of the Bank’s Central Branch Department.

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

Saharova Str., 78
79026 Lviv,
Ukraine.

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

2 Operating Environment of the Bank

Ukraine displays certain characteristics of an emerging market, including but not limited to, the existence of a currency that is not freely convertible outside of Ukraine, restrictive currency controls, relatively high inflation and high interest rates.

The recent global financial crisis has had a severe effect on the Ukrainian economy and the financial situation in the Ukrainian financial and corporate sectors significantly deteriorated since mid-2008. In 2010, the Ukrainian economy experienced a moderate recovery of economic growth. The recovery was accompanied by a gradual decrease of refinancing rates, stabilisation of the exchange rate of the Ukrainian Hryvnia against major foreign currencies, and increased liquidity levels in the interbank market.

The tax, currency and customs legislation within Ukraine is subject to varying interpretations and frequent changes (Note 26). Furthermore, the need for further developments in the bankruptcy laws, the formalised procedures for the registration and enforcement of collateral, political instability and other legal and fiscal impediments contribute to the challenges faced by banks currently operating in Ukraine.

2 Operating Environment of the Bank (Continued)

On 2 December 2010, the Parliament of Ukraine adopted the new Tax Code. The Tax Code came into effect on 1 January 2011. The Corporate Income Tax Section will come into force on 1 April 2011. One of the key changes introduced by the new Tax Code is a significant reduction of the corporate income tax rate: from 1 April 2011 to 31 December 2011 – 23%, from 2012 – 21%, from 2013 – 19% and from 2014 – 16%.

In addition, the Tax Code introduced new approaches to income and expense recognition, new tax rules for depreciation of property, plant and equipment and amortisation of intangible assets and new approaches to recognition of foreign exchange differences, which move closer to financial accounting principles.

New tax regulations have not been applied in practice yet and are not supported by interpretations based on known court rulings or formal clarifications from tax authorities, therefore, there is uncertainty as to their interpretation and practical application.

The future economic direction of Ukraine is largely dependent upon the effectiveness of economic, financial and currency measures undertaken by the Government, together with tax, legal, regulatory and political developments.

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

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

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

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

3 Summary of Significant Accounting Policies

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

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

3 Summary of Significant Accounting Policies (Continued)

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.

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

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

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

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

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

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date that the 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.

3 Summary of Significant Accounting Policies (Continued)

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 restrictions on the sale.

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

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

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

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

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

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

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

3 Summary of Significant Accounting Policies (Continued)

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

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

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

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

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

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

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

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

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

3 Summary of Significant Accounting Policies (Continued)

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

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

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

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

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

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

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

3 Summary of Significant Accounting Policies (Continued)

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

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

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

Depreciation. Depreciation on 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 the end of each reporting period.

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

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

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

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

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

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

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

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

3 Summary of Significant Accounting Policies (Continued)

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

Subordinated debt. Subordinated debt represents long-term borrowing agreements that, in case of the Bank's default, would be secondary to the Bank's primary debt obligations. Subordinated debt is carried at amortized cost.

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

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

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

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

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

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

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

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

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

3 Summary of Significant Accounting Policies (Continued)

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

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

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

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

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

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

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

At 31 December 2010 the principal rate of exchange used for translating foreign currency balances were as follows:

	31 December 2010, UAH	**31 December 2009, UAH**
1 US dollar (USD)	7.961700	7.985000
1 euro (EUR)	10.573138	11.448893
1 Russian Rouble (RUR)	0.262400	0.264020

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

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.

3 Summary of Significant Accounting Policies (Continued)

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

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

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:

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, continuing financial support from the parent company, 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.

Impairment losses on loans and advances. The Bank regularly reviews its loan portfolios to assess impairment. In determining whether an impairment loss should be recorded in profit or loss for the year, the Bank makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. To the extent that the assessed delay in repayment of principal on 5% of the total loans and advances to customers differs by +/- one month, the provision would be approximately UAH 300 thousand (31 December 2009: UAH 1,000 thousand) higher or UAH 300 thousand (2009: UAH 1,000 thousand) lower.

Impairment losses for individually significant loans are based on estimates of discounted future cash flows of the individual loans, taking into account repayments and realisation of any assets held as collateral against the loans. A 10% increase or decrease in the actual loss experience compared to the estimated future discounted cash flows from individually significant loans, which could arise from differences in amounts and timing of the cash flows, would result in an increase or decrease in loan impairment losses of UAH 89,746 thousand (2009: UAH 25,781 thousand), respectively.

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

Initial recognition of related party transactions. In the normal course of business the Bank enters into transactions with its related parties. IAS 39 requires initial recognition of financial instruments based on their fair values. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analysis. Terms and conditions of related party balances are disclosed in Note 34.

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

Classification of income and expense on transactions with the parent company. Management applies judgement to determine whether income and expenses arising from transactions with the parent company should be recognised in the statement of changes in equity as transactions with shareholders in respect of capital contributions and distributions or in the income statement as results from operations. The basis for judgement is requirements of applicable accounting standards and economic substance of transaction. As disclosed in Note 10, during 2010 the Bank entered into the guarantee deposit agreement and two guarantee agreements with PKO BP SA whereby PKO BP SA guarantees repayment of loans totalling UAH 38,038 thousand and UAH 595,738 thousand respectively. As a result of these transactions, the Bank reversed part of loan impairment provisions totalling UAH 133,159 thousand taking into account future proceeds from guarantees execution in cash flow projections for loans covered by the guarantees. This reversal was recognised in the income statement to reflect requirements of IAS 39. Were the Bank to recognise all such income and expense in the statement of changes in equity as transactions with shareholders, the net loss before tax for year would increase by UAH 133,159 thousand.

Deferred income tax asset recognition. The recognised deferred tax asset represents income taxes recoverable through future deductions from taxable profits and is recorded in the statement of financial position. Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable. The future taxable profits and the amount of tax benefits that are probable in the future are based on a medium term business plan prepared by management and extrapolated results thereafter. The business plan is based on management's expectations that are believed to be reasonable under the circumstances. The Bank is expected to generate the sustainable profits in the future. Key assumptions in the business plan include expected stabilization in the economy of Ukraine, gradual decline in interest rates (on loans and funding), moderate growth in loan portfolio, reduced loan loss provisions due to the expected start of improvement in economy in 2011 and further enhancement of cost-control. Taking into account planned future profits and the fact that current Ukrainian tax legislation does not place limits on the term of utilization of tax losses carried forward, management believes that it is appropriate to recognise the deferred tax asset.

5 Adoption of New or Revised Standards and Interpretations

Certain new standards and interpretations became effective for the Bank's accounting periods beginning on or after 1 January 2010.

IFRIC 17, Distributions of Non-Cash Assets to Owners (effective for annual periods beginning on or after 1 July 2009). The interpretation clarifies when and how distribution of non-cash assets as dividends to the owners should be recognised. An entity should measure a liability to distribute non-cash assets as a dividend to its owners at the fair value of the assets to be distributed. A gain or loss on disposal of the distributed non-cash assets will be recognised in profit or loss when the entity settles the dividend payable. IFRIC 17 did not have an impact on these 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. The amendment did not have an impact on these financial statements.

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 requires an entity to attribute total comprehensive income to the owners of the parent and to the non-controlling interests (previously "minority interest") even if this results in the non-controlling interests having a deficit balance (the previous standard required 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 should be measured at its fair value. The revised IAS 27 did not have an impact on these financial statements.

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

IFRS 3, Business Combinations (revised in 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 allows entities to choose to measure non-controlling interests using the previous 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 has to remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognise the resulting gain or loss, if any, in profit or loss for the year. Acquisition-related costs are accounted for separately from the business combination and therefore recognised as expenses rather than included in goodwill. An acquirer has to recognise at the acquisition date a liability for any contingent purchase consideration. Changes in the value of that liability after the acquisition date are 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. The revised IFRS 3 did not have an impact on these financial statements.

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

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 revised IFRS 1 did not have an impact on these financial statements.

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

Improvements to International Financial Reporting Standards (issued in April 2009; amendments to IFRS 2, IAS 38, IFRIC 9 and IFRIC 16 are effective for annual periods beginning on or after 1 July 2009; amendments to IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 36 and IAS 39 are effective for annual periods beginning on or after 1 January 2010). The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: clarification that contributions of businesses in common control transactions and formation of joint ventures are not within the scope of IFRS 2; clarification of disclosure requirements set by IFRS 5 and other standards for non-current assets (or disposal groups) classified as held for sale or discontinued operations; requiring to report a measure of total assets and liabilities for each reportable segment under IFRS 8 only if such amounts are regularly provided to the chief operating decision maker; amending IAS 1 to allow classification of certain liabilities settled by entity’s own equity instruments as non-current; changing IAS 7 such that only expenditures that result in a recognised asset are eligible for classification as investing activities;

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

allowing classification of certain long-term land leases as finance leases under IAS 17 even without transfer of ownership of the land at the end of the lease; providing additional guidance in IAS 18 for determining whether an entity acts as a principal or an agent; clarification in IAS 36 that a cash generating unit shall not be larger than an operating segment before aggregation; supplementing IAS 38 regarding measurement of fair value of intangible assets acquired in a business combination; amending IAS 39 (i) to include in its scope option contracts that could result in business combinations, (ii) to clarify the period of reclassifying gains or losses on cash flow hedging instruments from equity to profit or loss for the year and (iii) to state that a prepayment option is closely related to the host contract if upon exercise the borrower reimburses economic loss of the lender; amending IFRIC 9 to state that embedded derivatives in contracts acquired in common control transactions and formation of joint ventures are not within its scope; and removing the restriction in IFRIC 16 that hedging instruments may not be held by the foreign operation that itself is being hedged. In addition, the amendments clarifying classification as held for sale under IFRS 5 in case of a loss of control over a subsidiary published as part of the *Annual Improvements to International Financial Reporting Standards*, which were issued in May 2008, are effective for annual periods beginning on or after 1 July 2009. The amendments did not have significant impact on the Bank.

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

6 New Accounting Pronouncements

Certain new standards and interpretations have been published that are mandatory for the Bank's accounting periods beginning on or after 1 January 2011 or later periods and which the Bank has not early adopted:

Classification of Rights Issues - Amendment to IAS 32 (issued 8 October 2009; effective for annual periods beginning on or after 1 February 2010). The amendment exempts certain rights issues of shares with proceeds denominated in foreign currencies from classification as financial derivatives. The amendments will not have any impact on the Bank's financial statements.

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

IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments (effective for annual periods beginning on or after 1 July 2010). This IFRIC clarifies the accounting when an entity renegotiates the terms of its debt with the result that the liability is extinguished through the debtor issuing its own equity instruments to the creditor. A gain or loss is recognised in profit or loss based on the fair value of the equity instruments compared to the carrying amount of the debt. IFRIC 19 is not expected to have any impact on the Bank's financial statements.

Prepayments of a Minimum Funding Requirement – Amendment to IFRIC 14 (effective for annual periods beginning on or after 1 January 2011). This amendment will have a limited impact as it applies only to companies that are required to make minimum funding contributions to a defined benefit pension plan. It removes an unintended consequence of IFRIC 14 related to voluntary pension prepayments when there is a minimum funding requirement. The amendments will not have any impact on the Bank's financial statements.

