Open Joint Stock Company "BTA Bank" (Ukraine)

Financial Statements

For the year ended 31 December 2009

Together with Independent Auditors' Report

CONTENTS

INDEPENDENT AUDITORS' REPORT

NOTES TO THE FINANCIAL STATEMENTS

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INDEPENDENT AUDITORS' REPORT

To the Shareholders and Management Board of Open Joint Stock Company "BTA Bank"

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

Management's responsibility for the financial statements

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

Auditors' responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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.

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

Opinion

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

Ernst & Young Audit Services LLC

19 April 2010

STATEMENT OF FINANCIAL POSITION
as at 31 December 2009

(Thousands of Ukrainian hryvnia)

	Notes	2009	2008
Assets			
Cash and cash equivalents	5	705,800	758,760
Amounts due from credit institutions	6	13,527	9,630
Derivative financial assets	7	2,221	-
Loans to customers	8	1,234,553	1,125,928
Financial assets available-for-sale	9	43,500	118,261
Investment property	10	8,067	-
Property and equipment	11	105,542	122,219
Intangible assets	11	1,731	2,562
Current income tax assets		417	357
Deferred income tax assets	12	19,498	20,132
Other assets	14	22,779	7,810
Total assets		**2,157,635**	**2,165,659**
Liabilities			
Amounts due to credit institutions	15	174,059	16,309
Derivative financial liabilities	7	2,140	122,168
Amounts due to customers	16	581,317	546,690
Subordinated debt	17	33,653	34,810
Other liabilities	14	5,984	10,186
Total liabilities		**797,153**	**730,163**
Equity	18		
Share capital		1,508,983	1,508,983
Additional paid-in capital		9,240	2,072
Accumulated losses		(159,475)	(83,786)
Other reserves		1,734	8,227
Total equity		**1,360,482**	**1,435,496**
Total liabilities and equity		**2,157,635**	**2,165,659**

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

Sergeeva N. V. — Chairlady of the Board

Lucenko O. G. — Chief Accountant

Україна * м. Київ * Відкрите акціонерне товариство * БТА Банк Ідентифікаційний код 14359845

19 April 2010

The accompanying notes on pages 6 to 41 are an integral part of these financial statements.

INCOME STATEMENT
for the year ended 31 December 2009

(Thousands of Ukrainian hryvnia)

	Notes	2009	2008
Interest income			
Loans to customers		292,131	148,958
Amounts due from credit institutions		99,567	66,245
Financial assets available-for-sale		15,461	7,287
		407,159	**222,490**
Interest expense			
Amounts due to customers		(42,211)	(63,341)
Amounts due to credit institutions		(19,514)	(30,448)
Subordinated debt		(5,615)	(2,234)
		(67,340)	**(96,023)**
Net interest income		**339,819**	**126,467**
Impairment of interest earning assets	8	(234,482)	(147,994)
Net interest income after impairment of interest earning assets		**105,337**	**(21,527)**
Fee and commission income		12,981	10,754
Fee and commission expense		(1,928)	(1,764)
Net fee and commission income	20	**11,053**	**8,990**
Net losses from financial assets available-for-sale	21	(12,777)	(3,884)
Net gains from foreign currencies:			
- dealing		11,278	30,561
- translation differences		4,082	37,977
Other income		1,975	30,033
Other non interest income		**4,558**	**94,687**
Employee expenses	22	(87,642)	(79,766)
Depreciation and amortisation	11	(18,779)	(15,069)
Other operating expenses	22	(90,264)	(79,603)
Loss on initial recognition of loans		-	(3,781)
Reversal of /(charge for) other impairment allowance and provisions	13	4,880	(9,443)
Other non-interest expense		**(191,805)**	**(187,662)**
Loss before income tax expense		**(70,857)**	**(105,512)**
Income tax (expense)/benefit	12	(5,475)	20,497
Loss for the year		**(76,332)**	**(85,015)**

The accompanying notes on pages 6 to 41 are an integral part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2009

(Thousands of Ukrainian hryvnia)

		2009	*2008*
Loss for the year		**(76,332)**	**(85,015)**
Other comprehensive (loss)/income:			
Net gain/(loss) on investment securities available-for-sale	21	395	(318)
Revaluation of property	11	(8,194)	-
Income tax relating to components of other comprehensive income	12	1,949	80
Other comprehensive loss for the year, net of tax		**(5,850)**	**(238)**
Total comprehensive loss for the year		**(82,182)**	**(85,253)**

The accompanying notes on pages 6 to 41 are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2009

(Thousands of Ukrainian hryvnia)

	Share capital	*Treasury shares*	*Additional paid-in capital*	*Other reserves (Note 18)*	*Retained earnings/ (Accumu-lated losses)*	*Total*
31 December 2007	**57,079**	**(245)**	**3**	**10,503**	**(809)**	**66,531**
Total comprehensive loss for the year				(238)	(85,015)	(85,253)
Depreciation of revaluation reserve, net of tax				(1,998)	1,998	-
Disposal of property, net of tax				(40)	40	-
Gain on initial recognition of subordinated debt from shareholder (Notes 17, 18)			2,069			2,069
Issue of share capital (Note 18)	1,451,904					1,451,904
Sale of treasury shares (Note 18)		245				245
31 December 2008	**1,508,983**	**-**	**2,072**	**8,227**	**(83,786)**	**1,435,496**
Total comprehensive loss for the year				(5,850)	(76,332)	(82,182)
Depreciation of revaluation reserve, net of tax				(454)	454	-
Disposal of property, net of tax				(189)	189	-
Gain on initial recognition of subordinated debt from shareholder (Notes 17, 18)			7,168			7,168
31 December 2009	**1,508,983**	**-**	**9,240**	**1,734**	**(159,475)**	**1,360,482**

The accompanying notes on pages 6 to 41 are an integral part of these financial statements.

CASH FLOW STATEMENT
for the year ended 31 December 2009

(Thousands of Ukrainian hryvnia)

	Notes	2009	2008
Cash flows from operating activities			
Interest received		330,610	201,859
Interest paid		(70,142)	(93,653)
Fees and commissions received		32,414	12,037
Fees and commissions paid		(2,094)	(1,764)
Gain on dealing in foreign currencies		(6,346)	28,576
Other operating income received		1,608	30,033
Employee expenses		(87,580)	(77,493)
Other operating expenses paid		(99,879)	(79,285)
Cash flows from operating activities before changes in operating assets and liabilities		**98,591**	**20,310**
Net (increase)/decrease in operating assets			
Mandatory reserve balances with the National Bank of Ukraine		(6,945)	-
Amounts due from credit institutions		3,048	14,505
Loans to customers		(280,106)	(539,451)
Other assets		4,012	(6,052)
Net increase/(decrease) in operating liabilities			
Amounts due to credit institutions		167,346	(358,377)
Amounts due to customers		38,414	(112,141)
Other liabilities		(113,965)	1,764
Net cash flows used in operating activities before income tax		**(89,605)**	**(979,442)**
Income tax paid		(2,445)	(2,552)
Net cash used in operating activities		**(92,050)**	**(981,994)**
Cash flows from investing activities			
Purchase of available-for-sale financial assets		(81,227)	(302,829)
Proceeds from sale of available-for-sale financial assets		142,675	201,989
Purchase of investment property		(8,067)	-
Purchase of property and equipment		(23,804)	(36,843)
Proceeds from sale of property, equipment and intangible assets		426	99
Net cash from /(used in) investing activities		**30,003**	**(137,584)**
Cash flows from financing activities			
Capital contributions		-	1,451,904
Treasury stock purchased		-	245
Subordinated debt		-	19,449
Net cash from financing activities		**-**	**1,471,598**
Effect of exchange rate changes on cash and cash equivalents		9,087	171,276
Net change in cash and cash equivalents		**(52,960)**	**523,296**
Cash and cash equivalents, 1 January		758,760	235,464
Cash and cash equivalents, 31 December	5	**705,800**	**758,760**

The accompanying notes on pages 6 to 41 are an integral part of these financial statements.

1. Principal activities

Open Joint Stock Company "BTA Bank" (the "Bank") was formed on 10 December 1992 as a Closed Joint Stock Company under the laws of Ukraine. The Bank was initially registered by the National Bank of Ukraine (the "NBU") under its previous name "Geosantris Bank". On 1 July 1993, the Bank changed its form of ownership to an Open Joint Stock Company. On 8 September 2000, the Bank changed its name to Ukrainian Credit-Trade Bank and on 15 September 2006 - to BTA Bank. The Bank operates under a general banking licence # 25 issued by the NBU on 8 November 2006, which provides the Bank with the right to conduct banking operations, including currency operations. The Bank also possesses a licence for securities operations and custodial services from the State Committee for the Securities and Stock Market dated 22 November 2004.

