

**JOINT STOCK COMPANY
“STATE SAVINGS BANK
OF UKRAINE”**

Financial Statements

For the Years Ended
31 December 2009 and 2008

JOINT STOCK COMPANY “STATE SAVINGS BANK OF UKRAINE”

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JOINT STOCK COMPANY “STATE SAVINGS BANK OF UKRAINE”

STATEMENT OF MANAGEMENT’S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2009 AND 2008

Management is responsible for the preparation of the financial statements that present fairly the financial position of the Joint Stock Company “State Savings Bank of Ukraine” (the “Bank”) as at 31 December 2009 and 2008, the results of its operations, cash flows and changes in equity for the year then ended, in accordance with International Financial Reporting Standards (“IFRS”).

In preparing the financial statements, management is responsible for:

- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Providing additional disclosures when compliance with the specific requirements of IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Bank’s financial position and financial performance; and
- Making an assessment of the Bank’s ability to continue as a going concern for the foreseeable future.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Bank;
- Maintaining adequate accounting records that are sufficient to show and explain the Bank’s transactions and disclose with reasonable accuracy at any time the financial position of the Bank, and which enable them to ensure that the financial statements of the Bank comply with IFRS;
- Maintaining statutory accounting records in compliance with legislation and accounting standards of Ukraine;
- Taking such steps as are reasonably available to them to safeguard the assets of the Bank; and
- Detecting and preventing fraud and other irregularities.

The financial statements for the years ended 31 December 2009 and 2008 were authorized for issue on 12 January 2011 by the Management Board.

On behalf of the Management Board:



D.B. Kiryeyev
First Deputy Chairman of the Management Board



G. S. Kostenko
Chief Accountant

12 January 2011

12 January 2011

INDEPENDENT AUDITOR'S REPORT

To the Shareholders and the Management Board of Joint Stock Company "State Savings Bank of Ukraine":

We have audited the accompanying financial statements of Joint Stock Company "State Savings Bank of Ukraine" (the "Bank") as at 31 December 2009 and 2008, which comprise the statements of financial position as at 31 December 2009 and 2008, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

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

Auditor's responsibility

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

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

Basis for qualified opinion

We were unable to obtain sufficient audit evidence to satisfy ourselves as to the correctness of the disclosures of liquidity risk calculated using discounted and undiscounted cash flows as at 31 December 2009 and 2008, which are disclosed in Note 31 to the financial statements, in accordance with IFRS 7 “Financial Instruments: Disclosures”.

As discussed in Note 2, the Bank has adopted the revaluation model for the subsequent measurement of its buildings which requires it to conduct revaluations with sufficient regularity such that the carrying amounts as at the date of statement of financial position do not differ materially from those using fair values. Buildings in the statement of financial position were revalued as at 1 November 2008 and the Bank has not carried out a valuation since that date. In view of the deterioration of property values in Ukraine as a result of the global economic crisis and in the absence of valuations to support the carrying value of buildings as at 31 December 2009 and 2008, we are unable to determine whether the carrying amount of buildings is fairly stated.

As discussed in Note 2, the Bank did not apply the requirement of IAS 29 “Financial Reporting in Hyperinflationary Economies”, which requires restatement of non-monetary assets and equity to account for the effects of inflation up to 31 December 2000. We were unable to determine the effect of this departure from IAS 29 “Financial Reporting in Hyperinflationary Economies” on share capital, property revaluation reserve and retained earnings as at 31 December 2009 and 2008.

As discussed in Note 2, the Bank has not disclosed segment information as required by IFRS 8 “Operating Segments”.

Qualified opinion

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to satisfy ourselves as to the matters described in the first and second paragraphs of the Basis for qualified opinion above and except for the effect on the financial statements of the matters referred to in the preceding two paragraphs, the financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2009 and 2008, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of matter

Without further qualifying our opinion we draw attention to Notes 26 and 31 to these financial statements, which disclose a significant concentration of operations with related parties and concentration risk management policy of the Bank.

Deloitte & Touche

12 January 2011

JOINT STOCK COMPANY “STATE SAVINGS BANK OF UKRAINE”

STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED 31 DECEMBER 2009 AND 2008

(in Ukrainian Hryvnias and in thousands, except for earnings per share which are in Ukrainian Hryvnias)

	Notes	Year ended 31 December 2009	Year ended 31 December 2008
Interest income	4, 26	7,777,099	2,524,529
Interest expense	4, 26	<u>(3,641,294)</u>	<u>(1,051,131)</u>
NET INTEREST INCOME BEFORE PROVISION FOR IMPAIRMENT LOSSES ON INTEREST BEARING ASSETS		4,135,805	1,473,398
Provision for impairment losses on interest bearing assets	5	<u>(3,164,272)</u>	<u>(645,212)</u>
NET INTEREST INCOME		<u>971,533</u>	<u>828,186</u>
Fee and commission income	6, 26	1,021,387	855,801
Fee and commission expense	6, 26	(169,519)	(141,231)
Net gain on foreign exchange operations	7	143,665	188,305
Net realised loss on investments available for sale		(3,568)	(3,202)
Provision for impairment losses on other operations	5	(963)	(8,034)
Net other income	8	<u>21,532</u>	<u>73,008</u>
NET NON-INTEREST INCOME		<u>1,012,534</u>	<u>964,647</u>
OPERATING INCOME		1,984,067	1,792,833
OPERATING EXPENSES	9, 26	<u>(1,796,806)</u>	<u>(1,706,699)</u>
PROFIT BEFORE INCOME TAX		187,261	86,134
Income tax expense	10	<u>(78,220)</u>	<u>(46,841)</u>
NET PROFIT		<u><u>109,041</u></u>	<u><u>39,293</u></u>

JOINT STOCK COMPANY “STATE SAVINGS BANK OF UKRAINE”

STATEMENTS OF COMPREHENSIVE INCOME (CONTINUED) FOR THE YEARS ENDED 31 DECEMBER 2009 AND 2008

(in Ukrainian Hryvnias and in thousands, except for earnings per share which are in Ukrainian Hryvnias)


	Notes	Year ended 31 December 2009	Year ended 31 December 2008
OTHER COMPREHENSIVE INCOME			
Revaluation of property, net of deferred income tax effect		-	409,417
Net change in fair value of investments available for sale, net of deferred income tax effect		(18,626)	(131,796)
Reclassification adjustments for gains/(losses) included in profit or loss from comprehensive income on disposal of investments available for sale, net of deferred income tax effect		131,796	(7,516)
OTHER COMPREHENSIVE INCOME AFTER INCOME TAX		113,170	270,105
TOTAL COMPREHENSIVE INCOME		222,211	309,398
EARNINGS PER SHARE			
Basic and diluted (UAH)	11	7,849	35,114

On behalf of the Management Board:



D. B. Kiryeyev
First Deputy Chairman of the Management Board

12 January 2011



G. S. Kostenko
Chief Accountant

12 January 2011


The notes on pages 10-62 form an integral part of these financial statements.

JOINT STOCK COMPANY "STATE SAVINGS BANK OF UKRAINE"

STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2009 AND 2008 (in Ukrainian Hryvnias and in thousands)

	Notes	31 December 2009	31 December 2008
ASSETS:			
Cash and balances with the National Bank of Ukraine	12	2,278,352	2,569,226
Due from banks	13, 26	2,956,340	2,185,211
Loans to customers	14, 26	45,716,277	33,891,518
Investments available for sale	15, 26	4,012,431	15,712,489
Property, equipment and intangible assets	16	1,988,852	1,940,295
Other assets	17	438,259	66,261
TOTAL ASSETS		57,390,511	56,365,000
LIABILITIES AND EQUITY			
LIABILITIES:			
Due to banks	18, 26	16,022,744	22,239,283
Customer accounts	19, 26	24,672,908	17,492,921
Debt securities issued	20	446,093	501,541
Deferred income tax liability	10	15,803	134,207
Other liabilities	21	65,445	83,043
Subordinated debt	22	824,578	793,276
Total liabilities		42,047,571	41,244,271
EQUITY:			
Share capital	23	13,892,000	13,892,000
Property revaluation reserve		1,147,251	1,147,679
Investments available for sale fair value reserve		(18,626)	(131,796)
Retained earnings		322,315	212,846
Total equity		15,342,940	15,120,729
TOTAL LIABILITIES AND EQUITY		57,390,511	56,365,000

On behalf of the Management Board:


D.B. Kiryeyev
First Deputy Chairman of the Management Board

12 January 2011


G. S. Kostenko
Chief Accountant

12 January 2011

The notes on pages 10-62 form an integral part of these financial statements.