Limited exemption from comparative IFRS 7 disclosures for first-time adopters - Amendment to IFRS 1 (effective for annual periods beginning on or after 1 July 2010). Existing IFRS preparers were granted relief from presenting comparative information for the new disclosures required by the March 2009 amendments to IFRS 7, *Financial Instruments: Disclosures*. This amendment to IFRS 1 provides first-time adopters with the same transition provisions as included in the amendment to IFRS 7. The Bank does not expect the amendments to have any effect on its financial statements.

6 New Accounting Pronouncements (Continued)

IFRS 9, Financial Instruments Part 1: Classification and Measurement. IFRS 9 issued in November 2009 replaces those parts of IAS 39 relating to the classification and measurement of financial assets. IFRS 9 was further amended in October 2010 to address the classification and measurement of financial liabilities. Key features of the standard are as follows:

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.

- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent only payments of principal and interest (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.

- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.

- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated as at fair value through profit or loss in other comprehensive income.

While adoption of IFRS 9 is mandatory from 1 January 2013, earlier adoption is permitted. The Bank is considering the implications of the standard, the impact on the Bank and the timing of its adoption by the Bank.

Disclosures—Transfers of Financial Assets – Amendments to IFRS 7 (issued in October 2010 and effective for annual periods beginning on or after 1 July 2011.). The amendment requires additional disclosures in respect of risk exposures arising from transferred financial assets. The amendment includes a requirement to disclose by class of asset the nature, carrying amount and a description of the risks and rewards of financial assets that have been transferred to another party yet remain on the entity's statement of financial position. Disclosures are also required to enable a user to understand the amount of any associated liabilities, and the relationship between the financial assets and associated liabilities. Where financial assets have been derecognised but the entity is still exposed to certain risks and rewards associated with the transferred asset, additional disclosure is required to enable the effects of those risks to be understood. The Bank is currently assessing the impact of the amended standard on disclosures in its financial statements. The amendment is not expected to have any impact on the Bank's financial statements.

Improvements to International Financial Reporting Standards (issued in May 2010 and effective from 1 January 2011). The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: IFRS 1 was amended (i) to allow previous GAAP carrying value to be used as deemed cost of an item of property, plant and equipment or an intangible asset if that item was used in operations subject to rate regulation, (ii) to allow an event driven revaluation to be used as deemed cost of property, plant and equipment even if the revaluation occurs during a period covered by the first IFRS financial statements and (iii) to require a first-time adopter to explain changes in accounting policies or in the IFRS 1 exemptions between its first IFRS interim report and its first IFRS financial statements; IFRS 3 was amended (i) to require measurement at fair value (unless another measurement basis is required by other IFRS standards) of non-controlling interests that are not present ownership interest or do not entitle the holder to a proportionate share of net assets in the event of liquidation,

6 New Accounting Pronouncements (Continued)

(ii) to provide guidance on acquiree's share-based payment arrangements that were not replaced or were voluntarily replaced as a result of a business combination and (iii) to clarify that the contingent considerations from business combinations that occurred before the effective date of revised IFRS 3 (issued in January 2008) will be accounted for in accordance with the guidance in the previous version of IFRS 3; IFRS 7 was amended to clarify certain disclosure requirements, in particular (i) by adding an explicit emphasis on the interaction between qualitative and quantitative disclosures about the nature and extent of financial risks, (ii) by removing the requirement to disclose carrying amount of renegotiated financial assets that would otherwise be past due or impaired, (iii) by replacing the requirement to disclose fair value of collateral by a more general requirement to disclose its financial effect, and (iv) by clarifying that an entity should disclose the amount of foreclosed collateral held at the reporting date and not the amount obtained during the reporting period; IAS 27 was amended by clarifying the transition rules for amendments to IAS 21, 28 and 31 made by the revised IAS 27 (as amended in January 2008); IAS 34 was amended to add additional examples of significant events and transactions requiring disclosure in a condensed interim financial report, including transfers between the levels of fair value hierarchy, changes in classification of financial assets or changes in business or economic environment that affect the fair values of the entity's financial instruments; and IFRIC 13 was amended to clarify measurement of fair value of award credits. The Bank does not expect the amendments to have any material effect on its financial statements, except the amendment to IAS 1 which was early adopted by the Bank as explained in Note 5.

Recovery of Underlying Assets – Amendments to IAS 12 (issued in December 2010 and effective for annual periods beginning on or after 1 January 2012). The amendment introduced a rebuttable presumption that an investment property carried at fair value is recovered entirely through sale. This presumption is rebutted if the investment property is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. SIC-21, *Income Taxes – Recovery of Revalued Non-Depreciable Assets*, which addresses similar issues involving non-depreciable assets measured using the revaluation model in IAS 16, *Property, Plant and Equipment,* was incorporated into IAS 12 after excluding from its scope investment properties measured at fair value. The Bank does not expect the amendments to have any material effect on its financial statements.

Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters – Amendments to IFRS 1 (issued in December 2010 and effective for annual periods beginning on or after 1 July 2011). The amendment regarding severe hyperinflation creates an additional exemption when an entity that has been subject to severe hyperinflation resumes presenting or presents for the first time, financial statements in accordance with IFRS. The exemption allows an entity to elect to measure certain assets and liabilities at fair value; and to use that fair value as the deemed cost in the opening IFRS statement of financial position.

The IASB has also amended IFRS 1 to eliminate references to fixed dates for one exception and one exemption, both dealing with financial assets and liabilities. The first change requires first-time adopters to apply the derecognition requirements of IFRS prospectively from the date of transition, rather than from 1 January 2004. The second amendment relates to financial assets or liabilities where the fair value is established through valuation techniques at initial recognition and allows the guidance to be applied prospectively from the date of transition to IFRS rather than from 25 October 2002 or 1 January 2004. This means that a first-time adopter may not need to determine the fair value of certain financial assets and liabilities at initial recognition for periods prior to the date of transition. IFRS 9 has also been amended to reflect these changes.

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

7 Cash and Cash Equivalents and Mandatory Reserves

In thousands of Ukrainian hryvnias	2010	2009
Cash on hand	152,187	268,677
Cash balances with the NBU (other than mandatory reserve deposits)	107,074	136,868
Mandatory cash balances with the NBU	815	54,184
Correspondent accounts with other banks		
- Ukraine	279	117
- Other countries	333,269	600,470
Total cash and cash equivalents and mandatory reserves	**593,624**	**1,060,316**

As at 31 December 2010 mandatory reserve balance with the National Bank of Ukraine is calculated on the basis of a simple average over a monthly period (2009: monthly period) and is required to be maintained at the level of 0 to 7 per cent (31 December 2009: 0 to 7 per cent) of certain obligations of the Bank in hryvnia equivalent. As such, the balance can vary from day-to-day. The Bank's mandatory reserve requirement for December 2010 was UAH 64,651 thousand (for December 2009: UAH 107,408 thousand). The Bank may satisfy its mandatory reserve requirement with Treasury bills (EURO 2012) and a deposit placed on a separate account with the National Bank of Ukraine (2009: balance on account with the National Bank of Ukraine and a deposit placed on a separate account with the NBU).

As at 31 December 2010 the Bank has to deposit on separate account with the NBU the amount of 100% of mandatory reserve balance for the preceding month excluding amount covered by the Treasury bills (EURO 2012) (2009: 50% of mandatory reserve balance for the preceding month). As at 31 December 2010 the deposit amounts to UAH 815 thousand as the Treasury bills (EURO 2012) held by the Bank amount to UAH 70,000 thousand and the mandatory reserve balance for November 2010 is UAH 70,815 thousand (2009: the required deposit amounted to UAH 54,184 thousand). This deposit is subject to interest payments from the NBU at the rate of 30% of the discount rate set by the NBU (2.325% p.a. as at 31 December 2010 and 3.075% p.a. as at 31 December 2009), provided that the Bank is in compliance with the mandatory reserve requirements. Other mandatory reserve balances were non-interest bearing at 31 December 2009. As the respective liquid assets are not available to finance the Bank's day-to-day operations, for the purposes of the statement of cash flows the mandatory reserve balance kept on a separate account with the NBU is excluded from cash and cash equivalents. As at 31 December 2010 cash and cash equivalents for the purposes of the statement of cash flows were UAH 592,809 thousand (31 December 2009: UAH 1,006,132 thousand).

During 2010 the Bank was in compliance with the mandatory reserve requirements.

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

The credit quality of cash and cash equivalents and mandatory reserve balances may be summarised based on Moody's ratings as follows at 31 December 2010:

In thousands of Ukrainian hryvnias	Cash balances with the NBU, including mandatory reserves	Correspondent accounts with other banks	Total
Neither past due nor impaired			
- National Bank of Ukraine	107,889	-	107,889
- Aa1 – Aa3 rated	-	314,877	314,877
- A1 - A3 rated	-	14,601	14,601
- Baa1 - Baa3 rated	-	2	2
- Ba1 - Ba3 rated	-	25	25
- B1 – B3 rated	-	3,491	3,491
- Unrated	-	552	552
Total cash and cash equivalents and mandatory reserves, excluding cash on hand	**107,889**	**333,548**	**441,437**

7 Cash and Cash Equivalents and Mandatory Reserves (Continued)

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

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

8 Securities at Fair Value through Profit or Loss

In thousands of Ukrainian hryvnias	**2010**	**2009**
Corporate bonds	-	11,685
Total debt securities	-	11,685
Total securities at fair value through profit or loss	**-**	**11,685**

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

Securities designated at fair value through profit or loss are carried at fair value which also reflects any credit risk related write-downs. Analysis by credit quality of debt securities at fair value through profit or loss outstanding at 31 December 2009 is as follows:

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

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

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

9 Due from Other Banks

In thousands of Ukrainian hryvnias	**2010**	**2009**
Guarantee deposits	4,235	6,058
Total due from other banks	**4,235**	**6,058**

As at 31 December 2010 guarantee deposits include UAH 4,235 thousand (2009: UAH 6,058 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 2010 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	**Guarantee deposits**	**Total**
Neither past due nor impaired		
- B3 rated	4,235	4,235
Total due from other banks	**4,235**	**4,235**

Analysis by credit quality of amounts due from other banks outstanding at 31 December 2009 is as follows:

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

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

10 Loans and Advances to Customers

In thousands of Ukrainian hryvnias	**2010**	**2009**
Corporate loans	3,088,059	3,456,527
Loans to individuals - consumer loans	220,203	409,940
Loans to individuals - mortgage loans	818,823	1,031,792
Reverse sale and repurchase agreements	30,022	38,502
Less: Provision for loan impairment	(1,028,936)	(1,267,209)
Total loans and advances to customers	**3,128,171**	**3,669,552**

At 31 December 2010 loans and advances to customers of UAH 30,022 thousand (2009: UAH 38,502 thousand) are effectively collateralised by securities purchased under reverse sale and repurchase agreements at a fair value of zero (2009: UAH 9,765 thousand), which the Bank has a right to sell or repledge (2009: the Bank had a right to sell or repledge securities with fair value of UAH 9,765 thousand).

