LEADERSHIP STRATEGY

Annual report 2010

Trendsetter in e-banking

leadership

No1 in the Ukrainian Banks' rankings by Internet banking (Dengi — October 2010)

One of the largest Ukrainian banks by assets, equity and profit

One of the most profitable Ukrainian banks according to 2010 results (ranking 6th among Ukrainian banks)

One of the leaders by equity among banks with private Ukrainian capital (ranking 2nd)

No 1 by comfort of individual funds' depositing (Weekly.ua — June 2010)

No 1 in the Ukrainian banks' rankings by deposit products (Dengi — August 2010)

reliability

One of the leaders by information transparency according to S&Ps Transparency and Disclosure by Ukrainian banks 2010 (ranking: 2nd)

One of a few Ukrainian banks in The Banker Top 1000 World Banks 2010

No 2 in the people's confidence ranking The Most Trusted Banks among Top 100 Ukrainian banks (Delo — August 2010)

efficiency

No1 innovative bank for individual clients (Companion — August 2010)

ROE and ROA among the highest in the post-crisis market

No 1 in the Ukrainian banks' rankings by high-tech deposits (Delo — August 2010)

US$ 54 million net profit under IFRS

CONTENTS

STATEMENT OF THE CHAIRMAN OF THE MANAGEMENT BOARD

Last year the economy and banking system were recovering from the 2008-2009 financial crisis. Over 2010 the real GDP went up by 4.2%; banking assets– up 7.9%; loan portfolio – up 3.2%; and customer accounts – up 25.7%.

In 2010 First Ukrainian International Bank laid a sound foundation for further growth: developed the new Strategy, Mission and Values, reorganised business lines focusing on sales by segments, set up the Strategic Marketing Department and Project Management Office; developed the IT Strategy – these fundamentals will facilitate sustainable and systematic FUIB's development. Our Strategy provides for the Bank's growth outperforming the market and we think several steps ahead.

Over 2010 FUIB made the highest ever in its history profit of US$54 million (under IFRS) ranking the sixth by profit among Ukrainian banks according to the national accounting standards. The Bank enhanced its balance sheet structure through customer funds' attraction (up by 38%) thus decreasing the customer loans to accounts ratio from 235% to 170%.

FUIB consciously aims at implementing the best banking business practices: in 2010 FUIB ranked second (8 positions up versus 2009) in the Transparency and Disclosure by Ukrainian Banks 2010 research of Standard & Poor's. Also, the Bank entered The Banker Top 1000 World Banks 2010 ranking by Tier 1 capital.

In 2011 we are to adhere to the Bank's Mission – focus on our customers' needs and compliance with the international service quality standards. Our strategic priorities for the next year are to complete the FUIB and Dongorbank's integration process and build-up both corporate and individual loan portfolios.

Konstantin Vaysman

Chairman of the Management Board

US$54 million (IFRS)

FUIB's YE2010 profit is the highest ever in its history

STATEMENT OF THE CHAIRMAN OF THE SUPERVISORY BOARD

Ilya Arkhipov

Chairman of the Supervisory Board

In 2010 First Ukrainian International Bank entered another stage of its development. In January 2010 Konstantin Vaysman took on the role of Chairman of the Management Board. Under his supervision FUIB developed the new Strategy until 2015 and achieved first significant results.

We support the FUIB's growth strategy and are confident of success of the Bank's tight-knit management team. FUIB faces clear goals: strengthening positions in the banking industry and securing strong return on equity.

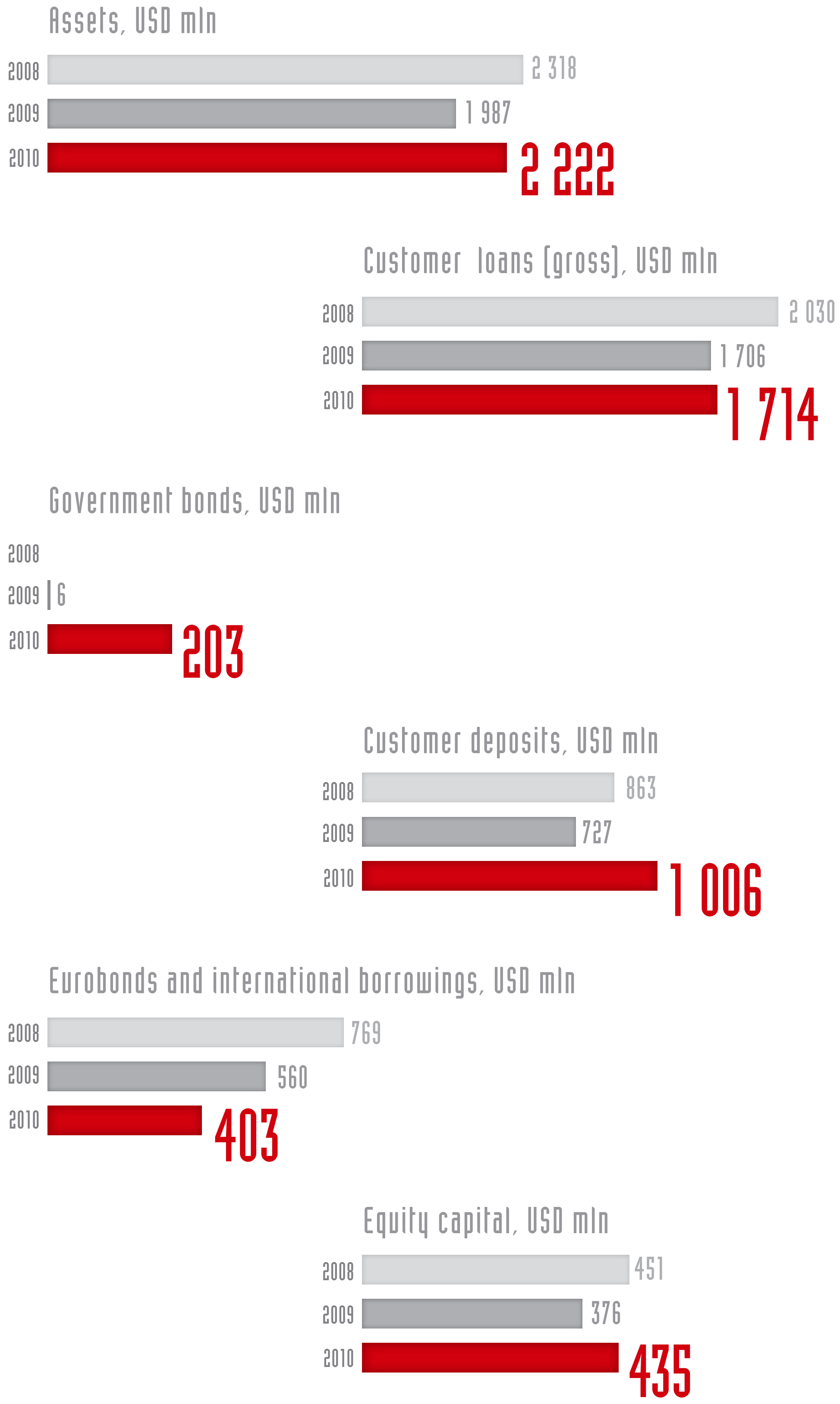
Over 2010 the Bank's new Strategy already delivered first results. The Bank honoured its commitments to the shareholders and achieved results meeting our expectations. FUIB ranked the 11th by equity, improved its ranking by assets one position up to the 13th, and ranked the 6th by profit among Ukrainian banks. The FUIB's ROA and ROE are among the best ones in the Ukraine's banking market (2.6% and 13.4% respectively).

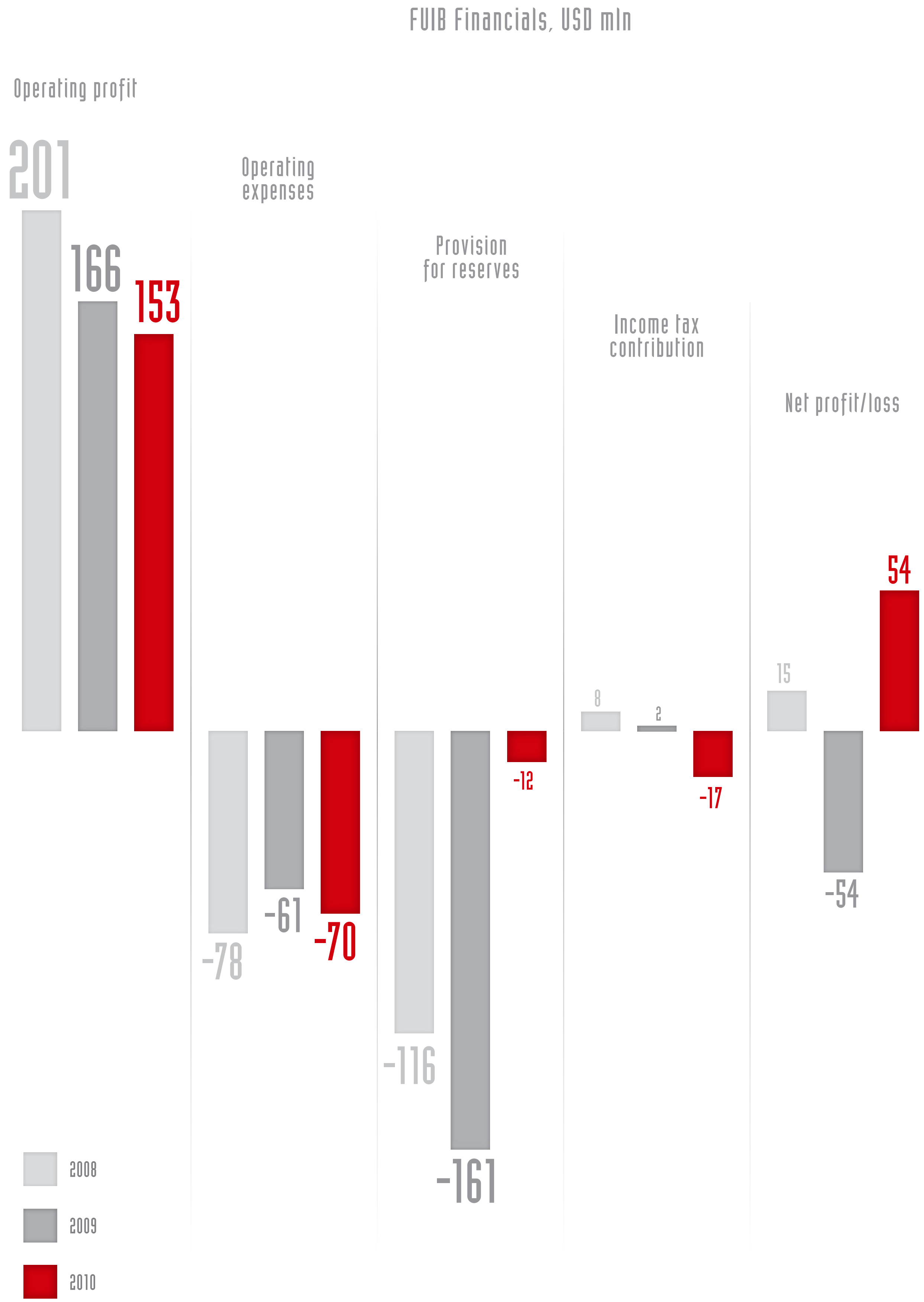
The most important event of 2010 was the decision on integrating FUIB with Dongorbank that is to be completed in 2011. The estimated economic benefit from the banks' integration: up 10% profit through economy of scale. Also, the bigger bank will be able to offer more advantages to its customers, partners and employees. We are confident that the united Bank will become one of the leading banking institutions in Ukraine in the coming years.

ROE - 13.4% and ROA - 2.6%

among the best in the Ukraine's banking market

FUIB Key Financial Indicators 2010 (IFRS)





NEW STRATEGY

In line with the SCM's Banking Business Strategy for 2010-2014 FUIB's ambitious goal is to secure its place among TOP 5 of Ukraine's financial institutions by profit, assets and equity.

In 2010 FUIB approved its Strategy for 2010-2014 providing for the Bank's securing its ***place among TOP 5 Ukraine's financial institutions***, its market share equalling or exceeding 5%, as the best Bank in Ukraine in terms of customer service quality.

As a universal bank with a nationwide network we approach businesses and individuals with leading-edge banking product offerings. The FUIB's underlying business principle is ***the utmost customer care*** and thorough understanding of customer needs strengthened by the Bank's business structure meeting the world best practice.

The new FUIB Strategy establishes close ties between the management goals and shareholders' interests: achievement of the targeted 20% ROE will deliver growth in the business value and the ***best shareholders return in the banking services industry***. To meet this target FUIB will use its competitive advantages together with synergy of corporate, investment and retail banking.

Pursuing the goal of creating a significant foundation for further growth in 2010 the SCM Group initiated consolidation of its assets in the financial sector through ***FUIB and Dongorbank's integration***. The integration plan was endorsed by the National Bank of Ukraine, and the banks' integration process is to be completed in 2011. In line with the set goals FUIB thoroughly reorganised its business structure, especially the corporate and retail business lines, in accordance with the new customer segmentation.

In the coming years FUIB will focus on the priority development of it retail business, concentrating on the middle-income and affluent retail customer segments. Also, the Bank is to build an effective and cost efficient distribution model with a standard product range aimed at the mass customer segment; ***develop further its transaction, Internet and mobile banking***. Over short term FUIB is to start issuing unsecured loans and credit cards and resume mortgage lending.

The FUIB's corporate business will focus on the middle (US$10-50 million revenue) and large (US$50-200 million revenue) corporate customer segments. In 2012 the Bank is to build-up its ***presence in the SME segment***. New services implementation, including the cash management, Internet banking and factoring, alongside with further development of the Bank's trade finance business will facilitate the Bank's servicing of mega corporate customers (over US$200 million revenue).

The strategy provides for optimising the existing and developing new investment banking directions in order to increase the share of the fee and trading income in the total income and ***build-up the Bank's share in the investment banking segment***. New investment banking products and services for affluent individuals and large businesses are being developed. Also, FUIB is taking measures aimed at expanding its sales channels through cross selling to both corporate and retail clients.

FUIB has launched a number of strategic projects in the sphere of operations management. ***The back-office functions will be centralised*** (from branches to the HQ); the customer data management system that will enable the Bank to store the customer data in the front-office, back-office, and customer relationship management systems (CRM) is being developed; the new IT Strategy was developed; new scoring (retail banking) and rating (corporate banking) risk assessment models, integrated into the front-office and back-office systems, are being implemented.

The FUIB's key priority goal for 2011 is to complete successfully its integration with Dongorbank and launch a number of projects to deliver its Strategy. In line with its underlying principles – ***leadership, reliability and efficiency*** – dynamically strengthening its positions in all market segments the Bank will deliver sound diversification, strong capitalisation and liquidity of its business.

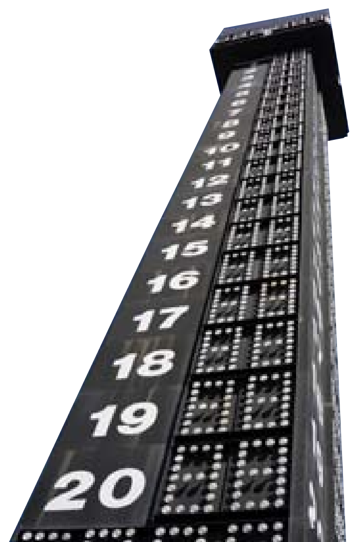
2010 Results: market share and position in the banking system

by equity	2010 market share 2.07%	№ 11	+1
by assets	2010 market share 1.86%	№ 13	+1
by ROA*		№ 4	
by ROE*		№ 4	
by retail accounts	2010 market share 1.92%	№ 13	+1
by corporate accounts	2010 market share 1.76%	№ 18	
by retail loans	2010 market share 1.63%	№ 16	-1
by corporate loans	2010 market share 1.90%	№ 12	+2

* among TOP 30 Ukraine's banks

OVERVIEW

FUIB
is one of the largest privately owned banks in Ukraine. The Bank's national network comprises 11 branches and 124 outlets



Business Profile, Mission and Values

First Ukrainian International Bank (FUIB) is a large and steadfast privately owned bank operating in Ukraine's financial services market for nineteen years. FUIB belongs to the group of the Ukraine's largest banks. It is a universal bank, especially active in commercial, retail, and investment banking operations. The Bank's controlling shareholder is SCM Finance (89.87% of shares). The Bank's national network comprises 11 branches and 124 outlets. The FUIB's team is represented by 2,824 FTEs.

FUIB provides a comprehensive range of financial services to 13,904 corporate customers and 962,896 individuals. At the end of 2010, the Bank's card business portfolio comprised over 605,000 Visa and Master Card branded cards, including over 52,000 chip cards.

In 2010 FUIB entered The Banker Top 1000 World Banks 2010 listing, debuting at position 905. In addition, FUIB is one of Ukraine's banking market leaders according to the Transparency and Disclosure by Ukrainian Banks 2010 joint research of the Financial Initiatives Agency and Standard & Poor's with support from the USAID Capital Markets Project.

Mission

FUIB is an innovative and dynamically developing financial institution. Our Mission is to deliver leading edge banking services, flawless customer service and a customized approach to each customer, securing the best banking services market shareholder return in Ukraine.

Our goal is to become ***The First Choice Bank*** for both individuals and businesses: a financial advisor and consultant understanding all customer needs and approaching them with the most attractive offerings and efficient solutions.

Our ***underlying business principle*** is focusing on our customers' needs and interests and complying with international quality standards and best business practices. We aim to justify our customers' and shareholders' confidence and claim our lead in the banking industry.

We do our best to make our customers feel comfortable and at ease visiting our outlets or using our remote banking services whenever it suits them. We refine our business processes, implement high tech solutions, enhance customer service quality, and approach our customers with new attractive product offerings. Contributing to our customers' welfare and supporting their business development, we create the foundation for our common success.

The Bank's ***tight-knit business team*** is one of our key assets. We appreciate professionalism and expertise and provide our employees with numerous professional development options. Together, guided by human principles and values, we achieve the best results in the banking services industry.

Values

We value our reputation and understand well our social responsibility to the local community and Ukrainian society as a whole. FUIB's Corporate Values reflect our business principles.

Reputation

Our reputation is one of our key assets. We value our good name and reputation and do our best to justify our customers' and shareholders' confidence. We do not forget history and cherish heart-warming traditions.

Transparency

We build honest and open relationships with customers, partners, and employees. We deliberately enhance the transparency of our business.

Reliability

We maintain a sustainable and diversified business structure, complying with the best international standards and practices.

Responsibility

We always fulfil our commitments to customers, employees, shareholders, and society.

Customer Orientation

We base our relationship with customers on a partnership philosophy, ensuring the best customer service in the domestic banking services market. We aim to be a Comfortable Bank for our customers.

Professional Development

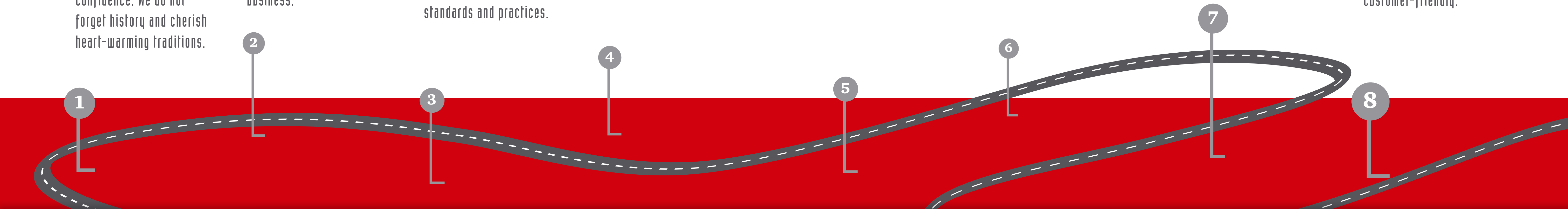
We do not shrink from difficulties and set ambitious goals. We set the trends and market pace.

Professionalism

We offer a range of professional and career development opportunities to our team members and encourage their creativity in approaching banking business issues.

Innovativeness

We monitor and implement the world's best practices and cutting-edge banking technologies, develop new solutions to enhance our services' reliability, and make them more customer-friendly.



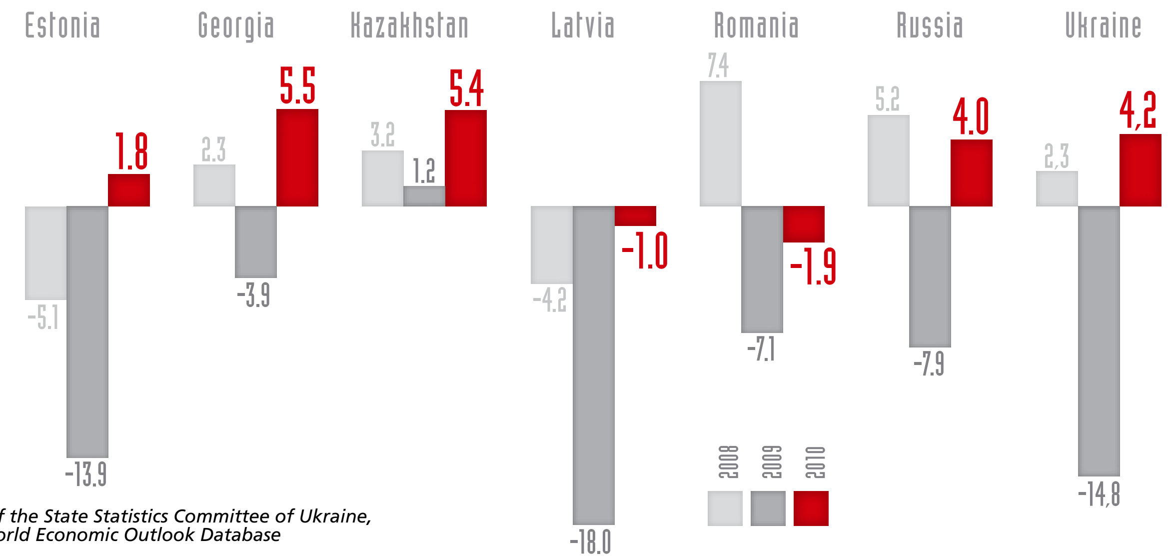
OPERATING AND FINANCIAL REVIEW

Banking market overview

In 2010 Ukraine's economy demonstrated buoyant growth. The real GDP growth totaled 4.2%.

The key economic factors fostering growth were the favorable external business environment and partial recovery of domestic consumer demand. The 11.2% growth in industrial output for 2010 exceeded its 2009 level. The main contributors to industrial output growth were: mechanical engineering (+36.1%), chemical industry (+22.5%), and metallurgy (+12.2%).

CEE countries GDP dynamic over 2008-2010, % to 2009 baseline

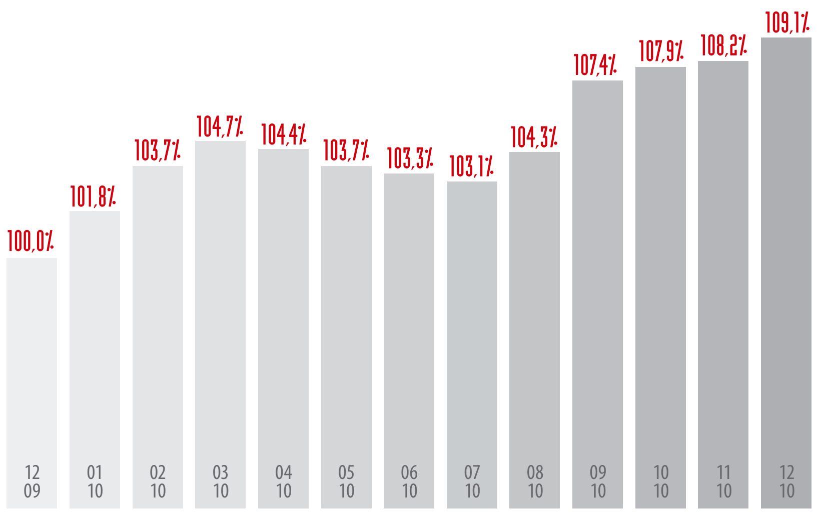


Data of the State Statistics Committee of Ukraine, IMF World Economic Outlook Database

The political stabilisation brought about by the elections held early in the year enabled Ukraine to recommence cooperation with the IMF, comply with its requirements and obtain all tranches scheduled for the reporting year (June: USD 1.9 bn; November: USD 1.5 bn). Recommencement of cooperation with the IMF facilitated upgrading Ukraine's sovereign ratings assigned by the leading international rating agencies, and strengthening of foreign investor confidence in Ukraine. As a result Ukraine successfully issued and placed on favorable terms its sovereign Eurobonds in the amount of USD 2 bn and obtained a USD 2 bn loan from VTB. In the improved investment climate conditions the net direct foreign investments into the country grew by 22.1% compared to 2009. Investments into the banking sector remained at their 2009-level, whereas those into the real economy sector grew 1.5 times.