The Bank accepts deposits from the public and extends credit, transfers payments in Ukraine and abroad, exchanges currencies and provides other banking services to its commercial and retail customers.

The Bank's head office is in Kyiv and at 31 December 2009, the Bank had 17 operational outlets.

The Bank's registered legal address was 35 Scherbakova St., Kyiv, Ukraine.

With effect from 2 September 1999, the Bank became a member of the deposit guarantee system. The system operates under the Law of Ukraine on "Guarantee Fund for the deposits of individuals" of 20 September 2001. The fund covers the Bank's liabilities to individual depositors up to UAH 150,000 for each individual in the event of business failure and revocation of the banking licence issued by the NBU.

2. Basis of preparation

General

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

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

The financial statements are prepared under the historical cost convention except as disclosed in the accounting policies below. For example, available-for-sale securities, derivative financial instruments, property and equipment (except for furniture and fixtures) have been measured at fair value.

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

Inflation accounting

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

Reclassifications

The following reclassifications have been made to 2008 balances to conform to the 2009 presentation.

Amount	*Previously reported*	*As reclassified*	*Comment*
1,985	Fee and commission income – currency conversion	Net gains/ (losses) from foreign currencies and precious metals - dealing	To achieve better presentation

3. Summary of significant accounting policies

Changes in accounting policies

During the year, the Bank has adopted the following amended IFRS and new IFRIC Interpretations. The principal effects of these changes are as follows:

Improvements to IFRS
In May 2008, the IASB issued amendments to IFRS, which resulted from the IASB's annual improvements project. They comprise amendments that result in accounting changes for presentation, recognition or measurement purposes as well as terminology or editorial amendments related to a variety of individual IFRS standards. Most of the amendments are effective for annual periods beginning on or after 1 January 2009, with earlier application permitted. Amendments included in May 2008 "Improvements to IFRS" did not have any impact on the financial position or performance of the Bank.

IAS 1 "Presentation of Financial Statements" (Revised)
A revised IAS 1 was issued in September 2007, and became effective for annual periods beginning on or after 1 January 2009. This revised Standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with non-owner changes in equity presented as a single line. In addition, the Standard introduces the statement of comprehensive income: it presents all items of recognised income and expense, either in one single statement, or in two linked statements. The revised standard also requires that the income tax effect of each component of comprehensive income be disclosed. In addition, it requires entities to present a comparative statement of financial position as at the beginning of the earliest comparative period when the entity has applied an accounting policy retrospectively, makes a retrospective restatement, or reclassifies items in the financial statements.

The Bank has elected to present comprehensive income in two separate statements: an income statement and a statement of comprehensive income. The Bank has not provided a restated comparative set of financial position for the earliest comparative period, as it has not adopted any new accounting policies retrospectively, or has made a retrospective restatement in the financial statements.

IFRS 7 "Financial Instruments: Disclosures"
The amendments to IFRS 7 were issued in March 2009, to enhance fair value and liquidity disclosures. With respect to fair value, the amendments require disclosure of a three-level fair value hierarchy, by class, for all financial instruments recognised at fair value and specific disclosures related to the transfers between levels in the hierarchy and detailed disclosures related to level 3 of the fair value hierarchy. In addition, the amendments modify the required liquidity disclosures with respect to derivative transactions and assets used for liquidity management. Comparative information has not been provided as permitted by the transition provisions of the amendment.

IAS 23 "Borrowing Costs" (Revised)
A revised IAS 23 Borrowing costs was issued in March 2007, and became effective for financial years beginning on or after 1 January 2009. The standard has been revised to require capitalisation of borrowing costs when such costs relate to a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. In accordance with the transitional requirements in the Standard, the Bank adopted this as a prospective change.

Amendments to IAS 32 "Financial Instruments: Presentation" and IAS 1 "Presentation of Financial Statements" – Puttable Financial Instruments and Obligations Arising on Liquidation
These amendments were issued in February 2008, and became effective for annual periods beginning on or after 1 January 2009. The amendments require puttable instruments that represent a residual interest in an entity to be classified as equity, provided they satisfy certain conditions. These amendments did not have any impact on the financial position or performance of the Bank.

Amendments to IFRS 2 "Share-based Payment"- Vesting Conditions and Cancellations
Amendments to IFRS 2 were issued in January 2008 and became effective for annual periods beginning on or after 1 January 2009. This amendment clarifies the definition of vesting conditions and prescribes the accounting treatment of an award that is effectively cancelled because a non-vesting condition is not satisfied. This amendment did not have any impact on the financial position or performance of the Bank as the Bank currently does not provide share-based payment.

IFRIC 13 "Customer Loyalty Programmes"
IFRIC Interpretation 13 was issued in June 2007 and became effective for annual periods beginning on or after 1 July 2008. This Interpretation requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted and therefore part of the fair value of the consideration received is allocated to the award credits and deferred over the period that the award credits are fulfilled. This interpretation did not have any impact on the Bank's financial statements as no such schemes currently exist.

IFRIC 15 "Agreements for the Construction of Real Estate"
IFRIC Interpretation 15 was issued in July 2008 and is applicable retrospectively for annual periods beginning on or after 1 January 2009. IFRIC 15 clarifies when and how revenue and related expenses from the sale of a real estate unit should be recognized if an agreement between a developer and a buyer is reached before the construction of the real estate is completed. The interpretation also provides guidance on how to determine whether an agreement is within the scope of IAS 11 "Construction Contracts" or IAS 18 "Revenue" and supersedes the current guidance for real estate in the Appendix to IAS 18. This interpretation did not have any impact on the financial statements, because the Bank is not a developer.

IFRIC 16 "Hedges of a Net Investment in a Foreign Operation"
IFRIC Interpretation 16 was issued in July 2008 and is applicable for annual periods beginning on or after 1 October 2008. This Interpretation provides guidance on identifying the foreign currency risks that qualify for hedge accounting in the hedge of net investment, where within the group the hedging instrument can be held and how an entity should determine the amount of foreign currency gain or loss, relating to both the net investment and the hedging instrument, to be recycled on disposal of the net investment. This interpretation did not have any impact on the Bank's financial statements.

Amendments to IFRIC 9 "Reassessment of Embedded Derivatives"
The amendments require entities to assess whether to separate an embedded derivative from a host contract in the case where the entity reclassifies a hybrid financial asset out of the fair value through profit or loss category. This assessment is to be made based on circumstances that existed on the later of the date the entity first became a party to the contract and the date of any contract amendments that significantly change the cash flows of the contract. The amendments are applicable for annual periods ending on or after 30 June 2009. The application of the amendment did not have a significant impact on the Bank's financial statements as no reclassifications were made for instruments that contained embedded derivatives.

IFRIC 18 "Transfers of Assets from Customers"
IFRIC 18 was issued in January 2009 and becomes effective for transfers of assets from customers received on or after 1 July 2009 with early application permitted, provided valuations were obtained at the date those transfers occurred. This interpretation should be applied prospectively. IFRIC 18 provides guidance on accounting for agreements in which an entity receives from a customer an item of property, plant and equipment that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services or to do both. This interpretation did not have any impact on the financial position or performance of the Bank as the Bank has no transfers of assets from its customers.

Financial assets

Initial recognition

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

Date of recognition

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

Loans and receivables

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

Available-for-sale financial assets

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

Investments in equity instruments that do not have a quoted market price in an active market and if their fair value can not be reliably measured are accounted at cost less any allowance for impairment.

Determination of fair value

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

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

Offsetting

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

Reclassification of financial assets

If a non-derivative financial asset classified as held for trading is no longer held for the purpose of selling in the near term, it may be reclassified out of the fair value through profit or loss category in one of the following cases:

- a financial asset that would have met the definition of loans and receivables above may be reclassified to loans and receivables category if the Bank has the intention and ability to hold it for the foreseeable future or until maturity;
- other financial assets may be reclassified to available for sale or held to maturity categories only in rare circumstances.

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

Cash and cash equivalents

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

Precious metals

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

Derivative financial instruments

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

Promissory notes

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

Borrowings

Issued financial instruments or their components are classified as liabilities, where the substance of the contractual arrangement results in the Bank having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity instruments. Such instruments include amounts due to credit institutions, amounts due to customers and subordinated debt. Any gain or loss on initial recognition of loans received from shareholders is recognised as additional paid-in capital in equity. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in the income statement when the borrowings are derecognised as well as through the amortisation process.

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

Leases

Operating - Bank as lessee

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

Operating - Bank as lessor

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

Impairment of financial assets

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

Amounts due from credit institutions and loans to customers

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

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

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

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

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

Available-for-sale financial assets

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

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

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

Renegotiated loans

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions.

The accounting treatment of such restructuring is as follows:

- If the currency of the loan has been changed the old loan is derecognised and a new loan is recognised.

