



Closed Joint-Stock Company
“First Ukrainian International Bank”

Financial Statements Together with Independent Auditors' Report

For the year ended 31 December 2008

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Independent Auditors' Report

TO THE SHAREHOLDERS AND THE BOARD OF DIRECTORS OF CLOSED JOINT STOCK COMPANY FIRST UKRAINIAN INTERNATIONAL BANK

We have audited the accompanying financial statements of Closed Joint Stock Company First Ukrainian International Bank (the "Bank"), which comprise the balance sheet as at 31 December 2008, and the statement of income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2008, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young Audit Services LLC

22 April 2009

Balance Sheet as at 31 December 2008
(in thousands of US dollars)

Balance Sheet as at 31 December 2008

	Notes	2008	2007
Assets			
Cash on hand and in transit	6	57,418	57,223
Balance with the National Bank of Ukraine	7	41,668	54,856
Due from other banks	8	113,573	112,376
Loans to customers	9	1,902,146	1,675,942
Investment securities available-for-sale	10	33,542	122,791
Securities pledged under repurchase agreements – available-for-sale	10	162	20,101
Current income tax assets		7,097	-
Other assets		12,707	19,722
Property and equipment	11	142,100	171,063
Investment property	11	4,979	4,406
Intangible assets	11	2,423	2,737
Total assets		2,317,815	2,241,217
Liabilities			
Due to the National Bank of Ukraine	12	66,805	-
Due to other banks	13	62,570	71,566
Customer accounts	14	863,474	832,192
Eurobonds issued	15	283,739	282,896

Balance Sheet as at 31 December 2008
(in thousands of US dollars)

	Notes	2008	2007
Bonds issued	16	37,601	59,586
Other borrowed funds	17	485,181	474,706
Current income tax liability		-	2,205
Other liabilities	18	55,449	11,263
Deferred tax liability	26	11,836	24,083
Total liabilities		1,866,655	1,758,497
Equity			
Share capital	20	344,897	325,868
Share premium		7,377	11,247
Revaluation reserve for premises		56,380	67,556
Revaluation reserve for investment securities available-for-sale		(1,900)	32
Translation differences reserve		(264,583)	6,410
Other reserve		241,594	(2,856)
Retained earnings		67,395	74,463
Total equity		451,160	482,720
Total liabilities and equity		2,317,815	2,241,217

Signed on behalf of the Management Board on 22 April 2009.

Rafal Juszcak
(Chairman of the Management Board)

O. M. Moshkalova
(Chief Accountant)

Statement of Income for the Year Ended 31 December 2008
(in thousands of US dollars)

Statement of Income for the Year Ended 31 December 2008

	Notes	2008	2007
Interest income	22	307,094	168,275
Interest expense	22	(170,959)	(96,293)
Net interest income	22	136,135	71,982
Allowance for loan impairment	9	(103,213)	(14,824)
Net interest income after allowance for loan impairment		32,922	57,158
Fee and commission income	23	44,249	37,436
Fee and commission expense	23	(12,115)	(10,321)
Net fee and commission income	23	32,134	27,115
Net gains from dealing in foreign currencies		12,721	3,997
Foreign exchange translation result		17,956	824
Net gains from investment securities available-for-sale		2,944	315
Provision for credit related commitments	30	(7,020)	(1,343)
Allowance for impairment of investment securities available-for-sale	10	(6,029)	-
Other income and expenses	24	(422)	2,178
Operating income		85,206	90,244
Operating expenses	25	(77,713)	(52,041)
Profit before income tax expense		7,493	38,203
Income tax benefit/ (expense)	26	7,769	(10,163)
Net profit for the year		15,262	28,040

Statement of Cash Flows for the Year Ended 31 December 2008
(in thousands of US dollars)

Statement of Cash Flows for the Year Ended 31 December 2008

	2008	2007
Cash flows from operating activities		
Interest income received	304,122	163,520
Interest expense paid	(169,034)	(77,987)
Fee and commission income received	44,329	37,333
Fee and commission expense paid	(11,944)	(10,322)
Income received from trading in foreign currencies	12,721	3,997
Other income received	1,893	772
Operating expenses paid	(64,682)	(42,447)
Income tax paid	(9,444)	(5,282)
Cash flows from operating activities before changes in operating assets and liabilities	107,961	69,584
Net (increase)/decrease in operating assets:		
Mandatory reserve balance with the National Bank of Ukraine	(9,387)	(15,337)
Due from other banks	(12,335)	8,247
Loans to customers	(696,383)	(1,008,398)
Other assets	(422)	(5,280)
Net increase /(decrease) in operating liabilities:		
Due to the National Bank of Ukraine	66,805	-
Due to other banks	15,626	17,019
Customer accounts	233,162	321,892

Statement of Cash Flows for the Year Ended 31 December 2008
(in thousands of US dollars)

	2008	2007
Other liabilities	(3,588)	1,169
Net cash used in operating activities	(298,561)	(611,104)
Cash flows from investing activities		
Purchase of property and equipment and intangible assets	(26,855)	(44,684)
Proceeds from sale of property and equipment	383	283
Purchase of investment securities	(381,694)	(2,033,342)
Proceeds from sale and redemption of investment securities	429,824	1,965,756
Net cash from investing activities	21,658	(111,987)
Cash flows from financing activities		
Proceeds from Eurobonds issued	-	271,657
Proceeds from bonds issued	98,898	59,887
Redemption of bonds issued	(103,525)	-
Proceeds from other borrowed funds	511,089	464,239
Redemption of other borrowed funds	(496,409)	(286,661)
Share issue	208,176	235,004
Net cash from financing activities	218,229	744,126
Effect of exchange rate changes on cash and cash equivalents	35,726	480
Net increase in cash and cash equivalents	(22,948)	21,515
Cash and cash equivalents at the beginning of the year	167,160	145,645
Cash and cash equivalents at the end of the year (Note 6)	144,212	167,160

Statement of Changes in Equity for the Year Ended 31 December 2008
(in thousands of US dollars)

Statement of Changes in Equity for the Year Ended 31 December 2008

	Share capital	Share premium	Revaluation reserve for investment securities available-for-sale	Revaluation reserve for premises	Translation differences reserve	Other reserve	Retained earnings	Total equity
Balance at 1 January 2007	90,864	11,247	(43)	31,269	6,410	(2,856)	45,669	182,560
Revaluation of premises	-	-	-	49,389	-	-	-	49,389
Depreciation transfer on revalued premises	-	-	-	(754)	-	-	754	-
Net gains on change in fair value of investment securities available-for-sale	-	-	398	-	-	-	-	398
Realised gains on investment securities available-for-sale	-	-	(315)	-	-	-	-	(315)
Tax effect recorded directly in equity	-	-	(8)	(12,348)	-	-	-	(12,356)
Net income recognised directly in equity	-	-	75	36,287	-	-	754	37,116
Net profit for the year	-	-	-	-	-	-	28,040	28,040
Total recognised income	-	-	75	36,287	-	-	28,794	65,165
Share issue (Note 20)	235,004	-	-	-	-	-	-	235,004
Balance at 31 December 2007	325,868	11,247	32	67,556	6,410	(2,856)	74,463	482,720
Revaluation of premises	-	-	-	23,309	-	-	-	23,309

Statement of Changes in Equity for the Year Ended 31 December 2008
(in thousands of US dollars)

	Share capital	Share premium	Revaluation reserve for investment securities available-for-sale	Revaluation reserve for premises	Translation differences reserve	Other reserve	Retained earnings	Total equity
Depreciation transfer on revalued premises	-	-	-	(1,005)	-	-	1,005	-
Revaluation of investment securities available-for-sale	-	-	(2,314)	-	-	-	-	(2,314)
Tax effect recorded directly in equity	-	-	407	(5,827)	-	-	-	(5,420)
Net income recognised directly in equity	-	-	(1,907)	16,477	-	-	1,005	15,575
Net profit for the year	-	-	-	-	-	-	15,682	15,682
Total recognised income	-	-	(1,907)	16,477	-	-	16,687	31,257
Share issue (Note 20)	208,176	-	-	-	-	-	-	208,176
Translation differences	(189,147)	(3,870)	(25)	(27,653)	(270,993)	244,450	(23,755)	(270,993)
Balance at 31 December 2008	344,897	7,377	(1,900)	56,380	(264,583)	241,594	67,395	451,160

Notes to the Financial Statements for the Year Ended 31 December 2008

1. PRINCIPAL ACTIVITIES

Closed 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 2008, it had 11 branches throughout Ukraine. The Bank had 3,271 employees as at 31 December 2008 (2007 – 2,829 employees).

The Bank's shareholders as at 31 December 2008 are "SCM FINANCE" (89.9% of share capital), Ukrainian Steel Holdings Ltd (USH) (10.0% of share capital) and a private shareholder (0.1% of share capital) (31 December 2007: "SCM FINANCE" – 99.8% of share capital, and a private shareholder – 0.2% of share capital). The ultimate controlling party of the Bank is a Ukrainian citizen, Mr. R.L. Akhmetov.

2. OPERATING ENVIRONMENT OF THE BANK

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

The Ukrainian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. The ongoing global financial crisis has resulted in considerable instability in the capital markets, significant deterioration in the liquidity of banks, much tighter credit conditions where credit is available, and significant devaluation of the national currency against major currencies. Furthermore, in the fourth quarter of 2008, international agencies began to downgrade the country's credit ratings. Whilst the Ukrainian Government is introducing various stabilisation measures aimed at providing liquidity and supporting debt refinancing for Ukrainian banks, there continues to be uncertainty regarding access to capital and its cost for the Bank and its counterparties. These factors could affect the Bank's financial position, results of operations and business prospects.

In addition, the borrowers of the Bank may have been affected by a deterioration in their own liquidity, which could in turn impact their ability to repay the amounts due to the Bank. Due to the fall in values in both global and Ukrainian securities markets, the Bank may face the consequences of a significant decrease in the fair value of securities pledged as collateral against loans extended by the Bank. Similarly, the

*Notes to the Financial Statements for the Year Ended 31 December 2008
(in thousands of US dollars)*

decrease in values in the Ukrainian real estate market may affect recoverability of the Bank's loans secured by pledges of property. To the extent that information is available, the Bank has reflected revised estimates of expected future cash flows in its impairment assessment.