JOINT STOCK COMPANY “STATE SAVINGS BANK OF UKRAINE”

STATEMENTS OF CHANGES IN EQUITY FOR THE YEARS ENDED 31 DECEMBER 2009 AND 2008 (in Ukrainian Hryvnias and in thousands)

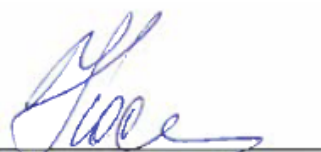
	Notes	Share capital	Property revaluation reserve	Investments available for sale fair value reserve	Retained earnings	Total equity
31 December 2007		922,000	738,262	7,516	173,553	1,841,331
Share capital increase	23	12,970,000	-	-	-	12,970,000
Total comprehensive income for the year		-	409,417	(139,312)	39,293	309,398
31 December 2008		13,892,000	1,147,679	(131,796)	212,846	15,120,729
Total comprehensive income for the year		-	(428)	113,170	109,469	222,211
31 December 2009		13,892,000	1,147,251	(18,626)	322,315	15,342,940

On behalf of the Management Board:



D.B. Kiryeyev
First Deputy Chairman of the Management Board

12 January 2011



G. S. Kostenko
Chief Accountant

12 January 2011

The notes on pages 10-62 form an integral part of these financial statements.

JOINT STOCK COMPANY “STATE SAVINGS BANK OF UKRAINE”

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED 31 DECEMBER 2009 AND 2008 (in Ukrainian Hryvnias and in thousands)

	Notes	Year ended 31 December 2009	Year ended 31 December 2008
CASH FLOWS FROM OPERATING ACTIVITIES:			
Interest received		6,716,786	2,459,572
Interest paid		(3,515,494)	(914,539)
Fees and commissions received		1,021,387	855,801
Fees and commissions paid		(169,519)	(141,231)
Operations with foreign currency		108,068	(34,889)
Other operating income received		20,713	61,467
Staff costs paid		(1,284,181)	(1,183,378)
Operating expenses paid		(403,076)	(361,355)
		<u>2,494,684</u>	<u>741,448</u>
Cash flows from operating activities before changes in operating assets and liabilities			
Changes in operating assets and liabilities			
(Increase)/decrease in operating assets:			
Minimum reserve deposit with the National Bank of Ukraine		(96,051)	72,847
Due from banks		943,890	194,908
Loans to customers		(13,751,550)	(24,980,516)
Other assets		(23,192)	(3,792)
Increase/(decrease) in operating liabilities:			
Due to banks		(6,256,066)	21,736,636
Customer accounts		6,684,238	2,697,125
Other liabilities		(8,991)	(31,861)
		<u>(10,013,038)</u>	<u>426,795</u>
Net cash (outflow)/inflow from operating activities before taxation			
Income tax paid		(484,637)	(139,481)
		<u>(10,497,675)</u>	<u>287,314</u>
Net cash (outflow)/inflow from operating activities			
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of investments available for sale		(17,349,917)	(13,106,576)
Proceeds on sale of investments available for sale		29,249,392	12,664,964
Purchase of property, equipment and intangible assets		(150,610)	(197,044)
Proceeds on sale of property and equipment		1,258	873
		<u>11,750,123</u>	<u>(637,783)</u>
Net cash inflow/(outflow) from investing activities			
CASH FLOWS FROM FINANCING ACTIVITIES:			
Issue of share capital		-	200,000
Proceeds from debt securities issued		-	494,594
Repayment of debt securities issued		(62,006)	-
		<u>(62,006)</u>	<u>694,594</u>
Net cash (outflow)/inflow from financing activities			

JOINT STOCK COMPANY “STATE SAVINGS BANK OF UKRAINE”

STATEMENT OF CASH FLOWS (CONTINUED) FOR THE YEARS ENDED 31 DECEMBER 2009 AND 2008 *(in Ukrainian Hryvnias and in thousands)*

	Notes	Year ended 31 December 2009	Year ended 31 December 2008
Effect of change in foreign exchange rate fluctuations on cash and cash equivalents		17,478	87,170
NET INCREASE IN CASH AND CASH EQUIVALENTS		1,207,920	431,295
CASH AND CASH EQUIVALENTS at the beginning of the period	12	<u>2,976,344</u>	<u>2,545,049</u>
CASH AND CASH EQUIVALENTS at the end of the period	12	<u><u>4,184,264</u></u>	<u><u>2,976,344</u></u>

The increase of share capital totalling UAH 12,770,000 thousand was made as non-cash transaction by means of Ukrainian Government debt securities (“OVDP”) contribution (Note 23).

On behalf of the Management Board:



D. B. Kiryeyev
First Deputy Chairman of the Management Board

12 January 2011



G. S. Kostenko
Chief Accountant

12 January 2011

The notes on pages 10-62 form an integral part of these financial statements.

JOINT STOCK COMPANY “STATE SAVINGS BANK OF UKRAINE”

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2009 AND 2008

1. ORGANISATION

The Bank was established in accordance with the Decree of the President of Ukraine No. 106 dated 20 May 1999 and the Resolution of the Government of Ukraine No. 876 dated 21 May 1999, by converting the State Specialized Commercial Savings Bank of Ukraine into the Joint Stock Company “State Savings Bank of Ukraine” in the form of an open joint stock company. The Joint Stock Company “State Savings Bank of Ukraine” was registered by the National Bank of Ukraine (the “NBU”) on 26 May 1999, registration number 4 and change of its name into Joint Stock Company “State Savings Bank of Ukraine” was registered by the NBU on 28 December 1999.

The Bank has operated under a full banking license, issued by the National Bank of Ukraine, starting from 16 January 2002. The Bank is licensed by the State Commission for securities and stock market for trading with securities.

The Bank’s primary business consists of processing banking accounts and attracting deposits from legal entities and individuals, originating loans, transferring payments, trading with securities and foreign currencies.

As at 31 December 2009 and 2008 the Bank was a 100% state-owned bank.

The registered office of the Bank is located at St. Hospitalna 12G, Kyiv, Ukraine.

As at 31 December 2009 and 2008 the Bank had 23 regional branches, Main branch in Kyiv and Kyiv region, Crimea republican branch; 329 and 364 sub-branches, 5,730 and 5,768 operational outlets within Ukraine, respectively.

The number of employees of the Bank as at 31 December 2009 and 2008 was 40,315 and 39,568, respectively.

These financial statements were authorized for issue by the Management Board of the Bank on 12 January 2011.

2. BASIS OF PRESENTATION

Accounting basis – These financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”) and Interpretations issued by the International Financial Reporting Interpretations Committee (“IFRIC”), except as discussed below.

In accordance with International Accounting Standard (“IAS”) 29 “Financial Reporting in Hyperinflationary Economies” the economy of Ukraine was considered to be hyperinflationary during year 2000 and prior years. The Bank did not apply provisions of IAS 29 to restate its share capital and non-monetary assets. The effect of this departure from International Financial Reporting Standards on share capital, property revaluation reserve and retained earnings as at and for the years ended 31 December 2009 and 2008 has not been determined.

In accordance with International Financial Reporting Standard (“IFRS”) 8 “Operating Segments” information about the Bank’s operating segments, products and services, the geographical areas in which it operates, and its major customers is required to be disclosed if an entity files, or is in the process of filing, its financial statements with a securities commission or other regulatory organisation for the purpose of issuing any class of instruments in a public market. In the past the Bank did not apply the provisions of IFRS 8 as management considered it was not relevant for the Bank. The Bank will apply IFRS 8 for its annual financial statements as at 31 December 2010.

These financial statements have been prepared on the assumption that the Bank is a going concern and will continue in operation for the foreseeable future. The management and the shareholder have the intention to further develop the business of the Bank in Ukraine. The management believes that the going concern assumption is appropriate for the Bank due to its sufficient capital adequacy ratio, the commitment of the shareholder to support the Bank, and, based on historical experience, that short-term obligations will be refinanced in the normal course of business.

These financial statements are presented in thousands of Ukrainian Hryvnias, unless otherwise indicated. The financial statements have been prepared under the historical cost convention, except for the revaluation of property in accordance with IAS 16 “Property, Plant and Equipment”, which is recorded at revalued amounts and measurement of certain financial instruments in accordance with IAS 39 “Financial Instruments: Recognition and Measurement”, which are recorded at fair value.

The Bank maintains its accounting records in accordance with Ukrainian law. These financial statements have been prepared from Ukrainian statutory accounting records and have been adjusted to conform with IFRS. Entered adjustments include certain reclassifications to reflect the economic substance of underlying transactions including reclassifications of certain assets and liabilities, income and expenses to appropriate financial statement captions.

Functional currency – Items included in the financial statements of the Bank are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to the Bank (the “functional currency”). The functional currency of these financial statements is the Ukrainian Hryvnia (“UAH”).

3. SIGNIFICANT ACCOUNTING POLICIES

Recognition and measurement of financial instruments – The Bank recognizes financial assets and liabilities on its statement of financial position when it becomes a party to the contractual obligation of the instrument. Regular way purchase and sale of the financial assets and liabilities are recognized using settlement date accounting. Regular way purchases of financial instruments that will be subsequently measured at fair value between trade date and settlement date are accounted for in the same way as for acquired instruments.

Financial assets and liabilities are initially recognized at fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to acquisition or issue of the financial asset or financial liability. The accounting policies for subsequent re-measurement of these items are disclosed in the respective accounting policies set out below.

