

**PUBLIC JOINT STOCK COMPANY  
“FIRST UKRAINIAN INTERNATIONAL BANK”  
Financial Statements**

*For the year ended 31 December 2009  
Together with Independent Auditor`s Report*

## **Contents**

### **Independent Auditors' Report**

Statement of Financial Position .....	1
Statement of Income .....	2
Statement of Comprehensive Income .....	3
Statement of Cash Flows .....	4
Statement of Changes in Equity .....	5

### **Notes to the Financial Statements**

1. Principal Activities .....	6
2. Operating Environment of the Bank .....	6
3. Basis of Preparation .....	7
4. Summary of Significant Accounting Policies .....	7
5. Critical Accounting Estimates and Judgements in Applying Accounting Policies .....	21
6. Cash and Cash Equivalents .....	22
7. Balance with the National Bank of Ukraine .....	22
8. Due from Other Banks .....	23
9. Loans to Customers .....	24
10. Investment Securities Available-for-Sale .....	27
11. Property and Equipment, Investment Property and Intangible Assets .....	28
12. Other Assets .....	31
13. Due to the National Bank of Ukraine .....	31
14. Due to Other Banks .....	32
15. Customer Accounts .....	33
16. Eurobonds Issued .....	34
17. Bonds Issued .....	35
18. Other Borrowed Funds .....	35
19. Other Liabilities .....	36
20. Subordinated debt .....	36
21. Derivative Financial Instruments .....	37
22. Equity .....	37
23. Segment Analysis .....	38
24. Interest Income and Expense .....	44
25. Fee and Commission Income and Expense .....	45
26. Other Income and Expenses .....	45
27. Operating Expenses .....	46
28. Income Taxes .....	46
29. Risk Management .....	49
30. Fair Values of Financial Instruments .....	59
31. Maturity Analysis of Assets and Liabilities .....	62
32. Contingencies and Commitments .....	63
33. Related Party Transactions .....	66
34. Capital .....	68



## **INDEPENDENT AUDITORS' REPORT**

### **TO THE SHAREHOLDERS AND THE BOARD OF DIRECTORS OF PUBLIC JOINT STOCK COMPANY FIRST UKRAINIAN INTERNATIONAL BANK**

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

#### *Management's Responsibility for the Financial Statements*

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

#### *Auditors' Responsibility*

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

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

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

#### *Opinion*

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

*Ernst & Young Audit Services LLC*

16 March 2010

**PUBLIC JOINT STOCK COMPANY «FUIB»**  
**Statement of Financial Position as at 31 December 2009**  
*(in thousands of US dollars)*

	Notes	2009	2008
<b>Assets</b>			
Cash on hand and in transit	6	45,550	57,418
Balance with the National Bank of Ukraine	7	50,169	41,668
Due from other banks	8	296,167	113,573
Loans to customers	9	1,418,137	1,902,146
Investment securities available-for-sale	10	6,234	33,542
Securities pledged under repurchase agreements – available-for-sale	10	-	162
Current income tax assets		6,702	7,097
Other assets	12	36,353	12,707
Property and equipment	11	120,444	142,100
Investment property	11	4,680	4,979
Intangible assets	11	2,847	2,423
<b>Total assets</b>		<b>1,987,283</b>	<b>2,317,815</b>
<b>Liabilities</b>			
Due to the National Bank of Ukraine	13	245,241	66,805
Due to other banks	14	29,877	62,570
Customer accounts	15	726,988	863,474
Eurobonds issued	16	269,729	283,739
Bonds issued	17	265	37,601
Other borrowed funds	18	290,519	485,181
Other liabilities	19	13,732	55,449
Subordinated debt	20	27,762	-
Deferred tax liability	28	7,516	11,836
<b>Total liabilities</b>		<b>1,611,629</b>	<b>1,866,655</b>
<b>Equity</b>			
Share capital	22	332,587	344,897
Share premium		7,114	7,377
Revaluation reserve for premises		45,617	56,380
Revaluation reserve for investment securities available-for-sale		34	(1,900)
Currency translation reserve		(279,807)	(264,163)
Other reserve		258,317	241,174
Retained earnings		11,792	67,395
<b>Total equity</b>		<b>375,654</b>	<b>451,160</b>
<b>Total liabilities and equity</b>		<b>1,987,283</b>	<b>2,317,815</b>

Signed on behalf of the Management Board on 16 March 2010.

G.V. Molodchinnyi (Temporary Acting Chairman of the Management Board)

O.M. Moshkalova (Chief Accountant)




**PUBLIC JOINT STOCK COMPANY «FUIB»**  
**Statement of Income for the Year Ended 31 December 2009**  
*(in thousands of US dollars)*

	<b>Notes</b>	<b>2009</b>	<b>2008</b>
Interest income	24	324,696	307,094
Interest expense	24	(182,688)	(170,959)
Net interest income	24	142,008	136,135
Allowance for loan impairment	8, 9	(162,432)	(103,213)
<b>Net interest income after allowance for loan impairment</b>		<b>(20,424)</b>	<b>32,922</b>
Fee and commission income	25	27,485	44,249
Fee and commission expense	25	(8,264)	(12,115)
<b>Net fee and commission income</b>	25	<b>19,221</b>	<b>32,134</b>
Net gains from dealing in foreign currencies		1,797	12,721
Foreign exchange translation result		(482)	17,956
Net gains from investment securities available-for-sale		1,267	2,944
Provision for credit related commitments	32	8,166	(7,020)
Allowance for impairment of investment securities available-for-sale	10	(6,818)	(6,029)
Other income and expenses	26	1,741	(422)
<b>Operating income</b>		<b>4,468</b>	<b>85,206</b>
Operating expenses	27	(60,582)	(77,713)
<b>(Loss)/ profit before income tax benefit</b>		<b>(56,114)</b>	<b>7,493</b>
Income tax benefit	28	1,800	7,769
<b>Net (loss)/ profit for the year</b>		<b>(54,314)</b>	<b>15,262</b>

**PUBLIC JOINT STOCK COMPANY «FUIB»**  
**Statement of Comprehensive Income for the Year Ended 31 December 2009**  
*(in thousands of US dollars)*

	Notes	2009	2008
<b>Net (loss)/ profit for the year</b>		<b>(54,314)</b>	<b>15,262</b>
<b>Other comprehensive income/ (loss):</b>			
Revaluation of investment securities available-for-sale		45	(2,307)
Reclassification adjustment for (losses)/ gains included in the income statement		2,314	(7)
Income tax effect		(407)	407
		<b>1,952</b>	<b>(1,907)</b>
Revaluation of premises		(10,000)	23,309
Income tax effect		2,500	(5,827)
		<b>(7,500)</b>	<b>17,482</b>
Currency translation differences		<b>(15,644)</b>	<b>(270,573)</b>
<b>Other comprehensive loss for the year, net of tax</b>		<b>(21,192)</b>	<b>(254,998)</b>
<b>Total comprehensive loss for the year, net of tax</b>		<b>(75,506)</b>	<b>(239,736)</b>

**PUBLIC JOINT STOCK COMPANY «FUIB»**  
**Statement of Cash Flows for the Year Ended 31 December 2009**  
(in thousands of US dollars)

	2009	2008
<i>Cash flows from operating activities</i>		
Interest income received	279,240	304,122
Interest expense paid	(205,904)	(169,034)
Fee and commission income received	27,156	44,329
Fee and commission expense paid	(8,424)	(11,944)
Income received from trading in foreign currencies	1,798	12,721
Other income received	4,262	1,893
Operating expenses paid	(52,204)	(64,682)
Income tax paid	-	(9,444)
<b>Cash flows from operating activities before changes in operating assets and liabilities</b>	<b>45,924</b>	<b>107,961</b>
<i>Net (increase)/decrease in operating assets:</i>		
Mandatory reserve balance with the National Bank of Ukraine	6,143	(9,387)
Due from other banks	(84,115)	(12,335)
Loans to customers	354,939	(696,383)
Other assets	(6,100)	(422)
<i>Net increase /(decrease) in operating liabilities:</i>		
Due to the National Bank of Ukraine	180,821	66,805
Due to other banks	(32,387)	15,626
Customer accounts	(143,950)	233,162
Other liabilities	(31,337)	(3,588)
<b>Net cash from/(used in) operating activities</b>	<b>289,938</b>	<b>(298,561)</b>
<i>Cash flows from investing activities</i>		
Purchase of property and equipment and intangible assets	(11,442)	(26,855)
Proceeds from sale of property and equipment	315	383
Purchase of investment securities	(31,958)	(381,694)
Proceeds from sale and redemption of investment securities	50,897	429,824
<b>Net cash from investing activities</b>	<b>7,812</b>	<b>21,658</b>
<i>Cash flows from financing activities</i>		
Proceeds from bonds issued	-	98,898
Redemption of bonds issued	(36,722)	(103,525)
Proceeds from other borrowed funds	18,778	511,089
Redemption of other borrowed funds	(205,420)	(496,409)
Share issue	-	208,176
Proceeds from subordinate debt	27,552	-
<b>Net cash (used in)/from financing activities</b>	<b>(195,812)</b>	<b>218,229</b>
Effect of exchange rate changes on cash and cash equivalents	1,267	35,726
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>103,205</b>	<b>(22,948)</b>
Cash and cash equivalents at the beginning of the year	144,212	167,160
<b>Cash and cash equivalents at the end of the year (Note 6)</b>	<b>247,417</b>	<b>144,212</b>

**PUBLIC JOINT STOCK COMPANY «FUIB»**

**Statement of Changes in Equity for the Year Ended 31 December 2009**

(in thousands of US dollars)

	Share capital	Share premium	Revaluation reserve for investment securities available-for-sale	Revaluation reserve for premises	Currency translation reserve	Other reserve	Retained earnings	Total equity
<b>Balance at 1 January 2008</b>	<b>325,868</b>	<b>11,247</b>	<b>32</b>	<b>67,556</b>	<b>6,410</b>	<b>(2,856)</b>	<b>74,463</b>	<b>482,720</b>
Net profit for the year	-	-	-	-	-	-	15,262	15,262
Other comprehensive (loss)/ income for the year	-	-	(1,907)	17,482	(270,573)	-	-	(254,998)
Total comprehensive (loss)/ income for the year	-	-	(1,907)	17,482	(270,573)	-	15,262	(239,736)
Depreciation transfer on revalued premises	-	-	-	(1,005)	-	-	1,005	-
Share issue (Note 22)	208,176	-	-	-	-	-	-	208,176
Translation to presentation currency	(189,147)	(3,870)	(25)	(27,653)	-	244,030	(23,335)	-
<b>Balance at 31 December 2008</b>	<b>344,897</b>	<b>7,377</b>	<b>(1,900)</b>	<b>56,380</b>	<b>(264,163)</b>	<b>241,174</b>	<b>67,395</b>	<b>451,160</b>
Net loss for the year	-	-	-	-	-	-	(54,314)	(54,314)
Other comprehensive (loss)/ income for the year	-	-	1,952	(7,500)	(15,644)	-	-	(21,192)
Total comprehensive (loss)/ income for the year	-	-	1,952	(7,500)	(15,644)	-	(54,314)	(75,506)
Depreciation transfer on revalued premises	-	-	-	(1,254)	-	-	1,254	-
Translation to presentation currency	(12,310)	(263)	(18)	(2,009)	-	17,143	(2,543)	-
<b>Balance at 31 December 2009</b>	<b>332,587</b>	<b>7,114</b>	<b>34</b>	<b>45,617</b>	<b>(279,807)</b>	<b>258,317</b>	<b>11,792</b>	<b>375,654</b>



## **1. Principal Activities**

PUBLIC JOINT STOCK COMPANY “FIRST UKRAINIAN INTERNATIONAL BANK” (the “Bank”) was established on 20 November 1991 and commenced operations in April 1992. The Bank provides a full range of banking services, including taking deposits and granting loans, investing in securities, transfer of payments in Ukraine and abroad, exchange of currencies and issuance and processing of payment cards.

The registered office of the Bank is located at: 2-a Universytetska Street, Donetsk, Ukraine. As at 31 December 2009, it had 11 branches throughout Ukraine. The Bank had 2,622 employees as at 31 December 2009 (2008 – 3,271 employees).

The Bank’s shareholders as at 31 December 2009 are “SCM FINANCE” (89.9% of share capital), Ukrainian Steel Holdings Ltd (USH) (10.0% of share capital) and a private shareholder (0.1% of share capital) (31 December 2008: “SCM FINANCE” – 89.9% of share capital, Ukrainian Steel Holdings Ltd (USH) – 10.0% of share capital and a private shareholder – 0.1% of share capital). The ultimate controlling party of the Bank is a Ukrainian citizen, Mr. R.L. Akhmetov.