Management believes it is taking appropriate measures to support the sustainability of the Bank's business in the current circumstances.

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 for investment properties, premises, derivative financial instruments and available-for-sale investments that have been measured at fair value.

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

INFLATION ACCOUNTING

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

CHANGES IN ACCOUNTING POLICIES

The Bank has adopted the following amended IFRS during the year:

Reclassification of Financial Assets – Amendments to IAS 39 "Financial instruments: Recognition and measurement" and IFRS 7 "Financial instruments: Disclosures"

Amendments to IAS 39 and IFRS 7 were issued on 13 October 2008 and allow reclassification of non-derivative financial assets out of the held for trading category in particular circumstances. The amendments also allow transfer of certain financial assets from the available-for-sale category to loans and receivables category. The effective date of those amendments is 1 July 2008. Any reclassification made in periods beginning on or after 1 November 2008 shall take effect only from the date when the reclassification is made. The Bank did not reclassify any financial assets from held for trading or available-for-sale categories and hence these amendments did not have any impact on the financial position or performance of the Bank.

Notes to the Financial Statements for the Year Ended 31 December 2008
(in thousands of US dollars)

3. BASIS OF PREPARATION (CONTINUED)

RECLASSIFICATIONS

The following reclassifications have been made to 2007 balances:

Amount	Previously reported	Reclassified	Comment
240	Operating expenses	Other income and expenses	To achieve better presentation
2,856	Retained earnings	Other reserve	To present the accumulated currency translation differences on the equity items as a separate component (Note 20)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

FINANCIAL ASSETS

Initial recognition

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

Date of recognition

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

Loans and receivables

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

Notes to the Financial Statements for the Year Ended 31 December 2008
(in thousands of US dollars)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

recognised in the statement of income when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified as financial assets at fair value through profit or loss, held-to-maturity financial assets or loans and receivables. After initial recognition available-for-sale financial assets are measured at fair value with gains or losses being recognised as a separate component of equity 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 equity is included in the statement of income. Interest calculated using the effective interest method is recognised in the statement of income.

Determination of fair value

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

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

Offsetting

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

CASH AND CASH EQUIVALENTS

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

PRECIOUS METALS

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

*Notes to the Financial Statements for the Year Ended 31 December 2008
(in thousands of US dollars)*

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

MANDATORY RESERVE BALANCE

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

SALE AND REPURCHASE AGREEMENTS

Sale and repurchase agreements (“repo agreements”) are treated as secured financing transactions. Securities sold under sale and repurchase agreements are retained in the balance sheet. The securities are not reclassified in the balance sheet unless the transferee has the right by contract or custom to sell or repledge the securities, in which case they are reclassified as securities pledged under sale and repurchase agreements. The corresponding liability is presented within amounts due to other banks or other borrowed funds. Securities purchased under agreements to resell (“reverse repo”) are recorded as amounts due from credit institutions or loans to customers as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of repo agreements using the effective yield method.

Securities lent to counterparties are retained in the balance sheet. Securities borrowed are not recorded in the balance sheet, 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.

DERIVATIVE FINANCIAL INSTRUMENTS

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

PROMISSORY NOTES

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

IMPAIRMENT OF FINANCIAL ASSETS

The Bank assesses at each balance sheet 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

Notes to the Financial Statements for the Year Ended 31 December 2008
(in thousands of US dollars)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Due from other banks and loans to customers

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

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

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

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

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods on which historical loss experience is based and to remove the effects of past conditions that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally

Notes to the Financial Statements for the Year Ended 31 December 2008
(in thousands of US dollars)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the group or their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Available-for-sale financial investments

For available-for-sale financial investments, the Bank assesses at each balance sheet 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 equity 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 equity.

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.

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.

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 balance sheet 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 balance sheet date. Any increase in the liability relating to financial guarantees is taken to the statement of income.

Notes to the Financial Statements for the Year Ended 31 December 2008
(in thousands of US dollars)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

OTHER CREDIT RELATED COMMITMENTS

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

DERECOGNITION OF FINANCIAL ASSETS AND LIABILITIES

Financial assets

The Bank derecognises financial assets (or, where applicable, a part of a financial asset or part of a group of similar financial assets) when (I) the contractual rights to the cash flows from the financial asset expire or (II) the Bank transfers its contractual rights to receive the cash flows of the financial asset, or retains the contractual rights to receive the cash flows of the financial asset, but assumes a contractual obligation to pay these cash flows of the financial asset and (III) the Bank either (a) transfers substantially all the risks and rewards of ownership of the financial asset, or (b) neither transferred nor retained substantially all risks and rewards of ownership of the financial asset but has not retained control of this asset.

Financial liabilities

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

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

PROPERTY AND EQUIPMENT

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

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

Any revaluation surplus is credited to the revaluation reserve included in equity, 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.

Notes to the Financial Statements for the Year Ended 31 December 2008
(in thousands of US dollars)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

*Notes to the Financial Statements for the Year Ended 31 December 2008
(in thousands of US dollars)*

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investment property is initially recognised at cost, including transaction costs, and subsequently measured at fair value, which reflects market conditions at the balance sheet date. Gains and losses resulting from changes in the fair value of investment property are recorded in the statement of income in 'Other income and expenses' in the year in which they arise.

BORROWINGS

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

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.

FOREIGN CURRENCY TRANSLATION

The Ukrainian hryvnia is utilised as the functional currency as the majority of the transactions are denominated, measured, or funded in Ukrainian hryvnia. Transactions in other currencies are treated as transactions in foreign currencies. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet 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 balance sheet items are translated into US dollars at the exchange rate ruling at the year end. Income statement items are translated at the exchange rate at the date of the transaction. Equity items other than the net profit or loss for the period that is included in the balance of retained earnings are translated at the closing rate existing ruling at the date of each balance sheet presented. All exchange differences resulting from translation of balance sheet items and income statement items are recognised as a separate component of equity.

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.

Notes to the Financial Statements for the Year Ended 31 December 2008
(in thousands of US dollars)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

As at 31 December 2008, the exchange rate of the Ukrainian hryvnia as established by the NBU was UAH 7.7 to 1 US dollar (2007: UAH 5.05) and UAH 10.85546 to 1 euro (2007: UAH 7.41946).

INCOME TAXES

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

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

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

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.

Notes to the Financial Statements for the Year Ended 31 December 2008
(in thousands of US dollars)

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.

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 balance sheet. 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.

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 pension scheme contributions are expensed as incurred. In addition, the Bank has no post-retirement benefits.

OPERATING LEASES

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

The Bank presents assets subject to operating leases in the balance sheet according to the nature of the asset. Lease income from operating leases is recognised in the income statement on a straight-line basis over the lease term as other income. The direct costs incurred in modernisation are added to the carrying amount of the leased asset..

SEGMENT REPORTING

A segment is a distinguishable component of the Bank that is engaged either in providing products or services (business segment) or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. Segments with a majority of revenue earned from sales to external customers and whose

Notes to the Financial Statements for the Year Ended 31 December 2008
(in thousands of US dollars)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

revenue, result or assets are ten percent or more of all the segments are reported separately. Geographical segments of the Bank have been reported separately within these financial statements based on the ultimate domicile of the counterparty, e.g. based on economic risk rather than legal risk of the counterparty.

FUTURE CHANGES IN ACCOUNTING POLICIES

Standards and interpretations issued but not yet effective

Improvements to IFRS

In May 2008, the IASB issued amendments to IFRS, which resulted from the IASB's annual improvements project. They comprise amendments that result in accounting changes for presentation, recognition or measurement purposes as well as terminology or editorial amendments related to a variety of individual IFRS standards. Most of the amendments are effective for annual periods beginning on or after 1 January 2009, with earlier application permitted. The Bank is currently evaluating the potential impact that the adoption of the amendments will have on its financial statements.

IAS 1 Presentation of Financial Statements (Revised)

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

Amendments to IFRS 2 "Share-based Payment" – Vesting Conditions and Cancellations

Amendment to IFRS 2 were issued in January 2008 and become effective for annual periods beginning on or after 1 January 2009. This amendment clarifies the definition of vesting conditions and prescribes the accounting treatment of an award that is effectively cancelled because a non-vesting condition is not satisfied. This amendment will have no impact on the financial position or performance of the Bank.

IFRS 3 "Business Combinations" (revised in January 2008) and IAS 27 "Consolidated and Separate Financial Statements" (revised in January 2008).

The revised standards were issued in January 2008 and become effective for financial years beginning on or after 1 July 2009. Revised IFRS 3 introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results. Revised IAS 27 requires that a change in the ownership interest of a subsidiary is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give rise to a gain or loss. Furthermore, the revised standard changes the accounting for losses incurred by the subsidiary as well as the loss of

Notes to the Financial Statements for the Year Ended 31 December 2008
(in thousands of US dollars)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

control of a subsidiary. The changes introduced by the revised Standards must be applied prospectively and will affect only future acquisitions and transactions with minority interests.

IFRS 8 "Operating Segments"

IFRS 8 becomes effective for annual periods beginning on or after 1 January 2009. This Standard requires disclosure of information about the Bank's operating segments and replaces the requirement to determine primary (business) and secondary (geographical) reporting segments of the Bank. Adoption of this Standard will not have any impact on the financial position or performance of the Bank. The Bank determined that the operating segments would be the same as the business segments previously identified under IAS 14 'Segment Reporting'.

Amendments to IAS 32 "Financial Instruments: Presentation" and IAS 1 "Presentation of Financial Statements" – Puttable Financial Instruments and Obligations Arising on Liquidation.

These amendments were issued in February 2008, and become effective for annual periods beginning on or after 1 January 2009. The amendments require puttable instruments that represent a residual interest in an entity to be classified as equity, provided they satisfy certain conditions. These amendments will have no impact on the Bank.

IAS 23 "Borrowing Costs" (Revised)

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

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

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

Amendments to IFRS 1 "First-time Adoption of IFRSs" and IAS 27 "Consolidated and Separate Financial Statements" - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate

These amendments were issued in May 2008, and become effective for annual periods beginning on or after 1 January 2009. The revision to IAS 27 will have to be applied prospectively. The amendments to IFRS 1 allow an entity to determine the cost of investments in a

Notes to the Financial Statements for the Year Ended 31 December 2008
(in thousands of US dollars)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

subsidiary, jointly controlled entity or associate in its opening IFRS financial statements in accordance with IAS 27 or using a deemed cost. The amendment to IAS 27 requires all dividends from a subsidiary, jointly controlled entity or associate to be recognized in the income statement in the separate financial statements. The new requirements affect only the parent's separate financial statements and do not have an impact on the consolidated financial statements.