Derecognition of financial assets and liabilities

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

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

A financial asset is derecognized when it has been transferred and the transfer qualifies for derecognition. A transfer requires that the Bank either: (a) transfers the contractual rights to receive the asset’s cash flows; or (b) retains the right to the asset’s cash flows but assumes a contractual obligation to pay those cash flows to a third party. After a transfer, the Bank reassesses the extent to which it has retained the risks and rewards of ownership of the transferred asset. If substantially all the risks and rewards have been retained, the asset remains on the statement of financial position. If substantially all of the risks and rewards have been transferred, the asset is derecognized. If substantially all the risks and rewards have been neither retained nor transferred, the Bank assesses whether or not it has retained control of the asset. If it has not retained control, the asset is derecognized. Where the Bank has retained control of the asset, it continues to recognize the asset to the extent of its continuing involvement.

Financial liabilities – A financial liability is derecognized when the obligation is discharged, 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 de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the statement of comprehensive income.

Cash and cash equivalents – Cash and cash equivalents include cash on hand, unrestricted balances on correspondent accounts with the National Bank of Ukraine, advances to banks in countries included in the Organization for Economic Co-operation and Development (“OECD”), except for margin deposits for operations with plastic cards, which may be converted to cash within a short period of time. For purposes of determining cash flows, the minimum reserve deposit required by the National Bank of Ukraine is not included as a cash equivalent due to restrictions on its availability.

Precious metals – Assets and liabilities denominated in precious metals are translated at the current rate computed based on the first fixing of the London Metal Exchange rates using the UAH/USD exchange rate effective on the date. Changes in the bid prices are recorded in net gain/(loss) on foreign exchange operations.

Due from banks – In the normal course of business the Bank maintains advances and deposits for various periods of time with other banks. Due from banks with a fixed maturity term are subsequently measured at amortized cost using the effective interest method. Those that do not have fixed maturities are carried at amortized cost based on maturities estimated by the management. Amounts due from banks are carried net of any allowance for impairment losses.

Repurchase and reverse repurchase agreements – In the normal course of business the Bank enters into sale and purchase back agreements (“repos”) and purchase and sale back agreements of financial assets (“reverse repos”). Repos and reverse repos are utilized by the Bank as an element of its treasury management and trading business.

A repo is an agreement to transfer a financial asset to another party in exchange for cash or other consideration and a concurrent obligation to reacquire the financial assets at a future date for an amount equal to the cash or other consideration exchanged plus interest. These agreements are accounted for as financing transactions. Financial assets sold under repo are retained in the financial statements and consideration received under these agreements is recorded as collateralized deposit received within balances due to banks.

Assets purchased under reverse repos are recorded in the financial statements as cash placed on deposit which is collateralized by securities and other assets and are classified within balances due from banks/loans to customers.

In the event that assets purchased under reverse repo are sold to third parties, the results are recorded in net gains/(losses) on respective assets. Any related income or expense arising from the pricing difference between purchase and sale of the underlying assets is recognized as interest income or expense in the statement of comprehensive income.

Derivative financial instruments – In the normal course of business, the Bank enters into various derivative financial instruments including foreign exchange contracts concluded by the Bank with other banks to purchase/sale and exchange of foreign currency and currency rate swaps to manage currency and liquidity risks. Derivative financial instruments are initially recognized at fair value at the date a derivative contract is entered into, and are subsequently re-measured to their fair value at each reporting date. 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. Derivatives are included in financial assets and liabilities at fair value through profit or loss in the statement of financial position, or if their amounts are immaterial they are included in other assets or liabilities. Gains and losses resulting from these instruments are included in net gain/(loss) from financial assets and liabilities at fair value through profit or loss in the statement of comprehensive income, or if their amounts are immaterial they are included in net gain/(loss) on foreign exchange operations. Derivative financial instruments entered into by the Bank are not designated as hedges and do not qualify for hedge accounting.

Loans to customers – Loans to customers are non-derivative assets with fixed or determinable payments that are not quoted in an active market, other than those classified in other categories of financial assets.

Loans to customers granted by the Bank are initially recognized at fair value plus related transaction costs that directly relate to the acquisition or the creation of such financial assets. Where the fair value of consideration given does not equal the fair value of the loan, for example where the loan is issued at lower than market rates, the difference between the fair value of consideration given and the fair value of the loan is recognized as a loss on initial recognition of the loan and included in the statement of comprehensive income according to nature of the losses. Subsequently, loans are carried at amortized cost using the effective interest method. Loans to customers are carried net of any allowance for impairment losses.

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.

Write off of loans – Loans are written off against allowance for impairment losses based on the decision of the Management Board. Such decisions are taken when all available possibilities to collect the amounts due have been exercised and available collateral has been sold. Subsequent recoveries of amounts previously written off are reflected as an offset to the charge for impairment of financial assets in the statement of comprehensive income in the period of recovery.

Allowance for impairment losses – The Bank accounts for impairment of financial assets that are not carried at fair value when there is objective evidence that a financial asset or group of financial assets is impaired. The impairment losses are measured as the difference between carrying value and the present value of expected future cash flows, including amounts recoverable from guarantees and collateral, discounted at the financial asset's original effective interest rate, for financial assets which are carried at amortized cost. If in a subsequent period the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed with an adjustment of the provision account.

For financial assets carried at cost the impairment losses are measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

The change in the impairment is included into profits using the provision account. Assets recorded in the statement of financial position are reduced by the amount of the impairment. Factors that the Bank considers in determining whether it has objective evidence that an impairment loss has been incurred include information about the debtors' or issuers' liquidity, solvency and business and financial risk exposures, levels of and trends in delinquencies for similar financial assets, national and local economic trends and conditions, and the fair value of collateral and guarantees. These and other factors may, either individually or taken together, provide sufficient objective evidence that an impairment loss has been incurred in a financial asset or group of financial assets.

Impairment losses are recognized in profit or loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

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. The primary factors that the Bank considers whether a financial asset is impaired is its overdue status and realisability of related collateral, if any. The following other principal criteria are also used to determine that there is objective evidence that an impairment loss has occurred:

- Any instalment is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;
- The borrower experiences a significant financial difficulty as evidenced by borrower's financial information that the Bank obtains;
- The borrower considers bankruptcy or a financial reorganisation;
- There is an adverse change in the payment status of the borrower as a result of changes in the national or local economic conditions that impact the borrower;
- The value of collateral significantly decreases as a result of deteriorating market conditions.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics. These characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative on the debtors' ability to pay all amounts due, according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of contractual cash flows of assets, and experience of management in respect of the extent to which amounts will become overdue, as a result of past loss events and the success of recovery of overdue amounts. Past experience is adjusted on the basis of current observable data to reflect the effects of current conditions that do not affect past periods and to remove the effects of past conditions that do not exist currently.

It should be understood that evaluation of losses involves an exercise of judgment. While it is possible that in particular periods the Bank may sustain losses which are substantial relative for impairment losses, it is the judgment of management that the impairment losses are adequate to absorb losses incurred on risk assets, at the reporting date.

Investments available for sale – Investments available for sale represent debt and equity investments that are intended to be held for an indefinite period of time. Such securities are initially recorded at fair value. Subsequently the securities are measured at fair value, with such re-measurement recognized directly in equity, except for impairment losses, foreign exchange gains or losses and interest income accrued using the effective interest method, which are recognized directly in the statement of comprehensive income. When sold, gain/(loss) previously recorded in equity is recycled through the statement of comprehensive income.

The Bank uses quoted market prices to determine the fair value for the investments available for sale. If the market for investments is not active, the Bank establishes fair value by using valuation techniques. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and other methods. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the Bank uses that technique.

Interest income earned on investments available for sale is reflected in the statement of comprehensive income as interest income on investment available for sale.

Non-marketable debt and equity securities are stated at amortized cost and cost, respectively, less impairment losses, if any, unless fair value can be reliably measured.

When there is objective evidence that investments available for sale have been impaired, the cumulative loss previously recognized in equity is removed from equity and recognized in the statement of comprehensive income for the period. Reversals of such impairment losses on debt instruments, which are objectively related to events occurring after the impairment, are recognized in the statement of comprehensive income for the period. Reversals of such impairment losses on equity instruments are not recognized in the statement of comprehensive income.

Property, equipment and intangible assets – Property, equipment and intangible assets other than buildings are carried at historical cost less accumulated depreciation and amortization and any recognized impairment loss, if any.

Depreciation on assets under construction and those not placed in service commences from the date the assets are ready for their intended use.

Depreciation of property and equipment and amortization of intangible assets is charged on the historical (revalued) cost of property, equipment and intangible assets and is designed to write off assets over their useful economic lives. It is calculated on a straight line basis at the following annual rates:

Buildings	2% - 3%
Furniture, office equipment and motor vehicles	10% - 33%
Intangible assets	25%

The Bank has adopted a revaluation model for the subsequent measurement of its buildings. Buildings are stated in the statement of financial position at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amounts do not differ materially from those that would be determined using fair values at the date of statement of financial position.

Any revaluation increase arising on the revaluation of such buildings is credited to the property revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognized as an expense, in which case the increase is credited to the statement of comprehensive income to the extent of the decrease previously charged. A decrease in carrying amount arising on the revaluation of such buildings is charged as an expense to the extent that it exceeds the balance, if any, held in the property revaluation reserve relating to a previous revaluation of that asset. The decrease is debited directly in equity to the property revaluation reserve to the extent of any credit balance existing in the property revaluation reserve in respect of that asset.