As at 31 December 2010 loans and advances to customers in the amount of UAH 18,706 thousand (31 December 2009: UAH 130,346 thousand) were collateralised by customer deposits in the amount of UAH 47,652 thousand (31 December 2000: UAH 163,771 thousand). Refer to Note 16.

In 2010 the Bank entered into the guarantee deposit agreement with PKO BP SA for the amount of UAH 38,038 thousand pledged as collateral for a number of lending transactions. Also in 2010 the Bank received two unconditional irrevocable guarantees from PKO PB SA which were accepted as collateral for lending transactions in the total amount of UAH 595,738 thousand. Calculation of provision for impairment of loans covered by the guarantees, included cash flows expected from execution of the guarantees. As a result the Bank reversed provisions totalling UAH 133,159 thousand and included this reversal in profit or loss for the year. Refer also to Note 4.

Movements in the provision for loan impairment during 2010 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 2010	**876,625**	**104,102**	**257,745**	**28,737**	**1,267,209**
Provision/(reversal of provision) for impairment during the year	(73)	12,257	8,109	1,285	21,578
Amounts written off during the year as uncollectible	(85,630)	(9,845)	(9,443)	-	(104,918)
Loans sold during the year	-	(67,363)	(69,056)	-	(136,419)
Translation differences	(14,511)	(692)	(3,311)	-	(18,514)
Provision for loan impairment at 31 December 2010	**776,411**	**38,459**	**184,044**	**30,022**	**1,028,936**

In 2010 Bank sold the rights to 100% of the cash flows arising on a portfolio of fixed rate loans with gross book value of UAH 161,312 thousand (including fees and penalties receivable in the amount of UAH 1,466 thousand) and net book value of UAH 24,893 thousand. As a result of this transaction the Bank recognized loss of UAH 1,792 thousand.

The provision for loan impairment for the year ended 31 December 2010 differs from the amount recognised in profit or loss for the year due to UAH 1,259 thousand recovery of amounts previously written off as uncollectible. The amount of the recovery was credited directly to the provisions line in profit or loss for the year.

10 Loans and Advances to Customers (Continued)

Movements in the provision for loan impairment during 2009 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 2009	**522,556**	**56,315**	**127,496**	**24,667**	**731,034**
Provision for impairment during the year	488,514	55,268	146,988	4,070	694,840
Amounts written off during the year as uncollectible	(140,077)	(8,242)	(18,553)	-	(166,872)
Translation differences	5,632	761	1,814	-	8,207
Provision for loan impairment at 31 December 2009	**876,625**	**104,102**	**257,745**	**28,737**	**1,267,209**

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

	2010		2009	
In thousands of Ukrainian hryvnias	Amount	%	Amount	%
Individuals	1,039,026	25	1,441,732	29
Trade	1,044,557	25	1,105,218	22
Manufacturing	659,357	16	783,107	16
Agriculture and food processing	482,506	12	602,196	12
Real estate and construction	236,687	6	235,554	5
Other services	116,563	3	206,640	4
Sports and recreation services	128,867	3	131,919	3
Financial services	112,057	3	99,612	2
Mining	93,431	2	86,835	2
Hotels	73,106	2	67,764	1
Transportation	66,450	1	123,712	3
Other	104,500	2	52,472	1
Total loans and advances to customers (before impairment)	**4,157,107**	**100**	**4,936,761**	**100**

At 31 December 2010 the Bank had 10 borrowers (2009: 9 borrowers), with aggregated loan amounts above UAH 40,000 thousand. The total aggregate amount of these loans was UAH 588,087 thousand (2009: UAH 481,659 thousand), or 14 % of the gross loan portfolio (2009: 10% of the gross loan portfolio).

Information about collateral at 31 December 2010 is as follows:

In thousands of Ukrainian hryvnias	Corporate loans	Consumer loans	Mortgage loans	Reverse sale and repurchase agreements	Total
Unsecured loans	386,633	48,797	79,686	30,022	545,138
Loans collateralised by:					
- guarantees received from the parent company	546,577	-	49,161	-	595,738
- residential real estate	66,896	2,906	465,013	-	534,815
- other real estate	1,353,445	3,041	196,516	-	1,553,002
- cash deposits	53,392	3,299	53	-	56,744
- other assets	681,116	162,160	28,394	-	871,670
Total loans and advances to customers (before impairment)	**3,088,059**	**220,203**	**818,823**	**30,022**	**4,157,107**

The amount of cash deposits in the table above includes UAH 38,038 thousand pledged as collateral for a number of lending transactions by the Bank’s parent company, PKO BP SA.

10 Loans and Advances to Customers (Continued)

Information about collateral at 31 December 2009 is as follows:

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

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

Analysis by credit quality of loans outstanding at 31 December 2010 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	182,140	110,010	245,960	-	538,110
- Standard grade	72,225	18,519	39,702	-	130,446
- Sub-standard grade	29,210	9,622	31,490	-	70,322
- Loans renegotiated in 2010	43,160	1,963	7,444	-	52,567
Total neither past due nor impaired	**326,735**	**140,114**	**324,596**	**-**	**791,445**
Past due but not impaired					
- less than 30 days overdue	7,258	1,990	3,327	-	12,575
- 30 to 90 days overdue	178,070	10,814	24,793	-	213,677
Total past due but not impaired	**185,328**	**12,804**	**28,120**	**-**	**226,252**
Loans individually and collectively determined to be impaired (gross)					
- not yet past due	773,637	619	49,640	-	823,896
- less than 30 days overdue	6,384	-	694	-	7,078
- 30 to 90 days overdue	162,010	171	21,349	-	183,530
- 91 to 180 days overdue	96,266	9,220	29,253	-	134,739
- 181 to 360 days overdue	366,184	16,286	56,888	19,574	458,932
- over 360 days overdue	1,171,515	40,989	308,283	10,448	1,531,235
Total individually and collectively impaired loans (gross)	**2,575,996**	**67,285**	**466,107**	**30,022**	**3,139,410**
Less impairment provisions	**(776,411)**	**(38,459)**	**(184,044)**	**(30,022)**	**(1,028,936)**
Total loans and advances to customers	**2,311,648**	**181,744**	**634,779**	**-**	**3,128,171**

10 Loans and Advances to Customers (Continued)

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

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

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

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

Analysis by credit quality of loans outstanding at 31 December 2009 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	115,501	195,138	355,187	1,203	667,029
- Standard grade	62,222	30,410	53,511	-	146,143
- Sub-standard grade	13,099	9,906	12,401	-	35,406
- Loans renegotiated in 2009	64,827	9,806	29,627	-	104,260
Total neither past due nor impaired	**255,649**	**245,260**	**450,726**	**1,203**	**952,838**
Past due but not impaired					
- less than 30 days overdue	32,566	5,682	10,791	-	49,039
- 30 to 90 days overdue	72,080	18,255	46,806	-	137,141
Total past due but not impaired	**104,646**	**23,937**	**57,597**	-	**186,180**
Loans individually and collectively determined to be impaired (gross)					
- not yet past due	1,067,337	861	68,240	-	1,136,438
- less than 30 days overdue	39,931	-	1,079	22,111	63,121
- 30 to 90 days overdue	277,506	27	37,130	3,665	318,328
- 91 to 180 days overdue	404,455	20,370	61,407	-	486,232
- 181 to 360 days overdue	675,967	40,786	139,262	6,142	862,157
- over 360 days overdue	631,036	78,699	216,351	5,381	931,467
Total individually and collectively impaired loans (gross)	**3,096,232**	**140,743**	**523,469**	**37,299**	**3,797,743**
Less impairment provisions	**(876,625)**	**(104,102)**	**(257,745)**	**(28,737)**	**(1,267,209)**
Total loans and advances to customers	**2,579,902**	**305,838**	**774,047**	**9,765**	**3,669,552**

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

10 Loans and Advances to Customers (Continued)

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.

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 2010 was as follows:

In thousands of Ukrainian hryvnias	**Corporate loans**	**Consumer loans**	**Mortgage loans**	**Reverse sale and repurchase agreements**	**Total**
Fair value of collateral - loans past due but not impaired					
- residential real estate	1,099	161	36,003	-	37,263
- other real estate	184,451	1,056	7,831	-	193,338
- cash deposits	940	74	-	-	1,014
- other assets	99,622	13,902	1,427	-	114,951
- bank guarantees	118,457	-	-	-	118,457
Fair value of collateral - individually impaired loans					
- residential real estate	42,292	2,169	180,039	-	224,500
- other real estate	1,386,158	1,254	211,898	-	1,599,310
- cash deposits	35,885	14	-	-	35,899
- other assets	832,235	39,493	7,193	-	878,921
- bank guarantees	427,030	-	49,288	-	476,318
Total	**3,128,169**	**58,123**	**493,679**	**-**	**3,679,971**

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

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

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

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

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

11 Investment Securities Available-for-Sale

In thousands of Ukrainian hryvnias	**2010**	**2009**
Ukrainian government bonds	411,938	45,826
Corporate bonds	-	5,530
Total debt securities	411,938	51,356
Corporate shares	30	30
Total investment securities available-for-sale	**411,968**	**51,386**

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

Analysis by credit quality of debt securities outstanding at 31 December 2010 is as follows:

In thousands of Ukrainian hryvnias	**Ukrainian government bonds**	**Corporate bonds**	**Total**
Neither past due nor impaired			
- Ukrainian government	411,938	-	411,938
Total neither past due nor impaired	**411,938**	**-**	**411,938**
Debt securities individually determined to be impaired (gross)			
- less than 30 days overdue	-	3,503	3,503
- 181 to 360 days overdue	-	6,957	6,957
- overdue over 360 days	-	11,608	11,608
Total individually impaired debt securities (gross)	**-**	**22,068**	**22,068**
Less impairment provision	**-**	**(22,068)**	**(22,068)**
Total debt securities available-for-sale	**411,938**	**-**	**411,938**

11 Investment Securities Available-for-Sale (Continued)

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

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

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**	**2010**	**2009**
Carrying amount at 1 January		**51,386**	**83,624**
Impairment of investment securities available-for-sale		(5,533)	(5,753)
Interest income accrued	22	34,076	27,584
Interest income received		(15,014)	(21,583)
Purchases		4,272,786	231,194
Disposals		(3,925,733)	(263,680)
Carrying amount at 31 December		**411,968**	**51,386**