## **2. Operating Environment of the Bank**

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 the liquidity of banks, much tighter credit conditions where credit is available, and significant devaluation of the national currency against major currencies. Furthermore, in 2009 international agencies continued to downgrade the country’s credit ratings. However, it should be mentioned that during the first half year period of 2009 the exchange rate was stable. Whilst the Ukrainian Government is introducing various stabilisation measures aimed at supporting the exchange rate and the banking sector, there continues to be uncertainty regarding exchange rates, access to capital and its cost for the Bank and its counterparties. At the same time, the global economic recession has also had a significant impact on Ukraine’s balance of payments resulting from a drop in exports. These factors could affect the Bank’s financial position, results of operations and business prospects.

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

## **2. Operating Environment of the Bank (continued)**

While 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.

## **3. Basis of Preparation**

### ***General***

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

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

The financial statements are presented in thousands of US dollars ("USD") unless otherwise indicated.

### ***Inflation accounting***

The Ukrainian economy was regarded as being hyperinflationary for the ten-year period ended 31 December 2000. As such, the Bank has applied IAS 29 "Financial accounting in hyperinflationary economies". The effect of applying IAS 29 is that non-monetary items were restated using the Consumer Price Index to measuring units current at 31 December 2000, and these restated values were used as a basis for accounting in subsequent accounting periods.

## **4. Summary of Significant 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:

### ***Improvements to IFRS***

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

### ***IAS 1 Presentation of Financial Statements (Revised)***

A revised IAS 1 was issued in September 2007, and became effective for annual periods beginning on or after 1 January 2009. This revised Standard separates owner and non-owner changes in equity. The statement of changes in equity will include only details of transactions with owners, with non-owner changes in equity presented as a single line. In addition, the Standard introduces the statement of comprehensive income: it presents all items of recognised

#### **4. Summary of Significant Accounting Policies (continued)**

income and expense, either in one single statement, or in two linked statements. The revised standard also requires that the income tax effect of each component of comprehensive income be disclosed. In addition, it requires entities to present a comparative statement of financial position as at the beginning of the earliest comparative period when the entity has applied an accounting policy retrospectively, makes a retrospective restatement, or reclassifies items in the financial statements.

The Bank has elected to present comprehensive income in two separate statements: a statement of income and a statement of comprehensive income. The Bank has not provided a restated comparative set of financial position for the earliest comparative period, as it has not adopted any new accounting policies retrospectively, nor has it made a retrospective restatement.

##### *IFRS 7 “Financial Instruments: Disclosures”*

The amendments to IFRS 7 were issued in March 2009, to enhance fair value and liquidity disclosures. With respect to fair value, the amendments require disclosure of a three-level fair value hierarchy, by class, for all financial instruments recognised at fair value and specific disclosures related to the transfers between levels in the hierarchy and detailed disclosures related to level 3 of the fair value hierarchy. In addition, the amendments modify the required liquidity disclosures with respect to derivative transactions and assets used for liquidity management. For respective disclosures refer to Notes 29 and 30.

##### *IAS 23 “Borrowing Costs” (Revised)*

A revised IAS 23 Borrowing costs was issued in March 2007, and became effective for financial years beginning on or after 1 January 2009. The standard has been revised to require capitalisation of borrowing costs when such costs relate to a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. In accordance with the transitional requirements in the Standard, the Bank adopted this as a prospective change. No changes were made for borrowing costs incurred to 1 January 2009 that have been expensed.

##### *Amendments to IAS 32 “Financial Instruments: Presentation” and IAS 1 “Presentation of Financial Statements” – Puttable Financial Instruments and Obligations Arising on Liquidation*

These amendments were issued in February 2008, and became effective for annual periods beginning on or after 1 January 2009. The amendments require puttable instruments that represent a residual interest in an entity to be classified as equity, provided they satisfy certain conditions. These amendments did not have any impact on the Bank.

##### *Amendments to IFRS 2 “Share-based Payment”- Vesting Conditions and Cancellations*

Amendment to IFRS 2 were issued in January 2008 and became effective for annual periods beginning on or after 1 January 2009. This amendment clarifies the definition of vesting conditions and prescribes the accounting treatment of an award that is effectively cancelled because a non-vesting condition is not satisfied. This amendment did not have any impact on the financial position or performance of the Bank.

##### *IFRS 8 “Operating Segments”*

IFRS 8 became effective for annual periods beginning on or after 1 January 2009. This Standard requires disclosure of information about the Bank’s operating segments and replaces the

#### **4. Summary of Significant Accounting Policies (continued)**

requirement to determine primary (business) and secondary (geographical) reporting segments of the Bank. Adoption of this Standard did not have any impact on the financial position or performance of the Bank. The Bank determined that the operating segments are the same as the business segments previously identified under IAS 14 ‘Segment Reporting’.

##### *IFRIC 13 “Customer Loyalty Programmes”*

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

##### *IFRIC 15 “Agreements for the Construction of Real Estate”*

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

##### *IFRIC 16 “Hedges of a Net Investment in a Foreign Operation”*

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

##### *Amendments to IFRIC 9 “Reassessment of Embedded Derivatives”*

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

##### *IFRIC 18 “Transfers of Assets from Customers”*

IFRIC 18 was issued in January 2009 and becomes effective for transfers of assets from customers received on or after 1 July 2009 with early application permitted, provided valuations were obtained at the date those transfers occurred. This interpretation should be applied prospectively. IFRIC 18 provides guidance on accounting for agreements in which an entity

#### **4. Summary of Significant Accounting Policies (continued)**

receives from a customer an item of property, plant and equipment that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services or to do both. This interpretation did not have any impact on the financial position or performance of the Bank as the Bank has no such transfers of assets from its customers.

##### ***Financial assets***

###### ***Initial recognition***

Financial assets in the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, 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.

###### ***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.

###### ***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 financial assets at fair value through profit or loss or designated as available-for-sale financial assets. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the statement of income when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

###### ***Available-for-sale financial assets***

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

###### ***Determination of fair value***

The fair value for financial instruments traded in an active market at the statement of financial position 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

#### **4. Summary of Significant Accounting Policies (continued)**

techniques, comparison to similar instruments for which market observable prices exist, option pricing models and other relevant valuation models.

##### ***Offsetting***

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

##### ***Cash and cash equivalents***

Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes. For an investment to qualify as a cash equivalent it must be readily convertible to a known amount of cash and be subject to an insignificant risk of changes in value. Cash and cash equivalents include balances on correspondent accounts and overnight deposits due from other banks, cash on hand and balances with the National Bank of Ukraine (NBU), excluding mandatory reserve balances.

##### ***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 precious metals in the foreign exchange translation result.

##### ***Mandatory reserve balance***

The mandatory reserve balances are carried at amortised cost and represent funds, which are not available to finance the Bank's day-to-day operations and hence are not considered as part of cash and cash equivalents for the purposes of the cash flow statement.

##### ***Sale and repurchase agreements***

Sale and repurchase agreements ("repo agreements") are treated as secured financing transactions. Securities sold under sale and repurchase agreements are retained in the statement of financial position. The securities are not reclassified in the statement of financial position unless the transferee has the right by contract or custom to sell or repledge the securities, in which case they are reclassified as securities pledged under sale and repurchase agreements. The corresponding liability is presented within amounts due to other banks or other borrowed funds. 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 trading securities in the statement of income. The obligation to return them is recorded at fair value as a trading liability.

#### **4. Summary of Significant Accounting Policies (continued)**

##### ***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 statement of income as net gains from investment securities available-for-sale or net gains from foreign currencies dealing, depending on the nature of the instrument.

##### ***Promissory notes***

Promissory notes are included in investment securities available-for-sale or in loans to customers, depending on their substance and are recognised and subsequently remeasured and accounted in accordance with the accounting policies for these categories of assets.

##### ***Impairment of financial assets***

The Bank assesses at each statement of financial position 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 occurred after the initial recognition of the financial asset (an incurred 'loss event') and that loss event (or events) has an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. 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.

##### ***Due from other banks and loans to customers***

For due from other banks 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 exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. 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 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 statement of income. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the

#### **4. Summary of Significant Accounting Policies (continued)**

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 statement of income.

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

Future cash flows in 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 past periods on which historical loss experience is based and to remove the effects of past conditions that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the group or their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

##### *Available-for-sale financial investments*

For available-for-sale financial investments, the Bank assesses at each statement of financial position 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 statement of income – is removed from other comprehensive income and recognised in the statement of income. Impairment losses on equity investments are not reversed through the statement of income; increases in their fair value after impairment are recognised directly in other comprehensive income.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. Future interest income is based on



#### **4. Summary of Significant Accounting Policies (continued)**

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 statement of income. 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 statement of income, the impairment loss is reversed through the statement of income.

##### ***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. 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.

##### ***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 National Bank of Ukraine, due to other banks, customer accounts, Eurobonds issued, bonds issued and other borrowed funds. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in the statement of income when the borrowings are derecognised as well as through the amortisation process.

##### ***Financial guarantees***

Financial guarantees represent irrevocable assurances to make payments in the event that a customer cannot meet its obligations to third parties and carry the same credit risk as loans. Financial guarantees are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the commitment. At each statement of financial position date, the financial guarantees are measured at the higher of (i) the unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the commitment at the statement of financial position date. Any increase in the liability relating to financial guarantees is taken to the statement of income.

##### ***Other credit related commitments***

In the normal course of business, the Bank enters into other credit related commitments including loan commitments and letters of credit. When a loss is considered probable, provisions are recorded against other credit related commitments.

##### ***Derecognition of financial assets and liabilities***

###### ***Financial assets***

The Bank derecognises financial assets (or, where applicable, a part of a financial asset or part of a group of similar financial assets) when (i) the contractual rights to the cash flows from the financial asset expire or (ii) the Bank transfers its contractual rights to receive the cash flows of

#### **4. Summary of Significant Accounting Policies (continued)**

the financial asset, or retains the contractual rights to receive the cash flows of the financial asset, but assumes a contractual obligation to pay these cash flows of the financial asset and (iii) the Bank either (a) transfers substantially all the risks and rewards of ownership of the financial asset, or (b) neither transferred nor retained substantially all risks and rewards of ownership of the financial asset but has not retained control of this asset.

##### *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 statement of income.

##### *Property and equipment*

Property and equipment, other than premises, acquired after 31 December 2000 are stated at cost, less accumulated depreciation and any accumulated impairment, where required. Property and equipment, other than premises, acquired prior to 31 December 2000 are stated at cost, restated to the equivalent purchasing power of the Ukrainian hryvnia at 31 December 2000 less accumulated depreciation and any accumulated impairment, where required.

Following initial recognition at cost, the premises of the Bank are carried 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.

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

When an item of property and equipment is revalued, any accumulated depreciation is restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount.

The revaluation reserve is transferred directly to retained earnings when the surplus is realised, i.e. either on the retirement or disposal of the asset, or as the asset is used by the Bank; in the latter case, the amount of the surplus realised is the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost.

#### **4. Summary of Significant Accounting Policies (continued)**

Construction in progress is carried at cost, less provision for any impairment in value. Upon completion, assets are transferred to premises or leasehold improvements at their carrying value. Construction in progress is not depreciated until the asset is available for use.

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.

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

Depreciation is calculated on a straight line basis over the estimated useful lives of the assets using the following annual rates:

Premises	2%	
Leasehold improvements	20%	or over the term of lease if shorter than 5 years
Computers and other equipment	20-33%	

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

##### ***Intangible assets***

All of the Bank's intangible assets have a definite useful life and include capitalised computer software and licences.

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Development costs that are directly associated with identifiable and unique software controlled by the Bank are recorded as intangible assets if inflow of incremental economic benefits exceeding costs is probable. Capitalised costs include staff costs of the software development team and an appropriate portion of relevant overheads.

All other costs associated with computer software, e.g. its maintenance, are expensed when incurred. Capitalised computer software and licences are amortised on a straight line basis over expected useful lives of 3 to 10 years.

##### ***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 the fair value of investment property are recorded in the statement of income in 'Other income and expenses' in the year in which they arise.

##### ***Share capital***

Ordinary shares are classified as equity. Share premium represents the excess of contributions over the nominal value of the shares issued. Gains and losses arising on the sale of treasury shares are shown as adjustments to share premium.

#### **4. Summary of Significant Accounting Policies (continued)**

##### ***Foreign currency translation***

The Ukrainian hryvnia is utilised as the functional currency as the majority of the transactions are denominated, measured, or funded in Ukrainian hryvnia. Transactions in other currencies are treated as transactions in foreign currencies. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the statement of financial position date. Gains and losses resulting from the translation of foreign currency transactions are recognised in the statement of income as foreign exchange translation results. 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.