In 2010 the national currency rate was stable as a result of recommenced export operations, foreign investment inflows, regular NBU interventions, and replenishment of the gold and currency reserves with the IMF's funds. In 2010 inflation slowed considerably to 9.1% compared to 12.3% in 2009 and 22.3% in 2008. In the second year-half inflationary pressure increased as a result of growth in food prices, excise duty for strong drinks and tobacco goods, and real earnings.

Consumer Price Index, %



Positive economic trends fostered growth in individuals' real earnings: at the end of the 3d quarter of 2010 they regained their pre-crisis level. Retail trade turnover showed growth (2010: +7.6% compared to -16.6% in 2009). Nevertheless, it was below its 2008-level (-10.3%) due to suspension of the majority of consumer lending programs in 2007-2008.

Restoration of individuals' confidence in the banking sector and growth in the turnover of enterprises resulted in an inflow of customer funds into the banking system. In 2010 customer deposits increased by 26% (corporate deposits: +21%; individual deposits: +29%). The share of customer funds in the total liabilities grew to 55% compared to 46% in 2009. In spite of the trend observed during the year of customer funds placement with banks, the banking system experienced a shortage in middle-term and long-term resources.

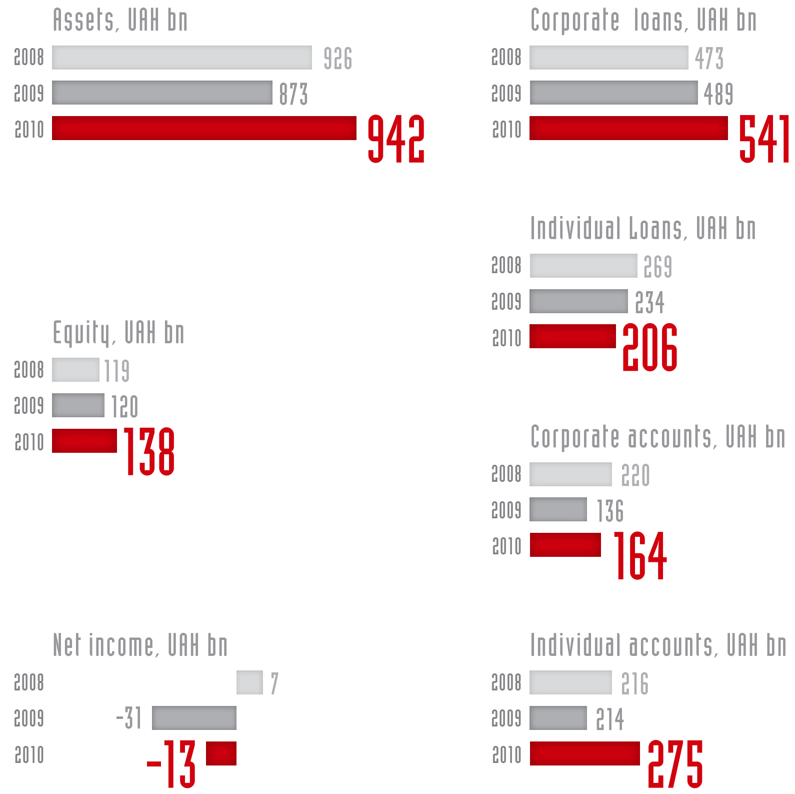
The growth in industrial output in 2010 gave a start to recommencement of lending to the real economy sector (2010: 10.5% growth). The unstable financial standing of many domestic companies, high lending rates and the high volume of NPLs slowed down the banking system's growth.

A more conservative lending policy, high lending rates and the low real earnings of individuals resulted in a further decline in the individual loans portfolio (2010: 12% decrease). Throughout the year a positive trend of increasing lending programs offered by domestic banks to individuals and a certain liberalisation of lending terms were observed. The total loan portfolio of the banking system grew by 3.2%.

Significant growth in the deposit base and the absence of favorable conditions for recommencement of active lending resulted in excessive liquidity that forced banks to employ the excess liquidity by purchasing government bonds, assets that are less risky than loans but at the same time more lucrative than money market operations.

Asset quality in the banking sector continued deteriorating in 2010. According to Moody's international rating agency, the share of non-performing loans, including restructured ones, totaled 40% of the total loans, which increased loan impairment charges by 30% for the year (to 19% of the banking system's loan portfolio). Due to significant loan impairment charges and slow recovery, the financial result of the banking system for 2010 was better than for 2009, nevertheless a negative one (2010: USD -13 bn; 2009: USD -31 bn).

Banking System's KPIs



Main performance results

As we began a new development cycle in 2010 FUIB focused on implementing its Strategy, ensuring stable growth and building a sustainable business model in terms of balance sheet structure and sources of income, resumption of lending, loan portfolio quality improvement and better efficiency of operating activities.

As a result of resuming its income-earning activities, in 2010 FUIB reached the highest-ever ROA and ROE: 2.6% and 13.4% respectively. Net profit at year-end 2010 amounted to USD 54.4 million and fully compensated for the negative financial result of 2009.

The ratio of regular income to operating expenses characterizing the coverage of Bank expenses with income from economic activity is high and amounts to 209.7%.

The ratio of expenses to operating income grew to 45.4% as compared to 36.7% at year-end 2009, which is accounted for by the start of the Growth Strategy implementation providing for Bank modernization and higher personnel remuneration. The ratio of expenses to operating income remains one of the best among banks of Ukraine.

The share of commission income in the regular income in 2010 grew to 13.4% as compared to 13.1% in 2009.

Efficiency of operating activity	2010	2009
Annual net income (loss), USD million	54,4	- 54,3
Return on equity (ROE): Net income / Average annual equity*	13.4%	-13.1%
Return on assets (ROA): Net income / Average annual assets*	2.6%	-2.5%
Regular income** / Operating income	95.2%	88.4%
Non-interest income*** / Operating income	17.6%	23.2%
Regular income** / Operating expenses	209.7%	240.8%
Fee and commission income / Regular income**	13.4%	13.1%
Operating expenses / Operating income	45.4%	36.7%

* Average annual assets and liabilities have been calculated as the arithmetic mean of assets / liabilities as of the year beginning and year end.
** Sum of net interest and commission income
*** Sum of commission, trade and other income

Analysis of Profit and Loss Report

Statement of income	2010	2009
Interest income	279 085	298 685
Interest expense	-152 862	-171 293
Net interest income	**126 223**	**127 392**
Fee and commission income	30 452	27 485
Fee and commission expense	-10 876	-8 264
Net fee and commission income	**19 576**	**19 221**
Trading and other income	7 333	19 246
Operating income	**153 132**	**165 859**
Operating expense	-69 543	-60 889
Profit (loss) before provisions and tax	**83 589**	**104 970**
Expenses for provisions	-12 103	-161 084
Income tax expense	-17 089	1 800
Annual net income (loss)	**54 397**	**-54 314**

Net interest income

Net interest income is historically the main item of income for FUIB – the share of interest income in the Bank regular income defined as the sum of interest and commission income in 2010 amounted to 86.6%. At year-end 2010, net interest income amounted to USD 126.2 million, having decreased by 0.9% as compared to the same figure of the previous year (USD 127.4 million). FUIB interest income in 2010 amounted to USD 279.1 million (vs. USD 298.7 million in 2009).

Lower interest income is predominantly accounted for by the decrease in the interest income from loans to customers by 9.2% to USD 255.2 million in 2010 as compared to USD 280.9 million in 2009. The lower loan portfolio emerged in the environment of high credit risks characteristic of the banking market of Ukraine in 2010 and the financial instability of most domestic companies and people. This was the basic reason for the decrease in interest income on the portfolio of loans to customers.

The restored liquidity of the banking system and subsequent decrease in profitability of interbank operations, in their turn, resulted in lower interest income of FUIB. Interest income from deposits with other banks sank by 14.5%, from USD 11.0 million in 2009 to USD 9.4 million at year-end 2010.

2010 saw substantial growth of interest income from investments in government securities that increased by 114.1% to USD 14.5 million as compared to USD 6.8 million in 2009. This development resulted from higher investments in government securities that were an attractive alternative to lending because of adequate profitability combined with moderate risks. The portfolio of government securities increased from USD 197 million to USD 203 million by year-end.

In the environment of excessive market liquidity characteristic of the banking market in Ukraine in 2010, the Bank policy on liability-related operations was aimed at lower cost of funds attraction.

In 2010, rates on the attracted corporate and individual term deposits were substantially low, which was characteristic of the banking system having accumulated an excessive level of liquidity. As a result of higher average annual volume of liabilities to customers, despite their lower cost, expenses on these liabilities grew by 19.0% to USD 83.5 million (vs. USD 70.1 million in 2009).

In 2010, FUIB made substantial repayments on international loans and NBU loans. As a result, interest expenses in 2010 decreased by 24.3% from USD 53.4 million to USD 40.4 million on international loans and by 40.4% to USD 24.1 million on NBU loans as compared to 2009. In this way the volume of international interest expenses of FUIB lowered by 10.8% to USD 152.9 million (compared to USD 171.3 mln in 2009).

USD thousand	**2010**	**2009**	**Change**	
			absolute	**%**
Interest income				
Loans to customers	255 224	280 937	-25 713	-9.2%
Securities	9 392	10 990	-1 598	-14.5%
Due from other banks	14 469	6 758	7 711	114.1%
Total interest income	**279 085**	**298 685**	**-19 600**	**-6.6%**
Interest expense				
Individual deposits	-83 474	-70 133	-13 341	19.0%
Due to other banks	-2 353	-5 472	3 119	-57.0%
Due to the NBU	-24 108	-40 447	16 339	-40.4%
Eurobonds and loans from foreign banks	-40 416	-53 363	12 947	-24.3%
Securities issued	-16	-1 320	1 304	-98.8%
Subordinated debt	-2 495	-558	-1 937	347.1%
Total interest expense	**-152 862**	**-171 293**	**18 431**	**-10.8%**
Net interest income	**126 223**	**127 392**	**-1 169**	**-0.9%**

In 2010, the decrease in the average profitability of assets generating interest income exceeded the decrease in the cost of interest-bearing liabilities, which affected the decrease in the net interest spread by 0.2 p.p. down to 4.0%.

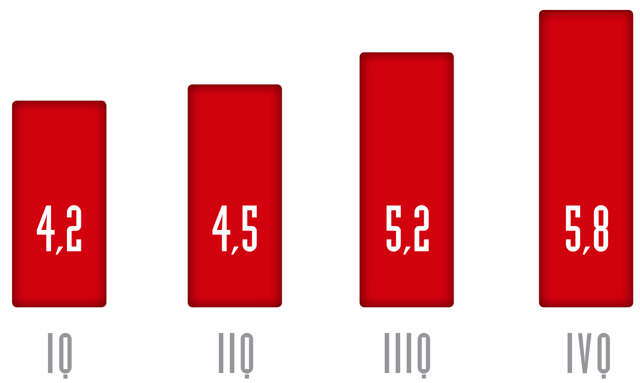
	2010			2009		
USD thousand	Annual average	Interest income / expense	Average profitability / cost, %	Annual average	Interest income / expense	Average profitability / cost, %
Total interest-earning assets	2 127 395	279 085	13,1%	2 092 392	298 685	14.3%
Total interest-bearing liabilities	1 680 866	-152 862	-9,1%	1 694 876	-171 293	-10.1%
Net interest income		126 223			127 392	
Net interest spread			**4.0%**			**4.2%**
Net interest margin		**5.9%**			**6.1%**	

* the annual average has been calculated as the arithmetic mean of the balance sheet values as of the year beginning and year end.

Net commission income

Building up the volume of fee and commission income is among the FUIB priorities. In 2010, the Bank ensured an increase of net commission income by 1.8% up to USD 19.6 million as compared to USD 19.2 million in 2009.

Net fee and commission income, USD million



Over the reporting period, there was a clear positive trend towards increase in the net fee and commission income accounted for by the wider product range, larger customer database in the corporate and retail segments and the increased volume of operations generating fee and commission income.

The commission income in 2010 grew by 10.8% to USD 30.5 million as compared to USD 27.5 million in 2009. Fees on payment cards made up the largest part of commission income (63.1%). The gross volume of fees earned by

FUIB on payment card operations in the reporting year amounted to USD 19.2 million, which is 24.5% more than in 2009. The volume of commission income earned by FUIB on the exchange operations amounted to USD 3.5 million or 11.3% of the total fee and commission income.

In addition, over the reporting period FUIB increased the volume of payment fees by 5.1% to USD 2.3 million and the volume of cash service fees by 14.1% to USD 1.5 million. Along with that, payments and individual customers' operations in the FUIB-online internet banking system in 2010 were free of charge.

In 2010, the fee and commission expenses of FUIB increased by 31.6% to USD 10.9 million as compared to USD 8.3 million in 2009. The volume of fees paid by FUIB on payment card operations amounted to USD 9.3 million. The growth of fee and commission expenses results from the increased volume of FUIB operations.

As a result of single-minded efforts focused on the task, the share of fee and commission income in the regular income in 2010 grew to 13.4% as compared to 13.1% in 2009, coming closer to the target level.

USD thousand	2010	2009	Change	
			absolute	%
Fee and commission income				
Foreign currency exchange	3 453	3 632	-179	-4.9%
Payments	2 328	2 216	112	5.1%
Trade finance	2 593	3 271	-678	-20.7%
Payment cards	19 213	15 427	3 786	24.5%
Cash deposits and withdrawals	1 483	1 300	183	14.1%
Other commission income	1 382	1 639	-257	-15.7%
Total fee and commission income	**30 452**	**27 485**	**2 967**	**10.8%**
Fee and commission expense				
Payments	-332	-339	7	-2.1%
Trade finance	-73	-95	22	-23.2%
Payment cards	-9 326	-6 766	-2 560	37.8%
Other	-1 145	-1 064	-81	7.6%
Total fee and commission expense	**-10 876**	**-8 264**	**-2 612**	**31.6%**
Net fee and commission income	**19 576**	**19 221**	**355**	**1.8%**

Operating expenses

Operating expenses of FUIB at year-end 2010 amounted to USD 69.5 million, growing by 14.2% as compared to 2009 (USD 60.9 million) and were aimed both at maintaining operating activity and implementing the Growth Strategy providing for the modernization and optimization of business processes. Personnel expenses were the main expense item making up 47.2% of total expenses (or USD 32.8 million), having substantially increased in 2010 due to employment of a number of key professionals within the framework of the Bank new organizational structure and due to the higher personnel remuneration.

As a result of the increased operating expenses, the ratio of operating expenses to operating income at year-end grew to 45.4% as compared to 36.7% at year-end 2009. This figure is one of the best among the banks of Ukraine.

Provision for assets-related operations

In 2010, FUIB substantially reduced expenses on provisions by slowing down the growth of troubled assets through effective credit risk management and loan portfolio quality improvement, which made a positive impact on the financial result. Expenses on the provision for loan portfolio impairment at year-end 2010 amounted to USD 21.3 million, or 1.2% of the average annual loan portfolio (in 2009 expenditures constituted USD 162.4 million or 8.7% of the average portfolio). Within this amount, security of the corporate loan portfolio in 2010 amounted to USD 6.5 million, and security of the retail loan portfolio amounted to USD 14.7 million. The largest share in the provision for assets-related operations as of the end of the reporting year belongs to the provisions for corporate loans:

USD thousand	**As of 31.12.10**	**Structure, %**	**As of 31.12.09**	**Structure, %**
Provision for due from other banks	39	0.0%	39	0.0%
Provision for loans to corporate customers	218 139	71,4%	214 836	74,7%
Provision for loans to private customers	87 539	28,6%	72 756	25,3%
Total	**305 717**	**100.0%**	**287 631**	**100.0%**

Credit risk	2010	2009
Provision for loan impairment / Total loans to customers (at year-end)	17.8%	16.9%
- for loans to corporate customers	16.9%	17.5%
- for loans to individual customers	20.8%	15.1%
Non-performing loans / Total loans to customers (at year-end)	23.2%	26.0%

In 2010, the volume of provisions for corporate loan impairment grew by 1.5% to USD 218.1 million. The ratio of provision to the aggregate corporate loan portfolio sank by 0.6% to 16.9% over the current year. The volume of provisions for retail loan impairment rose by 20.3% to USD 87.5 million. The ratio of provision to the aggregate retail loan portfolio increased by 5.7% to 20.8% over the current year.

Total profit

Total net profit of FUIB amounting to USD 54.4 million results from the high level of income from the core business activity and lower expenses on provisions.

Analysis of FUIB financial condition

Within the framework of the approved Growth Strategy, FUIB focused on improving the structure of the balance sheet, and optimizing the structure and cost of funding. The main emphasis was put on the substitution of loans obtained from the NBU through refinancing and international loans with the attracted customers' deposits.

Balance sheet as at December 31	2010	2009
Net assets	**2 222 175**	**1 987 283**
Due from other banks (gross)	336 805	296 206
Securities (gross), including	212 814	6 234
- government securities	203 441	6 085
- corporate bonds	9 373	149
Loans to customers (gross), including	1 714 357	1 705 729
- loans to corporate customers	1 293 442	1 224 750
- loans to individual customers	420 915	480 979
Provisions for loan impairment	-305 678	-287 592
Liabilities	**1 787 397**	**1 611 629**
Due to the NBU	174 414	245 241
Due to other banks	160 713	29 877
Customers' deposits, including	1 005 812	726 988
- deposits of corporate customers	364 568	252 375
- deposits of individual customers	641 244	474 613
Eurobonds and loans from foreign banks	402 553	560 248
Equity	**434 778**	**375 654**

Structural balance sheet indicators	2010	2009
Loans to customers (gross) / Assets (gross) (at year-end)	67.8%	75.0%
Loans to customers (gross) / Customers' deposits (at year-end)	170.4%	234.6%
Customers' deposits / Liabilities (at year-end)	56.3%	45.1%

Assets

FUIB assets at year-end 2010 totaled USD 2,222.2 million as compared to USD 1,987.3 million at year-end 2009 (a 11.8% increase). With the approval of the new Credit Policy, FUIB resumed lending to corporate and individual customers. However, in the environment of high credit risks the loan portfolio growth rate remained low. The Bank carried on restructuring of current troubled loans. The aggregate loan portfolio (before the provision for loan impairment) grew up by 0.5% to USD 1,714.4 million. At year-end 2010 the corporate loan portfolio amounted to USD 1,293.4 million; the increase totaled 5.6%.

The FUIB retail loan portfolio decreased by 12.5% to USD 420.9 million, mainly due to repayment of the quality loans exceeding the new portfolio increase.

To increase interest income, the Bank invested temporarily free funds into government securities, the volume of which increased from USD 6.1 million to USD 203.4 million at year-end.

Liabilities

The aggregate liabilities of FUIB in 2010 grew by 10.9% to USD 1,787.4 million, mainly due to an increase in the volume of customers' deposits by 38.4%. The increase in individual deposits totaled 35.1% or USD 641.2 million.

Corporate funds in 2010 grew by 44.5% to USD 364.6 million. The share of funds on the current accounts in the total volume of corporate funds rose from 37.6% as of the beginning of the year to 56.1%, which made a positive impact on the cost of funding.

USD thousand	31.12.10	31.12.09	Change absolute	Change %
Corporate deposits	**364 568**	**252 375**	**112 193**	**44.5%**
- demand deposits	204 400	94 852	109 548	115.5%
- term deposits	160 168	157 523	2 645	1.7%
Individual deposits	**641 244**	**474 613**	**166 631**	**35.1%**
- demand deposits	106 367	75 466	30 901	40.9%
- term deposits	534 877	399 147	135 730	34.0%
Total customer deposits	**1 005 812**	**726 988**	**278 824**	**38.4%**

The volume of Eurobonds and loans from foreign banks went down by 28.1% to USD 402.6 million. The volume of loans from the National Bank of Ukraine sank by 28.9% to USD 174.4 million. The structure of FUIB liabilities has substantially improved: the share of customers' funds in the Bank liabilities grew by 11.2% to 56.3% over the current year, and the ratio of loan portfolio (gross) to the customers' deposits improved from 234.6% to 170.4%.

Equity. Capital adequacy

FUIB increased its equity at the expense of 2010 net profit, thus bringing the capital adequacy ratio calculated in line with the Basel Committee recommendations to the level of 26.2% (vs. 25.3% at year-end 2009), which is practically three times as high as the norm.

Capital adequacy (according to the Basel Committee regulations)	2010	2009
Risk-weighted assets and off-balance-sheet liabilities and market risk	1 765 462	1 622 952
Tier 1 and Tier 2 capital	462 410	409 847
Tier 1 and Tier 2 capital / Risk-weighted assets and off-balance-sheet liabilities and market risk	26,2%	25,3%

The results of stress-testing conducted by Ernst & Young confirmed the high level of FUIB capitalization and absence of the need for an additional increase in regulatory capital. The regulatory capital adequacy ratio calculated in line with the NBU methodology amounted to 18.76% at year-end 2010 (whereas the norm is at least 10%).

Compliance with the norms set by the NBU

At year-end, FUIB was in compliance with all the norms set by the National Bank of Ukraine, the requirements of obligatory provisions on the accounts with the NBU and other regulations of the bank control and supervision authorities. FUIB complied with the Schedule for entering the limit of the open long foreign exchange position approved by the NBU.

Results by lines of business

Aleksey Volchkov,
Deputy Chairman
of the Management Board:

“Corporate business has always been FUIB's key, generating the largest share in the Bank's total income. Optimisation of the corporate business line's structure will enable us to better satisfy client needs and operate actively in new segments — medium, small, and micro-enterprises. Expertise and experience of FUIB and Dongorbank integrated team will help us secure leadership positions in all segments in some years.”

In 2010 FUIB captured 2216 new corporate clients, including 21 middle-income (USD 10–50 million annual revenue) and 17 large-income (over USD 50 million annual revenue) ones.

Corporate business

Customer base's build-up and segmentation

In the conditions of reviving domestic and external markets, recovering solvency of enterprises and general positive economic trends in 2010 the corporate business carried out the customer needs' analysis and new customer segmentation, thus giving a start to a thorough reorganisation of its structure. The FUIB's new Strategy provides for strengthening positions in all corporate business segments focusing on middle-sized corporate clients and, over near term, SME segment.

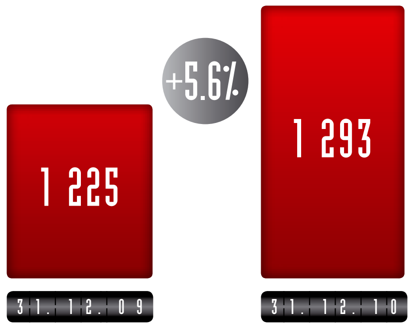
FUIB recommenced active lending to corporate clients in the 2d half of 2010. The Bank decided to diversify further its loan portfolio shifting focus to middle-sized enterprises. The Bank launched new pricing packages for SME, enabling to optimization of customer service and offering a complex of services satisfying all the banking needs of SME.

Loan Portfolio

The key challenge for corporate business in 2010 was lending recommencement and loan portfolio enhancement. We gave utmost care to portfolio quality maintenance against the background of increased external risks. Applied principles of Credit Policy provided more conservative procedures for assessing risks, financial standing and business prospects of borrowers. This in many respects restrained corporate loan portfolio growth and moderated the resulting increase in 2010.