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

12 Premises, Leasehold Improvements, Equipment and Intangible Assets

In thousands of Ukrainian hryvnias	Note	Premises and leasehold improvements	Computers and equipment	Furniture and fixtures	Motor vehicles	Construction in progress	Total premises, leasehold improvements and equipment	Computer software licences	Total
Cost at 1 January 2008		168,095	148,224	54,461	13,850	111,708	496,338	32,741	529,079
Accumulated depreciation		(28,096)	(63,554)	(27,742)	(8,418)	-	(127,810)	(8,410)	(136,220)
Carrying amount at 1 January 2009		**139,999**	**84,670**	**26,719**	**5,432**	**111,708**	**368,528**	**24,331**	**392,859**
Additions		-	15,198	23,684	2,125	8,493	49,500	9,288	58,788
Transfers		12,152	-	-	-	(12,152)	-	-	-
Disposals		(966)	(384)	(690)	(13)	-	(2,053)	(2)	(2,055)
Depreciation charge	25	(9,781)	(18,868)	(6,966)	(2,281)	-	(37,896)	(7,403)	(45,299)
Carrying amount at 31 December 2009		**141,404**	**80,616**	**42,747**	**5,263**	**108,049**	**378,079**	**26,214**	**404,293**
Cost at 31 December 2009		174,238	149,929	75,511	11,634	108,049	**519,361**	41,695	**561,056**
Accumulated depreciation		(32,834)	(69,313)	(32,764)	(6,371)	-	(141,282)	(15,481)	**(156,763)**
Carrying amount at 31 December 2009		**141,404**	**80,616**	**42,747**	**5,263**	**108,049**	**378,079**	**26,214**	**404,293**
Additions		-	16,708	2,298	552	8,624	28,182	13,675	41,857
Transfers		66,303	-	-	-	(66,303)	-	-	-
Disposals		(863)	(390)	(782)	-	-	(2,035)	-	(2,035)
Depreciation charge	25	(8,431)	(21,213)	(6,838)	(2,206)	-	(38,688)	(10,504)	(49,192)
Carrying amount at 31 December 2010		**198,413**	**75,721**	**37,425**	**3,609**	**50,370**	**365,538**	**29,385**	**394,923**
Cost at 31 December 2010		237,402	165,797	73,911	11,817	50,370	**539,297**	60,637	**599,934**
Accumulated depreciation		(38,989)	(90,076)	(36,486)	(8,208)	-	(173,759)	(31,252)	**(205,011)**
Carrying amount at 31 December 2010		**198,413**	**75,721**	**37,425**	**3,609**	**50,370**	**365,538**	**29,385**	**394,923**

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

13 Other Financial Assets

In thousands of Ukrainian hryvnias	Note	2010	2009
Receivables from operations with securities		8,688	8,935
Accrued income receivable		4,591	5,622
Receivables from operations with customers and banks		1,687	1,822
Receivables from operations with plastic cards		386	156
Derivative financial instruments	31	-	19
Less: Provision for other financial assets		(13,186)	(14,375)
Total other financial assets		**2,166**	**2,179**

Movements in the provision for impairment of other financial assets during 2010 are as follows:

In thousands of Ukrainian hryvnias	Receivables from operations with securities	Accrued income receivable	Receivables from operations with customers and banks	Total
Provision for impairment at 1 January 2010	**8,935**	**4,440**	**1,000**	**14,375**
(Reversal of provision)/provision for impairment during the year	(247)	(936)	4	(1,179)
Amounts written off during the year as uncollectible	-	(10)	-	(10)
Provision for impairment at 31 December 2010	**8,688**	**3,494**	**1,004**	**13,186**

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

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

13 Other Financial Assets (Continued)

Analysis by credit quality of other financial assets at 31 December 2010 is as follows:

In thousands of Ukrainian hryvnias	Receivables from operations with securities	Accrued income receivable	Receivables from operations with customers and banks	Receivables from operations with plastic cards	Derivative financial instruments	Total
Neither past due nor impaired						
- Collected or settled after the end of the reporting period	-	916	679	386	-	**1,981**
Total neither past due nor impaired	-	916	679	386	-	**1,981**
Receivables individually determined to be impaired (gross)						
- less than 30 days overdue	46	271	-	-	-	**317**
- 30 to 90 days overdue	-	46	-	-	-	**46**
- 181 to 360 days overdue	-	-	7	-	-	**7**
- over 360 days overdue	8,642	3,358	1,001	-	-	**13,001**
Total individually impaired (gross)	**8,688**	**3,675**	**1,008**	**-**	**-**	**13,371**
Less impairment provision	**(8,688)**	**(3,494)**	**(1,004)**	**-**	**-**	**(13,186)**
Total other financial receivables	**-**	**1,097**	**683**	**386**	**-**	**2,166**

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

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

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

Information on related party balances is disclosed in Note 34.

14 Other Non-financial Assets

In thousands of Ukrainian hryvnias	2010	2009
Repossessed collateral	26,718	7,359
Prepayments for goods and construction in progress	9,590	4,823
Prepaid taxes other than income tax	7,346	3,367
Inventory	4,626	1,248
Receivables from settlements with employees and other	3,732	4,142
Prepaid expenses	3,426	3,402
Prepayment for services	1,315	2,633
Provision for impairment of other non-financial assets	(4,128)	(3,909)
Total other non-financial assets	**52,625**	**23,065**

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.

15 Due to Other Banks

In thousands of Ukrainian hryvnias	2010	2009
Correspondent accounts and overnight placements of other banks	2,941	14,037
Term placements and loans from other banks	508,808	931,844
Sale and repurchase agreements with the NBU	-	50,460
Total due to other banks	**511,749**	**996,341**

As at 31 December 2010, term deposits and loans include UAH 387,575 thousand (2009: UAH 745,539 thousand) received from PKO BP S.A (Poland) and correspondent accounts and overnight placements of other banks include UAH 1,589 thousand of balances on accounts of PKO BP S.A (Poland).

As at 31 December 2010, term deposits and loans include loans of UAH 67,128 thousand (2009: UAH 90,642 thousand) received from the EBRD for financing loan facilities to customers.

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

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

16 Customer Accounts

In thousands of Ukrainian hryvnias	2010	2009
Legal entities		
- Current/settlement accounts	512,279	512,321
- Term deposits	421,146	477,871
Individuals		
- Current/demand accounts	288,237	329,877
- Term deposits	1,755,680	2,284,220
Total customer accounts	**2,977,342**	**3,604,289**

136 Customer Accounts (Continued)

Economic sector concentrations within customer accounts are as follows:

	2010		2009	
In thousands of Ukrainian hryvnias	**Amount**	**%**	**Amount**	**%**
Individuals	2,043,916	69	2,614,097	72
Manufacturing	197,068	7	283,350	8
Trade	164,658	6	214,612	6
Financial services	143,466	5	115,684	3
Other services	143,045	5	98,702	3
Real estate	98,091	3	56,787	2
Transport and communication	47,301	2	54,996	1
Agriculture	37,683	1	25,508	1
Other	102,114	2	140,553	4
Total customer accounts	**2,977,342**	**100**	**3,604,289**	**100**

At 31 December 2010 the Bank had 7 customers (2009: 11 customers) with balances above UAH 10,000 thousand. The aggregate balance of these customers was UAH 255,161 thousand (2009: UAH 166,991 thousand) or 7% (2009: 5%) of total customer accounts.

At 31 December 2010 included in customer accounts are deposits of UAH 4,037 thousand (2009: UAH 4,524 thousand) held as collateral for irrevocable commitments under import letters of credit. Refer to Note 30.

As at 31 December 2010 included in customer accounts are deposits totalling UAH 47,652 thousand (2009: UAH 163,771 thousand) held as collateral for loans granted to customers totalling UAH 18,706 thousand (2009: UAH 130,346 thousand). Refer to Note 10.

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

17 Debt Securities in Issue

In thousands of Ukrainian hryvnias	2010	2009
Bonds issued on domestic market		
A – series	-	308
Total debt securities in issue	**-**	**308**

At 31 December 2009 the Bank has debt securities in issue of UAH 308 thousand denominated in Ukrainian hryvnias. These securities were redeemed during 2010.

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

18 Other Financial Liabilities

Other financial liabilities comprise of the following:

In thousands of Ukrainian hryvnias	Note	2010	2009
Transit accounts		20,759	3,065
Other accrued liabilities		10,594	4,132
Provision for credit related commitments	30	955	3,033
Other		32	11
Total other financial liabilities		**32,340**	**10,241**

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

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

19 Other Non-financial Liabilities

Other non-financial liabilities comprise of the following:

In thousands of Ukrainian hryvnias	2010	2009
Accrued employee benefit costs	7,421	7,862
Amounts payable to Individuals' Deposits Guarantee Fund	2,839	2,981
Taxes payable other than on income	224	944
Other	1,201	1,491
Total other non-financial liabilities	**11,685**	**13,278**

20 Subordinated Debt

In thousands of Ukrainian hryvnias	**Effective interest rate 2010**	**Carrying value 2010**	**Carrying value 2009**
USD 20,000 thousand floating rate due 2017	1-month Libor + 3.75%	157,149	159,842
USD 15,000 thousand floating rate due 2018	1-month Libor + 3.75%	119,510	-
Total subordinated debt		**276,659**	**159,842**

During 2010 the Bank received from PKO BP S.A (Poland) subordinated debt in the amount of USD 15,000 thousand (UAH 120,140 thousand at the exchange rate at the date of receipt) at 1-month LIBOR+6.5% per annum. The agreement was registered by the National Bank of Ukraine on 9 February 2010. The debt matures on 5 February 2018.

During 2009 the Bank received from PKO BP S.A (Poland) subordinated debt in the amount of USD 20,000 thousand (UAH 159,806 thousand at the exchange rate at the date of receipt) at 1-month LIBOR+6.5% per annum. The agreement was registered by the National Bank of Ukraine on 9 November 2009. The debt matures on 6 November 2017.

On 18 May 2010 interest rate on both loans was changed to 1-month LIBOR + 3.75%. This represented substantial change in terms of the original financial liability and was accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability at fair value. The Bank considered that revised terms of subordinated debt are consistent with the market rates and therefore no gain or loss was recorded on initial recognition of the ne liability.

In 2009 the Bank repaid before maturity subordinated debts totalling UAH 289,222 thousand (at the exchange rate at the date of repayment) in accordance with the NBU permission under condition of increase in capital through additional share issue.

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

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

21 Share Capital

In thousands of Ukrainian hryvnias except for number of shares	**Number of outstanding shares**	**Nominal amount**	**Inflation adjustment**	**Total**
At 1 January 2009	**52,686,946,916**	**526,869**	**54,008**	**580,877**
New shares issued	102,410,000,000	1,024,100	-	1,024,100
Reversal of hyperinflation adjustment	-	-	(54,008)	(54,008)
At 31 December 2009	**155,096,946,916**	**1,550,969**	-	**1,550,969**
New shares issued	36,800,000,000	368,000	-	368,000
At 31 December 2010	**191,896,946,916**	**1,918,969**	-	**1,918,969**

The nominal registered amount of the Bank’s issued share capital is UAH 1,918,969 thousand (2009: UAH 1,550,969 thousand).

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

21 Share Capital (Continued)

In February 2010, the shareholders of the Bank approved an issue of 36 800 000 000 ordinary shares. This share issue was registered by the State Commission of Securities and Stock Market and by the NBU on 26 January 2010 and 14 September 2010, respectively.

At 31 December 2010, the Bank's authorised share capital comprised 191,896,946,916 (2009: 155,096,946,916) ordinary shares, with a nominal value UAH 0.01 per share. All ordinary shares have equal voting rights. As at 31 December 2010 all ordinary shares issued were fully paid and registered.