The Bank uses the US dollar as the currency in which it presents its financial statements, which means that statement of financial position items are translated into US dollars at the exchange rate ruling at the year end. Income statement items are translated at the exchange rate at the date of the transaction. Equity items other than the net profit or loss for the period that is included in the balance of retained earnings are translated at the closing rate existing ruling at the date of each statement of financial position presented. All exchange differences resulting from translation of statement of financial position items and income statement items are recognised in other comprehensive income.

The US dollar ("USD") has been selected as the presentation currency for the Bank for the following reasons:

- A significant portion of the transactions of the Bank are denominated in USD;
- The USD is the currency in which the Management of the Bank manages business risks and exposures, and measures the performance of its business.

As at 31 December 2009, the exchange rate of the Ukrainian hryvnia as established by the NBU was UAH 7.985 to 1 US dollar (2008: UAH 7.7) and UAH 11.448893 to 1 euro (2008: UAH 10.85546).

##### ***Income taxes***

Income taxes have been provided for in the financial statements in accordance with Ukrainian legislation enacted or substantively enacted by the statement of financial position date. The income tax charge comprises current tax and deferred tax and is recognised in the statement of income except if it is recognised in other comprehensive income because it relates to transactions that are also recognised, in the same or a different period, in other comprehensive income.

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxes, other than on income, are recorded within operating expenses.

Deferred income tax is provided using the liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax balances are measured at tax rates enacted or substantively enacted at the statement of financial position date which are

#### **4. Summary of Significant Accounting Policies (continued)**

expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

##### ***Recognition of income and expenses***

###### ***Interest and similar income and expense***

Interest income and expense are recorded in the statement of income for all financial instruments measured at amortised cost and interest bearing securities classified as available-for-sale at the effective interest method. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment option) but does not consider future credit losses. The calculation includes all fees paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

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***

Fees, commissions and other income and expense items, including fees for issuance of guarantees, are generally recorded on an accrual basis by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided. Commitment fees for loans or borrowings which are probable of being drawn down, are deferred (together with related direct costs) and recorded as an adjustment to the effective interest on the loan or borrowings. Commissions and fees arising from negotiating, or participating in the negotiation of a transaction for a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses, are recorded on completion of the underlying transaction.

###### ***Fiduciary activities***

Assets and liabilities held by the Bank in its own name, but on the account of third parties, are not reported on the statement of financial position. Commissions received from such business are shown in fee and commission income within the statement of income.

###### ***Provisions for contingencies***

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events, 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 the obligation can be made.

#### **4. Summary of Significant Accounting Policies (continued)**

##### ***Retirement and other employee benefit obligations***

The Bank contributes to the Ukrainian State pension scheme, social insurance and employment funds in respect of its employees. The Bank's contributions to the aforementioned funds are expensed as incurred. In addition, the Bank has no post-retirement benefits.

##### ***Operating leases***

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

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 direct costs incurred in modernisation are added to the carrying amount of the leased asset.

##### ***Segment reporting***

The Bank's segmental reporting is based on the following operating segments: Retail banking, Corporate banking, Investment banking and treasury.

##### ***Future changes in accounting policies***

*Standards and interpretations issued but not yet effective*

##### ***Amendment to IAS 39 "Financial Instruments: recognition and measurement" – Eligible Hedged Items***

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

##### ***IFRS 2 "Share-based Payment: Group Cash-settled Share-based Payment Transactions"***

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

##### ***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

#### **4. Summary of Significant Accounting Policies (continued)**

amount of the net assets distributed in profit or loss. The Interpretation also requires an entity to provide additional disclosures if the net assets being held for distribution to owners meet the definition of a discontinued operation. The Bank expects that this interpretation will have no impact on the Bank's financial statements.

##### *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" will have 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.

- 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. The Bank expects that this amendment will have no impact on the Bank's financial statements.
- IFRS 8 "Operating Segment Information": clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker. As the Bank's chief operating decision maker does review segment assets and liabilities, the Bank will continue 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.

##### *Amendments to IAS 32 "Financial instruments: Presentation": Classification of Rights Issues"*

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

##### *IFRS 9 "Financial Instruments"*

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

## **5. Critical Accounting Estimates and Judgements in Applying Accounting Policies**

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

### ***Fair value of financial instruments***

Where the fair values of financial assets and financial liabilities recorded on 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 judgement is required in establishing fair values.

### ***Allowance for impairment of loans to customers***

The Bank regularly reviews its loan portfolios to assess impairment. In determining whether an impairment loss should be recorded in the statement of income, the Bank makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

### ***Fair value of premises***

As stated in Note 4, the premises of the Bank are subject to revaluation on a regular basis. Such revaluations are based on the results of work of independent valuers. The basis for their work is the sales comparison approach which is further confirmed by the income capitalisation approach. When performing the revaluation certain judgements and estimates are applied by the valuers in determination of the comparison of premises to be used in the sales comparison approach, the useful life of the assets revalued, the capitalisation rate to be applied for the income capitalisation approach. Capitalisation rates applied by the Bank varied from 4% to 13%, depending upon the location of the premises. Changes in assumptions about these factors could affect reported fair values. The valuation is based on comparative sales of premises with the a price per square metre varying from USD 326 to USD 5,445 (2008: from USD 400 to USD 9,266), depending upon the location of the premises. To the extent that the price per square metre differs by plus or minus 5 percent, the fair value of premises would be USD 5,248 thousand higher or USD 5,248 thousand lower (2008: USD 6,174 thousand higher or USD 6,174 thousand lower).



## **5. Critical Accounting Estimates and Judgements in Applying Accounting Policies (continued)**

### ***Related party transactions***

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

## **6. Cash and Cash Equivalents**

For the purpose of the cash flow statement cash and cash equivalents comprised the following:

	<b>2009</b>	<b>2008</b>
Current accounts and overnight deposits with other banks	184,398	80,739
Cash on hand and in transit	45,550	57,418
Current account with the National Bank of Ukraine (other than mandatory reserve balance, Note 7)	17,469	6,055
<b>Total cash and cash equivalents</b>	<b>247,417</b>	<b>144,212</b>

## **7. Balance with the National Bank of Ukraine**

	<b>2009</b>	<b>2008</b>
Current account with the National Bank of Ukraine, including:		
- part of mandatory reserve balance	32,849	41,668
Restricted account (50% of mandatory reserve)	15,380	35,613
Restricted account (other mandatory reserve)	15,220	-
	2,100	-
<b>Total balance with the National Bank of Ukraine</b>	<b>50,169</b>	<b>41,668</b>

The current account with the NBU represents amounts deposited with the NBU relating to daily settlements and other activities. The Bank is also required to maintain, in the form of a non-interest earning cash deposit, certain cash reserves with the NBU (mandatory reserve), which are computed as a percentage of certain of the Bank's liabilities. The Bank was obligated to and maintained the minimal cumulative average reserve calculated on a daily basis over a monthly period. The average daily requirement for the period from 1 to 31 December 2009 was USD 30,560 thousand (2008: USD 35,613 thousand). The Bank meets the NBU mandatory reserve requirements as at 31 December 2009 and 2008.

With effect from August 2009, Ukrainian banks are required to keep 50% of the mandatory reserve for the previous month on a separate account with the NBU with interest at 3% p.a. As at

## **7. Balance with the National Bank of Ukraine (continued)**

31 December 2009, USD 15,180 thousand were placed by the Bank on a separate account with the NBU – restricted account (50% of mandatory reserve). As at 31 December 2009, interest accrued on this balance was USD 40 thousand. These funds are not available for the Bank's day-to-day operations.

In addition, with effect from 2009, Ukrainian banks are required to keep on a separate account with the NBU the amount equal to allowance for loan impairment (determined on the basis of Ukrainian accounting regulation) created for loans granted in foreign currency to borrowers with no foreign currency income.

As at 31 December 2009, the Bank placed USD 2,100 thousand on such separate account – restricted account (other mandatory reserve). These funds are not available for the Bank's day-to-day operations.

## **8. Due from Other Banks**

	<b>2009</b>	<b>2008</b>
Current accounts and overnight deposits with other banks		
- OECD countries	120,657	70,470
- Non-OECD countries	4,207	5,314
- Domestic	59,554	5,029
	<b>184,418</b>	<b>80,813</b>
Term deposits with other banks		
- Domestic	97,819	-
- OECD countries	13,633	32,760
- Non-OECD countries	336	
	<b>111,788</b>	<b>32,760</b>
Allowance for impairment	(39)	-
<b>Total due from other banks</b>	<b>296,167</b>	<b>113,573</b>

Movements in allowance of due with other banks during the year were as follows:

	<b>2009</b>	<b>2008</b>
Balance as at 1 January	-	-
Charge for the year	41	-
Exchange rate impact	(2)	-
<b>Balance as at 31 December</b>	<b>39</b>	<b>-</b>

Current accounts and overnight deposits with other banks included accrued interest income of USD 20 thousand (2008: USD 74 thousand).

## **8. Due from Other Banks (continued)**

During 2009, the Bank placed with and received short-term funds from Ukrainian banks in various currencies. As at 31 December 2009, the Bank placed an equivalent of USD 142,233 thousand as deposits with Ukrainian banks and received an equivalent of USD 141,602 thousand from the same Ukrainian banks in different currencies (2008: placed an equivalent of USD 298,491 thousand and received an equivalent of USD 333,686 thousand). These deposits were treated as currency swaps for the purpose of these financial statements and were reported on a net basis at USD 829 thousand in other assets and at USD 198 thousand in other liabilities (2008: USD 2,416 thousand in other assets and at USD 37,611 thousand in other liabilities) (Note 12, 19, 21).

As at 31 December 2009, term deposits placed with other banks in OECD and non-OECD countries of USD 13,969 thousand (2008: USD 11,611 thousand) represented security deposits against import letters of credit and guarantees issued by the Bank in favour of its clients.

## **9. Loans to Customers**

	<b>2009</b>	<b>2008</b>
Corporate loans	1,224,750	1,413,906
Loans to individuals	480,979	582,349
Discounted bills	-	33,245
	<b>1,705,729</b>	<b>2,029,500</b>
Allowance for loan impairment	(287,592)	(127,354)
<b>Total loans to customers</b>	<b>1,418,137</b>	<b>1,902,146</b>

As at 31 December 2009, the total gross amount of non-performing loans was USD 444,142 thousand (2008: USD 104,716 thousand). Non-performing loans include overdue loans with a delinquency term of over 60 days.

Included in gross loans to customers as at 31 December 2009 were loans of USD 1,630,418 thousand (2008: USD 1,856,429 thousand) with fixed interest rates and loans of USD 75,311 thousand (2007: USD 173,071 thousand) with floating interest rates.

## 9. Loans to Customers (continued)

### *Allowance for impairment of loans to customers*

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

	Corporate loans	Loans to individuals	Discounted bills	Total
<b>Balance at 1 January 2009</b>	87,448	39,786	120	127,354
Charge for the year	128,834	33,675	(118)	162,391
Loans written off during the year as uncollectable	-	(5)	-	(5)
Exchange rate impact	(1,446)	(700)	(2)	(2,148)
<b>Balance at 31 December 2009</b>	<b>214,836</b>	<b>72,756</b>	<b>-</b>	<b>287,592</b>
Individual impairment	212,277	68,884	-	281,161
Collective impairment	2,559	3,872	-	6,431
	<b>214,836</b>	<b>72,756</b>	<b>-</b>	<b>287,592</b>
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	488,983	205,578	-	694,561

	Corporate loans	Loans to individuals	Discounted bills	Total
<b>Balance at 1 January 2008</b>	32,639	7,889	284	40,812
Charge for the year	67,085	34,920	1,208	103,213
Loans written off during the year as uncollectable	(379)	(4)	-	(383)
Exchange rate impact	(11,897)	(3,019)	(1,372)	(16,288)
<b>Balance at 31 December 2008</b>	<b>87,448</b>	<b>39,786</b>	<b>120</b>	<b>127,354</b>
Individual impairment	83,233	30,892	-	114,125
Collective impairment	4,215	8,894	120	13,229
	<b>87,448</b>	<b>39,786</b>	<b>120</b>	<b>127,354</b>
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	183,924	126,765	-	310,689

### *Individually impaired loans*

As at 31 December 2009, interest income accrued on impaired loans amounted to USD 28,356 thousand (2008: USD 2,447 thousand).

The fair value of collateral that the Bank holds relating to loans individually determined to be impaired as at 31 December 2009 amounts to USD 562,782 thousand (2008: USD 237,347 thousand). In accordance with Ukrainian legislation, loans may only be written off with the

## **9. Loans to Customers (continued)**

approval of the Board of Directors 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 property, inventory and trade receivables, property rights for deposit;
- For retail lending: property rights for movable and immovable property, property rights for deposit.