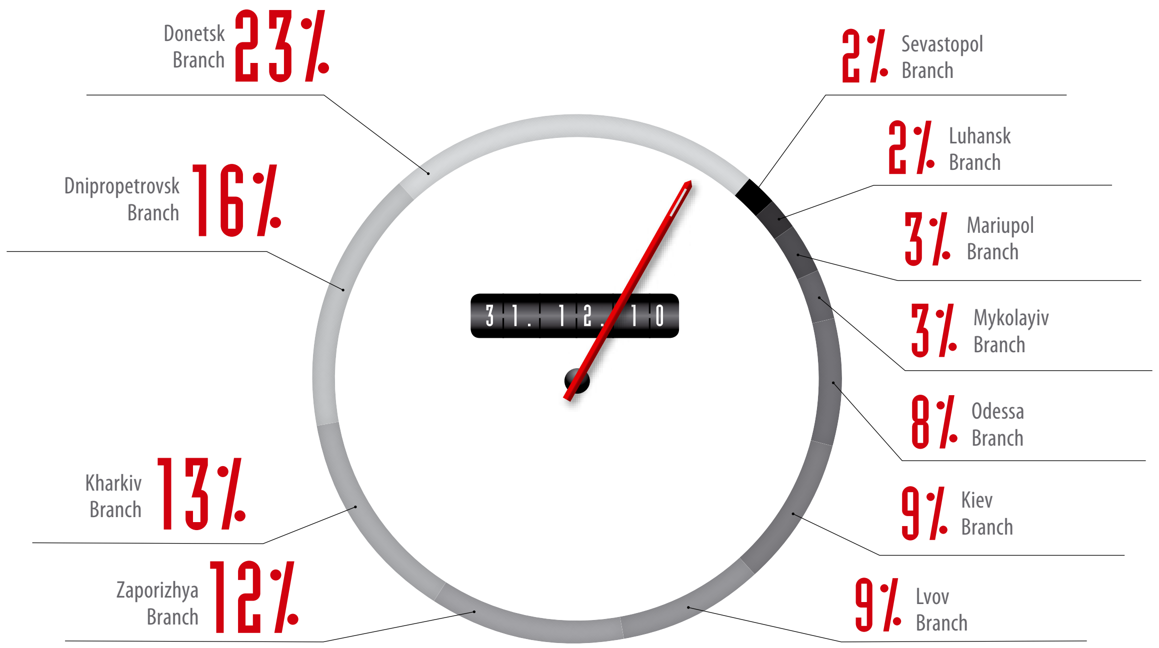
New corporate loans for 2010 totaled USD 260 million. In 2010 the total corporate loan portfolio increased by 5.6% to USD 1,293 million. The Bank's share in this segment equalled 1.90% at the end of 2010.

Corporate Loan Portfolio



In 2010, the loans issued to clients of FUIB's branches in Donetsk, Kharkiv, Dnipropetrovsk and Zaporizhya accounted for 64% of the Bank's total corporate loan portfolio, the reason thereof being economic development of those regions.

Corporate loan portfolio's structure by regions at 31.12.2010

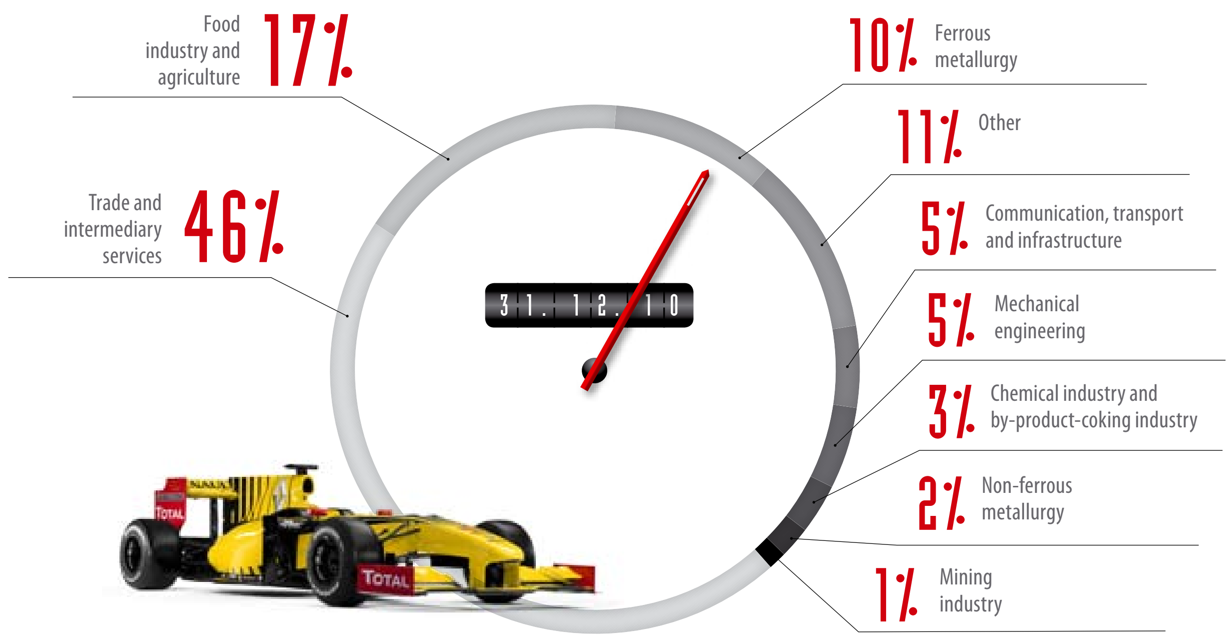


Successful debt restructuring

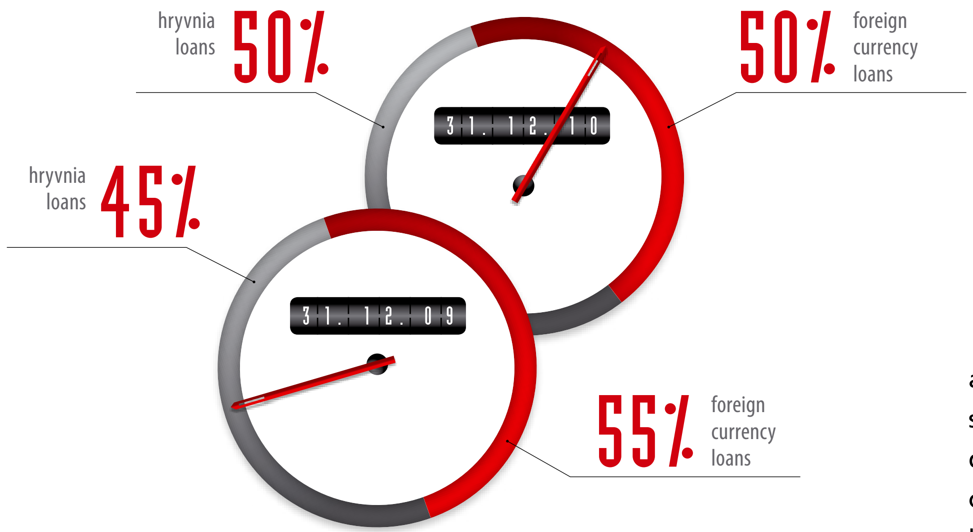
The Bank carried out short-term and long-term customer debt restructuring thus decreasing the borrowers' debt burden, preventing deterioration of the loan portfolio's quality and securing stable liquidity inflow: whereas the clients were provided with time and recourses required for regaining their business volumes. The loan portfolio's diversification by economic activities enabled the Bank to mitigate likely impact of negative trends in some of those on the loan portfolio's quality on a whole and focus on lending to actively recovering and experiencing shortage in financing ones. In conditions of the recovering market FUIB takes measures aimed at strengthening relationship with new clients involved in various economic activities and capturing new segments with inherent growth potential.

The national currency rate's stabilisation facilitated conversion of the share of the foreign currency loan portfolio into the hryvnia one that decreased the level of delinquent foreign currency corporate loans. Thus, FUIB managed to mitigate foreign currency risks for the clients without stable foreign currency proceeds. In 2010 the share of national currency loans in the total corporate portfolio grew from 45% to 50%.

Corporate loan portfolio's structure by economic activities at 31.12.2010



Corporate loan portfolio's structure by currencies



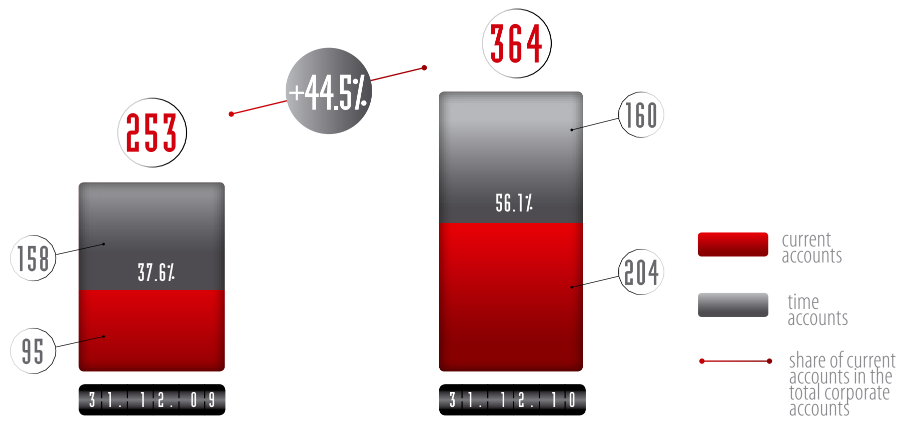
Corporate customer accounts

To recommence its active operations under conditions of restricted access to foreign capital markets, FUIB had to strengthen its resource base. In this connection, the Bank resorted to customer funds attraction in the domestic market. The Bank developed a new deposit product line and approached each client with an individualised approach and optimum contractual terms.

In addition, the Bank launched a new "Profit Account" product that provided for increased profitability alongside resource mobility and availability. FUIB's goodwill combined with its convenient and attractive products enabled the Bank to increase corporate accounts by 44.5% to USD 365 million, thus increasing the FUIB's share in this segment to 1.76% (2009: 1.46%).

Growth in corporate accounts and enhancement of the balance-sheet structure quality were delivered through attraction of demand deposits: they grew by 18.5% to 56.1% of the total corporate accounts, having a positive impact on the total cost of funds. Customer capture for complex servicing let FUIB increase turnover and balances of corporate current accounts. The total growth of corporate accounts is 98% represented by growth in corporate current accounts.

Dynamics of corporate current accounts in 2010



Trade finance services

The year 2010 was characterised by discontinuation of crisis economic trends resulting in growth of the FUIB's trade finance portfolio. The Bank reopened credit lines with such banks as Credit Suisse, ING, Deutsche Bank, Bank of New York, Zenith Bank, Promsvyaz bank and others that enabled it to organise trade finance products' confirmation and funding.

As one of two banks in Ukraine with open financing limit at Hermes international export credit agency FUIB can provide its clients with long-term (5-7-year) financing.

Nevertheless, in 2010 access to international credit lines was rather restricted, which forced FUIB to proceed more actively in the domestic market. During three months of 2010, the Bank formed a portfolio of guarantees to the benefit of distributors for USD 7.1 million. The total trade finance portfolio equaled USD 135 million at 2010 year-en.

Financial result of the corporate business line

The corporate business generates the major share of the Bank's consolidated net operating income and profit. The corporate business' financials for 2010 showed growth: the operating income increased by 7.4% to USD 73.2 million (2009: USD 68.2 million), amounting to 47.9% of the Bank's total operating income.

Corporate business Profit and Loss Report

USD, m	2010	2009	+/-	%
net operating income (incl. transfer)	65.8	59.6	6.2	10.5%
net fee income	7.5	7.8	-0.3	-4.3%
trade and other income / expenses	-0.1	0.8	-0.9	-106.5%
operating income	**73.2**	**68.2**	**5.0**	**7.4%**
operating expenses	**-21.7**	**-20.3**	**-1.4**	**7.0%**
net operating income (before provisions)	**51.5**	**47.9**	**3.6**	**7.6%**
changes in LLP	-4.2	-107.1	102.9	-96.1%
profit (before taxes)	**47.3**	**-59.2**	**106.5**	**-179.9%**

Operating income growth was delivered through a 10.5% increase in net interest income (including transfer income and expenses). A USD 13.3 million or 6.4% decline in interest income was compensated by the USD 9.7 million decline in expenses for interest-bearing customer accounts. Attraction of a significant volume of customer demand accounts also contributed to growth of the transfer income of corporate business.

	2010	2009	+/-	%
net interest income:	**65.8**	**59.6**	**6.2**	**10.5%**
interest income	193.3	206.6	-13.3	-6.4%
interest expenses	-23.4	-33.1	9.7	-29.4%
transfer	-104.1	-113.9	9.8	-8.6%

The net fee income for 2010 declined by USD 0.3 million year on year. The structure of the net fee income was as follows: 33.6% - trade finance fees (USD 2.5 million); 22.6% - currency trading fees (USD 1.7 million); and 15.9% - payment fees (USD 1.2 million). The improvement in customer debt service quality resulted in a decline in provision charges, which contributed greatly to growth in the corporate business financial result. The corporate business profit for 2010 totaled USD 47.3 million, amounting to 66.4% of the Bank's total profit before taxes.

Key priorities for 2011

In 2011, the corporate business line is to implement a number of projects, including lending process re-engineering in order to hasten the loan decision-making process and improve submitted data processing quality; development and implementation of an efficient and expeditious SME loan application processing system and extended product range satisfying all customer needs. Furthermore, the Bank plans to establish sales channels enabling efficient monitoring of market changes, more expeditious reactions to changes and sales building in all segments.

Reorganisation of the Bank's corporate business line and optimisation of key corporate customer service processes will enable FUIB to improve the customer service quality and speed it up. In addition, implementation of the Customer Relationship Management system (software platform used for storage, systematization and analysis of the data on relationship with customers) will let the Bank react promptly to changes in customer needs and anticipate such changes. Furthermore, the Bank will launch new services for corporate customers including factoring services and new remote access services that are fundamentally new for the Ukraine market. Also, FUIB plans to more actively sell guarantees for the benefit of distributors, leading domestic and foreign companies, secure long-term financing from ECA, and utilize credit lines provided by foreign banks with the view to confirming trade finance instruments and granting short-term loans to the Bank's clients.

Retail business

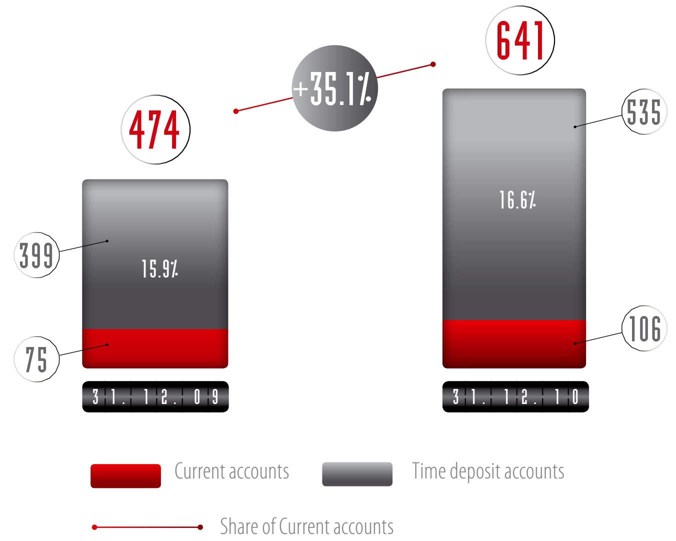
Dmitriy Krepak,
Deputy Chairman
of the Management Board:

"Priority development of our retail business and active sales orientation are the focal points of the FUIB's new Strategy. By investing into development of new products and enhancing our service quality we will build up a compelling presence in new segments, confirming our status as the most dynamic and advanced Bank for the growing number of FUIB's individual clients, now totaling one million persons."

Under the new Strategy's implementation, we actively enhance our retail business' product line, sales channels efficiency and customer service quality. Reorganisation of its structure will let the Bank further develop its retail business, building on increased volumes and outperforming the market in terms of service quality.

Deposit products

In line with its new Strategy, FUIB in March approached its individual clients with a new deposit line satisfying all banking needs of all client segments. Due to the Bank's reasonable and transparent individual customer service policy, which is optimum from the standpoint of the deposit line's earning capacity and functionality, together with



new terms of accessing the individual customer accounts, as of December 31, 2010 individual accounts with FUIB exceeded their pre-crisis deposit volume, amounting to USD 641.2 million (+35.1% year on year). As a result, FUIB's 2010 share in the retail funds market grew from 1.77% to 1.86%.

In December 2010, the Bank launched the "Deposit Constructor" – an online service unique in the Ukrainian banking market that enables a client to create a deposit product ultimately satisfying the client's needs (deposit amount, deposit currency, time, deposit amount increase/withdrawal, accrued interest payment schedule).

Card business

Throughout 2010, the card business was a permanent focal point of FUIB's retail business as one of the most promising sources of growth of the Bank's non-interest income and efficient marketing opportunities, including cross-selling. In order to build on sales and activation of the card and deposit products, the Bank implemented a number of marketing campaigns and loyalty programs, including MasterCard Gold Selective; "To Grow into" kids deposit program, etc. Under the Card Class Upgrade program, more than 8,000 FUIB clients seized the card class upgrade for only UAH 1.00.

As a result of implementation of the segmented Payroll Project capturing program in 2010, the Bank captured 666 enterprises and opened 29,366 payroll accounts, which represented a five-fold growth over 2009. In 2011, FUIB will launch new loyalty programs, including card co-branded with leading Ukrainian companies.

Remote banking services

To demonstrate its innovation orientation the Bank approached its clients with the new 24/7/365 service format characterised by simplicity, convenience, and security. FUIB's new version of the Online Internet banking service launched in March 2010 let our clients manage their funds from computers or mobile phones.

In addition, FUIB introduced its new corporate web site that now functions as another sales and service channel, enabling each client to order any product via the Bank's web site from the client's home or office. Furthermore, in order to increase the options for accessing FUIB's Online system the Bank developed a pilot version of iPUMB service for iPhone's users.

In 2011, the Bank will continue improving remote banking services for individual clients enhancing user-friendliness and extending the functionality of FUIB's Online Internet banking system.

Services for affluent customer segment

In our efforts to improve customer relationships in 2010, FUIB began enhancing service quality in the affluent customer segment. In September 2010, the Bank launched a new premium product –Platinum Panorama Premium – comprising a Platinum premium card, concierge service, insurance policy offering, a special bonus miles' accrual program, IAPA and Priority Pass' privileges together with a variety of other exclusive offerings to the Bank's partners. The non-cash payments executed by means of Visa Platinum Panorama Club cards in Ukraine amounted to USD 2 million; use abroad totalled USD 1.5 million. The inflow to customer deposit accounts totaled about USD 1.5 million.

In 2011, the Bank will further enhance its personal banking service concept, actively develop and launch new exclusive services and products, and enhance the quality of its private banking service.

Active promotion of the upgraded FUIB Online Internet banking service secured a significant increase in service users, which at year-end 2010 totaled 97,100, reflecting growth of 55,500 users within the year. During the year, FUIB's Online service executed 271,000 active operations, an increase of 229,000 over 2009. According to Internet World Stats, FUIB is in second place in Ukraine in terms of number of Internet banking users.

Loan products

FUIB's individual lending policy took into account the high level of credit risks and is very reasonable. In the mortgage lending segment, the Bank focused on risk mitigation and portfolio quality increase. We offered loan products mainly to customers as a part of payroll projects:

- August 2010 – active launch of overdrafts to employees of FUIB's corporate customers (+34% of new clients that opened overdrafts);
- October 2010 – recommenced granting of cash loans to employees of FUIB's corporate customers (+23% of new clients that obtained cash loans).

Repayments of individual loans exceeded the volume of new individual loans, resulting in a 12.5% decline in the retail loan portfolio (12.0% for the banking system as a whole) to USD 421 million, equalling 24.6% of the Bank's loan portfolio. As a result, FUIB maintained its market share in terms of loan portfolio volume at 1.63%.

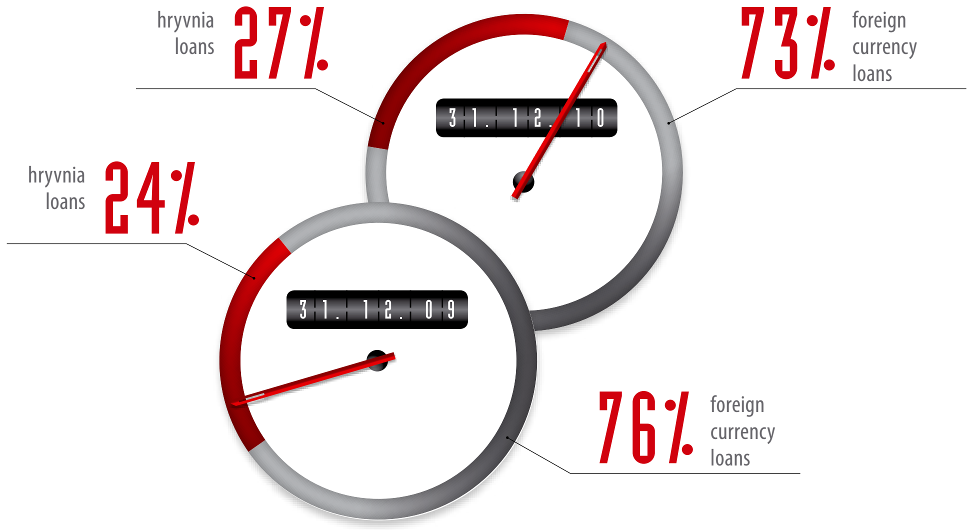
Individual workout

On basis of the individual workout unit set up in the head office with the view to optimising debt collection process, the Bank formed a centralised center for contacting customers in delinquency, and implemented new approaches and repayment motivation tools. We applied debt restructuring and refinancing actively alongside voluntary sale of collateral. The differentiated approach to customers applied by FUIB enabled it to increase the debt repayment level and reduce credit risks, slowing down growth of the Bank's NPL portfolio and at the same time treating its customers loyally and flexibly.

In 2010, the Bank successfully refinanced USD 4 million in foreign currency loans into the national foreign currency risks for both the Bank and customers.

Throughout 2010, FUIB granted loan grace periods amounting to USD 34.3 million and rolled-over USD 1.5 million in loan agreements, thus decreasing the borrower's debt burden and securing a stable flow of money from those loans.

Retail loan portfolio's structure by currency



Regional network and ATMs

FUIB has a nationwide network that it plans to extend further actively. In addition, the Bank will actively develop alternative sales channels - through its web site, mobile agents, call centre, etc. The Bank's ATM joint network totals 3,443 ATMs, including 594 FUIB ATMs. In order to expand its ATM network, in November 2010 FUIB entered into an agreement on a joint ATM network with PJSC VTB Bank. FUIB also installed cash-accepting ATMs that enable customers to refill their card accounts 24/7/365. As of December 31, 2010, the joint POS-terminal network of FUIB and its partner banks totalled 6,022 terminals, of which 1836 were cash-accepting POS-terminals.

Financial result of the retail business line

Operating income of the retail business line increased 11.9% year on year to USD 41.8 million compared to USD 37.3 million in 2009, a 27.3% share of the Bank's total operating income (2009: 22.8%).

The Bank secured growth of operating income mainly through the 15.3% growth in the net interest income (including cost of transfer of resources). Interest income declined by USD 6.3 million (9.4%) as a result of decline in the retail loan portfolio volume. Interest expenses increased by USD 9.2 million due to growth in attracted customer funds, which also contributed to an increase of the funds transfer result (173.4% increase to USD 30.6 million) that secured growth in the net interest income of the retail business line.

Retail business Profit and Loss Report

	2010	2009	+/-	%
net operating income (incl. transfer)	29,8	25,9	3,9	15.3%
net fee income	10,8	9,8	1,0	9.6%
trade and other income	1,2	1,6	-0,4	-29.7%
operating income	**41,8**	**37,3**	**4,5**	**11.9%**
operating expenses	**-37,5**	**-33,9**	**-3,6**	**10.6%**
net operating income (before provisions)	**4,3**	**3,4**	**0,9**	**23.9%**
changes in LLP	-14,7	-36,7	22,0	-59.9%
profit	**-10,4**	**-33,3**	**22,9**	**-68.6%**

	2010	2009	+/-	%
net interest income (including transfer):	**29.8**	**25.9**	**3.9**	**15.3%**
interest income	60.4	66.7	-6.3	-9.4%
interest expenses	-61.2	-52.0	-9.2	17.6%
transfer	30.6	11.2	19.4	173.4%

The retail business line's net fee income for 2010 of USD 1.0 million or 9.6% exceeded its level for 2009. The line's net fee income grew mainly due to an increase in the fee income from card transactions: the net card fees grew by 15.2% to USD 9.8 million, their share in the net fee income totalling 90.4%. The USD 37.5 million operating expenses and USD 14.7 million loan impairment charges brought about a negative retail business financial result totaling USD 10.4 million. The Bank's consistent individual debt service quality enhancement measures let FUIB decrease loan impairment charges, resulting in a 68.6% decline in the segment's negative financial result.

Key priorities for 2011

In 2011, the Bank will modernise further its product offerings and business processes to support infrastructure and enhance customer service quality. In addition, the Bank will implement a new synchronised product range as a part of FUIB - Dongorbank integration.