The Bank's shareholders structure is presented as follows:

Shareholder	**2010**	**2009**
PKO BP S.A	99.57%	99.49%
Other (resident and non-resident shareholders)	0.43%	0.51%
Total	**100.00%**	**100.00%**

22 Interest Income and Expense

In thousands of Ukrainian hryvnias	**Note**	**2010**	**2009**
Interest income			
Interest income on impaired financial assets		265,365	528,548
Loans and advances to legal entities		157,319	140,058
Loans and advances to individuals		98,244	141,699
Debt securities	11	34,076	27,584
Due from other banks		1,220	2,425
Other		14	65
Total interest income		**556,238**	**840,379**
Interest expense			
Term deposits of individuals		262,139	302,156
Term deposits of legal entities		81,458	84,760
Term placements of other banks		18,154	85,121
Subordinated debt		11,814	5,183
Amounts due to the National Bank of Ukraine		110	1,333
Debt securities in issue		9	4,904
Other		-	214
Total interest expense		**373,684**	**483,671**
Net interest income		**182,554**	**356,708**

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

23 Fee and Commission Income and Expense

In thousands of Ukrainian hryvnias	2010	2009
Fee and commission income		
Cash and settlement transactions	94,119	88,602
Purchase and sale of foreign currency	14,313	18,525
Guarantees issued	858	2,236
Other	1,039	1,081
Total fee and commission income	**110,329**	**110,444**
Fee and commission expense		
Cash and settlement transactions	1,703	2,603
Transactions with securities	353	375
Other	2,403	2,119
Total fee and commission expense	**4,459**	**5,097**
Net fee and commission income	**105,870**	**105,347**

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

24 Other Operating Income

In thousands of Ukrainian hryvnias	2010	2009
Fines and penalties received	3,592	1,730
Gains on disposal of premises and equipment	2,978	1,300
Agency fees from insurance companies	1,151	2,097
Sublease rental income	903	773
Other	840	374
Total other operating income	**9,464**	**6,274**

25 Administrative and Other Operating Expenses

In thousands of Ukrainian hryvnias	Note	2010	2009
Staff costs		135,777	144,597
Depreciation and amortisation of premises, leasehold improvements, equipment and intangible assets	12	49,192	45,299
Operating lease expense for premises		33,009	49,286
Utilities		17,556	20,175
Contributions to Individuals Deposit Guarantee Fund		12,245	12,050
Security services		11,869	14,993
Communication		11,140	15,692
Repairs and maintenance		9,604	10,501
Professional services		3,935	6,172
Taxes other than on income		3,204	3,584
Advertising and marketing services		619	3,584
Charity		63	201
Other		22,722	22,645
Total administrative and other operating expenses		**310,935**	**348,779**

Included in staff costs are state pension fund contributions of UAH 29,073 thousand (2009: UAH 30,107 thousand) and other social security contributions of UAH 3,163 thousand (2009: UAH 1,919 thousand).

26 Income Taxes

(a) Components of income tax expense / (benefit)

Income tax expense /(benefit) recorded in profit or loss for the year comprises the following:

In thousands of Ukrainian hryvnias	**2010**	**2009**
Current tax	-	-
Deferred tax	68,580	(76,069)
Income tax expense/(credit) for the year	**68,580**	**(76,069)**

(b) Reconciliation between the tax expense and profit or loss multiplied by applicable tax rate

The income tax rate applicable to the majority of the Bank's income is 25% (2009: 25%). A reconciliation between the expected and the actual taxation charge is provided below.

In thousands of Ukrainian hryvnias	**2010**	**2009**
Loss before tax	**(36,678)**	**(564,117)**
Theoretical tax credit at statutory rate (2010: 25%; 2009: 25%)	(9,170)	(141,030)
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Income recognised for tax purposes only	1,440	1,285
- Non-deductible loan loss provisioning expense	34,169	46,946
- Debt forgiveness expenses not deductible for taxation purposes	1,526	30,056
- Other non-deductible expenses	2,820	9,973
Effect of reduction in tax rate enacted in 2010 with effect from 1 April 2011	25,078	-
	12,717	-
Recognition of previously unrecognised deferred tax asset	-	(23,299)
Income tax credit for the year	**68,580**	**(76,069)**

On 2 December 2010, the Ukrainian Parliament adopted the new Tax Code. The Tax Code became effective from 1 January 2011, with the Corporate Profits Tax section coming into effect from 1 April 2011. Among the main changes, the Tax Code provides for the significant reduction of the corporate tax rate: 23% for 1 April -31 December 2011, 21% for 2012, 19% for 2013, and 16% from 2014 onwards. The impact of the change in tax rate presented above represents the effect of applying the reduced tax rates to deferred tax balances at 31 December 2010.

(c) Deferred taxes analysed by type of temporary difference

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. The tax effect of the movements in these temporary differences is detailed below.

26 Income Taxes (Continued)

In thousands of Ukrainian hryvnias	31 December 2009	Credited/ (charged) to profit or loss	31 December 2010
Tax effect of deductible/(taxable) temporary differences			
Premises and equipment:	1,188	39,750	40,938
Loan impairment provision	16,000	(101,119)	(85,119)
Unamortised origination fees	(2,395)	5,189	2,794
Fair valuation of securities	(1,091)	(1,354)	(2,445)
Accrued expenses and other liabilities	3,134	(407)	2,727
Tax losses carried forward	180,580	(10,439)	170,141
Other	2,822	(200)	2,622
Net deferred tax asset	**200,238**	**(68,580)**	**131,658**
Recognised deferred tax asset	203,724		219,222
Recognised deferred tax liability	(3,486)		(87,564)
Net deferred tax asset	**200,238**		**131,658**

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

27 Segment Analysis

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

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

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

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

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

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

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

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

(i) funds are generally reallocated between segments at internal interest rates set by the treasury department, which are determined by reference to market interest rate benchmarks, contractual maturities for loans and observed actual maturities of customer accounts balances;

(ii) income taxes are not allocated to segments;

(iii) loan provisions are recognized based on the NBU requirements rather than based on the incurred loss model prescribed in IAS 39; and

(iv) commission income related to lending is partially recognized immediately rather than deferred using the effective interest method.

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

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

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

27 Segment Analysis (Continued)

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

Segment information for the reportable segments for the year ended 31 December 2010 is set out below:

In thousands of Ukrainian hryvnias	Retail banking	Corporate banking	Treasury and Investment banking	Unallocated	Elimina-tions	Total
Reportable segment assets	671,760	2,083,521	1,019,369	675,065	**-**	**4,449,715**
Reportable segment liabilities	2,049,617	930,905	788,503	56,168	**-**	**3,825,193**
Capital expenditure	-	-	-	(50,370)	-	**(50,370)**

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

In thousands of Ukrainian hryvnias	Retail banking	Corporate banking	Treasury and Investment banking	Unallo-cated	Elimina-tions	Total
2010						
External revenues:						
- Interest income	139,824	374,084	41,597	-	-	555,505
- Fee and commission income	30,434	87,691	655	-	-	118,780
- Other operating income	2,751	3,437	-	479	-	6,667
Revenues from other segments						
- Interest income	315,584	109,782	555,513	-	(980,879)	-
Total revenues	**488,593**	**574,994**	**597,765**	**479**	**(980,879)**	**680,952**
Interest expense	(394,639)	(503,816)	(456,108)	-	980,879	(373,684)
Reversal of provision/ (provision) for loan impairment	36,392	(259,014)	(1,304)	-	-	(223,926)
Impairment of investment securities available for sale	-	-	(21,494)	-	-	(21,494)
Reversal of provision for credit related commitments	118	2,129	-	-	-	2,247
Depreciation and amortisation	-	-	-	(34,779)	-	(34,779)
Fee and commission expense	(4,793)	(4,175)	(2,319)	-	-	(11,287)
Gains less losses from trading in foreign currencies	6,551	-	-	(234)	-	6,317
Foreign exchange translation gains less losses	-	-	-	3,309	-	3,309
Gains less losses from disposals of investment securities available for sale	-	-	991	-	-	991
Administrative and other operating expenses	(143,073)	(18,199)	-	(265,224)	-	(426,496)
Segment result	**(10,851)**	**(208,081)**	**117,531**	**(296,449)**	-	**(397,850)**

27 Segment Analysis (Continued)

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

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

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

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

27 Segment Analysis (Continued)

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

In thousands of Ukrainian hryvnias	2010	2009
Total revenues for reportable segments	**680,952**	**971,738**
Application of effective interest rate	733	6,557
Reclassification of commission income to gains from trading in foreign currencies	(441)	(15,898)
Netting off similar operations	(8,010)	(6,512)
Other	2,797	1,212
Total revenues	**676,031**	**957,097**

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

In thousands of Ukrainian hryvnias	2010	2009
Total reportable segment result	**(397,850)**	**(528,078)**
Differences in depreciation rates	(11,947)	(2,817)
Reinstatement of loans previously written off	(9,279)	9,279
Adjustment for fair value of securities	4,391	(4,192)
Adjustment for fair value of other assets	(4,432)	5,052
Application of effective interest rate	733	6,557
Additional accrual of provision for unused vacations of the Bank's employees	2,931	(1,910)
Adjustment of provision for credit related commitments	(179)	(3,363)
Adjustment of provision for loan impairment	378,621	(42,217)
Other	333	(2,428)
Loss before tax	**(36,678)**	**(564,117)**

27 Segment Analysis (Continued)

In thousands of Ukrainian hryvnias	2010	2009
Total reportable segment assets	**4,449,715**	**5,475,154**
Adjustment of provision for loan impairment	405,614	26,993
Adjustment for deferred tax assets	84,235	158,810
Differences in depreciation rates	3,909	15,729
Adjustment for revaluation of premises	(206,555)	(206,885)
Accounting for swap operations on a net basis	-	(18,986)
Adjustment for valuation of other assets	(7,731)	(7,560)
Other	(4,269)	(6,555)
Total assets	**4,724,918**	**5,436,700**

In thousands of Ukrainian hryvnias	2010	2009
Total reportable segment liabilities	**3,825,193**	**4,883,946**
Adjustment for valuation of other assets	(5,544)	(9,805)
Adjustment for balances on customers’ accounts	(10,617)	(5,413)
Adjustment for deferred tax liability in respect of revaluation of premises	-	(50,830)
Accounting for swap operations on a net basis	-	(18,986)
Other	743	(14,613)
Total liabilities	**3,809,775**	**4,784,299**

Reconciliation of other material items of income or expenses for the year ended 31 December 2010 is as follows:

In thousands of Ukrainian hryvnias	**Total amount for all reportable segments**	**Adjustment of provision for loan impairment**	**Adjustment for fair value of securities**	**Difference in depreciation rates**	**Transfer of results from loan sales**	**Other**	**As reported under IFRS**
Material income or expenses for year ended 31 December 2010							
External revenues:							
Interest income	**555,505**	-	-	-	-	733	**556,238**
Fee and commission income	**118,780**	-	-	-		(8,451)	**110,329**
Other operating income	**6,667**	-	-	2,466	-	331	**9,464**
Interest expense	**(373,684)**	-	-	-	-	-	**(373,684)**
Provision for loan impairment	**(223,926)**	378,620	-		(164,698)	(10,315)	**(20,319)**
Impairment of investment securities available for sale	**(21,494)**	-	15,961		-	-	**(5,533)**
Reversal of provision for credit related commitments	**2,247**	-	-	-	-	(178)	**2,069**
Depreciation and amortisation	**(34,779)**	-	-	(14,413)	-	-	**(49,192)**
Fee and commission expense	**(11,287)**	-	-	-	-	6,828	**(4,459)**
Losses less gains from securities at fair value through profit or loss	**-**	-	(11,469)	-	-	991	**(10,478)**
Gains less losses from trading in foreign currencies	**6,317**	-	-	-	-	441	**6,758**
Foreign exchange translation gains less losses	**3,309**	1	-	-	-	-	**3,310**
Gains less losses from disposals of investment securities available for sale	**991**	-	-	-	-	(991)	**-**
Administrative and other operating expenses	**(426,496)**	-	-	-	164,698	617	**(261,181)**

27 Segment Analysis (Continued)

The reconciling items are attributable to the following:

(i) the Bank analyses in Segment reporting provision for impairment created in accordance with the NBU requirements;

(ii) in Segment reporting commission income related to lending is partially recognized immediately rather than deferred using the effective interest method;

(iii) provision for impairment of promissory notes reclassified under IFRS to loans and advances to customers, was reclassified to loan impairment provision;

(iv) result from sale of loans was r4eclassified from other operating expenses to provision for loan impairment;

(v) commission income from foreign currency operations was reclassified under IFRS to gains from trading in foreign currencies.