Depreciation on revalued buildings is charged to the statement of comprehensive income. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the property revaluation reserve is transferred directly to retained earnings.

Leasehold improvements are amortized over the life of the related leased asset. Expenses related to repairs and renewals are charged when incurred and included in operating expenses unless they qualify for capitalization.

Impairment is recognized in the respective period and is included in net other income. After the recognition of an impairment loss the depreciation charge for property and equipment and intangible assets is adjusted in future periods to allocate the assets' revised value, less its residual value (if any), on a systematic basis over its remaining useful life.

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

Taxation – Income tax expense represents the sum of the current and deferred tax expense.

The current tax expense is based on taxable profit for the year. Taxable profit differs from profit before income tax as reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Bank's current tax expense is calculated using tax rates that have been enacted during the reporting period.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realized. Deferred tax is charged or credited in the statement of comprehensive income, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

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

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

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

Due to banks, customer accounts, debt securities issued and subordinated debt – Due to banks, customer accounts, debt securities issued and subordinated debt are initially recognized at fair value. Subsequently amounts due are stated at amortized cost and any difference between net proceeds and the redemption value is recognized in the statement of comprehensive income over the period of the borrowings using the effective interest method. Those that do not have fixed maturities are carried at amortized cost based on expected maturities.

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

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

Financial guarantee contracts issued and letters of credit – Financial guarantee contracts and letters of credit issued by the Bank are credit insurance that provides for specified payments to be made to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due under the original or modified terms of a debt instrument. Such financial guarantee contracts and letters of credit issued are initially recognized at fair value.

Subsequently they are measured at the higher of (a) the amount recognized as a provision in accordance with IAS 37 “Provisions, Contingent Liabilities and Contingent Assets”; and (b) the amount initially recognized less, where appropriate, cumulative amortization of initial premium revenue received over the financial guarantee contracts or letter of credit issued.

Share capital – Contributions to share capital are recognized at cost.

Costs directly attributable to the issue of new shares are deducted from equity net of any related income taxes.

Dividends on ordinary shares are recognized in equity as a reduction in the period in which they are declared. Dividends that are declared after the reporting date are treated as a subsequent event under IAS 10 “Events after the Reporting Date” (“IAS 10”) and disclosed accordingly.

Retirement and other benefit obligations – In accordance with the requirements of the Ukrainian legislation, the Bank withholds amounts of pension contributions from employee salaries and pays them to the Pension Fund of Ukraine. In addition, such pension system provides for calculation of current payments by the employer as a percentage of current total disbursements to staff. Such expense is charged in the period the related salaries are earned. Upon retirement an employee receives retirement benefit payments made by the Pension Fund of Ukraine. The Bank does not have any pension arrangements separate from the state pension system of Ukraine, which requires current contributions by an employer calculated as a percentage of current gross salary payments. In addition, the Bank has no post-retirement benefits or other significant compensated benefits requiring accrual.

Recognition of income and expense

Recognition of interest income and expense – Interest income and expense are recognized on an accrual basis using the effective interest rate method. The effective interest rate method is a method of calculating the amortized cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and allocating the interest income or interest expense over the relevant period.

Once a financial asset or a group of similar financial assets has been written down (partly written down) as a result of an impairment loss, interest income is thereafter recognized using the interest rate used to discount the future cash flows for the purpose of measuring the impairment loss.

Interest income also includes income earned on investments in securities. Other income is credited to the statement of comprehensive income when the related transactions are completed.

Recognition of fee and commission income and expense – Loan origination fees are deferred, together with the related direct costs, and recognized as an adjustment to the effective interest rate of the loan. Where it is probable that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are deferred, together with the related direct costs, and recognized as an adjustment to the effective interest rate of the resulting loan. Where it is unlikely that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are recognized in the statement of comprehensive income over the remaining period of the loan commitment. Where a loan commitment expires without resulting in a loan, the loan commitment fee is recognized in the statement of comprehensive income on expiry. Loan servicing fees are recognized as revenue as the services are provided. Loan syndication fees are recognized in the statement of comprehensive income when the syndication has been completed. All other commissions are recognized when services are provided.

Foreign currency translation – Monetary assets and liabilities denominated in foreign currencies are translated into Ukrainian Hryvnia (“UAH”) at the appropriate spot rates of exchange ruling at the reporting date. Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transaction. Profits and losses arising from these translations are included in net gain/(loss) on foreign exchange operations.

Rates of exchange – The official exchange rates at year-end used by the Bank in the preparation of the financial information are as follows:

	31 December 2009	31 December 2008
UAH/1 US Dollar	7.98500	7.70000
UAH/1 Euro	11.44889	10.85546

Offset of financial assets and liabilities – Financial assets and liabilities are offset and reported net on the statement of financial position when the Bank has a legally enforceable right to set off the recognized amounts and the Bank intends either to settle on a net basis or to realize the asset and settle the liability simultaneously. In accounting for a transfer of a financial asset that does not qualify for derecognition, the Bank does not offset the transferred asset and the associated liability.

Areas of significant management judgment and sources of estimation uncertainty –

The preparation of financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts. Management evaluates its estimates and judgments on an ongoing basis. Such estimates and assumptions are based on the information available to the Bank’s management as at the date of these financial statements. Therefore, actual results could differ from those estimates and assumptions. Estimates that are particularly susceptible to change relate to the provisions for impairment losses and the fair value of financial instruments.

Key assumptions concerning the future and other key sources of uncertainty estimation at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period include:

	31 December 2009	31 December 2008
Loans to customers	45,716,277	33,891,518
Property, equipment and intangible assets	1,988,852	1,940,295
Investments available for sale	4,012,431	15,712,489

Loans to customers – Loans to customers are measured at amortized cost less allowance for impairment losses. The estimation of allowances for impairments involves the exercise of significant judgment. The Bank regularly reviews its loans to assess for impairment. The Bank estimates allowances for impairment with the objective of maintaining balance sheet provisions at a level believed by management to be sufficient to absorb losses incurred in the Bank’s loan portfolio. The calculation of provisions on impaired loans is based on the likelihood of the asset being written off and the estimated loss on such a write-off.

These assessments are made using statistical techniques based on historic experience. These determinations are supplemented by the application of management judgment.

The Bank considers accounting estimates related to provisions for loans key sources of estimation uncertainty because: (i) they are highly susceptible to change from period to period as the assumptions about future default rates and valuation of losses relating to impaired loans and advances are based on recent performance experience, and (ii) any significant difference between the Bank's estimated losses (as reflected in the provisions) and actual losses will require the Bank to make provisions which, if significantly different, could have a material impact on its future statement of comprehensive income and its statement of financial position.

The Bank uses management's judgment to estimate the amount of any impairment loss in cases where a borrower has financial difficulties and there are few available sources of historical data relating to similar borrowers. Similarly, the Bank estimates changes in future cash flows based on past performance, past customer behaviour, observable data indicating an adverse change in the payment status of borrowers in a group, and national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of loans. The Bank uses management's judgment to adjust observable data for a group of loans to reflect current circumstances not reflected in historical data.

The allowances for impairment of financial assets in the financial statements have been determined on the basis of existing economic and political conditions. The Bank is not in a position to predict what changes in conditions will take place in Ukraine and what effect such changes might have on the adequacy of the allowances for impairment of financial assets in future periods.

Valuation of financial instruments – Financial instruments that are as available for sale and all derivatives are stated at fair value. The fair value of such financial instruments is the estimated amount at which the instrument could be exchanged between willing parties, other than in a forced or liquidation sale. If a quoted market price is available for an instrument, the fair value is calculated based on the market price. When valuation parameters are not observable in the market or cannot be derived from observable market prices, the fair value is derived through analysis of other observable market data appropriate for each product and pricing models which use a mathematical methodology based on accepted financial theories. Pricing models take into account the contract terms of the securities as well as market-based valuation parameters, such as interest rates, volatility, exchange rates and the credit rating of the counterparty. Where market-based valuation parameters are missed, management will make a judgment as to its best estimate of that parameter in order to determine a reasonable reflection of how the market would be expected to price the instrument. In exercising this judgment, a variety of tools are used including proxy observable data, historical data, and extrapolation techniques. The best evidence of fair value of a financial instrument at initial recognition is the transaction price unless the instrument is evidenced by comparison with data from observable markets.

Any difference between the transaction price and the value based on a valuation technique is not recognized in the statement of comprehensive income on initial recognition. Subsequent gains or losses are only recognized to the extent that it arises from a change in a factor that market participants would consider in setting a price.

The Bank considers that the accounting estimate related to valuation of financial instruments where quoted markets prices are not available is a key source of estimation uncertainty because: (i) it is highly susceptible to change from period to period because it requires management to make assumptions about interest rates, volatility, exchange rates, the credit rating of the counterparty, valuation adjustments and specific feature of the transactions and (ii) the impact that recognizing a change in the valuations would have on the assets reported on its statement of financial position as well as its profit/(loss) could be material.

Had management used different assumptions regarding the interest rates, volatility, exchange rates, the credit rating of the counterparty and valuation adjustments, a larger or smaller change in the valuation of financial instruments where quoted market prices are not available would have resulted that could have had a material impact on the Bank's reported net income.