Call Centre

During its existence, FUIB's Call Center has processed 537,019 customer inquiries, rendering high quality and prompt service. In 2010, the average customer waiting time was 9 seconds, and the operator's response time was less than 30 seconds for 95% of customers. Now the users of the FUIB Online Internet banking service can apply to the Call Center for support and advice at any time either by phone or via the FUIB Online quick messaging option. In 2010, the Call Centre processed 24,391 phone inquiries and 4,048 electronic inquiries submitted by customers via the FUIB Online.

Processing center

Throughout 2010 FUIB was among Ukraine's market leaders in terms of rendering acquisition services to banks and acting as a sponsor bank to banks applying for membership in the MasterCard Worldwide and Visa International payment systems. In 2010 FUIB's Processing Center entered into partnership agreements with two domestic banks (JSC MERCURY Bank and PJSC BANK GRANT), thus increasing the number of its partner banks to 36. In 2010 FUIB together with its partner banks issued 1,180,958 Visa International and MasterCard Worldwide branded cards, installed 2,280 ATMs, which is a 9% increase over 2009. Thus, at year-end 2010 the combined ATM network of FUIB and its partner banks (RADIUS network) and ATMs of JSCB Ukrsotsbank comprised 3,443 ATMs (2009: 3219 ATMs).

In 2010 the network of POS-terminals connected to FUIB's Processing Center grew by 40% over 2009. At year-end the POS-terminal network comprised 6,022 POS-terminals and 1,836 cash withdrawal POS-terminals. In order to expand its ATM network, in November 2010 FUIB entered into an agreement on a joint ATM network with PJSC VTB Bank.

New services

- ATM Balance Inquiry service for holders of MasterCard Worldwide branded cards -- now available both at ATMs of the RADIUS network and ATMs in all European countries.

- GSM-banking service for clients of FUIB and partner banks – leading edge service notifying cardholders of all transactions performed by means of cards and flow of funds on card accounts via SMS messages or e-mails. The service functionality provides for the possibility to indicate the following data in the notifications: merchant/ATM's ID, city, country alongside with another useful option: notifications on failed transactions and reasons therefor.

Major Achievements

In 2010 FUIB was the first privately-owned bank in Ukraine to acquire the PCI Data Security Standards (PCI DSS) compliance certificate upon thorough audit of its card physical and information security systems and card data security. PCI DSS was developed by leading payment systems as a uniform standard for all banks throughout the world. PCI DSS certification is an acknowledgement of high-level security measures applied to processing, storage and transmission of card data by FUIB's Processing Center.

- Faster and better quality card personalisation due to upgraded card personalisation equipment in the Bank's card personalisation center.

- Expanded range of terminal equipment that can be connected to FUIB's processing system due to successful EMV Certification of Verifone Vx510 and Vx610 POS-terminals with MasterCard Worldwide international payment system.

- In 2011 FUIB will enhance online card payment security through implementation of a 3-D Secure card authentication protocol and launch an e-commerce transaction processing service for acquirer banks.

Investment business

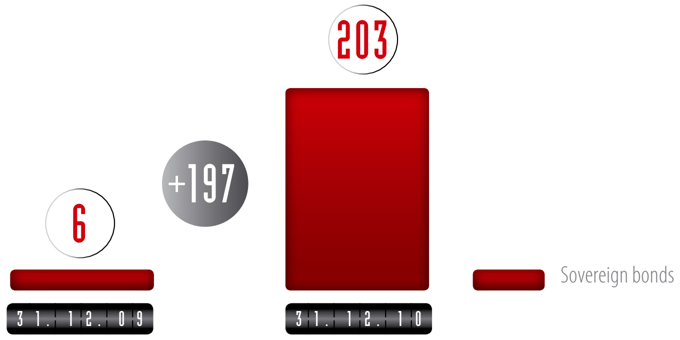
Dmitriy Yurgens,
Deputy Chairman
of the Management Board:

“In 2010, the investment business generated USD 23.7 million - one third of the FUIB’s income. Next year we aim to multiply this result through implementation of new efficient banking technologies and products and penetration into new business areas. Our successful experience in organising and structuring one of the first post-crisis deals in the M&A market – acquisition of Renaissance Capital Bank by SCM Group – will contribute to further development of our investment banking services.”

The investment business is one of the FUIB’s key business lines, supporting the Bank’s own development and providing individual and corporate clients with investment products and services. In 2010, the Bank began implementing its new Strategy providing for optimization of the existing business lines and development of the new ones. This would increase the share of investment business fees, interest, and trade income in Bank revenues, and increase the Bank’s market share in the investment services segment.

Securities Operations

To manage its portfolio efficiently in 2010, FUIB focused on creating secondary liquidity with Ukraine’s sovereign bonds, having abandoned more risky instruments including corporate and municipal bonds. During 2010, the portfolio of sovereign bonds increased about 33 times the previous year-end total, and amounted to USD 203 million. Beginning in August, FUIB actively purchased VAT bonds from enterprises and exporters in addition to operations with sovereign bonds.



International Borrowings

In 2010, FUIB honored its debts in conformity with the terms of loan agreements, smoothing the debt repayment curve and minimizing the risk of debt load peaks in the future. Thus, FUIB’s international borrowings portfolio decreased by USD 158 million or 28% (USD 403 million at year-end). Liquidity being sufficient, there was no need to attract funds from the international capital markets, which also contributed to a decline in the debt load of instruments placed among international investors.

Early in the year, FUIB restructured its debt to foreign creditors, establishing the precedent of a transparent, logical, and consistent with world best practices debt restructuring process in the Ukrainian market and ensuring an optimum balance between creditor and borrower interests. Complying with covenants in our loan agreements, in the second half of the year the Bank obtained an agreement with its foreign creditors for corporate reorganisation, and the integration of FUIB and Dongorbank. The Bank provided creditors with detailed data on the advantages of integration, the synergetic effect of the reorganization, our planned loan portfolio optimization, and the strengthened position of an integrated FUIB in international financial markets. In addition, the Bank submitted its financial statements and projections testifying to the absence of a need for further capital injections in the near future reinforcing its strong capital position.

In 2010, FUIB acted as a financial advisor to SCM Group, delivering deal organizing and structuring services in acquisition of 100% of Renaissance Capital Bank. This acquisition by SCM Group was one of the first cross-border deals of FUIB in the M&A market and one of a few M&A deals on Ukraine’s post-crisis banking map, which adds significance to the experience. The successful closure of the deal once again confirms the expertise of FUIB’s team in creating the Bank’s credit and investment history.

Currency exchange and money market operations

In 2010, the treasury managed on a permanent basis the consolidated currency position and liquidity through currency exchange and money market operations in Ukrainian and international currency and commodity markets, both for its own account and on behalf of its clients. The aforementioned operations, alongside currency arbitrage, generated trade and fee income.

Throughout the year, the national currency's rate was rather stable, partly due to measures taken by the National Bank of Ukraine that formerly participated in the money market (interbank) trading on an almost daily basis. Cancellation of the Pension Fund duty for non-cash foreign currency trading operations (since July 1, 2010) facilitated money market activization. Foreign currency exchange fees totaled 95.1% of this business line's fee income. Money market rates decreased as the result of recovery of the banking system's liquidity and issuance of NBU certificates of deposit and sovereign bonds. In connection therewith, money market operations interest income for 2010 was lower than during the high-market-volatility crisis year of 2009. In 2010, the Bank employed swaps and unsecured loans as its key financial instruments.

Key Performance Indicators

The share of income of the investment business in the FUIB's total income before taxes totaled 33.3%. The operating income of the investment business line declined by 54.5% to USD 22.8 million (2009: USD 50.1 million), amounting to 14.9% of the Bank's operating income. The net interest income (including transfer) underwent a decrease mainly due to a decline in the interest income from money market operations and a decrease in investment business liabilities.

The net fee income of this segment decreased slightly by USD 0.1 million to USD 1.4 million. Trade and other income for 2010 were lower than in 2009 because of the generation of USD 6.9 million one-off income by the Bank in 2009. Recovery of the provision for investment business assets - USD 5.4 million compared to USD 18.5 million in 2009 - took place in 2010.

	2010	2009	+/-	%
net interest income (incl. transfer)	19,8	40,9	-21,1	-51,6%
net fee income	1,4	1,5	-0,1	-5,2%
trade and other income	1,6	7,7	-6,1	-79,4%
operating income	**22,8**	**50,1**	**-27,3**	**-54,5%**
operating expenses	**-4,5**	**-3,3**	**-1,2**	**35,2%**
net operating income (before provisions)	18,3	46,7	-28,4	-60,8%
changes in LLP	5,4	-18,5	23,9	-129,3%
total income (before taxes)	**23,7**	**28,3**	**-4,6**	**-16,1%**

Key priorities for 2011

In 2011, the investment business line will focus on enhancing the investment business model, supporting internal liquidity, and raising capital for FUIB's development. It will also take measures aimed at expansion of its investment products via cross selling to corporate clients (bonds underwriting, advisory on issue of debt instruments, liquidity management, direct dealing currency exchange operations, etc.) and individual clients (DEPO accounts maintenance). In addition, FUIB will consider fundraising in the national currency in the domestic or international capital markets in order to satisfy the financing needs of its growing business.

Corporate structure

List of the FUIB shareholders as of 31.12.2010:

Shareholders	Shareholding in the authorized capital, %
SCM Finance Ltd.	89,87%
SCM Financial Overseas Ltd	10% (minus one share)
Private person	0.13%

SCM Finance Ltd. is owned by System Capital Management (SCM). Both companies are residents of Ukraine.

In early 2005, SCM Finance Ltd., a part of SCM Group, acquired 50% of the FUIB shares owned by Fortis Bank, DEG, EBRD and IFC; 49% of shares belonged to another company of SCM Group. Thus, SCM consolidated 99% of FUIB shares.

System Capital Management (SCM) was founded in 2000. Its head office is located in Donetsk (Ukraine). SCM is one of Europe's leading industrial holding companies playing a key role in the Eastern European economy.

SCM focuses on the following business areas: mining and metallurgy, power, finance, telecommunications, media business, and real estate. In addition, SCM owns and manages assets in other business sectors, including clay extraction, retail trade, dealing in oil products, etc.

Bank authorized capital

The Bank authorized capital amounts to UAH 2,522,842,400.00 (UAH two billion five hundred and twenty-two million eight hundred and forty-two thousand four hundred), and consists of 10,968,880.00 (ten million nine hundred and sixty-eight thousand eight hundred and eighty) ordinary registered shares with the nominal value of UAH 230.00 (UAH two hundred and thirty) each, issued in the book-entry form.

The Bank did not issue preference shares.
The Bank executives do not own any Bank shares or interest in the authorized capital.

RISK MANAGEMENT

Serhiy Chernenko,
Deputy Chairman
of the Management Board:

"Strategically 2010 was the year for us to learn lessons from the crisis, find efficient ways of reviving business, and elaborate a new vision of the business as a whole. FUIB thoroughly reorganised its structure and continued investing in development of new approaches and competencies in risk management — the foundation for the Bank's further growth in the near future."

FUIB's goal is not simply to grow in terms of its business volumes, but also to grow in terms of service quality, which means it is necessary to create a qualitative system quickly and flexibly adapt it to the Bank's business needs. In order to enhance its stress resistance and support its active growth in 2010, FUIB optimised the lending process and approved a new Lending Policy, providing for a differentiated approach to each borrower. The Bank invested in the new, more sophisticated approaches to risk analysis in all customer segments, and strengthened its debt collection function as an integral part of the Bank's successful performance.

Maintaining liquidity and currency position

After the 2008 crisis, customer account outflows in 2009, and imbalance of the inter-currency liquidity in 2010, the Bank paid utmost attention to ensuring stability of the Bank's aggregate liquidity and improvement of its inter-currency liquidity. So far, the Bank has elaborated an asset and liability management system that secures sufficient liquidity volume for ensuring continuity of business processes, high quality customer service, and development of new business and growth directions.

In order to stabilise the national currency rate, n the middle of 2009 the National Bank of Ukraine essentially amended currency position calculation rules that resulted in an increase of FUIB's foreign currency position, which, according to the IFRS, shortened the Bank's foreign currency position and increased the Bank's exposure to foreign currency risk under conditions of national currency devaluation.

Credit risk management

Throughout the year, FUIB took measures aimed at further enhancing the risk management system by credit risk types. Thus, taking into account among other things business needs and existing market conditions, the Bank revised its Corporate Lending Policy. This included implementing a differentiated approach to borrowers and lending types; banning unsecured loans and some other high-risk-bearing loan types; and allowing new foreign currency loans to exporters and customers with stable financial standing.

In 2010 FUIB completely reorganised its debt collection function and, as a result, more than doubled debt repayment volume. The Bank's experience with a pilot outsourcing of collection services proved that FUIB's internal collection function had been far more efficient. The exhaustive customer data at the Bank's disposal let it apply a segmented approach to workout, establish rapport with its customers, and work more efficiently and dynamically.

In order to mitigate the risks of granting loans to customers with a negative reputation, the Bank implemented a corporate customer data verification system.

In 2010, taking measures aimed at enhancing debt service quality, FUIB managed to decrease the volume of impaired and non-performing loans (NPLs). Impaired corporate loans decreased by USD 106 million; there was net of growth in interest accrued on impaired loans; and the actual decrease in impaired loans totaled USD 145 million. NPLs declined by USD 57 million, and interest accrued thereon grew by a net USD 90 million. In the corporate business line, the Bank implemented a multi-level system for early workout warning and monitoring, automated monitoring and control over bankruptcy, and attachment of accounts and covenants.

In its retail business line, FUIB took measures aimed at enhancing existing portfolio quality and launching new products. In order to stabilise the financial standing of its individual customers the Bank continued applying debt restructuring instruments and methodology, and improved the structure of credit deals. In addition, the Bank made debt-restructuring decisions in a centralised mode for each borrower.

In order to decrease NPL volume and control the volume and dynamics of overdue liabilities in 2010, we adopted application-scoring models for retail products, and elaborated a behavioural scoring model for individual workout. Furthermore, the Bank implemented a front office system for selling retail loan products, supported by the automated decision-making support system - New Business Strategy Manager (NBSM). FUIB automated collateral sale processes and resumed cooperation with three credit bureaus (Ukrainian Bureau of Credit Histories, International Bureau of Credit Histories, and First All-Ukrainian Bureau of Credit Histories).

In 2011, FUIB will implement a number of cutting-edge projects. The following projects are underway: application of prognostic modeling of behavioural scoring cards and implementation of the Collection and Collection-scoring strategy. Furthermore, the Bank will finalise implementation of a fraud counteraction business process and data feedback to credit bureaus.

INFORMATION TECHNOLOGIES AND INFORMATION SECURITY

Gennady Molodchinniy,
First Deputy Chairman
of the Board:

“The FUIB considers development of the IT and information security direction a strategic priority and is actively developing new technologies allowing the Bank to meet and anticipate our customers' needs, improve quality and speed of service, with the recent addition of alternative channels for use of services ensuring the highest level of data protection. Creation of a Technology Committee allowed the Bank to bring the maintenance of technological leadership issues by the Bank to the forefront.”

Today, the Bank has a unique, for Ukraine, opportunity to integrate virtually any software system with the main FUIB system.

In 2010, the FUIB was first among commercial banks in Ukraine to receive PCI DSS certification, which is an international standard for information security.

In 2010, the NBU recommended as best practice in the banking system of Ukraine to use Aladdin eToken technology, which the FUIB was first in the country to implement for protection of payments within VMPS FUIB system.

An IT audit of the Bank was completed by PriceWaterhouseCoopers in 2010, with its results forming the basis for our IT Strategy and Strategy of Information Security (IS), which became an integral part of the Bank's development strategy until 2014. A target structure and road map for information security and IT projects have been developed; and a new organizational structure of divisions focused on business results has been implemented. A Technology Committee, whose purpose is realization of strategic projects in the field of information technologies, information security and IT-risk management, was created in the Bank. The Bank has implemented a number of ambitious plans to centralize IT infrastructure and improve system reliability, as well as actively developing a high-tech line of remote maintenance of products for corporate and retail customers.

Philosophy of IT resource management

The FUIB is realizing an information platform on the principles of centralized integration as a carefully designed and coherent ideology, which determines the development of IT architecture of the Bank in the years ahead. At the same time, a combination of business requirements and capabilities of the technological infrastructure, transition to the next “level of maturity” – from IT management to managing business services - becomes paramount.

This assumes effective management of infrastructure, monitoring and performance control of IT resources, ensuring consistency between development of IT infrastructure and business in general. At the same time, the goal is not only improving IT efficiency, but business processes optimization as well. The Bank makes extensive use of modern technologies for development of IT infrastructure with service-oriented architecture (SOA), based on corporate information data bus IBM Enterprise Service Bus (IBM ESB) and other technologies. This approach facilitates integration of new automated systems (AS) in the Bank's business processes, increases the rate of introduction of new and reconfiguration of existing business-processes and allows for reuse (non-redundant) existing IT services in various business processes.

Thanks to consolidation of IT resources through advanced virtualization technologies, terminal servers, and thin clients offered by such leaders of IT industry as VMWare, Microsoft, IBM, HP and Cisco – the cost of development and ownership of IT infrastructure is reduced. Centralization of management of IT infrastructure enhances quality of IT services, manageability and reliability of the AS functioning.

The Bank continues to build strong infrastructure with the help of advanced technologies - introduction of the single sign-in information systems in all units of the Bank, the technology of calculations transfer onto terminal servers using thin clients – thus a greater centralization of administration is achieved without significant increase in the number of IT staff.

Straight Through Processing System

A centralized Client-bank system with an automatic processing module of payments in local currency (Straight Through Processing) has become one of the latest innovations for corporate clients, making it possible to centralize the system in the data processing center (DPC), integrate it with other systems and automate the processing of documents, forming a cycle of automatic data processing from a client to a payment system.

Clients appreciate the level of automation and increase in processing speed of payments that were made possible through integration of multiple systems of the Bank using the IBM ESB industrial solution.

The indicator for automatic processing of payments in foreign currencies - Straight Through Processing Rate – is more than 99.6%, i.e. an average of 996 or more payments out of 1000 is processed in correspondent banks in the U.S. and Europe in fully automated mode and only 3-4 payments require manual adjustments. This indicator allows the FUIB to offer competitive tariffs for processing currency payments, and guarantee a high rate of settlement through its network of correspondents as well. Thus, a payment sent from the FUIB by SWIFT in accordance with the STP-criteria, is sent out to a recipient's bank almost instantly at any time of the day. In 2010, the FUIB received awards for exceptional quality of service from Deutsche Bank AG, Frankfurt, leader in settlements in euro in the European settlement systems (the level of STP comprised 99.73%), and from Deutsche Bank Trust Company Americas - a leading clearing bank in the U.S. (STP levels reached a record 99.99%). Germany's largest bank, Commerzbank AG, regularly confirms the quality of FUIB payments at the level from 99.66 to 100%.

Iternet banking FUIB online, which the bank offered its customers in 2010 – developed by an external company with an integration role taken by employees of the FUIB, uses a unique software development experience on IBM System and (AS/400) platforms. Programmers have developed a library of integration of the Bank ESB-services with which the core of Internet banking communicates with in an online mode. Thus, the operations initiated by a client on a computer, iPhone or iPad are immediately processed and reflected in the banking systems. Internet-banking continues to improve: the latest unique service launched by the FUIB in March 2011 - ***iPUMB***, mobile internet banking for iPhone and iPad.

iPUMB Service and Internet banking PUMB online are protected by a digital certificate, providing first class security - SSL Web Server Certificate with Extended Validation. This is the flagship SSL certificate by Thawte Company. Since launch of the FUIB's internet banking in 2010, the Bank has provided customers with protection of premium-class reliability and is one of the few banks in Ukraine offering such class of protection.

Plans include - development and launch of a full-featured web-client for corporate clients based on the FUIB online architecture. Developed by the FUIB, remote service systems provide customers with a truly comfortable access to bank products 24x7 in real time.

Significant achievements

- Started modernization of the supportive WAN-network of the Bank, a move to a new generation of high-performance routers, Cisco ISR G2.

- Growth in operations and project for banks merger have set the task to upgrade System i / model 770 servers. With this purpose in 2010 load growth of computing resources was analyzed and calculation for the future configuration was made. Load testing was conducted at the IBM research center in Montpellier. The acquisition of proposed solutions was completed.

- Completed set up of production capacities of Data Storage Systems (DSS) by means of commissioning of the new Hi-end level IBM DS8800 storage systems.

- Developed and launched an automatic service for processing of customers' payments on the client-bank system ("Autopilot"), allowed to significantly reduce the amount of routine work carried out by operational managers, and consequently, significantly reduce operating costs of the Bank.

- Significantly increased the number of IPCC users, working over Voice IP, introduced Video-IP solutions for meetings and negotiations between the Head offices.

- Successfully implemented the FUIB-online project (Internet Banking for retail business).

- Designed and implemented new Vega-2 centralized client-bank system, which reduced the costs of maintenance of the client-bank for branches and for offices of the Bank and became a platform for future development of the "thin" client-bank, similar to the FUIB-online (Veg@NET project).

HUMAN RESOURCE MANAGEMENT

Elena Dyatlova,
Deputy Chairman
of the Management Board :

"FUIB increased personnel development expenses in 2010 – having invested US$ 192,000. Over the year the Bank provided training to 1,027 FTEs (36.4%), including 266 Dongorbank's FTEs as a part of the merger."

By facilitating our sustainable development and delivering on our leadership strategy, FUIB shows its commitment to becoming the best domestic banking employer, with the utmost care given to forming the culture of ***recruitment-retention-development cycle***.

RECRUITMENT - We hire employees that are best for their respective positions on the basis of both their professional expertise, goal-oriented mindset and a desire to work together to achieve excellent results, as well as their personal values complying with those of FUIB.

As a dynamic and growing organization, we are interested in attracting young and prospective employees. FUIB cooperates with higher education institutions, recruiting their graduates and participating in job fairs in various regions.

The highly competitive banking business and the needs outlining FUIB's business growth trend are resulting in transformation of FUIB's human resource management practices from plain personnel administration into strategic partnership.

The human resource management function of FUIB supplies the bank's top and middle management with the necessary instruments for effective human resource management. It also trains and consults the bank's key personnel on efficient use of HR instruments and technologies.

RETENTION - The implementation of the Performance Management and Pay by Results systems are a means to retain employees and provide for performance appraisal and recognition of achievements as well as career enhancement opportunities. On another hand, a clear employee evaluation system helps to recognize employees' achievements on basis of a clear and transparent incentive program that is both fair and competitive in the market.

The job evaluation scheme developed for FUIB by Hay Group under Hay Job Evaluation methodology lets us grade precisely all positions in the Bank's organizational structure, while the domestic banking remuneration benchmarking ensures competitive rewards for FUIB's personnel.

DEVELOPMENT - The strategy of talent development foresees helping employees grow in various positions, and linking the professional potential of each employee with corporate loyalty to achieve outstanding performance.

FUIB's personnel development entails the following priority areas: development of effective leadership and management skills for middle and top management, implementation of the annual performance appraisal system for all of the bank's employees, and forming the culture of constructive feedback, and building internal succession plans.

"We ensure and facilitate FUIB's leadership in domestic banking, carefully build its business team, and create a favorable working environment, inspiring our employees to reach higher goals."

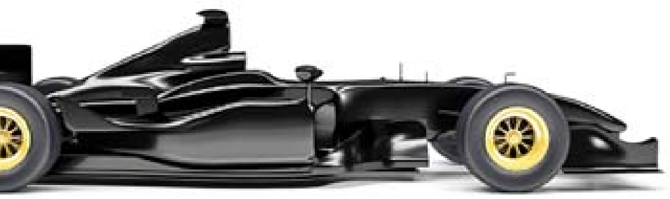
During 2010, FUIB's team grew by 615 members, while more than 380 employees have been promoted.

Social responsibility and interaction with the community

It has already become FUIB's good tradition to participate in various charity projects. In 2010, on the initiative of *Rozvytok Ukrainy* (Ukraine's Development) charity fund timed to the International Children's Day, the Bank raised money for disadvantaged children. In addition, to honor St. Michael's Day FUIB's HRM department initiated among Bank employees the voluntary donation of warm clothing, toys and school supplies to children in orphanages and boarding schools.

