Public stock company
Joint-Stock Commercial Industrial & Investment Bank

IFRS Financial Statements

Year ended 31 December 2010
Together with Independent Auditors' Report

Contents

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INDEPENDEDNT AUDITORS' REPORT

To the Shareholders and Board of Directors of Public stock company "Joint-Stock Commercial Industrial & Investment Bank"

We have audited the accompanying financial statements of Public stock company "Joint-Stock Commercial Industrial & Investment Bank" ("the Bank"), which comprise the statement of financial position as at 31 December 2010, 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 information.

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, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Basis for qualified opinion

1. As discussed in Note 3 "Summary of accounting policies" to the financial statements, the Bank's accounting policy is to carry buildings at revalued amounts. IAS 16 "Property, Plant and Equipment" requires consistent application of such policy for an entire class of property, plant and equipment. As at 31 December 2008, the revaluation was not performed for the whole buildings category. We were unable to determine the effect of this departure from International Financial Reporting Standards on the Bank's financial statements. The carrying value of the assets that were not revalued as at 31 December 2008 affects the determination of the depreciation charge for 2009 and movements in the revaluation reserve, which are recognised in the statement of comprehensive income for 2009.

2. In the presence of impairment indicators as at 31 December 2008, the Bank did not perform an impairment test of its property, equipment and intangible assets as required by IAS 36 "Impairment of Assets". We were unable to determine the effect of this departure from International Financial Reporting Standards, on the Bank's financial statements. Any such impairment, if taken place, would affect the carrying values of property, equipment and intangible assets as at 31 December 2008 and consequently the depreciation and impairment charges for 2009.

Qualified opinion

In our opinion, except for the effects on the financial statements of the matters described in the "Basis for qualified opinion" paragraph, the financial statements present fairly, in all material respects, the financial position of Public stock company "Joint-Stock Commercial Industrial & Investment Bank" as at 31 December 2010, 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

30 May 2011

Statement of financial position

As at 31 December 2010

(Thousands of Ukrainian hryvnia)

	Notes	*2010*	*2009*
Assets			
Cash and cash equivalents	5	5,474,983	5,560,698
Precious metals		2,977	6,634
Amounts due from banks	6	234,336	290,681
Derivative financial assets	7	4,407	2,930
Loans to customers	8	22,597,548	18,711,568
Assets held for sale		79	238
Investment securities:	9		
- available-for-sale		1,262,042	539,689
- held-to-maturity		-	-
Investments in associates	10	41	43
Property and equipment	11	2,820,638	2,880,622
Intangible assets	12	71,570	12,492
Investment property	13	139,606	35,285
Deferred income tax assets	14	295,860	-
Current income tax assets		81,453	88,197
Other assets	16	234,614	156,953
Total assets		**33,220,154**	**28,286,030**
Liabilities			
Amounts due to the National Bank of Ukraine	17	100,000	2,300,000
Amounts due to banks	18	6,675,714	5,911,831
Derivative financial liabilities	7	1,134	1,564
Amounts due to customers	19	19,517,727	14,554,573
Deferred income tax liabilities	14	-	339,425
Provisions	15	33,704	204,057
Other liabilities	16	222,203	149,631
Subordinated loan	20	2,212,261	-
Total liabilities		**28,762,743**	**23,461,081**
Equity			
Share capital		6,231,504	6,231,504
Additional paid-in capital		236,581	5,300
Treasury shares	21	(10,921)	-
Accumulated deficit		(4,028,402)	(2,911,302)
Investments available-for-sale revaluation reserve	21	50,594	2,862
Property revaluation reserve	21	1,978,055	1,496,585
Total equity		**4,457,411**	**4,824,949**
Total equity and liabilities		**33,220,154**	**28,286,030**

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

V.V.Bashkirov — Chairman of the Management Board

G.V.Korniyuk — Chief Accountant – Director of the Accounting Department

30 May 2011

The accompanying notes on pages 6 to 45 are an integral part of these financial statements.

Income statement

for the year ended 31 December 2010

(Thousands of Ukrainian hryvnia)

	Notes	2010	2009
Interest income			
Loans to customers		3,870,197	3,822,675
Amounts due from banks		15,025	10,874
Investment securities		70,386	34,307
		3,955,608	**3,867,856**
Interest expense			
Amounts due to the NBU		(107,178)	(627,346)
Amounts due to customers		(1,878,996)	(1,615,667)
Amounts due to banks		(384,087)	(531,834)
Subordinated loan		(56,901)	-
Other		-	(6,313)
		(2,427,162)	**(2,781,160)**
Net interest income		**1,528,446**	**1,086 696**
Allowance for loan impairment	6, 8	(1,614,000)	(3,231,713)
Net interest expenses after allowance for loan impairment		**(85,554)**	**(2,145,017)**
Fee and commission income	23	328,267	314,239
Fee and commission expenses	23	(40,515)	(28,305)
Net gains from derivative financial instruments		34,766	5,527
Net losses from investment securities available-for-sale		(89,867)	(73)
Net (losses) /gains from foreign currencies and precious metals:			
- dealing		164,044	60,480
- translation differences		(62,783)	(33,058)
Share of profit/(loss) of associates	10	(2)	3
Losses on initial recognition of financial instruments	8	(214,126)	(27,748)
Other income	24	37,722	28,029
Non-interest income		**157,506**	**319,094**
Personnel expenses	25	(664,790)	(684,929)
Depreciation and amortisation	11, 12	(116,285)	(135,722)
Other operating expenses	25	(592,001)	(438,201)
Other impairment and provisions (charge)/reversal	15	14,299	(159,450)
Non-interest expense		**(1,358,777)**	**(1,418,302)**
Loss before income tax benefit		**(1,286,825)**	**(3,244,225)**
Income tax benefit	14	102,378	48,152
Loss for the year		**(1,184,447)**	**(3,196,073)**

The accompanying notes on pages 6 to 45 are an integral part of these financial statements.

Statement of comprehensive income

For the year ended 31 December 2010

(Thousands of Ukrainian hryvnia)

	Note	2010	2009
Loss for the year		**(1,184,447)**	**(3,196,073)**
Other comprehensive income			
Unrealised gains/(losses) on investment securities available-for-sale	21	(26,225)	5,619
Realised losses on investment securities available-for-sale reclassified to the income statement	21	89,867	73
Revaluation of buildings	21	-	(69,701)
Reversal of income tax relating to previously recognised components of other comprehensive income		548,817	-
Income tax relating to components of other comprehensive income	14, 21	(15,910)	16,002
Other comprehensive income/ (loss) for the year, net of tax		**596,549**	**(48,007)**
Total comprehensive loss for the year		**(587,898)**	**(3,244,080)**

The accompanying notes on pages 6 to 45 are an integral part of these financial statements.

Statement of changes in equity

For the year ended 31 December 2010

(Thousands of Ukrainian hryvnia)

	Share capital	*Additional paid-in capital*	*Treasury shares*	*(Accumulate deficit)/ retained earnings*	*Investments securities available-for-sale fair value reserve*	*Property revaluation reserve*	*Total equity*
31 December 2008	**2,232,964**	**-**	**-**	**284,723**	**(1,407)**	**1,548,909**	**4,065,189**
Total comprehensive income for the year	-	-	-	(3,196,073)	4,269	(52,276)	(3,244,080)
Revaluation reserve relating to assets sold (Note 21)	-	-	-	48	-	(48)	-
Issue of share capital (Note 21)	3,998,540	5,300	-	-	-	-	4,003,840
31 December 2009	**6,231,504**	**5,300**	**-**	**(2,911,302)**	**2,862**	**1,496,585**	**4,824,949**
Total comprehensive income for the year	-	-	-	(1,184,447)	47,732	548,817	(587,898)
Other contributed capital (Note 20)	-	231,281	-	-	-	-	231,281
Revaluation reserve relating to assets transferred to investment property and sold (Note 21)	-	-	-	67,347	-	(67,347)	-
Purchase of shares	-	-	(10,921)	-	-	-	(10,921)
31 December 2010	**6,231,504**	**236,581**	**(10,921)**	**(4,028,402)**	**50,594**	**1,978,055**	**4,457,411**

The accompanying notes on pages 6 to 45 are an integral part of these financial statements.

Statement of cash flows

For the year ended 31 December 2010

(Thousands of Ukrainian hryvnia)

	Notes	*2010*	*2009*
Cash flows from operating activities			
Interest received		3,703,602	3,136,770
Interest paid		(2,883,633)	(2,431,747)
Fees and commissions received		335,428	302,791
Fees and commissions paid		(40,515)	(28,305)
Gains less losses from derivatives financial instruments		32,860	4,161
Realised gains less losses from dealing in foreign currencies		164,044	72,644
Other income received		36,747	1,966
Personnel expenses paid		(666,758)	(655,872)
Other operating expenses paid		(492,466)	(448,758)
Cash flows (used in)/from operating activities before changes in operating assets and liabilities		**189,309**	**(46,350)**
Net (increase)/decrease in operating assets			
Precious metals		5,035	4,280
Amounts due from other banks		60,915	(148,843)
Loans to customers		(6,043,682)	954,076
Other assets		(117,222)	(108,052)
Net increase /(decrease) in operating liabilities			
Amounts due to the NBU		(2,200,000)	(4,300,000)
Amounts due to banks		19,558	(234,125)
Amounts due to credit institutions		-	(261,307)
Amounts due to customers		5,135,200	(659,350)
Other liabilities		62,614	49,407
Net cash flows used in operating activities before income tax		**(2,888,273)**	**(4,750,264)**
Income tax paid		-	-
Net cash used in operating activities		**(2,888,273)**	**(4,750,264)**
Cash flows from investing activities			
Proceeds from sale of associates		-	2,000
Purchase of investment securities		(1,247,558)	(1,090,335)
Proceeds from sale and redemption of investment securities		690,438	713,493
Purchase of intangible assets and property and equipment		(237,656)	(87,214)
Proceeds from sale of property and equipment		8,806	10,325
Proceeds from sale of investment property		5,604	-
Proceeds from sale of assets held for sale		158	-
Net cash used in investing activities		**(780,208)**	**(451,731)**
Cash flows from financing activities			
Long-term interbank financing received		1,287,278	7,700,000
Long-term interbank financing repaid		-	(2,669,975)
Proceeds from issue of share capital		-	4,003,840
Subordinated loan received		2,367,000	-
Purchase of treasury shares		(10,921)	-
Dividends paid		(75)	(61)
Net cash from financing activities		**3,643,282**	**9,033,804**
Effect of exchange rates changes on cash and cash equivalents		(60,516)	46,769
Net increase/(decrease) in cash and cash equivalents		**(85,715)**	**3,878,578**
Cash and cash equivalents, 1 January		**5,560,698**	**1,682,120**
Cash and cash equivalents, 31 December	**5**	**5,474,983**	**5,560,698**

The accompanying notes on pages 6 to 45 are an integral part of these financial statements.