Property, equipment and intangible assets – Certain property (buildings) is measured at fair value. The date of the latest appraisal was 1 November 2008. The sales comparison method was used for estimation of fair value of buildings and office premises. No revaluation was made as at 31 December 2009 and 2008. Previous appraisal was performed as at 1 November 2006. The following methods were used: sales comparison, income capitalization, and construction costs for new buildings. Until 1 November 2006 revalued cost of buildings includes effects of indexation and revaluation as described below.

The indexation of buildings until 31 December 1997 was deemed necessary by the Ukrainian Government to reflect the effects of inflation and currency devaluation that occurred in both the Soviet Union and Ukraine. Buildings were adjusted by inflation as stipulated by the Ukrainian Government regulations several times until 31 December 1997.

In 1998 the Bank performed a revaluation of buildings according to the instructions of the NBU, without involvement of independent and professionally qualified appraisers. The revaluation was intended to bring the carrying value of buildings in line with the estimated market value as at 1 January 1998. The results of revaluation were recorded in the property revaluation reserve. No appraisal was performed from 1998 until 1 November 2006.

Deferred income tax assets – Deferred income tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. Estimation of probability is based on management forecast of future taxable profit and is supplemented with subjective judgments by the management of the Bank.

Provision for other off-balance sheet commitments – The accounting estimates and judgments related to the provision for off-balance sheet commitments is an area of significant management judgment because the underlying assumptions used for both the individually and collectively assessed impairment can change from period to period and may significantly affect the Bank's results of operations.

Related parties identification – Identification of related parties requires exercise of significant management judgment in determining related party relationships.

Adoption of new and revised standards – In the current year, the Bank has adopted all of the new and revised Standards and Interpretations issued by the IASB and IFRIC of the IASB that are relevant to its operations and effective for annual reporting periods ending on 31 December 2009.

The adoption of these new and revised Standards and Interpretations has not resulted in significant changes to the Bank's accounting policies that have affected the amounts reported for the current or prior years.

Amendment to IAS 1 "Presentation of Financial Statements" – On 6 September 2007, the IASB issued an amendment to IAS 1 which changes the way in which non-owner changes in equity are required to be presented. It also changes the titles of primary financial statements as they will be referred to in IFRS but does not require that these be renamed in an entity's financial statements. The amendment to IAS 1 is effective for periods beginning on or after 1 January 2009.

Standards and interpretations issued and not yet adopted – At the date of authorization of these financial statements, other than the Standards and Interpretations (related to the Bank’s activities) adopted by the Bank in advance of their effective dates, the following Interpretations were in issue but not yet effective.

IFRIC 9 – “Reassessment of Embedded Derivatives” which requires that there should be no reassessment of whether an embedded derivative should be separated from the host contract after initial recognition, unless there have been changes to the contract. The adoption of IFRIC 9 had no impact on the Bank’s profit or loss or financial position.

IAS 17 “Lease” – Amendments to IAS 17 “Lease” were issued in 2009. The amendments delete specific guidance regarding classification of leases of land, so as to eliminate inconsistency with the general guidance on lease classification. They are effective for accounting periods beginning on or after 1 January 2010.

Financial instruments – Classification and Measurement (Exposure draft) – In July 2009 IASB issued an exposure draft (ED) that is a part of IASB’s project to replace IAS 39 “Financial Instruments: Recognition and Measurement”. The ED proposes a new classification and measurement model for financial assets and financial liabilities. All recognized financial assets and financial liabilities that are currently in the scope of IAS 39 will be measured either at amortized cost or fair value. A financial instrument that has only basic loan features and is managed on a contractual yield basis is measured at amortized cost, unless designated as at fair value through profit or loss (FVTPL). Those financial instruments measured at fair value will either be classified as FVTPL or in the case of investment in equity instruments that are not held for trading, designated irrevocably as at fair value through other comprehensive income (FVTOCI). All investments in equity instruments and derivatives linked to equity instruments in the scope of IAS 39 must be measured at fair value, i.e. an unquoted equity investment cannot be measured at cost less impairment when fair value cannot be reliably measured as currently required by IAS 39.

The ED does not permit reclassifications out of or into amortized cost, FVTPL or FVTOCI after initial recognition. The effective date of these changes is not yet determined but the IASB expects to finalize the new classification and management model in time to allow entities to voluntarily adopt the new model for 2009 year-end financial statements.

4. NET INTEREST INCOME

Net interest income comprises:

	Year ended 31 December 2009	Year ended 31 December 2008
Interest income comprises:		
Interest income on financial assets recorded at amortized cost:		
- interest income on impaired financial assets, including assets assessed on portfolio basis	6,549,773	2,042,254
- interest income on unimpaired financial assets	327,995	187,931
Interest income on financial assets at fair value	899,331	294,344
Total interest income	7,777,099	2,524,529
Interest income comprises:		
Interest income on financial assets recorded at amortized cost:		
Interest on loans to customers	6,675,055	2,036,511
Interest on due from banks	202,713	193,663
Other interest income	-	11
	6,877,768	2,230,185
Interest income on financial assets at fair value:		
Interest on investments available for sale	899,331	294,344
Total interest income	7,777,099	2,524,529
Interest expense comprises:		
Interest expenses on financial liabilities recorded at amortized cost:		
Interest on due to banks	(2,280,264)	(198,404)
Interest on customer accounts	(1,227,340)	(770,181)
Interest on subordinated debt	(73,699)	(50,089)
Interest on debt securities issued	(59,991)	(32,457)
Total interest expense	(3,641,294)	(1,051,131)
Net interest income before provision for impairment losses on interest bearing assets	4,135,805	1,473,398

5. ALLOWANCE FOR IMPAIRMENT LOSSES AND OTHER PROVISIONS

The movements in allowance for impairment losses on interest earning assets were as follows:

	Due from banks	Loans to customers	Investments available for sale	Total
31 December 2007	27,840	502,698	-	530,538
Provision	53,663	581,378	10,171	645,212
Write-off of assets	(23,851)	(12,817)	(4,981)	(41,649)
31 December 2008	57,652	1,071,259	5,190	1,134,101
Provision	11,101	3,061,725	91,446	3,164,272
Write-off of assets	(2,102)	(14,857)	(6,529)	(23,488)
31 December 2009	66,651	4,118,127	90,107	4,274,885

The movements in allowances for impairment losses on other operations were as follows:

	Other assets	Guarantees and other commitments	Total
31 December 2007	8,879	-	8,879
Provision	1,412	6,622	8,034
31 December 2008	10,291	6,622	16,913
Provision/(recovery of provision)	3,462	(2,499)	963
Write-off of assets	(758)	-	(758)
31 December 2009	12,995	4,123	17,118

6. FEE AND COMMISSION INCOME AND EXPENSE

Fee and commission income and expense comprise:

	Year ended 31 December 2009	Year ended 31 December 2008
Fee and commission income:		
Settlements and cash operations	948,872	828,609
Foreign exchange operations	61,932	15,636
Off-balance sheet operations	2,530	5,360
Securities operations	1,908	114
Other	6,145	6,082
Total fee and commission income	1,021,387	855,801
Fee and commission expense:		
Settlements and cash operations	(134,649)	(124,111)
Foreign exchange operations	(19,584)	(6,361)
Securities operations	(2,439)	(532)
Other	(12,847)	(10,227)
Total fee and commission expense	(169,519)	(141,231)

7. NET GAIN ON FOREIGN EXCHANGE OPERATIONS

Net gain on foreign exchange operations comprises:

	Year ended 31 December 2009	Year ended 31 December 2008
Translation differences, net	35,597	223,194
Dealing, net	108,068	(34,889)
Total net gain on foreign exchange operations	143,665	188,305

8. NET OTHER INCOME

For the years ended 31 December 2009 and 2008 net other income amounted to UAH 21,532 thousand and UAH 73,008 thousand, respectively.

For the year ended 31 December 2008 net other income includes compensation from Ukrainian Government in the amount of UAH 60,000 thousand for distribution of State Budget funds to compensate customer deposits of former USSR State Saving Bank, which was performed by the Bank in 2008.

9. OPERATING EXPENSES

Operating expenses comprise:

	Year ended 31 December 2009	Year ended 31 December 2008
Staff costs	1,292,528	1,242,616
Depreciation and amortization	101,096	102,548
Property and equipment maintenance	87,874	75,605
Operating leases	86,664	69,267
Utilities	55,841	40,312
Office maintenance	41,126	40,364
Taxes, other than income tax	38,171	22,938
Communications	29,514	28,448
Security expenses	17,459	13,429
Professional services	8,170	5,850
Insurance expense	7,220	7,418
Business trip expenses	7,058	6,105
Advertising costs	2,558	3,973
Other expenses	21,527	47,826
Total operating expenses	<u>1,796,806</u>	<u>1,706,699</u>

10. INCOME TAXES

The Bank provides for taxes based on the tax accounts maintained and prepared in accordance with the tax regulations of Ukraine and which may differ from International Financial Reporting Standards.

The Bank is subject to certain permanent tax differences due to non-tax deductibility of certain expenses and a tax free regime for certain income.