IFRIC 15 "Agreements for the Construction of Real Estate"

IFRIC Interpretation 15 was issued in July 2008 and is applicable retrospectively for annual periods beginning on or after 1 January 2009. IFRIC 15 clarifies when and how revenue and related expenses from the sale of a real estate unit should be recognized if an agreement between a developer and a buyer is reached before the construction of the real estate is completed. The interpretation also provides guidance on how to determine whether an agreement is within the scope of IAS 11 "Construction Contracts" or IAS 18 "Revenue" and supersedes the current guidance for real estate in the Appendix to IAS 18. The Bank expects that this interpretation will have no impact on the Bank's financial statements.

IFRIC 17 "Distribution of Non-Cash Assets to Owners"

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

IFRIC 18 "Transfers of Assets from Customers"

IFRIC 18 was issued in January 2009 and becomes effective for financial years beginning on or after 1 July 2009 with early application permitted, provided valuations were obtained at the date those transfers occurred. This interpretation should be applied prospectively. IFRIC 18 provides guidance on accounting for agreements in which an entity receives from a customer an item of property, plant and equipment that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services or to do both. The interpretation clarifies the circumstances, in which the definition of an asset is met, the recognition of the asset and its measurement on initial recognition, the identification of the separately identifiable services, the recognition of revenue and the accounting for transfers of cash from customers. IFRIC 18 will have no impact on the financial position or performance of the Bank, as the Bank does not receive assets from customers.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

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

FAIR VALUE OF FINANCIAL INSTRUMENTS

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

ALLOWANCE FOR IMPAIRMENT OF LOANS AND ADVANCES

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

FAIR VALUE OF PREMISES

As stated in Note 4, the premises of the Bank are subject to revaluation on a regular basis. Such revaluations are based on the results of work of independent valuers. The basis for their work is the sales comparison approach which is further confirmed by the income capitalisation approach. When performing the revaluation certain judgements and estimates are applied by the valuers in determination of the comparison of premises to be used in the sales comparison approach, the useful life of the assets revalued, the capitalisation rate to be applied for the income capitalisation approach. Capitalisation rates applied by the Bank varied from 8% to 23%, depending upon the location of the premises. Changes in assumptions about these factors could affect reported fair values. The valuation is based on comparative sales of premises with the a price per square metre varying from USD 400 to USD 9,266 (2007: from USD 796 to USD 9,952), depending upon the location of the premises. To the extent that the price per square metre differs by plus or minus 5 percent, the fair value of premises would be USD 6,174 thousand higher or USD 6,174 thousand lower (2007: USD 7,272 thousand higher or USD 7,272 thousand lower).

Notes to the Financial Statements for the Year Ended 31 December 2008
(in thousands of US dollars)

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (CONTINUED)

RELATED PARTY TRANSACTIONS

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

6. CASH AND CASH EQUIVALENTS

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

	2008	2007
Current accounts and overnight deposits with other banks	80 739	81 307
Cash on hand and in transit	57 418	57 223
Current account with the National Bank of Ukraine (other than mandatory reserve balance, Note 7)	6 055	28 630
Total cash and cash equivalents	144 212	167 160

7. BALANCE WITH THE NATIONAL BANK OF UKRAINE

As at 31 December 2008, the balance on the current account with the National Bank of Ukraine equalled USD 41,668 thousand (2007: USD 54,856 thousand). In 2008, the mandatory reserve balance is calculated on the basis of a simple average over a monthly period (2007: a simple average over a monthly period) and as at 31 December 2008 should be maintained at the level of nil to 7 per cent (31 December 2007: 6 to 8 percent) of certain obligations of the Bank. As such, the balance can vary from day-to-day. For December 2008, the Bank's mandatory reserve requirement was USD 35,613 thousand (for December 2007: USD 26,226 thousand).

As at 31 December 2008, in accordance with the NBU regulations the Bank was required to maintain the balance on account with the NBU at the level not less than 100% of the mandatory reserve balance for the preceding month (31 December 2007: not less than 90% of the mandatory reserve balance for the preceding month).

The Bank met the NBU obligatory reserve requirements as at 31 December 2008 and 2007.

Notes to the Financial Statements for the Year Ended 31 December 2008
(in thousands of US dollars)

8. DUE FROM OTHER BANKS

	2008	2007
Current accounts and overnight deposits with other banks		
- OECD countries	70 470	74 829
- Non-OECD countries	5 314	6 199
- Domestic	5 029	438
	80 813	81 466
Term deposits with other banks		
- Domestic	-	13 885
- OECD countries	32 760	6 681
	32 760	20 566
Reverse sale and repurchase agreements with other banks		
- Domestic	-	10 344
Total due from other banks	113 573	112 376

Current accounts and overnight deposits with other banks included accrued interest income of USD 74 thousand (2007: USD 159 thousand).

During 2008, the Bank placed with and received short-term funds from Ukrainian banks in various currencies. As at 31 December 2008, the Bank placed an equivalent of USD 298,491 thousand as deposits with Ukrainian banks and received an equivalent of USD 333,686 thousand from the same Ukrainian banks in different currencies (31 December 2007: placed an equivalent of USD 610,099 thousand and received an equivalent of USD 610,148 thousand). These deposits were treated as currency swaps for the purpose of these financial statements and were reported on a net basis at USD 2,416 thousand in other assets and at USD 37,611 thousand in other liabilities (31 December 2007: USD 49 thousand in other liabilities) (Note 18, 19).

As at 31 December 2008, term deposits placed with other banks in OECD and non-OECD countries of USD 11,611 thousand (2007: USD 6,681 thousand) represented security deposits against import letters of credit and guarantees issued by the Bank in favour of its clients.

Notes to the Financial Statements for the Year Ended 31 December 2008
(in thousands of US dollars)

9. LOANS TO CUSTOMERS

	2008	2007
Corporate loans	1 413 906	1 281 745
Loans to individuals	582 349	402 842
Discounted bills	33 245	20 584
Reverse sale and repurchase agreements	-	11 583
	2 029 500	1 716 754
Allowance for loan impairment	(127 354)	(40 812)
Total loans to customers	1 902 146	1 675 942

As at 31 December 2008, the total gross amount of non-performing loans was USD 104,716 thousand (2007: USD 13,978 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 2008 were loans of USD 1,856,429 thousand (2007: USD 1,559,751 thousand) with fixed interest rates and loans of USD 173,071 thousand (2007: USD 157,003 thousand) with floating interest rates.

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

	Corporate loans	Loans to individuals	Discounted bills	Total
Balance at 1 January 2007	22,155	3,725	19	25,899
Charge for the year	10,390	4,169	265	14,824
Loans written off during the year as uncollectable	-	(10)	-	(10)
Exchange rate impact	94	5	-	99
Balance at 31 December 2007	32,639	7,889	284	40,812
Individual impairment	16,260	2,953	-	19,213
Collective impairment	16,379	4,936	284	21,599
	32,639	7,889	284	40,812
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	35,313	15,976	-	51,289

Notes to the Financial Statements for the Year Ended 31 December 2008
(in thousands of US dollars)

9. LOANS TO CUSTOMERS (CONTINUED)

Individually impaired loans

As at 31 December 2008, interest income accrued on impaired loans amounted to USD 2,447 thousand (2007: USD 160 thousand).

The fair value of collateral that the Bank holds relating to loans individually determined to be impaired as at 31 December 2008 amounts to USD 237,347 thousand (2007: USD 64,415 thousand). In accordance with Ukrainian legislation, loans may only be written off with the approval of the Board of Directors and, in certain cases, with the respective decision of the Court.

Collateral and other credit enhancements

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

The main types of collateral obtained are as follows:

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

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

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

As at 31 December 2008, loans collateralised by customer deposits with the Bank amounted to USD 60,558 thousand (2007: USD 60,747 thousand) (Note 14).

Concentration of loans to customers

As at 31 December 2008, the Bank's 20 largest borrowers, with aggregate loan amounts of USD 519,076 thousand, represented 26% of the gross loan portfolio (2007: 20 largest borrowers, with aggregate loan amounts of USD 498,461 thousand, represented 29% of the gross loan portfolio).

Notes to the Financial Statements for the Year Ended 31 December 2008
 (in thousands of US dollars)

9. КРЕДИТИ КЛІЄНТАМ (ПРОДОВЖЕННЯ)

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

	2008	2007
Trade and agency services	679 078	609 228
Individuals	582 349	402 842
Food industry and agriculture	279 572	326 510
Metallurgy	167 053	136 508
Machine building	103 109	69 937
Chemical	48 943	28 667
Transport, communication and infrastructure	30 584	23 326
Mining	17 691	20 626
Other	121 121	99 110
Total loans to customers (gross amount)	2 029 500	1 716 754

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.

During year ended 31 December 2008, the Bank has not incurred a loss on initial recognition of loans at rates below market (2007: loss of USD 427 thousand was recognised in the statement of income).