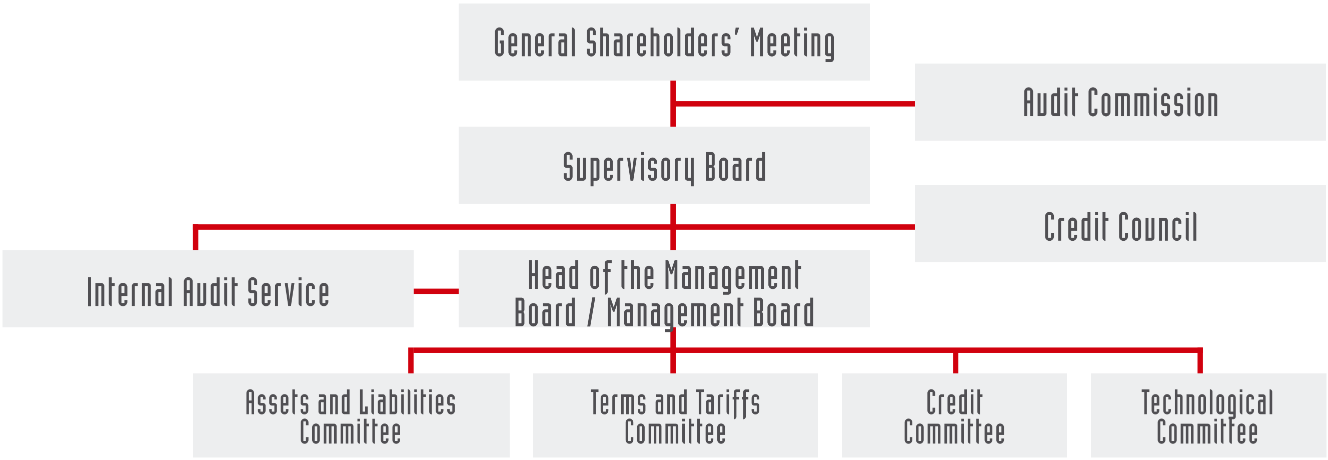
CORPORATE GOVERNANCE

The FUIB corporate governance system meets the requirements of Ukrainian legislation and the world's best practices and is tailored to respect the rights and lawful interests of customers and shareholders and to ensure financial stability and efficiency.



The General Shareholders' Meeting is the highest management body of FUIB. The Bank Supervisory Board elected by the General Shareholders' Meeting and accountable to it ensures protection of the Bank shareholders' rights and controls and regulates activity of the Bank Management Board within its competence defined by the Statutes and the current legislation of Ukraine. The Bank Management Board is an executive body performing operational management of the Bank and implementing the tasks set by the shareholders and the Supervisory Board. The Audit Commission controls lawfulness of the performed transactions and compliance with the laws and regulations by the Bank. The Bank Supervisory Board has the Internal Audit Service assisting the management bodies in ensuring efficient operation of the Bank. Every year FUIB engages an external auditor having no property interest in the Bank and not related to its shareholders for the purpose of audit and attestation of the financial statements.

Structure of FUIB corporate governance bodies



General shareholders' meeting

The General Shareholders' Meeting is the highest management body of the Bank and makes decisions on the key issues of the Bank activity. Exclusive competence of the General Shareholders' Meeting includes decision-making on amendments to the Bank Statutes, changing the type of Bank as a joint-stock company, changing the amount of the authorized capital, on the issues of placement and circulation of the Bank shares, and on approving the Regulations on the General Shareholders' Meeting, Supervisory Board, Management Board and Audit Commission, approving the Bank Annual Report and the procedure for distribution of the Bank profits and losses, etc. In 2010, one Annual General Shareholders' Meeting and two extraordinary General Shareholders' Meetings took place.

Subjects and summary of decisions made by the General Shareholders' Meeting

The Annual General Shareholders' Meeting on April 22, 2010 approved the Bank Annual Report 2009, the Audit Commission Opinion, the external auditor's opinion on the Annual Report; considered the reports of the Audit Commission, Supervisory Board and Bank Management Board on the Bank performance in 2009, made the decision to cover the Bank losses in 2009, approved the Regulation on the General Shareholders' Meeting and the new wording of the Regulation on the Bank Management Board, made the decision to change the membership of the Bank Audit Commission and Supervisory Board.

The extraordinary General Shareholders' Meeting on November 10, 2010 approved the decision on merging PJSC Dongorbank with PJSC FUIB resulting in FUIB becoming the legal successor of PJSC Dongorbank as regards all its rights and obligations under the Deed of Assignment. The Agreement for merging Dongorbank with FUIB and the Reorganization Plan have been approved, the Reorganization Commission has been established, the timeline for Dongorbank reorganization by means of its merger with FUIB has been set, the members of the Bank Management Board, Supervisory Board and Audit Commission following the merger have been appointed. The extraordinary General Shareholders' Meeting on December 13, 2010 decided to leave the current membership of the Supervisory Board unaltered.

Supervisory Board Members (as at 01.04.2011)

Supervisory board

The Supervisory Board is the Bank management body the function of which is to protect the Bank shareholders' rights and control and regulate activity of the Bank Management Board within its competence defined by the Statutes, current legislation of Ukraine and Regulation on the Supervisory Board.

The Supervisory Board within the framework of its exclusive competence appoints and releases from office the Chairman and members of the Management Board and determines their authorities, controls the Management Board activity, selects the external auditor, establishes the procedure for performing audit and control of the Bank financial and economic activity, appoints the Head of the Internal Audit Service, approves the strategic plan and annual economic and financial plans, and performs other functions delegated to it by the General Shareholders' Meeting or included in the exclusive competence of the Supervisory Board by the Statutes or by the current legislation of Ukraine. The Supervisory Board meetings may be either regular (in line with the approved meeting schedule) or extraordinary (convened at the initiative or request of any member of the Supervisory Board, Audit Commission or Management Board). The Supervisory Board meetings shall be held at least quarterly. In 2010, 7 regular and 21 extraordinary Supervisory Board meetings took place. The Supervisory Board members perform their functions with no remuneration. The information on the FUIB Supervisory Board is available at the Bank website: *http://www.pumb.ua/ru/o_banke/nablyudatelnyj_sovet/*

Supervisory board committees

The Supervisory Board has the Credit Council, the competence of which includes: monitoring (examination and control) of the Bank loan portfolio, decision-making on the Bank credit transactions, control and approval of the required amounts of provisions for losses from credit transactions according to the IFRS requirements, decision-making on the procedure and terms of bad debt repayment ("troubled assets"), evaluation of the loan portfolio impact on the Bank profitability, control over the activity and performance of the Credit Committee, and accreditation of insurance companies. For the Supervisory Board to perform its functions more effectively, the Bank intends to set up a Personnel Committee and an Audit and Risk Committee in 2011.

Audit commission

The Audit Commission is accountable to the General Shareholders' Meeting and performs audits of the financial and economic activity of the Bank, including the following:

- The Audit Commission controls the Bank compliance with the legislation of Ukraine and NBU regulations;
- Considers reports of internal and external auditors and prepares the respective proposals for the General Shareholders' Meetings;
- Submits proposals on any issues within the competence of the Audit Commission related to the Bank's financial security and stability and protection of the customers' interests to the General Shareholders' Meeting or the Supervisory Board;
- Performs audits of the Bank's financial and economic activity at the end of the financial year at the request of the General Shareholders' Meeting, Bank Supervisory Board or at the request of a shareholder (shareholders) owning in total 10 (ten) and more per cent of shares;
- Has the right to submit proposals for the agenda of the General Shareholders' Meeting and demand an extraordinary Meeting to be convened.

Management Board FUIB

As of 01.04.2011, the FUIB Management Board includes 7 persons

FUIB Management Board

The Bank Management Board is the executive body of the Bank; it manages the Bank operational activity, forms the funds required for the Bank activity and is responsible for its efficient operation according to the principles and procedures set by the legislation of Ukraine, the Statutes, resolutions of the General Shareholders' Meetings and the Supervisory Board.

The Management Board is a collective body; its competence includes all the issues related to the management of the Bank operational activity, apart from the issues belonging exclusively to the competence of the General Shareholders' Meeting and Supervisory Board. The Management Board within the framework of its competence acts on behalf of the Bank, is accountable to the General Shareholders' Meeting and the Bank Supervisory Board, and ensures performance of their decisions. The Chairman of the Management Board controls Management Board activity, reports on the Management Board activity to the General Shareholders' Meeting and the Supervisory Board, is entitled to act on behalf of the Bank and to represent the Bank without power of attorney. The Chairman of the Management Board, the Management Board members and their deputies are personally responsible for the performance of tasks entrusted to each of them. The information on the FUIB Management Board is available at the Bank website: *http://www.pumb.ua/ru/o_banke/rukovodstvo/*

FUIB MANAGEMENT BOARD COMMITTEES

The Bank Management Board set up the following committees to improve control and efficiency of the Bank activity.

Terms and Tariffs Committee

The Terms and Tariffs Committee is accountable to the Bank Management Board and was established to perform the following functions:

- Analyzing the ratio of the original cost of products and services to the market competitive position of the current Bank tariffs
- Considering and approving all the changes and amendments to the current and prospective systems of tariffs and services offered to the branches and structural units of the Head Office
- Selecting the optimal tariff and service system
- Analyzing actual achievement of the targets set by the Bank Credit Policy
- Promptly responding to changes in the demand and competitive environment in the regions, development of proposals on changing the tariffs for the particular types of services and submitting them for approval to the Chairman of the Management Board
- Controlling compliance with the tariff policy by the structural units of the Bank.

Credit Committee

The Credit Committee is accountable to the Credit Council and the Management Board and was established to perform the following functions:

- Considering proposals as for accepting credit risks by the Bank
- Delegating authorities
- Analyzing the loan portfolio quality and making provisions for credit risks
- Analyzing the progress of work with "troubled assets" and their quality
- Provisional consideration and approval of the methodological documents and regulations before they are submitted for approval to the Credit Council
- Reporting to the Bank Management Board and the Credit Council on Bank credit transactions.

Assets and Liabilities Committee

The main functions of the Assets and Liabilities Committee are the following:

- Maintaining and improving quality of Bank strategy-making and business planning, ensuring compliance with Bank targets by means of developing respective policies, generating management solution projects and approving them within its competence
- Maximizing Bank profit and equity value, ensuring effective long-term operation of the Bank
- Minimizing risks by means of direct decision-making on management of liquidity, interest, currency and market risks
- Ensuring optimization of the ratio of bank transaction profitability to bank transaction risk.

Technological Committee

The Technological Committee focuses on attaining strategic objectives in the sphere of informational technologies, information security and IT risk management, and maintaining the Bank's technological leadership.

The Committee was established to perform the following functions:

- Considering and approving IT policies
- Considering and approving information security and IT risk management policies
- Prioritizing IT and information security projects and development trends
- Analyzing the results of investigations into critical information security incidents and approving the measures to be taken
- Considering and approving initiatives on major technological projects
- Considering and approving acceptable level of IT risks
- Considering and approving tender bids under the strategic projects
- Performing expert assessment of innovative proposals
- Evaluating the results of IT and information security audits
- Decision-making on technological issues related to mergers/acquisitions
- Approving criteria for selection of requests for software changes requiring approval by the Committee
- Prioritizing the requests for software changes

Internal control and audit

The Bank internal control system comprises the set of rules, procedures and organizational structures, and is aimed at the following:

- Attaining the targets set by the Bank Development Strategy as regards performance and profitability
- Preventing the loss of resources
- Ensuring reliability and completeness of financial and management reporting
- Ensuring compliance with the current legislation of Ukraine and internal policies and procedures to prevent damage to the Bank's reputation and other negative consequences.

The internal control system ensures monitoring, measurement and maintaining of the risks inherent in the Bank's activity at an acceptable level by means of the following:

- level I controls, or line checks, guaranteeing that transactions are performed properly. These controls are performed at the structural units engaged in a particular type of activity (for example, the manager's hierarchical control of the transactions performed by his/her subordinates), or are integrated with the procedures, i.e. the dedicated controllers supervise the transactions while they are performed
- level II controls, or risk management controls, are aimed at determining the methodology for identification and measurement of risks to confirm that the authority limits delegated to various structural units are complied with, and that particular activity is performed in line with the set targets in terms of risk and profitability. These controls are performed by the structural units not directly engaged in the performance of transactions
- level III controls, or internal audits, focus on the detection of improper situations, violations of laws and regulations and evaluation of the entire internal control system. These controls in the form of on-site audits are performed individually on a permanent, or, in particular cases, on a regular basis by the structural units not connected with or dependent on the risk management and operational structural units.

The Bank ***Internal Audit Service*** was set up to perform the level III controls. The IAS is accountable directly to the Supervisory Board, acts according to the plan approved by the Supervisory Board and reports to it on the performance results. Thus the required level of the IAS independence is achieved. The IAS provides Bank management with independent and objective guarantees and consultations aimed at improvement of the Bank's activity. The internal audit helps the Bank to achieve its targets using a systematic and consistent approach to the evaluation and improvement of risk management efficiency, control systems and corporate governance. The IAS comments and recommendations are promptly and effectively analyzed by the Bank top management, after which adjustment measures are taken to eliminate the revealed deficiencies.

The IAS evaluates three basic areas and gives respective recommendations:

1) corporate governance, as regards the following objectives:

- popularization of corporate ethical norms and values
- ensuring efficient management and responsible attitude to work
- intra-company transfer of the relevant information on risk and control
- activity coordination and information exchange between the Supervisory Board, external and internal auditors and top executives of the Bank.

2) risk management, as regards the risk management efficiency based on the evaluation of the following categories:

- the company's objectives match its mission
- substantial risks are detected and assessed
- the risk response measures are selected to constrain the risks within the company's risk appetite limits
- the information on risks is timely recorded and transferred inside the company, thus enabling the personnel, top executives and the Supervisory Board to perform their functions.

3) internal control, as regards whether the control mechanisms used in the company are adequate (according to the existing adequacy criteria) and whether control contributes to attaining the system's targets.

At year-end, the Internal Audit Service provides the Supervisory Board with the independent generalized evaluation of the internal control system based on the results of separate checks and consultations performed over the reporting period.

Financial Statements and Independent Auditor's Report

International Financial Reporting Standards

31 December 2010

Contents

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders and Management Board of Public Joint Stock Company "First Ukrainian International Bank":

1 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 of 31 December 2010 and the statements of income, comprehensive income, changes in equity and cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

2 Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinion

6 In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as of 31 December 2010, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

LLC AF "PricewaterhouseCoopers (Audit)"

22 March 2011
Kyiv, Ukraine

LLC Audit Firm "PricewaterhouseCoopers (Audit)", 75 Zhylyanska Street, Kyiv 01032, Ukraine
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(in thousands of US dollars)

	Notes	2010	2009
Assets			
Cash on hand and in transit	6	49,922	45,550
Balance with the National Bank of Ukraine	7	75,557	50,169
Due from other banks	8	336,766	296,167
Loans to customers	9	1,408,679	1,418,137
Investment securities available for sale	10	212,814	6,234
Current income tax assets		-	6,702
Other assets	12	13,455	36,353
Property and equipment	11	115,259	120,444
Investment property	11	4,692	4,680
Intangible assets	11	5,031	2,847
Total assets		**2,222,175**	**1,987,283**
Liabilities			
Due to the National Bank of Ukraine	13	174,414	245,241
Due to other banks	14	160,713	29,877
Customer accounts	15	1,005,812	726,988
Eurobonds issued	16	243,804	269,729
Bonds issued	17	14	265
Other borrowed funds	18	158,749	290,519
Current income tax liabilities	28	5,940	-
Other liabilities	19	9,075	13,732
Subordinated debt	20	27,844	27,762
Deferred tax liability	28	1,032	7,516
Total liabilities		**1,787,397**	**1,611,629**
Equity			
Share capital	22	333,560	332,587
Share premium		7,134	7,114
Revaluation reserve for premises		45,700	45,617
Revaluation reserve for investment securities available for sale		2,744	34
Currency translation reserve		(278,676)	(279,807)
Other reserve	22	257,142	258,317
Retained earnings		67,174	11,792
Total equity		**434,778**	**375,654**
Total liabilities and equity		**2,222,175**	**1,987,283**

Signed on behalf of the Management Board on __ March 2011.

The notes set out on pages 70 to 143 form an integral part of these financial statements

Statement of Income for the Year Ended 31 December 2010

(in thousands of US dollars)

	Notes	2010	2009
Interest income	24	279,085	298,685
Interest expense	24	(152,862)	(171 293)
Net interest income	**24**	**126,223**	**127,392**
Allowance for loan impairment	8,9	(21,259)	(162,432)
Net interest income/ (negative interest margin) after allowance for loan impairment		**104,964**	**(35,040)**
Fee and commission income	25	30,452	27,485
Fee and commission expense	25	(10,876)	(8,264)
Net fee and commission income	25	**19,576**	**19,221**
Net gains from dealing in foreign currencies		901	991
Foreign exchange translation result		2,614	(482)
Net gains from investment securities available for sale		937	1,267
(Provision)/reversal of provision for credit related commitments	32	(437)	8,166
Losses less gains on revaluation of investment property		(2,290)	(231)
Impairment of premises exceeding the revaluation reserve for premises		-	(2,275)
Reversal of impairment/(impairment) of investment securities available for sale	10	9,593	(6,818)
Gains less losses from financial derivatives		3,946	15,179
Other income	26	1,225	4,797
Operating income		**141,029**	**4,775**
Operating expenses	27	(69,543)	(60,889)
Profit / (loss) before income tax expense		**71,486**	**(56,114)**
Income tax (expense) / benefit	28	(17,089)	1,800
Net profit / (loss) for the year		**54,397**	**(54,314)**

The notes set out on pages 70 to 143 form an integral part of these financial statements

Statement of Comprehensive Income for the Year Ended 31 December 2010

(in thousands of US dollars)

	Notes	2010	2009
Net profit / (loss) for the year		**54,397**	**(54,314)**
Other comprehensive income / (loss):			
Revaluation of investment securities available for sale		3,363	45
Reclassification adjustment for losses less gains on investment securities available for sale included in the income statement		-	2,314
Income tax effect	28	(663)	(407)
Total other comprehensive income / (loss) on investment securities available for sale		**2,700**	**1,952**
Revaluation of premises	11	-	(10,000)
Income tax effect	28	896	2,500
Total other comprehensive income / (loss) on revaluation of premises		896	(7,500)
Currency translation differences		1,131	(15,644)
Other comprehensive income / (loss) for the year, net of tax		**4,727**	**(21,192)**
Total comprehensive income / (loss) for the year		**59,124**	**(75,506)**

The notes set out on pages 70 to 143 form an integral part of these financial statements

Statement of Cash Flows for the Year Ended 31 December 2010

(in thousands of US dollars)

	Year ended 31 December 2010	Year ended 31 December 2009
Cash flows from operating activities		
Interest income received	223,695	253,229
Interest expense paid	(142,968)	(194,509)
Fee and commission income received	30,594	27,156
Fee and commission expense paid	(10,836)	(8,424)
Income received from trading in foreign currencies	901	991
Gains less losses from financial derivatives	3,857	14,616
Other income received	342	4,262
Operating expenses paid	(53,634)	(52,204)
Income tax paid	(10,720)	-
Cash flows from operating activities before changes in operating assets and liabilities	**41,231**	**45,117**
Net (increase)/decrease in operating assets:		
Mandatory reserve balance with the National Bank of Ukraine	17,948	6,143
Due from other banks	46,021	(84,115)
Loans to customers	37,660	354,939
Other assets	9,854	(6,100)
Net increase /(decrease) in operating liabilities:		
Due to the National Bank of Ukraine	(71,942)	180,821
Due to other banks	130,830	(32,387)
Customer accounts	273,334	(143,950)
Other liabilities	3,386	(31,337)
Net cash from operating activities	**488,322**	**289,131**
Cash flows from investing activities		
Purchase of property and equipment and intangible assets	(8,487)	(11,442)
Proceeds from sale of property and equipment	1	315
Purchase of investment securities available for sale	(425,406)	(31,958)
Proceeds from sale and redemption of investment securities available for sale	228,947	51,704
Net cash (used in) / from investing activities	**(204,945)**	**8,619**
Cash flows from financing activities		
Redemption of bonds issued	(240)	(36,722)
Proceeds from other borrowed funds	-	18,778
Redemption of other borrowed funds	(149,310)	(205,420)
Proceeds from subordinated debt	-	27,552
Net cash used in financing activities	**(149,550)**	**(195,812)**
Effect of exchange rate changes on cash and cash equivalents	1,969	1,267
Net increase in cash and cash equivalents	**135,796**	**103,205**
Cash and cash equivalents at the beginning of the year	247,417	144,212
Cash and cash equivalents at the end of the year (Note 6)	**383,213**	**247,417**

The notes set out on pages 70 to 143 form an integral part of these financial statements

Statement of Changes in Equity for the Year Ended 31 December 2010

(in thousands of US dollars)

	Share capital	Share pre-mium	Revaluation reserve for investment securities available for sale	Revaluati-on reserve for premises	Currency transla-tion reserve	Other reserve	Retained earnings	Total equity
Balance at 1 January 2009	**344,897**	**7,377**	**(1,900)**	**56,380**	**(264,163)**	**241,174**	**67,395**	**451,160**
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)	-
Balance at 31 December 2009	**332,587**	**7,114**	**34**	**45,617**	**(279,807)**	**258,317**	**11,792**	**375,654**
Net profit for the year	-	-	-	-	-	-	54,397	54,397
Other comprehensive income for the year	-	-	2,700	896	1,131	-	-	4,727
Total comprehensive income for the year	-	-	2,700	896	1,131	-	54,397	59,124
Depreciation transfer on revalued premises	-	-	-	(947)	-	-	947	-
Translation to presentation currency	973	20	10	134	-	(1,175)	38	-
Balance at 31 December 2010	**333,560**	**7,134**	**2,744**	**45,700**	**(278,676)**	**257,142**	**67,174**	**434,778**

The notes set out on pages 70 to 143 form an integral part of these financial statements

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 2010, it had 11 branches throughout Ukraine. The Bank had 2,509 employees as at 31 December 2010 (2009 – 2,622 employees).

The Bank's shareholders as at 31 December 2010 are "SCM FINANCE" (89.9% of share capital), SCM FINANCIAL OVERSEAS LIMITED (10.0% of share capital) and a private shareholder (0.1% of share capital) (31 December 2009: "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.

The Bank participates in state deposits insurance scheme starting from 2 September 1999 (acting registration certificate #102 dated 29 September 2009), which operates according to the Law #2740-III "On Individuals Deposits Guarantee Fund". Individuals Deposits Guarantee Fund guarantees repayment of individual deposits up to UAH 150 thousand (2009: UAH 150 thousand).

On general shareholders' meeting held on 10th November 2010, shareholders of Public Joint Stock Company "First Ukrainian International Bank" and shareholders of Public Joint Stock Company "Dongorbank" made a decision regarding the legal merger of the two banks merging Public Joint Stock Company "Dongorbank" into the Bank.

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, the existence of a currency that is not freely convertible outside of Ukraine, restrictive currency controls, relatively high inflation and high interest rates. 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 the 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. Borrowers of the Bank were adversely affected by the financial and economic environment, which in turn impacted their ability to repay the amounts owed. As a significant part of loans to customers was issued in foreign currencies, UAH depreciation against these currencies had a significant impact on borrowers' ability to service the loans.

2. Operating Environment of the Bank (Continued)

In 2010, the Ukrainian economy experienced a moderate recovery of economic growth. The recovery was accompanied by lower refinancing rates, stabilisation of the exchange rate of the Ukrainian hryvnia against major foreign currencies, and increased money market liquidity levels.

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

In December 2010, the Ukrainian Parliament adopted the new Tax Code (Note 28). The new tax rules have not yet been tested in practice nor confirmed by interpretation given in courts or by the tax authorities. Therefore, at the moment their interpretation and practical application remains unclear.

Management believes it is taking all the necessary measures to support the sustainability and development of the Bank.

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 recognition of financial instruments at fair value, revaluation of investment property, premises, derivative financial instruments and available for sale investments measured at fair value. These policies have been consistently applied to all the periods presented, unless otherwise stated.

The financial statements are represented in thousand 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.

(in thousands of US dollars) 73

3. Basis of Preparation (Continued)

Changes in presentation

Presentation of certain amounts in income and expenses of 2009 was changed as follows:

Amount	As reported	As restated	Comment
26,011	Interest income	Gains less losses from financial derivatives	Presentation of interest income and expenses on swap agreements on a net basis
11,395	Interest expense	Gains less losses from financial derivatives	Presentation of interest income and expenses on swap agreements on a net basis

4. Summary of Significant Accounting Policies

The Bank adopted the following amended IFRS and IFRIC Interpretations during the year.