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

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

The reconciling items are attributable to the following:

(i) the Bank analyses in Segment reporting provision for impairment created in accordance with the NBU requirements;

(ii) in Segment reporting commission income related to lending is partially recognized immediately rather than deferred using the effective interest method;

(iii) provision for impairment of promissory notes reclassified under IFRS to loans and advances to customers, was reclassified to loan impairment provision;

(iv) commission income from foreign currency operations was reclassified under IFRS to gains from trading in foreign currencies.

27 Segment Analysis (Continued)

Reconciliation of material assets and liabilities at 31 December 2010 is as follows:

In thousands of Ukrainian hryvnias	**Total amount for all reportable segments**	**Adjustment of provision for loan impairment**	**Adjustment for deferred taxes**	**Differences in depreciation rates**	**Adjustment for revaluation of premises**	**Adjustment for valuation of other assets**	**Other**	**As reported under IFRS**
Assets at 31 December 2010	**4,449,715**	**405,614**	**84,235**	**3,909**	**(206,555)**	**(7,731)**	**(4,269)**	**4,724,918**
Cash and cash equivalents and mandatory reserves	604,248	177	-	-	-	-	(10,801)	593,624
Loans and advances to customers	2,724,275	403,896	-	-	-	-	**-**	3,128,171
Premises, leasehold improvements, equipment and intangible assets	589,866	-	-	3,909	(206,555)	-	7,703	394,923
Other reportable segment assets	531,326	1,541	84,235	-	-	(7,731)	(1,171)	608,200
Liabilities at 31 December 2010	**3,825,193**	**-**	**-**	**-**	**-**	**(5,544)**	**(9,874)**	**3,809,775**
Due to other banks	511,749	-	-	-	-	-	-	511,749
Customer accounts	2,979,559	-	-	-	-	-	(2,217)	2,977,342
Subordinated debt	276,659	-	-	-	-	-	,	276,659
Other reportable segment liabilities	57,226	-	-	-	-	(5,544)	(7,657)	44,025
Capital expenditure for 2010	**(50,370)**	**-**	**-**	**-**	**-**	**-**	**-**	**(50,370)**

The reconciling items are attributable to the following:

(i) the Bank analyses in Segment reporting provision for impairment created in accordance with the NBU requirements;

(ii) certain deferred tax assets were not recognized for the purposes of Segment reporting;

(iii) premises and equipment are depreciated at different rates for the purposes of Segment reporting;

(iv) for the purposes of Segment reporting premises are measured at revalued amounts;

(v) for the purposes of Segment reporting other assets are not revalued to lower of cost and net realisable value.

27 Segment Analysis (Continued)

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

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

The reconciling items are attributable to the following:

(i) the Bank analyses in Segment reporting provision for impairment created in accordance with the NBU requirements;

(ii) certain deferred tax assets were not recognized for the purposes of Segment reporting;

(iii) premises and equipment are depreciated at different rates for the purposes of Segment reporting;

(iv) for the purposes of Segment reporting premises are measured at revalued amounts;

(v) for the purposes of Segment reporting swap operations are recognized on a gross basis as amounts due from banks and due to banks.

(e) Analysis of revenues by products and services

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

(f) Geographical information

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

(g) Major customers

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

28 Financial Risk Management

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

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

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

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

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

- Supervisory Board reviews and approves credit applications above USD 2.5 million and loans restructuring above USD 5 million.
- Management Board reviews and approves credit applications up to USD 2.5 million and loans restructuring up to USD 5 million.
- Credit Committee of the Bank reviews and approves credit applications up to UAH 10 million, and the Credit committee on restructuring – up to USD 2.5 million. Credit Committee of the Bank meets usually two times per week, and the Credit committee on restructuring meets usually once a week.
- The individual right to approve new credit decisions with the limits below UAH 5 million is granted separately to the Deputies of the Chairman of the Board and the directors of departments of the Head Office.

Loan applications originated by the sales divisions are evaluated by division responsible for restructuring and collection in respect of the level of credit risk and then passed on to the Credit committee for approval of credit limit. Exposure to credit risk is also managed, in part, by obtaining collateral and corporate and personal guarantees.

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

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

28 Financial Risk Management (Continued)

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.

The report on the analysis of the loan portfolio of the Bank, and also the detailed analysis of the level of credit risk for the credit portfolio as a whole and by line of lending business is presented to management bodies of the Bank on a monthly basis.

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

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

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

	At 31 December 2010				**At 31 December 2009**			
In thousands of Ukrainian hryvnias	**Monetary financial assets**	**Monetary financial liabilities**	**Derivatives**	**Net position**	**Monetary financial assets**	**Monetary financial liabilities**	**Derivatives**	**Net position**
Ukrainian hryvnias	1,997,181	1,867,869	-	129,312	1,810,430	1,759,321	(18,986)	32,123
US Dollars	1,726,607	1,544,628	-	181,979	2,215,650	2,221,587	19,005	13,068
Euros	402,699	372,776	-	29,923	759,988	777,866	-	(17,878)
British pounds	1,071	1,131	-	(60)	949	966	-	(17)
Russian Roubles	4,331	4,083	-	248	4,758	4,410	-	348
Other	8,245	7,603	-	642	9,352	6,871	-	2,481
Total	**4,140,134**	**3,798,090**	**-**	**342,044**	**4,801,127**	**4,771,021**	**19**	**30,125**

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

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

28 Financial Risk Management (Continued)

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

	At 31 December 2010		At 31 December 2009	
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 15% (2009: strengthening by 20%)	27,297	27,297	2,617	2,617
US Dollar weakening by 15% (2009: weakening by 20%)	(27,297)	(27,297)	(2,617)	(2,617)
Euro strengthening by 15% (2009: strengthening by 20%)	4,488	4,488	(3,576)	(3,576)
Euro weakening by 15% (2009: weakening by 20%)	(4,488)	(4,488)	3,576	3,576
Russian Rouble strengthening by 15% (2009: strengthening by 20%)	37	37	69	69
Russian Rouble weakening by 15% (2009: weakening by 20%)	(37)	(37)	(69)	(69)
Other currencies strengthening by 20% (2009: strengthening by 20%)	116	116	493	493
Other currencies weakening by 20% (2009: weakening by 20%)	(116)	(116)	(493)	(493)
Total	**-**	**-**	**-**	**-**

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

	Average exposure during 2010		Average exposure during 2009	
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 15% (2009: strengthening by 20%)	27,206	27,206	2,555	2,555
US Dollar weakening by 15% (2009: weakening by 20%)	(27,206)	(27,206)	(2,555)	(2,555)
Euro strengthening by 15% (2009: strengthening by 20%)	4,471	4,471	(3,400)	(3,400)
Euro weakening by 15% (2009: weakening by 20%)	(4,471)	(4,471)	3,400	3,400
Russian Rouble strengthening by 15% (2009: strengthening by 20%)	37	37	65	65
Russian Rouble weakening by 15% (2009: weakening by 20%)	(37)	(37)	(65)	(65)
Other currencies strengthening by 15% (2009: strengthening by 20%)	85	85	464	464
Other currencies weakening by 15% (2009: weakening by 20%)	(85)	(85)	(464)	(464)
Total	**-**	**-**	**-**	**-**

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

28 Financial Risk Management (Continued)

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

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

In thousands of Ukrainian hryvnias	**Demand and less than 1 month**	**From 1 to 6 months**	**From 6 to 12 months**	**Over 1 year**	**Non-monetary**	**Total**
31 December 2010						
Total financial assets	682,830	498,901	302,941	2,655,462	30	4,140,164
Total financial liabilities	(1,805,131)	(1,428,812)	(461,895)	(102,252)	-	(3,798,090)
Net interest sensitivity gap at 31 December 2010	**(1,122,301)**	**(929,911)**	**(158,954)**	**2,553,210**	**30**	**342,074**
31 December 2009						
Total financial assets	1,567,792	396,603	711,665	2,125,086	30	4,801,176
Total financial liabilities	(2,569,386)	(1,749,331)	(389,040)	(63,264)	-	(4,771,021)
Net interest sensitivity gap at 31 December 2009	**(1,001,594)**	**(1,352,728)**	**322,625**	**2,061,822**	**30**	**30,155**

At 31 December 2010, if interest rates on financial instruments denominated in UAH at that date had been 200 basis points higher/lower with all other variables held constant, loss for the year would have been UAH 370 thousand lower/higher (2009: UAH 302 thousand higher/lower if interest rates had been 200 basis points higher/lower), mainly as a result of higher/lower interest income on variable interest assets (2009: mainly as a result of a decrease/increase in the fair value of fixed rate financial assets classified as available-for-sale and at fair value through profit or loss).

At 31 December 2010, if interest rates on financial instruments denominated in USD at that date had been 200 basis points higher/lower with all other variables held constant, loss for the year would have been UAH 8 956 thousand higher/lower (2009: UAH 10 586 thousand higher/lower if interest rates had been 200 basis points higher/lower), mainly as a result of higher/lower interest expense on variable interest liabilities.

28 Financial Risk Management (Continued)

At 31 December 2010, if interest rates on financial instruments denominated in EUR at that date had been 200 basis points higher/lower with all other variables held constant, loss for the year would have been UAH 188 thousand higher/lower (2009: UAH 758 thousand higher/lower if interest rates had been 200 basis points higher/lower), mainly as a result of higher/lower interest expense on variable interest liabilities.