(Thousands of Ukrainian hryvnia, unless otherwise indicated)

1. Principal activities

Public stock company “Joint-Stock Commercial Industrial & Investment Bank” (the "Bank") was incorporated in Ukraine on 26 August 1992. The Bank is regulated by the National Bank of Ukraine (the "NBU") and conducts its business under banking license # 1 dated 31 October 2001.

The Bank’s principal activity is originating deposits, granting loans and guarantees to its corporate clients, trading in foreign currencies, securities, transferring of payments in Ukraine and abroad, exchanging currencies and providing other banking services to its commercial and retail customers. Its main office is in Kyiv, and it has 112 branches in Ukraine (31 December 2009 – 144 branches).

The Bank is the participant of the Guarantee Fund of private persons' deposits (Certificate of the Fund Participant # 116 dated 2 September 1999). The fund guarantees to compensate every depositor of the Bank with the sum of their deposit (including accrued interest) should the Bank be unable to payback the funds. The amount of guaranteed funds cannot exceed the equivalent of UAH 150,000 for deposits opened with the Bank.

As at 31 December, the following shareholders owned more than 5% of the Bank’s outstanding shares.

Shareholder	*2010, %*	*2009, %*
State Corporation “Bank for Development and Foreign Economic Affairs (Vnesheconombank)”	93.84	93.84
LLC “Signus”	3.04	3.04
Other	3.12	3.12
Total	**100.0**	**100.0**

State Corporation “Bank for Development and Foreign Economic Affairs (Vnesheconombank)” is the ultimate parent of the Bank. As of 31 December 2010, members the Management Board and Directors owned 93 shares (0.00%) (31 December 2009 – 93 or 0.00%) of the Bank.

The Bank is ultimately controlled by Russian Federation Government.

The Bank’s registered address and place of business is:
12 Provulok Shevchenka,
Kyiv, 01001,
Ukraine

These financial statements presented in thousands of Ukrainian hryvnia, which is the Bank’s functional and presentation currency.

2. Basis of preparation

General

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

The Bank is required to maintain its records and prepare its financial statements for regulatory purposes in Ukrainian Hryvnia in accordance with Ukrainian accounting and banking legislation and related instructions (“UAL”). These financial statements are based on the Bank’s UAL books and records, as adjusted and reclassified in order to comply with IFRS. These adjustments include certain reclassifications to reflect the economic substance of underlying transactions, including reclassifications of certain assets and liabilities, income and expenses to appropriate financial statement captions.

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

Inflation accounting

The Ukrainian economy was considered hyperinflationary until 31 December 2000. As such, the Bank applied IAS 29 “Financial Reporting 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.

(Thousands of Ukrainian hryvnia, unless otherwise indicated)

Reclassifications

The following reclassifications have been made to 2009 balances to conform to the 2010 presentation.

Financial statements line item (as previously reported / as adjusted)	*As previously reported*	*Reclassification*	*As adjusted*
Income statement for the year ended 31 December 2009			
Fee and commission income	455,650	(141,411)	314,239
Fee and commission expenses	(32,980)	4,675	(28,305)
Net (losses) /gains from foreign currencies and precious metals: -dealing	(76,256)	136,736	60,480

3. Summary of accounting policies

Changes in accounting policies

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

IAS 24 “Related party disclosures” (Revised)
The revised IAS 24, issued in November 2009, simplifies the disclosure requirements for government-related entities and clarifies the definition of a related party. Previously, an entity controlled or significantly influenced by a government was required to disclose information about all transactions with other entities controlled or significantly influenced by the same government. The revised standard requires disclosure about these transactions only if they are individually or collectively significant. The revised IAS 24 is effective for annual periods beginning on or after 1 January 2011, with earlier application permitted. The Bank has decided to early adopt the revised IAS 24 from 1 January 2010.

Amendment to IAS 39 “Financial Instruments: recognition and measurement” – Eligible Hedged Items
The amendment to IAS 39 was issued in August 2008, and became 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. The amendment did not 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 became 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 impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results. Revised IAS 27 requires that a change in the ownership interest of a subsidiary is accounted for as an equity transaction. Therefore, such a change has no impact on goodwill, nor it gives 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 are applied prospectively.

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

Improvements to IFRSs
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” had no impact on the accounting policies, financial position or performance of the Bank, except the following amendments resulting in changes to accounting policies, as described below.

(Thousands of Ukrainian hryvnia, unless otherwise indicated)

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

Investments in associates

Associates are entities in which the Bank generally has between 20% and 50% of the voting rights, or is otherwise able to exercise significant influence, but which it does not control or jointly control. Investments in associates are accounted for under the equity method and are initially recognised at cost, including goodwill. Subsequent changes in the carrying value reflect the post-acquisition changes in the Bank's share of net assets of the associate. The Bank's share of its associates' profits or losses is recognised in the income statement, and its share of movements in reserves is recognised in other comprehensive income. However, when the Bank's share of losses in an associate equals or exceeds its interest in the associate, the Bank does not recognise further losses, unless the Bank is obliged to make further payments to, or on behalf of, the associate.

Unrealised gains on transactions between the Bank and its associates are eliminated to the extent of the Bank's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Financial assets

Initial recognition

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

Date of recognition

All regular way purchases and sales of financial assets are recognised on the settlement date i.e. the date that an asset is delivered to or by the Bank. 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.

'Day 1' profit

Where the transaction price in a non-active market is different to the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets, the Bank immediately recognises the difference between the transaction price and fair value (a 'Day 1' profit) in the income statement. In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognised in the income statement when the inputs become observable, or when the instrument is derecognised.

Financial assets at fair value through profit or loss

Financial assets classified as held for trading are included in the category 'financial assets at fair value through profit or loss'. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives are also classified as held for trading unless they are designated and effective hedging instruments. Gains or losses on financial assets held for trading are recognised in the income statement.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Bank has the positive intention and ability to hold them to maturity. Investments intended to be held for an

(Thousands of Ukrainian hryvnia, unless otherwise indicated)

undefined period are not included in this classification. Held-to-maturity investments are subsequently measured at amortised cost. Gains and losses are recognised in the income statement when the investments are impaired, as well as through the amortisation process.

Loans and receivables

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

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. 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 reclassified to the income statement. However, interest calculated using the effective interest method is recognised in the income statement.

Determination of fair value

The fair value for financial instruments traded in active market at the 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, options 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. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the statement of financial position.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, amounts due from the NBU (other than restricted balances), 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 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 foreign currencies and precious metals.

Repurchase and reverse repurchase agreements and securities lending

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

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

(Thousands of Ukrainian hryvnia, unless otherwise indicated)

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 and capital markets. 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 derivative financial instruments.

Derivatives embedded in other financial instruments are treated as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contract, and the host contract is not itself held for trading or designated at fair value through profit or loss. The embedded derivatives separated from the host are carried at fair value in the trading portfolio with changes in fair value recognised in the income statement.

Promissory notes

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

Borrowings

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

Any gain or loss on initial recognition of loans received from shareholders is recognised as additional paid-in capital in equity.

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

Operating leases

Leases are classified as operating leases whenever the terms of the lease leave substantially all the risks and rewards of ownership with the lessor. Rental payments under operating leases are recognised on a straight-line basis over the term of the relevant lease and included into operating expenses.

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

Amounts due from credit institutions and loans to customers

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

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

Held-to-maturity financial investments

For held-to-maturity investments the Bank assesses individually whether there is objective evidence of impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. The carrying amount of the asset is reduced and the amount of the loss is recognised in the income statement.

If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognised, any amounts formerly charged are credited to the income statement.

Available-for-sale financial investments

For available-for-sale financial investments, 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 cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement – is reclassified from other comprehensive income to the income statement. Impairment losses on equity investments are not reversed through the income statement; increases in their fair value after impairment are recognised 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.

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The accounting treatment of such restructuring is as follows:

- If the currency of the loan has been changed the old loan is derecognised and the new loan is recognised.
- If the loan restructuring is not caused by the financial difficulties of the borrower the Bank uses the same approach as for financial liabilities described below.
- If the loan restructuring is due to the financial difficulties of the borrower and the loan is impaired after restructuring, the Bank recognizes the difference between the present value of the new cash flows discounted using the original effective interest rate and the carrying amount before restructuring in the provision charges for the period. In case loan is not impaired after restructuring the Bank recalculates the effective interest rate.

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 effective interest rate.

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 expense is calculated in accordance with the regulations of Ukraine and based on a taxable profit for the year. Taxable profit differs from net profit as reported in the statement of operations because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

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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 reporting date.

Deferred income tax is provided on temporary differences arising on investments in associates, 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.

Deferred income tax assets and deferred income tax liabilities are offset and reported net on the statement of financial position if:

- The Bank has a legally enforceable right to set off current income tax assets against current income tax liabilities; and
- Deferred income tax assets and the deferred income tax liabilities relate to income taxes levied by the same taxation authority on the same taxable entity.

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

Property and equipment

Property, equipment and intangible assets (except buildings), acquired after 1 January 2001 are recognised at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and any accumulated impairment. Such cost includes the cost of replacing part of an item of equipment when that cost is incurred and if the recognition criteria are met.

Property, equipment and intangible assets (except buildings), acquired before 1 January 2001 are carried at historical cost restated for inflation less accumulated depreciation and amortization and any accumulated impairment.

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

Subsequent to initial recognition at cost, buildings, which are owned by the Bank, are measured at 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.

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. Any revaluation surplus is credited to the revaluation reserve for property and equipment included in 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 for property and equipment.

Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

Depreciation on assets under construction and those not placed in service commences from the date the assets are ready for their intended use. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

	Years
Buildings	25-60
Furniture and equipment	2-10
Computers	3-5
Motor vehicles	5-7

Leasehold improvements are amortised over the rent period. Expenses related to repairs and renewals are charged when incurred and included in operating expenses unless they qualify for capitalisation at the time when they occur.
The asset’s residual values, useful lives and methods are reviewed, and adjusted as appropriate, at each financial year-end.

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

Intangible assets

Intangible assets include computer software and licenses. 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. Intangible assets are amortised over the useful economic lives of 2 to 5 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 indefinite useful lives are reviewed at least at each financial year-end.

Investment property

Investment property is property, which is held by and not occupied by the Bank, to earn rental income or for capital appreciation. Investment property is initially recognised at cost and subsequently measured at fair value, which reflects market conditions at the statement of financial position date. Gains and losses resulting from changes in fair value of investment property are recorded in the income statement in the year in which they arise.

Assets classified as held for sale

The Bank classifies a non-current asset (or a disposal group) as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. For this to be the case the non-current asset (or disposal group) must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets (or disposal groups) and its sale must be highly probable.

The sale qualifies as highly probable if the Bank’s management is committed to a plan to sell the non-current asset (or disposal group) and an active program to locate a buyer and complete the plan must have been initiated. Further, the non-current asset (or disposal group) must have been actively marketed for a sale at price that is reasonable in relation to its current fair value and in addition the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification of the non-current asset (or disposal group) as held for sale.