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes.

Temporary differences as at 31 December 2009 and 2008 relate mostly to different methods of income and expense recognition as well as to recorded values of certain assets.

Temporary differences as at 31 December 2009 and 2008 comprise:

	31 December 2009	31 December 2008
Deductible temporary differences:		
Loans to customers	1,348,146	465,226
Customer accounts	101,615	90,821
Other liabilities	48,860	25,356
Debt securities issued	14,146	7,594
Other assets	11,481	15,224
Due from banks	2,587	1,123
Investments available for sale	-	218,126
	<hr/>	<hr/>
Total deductible temporary differences	1,526,835	823,470
Deferred tax assets at the statutory tax rate (25%)	381,709	205,868
	<hr/>	<hr/>
Deferred tax asset not recognised	(23,941)	-
Deferred tax assets	357,768	205,868
	<hr/>	<hr/>
Taxable temporary differences:		
Property, equipment and intangible assets	(1,370,061)	(1,354,882)
Investments available for sale	(123,972)	-
Subordinated debt	(252)	(5,419)
	<hr/>	<hr/>
Total taxable temporary differences	(1,494,285)	(1,360,301)
Deferred tax liability at the statutory tax rate (25%)	(373,571)	(340,075)
	<hr/>	<hr/>
Net deferred tax liabilities	(15,803)	(134,207)
	<hr/>	<hr/>

Relationships between tax expenses and accounting profit for the year ended 31 December 2009 and 2008 are explained as follows:

	Year ended 31 December 2009	Year ended 31 December 2008
Profit before income tax	187,261	86,134
	<hr/>	<hr/>
Statutory tax rate	25%	25%
Tax at the statutory tax rate	46,815	21,534
Effect of non-deductible expenses and non-taxable income	7,464	25,307
Change of deferred tax asset not recognised	23,941	-
	<hr/>	<hr/>
Income tax expense	78,220	46,841
	<hr/>	<hr/>
Current income tax expense	234,347	142,599
Recovery of deferred income tax expenses	(156,127)	(95,758)
	<hr/>	<hr/>
Income tax expense	78,220	46,841
	<hr/>	<hr/>

Movement in deferred tax liability for the years ended 31 December 2009 and 2008 was as follows:

	Year ended 31 December 2009	Year ended 31 December 2008
At the beginning of the period	(134,207)	(137,424)
Recovery of deferred tax expenses	156,127	95,758
Tax effect of property revaluation reserve increase	-	(136,473)
Tax effect of investments available for sale fair value reserve change	(37,723)	43,932
	<u>(15,803)</u>	<u>(134,207)</u>

11. EARNINGS PER SHARE

	Year ended 31 December 2009	Year ended 31 December 2008
Profit:		
Net profit for the period attributable to ordinary share holders	<u>109,041</u>	<u>39,293</u>
Weighted average number of ordinary shares for purposes of basic and diluted earnings per share (in units)	<u>13,892</u>	<u>1,119</u>
Earnings per share – basic and diluted (UAH)	<u>7,849</u>	<u>35,114</u>

12. CASH AND BALANCES WITH THE NATIONAL BANK OF UKRAINE

	31 December 2009	31 December 2008
Cash	1,195,221	1,212,171
Balances with the National Bank of Ukraine (Note 26)	<u>1,083,131</u>	<u>1,357,055</u>
Total cash and balances with the National Bank of Ukraine	<u>2,278,352</u>	<u>2,569,226</u>

The balances with the National Bank of Ukraine as at 31 December 2009 and 2008 include UAH 177,530 thousand and UAH 81,479 thousand, respectively, which represent the obligatory minimum reserve deposits with the NBU. The Bank is required to maintain the reserve balance at the NBU at all times.

Cash and cash equivalents for the purposes of the statement of cash flows comprise the following:

	31 December 2009	31 December 2008
Cash and balances with the National Bank of Ukraine	2,278,352	2,569,226
Due from banks in OECD countries	<u>2,097,835</u>	<u>498,630</u>
	4,376,187	3,067,856
Less guarantee deposits in OECD countries (Note 13)	(14,393)	(10,033)
Less minimum reserve deposits with the National Bank of Ukraine	<u>(177,530)</u>	<u>(81,479)</u>
Total cash and cash equivalents	<u>4,184,264</u>	<u>2,976,344</u>

13. DUE FROM BANKS

Due from banks comprise:

	31 December 2009	31 December 2008
Correspondent accounts with other banks	2,721,171	1,642,082
Time deposits with other banks	272,549	600,781
Loans under reverse repurchase agreements	29,271	-
	<u>3,022,991</u>	<u>2,242,863</u>
Less allowance for impairment losses	<u>(66,651)</u>	<u>(57,652)</u>
Total due from banks	<u>2,956,340</u>	<u>2,185,211</u>

Movements in allowance for impairment losses on balances due from banks for the year ended 31 December 2009 and 2008 are disclosed in Note 5.

As at 31 December 2009 and 2008, due from banks included accrued interest income in the amount of UAH 119 thousand and UAH 97 thousand, respectively.

As at 31 December 2009 due from other banks at total amount of UAH 29,271 thousand was effectively collateralized by securities – Ukrainian Government debt securities purchased under reverse repurchase agreements, with fair value in the amount of UAH 30,120 thousand.

As at 31 December 2009 loans under reverse repurchase agreements have contractual maturities in January 2010.

As at 31 December 2009 and 2008 the maximum credit risk exposure on due from banks amounted to UAH 2,956,340 thousand and UAH 2,185,211 thousand, respectively.

As at 31 December 2009 and 2008 due from banks included guarantee deposits placed by the Bank for its operations with plastic cards and letters of credit in the amount of UAH 14,393 thousand and UAH 10,033 thousand, respectively.

As at 31 December 2009 and 2008 the Bank had placements with ten banks, totalling UAH 2,854,179 thousand (94%) and UAH 2,114,301 thousand (94%), respectively, which represents a significant concentration.

14. LOANS TO CUSTOMERS

Loans to customers comprise:

	31 December 2009	31 December 2008
Loans to customers	44,547,329	34,962,777
Loans under reverse repurchase agreements	5,287,075	-
	<u>49,834,404</u>	<u>34,962,777</u>
Less allowance for impairment losses	<u>(4,118,127)</u>	<u>(1,071,259)</u>
Total loans to customers	<u>45,716,277</u>	<u>33,891,518</u>

Movements in allowances for impairment losses for the year ended 31 December 2009 and 2008 are disclosed in Note 5.

As at 31 December 2009 and 2008 loans to customers included accrued interest income in the amount of UAH 1,063,799 thousand and UAH 133,396 thousand, respectively.

The table below summarizes the amount of loans secured by respective collateral, rather than the fair value of the collateral itself:

	31 December 2009	31 December 2008
Loans collateralized by equipment, other movables and rights thereon	40,518,184	27,450,017
Loans collateralized by pledge of real estate and rights thereon	8,986,073	7,180,348
Unsecured loans	320,154	323,748
Loans collateralized by cash deposits	9,993	8,664
	<u>49,834,404</u>	<u>34,962,777</u>
Less allowance for impairment losses	<u>(4,118,127)</u>	<u>(1,071,259)</u>
Total loans to customers	<u>45,716,277</u>	<u>33,891,518</u>

The table below represents the borrowers' sector structure as at 31 December 2009 and 2008:

	31 December 2009	31 December 2008
Analysis by sector:		
Oil, gas and chemical production	29,146,558	18,779,508
Individuals	5,905,879	7,111,852
Energy	4,546,440	3,761,595
Construction and real estate	3,237,962	1,679,918
Construction and road maintenance	2,396,753	-
Trade	1,548,330	1,153,102
Agriculture and food processing	1,531,503	1,159,591
Machinery construction	579,382	509,746
Transport	336,450	288,492
Mining and metallurgy	271,935	184,559
Manufacturing	132,569	135,360
Services	86,458	90,555
Financial services	60,191	-
Media and communications	13,971	34,182
Hotel and restaurant business	10,475	38,458
Press and publishing	8,277	8,535
Other	21,271	27,324
	<u>49,834,404</u>	<u>34,962,777</u>
Less allowance for impairment losses	<u>(4,118,127)</u>	<u>(1,071,259)</u>
Total loans to customers	<u>45,716,277</u>	<u>33,891,518</u>

During the years ended 31 December 2009 and 2008 the Bank received real estate property and other assets by taking possession of collateral it held as security. As at 31 December 2009 and 2008 such assets in amount of UAH 111,005 thousand and UAH 5,149 thousand, respectively, are included in other assets (Note 17).

Loans to individuals comprise the following products:

	31 December 2009	31 December 2008
Consumer loans, collateralized by real estate and guarantees	2,411,974	2,527,892
Car loans	1,238,158	1,654,486
Mortgage loans	1,110,723	1,140,688
Consumer loans	936,557	1,064,531
Other	208,467	724,255
	<u>5,905,879</u>	<u>7,111,852</u>
Less allowance for impairment losses	<u>(1,009,372)</u>	<u>(355,473)</u>
Total loans to individuals	<u>4,896,507</u>	<u>6,756,379</u>

As at 31 December 2009 and 2008 a maximum credit risk exposure on loans to customers amounted to UAH 45,716,277 thousand and UAH 33,891,518 thousand, respectively.