Notes to the Financial Statements for the Year Ended 31 December 2008
(in thousands of US dollars)

10. INVESTMENT SECURITIES AVAILABLE-FOR-SALE

	2008	2007
Corporate bonds	39 043	116 764
Ukrainian Government debt securities	-	5 016
Municipal bonds	-	1 011
Allowance for impairment	(5 501)	-
Total investment securities available-for-sale	33 542	122 791

	2008	2007
Corporate bonds	690	20 101
Allowance for impairment	(528)	-
Total securities pledged under repurchase agreements – available-for-sale	162	20 101

Movements in allowance for impairment of securities available-for-sale during the year were as follows:

	2008	2007
Allowance for impairment as at 1 January	-	-
Charge for provision for allowance for impairment securities available-for-sale during the year	5 501	-
Charge in allowance for impairment securities pledged under repurchase agreements – available-for-sale during the year	528	-
Allowance for impairment of investment securities available-for-sale as at 31 December	6 029	-

Notes to the Financial Statements for the Year Ended 31 December 2008
(in thousands of US dollars)

11. PROPERTY AND EQUIPMENT, INVESTMENT PROPERTY AND INTANGIBLE ASSETS

	Premises	Leasehold improvements	Computers and other equipment	Capital investments in property and equipment	Total property and equipment	Investment property	Intangible assets	Total
Cost or valuation								
1 January 2008	164,478	4,111	42,429	3,443	214,461	4,406	7,299	226,166
Additions	13,025	8	11,567	6,546	31,146	-	1,890	33,036
Disposals / write-offs	(473)	(566)	(2,482)	-	(3,521)	(45)	(54)	(3,620)
Transfers	5,148	2,887	(2,156)	(8,472)	(2,593)	2,593	-	-
Revaluation	26,718	-	-	-	26,718	860	-	27,578
Impairment loss	(3,895)	-	-	-	(3,895)	(293)	-	(4,188)
Translation to presentation currency	(65,601)	(2,297)	(17,375)	(806)	(86,079)	(2,542)	(3,087)	(91,708)
As at 31 December 2008	139,400	4,143	31,983	711	176,237	4,979	6,048	187,264
Depreciation and amortisation								
1 January 2008	19,045	1,220	23,133	-	43,398	-	4,562	47,960
Charge for the year (Note 25)	3,090	881	5,559	-	9,530	-	933	10,463
Disposals / write-offs	(463)	(301)	(2,398)	-	(3,162)	-	(17)	(3,179)
Transfers	-	-	-	-	-	-	-	-
Revaluation	2,406	-	-	-	2,406	-	-	2,406
Impairment loss	(69)	-	-	-	(69)	-	-	(69)

Notes to the Financial Statements for the Year Ended 31 December 2008
(in thousands of US dollars)

11. PROPERTY AND EQUIPMENT, INVESTMENT PROPERTY AND INTANGIBLE ASSETS (CONTINUED)

	Premises	Leasehold improvements	Computers and other equipment	Capital investments in property and equipment	Total property and equipment	Investment property	Intangible assets	Total
Translation to presentation currency	(8,088)	(560)	(9,318)		(17,966)		(1,853)	(19,819)
As at 31 December 2008	15,921	1,240	16,976		34,137		3,625	37,762
Net book value as at 31 December 2008	123,479	2,903	15,007	711	142,100	4,979	2,423	149,502

	Premises	Leasehold improvements	Computers and other equipment	Capital investments in property and equipment	Total property and equipment	Investment property	Intangible assets	Total
Cost or valuation								
1 January 2007	85,121	2,133	30,361	858	118,473	2,861	7,753	129,087
Additions	17,145	-	7,019	17,315	41,479	-	1,072	42,551
Disposals / write-offs	(7)	(570)	(1,356)	-	(1,933)	-	(1,526)	(3,459)
Transfers	5,777	2,548	6,405	(14,730)	-	-	-	-
Revaluation	56,685	-	-	-	56,685	1,545	-	58,230
Impairment loss	(243)	-	-	-	(243)	-	-	(243)
As at 31 December 2007	164,478	4,111	42,429	3,443	214,461	4,406	7,299	226,166
Depreciation and amortisation								
1 January 2007	10,100	1,646	19,352		31,098		4,962	36,060
Charge for the year (Note 25)	1,736	321	4,827		6,884		945	7,829

Notes to the Financial Statements for the Year Ended 31 December 2008
(in thousands of US dollars)

11. PROPERTY AND EQUIPMENT, INVESTMENT PROPERTY AND INTANGIBLE ASSETS (CONTINUED)

	Premises	Leasehold improvements	Computers and other equipment	Capital investments in property and equipment	Total property and equipment	Investment property	Intangible assets	Total
Disposals / write-offs	(7)	(556)	(1,314)		(1,877)		(1,345)	(3,222)
Transfers	(77)	(191)	268		-		-	-
Revaluation	7,296	-	-		7,296		-	7,296
Impairment loss	(3)	-	-		(3)		-	(3)
As at 31 December 2007	19,045	1,220	23,133		43,398		4,562	47,960
Net book value as at 31 December 2007	145,433	2,891	19,296	3,443	171,063	4,406	2,737	178,206

As at 31 December 2008, the cost of fully depreciated assets still in use by the Bank amounted to USD 12,562 thousand (2007: USD 19,899 thousand).

As at 31 December 2008, the Bank's main office, furniture, equipment and ATMs, with a net book value of USD 149,502 thousand (2007: USD 174,709 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 2008 amounted to USD 690 thousand (2007: USD 464 thousand) (Note 24). The operating and maintenance expenses related to investment property for the year ended 31 December 2008 were USD 38 thousand (2007: USD 31 thousand).

The Bank's premises and investment property were independently valued in December 2008 for the purposes of these financial statements. The valuation was carried out by independent appraisers. The basis used for the appraisal was the sales comparison approach. This approach was confirmed by the income capitalisation approach.

As at 31 December 2008, the carrying amount of premises would have been USD 52,962 thousand (2007: USD 55,165 thousand) and the carrying amount of investment property would have been USD 2,409 thousand (2007: USD 1,080 thousand) had these assets been measured using the cost model.

The fair value gain of premises of USD 127 thousand and impairment of premises of USD 2,950 thousand (2007: USD 240 thousand) was recorded in the statement of income (Note 24).

The fair value gain on investment property of USD 860 thousand (2007: USD 1,545 thousand) and the impairment of investment property of USD 293 (2007: nil) was recorded in the statement of income (Note 24).

Notes to the Financial Statements for the Year Ended 31 December 2008
(in thousands of US dollars)

11. PROPERTY AND EQUIPMENT, INVESTMENT PROPERTY AND INTANGIBLE ASSETS (CONTINUED)

12. DUE TO THE NATIONAL BANK OF UKRAINE

As at 31 December 2008, due to the National Bank of Ukraine was represented by a refinancing loan received on 10 December 2008 of UAH 520,000 thousand (USD 69,986 thousand at UAH/USD exchange rate at the date of receipt). The loan bears interest at 18.5% p.a. and matures in December 2009. As at 31 December 2008, carrying amount of this loan was USD 66,805 thousand. The loan is secured by property rights over corporate loans with a fair value of UAH 874,791 thousand (USD 113,609 thousand).

13. DUE TO OTHER BANKS

	2008	2007
Current accounts of other banks		
- Domestic	41 887	27 160
- OECD countries	127	3 902
- Non-OECD countries	-	200
	42 014	31 262
Term deposits of other banks		
- Domestic	18 092	6 007
- Non-OECD countries	2 464	711
	20 556	6 718
Repurchase agreements with other banks		
- Україна	-	33 586
Total due to other banks	62 570	71 566

As at 31 December 2008, included in term deposits of other banks were USD 66 thousand (2007: USD 66 thousand) held as collateral for commitments under import letters of credit and guarantees (Note 30).

Notes to the Financial Statements for the Year Ended 31 December 2008
(in thousands of US dollars)

14. CUSTOMER ACCOUNTS

	2008	2007
Legal entities		
- Current accounts	143 026	176 610
- Term deposits	260 749	243 769
- Repurchase agreements	668	74
Individuals		
- Current accounts	68 604	104 809
- Term deposits	390 427	306 930
Total customer accounts	863 474	832 192

As at 31 December 2008, the Bank's 10 largest customers, with an aggregate amount of deposits of USD 175,801 thousand, represented 20% of customer accounts (2007: largest 10 customers, with an aggregate amount of deposits of USD 205,035 thousand, represented 25% of customer accounts).

As at 31 December 2008, included in customer accounts were deposits of USD 180,140 thousand (2007: USD 90,093 thousand) held as collateral for loans to customers of USD 60,558 thousand (2007: USD 60,747 thousand) (Note 9) and loan commitments of USD 36,545 thousand (2007: USD 13,390 thousand). In addition, USD 11,015 thousand (2007: USD 15,743 thousand) is held as collateral for commitments under import letters of credit, guarantees and promissory notes endorsements (Note 30).

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

Notes to the Financial Statements for the Year Ended 31 December 2008
(in thousands of US dollars)

14. CUSTOMER ACCOUNTS (CONTINUED)

Economic sector concentrations within customer accounts are as follows:

	2008	2007
Individuals	459 031	411 739
Trade and agency services	104 248	107 295
Machine-building	36 088	75 373
Mining and energy	49 073	68 027
Transport and infrastructure	20 357	22 550
Non-banking financial institutions	43 420	20 227
Metallurgy	14 236	14 331
Chemical	13 502	12 231
Agriculture and food	17 672	11 717
Non-commercial institutions	8 644	3 830
Other	97 203	84 872
Total customer accounts	863 474	832 192

15. EUROBONDS ISSUED

In February and May 2007, the Bank obtained a loan amounting to USD 275,000 thousand from Standard Bank Plc. The carrying value of the loan as at 31 December 2008 amounted to USD 283,739 thousand (2007: USD 282,896 thousand). This loan was funded by 9.75% loan participation notes ("Eurobonds") issued by, but without recourse to, Standard Bank Plc, for the sole purpose of funding the loan to the Bank. The loan matures in February 2010. The interest rate on the loan is 9.75% p.a. Interest payments are made semi-annually in arrears on 14 February and 16 August of each year, commencing 16 August 2008.

Notes to the Financial Statements for the Year Ended 31 December 2008
(in thousands of US dollars)

16. BONDS ISSUED

In June 2007, the Bank issued hryvnia denominated bonds of A series for the total nominal amount of USD 59,406 thousand (UAH 300,000 thousand) with interest of 12.0% p.a. and maturity in June 2010.

In April 2008, the Bank issued hryvnia denominated bonds of B series for the total nominal amount of USD 61,870 thousand (UAH 300,000 thousand) (carrying value of USD 27,078 thousand as at 31 December 2008). These bonds bear interest at 13.5% p.a. and mature in April 2011.

	2008		2007	
	Nominal value	Carrying value	Nominal value	Carrying value
Bonds issued series B	26 699	27 078	-	-
Bonds issued series A	10 519	10 523	59 406	59 586
Total bonds issued	37 218	37 601	59 406	59 586

Notes to the Financial Statements for the Year Ended 31 December 2008
(in thousands of US dollars)

17. OTHER BORROWED FUNDS

	2008	2007
Standard Bank London Limited	154 303	242 344
Cargill Financial Services International, Inc.	93 068	159 591
VTB Bank Europe Plc	49 156	-
HSBC Bank Plc	34 849	-
Deutsche Bank	21 509	3 960
ING Belgium SA/NV Brussels	18 487	-
Black Sea Trade and Development Bank	18 315	18 328
Landesbank Berlin AG	16 692	1 787
KBC Bank NV	16 023	8 024
Credit Suisse Geneva	10 427	-
Fortis Bank (Belgium)	9 871	333
Other facilities	42 481	40 339
Total other borrowed funds	485 181	474 706

Loans from Standard Bank London Limited were denominated in US dollars and bear interest of LIBOR + 2% p.a. on the outstanding amount with maturity 11 August 2009.