The Bank also obtains guarantees from parent companies for loans to their subsidiaries.

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.

As at 31 December 2009, loans collateralised by customer deposits with the Bank amounted to USD 22,987 thousand (2008: USD 60,558 thousand) (Note 15).

### *Concentration of loans to customers*

As at 31 December 2009, the Bank's 20 largest borrowers, with aggregate loan amounts of USD 456,638 thousand, represented 27% of the gross loan portfolio (2008: 20 largest borrowers, with aggregate loan amounts of USD 519,076 thousand, represented 26% of the gross loan portfolio).

The loan portfolio of the Bank by economic sector is as follows:

	<b>2009</b>	<b>2008</b>
Trade and agency services	585,856	679,078
Individuals	480,979	582,349
Food industry and agriculture	186,808	279,572
Metallurgy	169,388	167,053
Machine building	79,463	103,109
Chemical	36,756	48,943
Transport, communication and infrastructure	26,035	30,584
Mining	13,125	17,691
Other	127,319	121,121
<b>Total loans to customers (gross amount)</b>	<b>1,705,729</b>	<b>2,029,500</b>

## **9. Loans to Customers (continued)**

The Bank's lending activities are conducted in Ukraine. The ability of borrowers to repay their debt is dependent on a number of factors including the overall financial health of the borrower and the Ukrainian economy.

As at 31 December 2009, included in loans were loans with a carrying value of USD 296,039 thousand (2008: USD 119,085 thousand) placed as collateral for loans received from the NBU (Note 13).

## **10. Investment Securities Available-for-sale**

	<b>2009</b>	<b>2008</b>
Corporate bonds	149	33,542
Ukrainian Government debt securities	6,085	-
<b>Total investment securities available-for-sale</b>	<b>6,234</b>	<b>33,542</b>

## 11. Property and Equipment, Investment Property and Intangible Assets

	Premises	Leasehold improve- ments	Computers and other equipment	Capital investments in property and equipment	Total proper- ty and equipm ent	Invest- ment property	Intan- gible assets	Total
<b>Cost or valuation</b>								
1 January 2009	139,400	4,143	31,983	711	176,237	4,979	6,048	<b>187,264</b>
Additions	168	-	3,068	835	4,071	-	1,340	<b>5,411</b>
Disposals / write- offs	(46)	(429)	(1,157)	-	(1,632)	(314)	(45)	<b>(1,991)</b>
Transfers	690	32	(22)	(1,148)	(448)	435	13	<b>-</b>
Revaluation	669	-	-	-	669	1,280	-	<b>1,949</b>
Impairment loss	(14,869)	-	-	-	(14,869)	(1,511)	-	<b>(16,380)</b>
Translation to presentation currency	(5,000)	(139)	(1,325)	125	(6,339)	(189)	(241)	<b>(6,769)</b>
<b>As at 31 December 2009</b>	<b>121,012</b>	<b>3,607</b>	<b>32,547</b>	<b>523</b>	<b>157,689</b>	<b>4,680</b>	<b>7,115</b>	<b>169,484</b>
<b>Depreciation and amortisation</b>								
1 January 2009	<b>15,921</b>	<b>1,240</b>	<b>16,976</b>	-	<b>34,137</b>	-	<b>3,625</b>	<b>37,762</b>
Charge for the year (Note 27)	2,692	684	4,279	-	7,655	-	824	<b>8,479</b>
Disposals / write- offs	(17)	(165)	(1,060)	-	(1,242)	-	(40)	<b>(1,282)</b>
Transfers	1	1	(8)	-	(6)	-	6	<b>-</b>
Revaluation	20	-	-	-	20	-	-	<b>20</b>
Impairment loss	(1,945)	-	-	-	(1,945)	-	-	<b>(1,945)</b>
Translation to presentation currency	(629)	(58)	(687)	-	(1,374)	-	(147)	<b>(1,521)</b>
<b>As at 31 December 2009</b>	<b>16,043</b>	<b>1,702</b>	<b>19,500</b>	<b>-</b>	<b>37,245</b>	<b>-</b>	<b>4,268</b>	<b>41,513</b>
<b>Net book value as at 31 December 2009</b>	<b>104,969</b>	<b>1,905</b>	<b>13,047</b>	<b>523</b>	<b>120,444</b>	<b>4,680</b>	<b>2,847</b>	<b>127,971</b>

# **11. Property and Equipment, Investment Property and Intangible Assets (continued)**

	Premises	Leasehold improve- ments	Computers and other equipment	Capital investments in property and equipment	Total proper- ty and equipm ent	Invest- ment property	Intan- gible assets	Total
<b>Cost or valuation</b>								
1 January 2008	164,478	4,111	42,429	3,443	214,461	4,406	7,299	<b>226,166</b>
Additions	13,025	8	11,567	6,546	31,146	-	1,890	<b>33,036</b>
Disposals / write- offs	(473)	(566)	(2,482)	-	(3,521)	(45)	(54)	<b>(3,620)</b>
Transfers	5,148	2,887	(2,156)	(8,472)	(2,593)	2,593	-	-
Revaluation	26,718	-	-	-	26,718	860	-	<b>27,578</b>
Impairment loss	(3,895)	-	-	-	(3,895)	(293)	-	<b>(4,188)</b>
Translation to presentation currency	(65,601)	(2,297)	(17,375)	(806)	(86,079)	(2,542)	(3,087)	<b>(91,708)</b>
<b>As at 31 December 2008</b>	<b>139,400</b>	<b>4,143</b>	<b>31,983</b>	<b>711</b>	<b>176,237</b>	<b>4,979</b>	<b>6,048</b>	<b>187,264</b>
<b>Depreciation and amortisation</b>								
1 January 2008	19,045	1,220	23,133		43,398		4,562	<b>47,960</b>
Charge for the year (Note 27)	3,090	881	5,559		9,530		933	<b>10,463</b>
Disposals / write- offs	(463)	(301)	(2,398)		(3,162)		(17)	<b>(3,179)</b>
Revaluation	2,406	-	-		2,406		-	<b>2,406</b>
Impairment loss	(69)	-	-		(69)		-	<b>(69)</b>
Translation to presentation currency	(8,088)	(560)	(9,318)		(17,966)		(1,853)	<b>(19,819)</b>
<b>As at 31 December 2008</b>	<b>15,921</b>	<b>1,240</b>	<b>16,976</b>		<b>34,137</b>		<b>3,625</b>	<b>37,762</b>
<b>Net book value as at 31 December 2008</b>	<b>123,479</b>	<b>2,903</b>	<b>15,007</b>	<b>711</b>	<b>142,100</b>	<b>4,979</b>	<b>2,423</b>	<b>149,502</b>



## **11. Property and Equipment, Investment Property and Intangible Assets (continued)**

As at 31 December 2009, the cost of fully depreciated assets still in use by the Bank amounted to USD 12,884 thousand (2008: USD 12,562 thousand).

As at 31 December 2009, the Bank's own premises, furniture, equipment and ATMs, with a net book value of USD 127,971 thousand (2008: USD 149,502 thousand), were insured against risks of natural disasters, robbery, fire and unlawful acts of third parties.

The rental income received in respect of investment property for the year ended 31 December 2009 amounted to USD 408 thousand (2008: USD 690 thousand) (Note 26). The operating and maintenance expenses related to investment property for the year ended 31 December 2009 were USD 139 thousand (2008: USD 38 thousand).

The Bank's premises and investment property were independently valued as at 1 November 2009 for the purposes of these financial statements. The valuation was carried out by independent appraisers. The basis used for the appraisal was the sales comparison approach. This approach was confirmed by the income capitalisation approach.

As at 31 December 2009, the Bank's premises with a carrying value of USD 94,873 thousand and investment property with a carrying value of USD 2,580 thousand were placed as collateral under loans received from the NBU (Note 13).

As at 31 December 2009, the carrying amount of premises would have been USD 51,521 thousand (2008: USD 52,962 thousand) and the carrying amount of investment property would have been USD 2,821 thousand (2008: USD 2,409 thousand) had these assets been measured using the cost model.

The fair value gain of premises of USD 16 thousand (2008: USD 127 thousand) and impairment of premises of USD 2,291 thousand (2008: USD 2,950 thousand) was recognised in the statement of income (Note 26).

The fair value gain on investment property of USD 1,280 thousand (2008: USD 860 thousand) and the impairment of investment property of USD 1,511 thousand (2008: USD 293 thousand) was recognised in the statement of income (Note 26).

## 12. Other Assets

	2009	2008
Derivative financial assets (Note 8, 21)	10,866	2,416
Prepayment for property, equipment and intangible assets	6,478	490
Transaction costs incurred	4,466	1,766
Precious metals	2,911	1,996
Settlements on card operations	2,408	2,293
Premises held-for-sale	314	-
Other	10,353	3,820
Allowance for impairment	(1,443)	(74)
<b>Total other assets</b>	<b>36,353</b>	<b>12,707</b>

## 13. Due to the National Bank of Ukraine

As at 31 December 2009, the Bank had three loans due to the National Bank of Ukraine.

On 10 December 2008, the Bank obtained a refinancing loan of UAH 520,000 thousand (USD 69,986 thousand at UAH/USD exchange rate at the date of receipt). The loan bears interest at 18.5% p.a. and matures in December 2009. In December 2009, the maturity of the loan was extended until December 2012 with a change in interest rate to 12.25% p.a. As at 31 December 2009, the carrying amount of this loan was USD 48,770 thousand (2008: USD 66,805 thousand).

In January 2009, the Bank obtained a liquidity support loan of UAH 500,000 thousand (USD 64,935 thousand at UAH/USD exchange rate at the date of receipt). The loan bears interest at 18.5% p.a. and matures in December 2009. In December 2009, maturity of the loan was extended to December 2012 with a change in interest rate to 12.25% p.a. As at 31 December 2009, the carrying amount of this loan was USD 56,355 thousand.

In March 2009, the Bank obtained a further liquidity support loan of UAH 1,336,900 thousand (USD 171,306 thousand at UAH/USD exchange rate at the date of receipt). The loan bears interest at 16.5% p.a. and matures in March 2010. In December 2009, maturity of the loan was extended to April 2013 with a change in interest rate to 12.25% p.a. As at 31 December 2009, carrying amount of this loan was USD 140,116 thousand.

These loans are secured by loans with a carrying amount of USD 296,039 thousand (Note 9) and the Bank's premises and investment property with a fair value of USD 97,453 thousand (Note 11) (2008: the loan was secured by loans with a carrying amount of USD 119,085 thousand).

**14. Due to Other Banks**

	<b>2009</b>	<b>2008</b>
Current accounts of other banks		
- Domestic	11,847	41,887
- Non-OECD countries	42	127
	<b>11,889</b>	<b>42,014</b>
Term deposits of other banks		
- Domestic	17,988	18,092
- Non-OECD countries	-	2,464
	<b>17,988</b>	<b>20,556</b>
<b>Total due to other banks</b>	<b>29,877</b>	<b>62,570</b>

As at 31 December 2009, included in term deposits of other banks were USD 66 thousand (2008: USD 66 thousand) held as collateral for commitments under import letters of credit and guarantees (Note 32).

## **15. Customer Accounts**

	<b>2009</b>	<b>2008</b>
<b>Legal entities</b>		
- Current accounts	94,852	143,026
- Term deposits	157,523	260,749
- Repurchase agreements	-	668
<b>Individuals</b>		
- Current accounts	75,466	68,604
- Term deposits	399,147	390,427
<b>Total customer accounts</b>	<b>726,988</b>	<b>863,474</b>

As at 31 December 2009, the Bank's 10 largest customers, with an aggregate amount of deposits of USD 132,925 thousand, represented 18% of customer accounts (2008: largest 10 customers, with an aggregate amount of deposits of USD 175,801 thousand, represented 20% of customer accounts).

As at 31 December 2009, included in customer accounts were deposits of USD 34,771 thousand (2008: USD 180,140 thousand) held as collateral for loans to customers of USD 22,987 thousand (2008: USD 60,558 thousand) (Note 9) and loan commitments of USD 4,522 thousand (2008: USD 36,545 thousand). In addition, USD 17,440 thousand (2008: USD 11,015 thousand) is held as collateral for commitments under import letters of credit, guarantees and promissory notes endorsements (Note 32).

In accordance with Ukrainian legislation, the Bank is obliged to repay time deposits of individuals 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.