- If the loan restructuring is not caused by the financial difficulties of the borrower but the cash flows were renegotiated on favourable terms for the borrower then the loan is not recognised as impaired. The loan is not derecognised but a new effective interest rate is determined based on the remaining cash flows under the loan agreement.

- If the loan is impaired after restructuring, the Bank uses the original effective interest rate in respect of new cash flows to estimate the recoverable amount of the loan. The difference between the recalculated present value of the new cash flows taking into account collateral and the carrying amount before restructuring is included in the allowance charges for the period.

Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original or current effective interest rate.

Asset management

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

Derecognition of financial assets and liabilities

Financial assets

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

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

Where the Bank has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Bank's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Bank's continuing involvement is the amount of the transferred asset that the Bank may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Bank's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

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

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

Financial guarantees

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

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

Taxation

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

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

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

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

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

Property and equipment

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

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

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

Furniture and fixtures is carried at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and any accumulated impairment.

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

	Years
Buildings	12 - 55
Furniture and fixtures	2
Computers and office equipment	4-7
Motor vehicles	2 - 4

Depreciation for property and equipment is calculated on a straight line basis over the useful life of the assets.

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

Expenditures incurred after the property and equipment has been put into operation, such as repairs and maintenance and overhaul costs, are normally charged to the expenses in the period the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property beyond its originally assessed standard of performance, the expenditures are capitalised as an additional cost of properties.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year the item is derecognised.

Intangible assets

Intangible assets include computer software and licences. Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic lives of 3 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation periods and methods for intangible assets with finite useful lives are reviewed at least at each financial year-end.

Costs associated with maintaining computer software programs are recorded as an expense as incurred. Software development costs (relating to the design and testing of new or substantially improved software) are recognised as intangible assets only when the Bank can demonstrate the technical feasibility of completing the software so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete and the ability to measure reliably the expenditure during the development. Other software development costs are recognised as an expense as incurred.

Investment property

Investment property is property held to earn rental income or for capital appreciation and which is not occupied by the Bank.

Investment property is initially recognised at cost, including transaction costs, and subsequently re-measured at fair value based on its market value. Market value of the Bank's investment property is obtained from reports of independent and internal appraisers, who hold a recognised and relevant professional qualification and who have recent experience in valuation of property of similar location and category.

Provisions

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

Retirement and other benefit obligations

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

Share capital

Share capital

Share capital contributions received before 31 December 2000 are recognised at restated cost following the application of IAS 29 "Financial Reporting in Hyperinflationary Economies".

Ordinary shares are classified as equity. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction from the proceeds in equity. Any excess of the fair value of consideration received over the par value of shares issued is recognised as additional paid-in capital.

Treasury shares

Where the Bank purchases its own shares, the consideration paid, including any attributable transaction costs, net of income taxes, is deducted from total equity as treasury shares until they are cancelled or reissued. Where such shares are subsequently sold or reissued, any consideration received is included in equity. Treasury shares are stated at weighted average cost.

Contingencies

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

Recognition of income and expense

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

Interest and similar income and expense

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

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

Fee and commission income

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

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

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

- *Fee income from providing transaction services*

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

Foreign currency translation

The financial statements are presented in the Ukrainian hryvna, which is the Bank's functional and presentation currency. Transactions in foreign currencies are initially recorded in the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognised in the income statement as gains less losses from foreign currencies – translation differences. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Differences between the contractual exchange rate of a transaction in a foreign currency and the NBU exchange rate on the date of the transaction are included in gains less losses from dealing in foreign currencies. The official NBU

exchange rates at 31 December 2009 and 2008 were UAH 7.9850 and UAH 7.7000 to 1 US dollar and UAH 11.4489 and UAH 10.8555 to 1 euro, respectively. As at 19 April 2010, the official NBU exchange rates were UAH 7.9258 to 1 US dollar and UAH 10.72757 to 1 euro.

Future changes in accounting policies

Standards and interpretations issued but not yet effective

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

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

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

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

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

IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments"
IFRIC Interpretation 19 was issued on 26 November 2009 and is effective for annual periods beginning on or after 1 July 2010. IFRIC 19 clarifies the requirements of IFRS when an entity renegotiates the terms of a financial liability with its creditor and the creditor agrees to accept the entity's shares or other equity instruments to settle the financial liability fully or partially. The Bank expects that this interpretation will have no impact on the Bank's financial statements.

Improvements to IFRS
In April 2009, the IASB issued the second omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. Most of the amendments are effective for annual periods beginning on or after 1 January 2010. There are separate transitional provisions for each standard. Amendments included in April 2009

"Improvements to IFRS" will have no impact on the accounting policies of the Bank, except the following amendments resulting in changes to accounting policies, as described below.

- IFRS 5 Non-current Assets Held for Sale and Discontinued Operations: clarifies that the disclosures required in respect of non-current assets and disposal groups classified as held for sale or discontinued operations are only those set out in IFRS 5. The disclosure requirements of other IFRS only apply if specifically required for such non-current assets or discontinued operations. The Bank expects that this amendment will have no impact on the Bank's financial statements.
- IFRS 8 Operating Segment Information: clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker. This amendment will have no impact on the Bank's financial statements because the Bank does not divide its activity by segments.
- IAS 36 Impairment of Assets: The amendment clarifies that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in IFRS 8 before aggregation for reporting purposes. The amendment will have no impact on the Bank's financial statements.
- IAS 7 Statement of Cash Flows: Explicitly states that only expenditure that results in recognising an asset can be classified as a cash flow from investing activities. The Bank now evaluates the impact of the adoption of new Standard.

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

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

4. Significant accounting judgements, estimates and assumptions

Judgements

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

Classification of securities

Securities owned by the Bank comprise corporate bonds and shares of Ukrainian companies. Upon initial recognition, the Bank designates all bonds and shares as available-for-sale financial assets with recognition of changes in fair value in other comprehensive income.

Estimation uncertainty

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

Fair value of financial instruments

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

Allowance for impairment of loans and receivables

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

Fair value of property and equipment

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

Deferred tax asset recognition

As at 31 December 2009, the Bank has recognised a deferred tax asset of UAH 36,807 thousand (2008: UAH 26,216 thousand). The Bank's management believes that within a reasonable period the Bank will have sufficient taxable profit that will enable it to utilise its deferred tax benefit.

5. Cash and cash equivalents

Cash and cash equivalents comprise:

	2009	*2008*
Cash on hand	50,353	58,899
Current accounts with the NBU	27,269	109,431
Current accounts with credit institutions	478,178	586,333
Time deposits with credit institutions up to 90 days	150,000	4,097
Cash and cash equivalents	**705,800**	**758,760**

The current account with the NBU represents amounts deposited with the NBU relating to daily settlements and other activities. The Bank is also required to maintain, in the form of a non-interest earning cash deposit, certain cash reserves with the NBU (mandatory reserve), which are computed as a percentage of certain of the Bank's liabilities. There are no restrictions on the withdrawal of funds from the NBU, however, if minimum average reserve requirements are not met, the Bank could be subject to certain penalties. The Bank was obligated to and maintained the minimal cumulative average reserve calculated on a daily basis over a monthly period. The average daily requirement for the period from 1 to 31 December 2009 was UAH 15,320 thousand (2008: UAH 10,710 thousand). The Bank meets the NBU mandatory reserve requirements as at 31 December 2009 and 2008.

6. Amounts due from credit institutions

Amounts due from credit institutions comprise:

	2009	*2008*
Deposits with the NBU	6,945	-
Guarantee deposits	6,582	9,630
Amounts due from credit institutions	**13,527**	**9,630**

With effect from August 2009, Ukrainian banks are required to keep 50% of the obligatory reserve for the previous month on a separate account with the NBU with interest at 3% p.a. As at 31 December 2009, the amount placed by the Bank on this account was UAH 6,945 thousand (2008: nil). The Bank's ability to withdraw such deposit is restricted by the statutory legislation.

7. Derivative financial instruments

The Bank enters into derivative financial instruments for trading purposes. The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are not indicative of the credit risk.

	2009			*2008*		
	Notional principal	*Fair values*		*Notional principal*	*Fair value*	
		Asset	*Liability*		*Asset*	*Liability*
Foreign exchange contracts:						
Swaps	859,948	2,221	(2,140)	1,028,752	-	(122,168)
Total derivative assets/(liabilities)		**2,221**	**(2,140)**		**-**	**(122,268)**

Swaps

Swaps are contractual agreements between two parties to exchange movements in foreign currency rates based on specified notional amounts.

As at 31 December 2009, derivative financial assets and liabilities are included in other assets and liabilities (Note 14).