As at 31 December 2009 and 2008 a maximum credit risk exposure on contingent liabilities and loan commitments extended by the Bank to its customers amounted to UAH 113,220 thousand and UAH 523,630 thousand, respectively (Note 24).

As at 31 December 2009 and 2008 loans to customers of UAH 37,225,435 thousand (75%) and UAH 23,089,180 thousand (66%), respectively, were granted to ten borrowers or group of borrowers, which represents a significant concentration.

As at 31 December 2009 and 2008 the above stated amounts include loans issued to the related state-owned companies PJSC “NJSC “Naftogaz of Ukraine” and OJSC “Ukrtransnafta” in the total gross amount of UAH 29,089,711 thousand (58%) and UAH 18,766,610 thousand (54%), which represents a significant concentration (Note 31).

As at 31 December 2009 and 2008 the following loans were provided to the related state-owned companies PJSC “NJSC “Naftogaz of Ukraine” and OJSC “Ukrtransnafta”:

Name	Interest rate, %	Maturity	31 December 2009	Interest rate, %	31 December 2008
PJSC “NJSC “Naftogaz of Ukraine”	14.5	29 December 2010	12,009,704	16.5	11,725,560
PJSC “NJSC “Naftogaz of Ukraine”	14.0	30 June 2010	6,345,063	14.0	6,200,000
PJSC “NJSC “Naftogaz of Ukraine”	13.5	4 June 2010	3,774,267	-	-
PJSC “NJSC “Naftogaz of Ukraine”	10.1	26 February 2010	3,354,878	-	-
PJSC “NJSC “Naftogaz of Ukraine”	9.5	2 March 2010	1,600,329	-	-
PJSC “NJSC “Naftogaz of Ukraine”	7.92	26 February 2010	939,373	-	-
PJSC “NJSC “Naftogaz of Ukraine”	16.5	30 March 2010	345,981	19.0	400,000
PJSC “NJSC “Naftogaz of Ukraine”	16.5	21 June 2010	307,388	17.0	300,000
PJSC “NJSC “Naftogaz of Ukraine”	6.4	30 March 2010	271,678	-	-
OJSC “Ukrtransnafta”	19.0	25 March 2011	49,000	18.0	49,000
OJSC “Ukrtransnafta”	19.0	25 March 2011	49,000	18.0	49,000
OJSC “Ukrtransnafta”	19.0	25 March 2011	43,050	18.0	43,050
			<u>29,089,711</u>		<u>18,766,610</u>
Less allowance for impairment losses			<u>(1,790,761)</u>		<u>(129,804)</u>
Total			<u>27,298,950</u>		<u>18,636,806</u>

As at 31 December 2009 loans to PJSC “NJSC “Naftogaz of Ukraine” include loans under reverse repurchase agreements in the amount of UAH 5,226,885 thousand. Reverse repurchase agreements were concluded on Ukrainian Government debt securities of special issue. After 31 December 2009 mutual obligations between the Bank and the NBU regarding sale of bonds and repayment of loans under reverse repurchase agreements were settled (Note 25).

Carrying value of loans under reverse repurchase agreements and fair value of assets pledged as at 31 December 2009 and 2008 comprise:

	31 December 2009	
	Carrying value of loans	Fair value of collateral
Ukrainian Government debt securities	5,226,885	5,035,805
Bonds issued by State Mortgage Institution	60,190	60,353
Total	5,287,075	5,096,158

As at 31 December 2009 and 2008 loans to PJSC “NJSC “Naftogaz of Ukraine” with carrying value of UAH 20,365,112 thousand and UAH 6,478,650 thousand, respectively, were pledged as security for loans received from the National Bank of Ukraine (Note 18).

As at 31 December 2009 loans to other borrowers with carrying value of UAH 2,450,341 thousand were pledged as security for loans received from the National Bank of Ukraine (Note 18).

The table below summarizes an analysis of loans to customers by impairment:

	31 December 2009			31 December 2008		
	Carrying value before allowance	Allowance for impairment losses	Carrying value	Carrying value before allowance	Allowance for impairment losses	Carrying value
Loans to customers individually determined to be impaired	26,317,299	2,524,687	23,792,612	1,984,609	218,217	1,766,392
Loans to customers collectively determined to be impaired	18,230,030	1,593,440	16,636,590	32,978,168	853,042	32,125,126
Unimpaired loans to customers (REPO)	5,287,075	-	5,287,075	-	-	-
Total	49,834,404	4,118,127	45,716,277	34,962,777	1,071,259	33,891,518

15. INVESTMENTS AVAILABLE FOR SALE

Investments available for sale comprise:

	31 December 2009	31 December 2008
Ukrainian Government debt securities:		
Medium-term Ukrainian Government debt securities	1,750,080	1,827,133
Long-term Ukrainian Government debt securities, including securities with early redemption feature	598,280	11,779,755
Ukrainian Government debt securities for settlement of budget indebtedness on value added tax	-	12,308
	<u>2,348,360</u>	<u>13,619,196</u>
Other:		
Bonds issued by State Mortgage Institution	737,604	181,372
Bonds issued by corporate entities	519,239	479,683
Bonds issued by banks	448,877	398,415
Bonds issued by local Ukrainian authorities	25,395	15,378
Deposit certificates of the National Bank of Ukraine	-	1,000,000
	<u>1,731,115</u>	<u>2,074,848</u>
Less allowance for impairment losses	<u>(74,824)</u>	<u>(5,190)</u>
Total debt securities available for sale	<u>4,004,651</u>	<u>15,688,854</u>
Equity securities:		
Corporate shares	23,063	23,635
Less allowance for impairment losses	<u>(15,283)</u>	<u>-</u>
Total equity securities available for sale	<u>7,780</u>	<u>23,635</u>
Total investments available for sale	<u>4,012,431</u>	<u>15,712,489</u>

Movements in allowances for impairment losses for the year ended 31 December 2009 and 2008 are disclosed in Note 5.

As at 31 December 2009 and 2008, debt securities available for sale included accrued interest income in the amount of UAH 92,196 thousand and UAH 39,084 thousand, respectively.

On 26 October 2008 and 30 December 2008, as discussed in Note 23, Ukrainian Government debt securities at total nominal value of UAH 1,000,000 thousand and UAH 11,700,000 thousand, respectively, were received as a contribution to the Bank's share capital.

Prior to the year-end 2008 the Bank requested repayment of OVDP with total nominal value of UAH 1,000,000 thousand, and bonds were bought out by the NBU as at 31 December 2008.

As at 31 December 2009 OVDP with total nominal amount UAH 11,770,000 thousand were also bought out by the NBU.

As at 31 December 2008 interest rate for OVDP with total nominal amount UAH 11,770,000 thousand comprised 9.5%.

On 30 December 2008, when share capital increase had taken place, the Bank concluded with the NBU a repurchase agreement for the above stated bonds, which was presented in these financial statements as a loan from the NBU (Note 18). The amount of the repurchase agreement is UAH 11,770,000 thousand, with nominal interest rate of 12.002% and final maturity in June 2009. Mutual obligations between the Bank and the NBU regarding purchase of bonds and repayment of the loan under repurchase agreement were settled simultaneously as at 31 December 2009.

As at 31 December 2009 and 2008 debt securities with carrying value of UAH 463,211 thousand and UAH 11,945,897 thousand, respectively, were pledged as security for loans received from the National Bank of Ukraine (Note 18).

16. PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS

Property, equipment and intangible assets comprise:

	Buildings	Leasehold improvements	Furniture, office equipment and motor vehicles	Construction in progress	Intangible assets	Total
At historical/revalued cost						
31 December 2008	1,764,084	42,985	558,419	62,104	20,545	2,448,137
Additions	3,375	20,156	98,951	24,400	3,728	150,610
Transfers	26,413	-	-	(26,413)	-	-
Disposals	(651)	(2,064)	(12,280)	(179)	(79)	(15,253)
31 December 2009	1,793,221	61,077	645,090	59,912	24,194	2,583,494
Accumulated depreciation						
31 December 2008	8,933	30,179	450,654	-	18,076	507,842
Charge for the year	20,774	15,924	61,761	-	2,637	101,096
Eliminated on disposals	-	(2,062)	(12,157)	-	(77)	(14,296)
31 December 2009	29,707	44,041	500,258	-	20,636	594,642
Net book value						
31 December 2009	1,763,514	17,036	144,832	59,912	3,558	1,988,852
31 December 2008	1,755,151	12,806	107,765	62,104	2,469	1,940,295

	Buildings	Leasehold improvements	Furniture, office equipment and motor vehicles	Construction in progress	Intangible assets	Total
At historical/revalued cost						
31 December 2007	1,228,464	46,257	420,969	63,192	15,337	1,774,219
Additions	123	1,397	147,318	42,517	5,689	197,044
Transfers	43,498	-	-	(43,498)	-	-
Disposals	(251)	(4,669)	(9,868)	(107)	(481)	(15,376)
Revaluation	549,264	-	-	-	-	549,264
Impairment	(2,337)	-	-	-	-	(2,337)
Eliminated with accumulated depreciation on revaluation	(54,677)	-	-	-	-	(54,677)
31 December 2008	1,764,084	42,985	558,419	62,104	20,545	2,448,137
Accumulated depreciation						
31 December 2007	33,439	28,184	398,191	-	15,133	474,947
Charge for the year	30,343	6,591	62,191	-	3,423	102,548
Eliminated on disposals	(172)	(4,596)	(9,728)	-	(480)	(14,976)
Eliminated with cost on revaluation	(54,677)	-	-	-	-	(54,677)
31 December 2008	8,933	30,179	450,654	-	18,076	507,842
Net book value						
31 December 2008	1,755,151	12,806	107,765	62,104	2,469	1,940,295
31 December 2007	1,195,025	18,073	22,778	63,192	204	1,299,272

As at 1 November 2008 the buildings and office premises owned by the Bank were revalued to market prices by independent appraisers. Sales comparison method was used for estimation of fair value of buildings and office premises. No update of revaluations was performed for the period from November 2008 to 31 December 2009.