Loans from Cargill Financial Services International are denominated in US dollars and bear interest at a weighted average rate 9.5% p.a. on the outstanding amount with maturity from 16 January 2009 to 11 September 2009.

Loans from VTB Bank Europe Plc are denominated in US dollars and bear interest at a weighted average rate LIBOR + 1.9% p.a. on the outstanding amount with maturity 25 June 2009.

*Notes to the Financial Statements for the Year Ended 31 December 2008
(in thousands of US dollars)*

17. OTHER BORROWED FUNDS (CONTINUED)

Loans from HSBC Bank Plc are denominated in US dollars and bear interest at a weighted average rate LIBOR + 4.0% p.a. on the outstanding amount with maturity 15 May 2009.

Loans from Deutsche Bank are denominated in euro and bear interest at a weighted average rate EURIBOR + 1.5% p.a. on the outstanding amount with maturity from 23 January 2009 to 20 March 2014. The loans were received for the purpose of financing the acquisition of import equipment by the Bank's customers.

Loans from ING Belgium SA/NV Brussels are denominated in US dollars and bear interest at a weighted average Prevailing Interbank Market Rate (as defined by ING Belgium SA/NV Brussels) + 2.75% p.a. on the outstanding amount with maturity on 16 January 2009. The loans were received for the purpose of financing acquisition of import equipment by the Bank's customers.

Loans from Black Sea Trade and Development Bank are denominated in US dollars and bear interest of LIBOR + 3.5% p.a. on the outstanding amount with maturity from 6 August 2009 to 13 October 2009.

Loans from Landesbank Berlin AG are denominated in euro and bear interest at a weighted average rate EURIBOR + 1.1% on the outstanding amount with maturity from 22 January 2009 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 KBC Bank NV are denominated in US dollars and bear interest at a weighted average rate LIBOR + 2.4% p.a. on the outstanding amount with maturity from 30 July 2009 to 12 August 2009. The loans were received for the purpose of financing acquisition of import equipment by the Bank's customers.

Loans from Credit Suisse Geneva are denominated in US dollars and bear interest at a weighted average rate LIBOR + 3% p.a. on the outstanding amount with maturity 20 April 2009. The loans were received for the purpose of financing acquisition of import equipment by the Bank's customers.

Loans from Fortis Bank (Belgium) N.V. are denominated in euro and US dollars and bear interest at a weighted average rate EURIBOR + 2.3% (for euro) and LIBOR + 2% (for US dollars) p.a. on the outstanding amount with maturity from 5 March 2009 to 20 December 2010. The loans were received for the purpose of financing the acquisition of import equipment by the Bank's customers.

Included in other facilities is USD 42,481 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, euro and Swiss francs and bear interest at a weighted average rate of 7.5% (for euro), 6.4% (for US dollars) and 5.9% (for Swiss francs) p.a. on the outstanding amount with maturity from 12 January 2009 to 2 December 2013.

Notes to the Financial Statements for the Year Ended 31 December 2008
(in thousands of US dollars)

18. OTHER LIABILITIES

	2008	2007
Derivative financial liabilities (Note 8)	37 611	49
Provision for credit related commitments (Note 30)	8 499	2 584
Amounts payable to employees	2 539	3 298
Other taxes payable	840	424
Software costs payable under licensing agreements	376	1 042
Payable under operations with plastic cards	127	1 127
Other accruals and deferred income	5 457	2 739
Total other liabilities	55 449	11 263

Notes to the Financial Statements for the Year Ended 31 December 2008
(in thousands of US dollars)

19. DERIVATIVE FINANCIAL INSTRUMENTS

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

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

	2008			
	Purchase of foreign currency	(Sale of foreign currency)	Positive fair value	(Negative fair value)
Currency forwards	217 015	(217 561)	613	(1 159)
Currency swaps	298 491	(333 686)	2 416	(37 611)
Total	515 506	(551 247)	3 029	(38 770)

The Bank had outstanding foreign exchange contracts with banks as at 31 December 2007:

	2007			
	Purchase of foreign currency	(Sale of foreign currency)	Positive fair value	(Negative fair value)
Currency forwards	380 824	(380 966)	910	(1 052)
Currency swaps	610 099	(610 148)	1 502	(1 551)
Total	990 923	(991 114)	2 412	(2 603)

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

Notes to the Financial Statements for the Year Ended 31 December 2008
(in thousands of US dollars)

20. EQUITY

As at 31 December 2008, the Bank's authorised share capital comprises 10,968,880 ordinary shares (31 December 2007: 6,577,280 shares) with a nominal value of UAH 230 (USD 29.87 at 31 December 2008 exchange rate of UAH 7.7 for USD 1) per share. All shares have equal voting rights.

	31 December 2008			31 December 2007		
	Number of shares	Nominal amount	Inflation adjusted amount	Number of shares	Nominal amount	Inflation adjusted amount
Ordinary shares/ Total share capital	10,968,880	327,641	344,897	6,577,280	299,559	325,868

In 2008, the Bank has issued 4,391,600 additional shares with a nominal value of UAH 230 (USD 29.87 at 31 December 2008 exchange rate of 7.7 UAH for 1 USD) per share. Contributions from shareholders were received in cash. As at 31 December 2008, 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 balance sheet date.

21. SEGMENT ANALYSIS

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

Notes to the Financial Statements for the Year Ended 31 December 2008
(in thousands of US dollars)

21. SEGMENT ANALYSIS (CONTINUED)

Transactions between the business 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 business segments. Segment assets and liabilities comprise operating assets and liabilities, being the majority of the balances sheet, but excluding taxation. Internal charges and transfer pricing adjustments have been reflected in the performance of each business segment.

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

2008	Retail banking	Corporate banking	Investment banking and treasury	Unallocated	Total
Assets					
Segment assets	693,627	1,435,297	181,794	-	2,310,718
Current tax assets	-	-	-	7,097	7,097
Total assets	693,627	1,435,297	181,794	7,097	2,317,815
Liabilities					
Segment liabilities	473,177	423,971	957,671	-	1,854,819
Current and deferred tax liabilities	-	-	-	11,836	11,836
Total liabilities	473,177	423,971	957,671	11,836	1,866,655
Other segment items					
Capital expenditure	20,378	11,318	1,340	-	33,036
Allowance for loan impairment	(34,920)	(67,689)	(604)	-	(103,213)
Provision for securities	-	-	(6,029)	-	(6,029)
Depreciation and amortisation expense	(6,455)	(3,585)	(423)	-	(10,463)

Notes to the Financial Statements for the Year Ended 31 December 2008
(in thousands of US dollars)

21. SEGMENT ANALYSIS (CONTINUED)

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

2008	Retail banking	Corporate banking	Investment banking and treasury	Unallocated	Eliminations	Total
External revenues	100,784	220,965	47,711	18,476	-	387,936
Revenues from other segments	-	-	97,036	-	(97,036)	-
Total revenues	100,784	220,965	144,747	18,476	(97,036)	387,936
Total revenues comprise:						
- Interest income	71,598	203,165	129,367	-	(97,036)	307,094
- Fee and commission income	25,164	15,367	3,718	-	-	44,249
- Other revenues	4,022	2,433	11,662	18,476	-	36,593
Total revenues	100,784	220,965	144,747	18,476	(97,036)	387,936
Segment result	(40,282)	(9,212)	42,590	14,397	-	7,493
Income tax expense	-	-	-	-	-	7,769
Profit the year						15,262

Notes to the Financial Statements for the Year Ended 31 December 2008
(in thousands of US dollars)

21. SEGMENT ANALYSIS (CONTINUED)

Segment information for the main reportable business segments of the Bank as at 31 December 2007 is set out below:

2007	Retail banking	Corporate banking	Investment banking and treasury	Unallocated	Total
Assets					
Segment assets	492 703	1 420 153	280 839	47 522	2 241 217
Total assets	492 703	1 420 153	280 839	47 522	2 241 217
Liabilities					
Segment liabilities	412 866	689 345	622 570	7 428	1 732 209
Current and deferred tax liabilities	-	-	-	26 288	26 288
Total liabilities	412 866	689 345	622 570	33 716	1 758 497
Other segment items					
Capital expenditure	21 603	19 510	485	953	42 551
Allowance for loan impairment	(4 169)	(10 655)	-	-	(14 824)
Depreciation and amortisation expense	(1 812)	(4 383)	(113)	(1 521)	(7 829)

Notes to the Financial Statements for the Year Ended 31 December 2008
(in thousands of US dollars)

21. SEGMENT ANALYSIS (CONTINUED)

Segment information for the main reportable business segments of the Bank for the year ended 31 December 2007 is set out below:

2007	Retail banking	Corporate banking	Investment banking and treasury	Unallocated	Eliminations	Total
External revenues	38,420	128,342	34,920	11,621	-	213,303
Revenues from other segments	2,504	-	7,761	30,400	(40,665)	-
Total revenues	40,924	128,342	42,681	42,021	(40,665)	213,303
Total revenues comprise:						
- Interest income	28,501	113,042	36,997	30,400	(40,665)	168,275
- Fee and commission income	12,341	14,182	3,256	7,657	-	37,436
- Other revenues	82	1,118	2,428	3,964	-	7,592
Total revenues	40,924	128,342	42,681	42,021	(40,665)	213,303
Segment result	(285)	31,269	(2,821)	10,040	-	38,203
Income tax expense	-	-	-	-	-	(10,163)
Profit for the year						28,040

Notes to the Financial Statements for the Year Ended 31 December 2008
(in thousands of US dollars)

21. SEGMENT ANALYSIS (CONTINUED)

Geographical segments. Segment information for the main geographical segments of the Bank is set out below as at 31 December 2008 and as at 31 December 2007 and for the years then ended.