8. Loans to customers

Loans to customers comprise:

	2009	*2008*
Corporate loans	1,109,881	737,695
Loans to individuals	532,087	566,570
Gross loans to customers	**1,641,968**	**1,304,265**
Less - allowance for impairment	(407,415)	(178,337)
Loans to customers	**1,234,553**	**1,125,928**

Allowance for impairment of loans to customers

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

	Corporate loans	*Loans to individuals*	*Total*
At 31 December 2008	**95,167**	**83,170**	**178,337**
Charge for the year	110,709	123,773	234,482
Sale of loan portfolio	(3,521)	(6,197)	(9,718)
Translation differences	1,710	2,604	4,314
At 31 December 2009	**204,065**	**203,350**	**407,415**
Individual impairment	166,548	188,162	354,710
Collective impairment	37,517	15,188	52,705
	204,065	**203,350**	**407,415**
The gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	514,585	362,465	877,050

	Corporate loans	*Loans to individuals*	*Total*
At 31 December 2008	**5,518**	**10,819**	**16,337**
Amounts written off	86,042	61,952	147,994
Translation differences	3,607	10,399	14,006
At 31 December 2009	**95,167**	**83,170**	**178,337**
Individual impairment	61,326	47,927	109,253
Collective impairment	33,841	35,244	69,085
	95,167	**83,171**	**178,338**
The gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	154,522	77,201	231,723

Individually impaired loans

Interest income accrued on loans, for which individual impairment allowances have been recognised, as at 31 December 2009, comprised UAH 89,663 thousand (2008: UAH 10,630 thousand).

The fair value of collateral that the Bank holds relating to loans individually determined to be impaired at 31 December 2009 amounts to UAH 1,486,695 thousand (2008: UAH 119,385 thousand). In accordance with Ukrainian legislation, loans may only be written off with the approval of the Management Board of the Bank and, in certain cases, with the respective decision of the Court.

Collateral and other credit enhancements

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

The main types of collateral obtained are as follows:

- For securities lending and reverse repurchase transactions: cash or securities;
- For corporate lending: mortgages over real estate properties, equipment and other facilities, inventory, trade receivables and cash;
- For loans to individuals: mortgages, vehicles and cash.

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for loan impairment.

Derecognition of loan portfolio

During 2009, the Bank sold the rights to 100% of the cash flows arising on a portfolio of fixed rate loans, with a carrying amount of UAH 21,469 thousand (gross amount of UAH 31,187 thousand), to a third party for UAH 10,825 thousand. The loss of UAH 10,644 thousand is presented within other operating expenses (Note 22).

Concentration of loans to customers

As at 31 December 2009, the Bank has a concentration of loans represented by UAH 970,235 thousand due from the ten largest third party borrowers (59% of the gross loan portfolio) (2008: UAH 460,223 thousand or 35%). An allowance of UAH 191,412 thousand (2008: UAH 14,873 thousand) was made against these loans.

Loans are made principally within Ukraine in the following industry sectors:

	2009	*2008*
Individuals	532,087	566,570
Trading enterprises	478,471	321,301
Real estate construction	265,768	196,475
Services	190,999	156,028
Manufacturing	110,995	37,387
Agriculture and food processing	1,700	12,736
Energy	-	1,853
Other	61,948	11,915
	1,641,968	**1,304,265**

9. Financial assets available-for-sale

Financial assets available-for-sale comprise:

	2009	*2008*
Corporate bonds	1,078	83,633
Treasury bills of the Ministry of Finance	36,452	31,421
Corporate shares	5,970	3,207
	43,500	**118,261**

10. Investment property

In 2009, the Bank purchased an office building for UAH 8,067 thousand. The Bank plans to rent out this building under the operational lease.

11. Property and equipment and intangible assets

The movements of property, equipment and intangible assets during 2009 were as follows:

	Buildings	*Computers and office equipment*	*Furniture and fixtures*	*Motor vehicles*	*Assets under construction*	*Intangible assets*	**Total**
Cost or revalued amount							
1 January 2009	82,404	29,110	10,579	4,263	10,648	3,690	140,694
Revaluation	1,174	-	-	-	-	-	1,174
Impairment	(11,543)	-	-	-	-	-	(11,543)
Additions	3,479	2,645	768	-	4,187	495	11,574
Disposals	(2,429)	(173)	(198)	(123)	(243)	-	(3,166)
Transfers	4,843	-	-	-	(4,843)	-	-
31 December 2009	**77,928**	**31,582**	**11,149**	**4,140**	**9,749**	**4,185**	**138,733**
Accumulated depreciation							
1 January 2009	(3,652)	(8,470)	(1,911)	(752)		(1,128)	(15,913)
Charge for the year	(4,059)	(10,158)	(2,284)	(952)		(1,326)	(18,779)
Disposals	747	87	130	93		-	1,057
Revaluation	2,175	-	-	-		-	2,175
31 December 2009	**(4,789)**	**(18,541)**	**(4,065)**	**(1,611)**		**(2,454)**	**(31,460)**
Net book value:							
1 January 2009	**78,752**	**20,640**	**8,668**	**3,511**	**10,648**	**2,562**	**124,781**
31 December 2009	**73,139**	**13,041**	**7,084**	**2,529**	**9,749**	**1,731**	**107,273**

As at 31 December 2009, buildings include leasehold improvements at cost of UAH 27,933 thousand and accumulated depreciation of UAH 4,443 thousand.

The movements of property, equipment and computer software during 2008 were as follows:

	Buildings	*Computers and office equipment*	*Furniture and fixtures*	*Motor vehicles*	*Assets under construction*	*Intangible assets*	Total
Cost or revalued amount							
1 January 2008	57,000	13,707	4,699	2,754	13,837	1,967	93,964
Additions	-	15,784	6,437	2,156	22,392	1,775	48,544
Disposals	(133)	(381)	(557)	(647)	-	(96)	(1,814)
Transfers	25,537	-	-	-	(25,581)	44	-
31 December 2008	**82,404**	**29,110**	**10,579**	**4,263**	**10,648**	**3,690**	**140,694**
Accumulated depreciation							
1 January 2008	-	(694)	(298)	(462)		(497)	(1,951)
Charge for the year	(3,758)	(8,146)	(1,905)	(542)		(718)	(15,069)
Disposals	106	370	292	252		87	1,107
31 December 2008	**(3,652)**	**(8,470)**	**(1,911)**	**(752)**		**(1,128)**	**(15,913)**
Net book value:							
1 January 2008	**57,000**	**13,013**	**4,401**	**2,292**	**13,837**	**1,470**	**92,013**
31 December 2008	**78,752**	**20,640**	**8,668**	**3,511**	**10,648**	**2,562**	**124,781**

As at 31 December 2008, buildings include leasehold improvements at cost of UAH 25,066 thousand and accumulated depreciation of UAH 2,362 thousand.

During 2009, the Bank revalued its buildings. The valuation was performed by an independent appraiser as at 31 December 2009 and the fair value was determined by reference to market-based evidence. If the property and equipment were to be measured using the cost model, the carrying amounts would be as follows:

	31 December 2009 (revalued)	*31 December 2009 (at cost)*	*31 December 2008 (revalued)*	*31 December 2008 (at cost)*
Cost	123,406	131,293	137,004	129,448
Accumulated depreciation	(24,941)	(41,829)	(14,785)	(16,283)
Net carrying amount	**98,465**	**89,464**	**122,219**	**113,165**

12. Taxation

The corporate income tax expense comprises:

	2009	*2008*
Current tax charge	2,892	2,292
Deferred tax charge/(benefit) - origination and reversal of temporary differences	634	(22,869)
Less – deferred tax recognised in other comprehensive income	1,949	80
Income tax expense/(benefit)	**5,475**	**(20,497)**

In 2009, Ukrainian corporate income tax was levied on taxable income less allowable expenses at a rate of 25% (2008: 25%).

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

	2009	*2008*
Loss before tax	(70,857)	(105,512)
Statutory tax rate	25%	25%
Theoretical income tax benefit at the statutory rate	**(17,714)**	**(26,378)**
Non-deductible expenditures:	23,294	1,775
Change in unrecognised deferred tax assets	(105)	4,106
Income tax expense/(benefit)	**5,475**	**(20,497)**

Deferred tax assets and liabilities as at 31 December and their movements for the respective years comprise:

		Origination and reversal of temporary differences			*Origination and reversal of temporary differences*		
	2007	*in the income statement*	*in other comprehe-nsive income*	*2008*	*in the income statement*	*in other comprehe-nsive income*	*2009*
Tax effect of deductible temporary differences:							
Allowances for impairment and provisions for other losses	3,981	20,446	-	24,427	13,087	-	37,514
Accrued expenses and income	92	1,190	-	1,282	105	-	1,387
Valuation of financial instruments	572	3,959	80	4,614	(2,608)	(99)	1,907
Gross deferred tax asset	**4,645**	**25,595**	**80**	**30,323**	**10,584**	**(99)**	**40,808**
Unrecognised deferred tax asset	-	(4,106)	-	(4,106)	105	-	(4,001)
Deferred tax asset	**4,645**	**21,492**	**80**	**26,216**	**10,689**	**(99)**	**36,807**
Tax effect of taxable temporary differences:							
Property and equipment	(5,761)	372	-	(5,389)	13	2,048	(3,328)
Accrued expenses and income	(1,621)	925	-	(696)	(13,285)	-	(13,981)
Deferred tax liability	**(7,382)**	**1,297**	**-**	**(6,084)**	**(13,272)**	**2,048**	**(17,309)**
Net deferred tax (liability)/asset	**(2,737)**	**22,789**	**80**	**20,132**	**(2,583)**	**1,949**	**19,498**

13. Other impairment allowance and provisions

The movements in allowances for other assets and provisions were as follows:

	Other assets	*Guarantees and commitments*	*Total*
31 December 2007	**-**	**66**	**66**
Charge	9,423	20	9,443
31 December 2008	**9,423**	**86**	**9,509**
Reversal	(4,795)	(85)	(4,880)
31 December 2009	**4,628**	**1**	**4,629**

Allowances for impairment of assets are deducted from the carrying amounts of the related assets. Provisions for guarantees and commitments are recorded in other liabilities.