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

	2010				2009			
% per annum	**UAH**	**USD**	**Euro**	**Other**	**UAH**	**USD**	**Euro**	**Other**
Assets								
Cash and cash equivalents	0%	0%	0%	0%	0%	0%	0%	0%
Debt securities at fair value through profit or loss	0%	-	-	-	21%	-	-	-
Due from other banks	2%	0%	-	-	-	1%	-	-
Loans and advances to customers	12%	9%	10%	-	18%	12%	13%	-
Debt investment securities available-for-sale	14%	-	-	-	19%	-	-	-
Liabilities								
Due to other banks	11%	2%	2%	-	20%	2%	2%	-
Customer accounts								
- current and settlement accounts	3%	1%	0%	-	4%	4%	2%	-
- term deposits	14%	7%	4%	-	21%	11%	9%	-
Debt securities in issue	-	-	-	-	22%	-	-	-
Subordinated debt	-	4%	-	-	-	7%	-	-

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

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

28 Financial Risk Management (Continued)

Geographical risk concentrations. The geographical concentration of the Bank's assets and liabilities at 31 December 2010 is set out below:

In thousands of Ukrainian hryvnias	**Ukraine**	**OECD**	**Non-OECD**	**Total**
Assets				
Cash and cash equivalents and mandatory reserves	260,355	329,481	3,788	593,624
Due from other banks	4,235	-	-	4,235
Loans and advances to customers	3,128,161	-	10	3,128,171
Investment securities available-for-sale	411,968	-	-	411,968
Other financial assets	2,158	7	1	2,166
Total financial assets	**3,806,877**	**329,488**	**3,799**	**4,140,164**
Non-financial assets	**584,369**	**385**	**-**	**584,754**
Total assets	**4,391,246**	**329,873**	**3,799**	**4,724,918**
Liabilities				
Due to other banks	37,352	474,397	-	511,749
Customer accounts	2,900,752	62,427	14,163	2,977,342
Other financial liabilities	32,340	-	-	32,340
Subordinated debt	-	276,659	-	276,659
Total financial liabilities	**2,970,444**	**813,483**	**14,163**	**3,798,090**
Non-financial liabilities	**11,682**	**1**	**2**	**11,685**
Total liabilities	**2,982,126**	**813,484**	**14,165**	**3,809,775**
Net position	**1,409,120**	**(483,611)**	**(10,366)**	**915,143**
Credit related commitments	**16,043**	-	-	**16,043**

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

28 Financial Risk Management (Continued)

The geographical concentration of the Bank’s assets and liabilities at 31 December 2009 is set out below:

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

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.

28 Financial Risk Management (Continued)

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 debt. 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 requirements 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 72% at 31 December 2010, with the required ratio being not less than 20% (the ratio was 122% at 31 December 2009, with the required ratio being not less than 20%).

- Current liquidity ratio (N5), which is calculated as the ratio of liquid assets to liabilities maturing within 31 calendar days. The ratio was 54% at 31 December 2010, with the required ratio being not less than 40% (the ratio was 57% at 31 December 2009, with the required ratio being not less than 40%).

- Short-term liquidity ratio (N6), which is calculated as the ratio of liquid assets to liabilities with original maturity of up to one year. The ratio was 65% at 31 December 2010, with the required ratio being not less than 60% (the ratio was 34% at 31 December 2009, with the required ratio being not less than 20%).

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

The table below shows liabilities at 31 December 2010 by their remaining contractual maturity. The amounts disclosed in the maturity table are the contractual undiscounted cash flows, including gross loan commitments and financial guarantees. Such undiscounted cash flows differ from the amount included in the statement of financial position because the amount in the statement of financial position is based on discounted cash flows. Financial derivatives are included at the contractual amounts to be paid or received, unless the Bank expects to close the derivative position before its maturity date in which case the derivatives are included based on the expected cash flows.

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

28 Financial Risk Management (Continued)

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

The maturity analysis of financial instruments at 31 December 2010 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**
Assets						
Cash and cash equivalents and mandatory reserves	593,624	-	-	-	-	**593,624**
Due from other banks	1,140	-	3,095	-	-	**4,235**
Loans and advances to customers	424,732	237,822	337,630	1,214,292	913,695	**3,128,171**
Investment securities available-for-sale	19,943	145,320	52,849	193,826	30	**411,968**
Other financial assets	2,166	-	-	-	-	**2,166**
Total	**1,041,605**	**383,142**	**393,574**	**1,408,118**	**913,725**	**4,140,164**
Liabilities						
Due to other banks	108,815	3,882	4,673	210,592	238,241	**566,203**
Customer accounts	1,358,882	1,025,649	381,304	230,380	192,490	**3,188,705**
Subordinated debt	1,879	4,650	5,599	44,791	300,443	**357,362**
Other financial liabilities	31,426	233	450	231	-	**32,340**
Financial guarantees	1,928	5,960	2,671	5,484	-	**16,043**
Total potential future payments for financial obligations	**1,502,930**	**1,040,374**	**394,697**	**491,478**	**731,174**	**4,160,653**
Liquidity gap arising from financial instruments	**(461,325)**	**(657,232)**	**(1,123)**	**916,640**	**182,551**	**(20,489)**

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

28 Financial Risk Management (Continued)

The maturity analysis of financial instruments at 31 December 2009 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**
Assets						
Cash and cash equivalents and mandatory reserves	1,060,316	-	-	-	-	1,060,316
Securities at fair value through profit or loss	-	-	11,685	-	-	11,685
Due from other banks	6,058	-	-	-	-	6,058
Loans and advances to customers	358,946	406,421	368,395	1,502,816	1,032,974	3,669,552
Investment securities available-for-sale	-	49,356	-	1,490	540	51,386
Gross settled swaps:						
- inflows	19,005	-	-	-	-	19,005
- outflows	(18,986)	-	-	-	-	(18,986)
Other financial assets	2,160	-	-	-	-	2,160
Total	**1,427,499**	**455,777**	**380,080**	**1,504,306**	**1,033,514**	**4,801,176**
Liabilities						
Due to other banks	238,219	20,818	11,394	383,607	443,653	1,097,691
Customer accounts	2,064,915	1,013,105	420,279	165,317	237,276	3,900,892
Debt securities in issue	-	41	33	366	-	440
Subordinated debt	1,810	4,479	5,393	43,143	190,289	245,114
Other financial liabilities	10,241	-	-	-	-	10,241
Financial guarantees	94,958	-	-	-	-	94,958
Total potential future payments for financial obligations	**2,410,143**	**1,038,443**	**437,099**	**592,433**	**871,218**	**5,349,336**
Liquidity gap arising from financial instruments	**(982,644)**	**(582,666)**	**(57,019)**	**911,873**	**162,296**	**(548,160)**

As disclosed in Note 30, as at 31 December 2010 and 31 December 2009 the Bank breached certain financial covenants set by loan agreements with EBRD, therefore all loans from EBRD were classified on demand in the above analysis.

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

28 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 2010:

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**
At 31 December 2010						
Financial assets	1,041,605	383,142	393,574	1,408,118	913,725	4,140,164
Financial liabilities	1,568,927	908,053	346,116	364,935	610,059	3,798,090
Net liquidity gap based on expected maturities	**(527,322)**	**(524,911)**	**47,458**	**1,043,183**	**303,666**	**342,074**
At 31 December 2009						
Financial assets	1,427,499	455,777	380,080	1,504,306	1,033,514	4,801,176
Financial liabilities	2,286,682	973,259	389,045	431,293	690,742	4,771,021
Net liquidity gap based on expected maturities	**(859,183)**	**(517,482)**	**(8,965)**	**1,073,013**	**342,772**	**30,155**

As disclosed in Note 30, as at 31 December 2010 and 31 December 2009 the Bank breached certain financial covenants set by loan agreements with EBRD. Although the lender has the right to require early repayment of these loans, the Bank does not expect that such a request would be received. Therefore these loans were classified in the above table according to their expected maturity.

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

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

29 Management of Capital

The Bank's objectives when managing capital are: (i) to comply with the capital requirements set by the National Bank of Ukraine, (ii) to safeguard the Bank's ability to continue as a going concern, and (iii) to maintain a sufficient capital base to achieve a capital adequacy ratio based on the Basel Accord of at least 8%. The Bank considers total capital under management to be equity as shown in the statement of financial position. The amount of capital that the Bank managed as of 31 December 2010 was UAH 915,143 thousand (2009: UAH 652,401 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	**2010**	**2009**
Primary capital	449,521	483,453
Additional capital	424,127	307,321
Total regulatory capital	**873,648**	**790,774**

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

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

In thousands of Ukrainian hryvnias	**2010**	**2009**
Tier 1 capital		
Share capital	1,918,969	1,550,969
Accumulated deficit	(1,003,826)	(898,568)
Total tier 1 capital	**915,143**	**652,401**
Tier 2 capital		
Subordinated debt	276,659	159,842
Total tier 2 capital	**276,659**	**159,842**
Total capital	**1,191,802**	**812,243**

The Bank has complied with all externally imposed capital requirements as at 31 December 2010. Refer also to Note 30.

30 Contingencies and Commitments

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

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

The Ukrainian tax authorities may be taking a more assertive and sophisticated approach in their interpretation of the legislation and tax examinations. Combined with a possible increase in tax collection efforts to respond to budget pressures, the above may lead to an increase in the level and frequency of scrutiny by the tax authorities. In particular, 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.

As disclosed in Note 2, on 2 December 2010, the Ukrainian Parliament adopted the new Tax Code, which provides for the reduction in tax rates and introduces new approaches to the determination of revenue and costs, new tax depreciation rules for fixed assets and intangibles, new approach to recognition of foreign exchange differences, which now became more close to the financial accounting rules. However, the new tax rules have not yet been tested in practice nor confirmed by interpretation given in courts or by the tax authorities. Therefore, at the moment their interpretation and practical application remains unclear.

Capital expenditure commitments. At 31 December 2010 the Bank has contractual capital expenditure commitments in respect of premises and equipment totalling UAH 2,155 thousand (2009: UAH 10,320 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	**2010**	**2009**
Not later than 1 year	20,975	34,314
Later than 1 year and not later than 5 years	18,206	42,862
Later than 5 years	3,533	426
Total operating lease commitments	**42,714**	**77,602**

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

There are certain financial covenants under agreements with European Bank for Reconstruction and Development. In particular, the Bank is required to maintain a certain level of capital to risk weighted assets ratio, highly liquid assets to demand deposits ratio, liquid assets to short-term liabilities ratio, open credit exposure ratio, maximum exposure to related parties to capital ratio, aggregate related party exposure ratio, share of problem loans to gross loans not more than 5% and to be in compliance with the NBU prudential requirements.

As at 31 December 2010 the Bank was not in compliance with financial covenants in respect of share of problem loans to gross loans and NBU prudential requirements (31 December 2009: the Bank was not in compliance with financial covenants in respect of share of problem loans to gross loans and NBU prudential requirements).

30 Contingencies and Commitments (Continued)

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

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

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

In thousands of Ukrainian hryvnias	Note	2010	2009
Guarantees issued		17,066	94,958
Import letters of credit		3,969	-
Less: Provision for credit related commitments	18	(955)	(3,033)
Less: Cash covered credit related commitments	16	(4,037)	(4,524)
Total credit related commitments		**16,043**	**87,401**

Credit related commitments are denominated in currencies as follows:

In thousands of Ukrainian hryvnias	2010	2009
Ukrainian hryvnias	6,680	15,891
US Dollars	1,230	22,114
Euros	7,972	49,330
Other	161	66
Total	**16,043**	**87,401**

As at 31 December 2010 all commitments to extend credit are revocable and amounted to UAH 118,170 thousand (2009: UAH 179,447 thousand).