## **15. Customer Accounts (continued)**

Economic sector concentrations within customer accounts are as follows:

	<b>2009</b>	<b>2008</b>
Individuals	474,613	459,031
Trade and agency services	56,409	104,248
Machine-building	24,883	36,088
Mining and energy	68,250	49,073
Transport and infrastructure	10,319	20,357
Non-banking financial institutions	31,661	43,420
Metallurgy	7,070	14,236
Chemical	6,617	13,502
Agriculture and food	4,348	17,672
Non-commercial institutions	7,722	8,644
Other	35,096	97,203
<b>Total customer accounts</b>	<b>726,988</b>	<b>863,474</b>

## **16. Eurobonds Issued**

In February and May 2007, the Bank obtained a loan amounting to USD 275,000 thousand from Standard Bank Plc. This loan was funded by 9.75% loan participation notes ("Eurobonds") issued by, but without recourse to, Standard Bank Plc, for the sole purpose of funding the loan to the Bank. The loan matured in February 2010. The interest rate on the loan is 9.75% p.a.

In December 2009, as a result of restructuring of the Bank's borrowed funds, this loan was exchanged for a loan bearing interest at 11% p.a. and maturing in December 2014. As at 31 December 2009, the carrying amount of this loan was USD 269,729 thousand.

## 17. Bonds Issued

In June 2007, the Bank issued hryvnia denominated bonds of A series for the total nominal amount of USD 59,406 thousand (UAH 300,000 thousand) with interest of 12.0% p.a. and maturity in June 2010. In April 2008, the Bank issued hryvnia denominated bonds of B series for the total nominal amount of USD 61,870 thousand (UAH 300,000 thousand). These bonds bear interest at 13.5% p.a. and mature in April 2011.

In 2009, the Bank repaid the A series bonds in full and the B series bonds with a total nominal amount of UAH 284,566 thousand before maturity.

	2009		2008	
	Nominal value	Carrying value	Nominal value	Carrying value
Bonds issued series B	253	265	26,699	27,078
Bonds issued series A	-	-	10,519	10,523
<b>Total bonds issued</b>	<b>253</b>	<b>265</b>	<b>37,218</b>	<b>37,601</b>

## 18. Other Borrowed Funds

	2009	2008
Standard Bank London Limited	154,036	154,303
VTB Bank Europe Plc	50,016	49,156
Landesbank Berlin AG	20,563	16,692
HSBC Bank Plc	20,026	34,849
Black Sea Trade and Development Bank	18,390	18,315
Deutsche Bank	12,937	21,509
Fortis Bank (Belgium)	2,752	9,871
Cargill Financial Services International, Inc.	-	93,068
ING Belgium SA/NV Brussels	-	18,487
KBC Bank NV	-	16,023
Credit Suisse Geneva	-	10,427
Other facilities	11,799	42,481
<b>Total other borrowed funds</b>	<b>290,519</b>	<b>485,181</b>

At 22 December 2009, the Bank signed an agreement with a number of its lenders to restructure the Bank's debt with a carrying amount of USD 242,468 thousand. This agreement becomes effective on 4 February 2010. Under the agreement, the Bank's indebtedness to a number of borrowers will be combined into one loan facility with interest at LIBOR + 2.5% p.a. through to 31 December 2012 and LIBOR + 3.0% p.a. for the rest of the loan life until maturity in December 2014.

## **18. Other Borrowed Funds (continued)**

Loans from Landesbank Berlin AG are denominated in euro and bear interest at a weighted average rate of EURIBOR + 0.6% p.a. on the outstanding amount with maturity from 28 June 2013 to 30 November 2014. The loans were received for the purpose of financing the acquisition of import equipment by the Bank's customers.

Loans from Deutsche Bank are denominated in euro and bear interest at a weighted average rate of EURIBOR + 0.9% p.a. on the outstanding amount with maturity from 19 March 2010 to 12 February 2014. The loans were received for the purpose of financing the acquisition of import equipment by the Bank's customers.

Loans from Fortis Bank (Belgium) N.V. are denominated in euro and US dollars and bear interest at a weighted average rate of EURIBOR + 2.3% p.a. on the outstanding amount with maturity from 18 June 2010 to 20 December 2010. The loans were received for the purpose of financing the acquisition of import equipment by the Bank's customers.

Included in other facilities is USD 11,799 thousand, which represents funds received from other banks for the purposes of financing the acquisition of import equipment by the Bank's customers. These facilities are denominated in US dollars and euro and bear interest at a weighted average rate of 5.5% (for euro) and 6.1% (for US dollars) p.a. on the outstanding amount with maturity from 14 January 2010 to 11 February 2014.

## **19. Other Liabilities**

	<b>2009</b>	<b>2008</b>
Derivative financial liabilities (Note 8, 21)	398	37,611
Provision for credit related commitments (Note 32)	218	8,499
Amounts payable to employees	2,254	2,539
Other taxes payable	909	840
Software costs payable under licensing agreements	144	376
Payable under operations with plastic cards	195	127
Other accruals and deferred income	9,614	5,457
<b>Total other liabilities</b>	<b>13,732</b>	<b>55,449</b>

## **20. Subordinated Debt**

In 2009, the Bank obtained subordinated debt of USD 27,552 thousand (as at 31 December 2009 carrying value was USD 27,762 thousand). This deposit bears interest at 9% p.a. and matures in October 2015.

## 21. 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 Bank had outstanding foreign exchange contracts with banks as at 31 December 2009:

<b>2009</b>				
	<b>Purchase of foreign currency</b>	<b>(Sale of foreign currency)</b>	<b>Positive fair value</b>	<b>(Negative fair value)</b>
Currency forwards	101,252	(91,415)	10,037	(200)
Currency swaps	142,233	(141,602)	829	(198)
<b>Total</b>			<b>10,866</b>	<b>(398)</b>

The Bank had outstanding foreign exchange contracts with banks as at 31 December 2008:

<b>2008</b>				
	<b>Purchase of foreign currency</b>	<b>(Sale of foreign currency)</b>	<b>Positive fair value</b>	<b>(Negative fair value)</b>
Currency forwards	217,015	(217,561)	613	(1,159)
Currency swaps	298,491	(333,686)	2,416	(37,611)
<b>Total</b>			<b>3,029</b>	<b>(38,770)</b>

The resulting net fair value gain or loss was recorded in the gains less losses from dealing with foreign currencies.

## 22. Equity

As at 31 December 2009, the Bank's authorised share capital comprises 10,968,880 ordinary shares (2008: 10,968,880 shares) with a nominal value of UAH 230 (USD 28.80 at the 31 December 2009 exchange rate of UAH 7.985 for USD 1) per share. All shares have equal voting rights.

<b>31 December 2009</b>				<b>31 December 2008</b>		
	<b>Number of shares</b>	<b>Nominal amount</b>	<b>Inflation adjusted amount</b>	<b>Number of shares</b>	<b>Nominal amount</b>	<b>Inflation adjusted amount</b>
Ordinary shares/ Total share capital	10,968,880	315,948	332,587	10,968,880	327,641	344,897

As at 31 December 2009, all shares were fully paid and registered.



## **22. Equity (continued)**

### ***Nature and Purpose of Other Reserve***

Other reserve is used to record accumulated currency translation differences arising as a result of translation of equity items into the Bank's presentation currency at the closing rate ruling at the statement of financial position date.

## **23. Segment Analysis**

The Bank's primary format for reporting segment information is operating segments. The Bank is organised on a basis of three main operating segments:

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

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

### 23. Segment Analysis (continued)

Segment information for the main reportable operating segments of the Bank as at 31 December 2009 is set out below:

	<b>Retail banking</b>	<b>Corporate banking</b>	<b>Investment banking and treasury</b>	<b>Unallocated</b>	<b>Total</b>
<b>2009</b>					
<b>Assets</b>					
Segment assets	581,131	1,076,388	323,062	-	<b>1,980,581</b>
Current tax assets	-	-	-	6,702	<b>6,702</b>
<b>Total assets</b>	<b>581,131</b>	<b>1,076,388</b>	<b>323,062</b>	<b>6,702</b>	<b>1,987,283</b>
<b>Liabilities</b>					
Segment liabilities	478,783	254,592	870,738		<b>1,604,113</b>
Current and deferred tax liabilities	-	-	-	7,516	<b>7,516</b>
<b>Total liabilities</b>	<b>478,783</b>	<b>254,592</b>	<b>870,738</b>	<b>7,516</b>	<b>1,611,629</b>
<b>Other segment items</b>					
Capital expenditure	4,282	867	262		<b>5,411</b>
Depreciation and amortisation expense	(6,709)	(1,359)	(411)		<b>(8,479)</b>

### 23. Segment Analysis (continued)

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

	<b>Retail banking</b>	<b>Corporate banking</b>	<b>Investment banking and treasury</b>	<b>Unalloca- ted</b>	<b>Elimina- tions</b>	<b>Total</b>
<b>2009</b>						
External revenues	85,472	225,282	54,416	-	-	<b>365,170</b>
Revenues from other segments	11,174	-	102,698	-	(113,872)	-
<b>Total revenues</b>	<b>96,646</b>	<b>225,282</b>	<b>157,114</b>	<b>-</b>	<b>(113,872)</b>	<b>365,170</b>
Total revenues comprise:						
- Interest income	77,845	207,368	153,355	-	(113,872)	<b>324,696</b>
- Fee and commission income	17,142	8,510	1,833	-	-	<b>27,485</b>
- Other revenues	1,659	9,404	1,908	-	-	<b>12,971</b>
- Reversal of allowance for loan impairment	-	-	18	-	-	<b>18</b>
<b>Total revenues</b>	<b>96,646</b>	<b>225,282</b>	<b>157,114</b>	<b>-</b>	<b>(113,872)</b>	<b>365,170</b>
Material expenditures:						
- Interest expense	(51,878)	(26,060)	(104,750)	-	-	<b>(182,688)</b>
- Fee and commission expense	(7,299)	(604)	(361)	-	-	<b>(8,264)</b>
- Operating expenses	(33,602)	(20,166)	(6,814)	-	-	<b>(60,582)</b>
- Other expenditures	-	-	(482)	-	-	<b>(482)</b>
- Allowance for loan impairment	(33,675)	(128,775)	-	-	-	<b>(162,450)</b>
- Provision for securities	-	-	(6,818)	-	-	<b>(6,818)</b>
<b>Total expenditures:</b>	<b>(126,454)</b>	<b>(175,605)</b>	<b>(119,225)</b>	<b>-</b>	<b>-</b>	<b>(421,284)</b>
Segment result	(29,808)	(64,195)	37,889	-	-	<b>(56,114)</b>
Income tax benefit	-	-	-	-	-	<b>1,800</b>
<b>Loss the year</b>						<b>(54,314)</b>

### 23. Segment Analysis (continued)

Segment information for the main reportable business segments of the Bank as at 31 December 2008 is set out below:

	<b>Retail banking</b>	<b>Corporate banking</b>	<b>Investment banking and treasury</b>	<b>Unallocated</b>	<b>Total</b>
<b>2008</b>					
<b>Assets</b>					
Segment assets	693,627	1,435,297	181,794	-	<b>2,310,718</b>
Current tax assets	-	-	-	7,097	<b>7,097</b>
<b>Total assets</b>	<b>693,627</b>	<b>1,435,297</b>	<b>181,794</b>	<b>7,097</b>	<b>2,317,815</b>
<b>Liabilities</b>					
Segment liabilities	473,177	423,971	957,671	-	<b>1,854,819</b>
Current and deferred tax liabilities	-	-	-	11,836	<b>11,836</b>
<b>Total liabilities</b>	<b>473,177</b>	<b>423,971</b>	<b>957,671</b>	<b>11,836</b>	<b>1,866,655</b>
<b>Other segment items</b>					
Capital expenditure	20,378	11,318	1,340	-	<b>33,036</b>
Depreciation and amortisation expense	(6,455)	(3,585)	(423)	-	<b>(10,463)</b>

### 23. Segment Analysis (continued)

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

	<b>Retail banking</b>	<b>Corporate banking</b>	<b>Investment banking and treasury</b>	<b>Unalloca- ted</b>	<b>Elimina- tions</b>	<b>Total</b>
<b>2008</b>						
External revenues	100,784	220,965	47,711	18,476	-	<b>387,936</b>
Revenues from other segments	-	-	97,036	-	(97,036)	-
<b>Total revenues</b>	<b>100,784</b>	<b>220,965</b>	<b>144,747</b>	<b>18,476</b>	<b>(97,036)</b>	<b>387,936</b>
Total revenues comprise:						
- Interest income	71,598	203,165	129,367	-	(97,036)	<b>307,094</b>
- Fee and commission income	25,164	15,367	3,718	-	-	<b>44,249</b>
- Other revenues	4,022	2,433	11,662	18,476	-	<b>36,593</b>
<b>Total revenues</b>	<b>100,784</b>	<b>220,965</b>	<b>144,747</b>	<b>18,476</b>	<b>(97,036)</b>	<b>387,936</b>
Material expenditures:						
- Interest expense	(49,192)	(35,559)	(86,208)	-	-	<b>(170,959)</b>
- Fee and commission expense	(10,100)	(1,663)	(352)	-	-	<b>(12,115)</b>
- Operating expenses	(43,109)	(28,089)	(6,515)	-	-	<b>(77,713)</b>
- Allowance for loan impairment	(34,920)	(67,689)	(604)	-	-	<b>(103,213)</b>
- Provision for securities	-	-	(6,029)	-	-	<b>(6,029)</b>
<b>Total expenditures</b>	<b>(137,321)</b>	<b>(133,000)</b>	<b>(99,708)</b>	<b>-</b>	<b>-</b>	<b>(370,029)</b>
Segment result	(40,282)	(9,212)	42,590	14,397	-	<b>7,493</b>
Income tax benefit	-	-	-	-	-	<b>7,769</b>
<b>Profit the year</b>						<b>15,262</b>

### 23. Segment Analysis (continued)

**Geographical segments.** Segment information for the main geographical segments of the Bank is set out below as at 31 December 2009 and as at 31 December 2008 and for the years then ended.