14. Other assets and liabilities

Other assets comprise:

	2009	*2008*
Prepayments for property and equipment	16,776	1,309
Prepayments for rent, utilities and other services	4,170	2,760
Materials	982	1,925
Card settlements	482	913
Other prepaid taxes	279	45
Accrued income	90	853
Other	1,433	5
Other assets	**22,779**	**7,810**

Other liabilities comprise:

	2009	*2008*
Unused vacation accrual	4,032	3,970
Transit accounts for card operations	1,171	585
Payables to individuals' deposit guarantee fund	310	497
Payables for service	158	245
Accrued expenses	145	321
Provision for guarantees and commitments	1	86
Payables for property and equipment	25	4,342
Taxes payable, other than income tax	14	120
Deferred income	30	15
Other	98	5
Other liabilities	**5,984**	**10,186**

15. Amounts due to credit institutions

Amounts due to credit institutions comprise:

	2009	*2008*
Current accounts	150,233	5,007
Time deposits and loans	23,826	11,302
Amounts due to credit institutions	**174,059**	**16,309**

16. Amounts due to customers

The amounts due to customers include the following:

	2009	*2008*
Current accounts		
- Legal entities	50,990	88,445
- Individuals	16,138	17,969
- Due to funds under the Bank's management	905	260
Time deposits		
- Legal entities	273,571	46,548
- Individuals	239,713	393,468
Amounts due to customers	**581,317**	**546,690**
Held as security against avals and guarantees	-	310

At 31 December 2009, amounts due to customers of UAH 286,342 thousand (49%) were due to the ten largest third party customers (2008: UAH 98,730 thousand or 18%).

An analysis of customer accounts by economic sector follows:

	2009	*2008*
Individuals	255,841	411,437
Real estate constructions	195,971	37,437
Trade	24,819	26,049
Insurance	21,161	18,162
Transport and communication	9,725	14,017
Fuel	3,502	4,514
Machine building	3,473	1,337
Chemical	2,492	1,091
Agriculture	951	532
Energy	219	267
Metallurgy	177	36
Manufacturing	31	9
Other	62,955	31,802
Amounts due to customers	**581,317**	**546,690**

Funds under the Bank's management

The Bank acts as a fund manager for construction-financing funds. The movements of amounts on the funds' accounts were as follows:

	Funds under the Bank's management
31 December 2007	**10,896**
Funds attracted from individuals	23,885
Invested funds	(34,521)
31 December 2008	**260**
Funds attracted from individuals	8,180
Invested funds	(7,535)
31 December 2009	**905**

17. Subordinated debt

In 2003, the Bank received two long-term loans of USD 1,400 thousand from non-resident companies. These loans bear interest at LIBOR+4% p.a., mature in 2010 and are subordinated in favour of the claims of all other creditors. In 2009, the currency of loans was changed to hryvnia and the interest rate was changed from floating to fixed.

In 2006, the Bank received two additional long-term loans of USD 2,400 thousand and UAH 600 thousand from Ukrainian companies. These loans bear interest at LIBOR+0.5% p.a., mature in 2013 and are subordinated in favour of the claims of all other creditors. In 2008, the amounts of these loans received were increased to USD 2,670 thousand and UAH 7,790 thousand respectively. In 2009, the currency of loans was changed to hryvnia and the interest rate was changed from floating to fixed.

The carrying value of the subordinated debt as at 31 December 2009 is UAH 33,653 thousand (2008: UAH 34,810 thousand).

In February 2010, the maturity date of all subordinated loans was extended until 2015.

18. Equity

Movements in shares outstanding, issued and fully paid were as follows:

	Number of shares paid	***Nominal amount UAH'000***	***Restated cost UAH'000***
31 December 2007	**638,013**	**47,851**	**56,834**
Purchase of treasury shares	3,263	245	245
Shares issued	19,358,724	1,451,904	1,451,904
31 December 2008	**20,000,000**	**1,500,000**	**1,508,983**
31 December 2009	**20,000,000**	**1,500,000**	**1,508,983**

As at 31 December 2009, the number of authorised ordinary shares are 20,000,000 (2008: 20,000,000) with a nominal value per share of UAH 75. All authorised shares have been issued and fully paid. All common shares have equal voting, dividend and capital repayment rights.

The share capital of the Bank was contributed by the shareholders in Ukrainian hryvnia and the shareholders are entitled to dividends and any capital distributions in Ukrainian hryvnia. There were no dividends or other capital distributions declared in 2009.

In 2008, the ordinary shareholders of the Bank approved an issue of 19,358,274 ordinary shares. The total consideration received for these shares was UAH 1,451,904 thousand. The newly issued shares were acquired by the existing shareholders.

In December 2008, the shareholders of the Bank signed an agreement according to which JSC "Bank TuranAlem" would increase its ownership percentage to 49.99% by the purchase of shares from the existing shareholders. As at the date of issue of these financial statements the transaction has not been completed.

Movements in other reserves

The movements in other reserves were as follows:

	Revaluation reserve for property and equipment	*Unrealised losses on financial assets available-for-sale*	*Other reserves*
31 December 2007	**10,516**	**(13)**	**10,503**
Depreciation of revaluation reserve, net of tax	(1,998)		(1,998)
Disposal of property and equipment, net of tax (Note 11)	(40)		(40)
Net unrealised losses on available-for-sale investments		(335)	(335)
Net realised losses on financial assets available-for-sale reclassified to the income statement		17	17
Tax effect of net losses on financial assets available-for-sale (Note 12)		80	80
31 December 2008	**8,478**	**(251)**	**8,227**
Revaluation of buildings (Note 11)	(8,194)	-	(8,194)
Tax effect of revaluation of buildings (Note 12)	2,048		2,048
Depreciation of revaluation reserve, net of tax	(454)		(454)
Disposal of property and equipment, net of tax (Note 11)	(189)		(189)
Net unrealised gain on available-for-sale investments		60	60
Net realised losses on financial assets available-for-sale reclassified to the income statement (Note 21)		335	335
Tax effect of net losses on financial assets available-for-sale (Note 12)		(99)	(99)
31 December 2009	**1,689**	**45**	**1,734**

Nature and purpose of other reserves

Revaluation reserve for property and equipment

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

Unrealised gains/(losses) on financial assets available-for-sale

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

Additional paid-in capital

As at 31 December 2009 and 2008, additional paid-in capital was principally comprised of a gain on initial recognition of subordinated debt issued by a shareholder at lower than market rates.

19. Commitments and contingencies

Operating environment

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

The Ukrainian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. The ongoing global financial crisis has resulted in considerable instability in the capital markets, significant deterioration in the liquidity of banks, much tighter credit conditions where credit is available inside Ukraine, and significant evaluation of the national currency against major currencies. Furthermore, in the fourth quarter of 2008 international agencies began and in 2009 continued to downgrade the country's credit ratings. Whilst the Ukrainian Government is introducing various stabilisation measures aimed at providing liquidity and refinancing of debts for Ukrainian banks,

there continues to be uncertainty regarding access to capital and its cost for the Bank and its counterparties. These factors could affect the Bank's financial position, results of operations and business prospects.

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

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

Legal

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

Taxation

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

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

As at 31 December 2009, management believes that its interpretation of the relevant legislation is appropriate and that the Bank's tax and currency positions will be sustained.

Financial commitments and contingencies

As at 31 December 2009, the Bank's financial commitments and contingencies comprised the following:

	2009	*2008*
Guarantees	1	446
	1	**446**
Less - provisions	(1)	(86)
Financial commitments and contingencies (before deducting collateral)	-	**360**
Less – cash held as security against avals and guarantees	-	(310)
Financial commitments and contingencies	**-**	**50**

Undrawn loan commitments are cancellable.