Improvements to International Financial Reporting Standards (issued in April 2009; amendments to IAS 38 are effective for annual periods beginning on or after 1 July 2009; amendments to IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 18, and IAS 36 are effective for annual periods beginning on or after 1 January 2010). The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations:

- clarification of disclosure requirements set by IFRS 5 and other standards for non-current assets (or disposal groups) classified as held for sale or discontinued operations;
- requiring to report a measure of total assets and liabilities for each reportable segment under IFRS 8 only if such amounts are regularly provided to the chief operating decision maker;
- amending IAS 1 to allow classification of certain liabilities settled by entity's own equity instruments as non-current;
- changing IAS 7 such that only expenditures that result in a recognised asset are eligible for classification as investing activities;
- allowing classification of certain long-term land leases as finance leases under IAS 17 even without transfer of ownership of the land at the end of the lease;
- providing additional guidance in IAS 18 for determining whether an entity acts as a principal or an agent;
- clarification in IAS 36 that a cash generating unit shall not be larger than an operating segment before aggregation; and
- supplementing IAS 38 regarding measurement of fair value of intangible assets acquired in a business combination.

The amendments have no material impact on the financial statements of the Bank.

4. Summary of Significant Accounting Policies (Continued)

The following amendments to standards and interpretations are not applicable to the Bank's operations: IFRS 2 Share-based Payment, IFRS 3 Business Combinations, IAS 27 Consolidated and Separate Financial Statements, IAS 39 Financial Instruments: Recognition and measurement, in respect of hedging instruments – as the Bank does not apply hedge accounting, IFRS 1 First-time adoption of International Financial Reporting Standards, IFRIC 9 Re-assessment of embedded derivatives, IFRIC 16 Hedges of a net investment in a foreign operation, IFRIS 17 Distribution of non-cash assets to owners, IFRIC 18 Transfer of assets from customers,

Financial assets

Key measurement terms

Depending on their classification financial instruments are carried at fair value or amortised cost as described below.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Fair value is the current bid price for financial assets and current asking price for financial liabilities which are quoted in an active market. For assets and liabilities with offsetting market risks, the Bank may use mid-market prices as a basis for establishing fair values for the offsetting risk positions and apply the bid or asking price to the net open position as appropriate. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange or other institution and those prices represent actual and regularly occurring market transactions on an arm's length basis.

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

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

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

4. Summary of Significant Accounting Policies (Continued)

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

Initial recognition
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.

Measurement at the reporting date
Financial assets at fair value through profit or loss and financial assets available for sale are measured at fair value, and other financial assets are measured at amortised cost.

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.

4. Summary of Significant Accounting Policies (Continued)

Classification of financial assets

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.

Investment securities available for sale
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.

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 in transit and balances with the National Bank of Ukraine (NBU), excluding mandatory reserve balances. Mandatory cash balances with the NBU are carried at amortised cost and represent mandatory reserve deposits which are not available to finance the Bank's day to day operations and hence are not considered as part of cash and cash equivalents for the purposes of the statement of cash flows.

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 re-pledge 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.

4. Summary of Significant Accounting Policies (Continued)

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.

Impairment of financial assets

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.

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 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 allowance for loan impairment in 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.

4. Summary of Significant Accounting Policies (Continued)

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.

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

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 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.

4. Summary of Significant Accounting Policies (Continued)

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.

Derecognition of 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 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

Initial recognition
Financial liabilities in the scope of IAS 39 are classified as either financial liabilities at fair value through profit or loss or other financial liabilities, as appropriate. When financial liabilities are recognised initially, they are measured at fair value, less, in the case of liabilities not at fair value through profit or loss, directly attributable transaction costs. The Bank determines the classification of its financial liabilities upon initial recognition.

Classification of financial liabilities

Borrowings
Issued financial instruments or their components are classified as liabilities, where the substance of the contractual arrangements 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 for a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments. Such instruments include liabilities due to the National Bank of Ukraine, due to other banks, customer accounts, subordinated debt, 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.

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

4. Summary of Significant Accounting Policies (Continued)

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.

Measurement at the reporting date
Financial liabilities at fair value through profit or loss are measured at fair value, and other financial liabilities are measured at amortised cost.

Derecognition of 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.

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.

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 gains less losses from financial derivatives.

(in thousands of US dollars) 81

4. Summary of Significant Accounting Policies (Continued)

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 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.

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

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

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.

4. Summary of Significant Accounting Policies (Continued)

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 reporting date. Gains and losses resulting from changes in the fair value of investment property are recorded in the statement of income in losses less gains on revaluation of investment property in the year in which they arise.

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

Share capital
Ordinary shares are classified as equity. 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 the Bank's 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 reporting 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 year that is included in the balance of retained earnings are translated at the closing rate 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 2010, the exchange rate of the Ukrainian hryvnia as established by the NBU was UAH 7.9617 to 1 US dollar (2009: UAH 7.985) and UAH 10.573138 to 1 euro (2009: UAH 11.448893).

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.

4. Summary of Significant Accounting Policies (Continued)

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.

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

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 other post-retirement benefit plans.

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. The Bank has assessed the terms of its land leases regarding the finance lease criteria stated by amendments to IAS 17 and concluded that criteria are not met.

Segment reporting
Operating segments are reported in a manner consistent with the internal reporting provided to the Bank's Management Board that is defined as chief operating decision maker. Segments whose revenue, result or assets are ten percent or more of all the segments are reported separately. The analysis of geographical information is based on domicile of the customer. Revenues from off-shore companies of Ukrainian customers are reported as revenues from Ukraine.

New Accounting Pronouncements

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2011 or later and which the Bank has not early adopted.

Improvements to International Financial Reporting Standards (issued in May 2010 and effective from 1 January 2011).

IFRS 1 was amended:
- to allow previous GAAP carrying value to be used as deemed cost of an item of property, plant and equipment or an intangible asset if that item was used in operations subject to rate regulation, and
- to allow an event driven revaluation to be used as deemed cost of property, plant and equipment even if the revaluation occurs during a period covered by the first IFRS financial statements.

IFRS 7 was amended to clarify certain disclosure requirements, in particular:
- by adding an explicit emphasis on the interaction between qualitative and quantitative disclosures about the nature and extent of financial risks,
- by removing the requirement to disclose carrying amount of renegotiated financial assets that would otherwise be past due or impaired,

4. Summary of Significant Accounting Policies (Continued)

- by replacing the requirement to disclose fair value of collateral by a more general requirement to disclose its financial effect, and
- by clarifying that an entity should disclose the amount of collateral foreclosed during the period and held at the reporting date, and not the amount obtained during the reporting period.

IFRS 9, Financial Instruments Part 1: Classification and Measurement.

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

- financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument;
- an instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent only payments of principal and interest (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss;
- all equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment; and
- most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated as at fair value through profit or loss in other comprehensive income.

While adoption of IFRS 9 is mandatory from 1 January 2013, earlier adoption is permitted.

4. Summary of Significant Accounting Policies (Continued)

Amendments to IFRS 7 (issued in October 2010 and effective for annual periods beginning on or after 1 July 2011)
The amendment requires additional disclosures in respect of risk exposures arising from transferred financial assets. The amendment includes a requirement to disclose by class of asset the nature, carrying amount and a description of the risks and rewards of financial assets that have been transferred to another party yet remain on the entity's balance sheet. Disclosures are also required to enable a user to understand the amount of any associated liabilities, and the relationship between the financial assets and associated liabilities. Where financial assets have been derecognised but the entity is still exposed to certain risks and rewards associated with the transferred asset, additional disclosure is required to enable the effects of those risks to be understood.

Amendment to IAS 24, Related Party Disclosures (issued in November 2009 and effective for annual periods beginning on or after 1 January 2011).
IAS 24 was revised in 2009 by:

- simplifying the definition of a related party, clarifying its intended meaning and eliminating inconsistencies; and
- providing a partial exemption from the disclosure requirements for government-related entities.

IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments (effective for annual periods beginning on or after 1 July 2010).
This IFRIC clarifies the accounting when an entity renegotiates the terms of its debt with the result that the liability is extinguished through the debtor issuing its own equity instruments to the creditor. A gain or loss is recognised in profit or loss based on the fair value of the equity instruments compared to the carrying amount of the debt.

Recovery of Underlying Assets – Amendments to IAS 12 (issued in December 2010 and effective for annual periods beginning on or after 1 January 2012). The amendment introduced a rebuttable presumption that an investment property carried at fair value is recovered entirely through sale. This presumption is rebutted if the investment property is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. The Bank does not expect the amendments to have any material effect on its financial statements.

Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters – Amendments to IFRS 1 (issued in December 2010 and effective for annual periods beginning on or after 1 July 2011). The amendment regarding severe hyperinflation creates an additional exemption when an entity that has been subject to severe hyperinflation resumes presenting or presents for the first time, financial statements in accordance with IFRS.

The amendments are expected to have no material impact on the financial statements of the Bank.

5. Critical Accounting Estimates and Judgements in Applying Accounting Policies

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

Impairment losses on loans and advances
The Bank regularly reviews its loan portfolios to assess impairment. In determining whether an impairment loss should be recorded in profit or loss for the year, the Bank makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. 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.

A simultaneous 10% decrease in the value of assets held by the Bank as collateral on loans and 50% increase in the expected term of assets' sale would result in an increase in impairment losses of USD 18,812 thousand (2009: USD 30,005 thousand) on loans individually determined to be impaired. A 10% increase in the value of assets held by the Bank as collateral on loans would result in a decrease of expected loss of USD 12,558 thousand (2009: USD 18,392 thousand).

Expected loss on retail loans may be influenced by change in probability of borrower's default (PD) and recovery rate (RR). A simultaneous 10% increase in PD and 10% decrease in RR would result in an increase in impairment losses of USD 6,316 thousand (2009: USD 10,660 thousand). A simultaneous 10% decrease in PD and increase in RR would result in a decrease in impairment losses of USD 6,219 thousand (2009: USD 9,571 thousand).

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 appraiser. The basis for their work is the sales comparisons approach which is further confirmed by the income capitalization approach. When performing the revaluation certain judgments and estimates are applied by the appraisers in determination of the comparison of premises to be used in the sales comparison approach, the useful life of the assets revalued, the capitalization rate to be applied for the income capitalization approach. In 2010, the Bank made valuation of eight own premises, and the conclusion was made that the difference between the fair value and the book value of premises would not exceed 3%, as such, management decided that revaluation of premises should not be applied in the reporting year. To the extent that the price per square meter differs by plus or minus 5%, the fair value of premises would be USD 5,155 thousand higher or lower respectively.

(in thousands of US dollars) 89

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. Terms of related party transactions are disclosed in Note 33.

6. **Cash and Cash Equivalents**

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

	2010	**2009**
Current accounts and overnight deposits with other banks	271,020	184,398
Current account with the National Bank of Ukraine (other than mandatory reserve balance, Note 7)	62,271	17,469
Cash on hand and in transit	49,922	45,550
Total cash and cash equivalents	**383,213**	**247,417**

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

	2010	**2009**
Current account with the National Bank of Ukraine, including:	62,271	32,849
- part of mandatory reserve balance	-	15,380
Restricted account	12,637	15,220
Restricted account (other mandatory reserve)	649	2,100
Total balance with the National Bank of Ukraine	**75,557**	**50,169**

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 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 amount for the period from 1 to 31 December 2010 was USD 12,612 thousand (2009: USD 30,560 thousand). The Bank meets the NBU mandatory reserve requirements as at 31 December 2010 and 2009.

With effect from May 2010, Ukrainian banks are required to keep 100% of the mandatory reserve for the previous month on a separate account with the NBU (2009: 50% of the mandatory reserve for the previous month), with interest accrued at 30% of the official discount rate of the NBU, being 2.325% p.a. as at 31 December 2010. The interest accrued on this balance amounts to USD 25 thousand (2009: 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 2010, the Bank placed USD 649 thousand (2009: 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.

(in thousands of US dollars) 91

8. Due from Other Banks

	2010	2009
Current accounts and overnight deposits with other banks		
- OECD countries	220,216	120,657
- Non-OECD countries	4,128	4,207
- Domestic	46,684	59,554
Total current accounts and overnight deposits with other banks	**271,028**	**184,418**
Term deposits with other banks		
- Domestic	33,928	97,819
- OECD countries	14,494	13,633
- Non-OECD countries	-	336
Total term deposits with other banks	**48,422**	**111,788**
Repurchase agreements with other banks		
- Domestic	17,355	-
Allowance for impairment	(39)	(39)
Total due from other banks	**336,766**	**296,167**

As at 31 December 2010 the fair value of investment securities available for sale, pledged under repurchase agreements, amounts to USD 17,738 thousand.

Movements in allowance for impairment of due from other banks during the year were as follows:

	2010	2009
Balance as at 1 January	39	-
Charge for the year	-	41
Exchange rate impact	-	(2)
Balance as at 31 December	**39**	**39**

Current accounts and overnight deposits with other banks included accrued interest income of USD 8 thousand (2009: USD 20 thousand).

8. Due from Other Banks (Continued)

During 2010, the Bank placed with and received short-term funds from Ukrainian banks in various currencies. As at 31 December 2010, the Bank placed an equivalent of USD 100,292 thousand as deposits with Ukrainian banks and received an equivalent of USD 100,348 thousand from the same Ukrainian banks in different currencies (2009: placed an equivalent of USD 142,232 thousand and received an equivalent of USD 141,601 thousand). These deposits were treated as currency swaps for the purpose of these financial statements and were reported on a net basis at USD 93 thousand in other assets and at USD 149 thousand in other liabilities (2009: USD 829 thousand in other assets and at USD 198 thousand in other liabilities) (Notes 12, 19, 21).

As at 31 December 2010, term deposits placed with other banks in OECD and non-OECD countries of USD 14,494 thousand (2009: OECD USD 13,633 thousand and non-OECD USD 336 thousand) represented security deposits against import letters of credit and guarantees issued by the Bank in favour of its clients.

9. Loans to Customers

	2010	2009
Corporate loans	1,293,442	1,224,750
Loans to individuals	420,915	480,979
Total loans to customers before impairment	**1,714,357**	**1,705,729**
Allowance for loan impairment	(305,678)	(287,592)
Total loans to customers	**1,408,679**	**1,418,137**

As at 31 December 2010, the total gross amount of non-performing loans was USD 397,585 thousand (2009: USD 444,142 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 2010 were loans of USD 1,659,967 thousand (2009: USD 1,630,418 thousand) with fixed interest rates and loans of USD 54,390 thousand (2009: USD 75,311 thousand) with floating interest rates.

(in thousands of US dollars)

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	Total
Balance at 1 January 2010	**214,836**	**72,756**	**287,592**
Charge for the year	6,510	14,749	21,259
Loans written off during the year as uncollectable	(345)	-	(345)
Exchange rate impact	(2,862)	34	(2,828)
Balance at 31 December 2010	**218,139**	**87,539**	**305,678**
Impairment recognised for loans individually determined to be impaired	188,899	34,835	223,734
Impairment recognised for loans collectively determined to be impaired	21,176	51,430	72,606
Impairment recognised on portfolio basis for loans neither past due nor impaired	8,064	1,274	9,338
Total impairment recognised	**218,139**	**87,539**	**305,678**
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	336,350	77,061	413,411
Gross amount of loans, collectively determined to be impaired, before deducting any individually assessed impairment allowance	41,856	132,215	174,071
Gross amount of loans individually or collectively determined to be impaired	**378,206**	**209,276**	**587,482**

9. Loans to Customers (Continued)

	Corporate loans	Loans to individuals	Discoun-ted bills	Total
Balance at 1 January 2009	**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)
Balance at 31 December 2009	**214,836**	**72,756**	**-**	**287,592**
Impairment recognised for loans individually determined to be impaired	212,277	42,600	-	254,877
Impairment recognised for loans collectively determined to be impaired	-	26,284	-	26,284
Impairment recognised on portfolio basis for loans neither past due nor impaired	2,559	3,872	-	6,431
Total impairment recognised	**214,836**	**72,756**	**-**	**287,592**
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	488,983	63,292	-	552,275
Gross amount of loans, collectively determined to be impaired, before deducting any individually assessed impairment allowance	-	142,286	-	142,286
Gross amount of loans individually or collectively determined to be impaired	**488,983**	**205,578**	**-**	**694,561**

Individually impaired loans
During 2010 interest income accrued on impaired loans amounted to USD 77,772 thousand (2009: USD 28,356 thousand).

(in thousands of US dollars) 95

9. Loans to Customers (Continued)

The fair value of collateral that the Bank holds relating to corporate loans and loans to individuals individually and collectively determined to be impaired as at 31 December 2010 amounts to USD 287,084 thousand and USD 160,031 thousand respectively (2009: USD 471,040 thousand and USD 182,259 thousand respectively). In accordance with Ukrainian legislation, loans may only be written off with the approval of the Management Board and, in certain cases, with the respective decision of the Court.

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

The main types of collateral obtained are as follows:

- For securities lending and reverse repurchase transactions: cash or securities;
- For commercial lending: charges over real estate property, inventory and trade receivables, rights to claim from deposit;
- For retail lending: property rights for movable and immovable property, rights to claim from deposit.

The Bank also obtains guarantees from parent companies of its borrowers 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 2010, loans collateralised by customer deposits with the Bank amounted to USD 33,329 thousand (2009: USD 22,987 thousand) (Note 15).

Concentration of loans to customers
As at 31 December 2010, the Bank's 20 largest borrowers, with aggregate loan amounts of USD 474,594 thousand, represented 28% of the gross loan portfolio (2009: 20 largest borrowers, with aggregate loan amounts of USD 456,638 thousand, represented 27% of the gross loan portfolio).

9. Loans to Customers (continued)

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

	2010	2009
Trade and agency services	592,477	585,856
Individuals	420,915	480,979
Food industry and agriculture	225,191	186,808
Metallurgy	150,250	169,388
Transport, communication and infrastructure	66,922	26,035
Machine building	62,664	79,463
Chemical	42,916	36,756
Mining	11,687	13,125
Other	141,335	127,319
Total loans to customers (gross amount)	**1,714,357**	**1,705,729**

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 2010, included in loans were loans with a carrying value of USD 255,495 thousand (2009: USD 296,039 thousand) placed as collateral for loans received from the NBU (Note 13).

10. Investment Securities Available for sale

	2010	2009
Ukrainian Government debt securities	203,441	6,085
Corporate bonds	9,373	149
Total investment securities available for sale	**212,814**	**6,234**

As at 31 December 2010, the Ukrainian Government debt securities include state treasury bonds with the final maturity dates from 26 January 2011 to 25 August 2015 and the effective interest rates from 8% to 22% p.a.

In 2010, the Bank reversed the impairment provision for debt securities in the amount of USD 9,593 thousand (2009: recognised impairment of USD 6,818 thousand).

(in thousands of US dollars) 97

11. Property and Equipment, Investment Property and Intangible Assets

	Premises	Leasehold improve-ments	Computers and other equipment	Capital investments in property and equip-ment	Total proper-ty and equip-ment	Invest-ment property	Intan-gible assets	Total
Cost or valuation								
1 January 2010	121,012	3,607	32,547	523	157,689	4,680	7,115	169,484
Additions	10	10	4,175	58	4,253	41	3,955	8,249
Disposals / write-offs	(4)	(62)	(600)	-	(666)	-	(11)	(677)
Transfers	(2,543)	123	-	(195)	(2,615)	2 242	-	(373)
Revaluation	-	-	-	-	-	1,608	-	1,608
Impairment loss	-	-	-	-	-	(3,898)	-	(3,898)
Translation to presentation currency	354	11	(69)	152	448	19	(531)	(64)
As at 31 December 2010	**118,829**	**3,689**	**36,053**	**538**	**159,109**	**4,692**	**10,528**	**174,329**
Depreciation and amortisation								
1 January 2010	16,043	1,702	19,500	-	37,245	-	4,268	41,513
Charge for the year (Note 27)	2,214	583	4,826	-	7,623	-	1,295	8,918
Disposals / write-offs	-	(46)	(590)	-	(636)	-	(11)	(647)
Transfers	(373)	-	-	-	(373)	-	-	(373)
Translation to presentation currency	(92)	47	36	-	(9)	-	(55)	(64)
As at 31 December 2010	**17,792**	**2,286**	**23,772**	**-**	**43,850**	**-**	**5,497**	**49,347**
Net book value as at 31 December 2010	**101,037**	**1,403**	**12,281**	**538**	**115,259**	**4,692**	**5,031**	**124,982**

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

(in thousands of US dollars) 99

11. Property and Equipment, Investment Property and Intangible Assets (Continued)

As at 31 December 2010, the Bank's own premises, furniture, equipment and ATMs, with a net book value of USD 88,208 thousand (2009: USD 127,971 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 2010 amounted to USD 374 thousand (2009: USD 408 thousand) (Note 26). The operating and maintenance expenses related to investment property for the year ended 31 December 2010 were USD 147 thousand (2009: USD 139 thousand).

The value of investment property is reviewed by the Bank on a monthly basis according to the internally developed methodology. The value is calculated using the method of income capitalisation by discounting future cash flows from rental income on investment property.

As at 31 December 2010, the Bank's premises with a carrying value of USD 88,013 thousand (2009: USD 94,873 thousand) and investment property with a carrying value of USD 2,982 thousand (2009: USD 2,580 thousand) were pledged as collateral for loans received from the NBU (Note 13).

As at 31 December 2010, the carrying amount of premises would have been USD 46,980 thousand (2009: USD 51,521 thousand) and the carrying amount of investment property would have been USD 4,657 thousand (2009: USD 2,821 thousand) had these assets been measured using the cost model.

The fair value gain on investment property of USD 1,608 thousand (2009: USD 1,280 thousand) and the impairment of investment property of USD 3,898 thousand (2009: USD 1,511 thousand) was recognised in the statement of income.

12. Other Assets

	2010	2009
Financial assets		
Settlements on card operations	2,820	3,187
Derivative financial assets (Note 8, 21)	116	10,866
Transaction costs incurred	-	4,466
Receivables on transactions with securities	2,532	1,313
Allowance for impairment of receivables on transactions with securities	(2,532)	(1,313)
Total financial assets	**2,936**	**18,519**
Non-financial assets		
Prepayment for property, equipment and intangible assets	6,716	6,478
Precious metals	2,997	2,911
Receivables on purchase of precious metals	849	275
Premises held-for-sale	1,500	314
Other	3,262	7,986
Allowance for impairment	(4,805)	(130)
Total non-financial assets	**10,519**	**17,834**
Total other assets	**13,455**	**36,353**

Movements in allowance for impairment of other financial assets during the year were as follows:

	2010	2009
Allowance for impairment balance as at 1 January	**1,313**	**-**
Charge for the year	1,224	1,373
Exchange rate impact	(5)	(60)
Allowance for impairment balance as at 31 December	**2,532**	**1,313**

(in thousands of US dollars) 101

12. Other Assets (Continued)

Movements in allowance for impairment of other non-financial assets during the year were as follows:

	2010	2009
Allowance for impairment balance as at 1 January	**130**	**74**
Charge for the year	4,853	71
Assets written off during the year as uncollectable	(136)	(13)
Exchange rate impact	(42)	(2)
Allowance for impairment balance as at 31 December	**4,805**	**130**

13. Due to the National Bank of Ukraine

As at 31 December 2010, 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 had interest at 18.5% p.a. and final maturity date in December 2009. In December 2009, the maturity of the loan was extended until December 2012 with a change in interest rate to the official discount rate of the NBU + 2% p.a., that represents 9.75% p.a. as at the reporting date. As at 31 December 2010, the carrying amount of this loan was USD 20,405 thousand (2009: USD 48,770 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 had interest at 18.5% p.a. and final maturity date in December 2009. In December 2009, maturity of the loan was extended to December 2012 with a change in interest rate to the official discount rate of the NBU + 2% p.a., that represents 9.75% p.a. as at the reporting date. As at 31 December 2010, the carrying amount of this loan was USD 50,241 thousand (2009: 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 had interest at 16.5% p.a. and final maturity in March 2010. In December 2009, maturity of the loan was extended to April 2013 with a change in interest rate to the official discount rate of the NBU + 2% p.a., that represents 9.75% p.a. as at the reporting date. As at 31 December 2010, the carrying amount of this loan was USD 103,768 thousand (2009: USD 140,116 thousand).

The mentioned changes in December 2009, resulting in substantial modification in terms of arrangements, were treated as derecognition of the initial financial instruments and recognition of new financial instruments.