The Bank measures an asset (or disposal group) classified as held for sale at the lower of its carrying amount and fair value less costs to sell. The Bank recognises an impairment loss for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell if events or changes in circumstance indicate that their carrying amount may be impaired.

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 employee benefit obligations

In accordance with the requirements of the Ukrainian legislation, the Bank withholds amounts of pension contributions from employee salaries and pays them to the pension fund of Ukraine. In addition, the pension system provides for calculation of current payments by the employer as a percentage of current total disbursements to staff. The expense is charged in the period the related salaries are earned. Upon retirement, all retirement benefit payments are made by the State pension fund of Ukraine. The Bank does not have any pension arrangements separate from the State pension system of Ukraine that requires pension contributions from employees salaries calculated as a percentage of current total disbursements to staff. In addition, the Bank has no post-retirement benefits or other significant compensated benefits requiring accrual.

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Share capital

Share capital

Contributions to share capital made before 1 January 2001 are recognised at their cost restated for inflation. Contributions to share capital made after 1 January 2001 are recognised at cost. 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 the Bank’s 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.

Dividends

Dividends are recognised as a liability and deducted from equity at the reporting date only if they are declared before or on the reporting date. Dividends are disclosed when they are proposed before the reporting date or proposed or declared after the reporting date but before the financial statements are authorised for issue.

Fiduciary assets

Assets held in a fiduciary capacity are not reported in the financial statements, as they are not the assets of the Bank.

Segment reporting

The Bank continues development of its managerial segment reporting system. Consequently, Management Board is not assessing the performance or making decisions based on segment information. Therefore no segment disclosure is provided in these financial statements.

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 statement of financial position but disclosed when an inflow of economic benefits is probable.

Recognition of income and expenses

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 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.

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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.

Dividend income

Revenue is recognised when the Bank’s right to receive the payment is established.

Foreign currency translation

Transactions in foreign currencies are initially recorded in the Ukrainian Hryvnia, converted at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the 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 exchange rates at year-end used by the Bank in the preparation of the financial statements are as follows:

	31 December 2010	**31 December 2009**
UAH/1 US dollar	7.961700	7.985000
UAH/1 euro	10.573138	11.448893

Future changes in accounting policies

Standards and interpretations issued but not yet effective

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.

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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. The first phase of IFRS 9 introduces new requirements relating to the 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. Further, in October 2010, the IASB added to IFRS 9 the requirements for classifying and measuring financial liabilities. Most of the requirements were carried forward unchanged from IAS 39. However, some changes were made to the fair value option for financial liabilities to address the problem of own credit risk. The Bank is currently evaluating the impact of the adoption of new Standard and is considering the initial application date.

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 IFRSs 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 IFRSs

In May 2010, the IASB issued the third 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 2011. There are separate transitional provisions for each standard. Amendments included in May 2010 “Improvements to IFRS” will have impact on the accounting policies, financial position or performance of the Bank, as described below.

- IFRS 3 Business Combinations was amended (i) to require measurement at fair value (unless another measurement basis is required by other IFRS standards) of non-controlling interests that are not a present ownership interest or do not entitle the holder to a proportionate share of net assets in the event of liquidation, (ii) to provide guidance on acquiree’s share-based payment arrangements that were not replaced or were voluntarily replaced as a result of a business combination and (iii) to clarify that the contingent consideration from business combinations that occurred before the effective date of the revised IFRS 3 (issued in January 2008) will be accounted for in accordance with the guidance in the previous version of IFRS 3.
- IFRS 7 Financial instruments: Disclosures; introduces the amendments to quantitative and credit risk disclosures. The additional requirements are expected to have minor impact as information is expected to be readily available.
- IAS 34 Interim Financial Reporting: adds disclosure requirements about the circumstances affecting fair values and classification of financial instruments, about transfers of financial instruments between levels of the fair value hierarchy, changes in classification of financial assets and changes in contingent liabilities and assets. Additional disclosures required will be introduced in interim financial statements of the Bank.
- Amendments to IFRS 1, IAS 1, IAS 27 and IFRIC 13 will have no impact on the accounting policies, financial position or performance of the Bank.

4. Significant accounting judgments and estimates

Judgments

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

Recognition of financial instruments

Management applies judgement to determine whether financial assets and financial liabilities should be recognised in a transaction where the counterparty for both asset and liability is the same. No asset or liability is recognised in the statement of financial position where the arrangement is in the same currency, for the same amount and with the same maturity, unless there is a substantial business purpose for such an arrangement.

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Gains and losses on initial recognition of financial instruments

Management applies judgment to determine whether gains and losses should be recorded on initial recognition of financial assets and liabilities in a transaction where the counterparty is not a related party of the Bank. The basis for judgment is the level of prevailing market interest rates for transactions with similar terms, effective interest rate analysis, credit risk of the counterparty and specific terms of particular transaction.

Estimation uncertainty

In the process of applying the Banks’ accounting policies, management has used its judgments and made estimates in determining the amounts recognised in the financial statements. The most significant use of judgments and estimates are as follows:

Going concern

The Bank’s management has made an assessment of the Bank’s ability to continue as a going concern and is satisfied that the Bank has the resources to continue in business for the foreseeable future. Furthermore, - management is not aware of any material uncertainties that may cast significant doubt upon the Bank’s ability to continue as a going concern. Therefore, the financial statements continue to be prepared on a going concern basis.

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the statement of financial position 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 judgment is required in establishing fair values.

Allowance for loan impairment

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 land and buildings

Land and building of the Bank are subject to revaluation on a regular basis. Such revaluations are based on the results of the work of independent valuers. The basis for the valuation is the sales comparison approach. When performing the revaluation certain judgements and estimates are applied by the valuers in order to determine which comparable premises should be used in the sales comparison approach.

Deferred tax asset

Deferred tax assets are recognised in respect of tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits, together with future tax planning strategies.

5. Cash and cash equivalents

Cash and cash equivalents comprise:

	2010	*2009*
Current accounts with the NBU	1,131,925	355,373
Cash on hand	1,125,518	991,937
Overnight deposits	821,680	1,543,242
Current accounts with other banks	473,219	401,177
Time deposits with banks up to 90 days	1,922,641	2,268,969
Cash and cash equivalents	**5,474,983**	**5,560,698**

The current account with the NBU represents amounts deposited with the NBU relating to daily settlements and other activities. Overnight deposits represent overnight deposits placed with OECD banks. These placements bear market interest rates.

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6. Amounts due from banks

Amounts due from banks comprise:

	2010	*2009*
Restricted current accounts	143,641	91,519
Obligatory reserve with the NBU	77,649	191,135
Time deposits for more than 90 days or overdue	25,863	21,742
Other amounts	153	501
	247,306	**304,897**
Less – Allowance for impairment	(12,970)	(14,216)
Amounts due from banks	**234,336**	**290,681**

As at 31 December 2010, UAH 141,014 thousand (2009 – UAH 91,519 thousand) of restricted current accounts were placed under bills of credit in the amount of UAH 78,794 thousand, under guarantees in the amount of UAH 39,290 thousand and under guarantee letter of credit in the amount of UAH 22,930 thousand to OECD banks.

With effect from August 2009, Ukrainian banks were required to keep 50% of the obligatory reserve for the previous month on a separate account with the NBU. In May 2010, the obligatory reserve requirement was increased to 100%. The interest rate for this obligatory reserve is 30% of the official NBU discount rate. This reserve can be formed of either cash or Ukrainian State bonds. As at 31 December 2010, the amount placed by the Bank on such account was UAH 77,649 thousand (2009: UAH 191,135 thousand). Another part of this reserve was formed by Ukrainian State bonds (see Note 9). The Bank’s ability to withdraw this deposit is significantly restricted by statutory legislation.

As at 31 December 2010, inter-bank time deposits and loans include UAH 20,651 thousand (2009: UAH 21,754 thousands) placed with Russian banks.

The movements in allowance for impairment of amounts due from banks were as follows:

	2010	*2009*
1 January	**14,216**	**22,825**
Reversal	(1,097)	(7,834)
Currency translation differences	(149)	(775)
31 December	**12,970**	**14,216**

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.

	2010			***2009***		
	Notional amount	***Fair values Asset***	***Liability***	***Notional amount***	***Fair value Asset***	***Liability***
Foreign exchange contracts						
Swaps	621,144	4,407	(1,134)	938,498	2,930	(1,564)
Total derivative assets/(liabilities)		**4,407**	**(1,134)**		**2,930**	**(1,564)**

As at 31 December 2010 and 2009, the Bank has positions only in the swaps, which are contractual agreements between two parties to exchange movements in interest and foreign currency rates.

(Thousands of Ukrainian hryvnia, unless otherwise indicated)

8. Loans to customers

Loans to customers comprise:

	2010	***2009***
Corporate lending	24,277,586	21,662,116
Residential mortgages	545,313	1,090,232
Consumer lending	265,509	563,071
Car loans	157,018	386,988
Reverse repurchase agreements	135,936	289,616
Small business lending	56,366	257,163
Other	240,442	472,209
Gross loans to customers	**25,678,170**	**24,721,395**
Less – Allowance for impairment	(3,080,622)	(6,009,827)
Loans to customers	**22,597,548**	**18,711,568**

Allowance for impairment of loans to customers

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

	Corporate lending	***Reverse repurchase agreements***	***Small business lending***	***Consumer lending***	***Residential mortgages***	***Car loans***	***Other***	***Total***
At 1 January 2010	5,159,537	126,964	117,423	145,044	257,103	89,589	114,167	6,009,827
Charge /(reversal) for the year	1,256,022	(69,442)	53,365	89,668	202,408	49,095	33,981	1,615,097
Recoveries	21,388	-	-	592	-	-	-	21,980
Amounts written off	(3,532,078)	-	(153,427)	(207,097)	(418,930)	(122,871)	(121,426)	(4,555,829)
Currency translation differences	(9,494)	-	48	(109)	(674)	(180)	(44)	(10,453)
At 31 December 2010	**2,895,375**	**57,522**	**17,409**	**28,098**	**39,907**	**15,633**	**26,678**	**3,080,622**
Individual impairment	2,053,449	51,738	-	-	-	-	-	2,105,187
Collective impairment	841,926	5,784	17,409	28,098	39,907	15,633	26,678	975,435
	2,895,375	**57,522**	**17,409**	**28,098**	**39,907**	**15,633**	**26,678**	**3,080,622**
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	**7,939,688**	**86,230**	**-**	**-**	**-**	-	-	**8,025,918**

(Thousands of Ukrainian hryvnia, unless otherwise indicated)

	Corporate lending	***Reverse repurchase agreements***	***Small business lending***	***Consumer lending***	***Residential mortgages***	***Car loans***	***Other***	***Total***
At 1 January 2009	2,602,777	-	15,701	33,507	82,096	20,837	42,531	2,797,449
Charge for the year	2,576,264	126,964	111,673	110,990	174,037	68,414	71,205	3,239,547
Recoveries	1,690	-	11	-	-	-	-	1,701
Amounts written off	(41,136)	-	(10,405)	-	-	-	-	(51,541)
Currency translation differences	19,942	-	443	547	970	338	431	22,671
At 31 December 2009	**5,159,537**	**126,964**	**117,423**	**145,044**	**257,103**	**89,589**	**114,167**	**6,009,827**
Individual impairment	1,651,491	120,704	-	-	-	-	-	1,772,195
Collective impairment	3,508,046	6,260	117,423	145,044	257,103	89,589	114,167	4,237,632
	5,159,537	**126,964**	**117,423**	**145,044**	**257,103**	**89,589**	**114,167**	**6,009,827**
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	**4,909,769**	**241,409**	**-**	**-**	**-**	-	-	**5,151,178**

Individually impaired loans

Interest income accrued on loans, for which individual impairment allowances is recognised, for the year ended 31 December 2010, comprised UAH 692,093 thousand (2009: UAH 420,722 thousand).