20. Net fee and commission income

Net fee and commission income comprises:

	2009	*2008*
Cash and settlements operations	12,588	9,761
Securities operations	157	80
Guarantees and letters of credit	17	63
Loan services	650	37
Other	219	850
Fee and commission income	**12,981**	**10,754**
Cash and settlement operations	(1,598)	(1,648)
Other	(330)	(116)
Fee and commission expense	**(1,928)**	**(1,764)**
Net fee and commission income	**11,053**	**8,990**

21. Net losses from financial assets available-for-sale

Net losses from financial assets available-for-sale recognised in the income statement comprise:

	2009	*2008*
Gains on sale of financial assets available-for-sale	(5,477)	(44,064)
Net losses on sale of investment securities available-for-sale, previously recognised in other comprehensive income (Note 18)	335	17
Losses on impairment of financial assets available-for-sale	(7,635)	47,931
Net losses from investment securities available-for-sale	**(12,777)**	**3,884**

22. Salaries and other operating expenses

Salaries and benefits, and other operating expenses comprise:

	2009	*2008*
Employee expenses	69,589	63,097
Employment taxes	18,053	16,669
Salaries and benefits	**87,642**	**79,766**
Occupancy and rent	36,614	40,238
Marketing and advertising	5,332	4,319
Legal and consultancy	6,609	4,154
Security	1,929	3,879
Office supplies	4,276	6,134
Repair and maintenance of property and equipment	5,642	3,845
Communications	2,062	2,541
Business travel and related expenses	1,740	2,144
EDP cost	3,150	3,179
Operating taxes	7,991	4,917
Guarantee fund for individuals' deposits	1,649	1,628
Charity	152	107
Cash collection expenses	164	72
Penalties incurred	239	10
Disposal of fixed assets	1,324	582
Loss on disposal of loans to customers (Note 8)	10,644	1,052
Other	747	802
Other operating expenses	**90,264**	**79,603**

23. Financial risk management

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

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

Risk management structure

Supervisory Board

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

Management Board

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

Credit Committee

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

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

Asset and Liability Committee ("ALCO")

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

Risk Management Department

The Risk Management Department is responsible for implementing and execution of risk management procedures to ensure an independent control process.

Bank Treasury

The Bank's Treasury department is responsible for managing the Bank's assets and liabilities and ensures the Bank's current liquidity.

Internal Audit

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

Risk measurement and reporting systems

During the risk management process, the Bank determines three categories of losses: expected losses, unexpected losses and extraordinary losses. Expected losses are measured as an average amount of losses on active transactions. Unexpected losses are possible adverse deviations of the amount of expected losses due to unexpected but possible

events (are calculated based on mathematical models). Extraordinary losses related to the crises events (both at the level of the Bank and at the macroeconomic level).

During the risk analysis process, the Bank considers the exposure of extreme circumstances (stress scenarios) on the basis of which the extraordinary emergency measures are determined in the form of a contingency plan.

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

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

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

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

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

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

Risk mitigation

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

The Bank actively uses collateral to reduce its credit risks.

Excessive risk concentration

The Bank executes a credit risk management function during the process of selection of potential borrowers taking into account concentration risk of related parties, industries, maturity, currency and other parameters which defined in internal regulations.

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

Credit risk

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

The Bank has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision. The credit quality review process allows the Bank to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

Credit-related commitments risks

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

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

	Notes	Maximum exposure 2009	Maximum exposure 2008
Cash and cash equivalents (excluding cash on hand)	5	655,447	699,861
Amounts due from credit institutions	6	13,527	9,630
Derivative financial assets	7	2,221	-
Loans to customers	8	1,234,553	1,125,928
Financial assets available-for-sale	9	37,530	115,054
Other assets	14	21,518	5,835
Total		**1,964,796**	**1,956,308**
Financial commitments and contingencies	19	-	360
Total credit risk exposure		**1,964,796**	**1,956,668**

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

Credit quality per class of financial assets

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

		Neither past due nor impaired			Past due or individually impaired	
	Notes	High grade 2009	Standard grade 2009	Sub-standard grade 2009	2009	Total 2009
Corporate loans	8	154,206	234,717	-	720,958	1,109,881
Loans to individuals	8	67,300	96,583	-	368,204	532,087
Total		**221,506**	**331,300**	**-**	**1,089,162**	**1,641,968**

		Neither past due nor impaired			Past due or individually impaired	
	Notes	High grade 2008	Standard grade 2008	Sub-standard grade 2008	2008	Total 2008
Corporate loans	8	34,163	521,689	-	181,843	737,695
Loans to individuals	8	123,886	226,664	-	216,020	566,570
Total		**158,049**	**748,353**	**-**	**397,863**	**1,304,265**

An analysis of past due loans, by age, is provided below. The majority of the past due loans are not considered to be impaired.

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

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

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

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

	Less than 30 days 2009	***31 to 60 days 2009***	***61 to 90 Days 2009***	***More than 90 days 2009***	***Total 2009***
Loans to customers					
- Corporate loans	33,973	1,422	455	-	**35,850**
- Loans to individuals	146,296	9,321	4,886	15,759	**176,262**
Total	**180,270**	**10,743**	**5,341**	**15,759**	**212,112**

	Less than 30 days 2008	***31 to 60 days 2008***	***61 to 90 days 2008***	***More than 90 days 2008***	***Total 2008***
Loans to customers					
- Corporate loans	26,986	335	-	-	**27,321**
- Loans to individuals	116,207	7,404	2,690	12,518	**138,819**
Total	**143,193**	**7,739**	**2,690**	**12,518**	**166,140**

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

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

	2009	***2008***
Private companies	1,109,805	737,695
Individuals	532,074	566,570
	1,641,879	**1,304,265**

Impairment assessment

The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue by more than 90 days or there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract. The Bank addresses impairment assessment in two areas: individually assessed allowances and collectively assessed allowances.

Individually assessed allowances

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

Collectively assessed allowances

Allowances are assessed collectively for losses on loans to customers that are not individually significant (including credit cards, residential mortgages and unsecured consumer lending) and for individually significant loans where there is not yet objective evidence of individual impairment. Allowances are evaluated on each reporting date with each portfolio receiving a separate review.

The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is not yet objective evidence of the impairment in an individual assessment. Impairment losses are estimated by taking into consideration the following information: historical losses on the portfolio, current economic conditions, the appropriate delay between the time a loss is likely to have been uncured and the time it will be identified as requiring an individually assessed impairment allowance, and expected receipts and recoveries once impaired.

Local management is responsible for deciding the length of this period which can extend for as long as one year. The impairment allowance is then reviewed by credit management to ensure alignment with the Bank's overall policy.

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

Geographical concentration

The geographical concentration of the Bank's monetary assets and liabilities based on the information provided internally to key management and based on the accounting books and records maintained in accordance with UAS, is set out below:

	2009				***2008***			
	Ukraine	***OECD***	***CIS and other foreign banks***	***Total***	***Ukraine***	***OECD***	***CIS and other foreign banks***	***Total***
Assets:								
Cash and cash equivalents	229,949	442,951	32,900	705,800	257,075	486,112	15,573	758,760
Due from credit institutions	13,527	-	-	13,527	9,630	-	-	9,630
Loans to customers	1,215,348	-	19,205	1,234,553	1,125,928	-	-	1,125,928
Financial assets available-for-sale	43,500	-	-	43,500	118,261	-	-	118,261
Derivative financial asset	2,221	-	-	2,221	-			
Other assets	572	-	-	572	1,771	-	-	1,771
	1,505,117	**442,951**	**52,105**	**2,000,173**	**1,512,665**	**486,112**	**15,573**	**2,014,350**
Liabilities:								
Due to credit institutions	174,043	-	15	174,058	5,000	-	11,309	16,309
Derivative financial liability	2,140	-	-	2,140	122,168	-	-	122,168
Due to customers	570,930	1,080	9,506	581,516	508,068	11,504	27,118	546,690
Subordinated debt	33,653	-	-	33,653	34,810	-	-	34,810
Other liabilities	5,984	-	-	5,984	10,186	-	-	10,186
	786,750	**1,080**	**9,521**	**797,351**	**680,232**	**11,504**	**38,427**	**730,163**
Net position	**718,367**	**441,871**	**42,584**	**1,202,822**	**832,433**	**474,608**	**(22,854)**	**1,284,187**
Net commitments and contingencies	**-**	**-**	**-**	**-**	**(50)**	**-**	**-**	**(50)**

Liquidity risk and funding management

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations associated with its financial liabilities. To limit this risk, management has arranged diversified funding sources in addition to its core deposit base, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

The main liquidity risk factor is represented by the maturity gap in the assets and liabilities of the Bank.