These loans are secured by loans to the Bank's customers with a carrying amount of USD 255,495 thousand (Note 9) and the Bank's premises and investment property with a fair value of USD 88,013 thousand and USD 2,982 thousand respectively (Note 11) (2009: the loan was secured by loans with a carrying amount of USD 296,039 thousand and the Bank's premises and investment property with a fair value of USD 94 873 thousand and USD 2 580 thousand respectively).

14. Due to Other Banks

	2010	2009
Current accounts of other banks		
- Domestic	133,174	11,847
- Non-OECD countries	38	42
Total current accounts of other banks	**133,212**	**11,889**
Term deposits of other banks		
- Domestic	26,878	17,988
Total term deposits of other banks	**26,878**	**17,988**
Repurchase agreements with other banks		
- Domestic	623	-
Total due to other banks	**160,713**	**29,877**

As at 31 December 2010, included in term deposits of other banks were USD 66 thousand (2009: USD 66 thousand) held as collateral for commitments under import letters of credit and guarantees (Note 32).

As at 31 December 2010, the fair value of securities available for sale pledged on repo transaction amounts to USD 623 thousand.

15. Customer Accounts

	2010	2009
Legal entities		
- Current accounts	204,400	94,852
- Term deposits	160,168	157,523
Individuals		
- Current accounts	106,367	75,466
- Term deposits	534,877	399,147
Total customer accounts	**1,005,812**	**726,988**

As at 31 December 2010, the Bank's 10 largest customers, with an aggregate amount of deposits of USD 124,880 thousand, represented 12% of customer accounts (2009: largest 10 customers, with an aggregate amount of deposits of USD 132,925 thousand, represented 18% of customer accounts).

(in thousands of US dollars) 103

15. Customer Accounts (Continued)

As at 31 December 2010, included in customer accounts were deposits of USD 47,518 thousand (2009: USD 34,771 thousand) held as collateral for loans to customers of USD 33,329 thousand (2009: USD 22,987 thousand) (Note 9) and loan commitments of USD 4,025 thousand (2009: USD 4,522 thousand). In addition, USD 8,414 thousand (2009: USD 17,440 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 term 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.

Economic sector concentrations within customer accounts are as follows:

	2010	**2009**
Individuals	641,244	474,613
Trade and agency services	85,515	56,409
Non-banking financial institutions	54,693	31,661
Mining and energy	40,628	68,250
Machine-building	38,706	24,883
Transport and infrastructure	29,853	10,319
Metallurgy	21,804	7,070
Chemical	18,960	6,617
Non-commercial institutions	7,358	7,722
Agriculture and food	4,709	4,348
Other	62,342	35,096
Total customer accounts	**1,005,812**	**726,988**

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 initial maturity date for loan was in February 2010.

In December 2009, as a result of restructuring of the Bank’s borrowings, the loan was replaced by the loan with interest rate of 11% p.a. and the final maturity term in December 2014. In November 2010, the amendments were signed to the agreement, taking into account the future merger of two banks (Note 1). The change in the agreement’s terms did not result in derecognition of liabilities as the difference between the present value of future cash flows, discounted by using the original effective interest rate, and the book value of borrowings as at the date of amendments represented 0.34%. During 2010, the Bank repaid part of the loan in the amount of USD 22,512 thousand (including USD 4,936 thousand according to the change in the arrangement). As at 31 December 2010, the book value of the loan amounted to USD 243,804 thousand (2009: USD 269,729 thousand).

17. Bonds Issued

In June 2007, the Bank issued hryvna denominated bonds of A series for the total nominal amount of UAH 300,000 thousand (USD 59,406 thousand at foreign exchange rate as at the date of issue), with interest rate of 12% p.a. and maturity in June 2010. In April 2008, the Bank issued hryvna denominated bonds of B series for the total nominal amount of UAH 300,000 thousand (USD 61,870 thousand at foreign exchange rate as at the date of issue). The interest rate was stated at level of 13.5% p.a. and changed in 2010. These bonds bear interest rate at 17.0% 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 (USD 36,938 thousand at foreign exchange rate as at the date of repayment) before maturity.

In 2010, the Bank repaid the B series bonds with a total nominal amount of UAH 1,915 thousand (USD 242 thousand at foreign exchange rate as at the date of repayment) before maturity.

	2010		**2009**	
	Nominal value	**Carrying value**	**Nominal value**	**Carrying value**
Bonds issued series B	13	14	253	265
Total bonds issued	**13**	**14**	**253**	**265**

18. Other Borrowed Funds

	2010	**2009**
HSBC Bank Plc	130,446	20,026
Landesbank Berlin AG	14,685	20,563
Deutsche Bank	8,241	12,937
Standard Bank London Limited	-	154,036
VTB Bank Europe Plc	-	50,016
Black Sea Trade and Development Bank	-	18,390
Fortis Bank	-	2,752
Other facilities	5,377	11,799
Total other borrowed funds	**158,749**	**290,519**

(in thousands of US dollars) 105

18. Other Borrowed Funds (Continued)

At on 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 became effective on 4 February 2010. Under the agreement, the Bank's indebtedness to Standard Bank London Limited amounting to USD 149,000 thousand, VTB Bank Europe Plc amounting to USD 50,000 thousand, HSBC Bank Plc amounting to USD 20,000 thousand, Black Sea Trade and Development Bank amounting to USD 18,000 thousand was combined into one loan facility with interest at LIBOR + 2.5% p.a., for which the leading bank is HSBC Bank Plc.

In 2010, the terms of the arrangement were changed taking into account the future merger of two banks (Note 1). Changes in the arrangement did not result in derecognition of borrowings as the difference between the present value of future cash flows, discounted by using the original effective interest rate, and the book value of borrowings as at the date of amendments represented 6.72%. As at 31 December 2010 book value of loan was USD 130,446 thousand. The loan bears interest rate at LIBOR + 3.25% p.a., with the estimated maturity date in September 2012.

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 + 0.7% p.a. on the outstanding amount with maturity 12 February 2014. 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 5,377 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 bear interest at a weighted average rate of LIBOR + 4.9% p.a. on the outstanding amount with maturity from 14 July 2011 to 17 February 2014.

19. Other Liabilities

	2010	2009
Financial liabilities		
Software costs payable under licensing agreements	1,072	144
Provision for credit related commitments (Note 32)	654	218
Payable under operations with plastic cards	297	195
Transaction payables	195	7,251
Derivative financial liabilities (Note 8, 21)	173	398
Total financial liabilities	**2,391**	**8,206**
Non-Financial liabilities		
Amounts payable to employees	5,029	2,254
Other taxes payable	949	909
Other accruals and deferred income	706	2,363
Total non-financial liabilities	**6,684**	**5,526**
Total other liabilities	**9,075**	**13,732**

20. Subordinated Debt

In 2009, the Bank obtained subordinated debt of UAH 220,000 thousand (USD 27,491 thousand at foreign exchange rate as at the date of obtaining), with carrying value USD 27,844 thousand as at 31 December 2010 (2009: with carrying value USD 27,762 thousand), bearing interest at 9% p.a., with the maturity in October 2015.

(in thousands of US dollars) 107

21. Derivative Financial Instruments

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 2010 and as at 31 December 2009:

	2010		2009	
	Contracts with positive fair value	Contracts with negative fair value	Contracts with positive fair value	Contracts with negative fair value
Foreign exchange forwards: fair values, at the end of the reporting period, of				
- EUR receivable on settlement (+)	13,280	-	-	17,205
- USD receivable on settlement (+)	-	14,028	10,037	40,703
- USD payable on settlement (-)	(13,257)	-	-	(50,939)
- EUR payable on settlement (-)	-	(13,280)	-	(7,169)
- Other receivable on settlement (+)	-	-	-	33,307
- Other payable on settlement (-)	-	(772)	-	(33,307)
Net fair value of foreign exchange forwards	**23**	**(24)**	**10,037**	**(200)**
Foreign exchange swaps:				
fair values, at the end of the reporting period, of				
- USD receivable on settlement (+)	-	16,483	10,795	22,326
- USD payable on settlement (-)	(70,764)	-	(60,863)	(33,005)
- EUR payable on settlement (-)	(863)	(14,210)	(20,233)	(26,526)
- UAH receivable on settlement (+)	71,720	12,089	71,130	37,981
- UAH payable on settlement (+)	-	(14,511)	-	(974)
Net fair value of foreign exchange swaps	**93**	**(149)**	**829**	**(198)**

The resulting net fair value gain or loss was recorded in the gains less losses from financial derivatives.

22. Equity

As at 31 December 2010, the Bank's authorised share capital comprises 10,968,880 ordinary shares (2009: 10,968,880 shares) with a nominal value of UAH 230 (USD 28.89 at the 31 December 2010 exchange rate of UAH 7.9617 for USD 1) per share. All shares have equal voting rights.

	31 December 2010			31 December 2009		
	Number of shares	Nominal amount	Inflation adjusted amount	Number of shares	Nominal amount	Inflation adjusted amount
Ordinary shares/ Total share capital	10,968,880	316,872	333,560	10,968,880	315,948	332,587

As at 31 December 2010, all shares were fully paid and registered.

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 reporting date.

23. Segment Analysis

Operating segments are components that engage in business activities that may earn revenues or incur expenses, whose operating results are regularly reviewed by the Management Board of the Bank and for which discrete financial information is available.

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.

(in thousands of US dollars) 109

23. Segment Analysis (Continued)

Segment information for the reportable operating segments of the Bank as at 31 December 2010 is set out below:

2010	Retail banking	Corporate banking	Investment banking and treasury	Unallocated	Total
Segment assets	464,317	1,141,632	621,599	(4,805)	**2,222,743**
Segment liabilities	648,504	368,125	568,244	203,486	**1,788,359**

23. Segment Analysis (Continued)

2010	Retail banking	Corporate banking	Invest-ment banking and treasury	Unallocated	Total
Interest income	60,423	193,272	31,031	-	284,726
Interest expense	(61,161)	(23,404)	(43,235)	(26,577)	(154,377)
Transfers	30,557	(104,062)	32,011	41,494	-
Fee and commission income	20,587	8,107	1,783	(13)	30,464
Fee and commission expense	(9,797)	(618)	(388)	-	(10,803)
Trading income	598	-	1,583	1,597	3,778
Other income and expense	550	(52)	-	(1,227)	(729)
Operating income	**41,757**	**73,243**	**22,785**	**15,274**	**153,059**
Direct operating expenses	(14,759)	(8,189)	(606)	-	(23,554)
Associated expense	(19,566)	(12,506)	(3,429)	-	(35,501)
State Deposits Guarantee Fund	(2,648)	-	-	-	(2,648)
Other operating expenses	(484)	(1,043)	(446)	-	(1,973)
Operating expenses	**(37,457)**	**(21,738)**	**(4,481)**	-	**(63,676)**
Provision for credit related commitments	-	(437)	-	-	(437)
Allowance for impairment of assets	(14,749)	(3,757)	6,840	-	(11,666)
Allowance for prepayment	-	-	(1,436)	(4,637)	(6,073)
Income tax expense	-	-	-	(17,175)	(17,175)
Segment result	**(10,449)**	**47,311**	**23,708**	**(6,538)**	**54,032**
Profit for the year	-	-	-	-	**54,032**

(in thousands of US dollars) 111

23. Segment Analysis (Continued)

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

2009	Retail banking	Corporate banking	Investment banking and treasury	Unallocated	Total
Segment assets	570,162	1,060,278	355,303	(72)	**1,985,671**
Segment liabilities	479,795	251,570	601,484	288,117	**1,620,966**

2009	Retail banking	Corporate banking	Investment banking and treasury	Unallocated	Total
Interest income	66,670	206,567	45,899	6,456	325,592
Interest expense	(51,994)	(33,143)	(106,740)	(558)	(192,435)
Transfers	11,175	(113,852)	101,753	924	-
Fee and commission income	17,142	8,428	1,833	-	27,403
Fee and commission expense	(7,299)	(605)	(361)	-	(8,265)
Trading income	747	-	310	1,214	2,271
Other income and expense	887	801	7,360	426	9,474
Operating income	**37,328**	**68,196**	**50,054**	**8,462**	**164,040**
Associated expense, including direct operating expense	(31,133)	(17,452)	(2,479)	-	(51,064)
State Deposits Guarantee Fund	(2,123)	-	-	-	(2,123)
Other operating expense	(601)	(2,861)	(835)	(3,552)	(7,849)
Operating expenses	**(33,857)**	**(20,313)**	**(3,314)**	**(3,552)**	**(61,036)**
Provision for credit related commitments	-	8,166	-	-	8,166
Allowance for impairment of assets	(36,744)	(115,266)	(17,680)	-	(169,690)
Allowance for prepayment	-	-	(792)	-	(792)
Income tax exspense	-	-	-	(5,653)	(5,653)
Segment result	**(33,273)**	**(59,217)**	**28,268**	**(743)**	**(64,965)**
Loss for the year					**(64,965)**

23. Segment Analysis (Continued)

Capital expenditure is not included into the segment information reviewed by the Management Board of the Bank. Capital expenditure represents additions to non-current assets other than financial instruments, deferred tax assets, post-employment benefit assets and rights arising under insurance contracts.

Reconciliation of reportable segment revenues, profit or loss, assets and liabilities as at 31 December 2010 is set out below:

2010	Total reportable segment assets or liabilities	Adjustment 1	Other	Total assets or liabilities
Assets	**2,222,743**	(874)	306	**2,222,175**
Liabilities	**1,788,359**	(874)	(88)	**1,787,397**

Adjustment relates to the transaction on cash withdrawals through ATM on 31 December 2010.

(in thousands of US dollars) 113

23. Segment Analysis (Continued)

2010	Total reportable segment income and expense	Adjust-ment 1	Adjust-ment 2	Adjust-ment 3	Other	Total income and expense
Interest income	284,726	-	(173)	(5,475)	7	279,085
Interest expense	(154,377)	-	-	1,509	6	(152,862)
Allowance for impairment of assets	-	(11,666)	-	-	-	(11,666)
Fee and commission income	30,464	-	-	-	(12)	30,452
Fee and commission expense	(10,803)	-	-	-	(73)	(10,876)
Trading income	3,778	(700)	-	109	328	3,515
Provision for credit related commitments	-	(437)	-	-	-	(437)
Other income and expense	(729)	308	-	3,966	273	3,818
Operating income	**153,059**	**(12,495)**	**(173)**	**109**	**529**	**141,029**
Operating expenses	**(63,676)**	**(5,681)**	-	-	**(186)**	**(69,543)**
Provision for credit related commitments	(437)	437	-	-	-	-
Allowance for impairment of assets	(11,666)	11,666	-	-	-	-
Allowance for prepayment	(6,073)	6,073	-	-	-	-
Income tax expense	(17,175)	-	-	-	86	(17,089)
Profit for the year	**54,032**	-	**(173)**	**109**	**429**	**54,397**

Adjustments stated in the above table are described as follows:

- Adjustment 1 relates to the differences in classification of income and expenses in management and IFRS accounts;
- Adjustment 2 refers to repo transactions from the result of operations with securities to interest income on loans; and

Adjustment 3 is explained by presentation of swap arrangements on a gross and on a net basis, in management and the IFRS accounts, respectively.

23. Segment Analysis (Continued)

Reconciliation of reportable segment revenues, profit or loss, assets and liabilities as at 31 December 2009 is set out below:

2009	Total reportable segment assets	Adjust-ment 1	Adjust-ment 2	Adjust-ment 3	Adjust-ment 4	Other	Total assets
Assets	**1,985,671**	1,887	-	3,799	(3,887)	(187)	**1,987,283**
Liabilities	**1,620,966**	(4,557)	(7,597)	3,799	-	(982)	**1,611,629**

Adjustments stated in the above table are described as follows:

- Adjustment 1 is explained by adjustment of expenses related to recognition of the loans;
- Adjustment 2 relates to the change in amount of the deferred tax liability;
- Adjustment 3 is for timing differences in movements on nostro accounts as at the reporting date; and
- Adjustment 4 represents the change in estimate of provision for securities.

(in thousands of US dollars) 115

23. Segment Analysis (Continued)

2009	Total	Adjust-ment 1	Adjust-ment 2	Adjust-ment 3	Adjust-ment 4	Other	Total income and expense
Interest income	325,592	-	(26,767)	-	-	(140)	298,685
Interest expense	(192,435)	6,853	11,395	2,645	-	249	(171,293)
Allowance for impairment of assets	-	(169,690)	-	-	-	440	(169,250)
Fee and commission income	27,403	-	-	-	-	82	27,485
Fee and commission expense	(8,265)	-	-	-	-	1	(8,264)
Trading income	2,271	(1,510)	-	-	-	(252)	509
Provision for credit related commitments	-	8,166	-	-	-	-	8,166
Other income and expense	9,474	(6,135)	15,372	-	-	26	18,737
Operating income	**164,040**	**(162,316)**	**-**	**2,645**	**-**	**406**	**4,775**
Operating expenses	**(61,036)**	-	-	-	-	**147**	**(60,889)**
Provision for credit related commitments	8,166	(8,166)	-	-	-	-	-
Allowance for impairment of assets	(169,690)	169,690	-	-	-	-	-
Allowance for prepayment	(792)	792	-	-	-	-	-
Income tax expense	(5,653)	-	-	-	7,453	-	1,800
Loss for the year	**(64,965)**	**-**	**-**	**2,645**	**7,453**	**553**	**(54,314)**

23. Segment Analysis (Continued)

Adjustments stated in the above table are described as follows:

- Adjustment 1 relates to the differences in classification of income and expenses in management and IFRS accounts;
- Adjustment 2 refers to presentation of swap arrangements on a gross and on a net basis, in management and the IFRS accounts, respectively;
- Adjustment 3 is explained by reclassification of expenses related to recognition of the financial instruments, initially recognized in profit or loss, and amortization of discount as a result of derecognition of the financial instruments; and
- Adjustment 4 represents the change in the deferred tax expense amount.

The Bank's revenues are analysed by products and services in Notes 24 and 25.

Revenues from countries other than Ukraine do not exceed 10% of total revenues of the Bank. Revenues include interest and commission income.

Capital expenditure is represented by assets located in Ukraine.

The Bank has no customer for which the revenue represents 10% or more of the total revenues.

(in thousands of US dollars) 117

24. Interest Income and Expense

	2010	2009
Interest income		
Loans to customers		
- legal entities	194,803	214,905
- individuals	60,421	66,032
Due from other banks	9,392	10,990
Securities available for sale	14,469	6,758
Total interest income	**279,085**	**298,685**
Interest expense		
Individuals		
- term deposits	(58,008)	(51,181)
- current accounts	(3,061)	(696)
Legal entities		
- term deposits	(20,489)	(13,993)
- current accounts	(1,916)	(4,263)
Eurobonds issued	(26,040)	(28,369)
Due to the NBU	(24,108)	(40,447)
Other borrowed funds	(14,376)	(24,994)
Due to other banks	(2,353)	(5,472)
Subordinated debt	(2,495)	(558)
Bonds issued	(16)	(1,320)
Total interest expense	**(152,862)**	**(171,293)**
Net interest income	**126,223**	**127,392**

25. Fee and Commission Income and Expense

	2010	2009
Payment cards	19,213	15,427
Foreign currency exchange	3,453	3,632
Documentary operations	2,593	3,271
Payments	2,328	2,216
Cash deposits and withdrawals	1,483	1,300
Other	1,382	1,639
Fee and commission income	**30,452**	**27,485**
Payment cards	(9,326)	(6,766)
Cash collections	(728)	(675)
Reuters	(381)	(350)
Payments	(332)	(339)
Documentary operations	(73)	(95)
Other	(36)	(39)
Fee and commission expense	**(10,876)**	**(8,264)**
Net fee and commission income	**19,576**	**19,221**

26. Other Income

	2010	2009
Rental income (Note 11)	374	408
Penalties received	341	1,228
Gain from sale of precious metals	96	243
Other income	414	2,918
Total other income	**1,225**	**4,797**

(in thousands of US dollars) 119

27. Operating Expenses

	2010	2009
Salary, employee benefits and compulsory contributions to State funds	32,825	28,692
Depreciation and amortisation (Note 11)	8,918	8,479
Maintenance of premises and equipment	5,024	4,070
State duties and taxes, other than on income	4,467	4,608
Audit, legal, consulting services	3,688	4,472
Lease of premises	2,972	3,150
Advertising, entertainment, representative offices maintenance	1,637	1,602
Communication	1,165	1,027
Security services	729	729
Training	196	133
Charitable contributions	75	33
Reversal of provision on tax claim (Note 32)	(988)	-
Impairment of other assets	6,077	1,444
Other	2,758	2,450
Total operating expenses	**69,543**	**60,889**

Included in salary, employee benefits and compulsory contributions to State funds are statutory social security of USD 838 thousand and pension contributions of USD 6,239 thousand (2009: USD 744 thousand and USD 5,596 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:

	2010	2009
Current tax charge	23,362	6
Deferred tax benefit	(6,273)	(1,806)
Income tax expense / (benefit) for the year	**17,089**	**(1,800)**

28. Income Taxes (Continued)

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

	2010	2009
Profit / (loss) before income tax	**71,486**	**(56,114)**
Theoretical tax charge / (credit) at the applicable statutory rate (25%)	17,872	(14,029)
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Income assessable for tax purposes only	19,841	180
- Income recognised in financial reporting only	(10,568)	(2,047)
- Non deductible expenses	757	1,082
- Expenses deductible for tax purposes only	-	(1,407)
- Exchange rate differences on recognition of current and deferred income tax	(148)	549
- Other non temporary differences	388	(65)
- Change in unrecognised deferred tax asset	(13,937)	13,937
- Change in income tax amount for income tax rate applicable in future	2,884	-
Income tax expense / (benefit) for the year	**17,089**	**(1,800)**

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

(in thousands of US dollars) 121

28. Income Taxes (Continued)

Deferred tax assets and liabilities as at 31 December 2010 and their movements for the respective years comprise:

	31 December 2009	Credited/ (charged) to other comprehensive income	Credited/ (charged) to statement of income	Translation to presentation currency	31 December 2010
Tax effect of deductible and taxable temporary differences					
Allowance for loan impairment and credit related commitments	21,585	-	(17,020)	63	4,628
Investment securities available for sale	3,615	(663)	8,638	11	11,601
Property and equipment and investment property	(16,369)	896	286	(48)	(15,235)
Accrued interest and commission income	1,104	-	(1,461)	3	(354)
Accrued interest and commission expense	(949)	-	(3,217)	(3)	(4,169)
Other	(2,565)	-	5,070	(8)	2,497
Net deferred tax asset	**6,421**	233	(7,704)	18	**(1,032)**
Unrecognized deferred tax asset / (liability)	(13,937)	-	13,977	(40)	-
Net deferred tax liability	**(7,516)**	**233**	**6,273**	**(22)**	**(1,032)**

As at 31 December 2009 the Bank did not recognise deferred tax asset arising on provision for loan impairment due to uncertainty with realisation of this tax asset and loss-making activity of the Bank in 2009. In 2010, as a result of improved performance of the Bank and market conditions, the Bank revised its estimate.

28. Income Taxes (Continued)

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

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 reporting to the Bank Management Board, Credit Council, and the Assets and Liabilities Management Committee.

29. Risk Management (Continued)

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 Bank's equity capital.

Management Board
The Management Board is generally responsible for the activities of the Bank, including those relating to risk management. The Management Board 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 Management Board is responsible for development and preliminary approval of the Bank's credit policy, before final approval by Supervisory Board.

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 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 worst case scenarios that would arise in the case 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 Management Board, 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 is prepared. Senior management assesses the appropriateness of the allowance for credit losses on a quarterly basis.

29. Risk Management (Continued)

The Management Board receives a comprehensive risk report which is designed to provide all the necessary information to assess and conclude on the risks of the Bank 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 and letters of credit which may require that the Bank make payments on their behalf. They expose the Bank to similar risks to loans and these are mitigated by the same control processes and policies.

(in thousands of US dollars) 125

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.

	2010	2009
Balance with the National Bank of Ukraine (Note 7)	75,557	50,169
Due from other banks (Note 8)	336,766	296,167
Loans to customers (Note 9)	1,408,679	1,418,137
Investment securities available for sale (Note 10)	212,814	6,234
Other financial assets (Note 12)	2,936	18,519
Financial contingencies and commitments (Note 32)	116,282	92,196
Total credit risk exposure	**2,153,034**	**1,881,422**

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.