The fair value of collateral that the Bank holds relating to loans individually determined to be impaired at 31 December 2010 amounts to UAH 21,596,727 thousand (2009: UAH 2,008,950 thousand). In accordance with the NBU requirements, loans may only be written off with the approval of the Management Board and, in certain cases, with the respective decision of the Court.

Collateral and other credit enhancements

The amount and type of collateral required 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 commercial lending, charges over real estate properties - inventory and trade receivables,
- For retail lending - mortgages over residential properties.

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.

During 2010, the Bank took possession of equipment and industrial building with an estimated value of UAH 10,615 thousands (2009: UAH 25,829 thousand), which the Bank is in the process of selling. It is the Bank's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In general, the Bank does not occupy repossessed properties for business use.

Reverse repurchase agreements

The Bank has entered into reverse repurchase agreements with a number of Ukrainian companies for the amount of UAH 135,936 thousand (2009: UAH 289,616 thousand). The subject of these agreements is bonds issued by Ukrainian companies with a fair value of UAH 74,134 thousand (2009: UAH 207,397 thousand).

Concentration of loans to customers

As at 31 December 2010, the Bank had a concentration of loans represented by UAH 6,045,503 thousand due from the ten largest third party borrowers (23.5% of gross loan portfolio) (2009: UAH 5,335,010 thousand or 21.6%). An allowance of UAH 710,071 thousand (2009: UAH 294,226 thousand) was recognised against these loans.

During 2010, the Bank has issued loans to corporate customers of UAH 4,127,045 thousand (2009: UAH 971,094 thousand) under interest rates that are lower than market. Losses from initial recognition of these loans were recognised in the income statement and amounted to UAH 214,126 thousand (2009: UAH 27,748 thousand).

(Thousands of Ukrainian hryvnia, unless otherwise indicated)

In 2010, the Bank has sold a portfolio of loans to (customers/ individuals) with carrying value of UAH 46,460 thousand. Loss on sale of UAH 22,333 thousand was recognised in other operating expenses.

Loans have been extended to the following types of customers:

	2010	*2009*
Private companies	24,469,887	22,208,895
Individuals	1,208,283	2,512,500
Total	**25,678,170**	**24,721,395**

Loans are made in the following industry sectors:

	2010	*2009*
Metallurgy and mining	5,052,423	2,802,022
Real estate construction	3,985,419	2,576,930
Manufacturing and machine-building	3,703,861	4,269,071
Services	3,289,461	855,252
Agriculture and food processing	3,221,507	3,075,571
Trading enterprises	2,132,829	5,077,205
Individuals	1,208,283	2,512,500
Oil and gas	1,174,068	170,824
Transport	805,971	797,476
Energy	363,979	208,697
Other	740,369	2,375,847
	25,678,170	**24,721,395**

9. Investment securities

Available-for-sale securities comprise:

	2010	*2009*
Ukrainian State bonds	844,747	-
Municipal bonds	82,118	79,123
Corporate bonds	326,928	453,494
Corporate shares	8,249	7,072
Available-for-sale securities	**1,262,042**	**539,689**

As at 31 December 2010, included in investment securities available-for-sale are Ukrainian State bonds with a nominal value of UAH 300,000 thousands and a fair value of UAH 348,486 thousand (2009: nil) used to cover the Bank’s NBU obligatory reserve requirements (Note 6).

As at 31 December 2010, Ukrainian State bonds with a carrying value of UAH 108,046 are pledged as collateral under loan received from the NBU (2009: nil).

The Bank recognised an impairment loss of UAH 57,984 thousand on available-for-sale securities for the year ended 31 December 2010 (2009: UAH 29,542 thousand).

Held-to-maturity securities comprise:

	2010	*2009*
Promissory notes	397	397
Less – Allowance for impairment (Note 15)	(397)	(397)
Held-to-maturity securities	**-**	**-**

(Thousands of Ukrainian hryvnia, unless otherwise indicated)

10. Investments in associates

The following associate is accounted for under the equity method:

2010

Associates	***Ownership / Voting, %***	***Country***	***Date of incorporation***	***Industry***	***Date of acquisition***
LLC “Bereg”	39	Ukraine	09.03.1999	Designing, construction, freight services	7 June 2000

2009

Associates	***Ownership / Voting, %***	***Country***	***Date of incorporation***	***Industry***	***Date of acquisition***
LLC “Bereg”	39	Ukraine	09.03.1999	Designing, construction, freight services	7 June 2000

Movement in investments in associates was:

	2010	***2009***
1 January	43	40
Write off of JSCB “National Credit” recovery	-	1,996
Sale of shares JSCB “National Credit”	-	(1,996)
Share of profit (loss)	(2)	3
Impairment of investments in associates	-	-
31 December	**41**	**43**

The following table illustrates summarised financial information of the associates:

Aggregated assets and liabilities of associates	***2010***	***2009***
Assets	97	110
Liabilities	-	(9)
Net assets	**97**	**101**

Aggregated revenue and profit of associates	***2010***	***2009***
Revenue	-	-
Profit	3	10

(Thousands of Ukrainian hryvnia, unless otherwise indicated)

11. Property and equipment

The movements in property and equipment were as follows:

	Leasehold improve-ments	*Buildings and land*	*Equipment*	*Motor vehicles*	*Assets under construction*	*Total*
Cost or revalued amount						
31 December 2009	9,786	2,528,116	589,284	65,390	180,126	3,372,702
Additions	452	21,253	35,003	-	115,245	171,953
Disposals	(4,405)	(1,936)	(41,275)	(7,618)	(1,324)	(56,558)
Transfers	-	31,370	22,371	18,484	(72,225)	-
Transfer to investment property	-	(121,468)	-	-	-	(121,468)
31 December 2010	**5,833**	**2,457,335**	**605,383**	**76,256**	**221,822**	**3,366,629**
Accumulated depreciation and impairment						
31 December 2009	(5,906)	(8,725)	(438,359)	(39,090)		(492,080)
Depreciation charge	(1,822)	(45,514)	(52,317)	(10,007)		(109,660)
Disposals	4,307	2,749	41,183	7,510		55,749
31 December 2010	**(3,421)**	**(51,490)**	**(449,493)**	**(41,587)**		**(545,991)**
Net book value:						
31 December 2009	**3,880**	**2,519,391**	**150,925**	**26,300**	**180,126**	**2,880,622**
31 December 2010	**2,412**	**2,405,845**	**155,890**	**34,669**	**221,822**	**2,820,638**

	Leasehold improve-ments	*Buildings and land*	*Equipment*	*Motor vehicles*	*Assets under construction*	*Total*
Cost or revalued amount						
31 December 2008	**10,440**	**2,863,634**	**597,584**	**74,348**	**140,696**	**3,686,702**
Additions	1,723	2,265	14,779	4,280	88,995	112,042
Disposals	(2,377)	(2,307)	(26,422)	(13,567)	(5,483)	(50,156)
Transfers	-	8,368	3,343	329	(12,040)	-
Transfer to investment property	-	-	-	-	(32,042)	(32,042)
Effect of revaluation	-	(343,844)	-	-	-	(343,844)
31 December 2009	**9,786**	**2,528,116**	**589,284**	**65,390**	**180,126**	**3,372,702**
Accumulated depreciation and impairment						
31 December 2008	**(5,530)**	**(215,419)**	**(398,264)**	**(41,496)**		**(660,709)**
Depreciation charge	(1,881)	(52,192)	(66,518)	(10,678)		(131,269)
Disposals	1,505	357	26,423	13,084		41,369
Effect of revaluation	-	274,143	-	-		274,143
Impairment	-	(15,614)	-	-		(15,614)
31 December 2009	**(5,906)**	**(8,725)**	**(438,359)**	**(39,090)**		**(492,080)**
Net book value:						
31 December 2008	**4,910**	**2,648,215**	**199,320**	**32,852**	**140,696**	**3,025,993**
31 December 2009	**3,880**	**2,519,391**	**150,925**	**26,300**	**180,126**	**2,880,622**

In 2009 the Bank engaged an independent appraiser to determine the fair value of its buildings. Fair value is determined by reference to market-based evidence. The date of the revaluation was 31 October 2009. If the buildings and land were measured using the cost model, the carrying amounts would be as follows:

	2010	*2009*
Cost	894,564	879,283
Accumulated depreciation and impairment	(314,799)	(298,167)
Net carrying amount	**579,765**	**581,116**

(Thousands of Ukrainian hryvnia, unless otherwise indicated)

12. Intangible assets

The movements in intangible assets were as follows:

	Licenses and computer software	*Assets under construction*	*Total*
Cost			
31 December 2009	48,201	-	48,201
Additions	1,435	64,268	65,703
Disposals	(1,088)	-	(1,088)
Transfers	4,234	(4,234)	-
31 December 2010	**52,782**	**60,034**	**112,816**
Accumulated amortization			
31 December 2009	(35,709)		(35,709)
Amortisation charge	(6,625)		(6,625)
Disposals	1,088		1,088
Impairment	-		-
31 December 2010	**(41,246)**		**(41,246)**
Net book value:			
31 December 2009	**12,492**	**-**	**12,492**
31 December 2010	**11,536**	**60,034**	**71,570**

	Licenses and computer software
Cost	
31 December 2008	47,678
Additions	1,374
Disposals	(851)
31 December 2009	**48,201**
Accumulated amortization	
31 December 2008	(32,106)
Amortisation charge	(4,453)
Disposals	850
31 December 2009	**(35,709)**
Net book value:	
31 December 2008	**15,572**
31 December 2009	**12,492**

13. Investment property

The movements in investment property were as follow:

	2010	*2009*
1 January	**35,285**	**-**
Revaluation	968	3,243
Additions	121,468	32,042
Disposals	(18,115)	-
31 December	**139,606**	**35,285**

14. Taxation

The corporate income tax expense comprises:

	2010	*2009*
Current tax charge	-	-
Deferred tax (charge)/credit – origination and reversal of temporary differences	(635,285)	(64,154)
Less: deferred tax recognised directly in other comprehensive income	532,907	16,002
Income tax benefit	**(102,378)**	**(48,152)**

(Thousands of Ukrainian hryvnia, unless otherwise indicated)

Deferred tax related to items charged or credited to other comprehensive income during the year is as follows:

	2010	**2009**
Net losses on investment securities available-for-sale	15,910	1,423
Reversal of income tax relating to previously recognised components of other comprehensive income	(548,817)	-
Revaluation of buildings	-	(17,425)
Income tax charged to other comprehensive income	**(532,907)**	**(16,002)**

In 2010, Ukrainian corporate income tax was levied on taxable income less allowable expenses at the rate of 25% (2009: 25%).