The main principles of liquidity risk management are as follows:
- centralisation of liquidity risk management at the Head Office level;
- separate management of short-term and structural liquidity;
- diversification of funding sources;
- limitation of liquidity risk through establishment of limits;
- matching of assets and liabilities in terms of maturity;
- maintenance of an adequate liquidity buffer in the event of a liquidity deficit;
- adequate monitoring and control system.

In order to evaluate liquidity risk the Bank uses gap analysis, ratio analysis, scenario analysis (including stress-testing) and borrowed funds structure analysis. Liquidity risk is evaluated with respect to each currency.

The Assets and Liabilities Committee is generally responsible for development of the liquidity risk management strategy. Operational short-term liquidity (up to 90 days) risk management is exercised by the Treasury Division and Securities Division, ensuring compliance with short-term liquidity risk limits. The structural liquidity management decisions are taken by ALCO on the basis of the information prepared by the Risk Management Division.

Short-term liquidity risk management

In order to evaluate short-term liquidity risk, a gap analysis is prepared on a daily basis with respect to contractual maturity and currency. For maturities up to 14 days - a detailed daily payment schedule is used to determine a daily demand for additional financing; maturities greater than 14 days up to 90 days are grouped into several time categories (time buckets) for liquidity management purposes.

The Bank maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. The Bank considers the following assets to be liquid: cash on hand, correspondent accounts with the NBU and other banks and securities refinanced by the NBU. An adequate volume of liquid assets is determined based on stress-testing. Furthermore, the Bank has entered into facility agreements with several banks, which it may use in order to satisfy an unexpected demand for funds. In addition, the Bank maintains a cash deposit (obligatory reserve) with the NBU, the amount of which depends on the level of customer funds attracted.

In order to restrict short-term liquidity risk, the following ratios have been established for the Bank on a stand-alone basis:
- instant liquidity ratio, which is computed under the algorithm established by the NBU for the H4 ratio (cash on hand and balances on nostro accounts with banks/ balances on customers' current accounts);
- current liquidity ratio, which is computed under the algorithm established by the NBU for the H5 ratio (cash on hand, balances on nostro accounts with banks, banking metals, claims on banks maturing within with residual maturity of up to 31 days, bills and bonds with residual maturity of up to 31 days / balances on customers' current accounts, term deposits, debt obligations and commitments with residual maturity of up to 31 days);
- short-term liquidity ratio limit which is computed under the algorithm established by the NBU for the H6 ratio (vault cash, balances on nostro accounts with banks, banking metals, claims on banks with residual maturity of up to 1 year, bills and bonds with residual maturity of up to 1 year / balances on customers' current accounts, term deposits, debt obligations and commitments with residual maturity of up to 1 year).

Structural liquidity risk management

In order to evaluate structural liquidity risk, a gap analysis of assets and liabilities is prepared on a daily basis with respect to contractual maturity (greater than 91 days) and currency.

The Bank has set the following ratios in order to measure and limit its structural liquidity risk:
- ratio of term liabilities to total liabilities;
- ratio of amounts due to other credit institutions to total liabilities;
- ratio of the cumulative gap between monetary assets and liabilities to monetary assets.

Scenario analysis in liquidity risk management

The Bank regularly monitors the liquidity of the money market. 3 scenarios are analysed: usual market conditions; liquidity crisis of the Bank; liquidity crisis in the market. In the latter case, the Bank implements a preliminary developed action plan for maintaining liquidity under crisis conditions.

Additionally, the Bank develops stress-testing scenarios, which reflect unlikely but material adverse changes of factors affecting the business of the Bank.

The diversified structure of the Bank's obligations is achieved through permanent monitoring of the liabilities portfolio concentration by category of customers with the largest amounts of funds with the Bank (the total amount of funds due to the 5, 10 and 20 largest customers).

Assessment of the liquidity position

The adherence to internal limits set by the Bank is in line with the liquidity risk standards established by the National Bank of Ukraine. The liquidity position is assessed and managed by the Bank primarily on a standalone basis, based on certain liquidity ratios established by the NBU as described in the short-term liquidity risk management section above.

As at 31 December 2009, the liquidity position, assessed by certain liquidity ratios established by the NBU, was as follows:

	Normative	***2009, %***	***2008, %***
N4 "Instant Liquidity Ratio" (assets receivable or realisable within one day / liabilities repayable on demand)	not less than 20%	182%	677%
N5 "Current Liquidity Ratio" (assets receivable or realisable within 30 days / liabilities repayable within 30 days)	not less than 40%	110%	138%
N6 "Long-Term Liquidity Ratio" (assets receivable in more than one year / sum of capital and liabilities repayable in more than one year)	not less than 20%	102%	128%

Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Bank's financial liabilities at 31 December 2009 based on contractual undiscounted repayment obligations. Less than 3 months liabilities are those that due on the earliest date. However, the Bank expects that many customers will not demand repayment on the earliest date when the Bank could be required to make a respective repayment and the table does not reflect the expected cash flows calculated by the Bank on the basis of information on deposit repayment in previous period.

Financial liabilities 2009	***Less than 3 months***	***3 to 12 months***	***1 to 5 years***	***Over 5 years***	***Total***
Due to credit institutions	174,058	24,777	-	-	198,835
Derivative financial instruments					
- Contractual amounts payable	860,071	-	-	-	860,071
- Contractual amounts receivable	(860,152)	-	-	-	(860,152)
Due to customers	440,252	70,157	98,474	4,170	613,053
Subordinated debt	95	244	36,842	-	37,181
Other liabilities	1,938	-	-	-	1,938
Total undiscounted financial liabilities	**616,262**	**95,178**	**135,316**	**4,170**	**850,926**

Financial liabilities 2008	***Less than 3 months***	***3 to 12 months***	***1 to 5 years***	***Over 5 years***	***Total***
Due to credit institutions	5,007	11,817	-	-	16,824
Derivative financial instruments					
- Contractual amounts payable	856,640	178,570	-	-	1,035,210
- Contractual amounts receivable	(803,973)	(117,817)	-	-	(921,790)
Due to customers	446,788	87,207	35,650	1,065	570,710
Subordinated debt	105	321	36,322	-	36,748
Other liabilities	5,584	-	-	-	5,584
Total undiscounted financial liabilities	**510,151**	**160,098**	**71,972**	**1,065**	**743,286**

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

	Less than 3 months	***3 to 12 months***	***1 to 5 years***	***Over 5 years***	***Total***
2009	-	-	-	-	-
2008	446	-	-	-	446

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

In accordance with Ukrainian legislation, the Bank is obliged to repay deposits from individuals upon demand of a depositor. In the event that a term deposit is repaid upon demand of the depositor prior to maturity, interest on it is paid based on the interest rate for demand deposits, unless a different interest rate is specified in the agreement.

The maturity analysis does not reflect the historical stability of current accounts. Their liquidation has historically taken place over a longer period than indicated in the tables above. These balances are included in amounts due in less than three months in the tables above. Long-term loans are generally not available in Ukraine except for programmes set up by international financial institutions. However, in the Ukrainian marketplace, many short-term credits are granted with the expectation of renewing the loans at maturity. As such, the ultimate maturity of assets may be different from the analysis presented above.

Market risk – Non - trading

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Bank's income statement.

The sensitivity of the income statement is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities held at 31 December 2009.

Currency	***Increase in basis points 2009***	***Sensitivity of net interest income 2009***	***Increase in basis points 2008***	***Sensitivity of net interest income 2008***
US dollar	+50	(34)	+55	(216)

Currency	***Decrease in basis points 2009***	***Sensitivity of net interest income 2009***	***Decrease in basis points 2008***	***Sensitivity of net interest income 2008***
US dollar	-20	13	-55	216

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Management Board has set limits on positions by currency based on the NBU regulations. Positions are monitored on a daily basis.

The Bank has established the following limits to minimise its exposure to currency risk:

- total open currency position;
- total long open currency position;
- total short open currency position.

Compliance with the internal limits of the Bank is in line with the currency risk management requirements established by the NBU.

The tables below indicate the currencies to which the Bank had significant exposure at 31 December 2009 on its non-trading monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against the hryvnia, with all other variables held constant on the income statement. The effect on equity does not differ from the effect on the income statement. A negative amount in the table reflects a potential net reduction in income statement or equity, while a positive amount reflects a net potential increase.