	<b>Ukraine</b>	<b>OECD</b>	<b>Non-OECD</b>	<b>Total</b>
<b>2009</b>				
Segment assets	1,838,708	144,031	4,544	<b>1,987,283</b>
<b>Total segment assets</b>	<b>1,838,708</b>	<b>144,031</b>	<b>4,544</b>	<b>1,987,283</b>
External revenues	368,931	180	92	<b>369,203</b>
Capital expenditure	5,411	-	-	<b>5,411</b>
Credit related commitments	157,169	617	97	<b>157,883</b>
<b>2008</b>				
Segment assets	2,208,327	104,174	5,314	<b>2,317,815</b>
<b>Total segment assets</b>	<b>2,208,327</b>	<b>104,174</b>	<b>5,314</b>	<b>2,317,815</b>
External revenues	384,156	3,257	523	<b>387,936</b>
Capital expenditure	33,036	-	-	<b>33,036</b>
Credit related commitments	333,389	1,083	97	<b>334,569</b>

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

Balances and revenues with OECD countries includes Austria, Belgium, Canada, Czech Republic, Denmark, Germany, Japan, Netherlands, Poland, Sweden, Switzerland, United Kingdom, USA.

## **24. Interest Income and Expense**

	<b>2009</b>	<b>2008</b>
<b>Interest income</b>		
Loans to customers		
- legal entities	214,905	199,309
- individuals	66,032	71,598
Due from other banks	37,001	11,034
Securities	6,758	25,153
<b>Total interest income</b>	<b>324,696</b>	<b>307,094</b>
<b>Interest expense</b>		
Individuals		
- term deposits	(51,181)	(48,050)
- current accounts	(696)	(1,142)
Legal entities		
- term deposits	(13,993)	(31,329)
- current accounts	(4,263)	(4,229)
Due to the NBU	(40,447)	(748)
Due to other banks	(16,867)	(6,686)
Eurobonds issued	(28,369)	(27,640)
Bonds issued	(1,320)	(8,256)
Other borrowed funds	(24,994)	(42,879)
Subordinated debt	(558)	-
<b>Total interest expense</b>	<b>(182,688)</b>	<b>(170,959)</b>
<b>Net interest income</b>	<b>142,008</b>	<b>136,135</b>

## **25. Fee and Commission Income and Expense**

	<b>2009</b>	<b>2008</b>
Payment cards	15,427	23,665
Foreign currency exchange	3,632	6,791
Payments	2,216	3,352
Documentary operations	3,271	6,654
Cash deposits and withdrawals	1,300	2,536
Other	1,639	1,251
<b>Fee and commission income</b>	<b>27,485</b>	<b>44,249</b>
Payment cards	(6,766)	(9,940)
Cash collections	(675)	(896)
Reuters	(350)	(326)
Payments	(339)	(435)
Documentary operations	(95)	(444)
Other	(39)	(74)
<b>Fee and commission expense</b>	<b>(8,264)</b>	<b>(12,115)</b>
<b>Net fee and commission income</b>	<b>19,221</b>	<b>32,134</b>

## **26. Other Income and Expenses**

	<b>2009</b>	<b>2008</b>
Income from revaluation of investment property (Note 11)	1,280	860
Impairment of investment property (Note 11)	(1,511)	(293)
Income from revaluation of premises (Note 11)	16	127
Impairment of premises (Note 11)	(2,291)	(2,950)
Rental income (Note 11)	408	690
Penalties received	1,228	611
Loss on disposal of property and equipment	(80)	(58)
Other income	2,918	684
Other expense	(227)	(93)
<b>Total other income and expenses</b>	<b>1,741</b>	<b>(422)</b>



## **27. Operating Expenses**

	<b>2009</b>	<b>2008</b>
Salary, employee benefits and compulsory contributions to State funds	28,692	37,275
Depreciation and amortisation (Note 11)	8,479	10,463
State duties and taxes, other than on income	4,608	3,653
Audit, legal, consulting services	4,472	2,238
Maintenance of premises and equipment	4,070	6,099
Lease of premises	3,150	4,546
Advertising, entertainment, representative offices maintenance	1,602	3,054
Communication	1,027	1,932
Security services	729	1,108
Training	133	582
Charitable contributions	33	270
Other	3,587	6,493
<b>Total operating expenses</b>	<b>60,582</b>	<b>77,713</b>

Included in salary, employee benefits and compulsory contributions to State funds are statutory social security and pension contributions of USD 6,340 thousand (2008: USD 9,073 thousand). Pension contributions are made into State pension fund which is a defined contribution plan.

## **28. Income Taxes**

Income tax expense was comprised of the following:

	<b>2009</b>	<b>2008</b>
Current tax charge	6	142
Deferred tax benefit	(1,806)	(7,911)
<b>Income tax benefit for the year</b>	<b>(1,800)</b>	<b>(7,769)</b>

## **28. Income Taxes (continued)**

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

	<b>2009</b>	<b>2008</b>
<b>(Loss)/ profit before income tax</b>	<b>(56,114)</b>	<b>7,493</b>
Theoretical tax charge at the applicable statutory rate (25%)	(14,029)	1,873
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Income assessable for tax purposes only	180	88
- Income recognised in financial reporting only	(2,047)	(4,913)
- Non deductible expenses	1,082	1,032
- Expenses deductible for tax purposes only	(1,407)	-
- Exchange rate differences on recognition of current and deferred income tax	549	(5,619)
- Other non temporary differences	(65)	(230)
- Change in unrecognised deferred tax asset	13,937	-
<b>Income tax benefit for the year</b>	<b>(1,800)</b>	<b>(7,769)</b>

**28. Income Taxes (continued)**

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

	31 December 2008	Credited/(charg ed) to other comprehensive income	Credited/ (charged) to statement of income	Translati on to presentat ion currency	31 December 2009
<b>Tax effect of deductible and taxable temporary differences</b>					
Allowance for loan impairment and credit related commitments	<b>6,460</b>	-	15,356	(231)	<b>21,585</b>
Investment securities available-for-sale	<b>2,862</b>	(407)	1,262	(102)	<b>3,615</b>
Property and equipment and investment property	<b>(21,812)</b>	2,500	2,166	777	<b>(16,369)</b>
Accrued interest and commission income	<b>2,556</b>	-	(1,361)	(91)	<b>1,104</b>
Accrued interest and commission expense	<b>(18)</b>	-	(932)	1	<b>(949)</b>
Other	<b>(1,884)</b>	-	(748)	67	<b>(2,565)</b>
Net deferred tax asset	<b>(11,836)</b>	2,093	15,743	421	<b>6,421</b>
Unrecognized deferred tax asset	-	-	(13,937)	-	<b>(13,937)</b>
<b>Net deferred tax liability</b>	<b>(11,836)</b>	<b>2,093</b>	<b>1,806</b>	<b>421</b>	<b>(7,516)</b>

## 28. Income Taxes (continued)

	31 December 2007	Credited/(charg ed) to statement of changes in equity	Credited/ (charged) to statement of income	Translati on to presentat ion currency	31 December 2008
<b>Tax effect of deductible and taxable temporary differences</b>					
Allowance for loan impairment and credit related commitments	(2,327)	-	7,986	801	6,460
Investment securities available-for-sale	1,328	407	1,584	(457)	2,862
Property and equipment and investment property	(25,949)	(5,827)	(434)	10,398	(21,812)
Accrued interest and commission income	2,407	-	977	(828)	2,556
Accrued interest and commission expense	429	-	(299)	(148)	(18)
Other	29	-	(1,903)	(10)	(1,884)
<b>Net deferred tax liability</b>	<b>(24,083)</b>	<b>(5,420)</b>	<b>7,911</b>	<b>9,756</b>	<b>(11,836)</b>

## 29. 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. The process of risk management is critical to the Bank's continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities. The Bank is exposed to credit risk, liquidity risk and market risk, 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 Process*

Risk management policy, monitoring and control are conducted by a number of specialised bodies and units within the Bank. The units most actively involved in such management are: Credit Risk Management Division and the Market and Operational Risk Management Division, subordinated to the Deputy Chairman of the Management Board and reports to the Bank Management Board, Credit Council, and the Assets and Liabilities Management Committee.

### *Supervisory Board*

The Supervisory Board has the highest degree of authority with respect to the Bank's risk management, and is empowered through the Bank's Charter to approve any transactions on behalf of the Bank for amounts in excess of 20% of the value of the Banks equity capital.

## **29. Risk Management (continued)**

### *Board of Directors*

The Board of Directors is generally responsible for the activities of the Bank, including those relating to risk management. The Board of Directors delegates its powers with respect to the overall asset and liability management of the Bank to the Assets and Liabilities Management Committee, approves the composition of this Committee and the Tariff Committee. In addition, the Board of Directors is responsible for development and preliminary approval of the Bank's credit policy.

### *Assets and Liabilities Committee*

The Assets and Liabilities Committee is responsible for managing the Bank's assets and liabilities and the overall financial structure. It is also primarily responsible for monitoring the interest, currency and liquidity risks of the Bank.

### *Credit Risk Management Division*

The Credit Risk Management Department is responsible for development of credit risk management methodologies, implementing and maintaining credit risk related procedures, reporting.

### *Market and Operational Risk Management Division*

The Market and Operational Risk Management division is responsible for the development of risk management methodologies, procedures and reporting, which allow the Bank to perform a quantitative assessment of interest, currency, operating and liquidity risks. This Bank structural unit monitors the above mentioned risks on a permanent basis and controls the implementation of the decisions of the Assets and Liabilities Management Committee.

### *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 and expert's models. The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment. The Bank also runs worse 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 analyse, control and identify early risks. This information is presented and explained to the Board of Directors, Assets and Liabilities Management Committee, Credit Council and the head of each respective business division. The report includes the information on aggregate credit exposure, credit metric forecasts, hold limit exceptions, liquidity and interest rate risks and risk profile changes. On a monthly basis, detailed reporting of liquidity, currency and interest rate risks, industry, customer and geographic risks takes place. Senior management assesses the appropriateness of the allowance for credit losses on a quarterly basis.

## **29. Risk Management (continued)**

The Board of Directors receives a comprehensive risk report which is designed to provide all the necessary information to assess and conclude on the risks of the Bank on a monthly basis.

### *Risk mitigation*

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

The Bank actively uses collateral to reduce its credit risks (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*

The Bank takes on exposure to credit risk which is the risk, that a counterparty will be unable to pay amounts in full when due. The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers. Such risks are monitored on a revolving basis and subject to a regular review. Limits on the level of credit risk by borrower are approved regularly by the Credit Council and Credit Committee of the Bank.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and principal repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed, in part, by obtaining collateral and corporate guarantees.

### *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.

## 29. Risk Management (continued)

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 before the effect of mitigation through the use of master netting and collateral agreements and after deducting any allowance for impairment.

	2009	2008
Balance with the NBU (Note 7)	50,169	41,668
Due from other banks (Note 8)	296,167	113,573
Loans to customers (Note 9)	1,418,137	1,902,146
Investment securities available-for-sale (Note 10)	6,234	33,542
Securities pledged under repurchase agreements - available-for-sale (Note 10)	-	162
Other assets	12,454	3,048
Financial contingencies and commitments (Note 32)	92,196	191,882
<b>Total credit risk exposure</b>	<b>1,875,357</b>	<b>2,286,021</b>

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 below.