	Ukraine	OECD	Non-OECD	Total
2008				
Segment assets	2,208,327	104,174	5,314	2,317,815
Total segment assets	2,208,327	104,174	5,314	2,317,815
External revenues	384,156	3,257	523	387,936
Capital expenditure	33,036	-	-	33,036
Credit related commitments	333,389	1,083	97	334,569
2007				
Segment assets	2,151,669	81,804	7,744	2,241,217
Total segment assets	2,151,669	81,804	7,744	2,241,217
External revenues	207,791	5,265	247	213,303
Capital expenditure	42,551	-	-	42,551
Credit related commitments	389,405	1,600	708	391,713

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

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

Notes to the Financial Statements for the Year Ended 31 December 2008
(in thousands of US dollars)

22. INTEREST INCOME AND EXPENSE

	2008	2007
Interest income		
Loans to customers		
- legal entities	199,309	112,682
- individuals	71,598	25,997
Due from other banks	11,034	15,231
Securities	25,153	14,365
Total interest income	307,094	168,275
Interest expense		
Individuals		
- term deposits	(48,050)	(20,238)
- current accounts	(1,142)	(857)
Legal entities		
- term deposits	(31,329)	(14,334)
- current accounts	(4,229)	(1,795)
Due to NBU	(748)	-
Due to other banks	(6,686)	(8,075)
Eurobonds issued	(27,640)	(21,530)
Bonds issued	(8,256)	(3,492)
Other borrowed funds	(42,879)	(25,972)
Total interest expense	(170,959)	(96,293)
Net interest income	136,135	71,982

Notes to the Financial Statements for the Year Ended 31 December 2008
(in thousands of US dollars)

23. FEE AND COMMISSION INCOME AND EXPENSE

	2008	2007
Payment cards	23 665	17 072
Foreign currency exchange	6 791	5 932
Payments	3 352	2 946
Documentary operations	6 654	4 167
Cash deposits and withdrawals	2 536	1 873
Other	1 251	5 446
Fee and commission income	44 249	37 436
Payment cards	(9 940)	(7 535)
Cash collections	(896)	(713)
Reuters	(326)	(349)
Payments	(435)	(403)
Documentary operations	(444)	(246)
Other	(74)	(1 075)
Fee and commission expense	(12 115)	(10 321)
Net fee and commission income	32 134	27 115

Notes to the Financial Statements for the Year Ended 31 December 2008
(in thousands of US dollars)

24. OTHER INCOME AND EXPENSES

	2008	2007
Income from revaluation of investment property (Note 11)	860	1 545
Impairment of investment property (Note 11)	(293)	-
Income from revaluation of premises (Note 11)	127	-
Impairment of premises (Note 11)	(2 950)	(240)
Rental income (Note 11)	690	464
Penalties received	611	130
Loss on disposal of property and equipment	(58)	(17)
Other income	684	317
Other expense	(93)	(21)
Total other income and expenses	(422)	2 178

Notes to the Financial Statements for the Year Ended 31 December 2008
(in thousands of US dollars)

25. OPERATING EXPENSES

	2008	2007
Salary, employee benefits and compulsory contributions to State funds	37 275	25 037
Depreciation and amortisation (Note 11)	10 463	7 829
Maintenance of premises and equipment	6 099	4 755
Lease of premises	4 546	2 768
State duties and taxes, other than on income	3 653	1 764
Advertising, entertainment, representative offices maintenance	3 054	2 382
Audit, legal, consulting services	2 238	742
Communication	1 932	1 631
Security services	1 108	952
Training	582	336
Charitable contributions	270	189
Other	6 493	3 656
Total operating expenses	77 713	52 041

Included in salary, employee benefits and compulsory contributions to State funds are statutory social security and pension contributions of USD 9,073 thousand (2007: USD 6,001 thousand). Pension contributions are made into State pension fund which is a defined contribution plan.

Notes to the Financial Statements for the Year Ended 31 December 2008
(in thousands of US dollars)

26. INCOME TAXES

Income tax expense was comprised of the following:

	2008	2007
Current tax charge	142	6 555
Deferred tax (benefit)/expense	(7 911)	3 608
Income tax (benefit)/expense for the year	(7 769)	10 163

The income tax rate applicable to the Bank's income is 25 % (2007: 25 %). A reconciliation between the expected and the actual income tax expense is provided below:

	2008	2007
Profit before income tax expense	7 493	38 203
Theoretical tax charge at the applicable statutory rate (25 %)	1 873	9 551
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Income assessable for tax purposes only	88	95
- Income recognised in financial reporting only	(4 913)	(147)
- Non deductible expenses	1 032	824
- Expenses deductible for tax purposes only	-	-
- Exchange rate differences on recognition of current and deferred income tax	(5 619)	-
- Other non temporary differences	(230)	(160)
Income tax (benefit)/ expense for the year	(7 769)	10 163

Notes to the Financial Statements for the Year Ended 31 December 2008
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26. INCOME TAXES (CONTINUED)

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

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

Notes to the Financial Statements for the Year Ended 31 December 2008
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26. INCOME TAXES (CONTINUED)

	31 December 2006	Credited/(charged) to statement of changes in equity	Credited/(charged) to statement of in- come	31 December 2007
Tax effect of deductible and taxable temporary differences				
Allowance for loan impairment and credit related commitments	2,036	-	(4,363)	(2,327)
Investment securities available-for-sale	14	(8)	1,322	1,328
Property and equipment and investment property	(11,862)	(12,348)	(1,739)	(25,949)
Accrued interest and commission income	722	-	1,685	2,407
Accrued interest and commission expense	1,099	-	(670)	429
Other	(128)	-	157	29
Net deferred tax liability	(8,119)	(12,356)	(3,608)	(24,083)

27. 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 bodies most actively involved in such management are: Credit Risk Management Division and the Market and Operational Risk Management Division, reporting linearly to the Chairman of the Board and functionally to the Credit Council and the Assets and Liabilities Management Committee.

Supervisory Board

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

Board of Directors

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

Assets and Liabilities Committee

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 the interest, currency and liquidity risks of the Bank.

Credit Risk Management Division

Credit Risk Management Department is responsible for implementing and maintaining credit risk related procedures.

Market and Operational Risk Management Division

Market and operational risk management division is responsible for development of risk management methodologies, procedures and re-

Notes to the Financial Statements for the Year Ended 31 December 2008
(in thousands of US dollars)

27. RISK MANAGEMENT (CONTINUED)

porting, which allows to perform a quantitative assessment of liquidity, interest and currency risks. This department is monitoring the above mentioned risks on a daily basis and controls implementation of Assets and Liabilities Management Committee decisions.

Risk measurement and reporting systems

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

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

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

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.

Notes to the Financial Statements for the Year Ended 31 December 2008
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27. RISK MANAGEMENT (CONTINUED)

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 balance sheet.

Credit-related commitments risks

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

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

	2008	2007
Balance with the NBU (Note 7)	41,668	54,856
Due from other banks (Note 8)	113,573	112,376
Loans to customers (Note 9)	1,902,146	1,675,942
Investment securities available-for-sale (Note 10)	33,542	122,791
Securities pledged under repurchase agreements - available-for-sale (Note 10)	162	20,101
Other assets	3,048	4,036
Financial contingencies and commitments (Note 30)	191,882	224,884
Total credit risk exposure	2,286,021	2,214,986

Notes to the Financial Statements for the Year Ended 31 December 2008
(in thousands of US dollars)

27. RISK MANAGEMENT (CONTINUED)

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

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

Notes to the Financial Statements for the Year Ended 31 December 2008
(in thousands of US dollars)

27. RISK MANAGEMENT (CONTINUED)

As at 31 December 2007	Note	Neither past due nor impaired			Overdue or individually impaired	Total
		High rating	Standard rating	Below the standard rating		
Due from other banks	8	100,652	6,492	5,232	-	112,376
Loans to customers	9					
- Corporate loans		240,905	674,228	331,299	35,313	1,281,745
- Loans to individuals		132,712	248,613	5,541	15,976	402,842
- Discounted bills		16,302	-	4,282	-	20,584
- Reverse sale and repurchase agreements		11,583	-	-	-	11,583
Investment securities available-for-sale	10	37,160	69,657	15,974	-	122,791
Securities pledged under repurchase agreements - available-for-sale	10	20,101	-	-	-	20,101
Total		559,415	998,990	362,328	51,289	1,972,022

It is the Bank's policy to maintain accurate and consistent risk ratings across the credit portfolio. This facilitates focused management of the applicable risks and the comparison of credit exposures across all lines of business, geographic regions and products. The rating system is supported by a variety of financial analytics, combined with processed market information to provide the main inputs for the measurement of counterparty risk. All internal risk ratings are tailored to the various categories and are derived in accordance with the Bank's rating policy. The attributable risk ratings are assessed and updated regularly.

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

As at 31 December 2008, the Bank has past due but not impaired loans:

As at 31 December 2008	Up to 30 days	From 31 to 60 days	From 61 to 90 days	More than 91 days	Total
Loans to customers					
- Corporate loans	88,764	5,075	-	-	93,839
- Loans to individuals	6,683	-	-	-	6,683
Total	95,447	5,075	-	-	100,522

Notes to the Financial Statements for the Year Ended 31 December 2008
(in thousands of US dollars)

27. RISK MANAGEMENT (CONTINUED)

As at 31 December 2007, the Bank did not have past due but not impaired loans.

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 2008 was USD 163,708 thousand. See 'Collateral and other credit enhancements' in Note 9 for the details of types of collateral held.

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

Impairment assessment

The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue by more than 60 days or there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract. The Bank addresses impairment assessment in two areas: individually assessed allowances and collectively assessed allowances.

Individually assessed allowances

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

Collectively assessed allowances

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

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

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

Notes to the Financial Statements for the Year Ended 31 December 2008
(in thousands of US dollars)

27. 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.

	2008	2007
Loans to customers		
- Corporate loans	19 536	2 677
Total	19 536	2 677

LIQUIDITY RISK AND FUNDING MANAGEMENT

Liquidity risk is the risk that the Bank will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its core deposit base, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis.

The Bank maintains a portfolio of diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. The Bank also has committed lines of credit that it can access to meet liquidity needs. In addition, the Bank maintains certain level of funds with the NBU (including mandatory reserve balance) and on correspondent accounts with other banks to meet its own and clients' obligations.