In December 2010, the Ukrainian Parliament adopted the new Tax Code. According to the newly adopted provisions, the corporate income tax rate will be decreased to 23% with effect from 1 April 2011, to 21% from 1 January 2012, to 19% from 1 January 2013 and to 16% from 1 January 2014. Deferred tax balances are measured using the tax rates that will be applicable when temporary differences are expected to reverse.

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

	2010	***2009***
Loss before tax	**(1,286,825)**	**(3,244,225)**
Statutory tax rate	25%	25%
Theoretical income tax expense/(benefit) at the statutory rate	**(321,706)**	**(811,056)**
Non-deductible expenditures:		
- operating and administrative	36,603	20,966
- provision	17,000	-
- fee expenses on currency sale/purchase for customers	-	48,752
Income recognised for tax purposes only - tax indexation of property and equipment	(2,928)	(3,404)
Income recognised for tax purposes only – accrual of interests	(11,810)	-
Change in tax rate	51,705	-
Change in unrecognised deferred tax asset	128,758	696,590
Income tax benefit	**(102,378)**	**(48,152)**

(Thousands of Ukrainian hryvnia, unless otherwise indicated)

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***		
	2008	***in the income statement***	***in other compre-hensive income***	***2009***	***in the income statement***	***in other compre-hensive income***	***2010***
Tax effect of deductible temporary differences:							
Loans to banks and customers	73,888	179,711	-	253,599	44,512	-	298,111
Other liabilities	32,778	(32,778)	-	-	34,659	-	34,659
Property, equipment and intangible assets	-	-	-	-	-	3,214	3,214
Deferred income	375	4,335	-	4,710	(4,341)	-	369
Accrued income	-	-	-	-	193	-	193
Other assets	2,690	13,790	-	16,480	(16,480)	-	-
Investments available-for-sale	55,710	(55,710)	-	-	-	-	-
Accrued expenses	10,980	3,019	-	13,999	(13,999)	-	-
Tax losses carried forward	-	696,590	-	696,590	128,758	-	825,348
Gross deferred tax asset	**176,421**	**808,957**	**-**	**985,378**	**173,302**	**3,214**	**1,161,894**
Unrecognised deferred tax asset	-	(696,590)	-	(696,590)	(128,758)	-	(825,348)
Deferred tax asset	**176,421**	**112,367**	**-**	**288,788**	**44,544**	**3,214**	**336,546**
Tax effect of taxable temporary differences:							
Property, equipment and intangible assets	(568,039)	5,011	17,425	(545,603)	-	545,603	-
Investments available-for-sale	-	(19,150)	(1,423)	(20,573)	18,087	(15,910)	(18,396)
Deferred expenses	(11,910)	(6,425)	-	(18,335)	2,162	-	(16,173)
Accrued expenses	-	-	-	-	(5,849)	-	(5,849)
Other assets	-	-	-	-	(266)	-	(266)
Investments in associates	(34)	32	-	(2)	-	-	(2)
Accrued income	(17)	(6,965)	-	(6,982)	6,982	-	-
Other liabilities	-	(36,718)	-	(36,718)	36,718	-	-
Deferred tax liability	**(580,000)**	**(64,215)**	**16,002**	**(628,213)**	**57,834**	**529,693**	**(40,686)**
Deferred tax asset/ (liability)	**(403,579)**	**48,152**	**16,002**	**(339,425)**	**102,378**	**532,907**	**295,860**

15. Other impairment and provisions

The movements in other impairment allowances and provisions were as follows:

	Investment securities available-for-sale	***Investment securities held to maturity***	***Other assets***	***Guarantees and commitments***	***Legal claims***	***Total***
31 December 2008	**27,089**	**397**	**10,760**	**131,109**	**-**	**169,355**
Charge	29,542	-	59,446	70,462	-	159,450
Write-offs	(301)	-	(4,820)	-	-	(5,121)
Foreign exchange differences	-	-	370	2,486	-	2,856
31 December 2009	**56,330**	**397**	**65,756**	**204,057**	**-**	**326,540**
Charge/(reversal)	1,653	-	(29,728)	4,176	9,600	(14,299)
Write-offs	-	-	(17,992)	(169,439)	-	(187,431)
Foreign exchange differences	-	-	(1,505)	(14,690)	-	(16,195)
31 December 2010	**57,983**	**397**	**16,531**	**24,104**	**9,600**	**108,615**

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

(Thousands of Ukrainian hryvnia, unless otherwise indicated)

16. Other assets and liabilities

Other assets comprise:

	2010	2009
Other prepayments and debtors	91,922	65,076
Prepayments for risk insurance	66,439	71,500
Accrued commissions	47,046	54,203
Foreclosed property	35,433	25,829
Other receivables from the Bank’s employees	2,621	2,809
Other	7,684	3,292
	251,145	**222,709**
Less – Allowance for impairment of other assets (Note 15)	(16,531)	(65,756)
Other assets	**234,614**	**156,953**

Other liabilities comprise:

	2010	2009
Settlements on operations with plastic cards	121,664	53,588
Payables to employees	52,975	54,624
Settlements with banks and customers	23,918	18,404
Payables to Individuals’ Deposits Guarantee Fund	13,253	11,195
Taxes payable, other than income tax	3,601	5,810
Deferred income	1,626	1,894
Accrued expenses	816	1,099
Dividends payable to shareholders of the Bank	753	828
Other	3,597	2,189
Other liabilities	**222,203**	**149,631**

17. Amounts due to the NBU

In December 2010, the Bank received a loan from the NBU for a total of UAH 300,000 thousand. The carrying value of loan as at 31 December 2010 is UAH 100,000 thousands. Loan is denominated in hrivnia, bear a fixed interest rate of 11.2% and mature in January 2010.

Loan due to the NBU are secured by Ukrainian State bonds (see Note 9).

18. Amounts due to banks

Amounts due to banks comprise:

	2010	2009
Current accounts	26,239	11,902
Time deposits and loans	6,749,475	5,899,929
Amounts due to banks	**6,775,714**	**5,911,831**

As at 31 December 2010, loans and deposits due to other banks include UAH 6,542,320 thousands (2009: UAH 5,759,080 thousand) received from the parent bank. The multicurrency credit line is denominated in US dollars, euro, Russian rubles, with a floating interest rate for euro and US dollars parts (3 months USD LIBOR + 5%) and fixed interest rate for Russian rubles (10%) and matures in August 2013 (euro and US dollars) and in July 2011 (Russian rubles). Initially, the loan was denominated in US dollars has floating interest rate (12 months LIBOR + 8%) and maturity in August 2013. In August 2010, amendments to the loan agreement were made which changes interest rate and established quarterly interests payments.

(Thousands of Ukrainian hryvnia, unless otherwise indicated)

19. Amounts due to customers

Amounts due to customers include the following:

	2010	*2009*
Current accounts	8,290,211	4,667,689
Time deposits	11,227,516	9,886,884
Amounts due to customers	**19,517,727**	**14,554,573**
Held as security against letters of credit	105,269	71,940
Held as security against guarantees	435,049	125,183

At 31 December 2010, amounts due to customers of UAH 3,292,564 thousand (17%) were due to the ten largest third party customers (2009: UAH 1,903,484 thousand (13%)).

Included in time deposits are deposits of individuals of UAH 8,250,138 thousand (2009: UAH 7,555,467 thousand). In accordance with the Ukrainian Civil Code, the Bank is obliged to repay such deposits upon demand of a depositor. In the event that a term deposit is repaid upon demand of the depositor prior to maturity, interest is paid based on the interest rate for demand deposits, unless a different interest rate is specified in the agreement.

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

	2010	*2009*
State and budgetary organisations	626,591	429,109
Private enterprises	7,911,202	4,362,090
Individuals	10,979,934	9,763,374
Amounts due to customers	**19,517,727**	**14,554,573**

An analysis of customer accounts by economic sector follows:

	2010	*2009*
Individuals	10,979,935	9,763,374
Trade	1,443,900	880,994
Services	1,372,729	662,918
Machine building	993,450	580,904
Finance sector	722,735	216,934
Energy	457,459	279,457
Transport and communication	419,952	320,675
Metallurgy	416,135	470,927
Food and Agriculture	313,453	155,481
Real estate constructions	285,502	209,126
Chemical	246,575	187,440
Local authorities	7,961	16,626
Other	1,857,941	809,717
Amounts due to customers	**19,517,727**	**14,554,573**

20. Subordinated loan

Subordinated loan represents long term borrowing agreements, which, in the event of the Bank’s default, would be subordinated to the Bank’s other obligations, including deposits and other debt instruments. In accordance with the Law of Ukraine on Banks and Banking Activities and the NBU regulations, subordinated debt cannot be withdrawn from the Bank for at least five years from the date of receipt. The debts rank after all other creditors in case of liquidation.

In August 2010, the Bank received subordinated loan of USD 300,000 thousand (UAH 2,367,000 thousand) from the parent bank. The subordinated loan carries a floating interest rate (12 months USD LIBOR + 5.5%), which is lower than market, and matures in August 2020. Subordinated loan was registered by the NBU on 15 September 2010.

The gain on initial recognition of this loan of UAH 231,281 thousand was recorded in statement of changes in equity as additional paid-in capital.

(Thousands of Ukrainian hryvnia, unless otherwise indicated)

21. Equity

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

	Number of ordinary shares	*Nominal amount*	*Inflation adjustment*	*Treasury shares*	*Adjusted amount, including*
31 December 2008	**130,017,500**	**1,300,175**	**932,789**	**-**	**2,232,964**
Increase in share capital	399,853,952	3,998,540	-	-	3,998,540
31 December 2009	**529,871,452**	**5,298,715**	**932,789**	**-**	**6,231,504**
Purchase of treasury shares	(1,092,147)	(10,921)	-	10,921	-
31 December 2010	**528,779,305**	**5,287,794**	**932,789**	**10,921**	**6,231,504**

As at 31 December 2010, the number of authorised ordinary shares is 528,779,305 (2009: 529,871,452) with a nominal value per share of UAH 10. All authorised shares have been issued and fully paid.