### *Credit quality of financial assets*

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

As at 31 December 2009	Note	Neither past due nor impaired			Overdue or individually impaired	Total
		High rating	Standard rating	Below the standard rating		
Due from other banks	8	157,858	77,145	61,164	39	296,206
Loans to customers	9					
- Corporate loans		46,659	236,198	353,046	588,847	1,224,750
- Loans to individuals		203,911	68,314	3,176	205,578	480,979
Investment securities available-for-sale	10	6,085	-	-	12,831	18,916
<b>Total</b>		<b>414,513</b>	<b>381,657</b>	<b>417,386</b>	<b>807,295</b>	<b>2,020,851</b>

## 29. Risk Management (continued)

As at 31 December 2008	Note	Neither past due nor impaired			Overdue or individually impaired	Total
		High rating	Standard rating	Below the standard rating		
Due from other banks	8	85,751	22,114	5,708	-	113,573
Loans to customers	9					
- Corporate loans		178,715	423,937	533,491	277,763	1,413,906
- Loans to individuals		160,930	283,723	4,248	133,448	582,349
- Discounted bills		-	33,245	-	-	33,245
Investment securities available-for-sale	10	4,515	14,664	13,255	6,609	39,043
Securities pledged under repurchase agreements - available-for-sale	10	-	-	-	690	690
<b>Total</b>		<b>429,911</b>	<b>777,683</b>	<b>556,702</b>	<b>418,510</b>	<b>2,182,806</b>

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.

### *Aging analysis of past due but not impaired loans per class of financial assets*

As at 31 December 2009	Up to 30 days	From 31 to 60 days	More than 60 days	Total
Loans to customers				
- Corporate loans	99,864	-	-	99,864
<b>Total</b>	<b>99,864</b>	<b>-</b>	<b>-</b>	<b>99,864</b>

As at 31 December 2008	Up to 30 days	From 31 to 60 days	More than 60 days	Total
Loans to customers				
- Corporate loans	88,764	5,075	-	93,839
- Loans to individuals	6,683	-	-	6,683
<b>Total</b>	<b>95,447</b>	<b>5,075</b>	<b>-</b>	<b>100,522</b>



## **29. Risk Management (continued)**

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 2009 was USD 119,281 thousand. See 'Collateral and other credit enhancements' in Note 9 for the details of types of collateral held.

See Note 9 for more detailed information with respect to the allowance for impairment of loans to customers.

### *Impairment assessment*

The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue by more than 30 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 at each reporting date with each portfolio receiving a separate review.

The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is not yet any 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 incurred and the time it will be identified as requiring an individually assessed impairment allowance, and expected receipts and recoveries once impaired. 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.

## 29. Risk Management (continued)

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

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

	2009	2008
Loans to customers		
- Corporate loans	510,156	19,536
- Loans to individuals	64,900	-
<b>Total</b>	<b>575,056</b>	<b>19,536</b>

### *Liquidity risk and funding management*

Liquidity risk is the risk that the Bank will be unable to discharge its payment obligations when due in the course of usual economic activity and under stress circumstances. To limit this risk, the management has ensured diversified funding sources in addition to the Bank's core deposit base, manages assets in compliance with its liquidity principles and monitors on a daily basis future cash flows and liquidity.

During the crisis period, the Bank, with the view to ensuring proper discharge of both its own and clients' obligations, has implemented the policy aimed at maintaining liquid assets at a level sufficient to cover any for unplanned withdrawal of a proportion of client deposits placed with the Bank as a precaution against further deterioration in the economic situation.

The liquidity position is assessed and managed by the Bank, based on certain liquidity ratios established by the NBU. As at 31 December, these ratios were as follows:

<i>Ratio</i>	2009, %	2008, %
<b>N4</b> "Instant Liquidity Ratio" (cash and balances on correspondent accounts / liabilities repayable on demand) (minimum required by the NBU – 20%)	131.76	69.69
<b>N5</b> "Current Liquidity Ratio" (assets receivable or realisable within 31 days / liabilities repayable within 31 days) (minimum required by the NBU – 40%)	99.31	72.71
<b>N6</b> "Short-term Liquidity Ratio" (certain assets with original maturity up to 1 year / liabilities with original maturity up to 1 year including off-balance sheet commitments) (minimum required by the NBU – 20%)	61.23	29.47

**29. Risk Management (continued)***Analysis of financial liabilities by remaining contractual maturities*

The table below summarises the maturity profile of the Bank's financial liabilities at 31 December 2009 based on contractual undiscounted repayment obligations. 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.

<b>As at 31 December 2009</b>	<b>Up to 1 month</b>	<b>From 1 to 3 months</b>	<b>From 3 to 6 months</b>	<b>From 6 to 12 months</b>	<b>More than 12 months</b>	<b>Total</b>
Due to the NBU	1,259	11,539	3,928	34,009	263,568	<b>314,303</b>
Due to other banks	24,809	-	5,462	-	-	<b>30,271</b>
Derivative financial instruments:						
- amount to pay	219,103	14,070	-	-	-	<b>233,173</b>
- amount to receive	(220,138)	(14,342)	-	-	-	<b>(234,480)</b>
Customer accounts	337,292	149,171	96,366	137,346	32,445	<b>752,620</b>
Eurobonds issued	-	24,739	7,079	14,158	370,768	<b>416,744</b>
Bonds issued	12	-	267	-	-	<b>279</b>
Other borrowed funds	243,402	3,144	3,956	450	43,766	<b>294,718</b>
Other liabilities	-	52	-	-	91	<b>143</b>
Subordinated debt	421	402	618	1,250	39,488	<b>42,179</b>
<b>Total undiscounted financial liabilities</b>	<b>606,160</b>	<b>188,775</b>	<b>117,676</b>	<b>187,213</b>	<b>750,126</b>	<b>1,849,950</b>

Other borrowed funds included in "Up to 1 month" category in the table above were restructured subsequent to the year end (Note 18).

<b>As at 31 December 2008</b>	<b>Up to 1 month</b>	<b>From 1 to 3 months</b>	<b>From 3 to 6 months</b>	<b>From 6 to 12 months</b>	<b>More than 12 months</b>	<b>Total</b>
Due to the NBU	104	1,998	3,115	73,001	-	<b>78,218</b>
Due to other banks	55,070	-	704	7,524	-	<b>63,298</b>
Derivative financial instruments:						
- amount to pay	451,202	73,980	28,523	-	-	<b>553,705</b>
- amount to receive	(441,453)	(56,344)	(21,401)	-	-	<b>(519,198)</b>
Customer accounts	364,866	169,341	216,318	137,747	2,047	<b>890,319</b>
Eurobonds issued	-	13,406	-	13,406	288,406	<b>315,218</b>
Bonds issued	864	-	38,979	-	-	<b>39,843</b>
Other borrowed funds	31,240	22,083	177,462	231,631	44,425	<b>506,841</b>
Other liabilities	127	126	-	-	251	<b>504</b>
<b>Total undiscounted financial liabilities</b>	<b>462,020</b>	<b>224,590</b>	<b>443,700</b>	<b>463,309</b>	<b>335,129</b>	<b>1,928,748</b>

## 29. Risk Management (continued)

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

	Up to 1 month	From 3 to 12 months	From 1 to 5 years	More than 5 years	Total
<b>2009</b>	30,284	42,553	19,577	-	92,414
<b>2008</b>	52,557	109,247	22,621	15,956	200,381

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

### *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 other prices. The Bank manages exposures to market risk for non-trading portfolios. Non-trading positions 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 statement of income 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.

Interest rate	2009		2008	
	Change in interest rate, basis points	Effect on profit before income tax expense	Change in interest rate, basis points	Effect on profit before income tax expense
Libor	+50	117	+50	(714)
Libor	-25	(59)	-25	357
Euribor	+50	166	+125	(3)
Euribor	-75	(249)	-75	2

### *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 2009 on its non-trading monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against hryvnia, with all other variables held constant on the statement of income (due to the fair value

## 29. Risk Management (continued)

of currency sensitive non-trading monetary assets and liabilities). The effect on equity does not differ from the effect on the statement of income. A negative amount in the table reflects a potential net reduction in the statement of income or equity, while a positive amount reflects a net potential increase.

Currency	2009		2008	
	Change in currency rate, %	Effect on profit before income tax expense	Change in currency rate, %	Effect on profit before income tax expense
US dollars	+25.0	(25,400)	+30.0	1,006
US dollars	-12.0	12,416	-22.0	(738)
Euro	+31.0	126	+34.0	461
Euro	-13.0	(51)	-34.0	(461)

### **Operational risk**

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

### 30. Fair Values of Financial Instruments

*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 carried in the financial statements. The table does not include the fair values of non-financial assets and non-financial liabilities.

	2009			2008		
	Carrying value	Fair value	Unrecognized income (expense)	Carrying value	Fair value	Unrecognized income (expense)
<b>Financial assets</b>						
Cash on hand	45,550	45,550	-	57,418	57,418	-
Balance with the NBU	50,169	50,169	-	41,668	41,668	-
Due from other banks	296,167	296,167	-	113,573	113,573	-
Loans to customers	1,418,137	1,203,335	(214,802)	1,902,146	1,719,961	(182,185)
Investment securities available-for-sale	6,234	6,234	-	33,542	33,542	-
Securities pledged under repurchase agreements - available-for-sale	-	-	-	162	162	-
<b>Financial liabilities</b>						
Due to the NBU	245,241	245,241	-	66,805	66,805	-
Due to other banks	29,877	29,877	-	62,570	62,570	-
Customer accounts	726,988	659,586	67,402	863,474	844,783	18,691
Eurobonds issued	269,729	198,688	71,041	283,739	103,620	180,119
Bonds issued	265	265	-	37,601	36,242	1,359
Other borrowed funds	290,519	290,519	-	485,181	484,583	598
Subordinated debt	27,762	24,071	3,691	-	-	-
<b>Total unrecognized change in unrealised in fair value</b>	-	-	<b>(72,668)</b>	-	-	<b>18,582</b>

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 their fair value. This assumption is also applied to demand deposits, savings accounts without a specific maturity and variable rate financial instruments.

### 30. Fair Values of Financial Instruments (continued)

#### *Fixed 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 maturity. For quoted debt issued the fair values are calculated based on quoted market prices. 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.

#### *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:

<b>As at 31 December 2009</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Financial assets</b>				
Derivative financial assets	-	10,866	-	10,866
Investment securities available-for-sale	-	6,234	-	6,234
	-	<b>17,100</b>	-	<b>17,100</b>
<b>Financial liabilities</b>				
Derivative financial liabilities	-	398	-	398
<b>As at 31 December 2008</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Financial assets</b>				
Derivative financial assets	-	3,029	-	3,029
Investment securities available-for-sale	11,737	21,805	-	33,542
Securities pledged under repurchase agreements - available-for-sale	-	162	-	162
	<b>11,737</b>	<b>24,996</b>	-	<b>36,733</b>
<b>Financial liabilities</b>				
Derivative financial liabilities	-	37,611	-	37,611

### **30. Fair Values of Financial Instruments (continued)**

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 and forward foreign exchange contracts. 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 and interest rate curves.

#### *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 sometimes only incorporate data observable in the market and at other times use both observable and non-observable data. 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.

During 2009 and 2008, the Bank did not transfer any financial assets or financial liabilities from either level 1 to level 2 or from level 2 to level 1.



### 31. 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 29 “Risk Management” for the Bank’s contractual undiscounted repayment obligations.