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	2008, %	2007, %
N4 "Instant Liquidity Ratio" (cash and balances on correspondent accounts / liabilities repayable on demand) (minimum required by the NBU – 20%)	69,69	57,48
N5 "Current Liquidity Ratio" (assets receivable or realisable within 31 days / liabilities repayable within 31 days) (minimum required by the NBU – 40%)	72,71	77,78
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 – 20%)	29,47	42,10

Notes to the Financial Statements for the Year Ended 31 December 2008
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27. 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 2008 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 2008	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 NBU	104	1,998	3,115	73,001	-	78,218
Due to other banks	55,070	-	704	7,524	-	63,298
Derivative financial instruments						
amount to pay	451,202	73,980	28,523	-	-	553,705
amount to receive	(441,453)	(56,344)	(21,401)	-	-	(519,198)
Customer accounts	364,866	169,341	216,318	137,747	2,047	890,319
Eurobonds issued	-	13,406	-	13,406	288,406	315,218
Bonds issued	864	-	38,979	-	-	39,843
Other borrowed funds	31,240	22,083	177,462	231,631	44,425	506,841
Other liabilities	127	126	-	-	251	504
Total undiscounted financial liabilities	462,020	224,590	443,700	463,309	335,129	1,928,748

Notes to the Financial Statements for the Year Ended 31 December 2008
(in thousands of US dollars)

27. RISK MANAGEMENT (CONTINUED)

As at 31 December 2007	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 other banks	70,855	450	270	-	-	71,575
Derivative financial instruments						
amount to pay	913,741	40,637	35,156	4,195	-	993,729
amount to receive	(913,535)	(40,537)	(34,799)	(4,199)	-	(993,070)
Customer accounts	334,027	80,327	175,996	178,598	95,526	864,474
Eurobonds issued	-	10,386	-	-	332,078	342,464
Bonds issued	156	-	-	-	77,023	77,179
Other borrowed funds	15,996	7,122	97,626	343,367	61,366	525,477
Other liabilities	1,192	150	99	199	529	2,169
Total undiscounted financial liabilities	422,432	98,535	274,348	522,160	566,522	1,883,997

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
2008	52,557	109,247	22,621	15,956	200,381
2007	85,150	70,439	71,879	-	227,468

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

Notes to the Financial Statements for the Year Ended 31 December 2008
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27. RISK MANAGEMENT (CONTINUED)

MARKET RISK – NON-TRADING

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

Interest rate risk

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

The sensitivity of the statement of income is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities held at 31 December 2008.

Interest rate	2008		2007	
	Change in interest rate, basis points	Effect on profit before income tax expense	Change in interest rate, basis points	Effect on profit before income tax expense
Libor	+50	(714)	+75	(291)
Libor	-25	357	-125	485
Euribor	+125	(3)	+75	169
Euribor	-75	2	-150	(338)

Currency risk

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

The tables below indicate the currencies to which the Bank had significant exposure at 31 December 2008 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

Notes to the Financial Statements for the Year Ended 31 December 2008
(in thousands of US dollars)

27. RISK MANAGEMENT (CONTINUED)

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

Currency	2008		2007	
	Change in currency rate, %	Effect on profit before income tax expense	Change in currency rate, %	Effect on profit before income tax expense
US dollars	+30.0	1,006	+4.0	1,182
US dollars	-22.0	(738)	-2.0	(597)
Euro	+34.0	461	+10.1	493
Euro	-34	(461)	-8.4	(410)

OPERATIONAL RISK

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

Notes to the Financial Statements for the Year Ended 31 December 2008
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28. FAIR VALUES OF FINANCIAL INSTRUMENTS

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

	2008			2007		
	Carrying value	Fair value	Unrecognised income (expense)	Carrying value	Fair value	Unrecognised income/expense
Financial assets						
Cash on hand	57,418	57,418	-	57,223	57,223	-
Balance with the NBU	41,668	41,668	-	54,856	54,856	-
Due from other banks	113,573	113,573	-	112,376	113,098	722
Loans to customers	1,902,146	1,719,961	(182,185)	1,675,942	1,708,351	32,409
Investment securities available-for-sale	33,542	33,542	-	122,791	122,791	-
Securities pledged under repurchase agreements - available-for-sale	162	162	-	20,101	20,101	-
Financial liabilities						
Due to the NBU	66,805	66,805	-	-	-	-
Due to other banks	62,570	62,570	-	71,566	71,566	-
Customer accounts	863,474	844,783	18,691	832,192	806,744	25,448
Eurobonds issued	283,739	103,620	180,119	282,896	257,125	25,771
Bonds issued	37,601	36,242	1,359	59,586	59,688	(102)
Other borrowed funds	485,181	484,583	598	474,706	470,589	4,117
Total unrecognized change in unrealised in fair value	-	-	18,582	-	-	88,365

Notes to the Financial Statements for the Year Ended 31 December 2008
(in thousands of US dollars)

28. 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 are estimated by comparing market interest rates when they were first recognised with current market rates offered for similar financial instruments. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and maturity. For 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 following table shows an analysis of financial instruments recorded at fair value, between those whose fair value is based on quoted market prices, those involving valuation techniques where all the model inputs are observable in the market, and those where the valuation techniques involve the use of non-market observable inputs.

As at 31 December 2008	Quoted market price	Valuation techniques – market observable inputs	Valuation techniques – non-market observable inputs	Total
Financial assets				
Investment securities available-for-sale	11,737	21,805	-	33,542
Securities pledged under repurchase agreements - available-for-sale	-	162	-	162

Notes to the Financial Statements for the Year Ended 31 December 2008
(in thousands of US dollars)

28. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

As at 31 December 2007	Quoted market price	Valuation techniques – market observable inputs	Valuation techniques – non-market observable inputs	Total
Financial assets				
Investment securities available-for-sale	66,746	14,226	41,819	122,791
Securities pledged under repurchase agreements - available-for-sale	20,101	-	-	20,101

Certain financial instruments are recorded at fair value using valuation techniques as current market transactions or observable market data are not available. Their fair value is determined using discounted cash flow analysis. The potential effect of using reasonably possible alternative assumptions for valuing financial instruments would reduce the fair value by USD 567 thousand.

Notes to the Financial Statements for the Year Ended 31 December 2008
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29. MATURITY ANALYSIS OF FINANCIAL ASSETS AND LIABILITIES

The table below shows an analysis of financial assets and liabilities according to when they are expected to be recovered or settled. See Note 27 "Risk Management" for the Bank's contractual undiscounted repayment obligations.

As at 31 December 2008	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 12 months	Total
Assets						
Cash on hand and in transit	57,418	-	-	-	-	57,418
Balances with the NBU	41,668	-	-	-	-	41,668
Due from other banks	101,964	108	9,470	1,987	44	113,573
Loans to customers	146,638	144,624	172,991	353,998	1,083,895	1,902,146
Investment securities available-for-sale	738	10,588	15,504	6,712	-	33,542
Securities pledged under repurchase agreements - available-for-sale	162	-	-	-	-	162
Other assets	1,213	721	482	-	-	2,416
Total assets	349,801	156,041	198,447	362,697	1,083,939	2,150,925
Liabilities						
Due to the NBU	-	-	-	66,805	-	66,805
Due to other banks	55,037	-	704	6,829	-	62,570
Customer accounts	363,793	165,707	206,646	125,507	1,821	863,474
Eurobonds issued	-	13,749	-	-	269,990	283,739
Bonds issued	864	-	36,737	-	-	37,601
Other borrowed funds	31,144	20,476	173,366	223,603	36,592	485,181
Other liabilities	11,295	18,977	7,591	-	251	38,114
Total liabilities	462,133	218,909	425,044	422,744	308,654	1,837,484
Net	(112,332)	(62,868)	(226,597)	(60,047)	775,285	-

Notes to the Financial Statements for the Year Ended 31 December 2008
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29. MATURITY ANALYSIS OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

The Bank's capability to repay its liabilities relies on its ability to realise an equivalent amount of assets within the same period of time. There is a significant deficit in the period less than one year, resulting from a significant concentration of loans received from international financial institutions (Note 17). Any significant withdrawal of these funds would have an adverse impact on the operations of the Bank. Management believes that this level of funding will remain with the Bank for the foreseeable future and that in the event of withdrawal of funds, the Bank would be given sufficient notice so as to realise its liquid assets to enable repayment.

The maturity analysis does not reflect the historical stability of current accounts. Their liquidation has historically taken place over a longer period than indicated in the tables above. Management believes that despite the current economic situation the stability of current accounts will remain. These balances are included in amounts due up to 1 month in the tables above.

Included in amounts due to customers are term deposits of individuals. In accordance with the Ukrainian legislation, the Bank is obliged to repay such deposits upon demand of a depositor (Note 14).

Subsequent to the year end, the Bank received two liquidity support loans from the National Bank of Ukraine (Note 33).

As at 31 December 2007	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 12 months	Total
Assets						
Cash on hand and in transit	57,223	-	-	-	-	57,223
Balances with the NBU	54,856	-	-	-	-	54,856
Due from other banks	105,695	86	1,845	982	3,768	112,376
Loans to customers	118,792	96,536	146,066	317,652	996,896	1,675,942
Investment securities available-for-sale	52,855	14,724	21,030	33,984	198	122,791
Securities pledged under repurchase agreements - available-for-sale	1,221	399	14,487	3,994	-	20,101
Total assets	390,642	111,745	183,428	356,612	1,000,862	2,043,289
Liabilities						
Due to other banks	70,855	450	261	-	-	71,566
Customer accounts	334,101	80,327	175,996	178,598	63,170	832,192

Notes to the Financial Statements for the Year Ended 31 December 2008
(in thousands of US dollars)

29. MATURITY ANALYSIS OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

As at 31 December 2007	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 12 months	Total
Eurobonds issued	-	10,386	-	-	272,510	282,896
Bonds issued	180	-	-	-	59,406	59,586
Other borrowed funds	15,995	7,123	97,625	341,170	12,793	474,706
Other liabilities	1,203	149	140	197	529	2,218
Total liabilities	422,334	98,435	274,022	519,965	408,408	1,723,164
Net	(31,692)	13,310	(90,594)	(163,353)	592,454	-

30. 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.