The share capital of the Bank was contributed by the shareholders in Ukrainian hryvnia and they are entitled to dividends and any capital distribution in Ukrainian hryvnia.

In September 2009, shareholders of the Bank approved an issue of 399,853,952 ordinary shares. The total consideration received for these shares was comprised of cash for the total amount of UAH 4,003,840 thousand. This share issue was registered by Securities and Stock Market State Commission on 23 October of 2009.

In April 2010, General meeting of shareholders approved share repurchase programme and the Bank announced the repurchase of up to UAH 2,000 thousands The buyback started on 1 October 2010 and will be in place by no later than 30 April 2011. As at 31 December 2010, the Bank held 1,092,147 treasury shares acquired via the share repurchase programme. The purchase price of all treasury shares is a nominal value per share of UAH 10.

Movements in other reserves were as follows:

	Revaluation reserve for property	*Investment available-for-sale revaluation reserve*	*Total*
At 31 December 2008	**1,548,909**	**(1,407)**	**1,547,502**
Revaluation of buildings	(69,701)	-	(69,701)
Tax effect of revaluation of buildings	17,425	-	17,425
Depreciation of revaluation reserve	(48)	-	(48)
Net unrealised gains on available-for-sale investments	-	5,619	5,619
Realised losses on investment securities available-for-sale reclassified to the income statement	-	73	73
Tax effect of net losses on investment securities available-for-sale	-	(1,423)	(1,423)
At 31 December 2009	**1,496,585**	**2,862**	**1,499,447**
Revaluation reserve relating to assets transferred to investment property and sold	(67,347)	-	(67,347)
Net unrealised losses on available-for-sale investments	-	(26,225)	(26,225)
Realised losses on investment securities available-for-sale reclassified to the income statement	-	89,867	89,867
Reversal of income tax relating to previously recognised components of other comprehensive income	548,817	-	548,817
Tax effect of net gains on investment securities available-for-sale	-	(15,910)	(15,910)
At 31 December 2010	**1,978,055**	**50,594**	**2,028,649**

22. Commitments and contingencies

Operating environment

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

The Ukrainian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. The ongoing global financial crisis has resulted in considerable instability in the capital markets, significant deterioration in

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the liquidity of banks, much tighter credit conditions where credit is available, and significant devaluation of the national currency against major currencies. Whilst the Ukrainian Government is introducing various stabilisation measures aimed at providing liquidity 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 decrease in values in the Ukrainian real estate market may affect recoverability of the Bank's loans secured by pledges of property. To the extent that information is available, the Bank has reflected revised estimates of expected future cash flows in its impairment assessment.

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

Legal

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

In November 2009, based on a suit filed by one of the minority shareholders of the Bank, the Commercial court of Kyiv annulled decisions of the General Meeting of shareholders of the Bank, held in September and October 2009. Based on the said decisions, the Bank issued additional shares which resulted in an increase of Vnesheconombank's interest in the Bank from 75% plus three shares to 93.8%. The cost of additional shares acquired by Vnesheconombank totaled equivalent of UAH 3,998,540 thousand. In April 2010, based on the decision of the Commercial Court of Kyiv, the Securities and Stock Market State Commission of Ukraine (SSMSC) annulled the additional issue of shares by the Bank. In February 2011, based on the Bank's appeals complaint, the Appellate Administrative Court of Kyiv canceled the decision of SSMSC on annulling the Bank's additional share issue. The decision of the Appellate Administrative Court of Kyiv was appealed on 21 February 2011 by SSMSC. The Bank's management believes that there is no need for share capital derecognition in the financial statements in respect of the above court proceedings.

Taxation

Ukrainian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Bank may be challenged by the relevant regional and federal authorities. Recent events within Ukraine suggest that the tax authorities are taking a more assertive position in its interpretation of the legislation and assessments and, as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged. As such, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

As at 31 December 2010, management believes that its interpretation of the relevant legislation is appropriate and that the Bank's tax, currency and customs positions will be sustained.

Commitments and contingencies

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

	2010	*2009*
Credit related commitments		
Guarantees	551,767	267,461
Letters of credit	124,938	1,492,213
Undrawn loan commitments	65,699	39,344
Avals	54,589	295,055
	796,993	**2,094,073**
Capital expenditure commitments	31,966	7,647
Total	**828,959**	**2,101,720**
Less – Provisions (Note 15)	(24,104)	(204,057)
Commitments and contingencies (before deducting collateral)	**804,855**	**1,897,663**
Less – Cash held as security against letters of credit and guarantees	(444,849)	(197,123)
Commitments and contingencies	**360,006**	**1,700,540**

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23. Net fee and commission income

Net fee and commission income comprises:

	2010	*2009*
Settlements operations	256,133	217,080
Guarantees and letters of credit	35,053	66,644
Cash collection	15,101	12,857
Securities operations	2,480	131
Other	19,500	17,527
Fee and commission income	**328,267**	**314,239**
Settlements operations	(32,234)	(23,074)
Securities operations	(614)	(626)
Guarantees and letters of credit	(418)	(1,769)
Other	(7,249)	(2,836)
Fee and commission expense	**(40,515)**	**(28,305)**
Net fee and commission income	**287,752**	**285,934**

24. Other income

Other income comprises:

	2010	*2009*
Sale of foreclosed property	11,727	-
Operating leases	8,561	10,061
Sale of fixed assets	4,880	1,546
Fines and penalties	3,714	2,583
Installing of servicing systems	1,313	1,689
Revaluation of investment property	968	3,243
Sale of assets previously written off	-	2,000
Other	6,559	6,907
Total other income	**37,722**	**28,029**

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25. Personnel and other operating expenses

Personnel and other operating expenses comprise:

	2010	*2009*
Salaries and bonuses	510,087	519,593
Social security costs	154,703	165,336
Personnel expenses	**664,790**	**684,929**
Administration costs	89,713	22,845
Insurance	80,568	35,810
Utilities	64,374	35,768
Loss on return of deposit by court decision	53,542	-
Payments to Individuals’ Deposits Guarantee Fund	51,189	45,385
Taxes, other than income tax	31,123	36,739
Communications	29,322	34,308
Repair and maintenance of property and equipment	27,638	55,348
Operating lease	27,219	41,645
Security	23,139	36,808
Loss on sale of loan with discount	22,333	-
Cash collection costs	13,298	14,783
Business travel and personnel training	9,906	3,821
Charity	5,642	5,130
Legal, audit and consultancy	3,534	8,834
Impairment of property	-	15,614
Other	59,461	45,363
Other operating expenses	**592,001**	**438,201**

26. Risk management

Introduction

Risk is inherent in the Bank’s activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This 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, the latter being subdivided into trading and non-trading risks. 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

The Management Board is ultimately responsible for identifying and controlling risks; however, there are separate independent bodies responsible for managing and monitoring risks. In 2009 key risk management functions were delegated to the newly established Risk Management Department.

Supervisory Board

The Supervisory Board is responsible for the overall risk management approach and for approving the risk strategies and principles.

Management Board

The Management Board has the responsibility to monitor the overall risk process within the Bank.

Credit Committee, ALCO

The specialised Committees have the overall responsibility for the application of principles, frameworks, policies and limits and compliance with the risk strategy

Risk Management

The Risk Management Unit is responsible for implementing and maintaining risk related procedures to ensure an independent control process, monitoring compliance with risk principles, policies and limits across the Bank. This unit also ensures the complete capture of the risks in risk measurement and reporting systems.

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Bank Treasury

Bank Treasury is responsible for managing the Bank's assets and liabilities and the overall financial structure. It is also primarily responsible for the funding and liquidity risks of the Bank.

Internal audit

Risk management processes throughout the Bank are audited annually by the internal audit function, which examines both the adequacy of the procedures and the Bank's compliance with the procedures. Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the Supervisory Board.

Risk measurement and reporting systems

The Bank's risks are measured using a method which reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment. The Bank also runs worst case scenarios that would arise in the event that extreme events which are unlikely to occur do, in fact, occur.

Monitoring and controlling risks is primarily performed based on limits established by the Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept, with additional emphasis on selected industries. In addition the Bank monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risks types and activities.

Information compiled from all the businesses is examined and processed in order to analyze, control and identify early risks. This information is presented and explained to the Management Board, the Credit Committee, and the head of each business division. The report includes aggregate credit exposure, credit metric forecasts, hold limit exceptions, liquidity ratios and risk profile changes. On a monthly basis detailed reporting of industry, customer and geographic risks takes place. Senior management assesses the appropriateness of the allowance for credit losses on a quarterly basis. The Management Board receives a comprehensive risk report which is designed to provide all the necessary information to assess and conclude on the risks of the Bank.

For all levels throughout the Bank, specifically tailored risk reports are prepared and distributed in order to ensure that all business divisions have access to extensive, necessary and up-to-date information.

Regular reports are given to the Management Board, principal shareholder and all other relevant employees of the Bank on the utilisation of market limits, proprietary investments and liquidity, plus any other risk developments.

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 (see below for more detail).

Excessive risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risks, the Bank's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

Credit risk

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

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

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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.

Derivative financial instruments

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

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 statement of financial position, 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 2010***	***Maximum exposure 2009***
Cash and cash equivalents (excluding cash on hand)	5	4,349,465	4,568,761
Amounts due from banks	6	234,336	290,681
Derivative financial assets	7	4,407	2,930
Loans to customers	8	22,597,548	18,711,568
Investment securities available-for-sale	9	1,253,793	532,617
Other assets	16	125,008	50,138
		28,564,557	**24,156,695**
Financial commitments and contingencies	22	804,855	1,897,663
Total credit risk exposure		**29,369,412**	**26,054,358**

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

For more detail on the maximum exposure to credit risk for each class of financial instrument, references shall be made to the specific notes. The effect of collateral and other risk mitigation techniques is shown in Note 8.