		Neither past due nor impaired				
As at 31 December 2010	Note	High rating	Standard rating	Below the standard rating	Overdue or individually impaired	Total
Due from other banks	8	241,663	85,639	9,464	39	336,805
Loans to customers	9					
- Corporate loans		201,516	247,980	420,236	423,710	1,293,442
- Loans to individuals		153,334	56,234	2,070	209,277	420,915
Investment securities available for sale	10	203,441	-	-	9,373	212,814
Other financial assets	12	769	1,348	819	2,532	5,468
Total		**800,723**	**391,201**	**432,589**	**644,931**	**2,269,444**

29. Risk Management (Continued)

		Neither past due nor impaired				
As at 31 December 2009	Note	High rating	Standard rating	Below the standard rating	Overdue or individually impaired	Total
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	-	-	149	6,234
Other financial assets	12	5,838	10,704	1,977	1,313	19,832
Total		**420,351**	**392,361**	**419,363**	**795,926**	**2,028,001**

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.

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

As at 31 December 2010	Up to 30 days	From 31 to 60 days	More than 60 days	Total
Loans to customers				
- Corporate loans	45,504	-	-	45,504
Total	**45,504**	**-**	**-**	**45,504**

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**
Total	**99,864**	**-**	**-**	**99,864**

(in thousands of US dollars) 127

29. Risk Management (Continued)

Ageing analysis of impaired assets per class of financial assets

As at 31 December 2010	Up to 30 days	From 31 to 60 days	More than 60 days	Total
Due from other banks	-	-	39	39
Loans to customers				
- Corporate loans	131,716	8,511	237,979	378,206
- Loans to individuals	44,344	5,327	159,605	209,276
Investment securities available for sale	9,373	-	-	9,373
Receivables on transactions with securities	-	-	2,532	2,532
Total	**185,433**	**13,838**	**400,155**	**599,426**

As at 31 December 2009	Up to 30 days	From 31 to 60 days	More than 60 days	Total
Due from other banks	-	-	39	39
Loans to customers				
- Corporate loans	268,140	22,293	198,550	488,983
- Loans to individuals	27,201	13,314	165,063	205,578
Investment securities available for sale	149	-	-	149
Receivables on transactions with securities	-	-	1,313	1,313
Total	**295,490**	**35,607**	**364,965**	**696,062**

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 is represented below:

As at 31 December 2010	Note	High rating	Standard rating	Below the standard rating	Total
Loans to customers	9				
- Corporate loans		-	68,562	15,762	**84,324**
Total		**-**	**68,562**	**15,762**	**84,324**

29. Risk Management (Continued)

As at 31 December 2009	Note	High rating	Standard rating	Below the standard rating	Total
Loans to customers	9				
- Corporate loans		144	78,997	40,140	**119,281**
Total		**144**	**78,997**	**40,140**	**119,281**

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 in case of bankruptcy, 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 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 based on the methods applied for loans; when a loss is considered probable, provisions are recorded against other credit related commitments.

(in thousands of US dollars) 129

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.

	2010	2009
Loans to customers		
- Corporate loans	907,640	510,156
- Loans to individuals	65,938	64,900
Total	**973,578**	**575,056**

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 unplanned withdrawal of a proportion of client deposits placed with the Bank as a precaution against further deterioration in the economic situation. Liquidity risk is measured by the Bank by using gap analysis and forecasts of expected future cash flows during the 1 year term. In addition, stress tests scenarios are applied to the forecasted future cash flows developed based on the statistical data of Ukrainian banks' results under conditions of the financial crisis.

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:

Ratio	**2010, %**	**2009, %**
N4 "Instant Liquidity Ratio" (cash and balances on correspondent accounts / liabilities repayable on demand) (minimum required by the NBU – 20%)	67.88	131.76
N5 "Current Liquidity Ratio" (assets receivable or realisable within 31 days / liabilities repayable within 31 days) (minimum required by the NBU – 40%)	68.76	99.31
N6 "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, – 60: (2009: 20%)	88.14	61.23

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 2010 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.

As at 31 December 2010	**Up to 1 month**	**From 1 to 3 months**	**From 3 to 6 months**	**From 6 to 12 months**	**More than 12 months**	**Total**
Due to the National Bank of Ukraine	11,271	7,463	18,441	6,436	162,767	206,378
Due to other banks	154,388	-	1,409	5,605	-	161,402
Derivative financial instruments:						
- amount to pay	42,792	-	-	-	-	42,792
- amount to receive	(42,620)	-	-	-	-	(42,620)
Customer accounts	448,704	180,172	174,018	200,287	27,500	1,030,681
Eurobonds issued	-	6,943	6,943	13,887	335,809	363,582
Bonds issued	1	-	14	-	-	15
Other borrowed funds	467	31,701	23,197	63,511	55,469	174,345
Other financial liabilities	1,541	-	-	-	677	2,218
Subordinated debt	422	402	620	1,254	37,171	39,869
Total undiscounted financial liabilities	**616,966**	**226,681**	**224,642**	**290,980**	**619,393**	**1,978,662**

(in thousands of US dollars) 131

29. Risk Management (continued)

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

As at 31 December 2009	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 12 months	Total
Due to the National Bank of Ukraine	1,259	11,539	3,928	34,009	263,568	314,303
Due to other banks	24,809	-	5,462	-	-	30,271
Derivative financial instruments:						
- amount to pay	151,948	-	-	-	-	151,948
- amount to receive	(151,869)	-	-	-	-	(151,869)
Customer accounts	337,292	149,171	96,366	137,346	32,445	752,620
Eurobonds issued	-	24,739	7,079	14,158	370,768	416,744
Bonds issued	12	-	267	-	-	279
Other borrowed funds	243,402	3,144	3,956	450	43,766	294,718
Other financial liabilities	7,251	52	414	-	91	7,808
Subordinated debt	421	402	618	1,250	39,488	42,179
Total undiscounted financial liabilities	**614,525**	**189,047**	**118,090**	**187,213**	**750,126**	**1,859,001**

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
2010	27,376	61,507	16,764	11,289	116,936
2009	30,284	42,553	19,577	-	92,414

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.

29. Risk Management (Continued)

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. Interest risk is measured based on the reports of changes in spread and margin. Also, the Bank performs duration analysis and modelling of interest income in case of parallel shift of yield curve. 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.

	2010		2009	
Interest rate	**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	+25	(209)	+50	117
Libor	+0	-	-25	(59)
Euribor	+50	38	+50	166
Euribor	-25	(19)	-75	(249)

At 31 December 2010, if interest rates on financial instruments denominated in UAH at that date had been 100 basic points higher/lower with all other variables held constant, profit for the year would not have been affected. Other components of equity would have been USD 2,337 thousand lower/higher, mainly as a result of an increase/decrease in the fair value of fixed rate financial assets classified as available for sale.

Basis rates are stated by the Bank's Assets and Liabilities Committee. Delegation of authorities' rights regarding the change of interest rates is established by the internal policies of the Bank. The actual interest rates are monitored monthly by Assets and Liabilities Committee.

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. Currency risk is measured by use of VaR methodology and stress tests for significant fluctuations of currency exchange rates.

The tables below indicate the currencies to which the Bank had significant exposure at 31 December 2010 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 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.

(in thousands of US dollars) 133

29. Risk Management (Continued)

Currency	2010 Change in currency rate, %	2010 Effect on profit before income tax expense	2009 Change in currency rate, %	2009 Effect on profit before income tax expense
US dollars	+10	(8,422)	+25	(25,400)
US dollars	-5	4,221	-12	12,416
Euro	+15	1,335	+31	126
Euro	-10	(890)	-13	(51)

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.

	2010 Carrying value	2010 Fair value	2009 Carrying value	2009 Fair value
Financial assets				
Cash on hand and in transit	49,922	49,922	45,550	45,550
Balance with the National Bank of Ukraine	75,557	75,557	50,169	50,169
Due from other banks				
- Current accounts and overnight deposits with other banks	271,028	271,028	184,418	184,418
- Term deposits with other banks	48,383	48,383	111,749	111,749
- Repurchase agreements with other banks	17,355	17,738	-	-
Loans to customers				
- Corporate loans	1,075,303	1,037,503	1,009,914	941,915
- Loans to individuals	333,376	293,221	408,223	309,323
Financial liabilities				
Due to the National Bank of Ukraine	174,414	174,414	245,241	245,241
Due to other banks				
- Current accounts of other banks	133,212	133,212	11,889	11,889
- Term deposits of other banks	26,878	26,878	17,988	17,988
- Repurchase agreements with other banks	623	623	-	-
Customer accounts				
- Legal entities	364,568	364,815	252,375	206,456
- Individuals	641,244	618,161	474,613	453,130
Eurobonds issued	243,804	249,029	269,729	198,688
Bonds issued	14	14	265	265
Other borrowed funds	158,749	158,749	290,519	290,519
Subordinated debt	27,844	27,632	27,762	24,071

(in thousands of US dollars) 135

30. Fair Values of Financial Instruments (Continued)

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.

Fixed rate financial instruments
The fair value of fixed rate financial assets and liabilities carried at amortised cost is 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:

As at 31 December 2010	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets				
Derivative financial assets	-	116	-	116
Investment securities available for sale	201,474	11,340	-	212,814
	201,474	**11,456**	**-**	**212,930**
Financial liabilities				
Derivative financial liabilities	-	173	-	173

30. Fair Values of Financial Instruments (Continued)

As at 31 December 2009	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets				
Derivative financial assets	-	10,866	-	10,866
Investment securities available for sale	-	6,234	-	6,234
	-	**17,100**	**-**	**17,100**
Financial liabilities				
Derivative financial liabilities	-	398	-	398

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 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 2010 and 2009, 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.

(in thousands of US dollars) 137

31. Maturity Analysis of Financial 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.

	2010			2009		
	Within one year	More than one year	Total	Within one year	More than one year	Total
Assets						
Cash on hand and in transit	49,922	-	49,922	45,550	-	45,550
Balances with the National bank of Ukraine	75,557	-	75,557	50,169	-	50,169
Due from other banks	336,766	-	336,766	296,161	6	296,167
Loans to customers	652,359	756,320	1,408,679	691,891	726,246	1,418,137
Investment securities available for sale	68,506	144,308	212,814	6,234	-	6,234
Other financial assets	2,936	-	2,936	18,519	-	18,519
Total assets	**1,186,046**	**900,628**	**2,086,674**	**1,108,524**	**726,252**	**1,834,776**
Liabilities						
Due to the National Bank of Ukraine	(30,144)	(144,270)	(174,414)	(47,626)	(197,615)	(245,241)
Due to other banks	(160,713)	-	(160,713)	(29,877)	-	(29,877)
Customer accounts	(980,372)	(25,440)	(1,005,812)	(700,420)	(26,568)	(726,988)
Eurobonds issued	-	(243,804)	(243,804)	(12,305)	(257,424)	(269,729)
Bonds issued	(14)	-	(14)	(265)	-	(265)
Other borrowed funds	(108,615)	(50,134)	(158,749)	(250,831)	(39,688)	(290,519)
Other financial liabilities	(1,714)	(677)	(2,391)	(8,079)	(127)	(8,206)
Subordinated debt	(211)	(27,633)	(27,844)	(210)	(27,552)	(27,762)
Total liabilities	**(1,281,783)**	**(491,958)**	**(1,773,741)**	**(1,049,613)**	**(548,974)**	**(1,598,587)**
Net	**(95,737)**	**408,670**	**312,933**	**58,911**	**177,278**	**236,189**

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 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.

As a result of planned tax review of the Bank on the matters of compliance with the tax legislation requirements, held for the period from 1 April 2006 to 31 December 2007, the Bank received the official tax claim on the additional current tax payable, including the amount of UAH 7,888 thousand, a part of which related to the respective penalties. The additional current tax payable was charged by tax authorities, as the expenses on provision for credit related commitments had been defined by the Bank as tax deductible that was treated as the matter of non-compliance with tax legislation. The Bank argued against the treatment through the court procedure. Taking into account the uncertainty of positive court decision, the Bank accrued provision for tax claim in the amount of UAH 7,888 thousand in 2008.

On 11 March 2010, based on the decision of Supreme Administrative Court of Ukraine, the tax claim related to the amount of UAH 7,888 thousand was rendered ineffective. In 2010, the reversal of provision was made, with the income recognised in the amount of UAH 7,888 thousand (USD 988 thousand at foreign exchange rate as at the date of transaction). Refer to Note 27.

Capital expenditure commitments
As at 31 December 2010, the Bank had capital expenditure commitments in respect of purchase of equipment of USD 6,435 thousand (2009: USD 2,285 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.

(in thousands of US dollars) 139

32. Contingencies and Commitments (Continued)

Compliance with covenants

The Bank is subject to certain covenants related primarily to Eurobonds issued, due to the National Bank of Ukraine and 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, maximum exposure to a single party to capital, maximum exposure to a single party which is a related 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. Management believes that the Bank was in compliance with covenants as at 31 December 2010 and 31 December 2009.

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:

	2010	2009
Confirmed export letters of credit	195	617
Import letters of credit	30,340	26,979
Cash collateral (Note 15)	(4,464)	(10,853)
Provision for import letters of credit	(134)	(58)
Total letters of credit	**25,937**	**16,685**

32. Contingencies and Commitments (Continued)

Guarantees issued are as follows:

	2010	2009
Guarantees and promissory note endorsements	86,401	64,818
Cash collateral (Note 14, 15)	(4,016)	(6,653)
Provision for guarantees	(520)	(160)
Total guarantees	**81,865**	**58,005**

The amount of undrawn commitments to extend credit issued by the Bank as at 31 December 2010 was USD 101,444 thousand (2009: USD 78,977 thousand). Management considers the commitments to extend credit as revocable due to the fact that respective agreements provide for wide range of trigger events allowing the Bank to stop further financing of the client or early cancel the credit limit. Such events include, inter alia, worsening of the client's financial condition, decrease in volume of cash inflows into the client's current accounts, loss of collateral or substantial decrease in its fair value, decisions of regulatory bodies impacting Ukrainian money monetary market.

Movements in provision for credit related commitments are as follows:

	2010	2009
Provision for credit related commitments as at 1 January	218	8,499
Charge for provision / (reversal of provision) for credit related commitments during the year	437	(8,166)
Exchange rate impact	(1)	(115)
Provision for credit related commitments as at 31 December (Note 19)	**654**	**218**

Operating lease commitments

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

	2010	2009
Not later than 1 year	1,738	2,437
Later than 1 year and not later than 5 years	1,581	5,996
Later than 5 years	115	12,595
Total operating lease commitments	**3,434**	**21,028**

(in thousands of US dollars) 141

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, companies under common control and other related parties. These transactions include settlements, loans, deposits, trade finance and foreign currency transactions. The outstanding balances as at 31 December 2010 and as at 31 December 2009 and income and expenses for the years then ended are as follows:

As at 31 December 2010	Parent company	Entities under common control	Management	Other related parties
Assets				
Loans to customers (interest rate, % p.a)	-	64,815 (12,5%)	1,087 (15,6%)	1,190 (11,7%)
Allowance for loan impairment	-	(159)	(2)	(2)
Due from other banks (interest rate, % p.a)	-	36,665 (0%)	-	-
Other assets	-	118	-	-
Liabilities				
Due to other banks (interest rate, % p.a)	-	117,674 (3,3%)	-	-
Customer accounts (interest rate, % p.a)	-	103,294 (2,94%)	2,335 (9,04%)	5,685 (8,05%)
Credit related commitments				
Revocable commitments to extend credit	-	15,703	-	-
Letters of credit	-	6,463	-	-
Provision for credit related commitments	-	(15)	-	-
Income / expense				
Interest income	-	12,989	21	144
Interest expense	-	(7,153)	(219)	(448)
Fee and commission income	-	1,697	2	2
Fee and commission expense	-	(205)	-	-
Other income	-	2	-	-
Allowance for loan impairment	-	(22)	(2)	97
Provision for credit related commitments	-	(15)	-	-
Insurance expense	-	(237)	-	-

33. Related Party Transactions (Continued)

As at 31 December 2009	Parent company	Entities under common control	Management	Other related parties
Assets				
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 other banks (interest rate, % p.a)	-	58,866 (0%)	-	-
Other assets	-	784	-	-
Liabilities				
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%)	4,219 (13.78%)
Credit related commitments				
Revocable commitments to extend credit	-	1,554	-	-
Income / expense				
Interest income	-	8,437	6	149
Interest expense	-	(6,974)	(105)	(553)
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)	-	-

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:

	Parent company	Entities under common control	Management	Other related parties
Loans granted to related parties during the year	-	392,518	1,173	305
Amounts repaid by related parties during the year	-	(394,380)	(129)	(345)
Changes in related party	-	29,539	-	-
Other change	-	(1,929)	(4)	-

(in thousands of US dollars) 143

33. Related Party Transactions (Continued)

During 2009 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	-	131,762	5	160
Amounts repaid by related parties during the year	-	(136,080)	(36)	(206)
Other change	-	(1,266)	(152)	-

In 2010, the remuneration of members of the Management Board comprised salaries of USD 2,787 thousand (2009: USD 2,511 thousand), compulsory contributions to the State funds of USD 57 thousand (2009: USD 34 thousand) and other benefits of USD 22 thousand (2009: USD 11 thousand). In 2010, benefits paid to the Supervisory Council were USD 81 thousand (2009: USD 431 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 Bank considers total capital under management to be total regulatory capital.

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 2010 and 2009, the Bank's capital adequacy ratio on this basis was as follows:

34. Capital (Continued)

	2010	2009
Main capital	269,291	278,997
Additional capital	109,530	88,970
Less: deductions from capital	-	-
Total capital	**378,821**	**367,967**
Risk weighted assets	**2,018,801**	**1,786,871**
Capital adequacy ratio	**18.76%**	**20.59%**

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. As at 31 December 2010 and 31 December 2009, the Bank is compliant with the regulatory requirements on capital.

Signed on behalf of the Management Board on 22 March 2011.

K.M. Vaysman (Chairman of the Management Board)

O.M. Moshkalova (Chief Accountant)

FUIB licences

Bank license	No. 8 dd. 04.08.2009
Certificate of registration with the NBU	No. 73 dd. 23.12.1991
Certificate of incorporation	No. 432835 dd. 16.07.2009
VAT payer registration certificate	No. 056345 dd. 02.08.2009, TIN 142828205097
License for stock market activity – dealing in securities (underwriting)	No. 493197 dd. 16.09.2009
License for stock market activity – dealing in securities (broker activity)	No. 493195 dd. 16.09.2009
License for stock market activity – dealing in securities (dealer activity)	No. 493196 dd. 16.09.2009
License for stock market activity – depositary activity (custody business)	No. 493255dd. 16.09.2009

Credit ratings

Moody's ratings	2009	2010
Financial stability rating	E + (outlook stable)	E + (outlook stable)
National currency deposit rating	B2/NP	B2/NP
Foreign currency deposit rating	B3/NP	B3/NP
Long-term national scale rating	A3.ua	A3.ua
Long-term foreign currency debt ratingвалюте	B2	B2
Rating outlook	negative	stable

Financials (IFRS)*

Balance sheet: key components (US$ m)	YE2010	YE2009	YE2008	2010/2009, %
Assets	2 222.2	1 987.3	2 317.8	11.8%
Equity	434.8	375.7	451.2	15.7%
Loan portfolio (before provisions)	1 714.4	1 705.7	2 029.5	0.5%
Corporate	1 293.4	1 224.8	1 447.2	5.6%
Retail	420.9	481.0	582.3	-12.5%
Customer accounts	1 005.8	727.0	863.5	38.4%
Corporate	364.6	252.4	404.5	44.5%
Retail	641.2	474.6	459.0	35.1%

P&L: key components (US$ m)	YE2010	YE2009	YE2008	2010/2009, %
Net interest income	126.2	127.4	136.1	-0.9%
Net non-interest income	26.9	38.5	65.3	-30.0%
Operating income before provisions	153.1	165.9	201.5	-7.7%
Operating expenses	-69.5	-60.9	-77.7	14.2%
Profit before provisions	83.6	105.0	123.8	-20.4%
Provisions	-12.1	-161.1	-116.3	-92.5%
Net profit	**54.4**	**-54.3**	**15.3**	-

Performance ratios	YE2010	YE2009	YE2008	2010/2009, %
ROE	13.4%	-13.1%	3.3%	26.6%
ROA	2.6%	-2.5%	0.7%	5.1%
Cost to Income	45.4%	36.7%	38.6%	8.7%
Net interest margin	5.9%	6.1%	6.6%	-0.2%

Capital ratio	YE2010	YE2009	YE2008	2010/2009, %
Capital adequacy ratio (BIS)	26.2%	25.3%	21.4%	0.9%

* According to IFRS

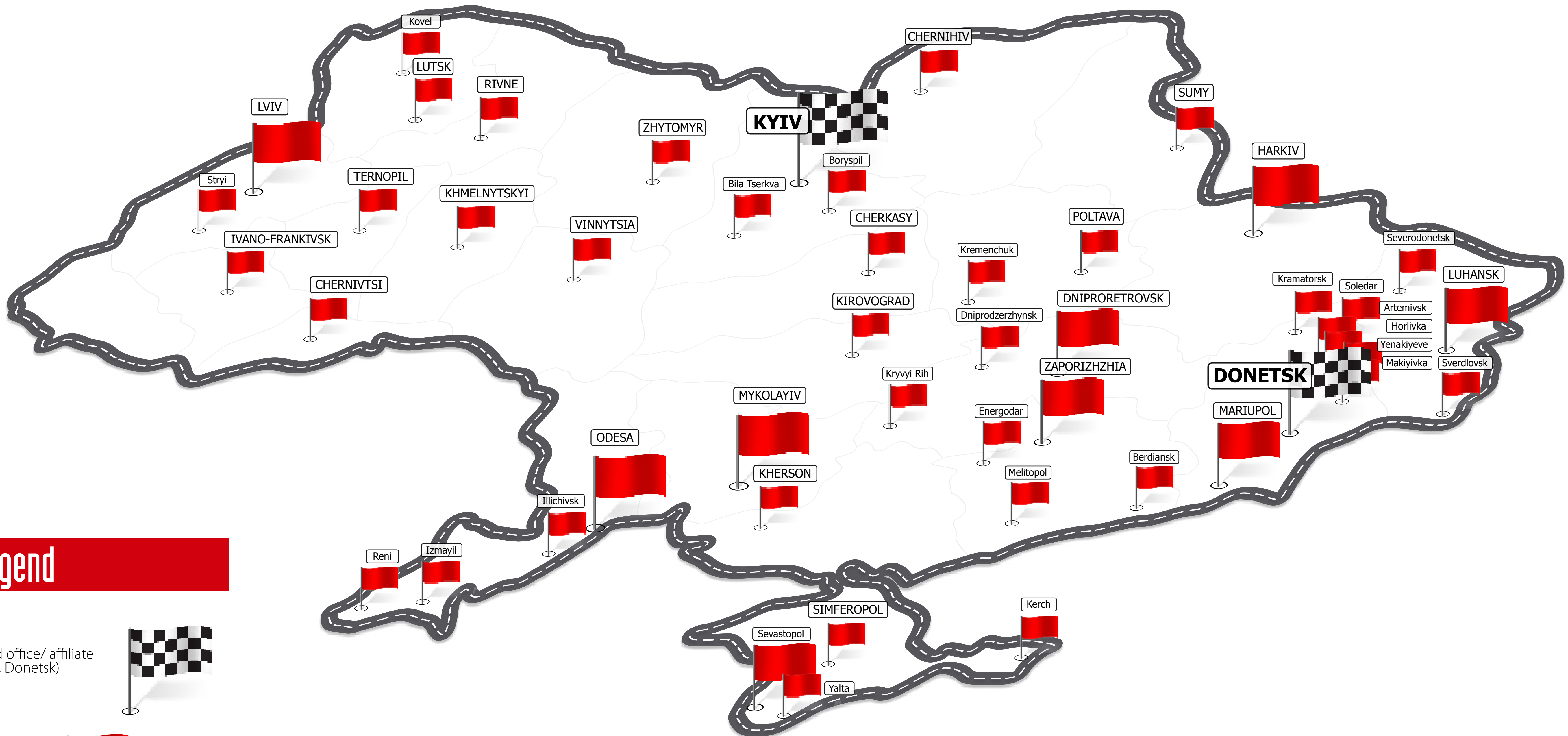
FUIB in domestic rankings**

by	ranking at		
	YE2010	YE2009	YE2008
Profit	6	-	51
Equity	11	12	7
Assets	13	14	13
Liabilities	13	15	13
Corporate loans	12	14	12
Retail loans	16	15	14
Corporate deposits	18	18	12
Retail deposits	13	14	16
Cards (in use)	12	13	17

ATMs	8	9	9
POS-terminals	4	6	8

**According to the national accounting standards

Comfortable bank in all regions of Ukraine



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