	2009			2008		
	Within one year	More than one year	Total	Within one year	More than one year	Total
<b>Assets</b>						
Cash on hand and in transit	45,550	-	<b>45,550</b>	57,418	-	<b>57,418</b>
Balances with the NBU	50,169	-	<b>50,169</b>	41,668	-	<b>41,668</b>
Due from other banks	296,161	6	<b>296,167</b>	113,529	44	<b>113,573</b>
Loans to customers	691,891	726,246	<b>1,418,137</b>	818,251	1,083,895	<b>1,902,146</b>
Investment securities available-for-sale	6,234	-	<b>6,234</b>	33,542	-	<b>33,542</b>
Securities pledged under reverse repurchase agreements – available-for-sale	-	-	<b>-</b>	162	-	<b>162</b>
Current income tax asset	6,702	-	<b>6,702</b>	7,097	-	<b>7,097</b>
Other assets	35,634	719	<b>36,353</b>	12,522	185	<b>12,707</b>
Property and equipment	-	120,444	<b>120,444</b>	-	142,100	<b>142,100</b>
Investment property	-	4,680	<b>4,680</b>	-	4,979	<b>4,979</b>
Intangible assets	-	2,847	<b>2,847</b>	-	2,423	<b>2,423</b>
<b>Total assets</b>	<b>1,132,341</b>	<b>854,942</b>	<b>1,987,283</b>	<b>1,084,189</b>	<b>1,233,626</b>	<b>2,317,815</b>
<b>Liabilities</b>						
Due to the NBU	(47,626)	(197,615)	<b>(245,241)</b>	(66,805)	-	<b>(66,805)</b>
Due to other banks	(29,877)	-	<b>(29,877)</b>	(62,570)	-	<b>(62,570)</b>
Customer accounts	(700,420)	(26,568)	<b>(726,988)</b>	(861,653)	(1,821)	<b>(863,474)</b>
Eurobonds issued	(12,305)	(257,424)	<b>(269,729)</b>	(13,749)	(269,990)	<b>(283,739)</b>
Bonds issued	(265)	-	<b>(265)</b>	(37,601)	-	<b>(37,601)</b>
Other borrowed funds	(250,831)	(39,688)	<b>(290,519)</b>	(448,589)	(36,592)	<b>(485,181)</b>
Other liabilities	(13,640)	(92)	<b>(13,732)</b>	(55,200)	(249)	<b>(55,449)</b>
Subordinated debt	(210)	(27,552)	<b>(27,762)</b>	-	-	<b>-</b>
Deferred tax liability	-	(7,516)	<b>(7,516)</b>	-	(11,836)	<b>(11,836)</b>
<b>Total liabilities</b>	<b>(1,055,174)</b>	<b>(556,455)</b>	<b>(1,611,629)</b>	<b>(1,546,167)</b>	<b>(320,488)</b>	<b>(1,866,655)</b>
<b>Net</b>	<b>77,167</b>	<b>298,487</b>	<b>375,654</b>	<b>(461,978)</b>	<b>913,138</b>	<b>451,160</b>

Other borrowed funds of USD 242,468 thousand included in the period “Within one year” in the table above were restructured subsequent to the year end (Note 18).

The Bank’s ability to repay its liabilities depends on its ability to attract the equivalent amount of assets within the same period of time. During 2009, the Bank restructured in full all loans attracted from international financial institutions (included in other borrowed funds in the table above) and the NBU. This enabled it to resolve the liquidity shortage in the period “within one year” as at 31 December 2008. The restructuring agreement for other borrowed funds became effective on 4 February 2010 (Note 18). The current volume of liquid assets will enable the

### **31. Maturity Analysis of Assets and Liabilities (continued)**

Bank to operate in a stable manner even under a situation when there may be a partial withdrawal of clients' deposits from the Bank and in case of further deterioration of the economic situation.

The maturity analysis does not reflect the historical stability of current liabilities. Their realisation historically took place within a period exceeding that indicated in the table above. Management believes that despite the current economic situation, the balances of current accounts will remain stable. These balances are included in the table above as amounts maturing in the period up to one year.

Included in customer accounts are term deposits of individuals. Pursuant to the Ukrainian legislation the Bank is obliged to repay such deposits upon the depositor's demand (Note 15).

### **32. Contingencies and Commitments**

#### ***Legal***

The Bank is involved in various legal proceedings in the ordinary course of business. On the basis of its own estimates and internal professional advice, Management does not believe the result of any such actions will have a material adverse effect on the Bank's financial position or results of operations.

#### ***Tax and other regulatory compliance***

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

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

#### ***Capital expenditure commitments***

As at 31 December 2009, the Bank had capital expenditure commitments in respect of purchase of equipment of USD 2,285 thousand (2008: USD 1,196 thousand). The Bank's Management has already allocated the necessary resources in respect of this commitment. The Bank's Management believes that future income and funding will be sufficient to cover this commitment and any similar commitments.

#### ***Compliance with covenants***

The Bank is subject to certain covenants related primarily to other borrowed funds. Non-compliance with such covenants may result in negative consequences for the Bank including growth in the cost of borrowings and declaration of default. In particular, the Bank is required to maintain certain level of equity, capital adequacy ratio, liquid assets to total assets ratio,

### **32. Contingencies and Commitments (continued)**

maximum exposure to a single party to capital, maximum exposure to a single party which is a connected party to the Bank to capital, ratio of operating expenses to operating results, ratio of fixed and intangible assets to capital. Failure to comply with these requirements could lead to early withdrawal of funds by the creditors upon their discretion.

#### ***Credit related commitments***

Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the risk of clients' defaults or inability to perform the contract with a counterparty. The Bank manages its risk of loss by requiring a significant proportion of guarantees to be secured with deposits in the Bank. Documentary and commercial letters of credit, which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate or cash deposits and therefore carry less risk than a direct borrowing.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss. However, due to its revocable nature the Bank is able to refuse to issue the loans, guarantees or letters of credit to the customer due to deterioration of the customer's solvency.

The total outstanding contractual amount of undrawn credit lines, letters of credit, and guarantees does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded.

Letters of credit issued by the Bank are as follows:

	<b>2009</b>	<b>2008</b>
Confirmed export letters of credit	617	1,083
Import letters of credit	26,979	103,905
Cash collateral (Note 14, 15)	(10,853)	(3,382)
Provision for import letters of credit	(58)	(8,243)
<b>Total letters of credit</b>	<b>16,685</b>	<b>93,363</b>

Guarantees issued are as follows:

	<b>2009</b>	<b>2008</b>
Guarantees and promissory note endorsements	64,818	95,393
Cash collateral (Note 14, 15)	(6,653)	(7,699)
Provision for guarantees	(160)	(256)
<b>Total guarantees</b>	<b>58,005</b>	<b>87,438</b>

### 32. Contingencies and Commitments (continued)

The amount of undrawn commitments to extend credit issued by the Bank as at 31 December 2009 was USD 78,977 thousand (2008: USD 145,269 thousand). As at 31 December 2009 and 2008, the Bank did not have irrevocable commitments to extend credit.

Movements in provision for credit related commitments are as follows:

	2009	2008
Provision for credit related commitments as at 1 January	8,499	2,584
Charge for provision for credit related commitments during the year	(8,166)	7,020
Exchange rate impact	(115)	(1,105)
<b>Provision for credit related commitments as at 31 December (Note 19)</b>	<b>218</b>	<b>8,499</b>

#### *Operating lease commitments*

Where the Bank is the lessee, the future minimum lease payments under operating leases of premises are as follows:

	2009	2008
Not later than 1 year	2,437	3,595
Later than 1 year and not later than 5 years	5,996	7,946
Later than 5 years	12,595	12,852
<b>Total operating lease commitments</b>	<b>21,028</b>	<b>24,393</b>

#### *Fiduciary assets*

These assets are not included in the Bank's statement of financial position as they are not assets of the Bank. The nominal values disclosed below are normally different from the fair values of the respective securities.

	2009 Nominal value	2008 Nominal value
Shares in companies and other securities held on behalf of customers	264	18,118

### 33. Related Party Transactions

For the purposes of these financial statements, parties are generally considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence over the other party in making financial or operational decisions as defined by IAS 24 “Related Party Disclosures”. In considering each possible related party relationship, attention is paid to the substance of the relationship, not merely the legal form.

In the normal course of business the Bank enters into transactions with significant shareholders and companies with which the Bank has significant shareholders in common. These transactions include settlements, loans, deposits, trade finance and foreign currency transactions. The outstanding balances as at 31 December 2009 and as at 31 December 2008 and income and expenses for the years then ended are as follows:

<b>As at 31 December 2009</b>	<b>Parent company</b>	<b>Entities under common control</b>	<b>Management</b>	<b>Other related parties</b>
<b>Assets</b>				
Loans to customers (interest rate, % p.a)	-	39,067 (20.0)	47 (12.0)	1,230 (11.7)
Allowance for loan impairment	-	(137)	-	(98)
Due from banks	-	58,866	-	-
Other assets	-	784	-	-
<b>Liabilities</b>				
Due to other banks (interest rate, % p.a)	-	1,573 (0.46)	-	-
Customer accounts (interest rate, % p.a)	-	74,623 (8.56)	1,255 (13.62)	3,545 (13.59)
<b>Credit related commitments</b>				
Revocable commitments to extend credit	-	1,554	-	-
<b>Income / expense</b>				
Interest income	-	8,437	6	149
Interest expense	-	(6,974)	(105)	(529)
Fee and commission income	-	1,254	-	2
Fee and commission expense	-	(165)	-	-
Other income	-	14	-	-
Recovery of allowance for loan impairment	-	7	-	4
Recovery of provision for credit related commitments	-	5	-	-
Insurance expense	-	(240)	-	-

### 33. Related Party Transactions (continued)

<b>As at 31 December 2008</b>	<b>Parent company</b>	<b>Entities under common control</b>	<b>Management</b>	<b>Other related parties</b>
<b>Assets</b>				
Loans to customers (interest rate, % p.a)	-	44,651 (21.7)	229 (9.6)	1,276 (11.7)
Allowance for loan impairment	-	(143)	-	(102)
Other assets	-	327	-	-
<b>Liabilities</b>				
Due to other banks (interest rate, % p.a)	-	1,431 (0.4)	-	-
Customer accounts (interest rate, % p.a)	12 (0.5)	58,803 (12.7)	923 (11.5)	4,653 (11.7)
<b>Credit related commitments</b>				
Guarantees	-	1,440	-	-
Provision for credit related commitments	-	(5)	-	-
Revocable commitments to extend credit	-	5,918	-	-
<b>Income / expense</b>				
Interest income	-	5,198	21	133
Interest expense	(21)	(4,220)	(103)	(425)
Fee and commission income	15	1,952	1	2
Fee and commission expense	-	(344)	-	-
Trade income	-	33	-	-
Other income	3	31	-	-
Recovery of allowance for loan impairment	-	492	3	(94)
Provision for credit related commitments	-	(5)	-	-
Insurance expense	-	(251)	-	-

The allowance for loan impairment in respect of loans to related parties has been assessed on a portfolio basis in respect of the majority of loans.

During the year movements on related parties' loan accounts were as follows:

	<b>Parent company</b>	<b>Entities under common control</b>	<b>Management</b>	<b>Other related parties</b>
Loans granted to related parties during the year	-	131,762	5	160
Amounts repaid by related parties during the year	-	(136,080)	(36)	(206)
Other change	-	(1,266)	(152)	-

### 33. Related Party Transactions (continued)

During 2008 the year movements on related parties' loan accounts were as follows:

	Parent company	Entities under common control	Management	Other related parties
Loans granted to related parties during the year	-	162,222	390	719
Amounts repaid by related parties during the year	-	(140,676)	(431)	(231)
Other change	-	794	(86)	(43)

In 2009, the remuneration of members of the Management Board comprised salaries of USD 2,511 thousand (2008: USD 1,454 thousand), compulsory contributions to the State funds of USD 34 thousand (2008: USD 26 thousand) and other benefits of USD 11 thousand (2008: USD 4 thousand). In 2009, benefits paid to the Supervisory Council were USD 431 thousand (2008: USD 162 thousand).

### 34. Capital

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.

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 UAR. As at 31 December 2009 and 2008, the Bank's capital adequacy ratio on this basis was as follows:

	2009	2008
Main capital	278,997	385,081
Additional capital	88,970	65,377
Less: deductions from capital		-
<b>Total capital</b>	<b>367,967</b>	<b>450,458</b>
<b>Risk weighted assets</b>	<b>1,786,871</b>	<b>3,072,626</b>
<b>Capital adequacy ratio</b>	<b>19.05%</b>	<b>14.66%</b>

### **34. Capital (continued)**

Regulatory capital consists of Tier 1 capital, which comprises paid in registered share capital, share premium, reserves created in accordance with the Ukrainian legislation less net book value of intangible assets, capital investment in intangible assets and losses of current and prior years. The other component of regulatory capital is Tier 2 capital, which includes standard provisions for interbank and customer loans, property revaluation reserve, current year profit decreased for the amount of accrued income overdue for more than 30 days net of provision for doubtful accrued interest, subordinated long-term debt, retained earnings of prior years.

#### *Capital adequacy ratio under Basel Capital Accord 1988*

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

	<b>2009</b>	<b>2008</b>
Tier 1 capital	330,003	396,680
Tier 2 capital	79,844	67,710
<b>Total capital</b>	<b>409,847</b>	<b>464,390</b>
<b>Risk weighted assets</b>	<b>1,622,952</b>	<b>2,172,787</b>
<b>Tier 1 capital ratio</b>	<b>20.33%</b>	<b>18.26%</b>
<b>Total capital ratio</b>	<b>25.25%</b>	<b>21.37%</b>

Signed on behalf of the Management Board on 16 March 2010.

G.V. Molodchinnyi (Temporary Acting Chairman of the Management Board)



O.M. Moshkalova (Chief Accountant)