Credit quality per class of financial assets

The credit quality of financial assets is managed by the Bank’s internal credit ratings based on the NBU regulations:

- *High grade*. This category includes exposures with insignificant credit risk which is characterized by strong financial position of the borrower and good loan servicing;

- *Standard grade*. This category includes exposures with insignificant credit risk which however may increase as a result of unfavorable conditions; these are exposures to borrowers with good financial standing and good payment history or borrowers with strong financial position and payment history with delays not exceeding 90 days;

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

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	Notes	Neither past due nor impaired					
		High grade 2010	Standard grade 2010	Sub-standard grade 2010	Past due but not impaired 2010	Individually impaired 2010	Total 2010
Cash and cash equivalent		4,349,465	-	-	-	-	4,349,465
Amounts due from banks	6	226,655	7,681	-	-	-	234,336
Loans to customers	8						
Corporate lending		8,409,596	4,888,176	1,769,901	428,299	5,886,239	21,382,211
Reverse repurchase agreements		-	43,922	-	-	34,492	78,414
Small business lending		4,259	2,706	3,385	28,607		38,957
Consumer lending		172,216	12,147	33,151	19,897	-	237,411
Residential mortgages		350,024	38,324	68,058	49,000	-	505,406
Car loans		98,928	8,974	13,662	19,821	-	141,385
Other		128,512	21,449	21,348	42,455	-	213,764
		13,739,655	5,023,379	1,909,505	588,079	5,920,731	27,181,349
Available-for-sale securities	9	-	1,253,793	-	-	-	1,253,793
Held to maturity securities		-	-	-	-	-	-
Total		**13,739,655**	**6,277,172**	**1,909,505**	**588,079**	**5,920,731**	**28,435,142**

	Notes	Neither past due nor impaired					
		High grade 2009	Standard grade 2009	Sub-standard grade 2009	Past due but not impaired 2009	Individually impaired 2009	Total 2009
Cash and cash equivalent		4,568,761	-	-	-	-	4,568,761
Amounts due from banks	6	283,154	7,527	-	-	-	290,681
Loans to customers	8						
Corporate lending		4,119,932	4,884,064	2,352,495	1,887,810	3,258,278	16,502,579
Reverse repurchase agreements		-	41,947	-	-	120,705	162,652
Small business lending		22,701	36,333	19,464	61,242	-	139,740
Consumer lending		336,278	34,206	21,545	25,998	-	418,027
Residential mortgages		577,398	84,162	72,076	99,493	-	833,129
Car lending		235,100	27,121	17,707	17,471	-	297,399
Other		228,678	36,358	31,303	61,703	-	358,042
		10,372,002	5,151,718	2,514,590	2,153,717	3,378,983	23,571,010
Available-for-sale securities	9	-	532,617	-	-	-	532,617
Held to maturity securities		-	-	-	-	-	-
Total		**10,372,002**	**5,684,335**	**2,514,590**	**2,153,717**	**3,378,983**	**24,103,627**

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 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 to provide the main inputs for the measurement of counterparty risk. All internal risk ratings are tailored to the various categories and are derived in accordance with the Bank’s rating policy. The attributable risk ratings are assessed and updated regularly.

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

	Less than 30 days 2010	31 to 60 days 2010	61 to 90 days 2010	More than 90 days 2010	Total 2010
Loans to customers					
Corporate lending	49,051	79,921	44,355	254,972	428,299
Small business lending	488	-	16,217	11,902	28,607
Consumer lending	9,537	2,757	1,065	6,538	19,897
Residential mortgages	28,627	6,546	2,184	11,643	49,000
Car lending	11,537	4,151	1,193	2,940	19,821
Other	23,479	2,844	2,256	13,876	42,455
Total	**122,719**	**96,219**	**67,270**	**301,871**	**588,079**

Of the total aggregate amount of gross past due but not impaired loans to customers, the fair value of collateral that the Bank held as at 31 December 2010 was UAH 706,207 thousand (2009: UAH 3,104,554 thousand). See 'Collateral and other credit enhancements' in Note 8 for the details of types of collateral held.

	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 lending	193,054	122,881	42,753	1,529,122	1,887,810
Reverse repurchase agreements	-	-	-	-	-
Small business lending	1,940	1,214	551	57,537	61,242
Consumer lending	2,622	1,838	618	20,920	25,998
Residential mortgages	8,923	10,964	1,342	78,264	99,493
Car lending	2,640	1,415	722	12,694	17,471
Other	14,172	3,321	1,533	42,677	61,703
Total	**223,351**	**141,633**	**47,519**	**1,741,214**	**2,153,717**

See Note 8 for more detailed information with respect to the allowance for impairment of loans to customers.

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

	2010	2009
Loans to customers		
Corporate lending	8,728,746	4,478,314
Small business lending	5,694	32,662
Consumer lending	21,268	39,497
Residential mortgages	11,683	74,343
Car lending	898	15,146
Other	45,053	98,437
Total	**8,813,342**	**4,738,399**

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.

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The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is no yet objective evidence of the impairment in an individual assessment. Impairment losses are estimated by taking into consideration of the following information: historical losses on the portfolio, current economic conditions, the appropriate delay between the time a loss is likely to have been 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 assets and liabilities is set out below:

	2010				***2009***			
	Ukraine	***CIS and other non-OECD countries***	***OECD countries***	***Total***	***Ukraine***	***CIS and other non-OECD countries***	***OECD countries***	***Total***
Assets:								
Cash and cash equivalents	2,257,643	226,611	2,990,729	5,474,983	1,347,425	129,040	4,084,233	5,560,698
Precious metals	2,977	-	-	2,977	6,634	-	-	6,634
Amounts due from banks	77,801	15,522	141,013	234,336	191,636	7,538	91,507	290,681
Derivative financial assets	4,407			4,407	2,930			2,930
Loans to customers	22,545,854	51,694	-	22,597,548	18,686,367	25,201	-	18,711,568
Assets held for sale	79	-	-	79	238	-	-	238
Investment securities available-for-sale	1,262,041	-	1	1,262,042	539,656	-	33	539,689
Investment in associates	41	-	-	41	43	-	-	43
Property and equipment	2,820,638	-	-	2,820,638	2,880,622	-	-	2,880,622
Intangible assets	71,570	-	-	71,570	12,492	-	-	12,492
Investment property	139,606	-	-	139,606	35,285	-	-	35,285
Deferred income tax assets	295,860	-	-	295,860	-	-	-	-
Current income tax assets	81,453	-	-	81,453	88,197	-	-	88,197
Other assets	234,300	314		234,614	156,953			156,953
	29,794,270	**294,141**	**3,131,743**	**33,220,154**	**23,948,478**	**161,779**	**4,175,773**	**28,286,030**
Liabilities:								
Amounts due to the NBU	100,000	-	-	100,000	2,300,000	-	-	2,300,000
Amounts due to banks	22,701	6,565,937	87,076	6,675,714	9,993	5,760,989	140,849	5,911,831
Derivative financial liabilities	1,134	-	-	1,134	1,564	-	-	1,564
Amounts due to customers	19,463,583	36,679	17,465	19,517,727	14,519,194	16,482	18,897	14,554,573
Deferred income tax liabilities	-	-	-	-	339,425	-	-	339,425
Provisions	33,704	-	-	33,704	204,057	-	-	204,057
Other liabilities	221,980	14	209	222,203	149,473	23	135	149,631
Subordinated loan	-	2,212,261	-	2,212,261	-	-	-	-
	19,843,102	**8,814,891**	**104,750**	**28,762,743**	**17,523,706**	**5,777,494**	**159,881**	**23,461,081**
Net assets / (liabilities)	**9,951,168**	**(8,520,750)**	**3,026,993**	**4,457,411**	**6,424,772**	**(5,615,715)**	**4,015,892**	**4,824,949**

Liquidity risk and funding management

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

The 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 also has committed lines of credit that it can assess to meet liquidity needs. 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.

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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 at 31 December, these ratios were as follows:

	2010, %	*2009, %*
N4 “Instant Liquidity Ratio” (vault cash and balances on nostro accounts with banks / balances on customers’ current accounts) (minimum required by the NBU – 20%)	43.00	74.82
N5 “Current Liquidity Ratio” (vault cash, 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) (minimum required by the NBU – 40%)	54.97	72.87
N6 “Short-Term Liquidity 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) (minimum required by the NBU – 20%)	93.73	40.96

Analysis of financial liabilities by remaining contractual maturities

The tables below summarise the maturity profile of the Bank’s financial liabilities at 31 December based on contractual undiscounted repayment obligations except for trading derivatives which are shown at fair value in a separate column and gross settled derivatives which are shown by contractual maturity. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay and the table does not reflect the expected cash flows indicated by the Bank’s deposit retention history.

Financial liabilities As at 31 December 2010	*Up to 3 months*	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total*
Amounts due to banks and the NBU	222,091	1,799,755	5,475,243	-	7,497,089
Gross settled derivative financial instruments					
- Contractual amounts payable	(523,956)	(97,187)	-	-	(621,143)
- Contractual amounts receivable	525,746	98,671	-	-	624,417
Amounts due to customers	12,952,182	5,757,417	1,638,470	7,357	20,355,426
Subordinated loan	-	152,290	609,160	3,147,608	3,909,058
Other liabilities	205,163	12,681	99	15	217,958
Total undiscounted financial liabilities	**13,381,226**	**7,723,627**	**7,722,972**	**3,154,980**	**31,982,805**

Financial liabilities As at 31 December 2009	*Up to 3 months*	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total*
Amounts due to banks and the NBU	2,941,259	414,470	5,897,165	-	9,252,894
Gross settled derivative financial instruments					
- Contractual amounts payable	(938,498)	-	-	-	(938,498)
- Contractual amounts receivable	939,864	-	-	-	939,864
Amounts due to customers	10,218,066	4,244,588	641,777	7,542	15,111,973
Other liabilities	89,805	647	181	2	90,635
Total undiscounted financial liabilities	**13,250,496**	**4,659,705**	**6,539,123**	**7,544**	**24,456,868**

The table below shows the contractual expiry by maturity of the Bank’s financial commitments and contingencies. Each undrawn loan commitment is included in the time band containing the earliest date it can be drawn down. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

	Less than 3 months	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total*
2010	597,979	101,078	97,190	745	796,992
2009	212	349,788	1,741,816	2,257	2,094,073

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

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.

Included in due to customers are term deposits of individuals. In accordance with the Ukrainian legislation, the Bank is obliged to repay such deposits upon demand of a depositor. Refer to Note 19.

(Thousands of Ukrainian hryvnia, unless otherwise indicated)

Market risk – non trading

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchanges, and equity prices. Market risks are managed and monitored using other sensitivity analysis. Except for the concentrations within foreign currency, the Bank has no significant concentration of market risk.

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. The sensitivity of equity is calculated by revaluing fixed rate available-for-sale financial assets at 31 December for the effects of the assumed changes in interest rates based on the assumption that there are parallel shifts in the yield curve.