Currency	*Increase in currency rate 2009*	*Effect on profit before income tax 2009*	*Increase in currency rate 2008*	*Effect on profit before income tax 2008*
US dollar	25.10%	(46,687)	30.10%	(3,944)
Euro	31.10%	28,751	39.70%	(642)
Russian ruble	34.00%	20,563	35.70%	1,596

Currency	*Decrease in currency rate 2009*	*Effect on profit before income tax 2009*	*Decrease in currency rate 2008*	*Effect on profit before income tax 2008*
US dollar	25.10%	46,687	-30.10%	3,944
Euro	31.10%	(28,751)	-39.70%	642
Russina ruble	34.00%	(20,563)	-35.70%	(1,596)

Operational risk

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

24. Fair values of financial instruments

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

	2009			*2008*		
	Carrying value	*Fair value*	*Unrecognised gain/(loss)*	*Carrying value*	*Fair value*	*Unrecognised gain/(loss)*
Financial assets						
Cash and cash equivalents	705,800	705,800	-	758,760	758,760	-
Amounts due from credit institutions	13,527	13,527	-	9,630	9,537	(93)
Loans to customers	1,234,553	1,234,553	-	1,125,928	1,115,260	(10,668)
Financial liabilities						
Amounts due to credit institutions	174,059	174,059	-	16,309	16,045	264
Amounts due to customers	581,516	581,516	-	546,690	544,849	1,841
Subordinated debt	33,653	33,653	-	34,810	34,810	-
Total unrecognised change in unrealised fair value			**-**			**(8,656)**

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

Assets for which fair value approximates carrying value

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

Fixed and variable rate financial instruments

For quoted debt instruments, the fair values are determined based on quoted market prices. The fair values of unquoted debt instruments are estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

Financial instruments reported at fair value

The Bank applies the following hierarchal structure of valuation methods for measurement of and disclosure of information about fair value of financial assets that includes variations of fair value due to certain alternative assumptions used in the evaluation model:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;.
- Level 2: techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The following table presents evaluation methods used for measurement of fair value of financial instruments at fair value through profit or loss or other comprehensive income:

31 December 2009	***Level 1***	***Level 2***	***Level 3***	***Total***
Financial assets				
Financial assets available-for-sale	36,453	1,078	5,969	**43,5**
Derivative financial assets	-	2,221	-	**2,2**
Financial liabilities				
Derivative financial liabilities	-	2,140	-	**2,1**

31 December 2008	***Level 1***	***Level 2***	***Level 3***	***Total***
Financial assets				
Financial assets available-for-sale	31,420	81,071	5,770	**118,261**
Financial liabilities				
Derivative financial liabilities	-	122,168	-	**122,168**

Financial instruments recorded at fair value

The following is a description of the determination of fair value for financial instruments which are recorded at fair value using valuation techniques. These incorporate the Bank's estimate of assumptions that a market participant would make when valuing the instruments.

Investment securities designated at fair value through profit or loss and available-for-sale investment securities

Securities designated at fair value through profit or loss and investment securities available-for-sale valued using a valuation technique or pricing models primarily consist of unquoted equity and debt securities. These securities are valued using models which incorporate only data, which is not based on the market observations. The non-observable inputs to the models include assumptions regarding the future financial performance of the investee, its risk profile, and economic assumptions regarding the industry and geographical jurisdiction in which the investee operates, level of enterprise goodwill, its management and founders/ shareholders.

Movements in level 3 financial instruments measured at fair value

The following table shows a reconciliation of the opening and closing amount of Level 3 financial assets and liabilities which are recorded at fair value:

		Total gain/ (loss) recorded in				
	At 1 January 2009	***Profit or loss***	***Other comprehensive income***	***Purchases***	***Sales***	***As 31 December 2009***
Financial assets available-for-sale	5,770	(17,483)	-	43,520	(25,838)	5,969

Impact on fair value of level 3 financial instruments measured at fair value of changes to key assumptions

The following table shows the impact on the fair value of level 3 instruments of using reasonably possible alternative assumptions:

	31 December 2009	
	Carrying value	*Influence of possible alternative assumptions*
Financial assets available-for-sale	5,969	(5,969)

25. Maturity analysis of assets and liabilities

The table below shows an analysis of assets and liabilities according to when they are expected to be recovered or settled. See Note 22 "Risk management" for the Bank's contractual undiscounted repayment obligations.

	2009			*2008*		
	Within one year	*More than one year*	*Total*	*Within one year*	*More than one year*	*Total*
Assets						
Cash and cash equivalents	705,800	-	705,800	758,760	-	758,76
Amounts due from credit institutions	13,527	-	13,527	9,607	23	9,63
Loans to customers	800,012	434,541	1,234,553	388,507	737,421	1,125,92
Financial assets available-for-sale	43,000	500	43,500	92,922	25,339	118,26
Investment property	-	8,067	8,067	-	-	-
Property and equipment	-	105,542	105,542	-	122,219	122,21
Derivative financial asset	2,221	-	2,221	-	-	-
Intangible assets	-	1,731	1,731	-	2,562	2,56
Current income tax assets	417	-	417	357	-	357
Deferred income tax assets	11,699	7,799	19,498	12,079	8,053	20,13
Other assets	572	22,207	22,779	1,771	6,039	7,81
Total	**1,577,248**	**580,387**	**2,157,635**	**1,264,003**	**901,656**	**2,165,65**
Liabilities						
Amounts due to credit institutions	174,059	-	174,059	5,007	11,302	16,30
Derivative financial liabilities	2,140	-	2,140	122,168	-	122,16
Amounts due to customers	574,319	6,998	581,317	519,870	26,820	546,69
Subordinated debt	339	33,314	33,653	421	34,389	34,81
Other liabilities	1,575	4,409	5,984	5,584	4,602	10,18
Total	**752,432**	**44,721**	**797,153**	**653,050**	**77,113**	**730,16**
Net	**824,816**	**535,666**	**1,360,482**	**610,953**	**824,543**	**1,435,49**

The tables above do not reflect the expected cash flows estimated by the Bank based on information relating to deposit repayment history in previous periods. The table shows repayments based on contractual settlement dates. However, the Bank expects that many customers will not demand repayment on the earliest date when the Bank could be required to make a respective repayment. The maturity analysis therefore does not reflect the historical stability of current accounts; their liquidation has historically taken place over a longer period than indicated in the tables above.

26. Related party transactions

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

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

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

	2009			*2008*		
	Shareholders and entities with significant influence	***Entities under common control***	***Key manage-ment personnel***	***Shareholders and entities with significant influence***	***Entities under common control***	***Key manage-ment personnel***
Loans outstanding at 1 January	-	18,160	1,789	-	-	1,192
Net increase of loans during the year	-	2,218	(1,789)		18,160	597
Loans outstanding at 31 December	**-**	**20,378**	**-**	**-**	**18,160**	**1,789**
Interest income on loans	7,919	1,153	500	-	363	469
Amounts due to credit institutions as at 1 January	11,302	7	-	1,404	-	-
Net increase/(decrease) of amounts due to credit institution during the year	(11,302)	(7)	-	9,898	7	
Amounts due to credit institutions as at 31 December	**-**	**-**	**-**	**11,302**	**7**	**-**
Amounts due to customers as at 1 January	18,558	7,928	8,292	113,443	47,399	52,000
Net (decrease)/ increase of amounts due to customers during the year	(17,950)	(3,039)	(6,243)	(94,885)	(39,471)	(43,708)
Amounts due to customers as at 31 December	**608**	**4,889**	**2,049**	**18,558**	**7,928**	**8,292**
Subordinated debt as at 31 December	33,653	-	-	34,810	-	-
Interest expense	618	236	247	3,860	1,458	2,081
Fee and commission income	47	12	20	-	357	-

Compensation of key management personnel was comprised of the following:

	2009	*2008*
Salaries and other short-term benefits	7,505	8,448
Social security costs	225	614
Total key management compensation	**7,731**	**9,062**

27. Capital adequacy

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

During 2009, the Bank complied in full with all its externally imposed capital requirements.

The primary objectives of the Bank's capital management strategy are to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholders' value.

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

amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. No changes were made in the objectives, policies and processes from the previous years.

NBU capital adequacy ratio

The NBU requires banks to maintain a capital adequacy ratio of 10% of risk-weighted assets, computed based on UAS. As at 31 December 2009, the Bank's capital adequacy ratio on this basis was as follows:

	2009	*2008*
Main capital	1,511,479	1,505,499
Additional capital	14,446	56,602
Total capital	**1,525,925**	**1,562,101**
Risk weighted assets	**1,686,233**	**1,997,716**
Capital adequacy ratio	90.49%	78.19%

Capital adequacy ratio under Basel Capital Accord 1988

The Bank's capital adequacy ratio, computed in accordance with the Basel Capital Accord 1988, with subsequent amendments including the amendment to incorporate market risks, as at 31 December 2009 and 2008, comprised:

	2009	*2008*
Tier 1 capital	1,349,508	1,427,269
Tier 2 capital	19,277	15,421
Total capital	**1,368,785**	**1,442,690**
Risk weighted assets	**1,386,233**	**1,424,727**
Tier 1 capital adequacy ratio	97.35%	101.26%
Total capital adequacy ratio	98.74%	100.18%

28. Subsequent events

In January 2010, the registered legal form of the Bank was changed to Public Joint Stock Company and its legal address was changed to 75 Zhilyanskaya St., Kyiv.