*Notes to the Financial Statements for the Year Ended 31 December 2008
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30. CONTINGENCIES AND COMMITMENTS (CONTINUED)

CAPITAL EXPENDITURE COMMITMENTS

As at 31 December 2008, the Bank had capital expenditure commitments in respect of purchase of equipment of USD 1,196 thousand (2007: USD 9,404 thousand). The Bank's Management has already allocated the necessary resources in respect of this commitment. The Bank's Management believes that future income and funding will be sufficient to cover this commitment and any similar commitments.

COMPLIANCE WITH COVENANTS

The Bank is subject to certain covenants related primarily to other borrowed funds. Non-compliance with such covenants may result in negative consequences for the Bank including growth in the cost of borrowings and declaration of default. In particular, the Bank is required to maintain certain level of equity, capital adequacy ratio, liquid assets to total assets ratio, maximum exposure to a single party to capital, maximum exposure to a single party which is a connected party to the Bank to capital, ratio of operating expenses to operating results, ratio of fixed and intangible assets to capital. Failure to comply with these requirements could lead to early withdrawal of funds by the creditors upon their discretion.

As at 31 December 2008, the Bank was in breach of a financial covenant related to minimum level of equity. Such violation was due only to the devaluation of Ukrainian hryvnia against the US Dollar from UAH 5.05 for USD 1 as at 1 January 2008 to UAH 7.7 for USD 1 as at 31 December 2008. According to the terms of the respective loan agreement, the lender may by notice to the Bank cancel further draw downs of the loan or declare the loan be payable on demand. Up to the date of issuance of these financial statements, no notice was received by the Bank from the lender and, consequently, the loan is presented in these financial statements according to its contractual maturity.

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 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.

Notes to the Financial Statements for the Year Ended 31 December 2008
(in thousands of US dollars)

30. CONTINGENCIES AND COMMITMENTS (CONTINUED)

Letters of credit issued by the Bank are as follows:

	2008	2007
Confirmed export letters of credit	1 083	2 112
Import letters of credit	103 905	104 020
Cash collateral (Note 13, 14)	(3 382)	(8 131)
Provision for import letters of credit	(8 243)	(1 322)
Total letters of credit	93 363	96 679

Guarantees issued are as follows:

	2008	2007
Guarantees and promissory note endorsements	95 393	121 336
Cash collateral (Note 13, 14)	(7 699)	(7 678)
Provision for guarantees	(256)	(1 262)
Total guarantees	87 438	112 396

The amount of undrawn commitments to extend credit issued by the Bank as at 31 December 2008 was USD 145,269 thousand (2007: USD 180,054 thousand). As at 31 December 2008 and 2007, the Bank did not have irrevocable commitments to extend credit.

As at 31 December 2008, the Bank did not have any bond underwriting commitments (2007: USD 990 thousand).

Notes to the Financial Statements for the Year Ended 31 December 2008
(in thousands of US dollars)

30. CONTINGENCIES AND COMMITMENTS (CONTINUED)

Movements in provision for credit related commitments are as follows:

	2008	2007
Provision for credit related commitments as at 1 January	2 584	1 213
Charge for provision for credit related commitments during the year	7 020	1 343
Exchange rate impact	(1 105)	28
Provision for credit related commitments as at 31 December (Note 18)	8 499	2 584

OPERATING LEASE COMMITMENTS

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

	2008	2007
Not later than 1 year	3 595	3 775
Later than 1 year and not later than 5 years	7 946	8 821
Later than 5 years	12 852	10 662
Total operating lease commitments	24 393	23 258

FIDUCIARY ASSETS

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

	2008 Nominal value	2007 Nominal value
Shares in companies and other securities held on behalf of customers	18 118	3 945

Notes to the Financial Statements for the Year Ended 31 December 2008
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31. RELATED PARTY TRANSACTIONS

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

In the normal course of business the Bank enters into transactions with significant shareholders and companies with which the Bank has significant shareholders in common. These transactions include settlements, loans, deposits, trade finance and foreign currency transactions. The outstanding balances as at 31 December 2008 and as at 31 December 2007 and income and expenses for the years then ended are as follows:

As at 31 December 2008	Parent company	Entities under common control	Management	Other related parties
Assets				
Loans to customers (interest rate, % p.a)	-	44,651 (21.7)	229 (9.6)	1,276 (11.7)
Allowance for loan impairment	-	(143)	-	(102)
Other assets	-	327	-	-
Liabilities				
Due to other banks (interest rate, % p.a)	-	1,431 (0.4)	-	-
Customer accounts (interest rate, % p.a)	12 (0.5)	58,803 (12.7)	923 (11.5)	4,653 (11.7)
Credit related commitments				
Guarantees	-	1,440	-	-
Provision for credit related commitments	-	(5)	-	-
Revocable commitments to extend credit	-	5,918	-	-
Income / expense				
Interest income	-	5,198	21	133

Notes to the Financial Statements for the Year Ended 31 December 2008
(in thousands of US dollars)

31. RELATED PARTY TRANSACTIONS (CONTINUED)

As at 31 December 2008	Parent company	Entities under common control	Management	Other related parties
Interest expense	(21)	(4,220)	(103)	(425)
Fee and commission income	15	1,952	1	2
Fee and commission expense	-	(344)	-	-
Trade income	-	33	-	-
Other income	3	31	-	-
Allowance for loan impairment	-	492	3	(94)
Recovery of provision for credit related commitments	-	(5)	-	-
Insurance expense	-	(251)	-	-

As at 31 December 2007	Parent company	Entities under common control	Management	Other related parties
Assets				
Investment securities available-for-sale	-	1,712 (12.8)	-	-
Loans to customers (interest rate, % p.a)	-	22,311 (12.0)	356 (8.8)	831 (11.3)
Allowance for loan impairment	-	(308)	(3)	(8)
Other assets	-	415	-	-
Liabilities				
Due to other banks (interest rate, % p.a)	-	1,687 (0.5)	-	-
Customer accounts (interest rate, % p.a)	14 (0.5)	20,846 (3.4)	526 (10.4)	4,180 (9.0)
Credit related commitments				
Guarantees	-	75	-	-
Provision for credit related commitments	-	(1,209)	-	-
Promissory note endorsements	-	1,140	-	-

Notes to the Financial Statements for the Year Ended 31 December 2008
(in thousands of US dollars)

31. RELATED PARTY TRANSACTIONS (CONTINUED)

As at 31 December 2007	Parent company	Entities under common control	Management	Other related parties
Revocable commitments to extend credit	-	14,325	-	-
Non-confirmed letters of credit	-	1,525	-	-
Income / expense				
Interest income	-	1,649	19	24
Interest expense	(36)	(1,049)	(7)	(45)
Fee and commission income	9	2,091	2	3
Fee and commission expense	-	(440)	-	(1)
Trade income	-	(14)	-	-
Other income	6	24	-	-
Allowance for loan impairment	-	(89)	-	-
Recovery of provision for credit related commitments	-	15	-	-
Lease expense	-	(3)	-	-
Insurance expense	-	(248)	-	-

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	-	162,222	390	719
Amounts repaid by related parties during the year	-	(140,676)	(431)	(231)
Other change	-	794	(86)	(43)

Notes to the Financial Statements for the Year Ended 31 December 2008
(in thousands of US dollars)

31. RELATED PARTY TRANSACTIONS (CONTINUED)

During 2007 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	-	177,282	535	816
Amounts repaid by related parties during the year	-	163,728	322	36

In 2008, the remuneration of members of the Management Board comprised salaries of USD 1,454 thousand (2007: USD 826 thousand), compulsory contributions to the State funds of USD 26 thousand (2007: USD 29 thousand) and other benefits of USD 4 thousand (2007: USD 6 thousand). In 2008, benefits paid to the Supervisory Council were USD 162 thousand (2007: 177 thousand).

32. 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.

During 2008, the Bank had complied in full with all its externally imposed capital requirements.

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

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. No changes were made in the objectives, policies and processes from the previous years.

Notes to the Financial Statements for the Year Ended 31 December 2008
(in thousands of US dollars)

32. CAPITAL (CONTINUED)

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 2008 and 2007, the Bank's capital adequacy ratio on this basis was as follows:

	2008	2007
Main capital	385 081	348 028
Additional capital	65 377	87 400
Less: deductions from capital	-	-
Total capital	450 458	435 428
Risk weighted assets	3 072 626	2 898 337
Capital adequacy ratio	14,66 %	15,02 %

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

Capital adequacy ratio under Basel Capital Accord 1988

The Bank's capital adequacy ratio, computed in accordance with the Basel Capital Accord 1988, with subsequent amendments including the amendment to incorporate market risks, as at 31 December 2008 and 2007, comprised:

	2008	2007
Tier 1 capital	396,680	415,164
Tier 2 capital	67,710	88,871
Total capital	464,390	504,035
Risk weighted assets	2,172,787	2,369,998
Tier 1 capital ratio	18.26%	17.52%
Total capital ratio	21.37%	21.27%

*Notes to the Financial Statements for the Year Ended 31 December 2008
(in thousands of US dollars)*

33. SUBSEQUENT EVENTS

In January 2009, the Bank obtained a liquidity support loan from the National Bank of Ukraine of UAH 500,000 thousand (USD 64,935 thousand at the exchange rate of UAH 7.7 for USD 1). The loan bears interest at 18.5% p.a. and matures in December 2009. The loan is secured by property rights over the Bank's premises with a fair value of UAH 617,780 thousand (USD 80,231 thousand at the exchange rate of UAH 7.7 for USD 1).

In March 2009, the Bank signed another loan agreement with the National Bank of Ukraine to obtain a liquidity support loan of UAH 1,336,900 thousand (USD 173,623 thousand at the exchange rate of UAH 7.7 for USD 1). The loan bears interest at 16.5% p.a. and matures in March 2010. The loan is secured by property rights over the Bank's premises with a fair value of UAH 186,508 thousand (USD 24,222 thousand at the exchange rate of UAH 7.7 for USD 1) and loans to customers of UAH 1,932,951 thousand (USD 251,033 thousand at the exchange rate of UAH 7.7 for USD 1). As the date of issue of these financial statements, the Bank has received all amount of loan.

Signed on behalf of the Management Board on 22 April 2009.

Rafal Juszcak
(Chairman of the Management Board)

A handwritten signature in black ink, appearing to read 'R. Juszcak', written in a cursive style.

O. M. Moshkalova
(Chief Accountant)

A handwritten signature in black ink, appearing to read 'O. M. Moshkalova', written in a cursive style.