Interest rate	***Increase in basis points 2010***	***Sensitivity of net interest income 2010***	***Sensitivity of equity 2010***
3M LIBOR USD	75	(40,297)	-
12M LIBOR USD	90	(21,497)	-
3M LIBOR EUR	75	(3,430)	-
3M LIBOR GBP	75	4	-
3M Ukrainian interbank	1000	19,327	-
YTM Ukrainian state bonds	1000	-	(184,661)

Interest rate	***Decrease in basis points 2010***	***Sensitivity of net interest income 2010***	***Sensitivity of equity 2010***
3M LIBOR USD	10	5,373	-
12M LIBOR USD	15	3,583	-
3M LIBOR EUR	25	1,143	-
3M LIBOR GBP	25	(1)	-
3M Ukrainian interbank	500	(9,664)	-
YTM Ukrainian state bonds	200	-	36,932

Currency	***Increase in basis points 2009***	***Sensitivity of net interest income 2009***	***Sensitivity of equity 2009***
12M Libor USD	60	(3,023)	-
3M Libor EUR	60	4	-
3M Mosprime	282	(34)	-
3M Ukrainian interbank	1000	(4,959)	-
YTM Ukrainian state bonds	2500	-	(222,975)

Currency	***Decrease in basis points 2009***	***Sensitivity of net interest income 2009***	***Sensitivity of equity 2009***
12M Libor USD	60	3,023	-
3M Libor EUR	60	(4)	-
3M Mosprime	282	34	-
3M Ukrainian interbank	1000	4,959	-
YTM Ukrainian state bonds	2500	-	222,975

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 tables below indicate the currencies to which the Bank had significant exposure at 31 December 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 Ukrainian hryvnia, with all other variables held constant on the income statement (due to the fair value of currency sensitive non-trading monetary assets and liabilities). The effect on equity

(Thousands of Ukrainian hryvnia, unless otherwise indicated)

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	***Change in currency rate in % 2010***	***Effect on profit before tax 2010***	***Change in currency rate in % 2009***	***Effect on profit before tax 2009***
USD	26.86%	(444,412)	26.81%	(240,406)
EUR	26.92%	(108,868)	26.71%	(7,400)
RUB	24.78%	1,423	11.20%	(3,954)
GBP	25.79%	(509)	-	-

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 a control framework and monitoring and responding to potential risks are effective tools to manage the risks. Controls should include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

27. Fair values of financial instruments

Financial instruments recorded at fair value

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- 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 shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

At 31 December 2010	***Level 1***	***Level 2***	***Total***
Financial assets			
Derivative financial instruments	-	4,407	4,407
Investment securities – available-for-sale	881,726	378,445	1,260,171
	881,726	**382,852**	**1,264,578**
Financial liabilities			
Derivative financial instruments	-	(1,134)	(1,134)
	881,726	**381,718**	**1,263,444**

At 31 December 2009	***Level 1***	***Level 2***	***Total***
Financial assets			
Derivative financial instruments	-	2,930	2,930
Investment securities – available-for-sale	5,120	532,733	537,853
	5,120	**535,663**	**540,783**
Financial liabilities			
Derivative financial instruments	-	(1,564)	(1,564)
	5,120	**534,099**	**539,219**

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.

Derivatives

Derivatives valued using a valuation technique with market observable inputs are mainly currency swaps. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates.

(Thousands of Ukrainian hryvnia, unless otherwise indicated)

Investment securities available-for-sale

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 data observable in the market. 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.

Fair value of financial assets and liabilities not carried at fair value

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

	Carrying value 2010	***Fair value 2010***	***Unrecognised gain/(loss) 2010***	***Carrying value 2009***	***Fair value 2009***	***Unrecognised gain/(loss) 2009***
Financial assets						
Cash and cash equivalents	5,474,983	5,474,983	-	5,560,698	5,560,698	-
Amounts due from banks	234,336	234,336	-	290,681	290,681	-
Loans to customers	22,597,548	22,450,655	(146,893)	18,711,568	18,071,277	(640,291)
Financial liabilities						
Amounts due to the NBU	100,000	100,000	-	2,300,000	2,300,000	-
Amounts due to banks	6,675,714	6,675,714	-	5,911,831	5,911,831	-
Subordinated loan	2,212,261	2,212,261	-	-	-	-
Amounts due to customers	19,517,727	19,707,734	(190,007)	14,554,573	14,526,532	28,041
Total unrecognised change in unrealised fair value			**(336,900)**			**(612,250)**

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

Assets for which fair value approximates carrying value

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

Fixed and variable rate financial instruments

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

(Thousands of Ukrainian hryvnia, unless otherwise indicated)

28. 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 26 "Risk management" for the Bank's contractual undiscounted repayment obligations.

	2010				2009			
	Within one year	More than one year	Maturity undefined	Total	Within one year	More than one year	Maturity undefined	Total
Cash and cash equivalents	5,474,983	-	-	5,474,983	5,560,698	-	-	5,560,698
Precious metals	2,977	-	-	2,977	6,634	-	-	6,634
Amounts due from banks	85,423	67,994	80,919	234,336	77,178	21,868	191,635	290,681
Derivative financial assets	4,407	-	-	4,407	2,930	-	-	2,930
Loans to customers	9,235,406	13,362,142	-	22,597,548	9,077,912	9,633,656	-	18,711,568
Assets held for sale	79			79	238			238
Investment securities available-for-sale	190,991	1,062,802	8,249	1,262,042	15,788	516,828	7,073	539,689
Investments in associates	-	-	41	41	-	-	43	43
Property and equipment	-	-	2,820,638	2,820,638	-	-	2,880,622	2,880,622
Intangible assets	-	-	71,570	71,570	-	-	12,492	12,492
Investment property	-	-	139,606	139,606	-	-	35,285	35,285
Current income tax assets	81,453	-	-	81,453	88,197	-	-	88,197
Deferred income tax assets	-	-	295,860	295,860	-	-	-	-
Other assets	187,872	3,622	43,120	234,614	118,780	9,048	29,125	156,953
Total	**15,263,591**	**14,496,560**	**3,460,003**	**33,220,154**	**14,948,355**	**10,181,400**	**3,156,275**	**28,286,030**
Amounts due to the NBU	100,000	-	-	100,000	2,300,000	-	-	2,300,000
Amounts due to banks	1,654,813	5,020,901	-	6,675,714	153,619	5,758,212	-	5,911,831
Derivative financial liabilities	1,134	-	-	1,134	1,564	-	-	1,564
Amounts due to customers	18,309,502	1,208,225	-	19,517,727	13,960,469	594,104	-	14,554,573
Subordinated loan	52,939	2,159,322	-	2,212,261	-	-	-	-
Deferred income tax liabilities	-	-	-	-	-	-	339,425	339,425
Provisions	-	-	33,704	33,704	-	-	204,057	204,057
Other liabilities	221,230	973	-	222,203	94,772	320	54,539	149,631
Total	**20,339,618**	**8,389,421**	**33,704**	**28,762,743**	**16,510,424**	**6,352,636**	**598,021**	**23,461,081**
Net	**(5,076,027)**	**6,107,139**	**3,426,299**	**4,457,411**	**(1,562,069)**	**3,828,764**	**2,558,254**	**4,824,949**

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 table above. These balances are included in amounts due within one year. Also included in due to customers are term deposits of individuals. In accordance with Ukrainian legislation, the Bank is obliged to repay such deposits within five days upon demand of a depositor. However, the Bank does not expect that many customers will request repayment at dates earlier than their maturity and expects that many deposits will be rolled-over. These balances are included above in accordance with their contractual maturity.

(Thousands of Ukrainian hryvnia, unless otherwise indicated)

29. Related party disclosures

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:

	2010				*2009*			
	Parent	*Asso-ciates*	*Key manage-ment personnel*	*Entities under common control*	*Parent*	*Asso-ciates*	*Key manage-ment personnel*	*Entities under common control*
Cash and cash equivalents	-	-	-	187,273	-	-	-	128,978
Interest income on due from banks	-	-	-	1,456	-	-	-	2,379
Loans outstanding at 1 January, gross	-	-	54	-	-	1,574	6,629	-
Loans issued during the year	-	-	15	-	-	-	-	-
Loan repayments during the year	-	-	(69)	-	-	(1,574)	(6,576)	-
Other movements	-	-	-	-	-	-	1	-
Loans outstanding	-	-	-	-	-	-	54	-
Less: allowance for impairment at 31 December	-	-	-	-	-	-	(3)	-
Loans outstanding at 31 December, net	**-**	**-**	**-**	**-**	**-**	**-**	**51**	**-**
Interest income on loans	-	-	4	-	-	-	5	-
Impairment charge for loans	-	-	3	-	-	-	126	-
Amounts due to banks at 1 January	5,759,080	-	-	-	-	1,371	-	-
Amounts due to banks received during the year	6,542,320	-	-	18,305	7,730,898	-	-	-
Amounts due to banks repaid during the year	(5,759,080)	-	-	-	(2,479,263)	(1,371)	-	-
Other movements	-	-	-	-	507,445	-	-	-
Due to as at 31 December	**6,542,320**	**-**	**-**	**18,305**	**5,759,080**	**-**	**-**	**-**
Interest expense on amounts due to banks	(380,539)	-	-	(128)	(526,402)	-	-	-
Deposits at 1 January	-	-	135,815		-	357	502,495	-
Deposits received during the year	-	-	185,377		-	-	483,476	-
Deposits repaid during the year	-	-	(131,019)		-	(357)	(851,317)	-
Other movements	-	-	-		-	-	1,161	-
Deposits at 31 December	**-**	**-**	**190,173**		**-**	**-**	**135,815**	**-**
Current accounts at 31 December	-	-	4,075	-	-	6	1	-
Interest expense on deposits	-	-	(16,865)	-	-	-	(6,064)	-
Subordinated loan	2,441,449	-	-	-		-	-	-
Interest expense on subordinated loan	(52,722)	-	-	-	-	-	-	-
Other liabilities at 31 December	-	-	5,631	-	-	-	2,149	-
Fee and commission expense	-	-	-	-	(221)	-	-	-

(Thousands of Ukrainian hryvnia, unless otherwise indicated)

Compensation of key management personnel was comprised of the following:

	2010	*2009*
Salaries and other short-term benefits	62,381	39,755
Social security costs	1,405	432
Total key management personnel compensation	**63,786**	**40,187**

30. Capital adequacy

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

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

The primary objectives of the Bank’s capital management 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 UAL. As at 31 December 2010 and 2009, the Bank’s capital adequacy ratio on this basis was as follows:

	2010	*2009*
Main capital	2,410,220	3,736,753
Additional capital	2,410,220	1,007,091
Less: deduction from capital	(104)	(130)
Total capital	**4,820,336**	**4,743,714**
Risk weighted assets	**27,953,684**	**23,475,575**
Capital adequacy ratio	17.24%	20.21%

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 of 31 December 2010 and 2009, comprised:

	2010	*2009*
Tier 1 capital	2,428,761	3,325,502
Tier 2 capital	2,428,761	1,499,404
Total capital	**4,857,522**	**4,824,906**
Risk weighted assets	**29,959,972**	**24,524,356**
Tier 1 capital ratio	8.11%	13.56%
Total capital ratio	16.21%	19.67%

31. Events after the reporting period

On January 2011 the Bank fully repaid loan to NBU.

On 24 February 2011, the Bank placed domestic bonds (A series) for a total nominal value of UAH 500,000 thousands. The A-series bonds carry fixed interest rate 13% for the first coupon period and mature in January 2014.

On 18 March 2011, the Bank placed domestic bonds (B series) for a total nominal value of UAH 500,000 thousands. The B-series bonds carry fixed interest rate 14% and mature in February 2013.

On 6 April 2011, the Bank placed domestic bonds (C series) for a total nominal value of UAH 500,000 thousands. The C-series bonds carry fixed interest rate 13% for the first-fourth coupon periods and mature in March 2014.