The total outstanding contractual amount of commitments to extend credit, import letters of credit, and guarantees does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded. The fair value of credit related commitments was UAH 955 thousand at 31 December 2010 (2009: UAH 3,033 thousand).

30 Contingencies and Commitments (Continued)

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

In thousands of Ukrainian hryvnias	Note	2010 Asset pledged	2010 Related liability	2009 Asset pledged	2009 Related liability
Gross receivables under currency swaps	31	-	-	19,005	18,986
Investment securities available for sale	11, 15	-	-	45,826	50,460
Total		**-**	**-**	**64,831**	**69,446**

31 Derivative Financial Instruments

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

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

In thousands of Ukrainian hryvnias	Note	2010 Contracts with positive fair value	2010 Contracts with negative fair value	2009 Contracts with positive fair value	2009 Contracts with negative fair value
Currency swap agreements: fair values, at the end of the reporting period, of	28				
- USD receivable on settlement (+)		-	-	19,005	-
- UAH payable on settlement (-)		-	-	(18,986)	-
Net fair value of currency swap agreements	13	**-**	**-**	**19**	**-**

32 Fair Value of Financial Instruments

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

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

	2010		2009	
In thousands of Ukrainian hryvnias	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**
Financial assets				
Cash and cash equivalents and mandatory reserves	**593,624**	**593,624**	**1,060,316**	**1,060,316**
- Cash on hand	152,187	152,187	268,677	268,677
- Balances with the NBU	107,074	107,074	136,868	136,868
- Mandatory reserves with the NBU	815	815	54,184	54,184
- Correspondent accounts and overnight deposits with other banks	333,548	333,548	600,587	600,587
Due from other banks	**4,235**	**4,235**	**6,058**	**6,058**
- Guarantee deposits	4,235	4,235	6,058	6,058
Loans and advances to customers	**3,128,171**	**2,662,423**	**3,669,552**	**2,906,673**
- Corporate loans	2,288,356	2,188,169	2,555,157	2,317,647
- Loans to individuals - consumer loans	181,744	143,417	305,838	236,352
- Loans to private entrepreneurs	23,293	23,109	24,746	22,950
- Loans to individuals – mortgage loans	634,778	307,728	774,047	323,087
- Reverse sale and repurchase agreements	-	-	9,764	6,637
Other financial assets	**2,166**	**2,166**	**2,160**	**2,160**
Receivables from operations with clients and banks	683	683	822	822
Accrued income	1,097	1,097	1,182	1,182
Receivables from operations with plastic cards	386	386	156	156
TOTAL FINANCIAL ASSETS CARRIED AT AMORTISED COST	**3,728,196**	**3,262,448**	**4,738,086**	**3,975,207**

	2010		2009	
In thousands of Ukrainian hryvnias	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**
Due to other banks	**511,749**	**483,793**	**996,341**	**958,900**
- Correspondent accounts of other banks	2,941	2,941	14,037	14,037
- Term placements and loans of other banks	508,808	480,852	982,304	944,863
Customer accounts	**2,977,342**	**2,910,149**	**3,604,289**	**3,480,013**
- Current/settlement accounts of legal entities	512,279	512,279	512,321	512,321
- Term deposits of legal entities	421,146	421,147	477,871	473,983
- Current/demand accounts of individuals	288,237	288,237	329,877	329,877
- Term deposits of individuals	1,755,680	1,688,486	2,284,220	2,163,832
Debt securities in issue	**-**	**-**	**308**	**274**
- Bonds issued on domestic market	-	-	308	274
Other financial liabilities	**32,340**	**32,340**	**10,241**	**10,241**
Other accrued liabilities	10,594	10,594	4,132	4,132
Transit accounts	20,759	20,759	3,065	3,065
Provision for credit related commitments	955	955	3,033	3,033
Other	32	32	11	11
Subordinated debt	**276,659**	**276,659**	**159,842**	**159,842**
TOTAL FINANCIAL LIABILITIES CARRIED AT AMORTISED COST	**3,798,090**	**3,702,941**	**4,771,021**	**4,609,270**

32 Fair Value of Financial Instruments (Continued)

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

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

	2010			2009		
In thousands of Ukrainian hryvnias	**Quoted price in an active market (Level 1)**	**Valuation technique with inputs observable in markets (Level 2)**	**Valuation technique with significant non-observable inputs (Level 3)**	**Quoted price in an active market (Level 1)**	**Valuation technique with inputs observable in markets (Level 2)**	**Valuation technique with significant non-observable inputs (Level 3)**
FINANCIAL ASSETS						
Securities at fair value through profit or loss						
- Corporate bonds	-	-	-	-	-	11,685
Investment securities available for sale						
- Ukrainian Government bonds	-	411,938	-	-	45,826	-
- Corporate bonds	-	-	-	-	-	5,530
- Corporate shares	-	-	30	-	-	30
Derivative financial instruments	-	-	-	-	19	-
TOTAL FINANCIAL ASSETS CARRIED AT FAIR VALUE	**-**	**411,938**	**30**	**-**	**45,845**	**17,245**

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

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

	Securities at fair value through profit or loss	**Investment securities available for sale**
In thousands of Ukrainian hryvnias	**Corporate bonds and shares**	**Corporate bonds and shares**
Fair value at 1 January 2010	**11,685**	**5,560**
Gains or losses recognised in profit or loss for the year*	(10,478)	(3,907)
Sales	(1,207)	(1,623)
Fair value at 31 December 2010	**-**	**30**
Cumulative revaluation gains less losses recognised in profit or loss for the current or prior years for assets held at 31 December 2010	**(24,789)**	**(22,383)**

* Gains or losses recognised in profit or loss for the year include interest income and fair value losses less gains.

32 Fair Value of Financial Instruments (Continued)

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

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by an active quoted market price. Where quoted market prices are not available, the Bank used valuation techniques. Certain valuation techniques required assumptions that were not supported by observable market data. Changing any such used assumptions to a reasonably possible alternative would not result in significantly different profit, income, total assets or total liabilities. The total net fair value loss estimated using valuation techniques that was recognised in profit or loss for the year amounts to UAH 16,011 thousand (2009: UAH 11,184 thousand).

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

	2010	2009
Loans and advances to customers		
Corporate loans	7.85%-18.95% per annum	16.7%-27% per annum
Loans to individuals - consumer loans	19.5%-27% per annum	19.5%-29% per annum
Loans to individuals – mortgage loans	14%-21% per annum	18%-27% per annum
Due to other banks		
- Correspondent accounts and overnight placements of other banks	0 % per annum	0 % per annum
- Term placements and loans of other banks	2.3%-3.5% per annum	2.5%-3.4% per annum
Customer accounts		
- Term deposits of legal entities	7.0%-16.5% per annum	10%-20% per annum
- Term deposits of individuals	7.0%-16.7% per annum	9%-22% per annum

33 Presentation of Financial Instruments by Measurement Categories

For the purposes of measurement, IAS 39, *Financial Instruments: Recognition and Measurement*, classifies financial assets into the following categories: (a) loans and receivables; (b) available-for-sale financial assets; (c) financial assets held to maturity and (d) financial assets at fair value through profit or loss (“FVTPL”). Financial assets at fair value through profit or loss have two subcategories: (i) assets designated as such upon initial recognition, and (ii) those classified as held for trading. The following table provides a reconciliation of financial assets with these measurement categories as of 31 December 2010:

In thousands of Ukrainian hryvnias	**Loans and receivables**	**Available-for-sale assets**	**Total**
ASSETS			
Cash and cash equivalents and mandatory reserves	593,624	-	593,624
Due from other banks			
- Guarantee deposits	4,235	-	4,235
Loans and advances to customers			
- Corporate loans	2,311,648	-	2,311,648
- Loans to individuals - consumer loans	181,744	-	181,744
- Loans to individuals – mortgage loans	634,779	-	634,779
Investment securities available-for-sale	-	411,968	411,968
Other financial assets	2,166	-	2,166
TOTAL FINANCIAL ASSETS	**3,728,196**	**411,968**	**4,140,164**

As of 31 December 2010 and 31 December 2009 all of the Bank’s financial liabilities were carried at amortised cost.

33 Presentation of Financial Instruments by Measurement Categories (Continued)

The following table provides a reconciliation of financial assets with these measurement categories as of 31 December 2009:

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

34 Related Party Transactions

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

At 31 December 2010, the outstanding balances with related parties were as follows:

In thousands of Ukrainian hryvnias	Parent company	Entities under common control	Key management personnel
Correspondent accounts with other banks	68	-	-
Gross amount of loans and advances to customers (contractual interest rate: in UAH – 11.0 - 25.0%; in USD – 5.0 - 17.3%)	-	31,648	264
Impairment provisions for loans and advances to customers at 31 December	-	(4,995)	(14)
Other assets	385	-	-
Correspondent accounts and overnight placements of other banks	1,589	-	-
Term placements and loans from other banks (contractual interest rate: in EUR – 2.04 -2.29%; in USD – 2.04-2.79%, in PLN – 3.75%)	389,164	-	-
Customer accounts (contractual interest rate: in UAH – 11.5-19.25%; in EUR – 2.2-4.5%; in USD – 4.25-9.75%)	-	9	2,810
Subordinated debt (contractual interest rate: in USD – 4,0075%)	276,659	-	-

The income and expense items with related parties for 2010 were as follows:

In thousands of Ukrainian hryvnias	Parent company	Entities under common control	Key management personnel
Interest income	2	2,305	26
Interest expense	25,050	1	(198)
Provision for loan impairment	-	(2,771)	-
Fee and commission income	-	20	9
Fee and commission expense	(1,594)	(628)	(1)

In addition, as disclosed in Notes 4 and 10, during 2010 the Bank reversed part of loan impairment provisions totalling UAH 133,159 thousand taking into account future proceeds from guarantees execution in cash flow projections for loans covered by the guarantees received from the parent company. This reversal was recognised in the statement of comprehensive income.

34 Related Party Transactions (Continued)

At 31 December 2010, other rights and obligations with related parties were as follows:

In thousands of Ukrainian hryvnias	**Parent company**	**Entities under common control**	**Key management personnel**
Guarantees received	595,738	7,500	-
Cash deposits received as collateral	38,038	-	-
Loan commitments received	719,220	-	-
Collateral received	-	30,099	-

Aggregate amounts lent to and repaid by related parties during 2010 were:

In thousands of Ukrainian hryvnias	**Parent company**	**Entities under common control**	**Key management personnel**
Amounts lent to related parties during the period	-	-	-
Amounts repaid by related parties during the period	-	-	165

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

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

34 Related Party Transactions (Continued)

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

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

At 31 December 2009, other rights and obligations with related parties were as follows:

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

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

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

Key management compensation is presented below:

	2010		**2009**	
In thousands of Ukrainian hryvnias	**Expense**	**Accrued liability**	**Expense**	**Accrued liability**
Short-term benefits:				
- Salaries	9,387	2,740	8,851	4,497
- Short-term bonuses	-	-	1,402	-
Post-employment benefits:				
- State pension and social security costs	359	38	320	81
Total	**9,746**	**2,778**	**10,573**	**4,578**

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