If buildings would have been accounted at historical cost less accumulated depreciation and impairment losses, their carrying value would be UAH 283,421 thousand and UAH 263,641 thousand as at 31 December 2009 and 2008, respectively.

Certain buildings not yet put into operations are shown within the construction in progress category. The carrying amount of buildings held within construction in progress as at 31 December 2009 and 2008 comprises UAH 5,494 thousand and UAH 8,970 thousand, respectively.

17. OTHER ASSETS

Other assets comprise:

	31 December 2009	31 December 2008
Other financial assets:		
Accrued income	12,618	15,329
Other accounts receivable	11,133	12,128
Fair value of currency swap and spot agreements	381	2,276
Accounts receivable from other banks on operations with securities	329	-
	<u>24,461</u>	<u>29,733</u>
Less allowance for impairment losses	<u>(12,995)</u>	<u>(10,291)</u>
	11,466	19,442
Other non-financial assets:		
Current income tax assets	241,304	249
Collateral received by the Bank	111,005	5,149
Precious metals	41,577	19,614
Inventory	13,683	6,196
Prepaid expenses	11,416	9,665
Receivables on taxes and obligatory payments	2,900	596
Prepayments for purchase of assets	824	3,519
Other	4,084	1,831
	<u>426,793</u>	<u>46,819</u>
Total other assets	<u>438,259</u>	<u>66,261</u>

Movements in allowances for impairment losses for the years ended 31 December 2009 and 2008 are disclosed in Note 5.

Precious metals represent gold and silver in vault.

18. DUE TO BANKS

Due to banks comprise:

	31 December 2009	31 December 2008
Loans from the National Bank of Ukraine	15,931,171	10,200,000
Correspondent accounts of other banks	91,573	3,868
Loans from other banks	-	257,675
Loan under repurchase agreement from the National Bank of Ukraine	-	11,777,740
	<u>16,022,744</u>	<u>22,239,283</u>
Total due to banks	<u>16,022,744</u>	<u>22,239,283</u>

As at 31 December 2009 and 2008 due to banks included accrued interest expenses in the amount of UAH 1,276 thousand and UAH 7,743 thousand, respectively.

As at 31 December 2009 and 2008 due to banks included loans from the NBU in the amount of UAH 15,931,171 thousand (99%) and UAH 21,977,740 thousand (99%), respectively, which represents a significant concentration.

Loan under repurchase agreement from the NBU in the amount of UAH 11,770,000 thousand was received on 30 December 2008. This repurchase agreement was concluded in respect of the Ukrainian Government debt securities of special issue (Note 15). Annual interest rate on this loan is 12.002% and final maturity in June 2009. As at 31 December 2009 mutual obligations between the Bank and the NBU regarding purchase of bonds and repayment of the loan under repurchase agreement were effectively settled.

As at 31 December 2009 loans received from the National Bank of Ukraine in the amount of UAH 15,931,171 thousand bear interest 13.1% per annum, with maturity in 2010 and 2012 (Note 25).

As at 31 December 2008 loans received from the National Bank of Ukraine in the amount of UAH 10,200,000 thousand bear interest 15.0% and 12.5% per annum, with maturity in 2009, which was subsequently prolonged as stated above.

As at 31 December 2009 loans from the NBU in the amount of UAH 15,931,171 thousand were secured by debt securities available for sale with carrying value of UAH 463,211 thousand, loans to PJSC "NJSC "Naftogaz of Ukraine" with carrying value UAH 20,365,112 thousand and loans to other borrowers with carrying value UAH 2,450,341 thousand (Notes 14 and 15).

As at 31 December 2008 two loans from the NBU in the total amount of UAH 17,977,740 thousand were secured by debt securities available for sale with carrying value of UAH 11,945,897 thousand and loans to PJSC "NJSC "Naftogaz of Ukraine" with carrying value UAH 6,478,650 thousand (Notes 14 and 15).

19. CUSTOMER ACCOUNTS

Customer accounts comprise:

	31 December 2009	31 December 2008
Term deposits	13,889,183	7,070,791
Repayable on demand	<u>10,783,725</u>	<u>10,422,130</u>
Total customer accounts	<u>24,672,908</u>	<u>17,492,921</u>

As at 31 December 2009 and 2008 customer accounts included accrued interest expenses in the amount of UAH 521,861 thousand and UAH 398,192 thousand, respectively.

As at 31 December 2009 and 2008 the aggregate balances of top ten customers amounted to UAH 7,500,691 thousand and UAH 2,142,935 thousand, which comprise 30% and 12%, respectively.

The table below represents customer accounts' sector structure as at 31 December 2009 and 2008:

	31 December 2009	31 December 2008
Analysis by sector:		
Individuals	15,043,792	13,697,105
State authorities	5,726,375	-
Energy	926,924	573,964
Media and communications	860,196	1,119,490
Services	492,058	302,454
Trade	299,421	327,258
Agriculture and food processing	280,585	366,377
Construction and real estate	226,075	194,412
Transport	203,004	27,360
Oil, gas and chemical production	51,483	499,501
Mining and metallurgy	31,709	67,827
Machinery construction	25,048	13,383
Manufacturing	18,377	22,293
Press and publishing	8,899	7,628
Hotel and restaurant business	8,242	8,929
Other	<u>470,720</u>	<u>264,940</u>
Total customer accounts	<u>24,672,908</u>	<u>17,492,921</u>

20. DEBT SECURITIES ISSUED

In 2008 the Bank issued the following debt securities, outstanding as at reporting date:

	Maturity of principal	Annual coupon rate %	Carrying value, 31 December 2009	Annual coupon rate %	Carrying value, 31 December 2008
A series	10 February 2011	16.00%	243,216	10.25%	304,127
B series	7 February 2013	10.50%	<u>202,877</u>	10.50%	<u>197,414</u>
Total debt securities issued			<u>446,093</u>		<u>501,541</u>

As at 31 December 2009 and 2008 domestic debt securities issued included accrued interest expense in the amount of UAH 8,100 thousand and UAH 6,947 thousand, respectively.

The bond-holders had the right to demand repayment of the A series bonds by the Bank at their nominal value after the end of the sixth coupon period – 13 August 2009.

The bond-holders have the right to demand repayment of the B series bonds by the Bank at their nominal value after the end of the tenth coupon period – 12 August 2010.

Annual coupon rate for A series from first till sixth coupon period was set in the Prospectus. Annual coupon rate for A series from seventh till twelfth coupon period was set by the Management Board of the Bank according to present market conditions.

Annual coupon rate for B series from first till tenth coupon period was set in the Prospectus. Annual coupon rate for B series from eleventh till twelfth coupon period will be set by the Management Board of the Bank according to market conditions.

21. OTHER LIABILITIES

Other liabilities comprise:

	31 December 2009	31 December 2008
Other financial liabilities:		
Accrued bonuses and salary	25,377	29,224
Other payables	5,630	2,312
Fair value of currency swap and spot agreements	2,002	6,290
Expenses accrued	1,472	1,084
Other	4,904	3,806
	<u>39,385</u>	<u>42,716</u>
Other non-financial liabilities:		
Unused vacation reserve	16,660	18,753
Provision for guarantees and other commitments	4,123	6,622
Taxes payable, other than income tax	5,277	5,717
Current income tax liabilities	-	9,235
	<u>26,060</u>	<u>40,327</u>
Total other liabilities	<u>65,445</u>	<u>83,043</u>

Movements in provision for guarantees and other commitments for the years ended 31 December 2009 and 2008 are disclosed in Note 5.

22. SUBORDINATED DEBT

Subordinated debt comprises:

	Currency	Maturity of principal	Interest rate,%	31 December 2009	31 December 2008
ABN AMRO Bank N.V.	USD	19 January 2017	9%	<u>824,578</u>	<u>793,276</u>
Total subordinated debt				<u>824,578</u>	<u>793,276</u>

As at 31 December 2009 and 2008 subordinated debt included accrued interest expense in the amount of UAH 33,610 thousand and UAH 31,570 thousand, respectively.

In the event of bankruptcy or liquidation of the Bank, repayment of this debt is subordinate to the repayments of the Bank's liabilities to all other creditors.

In accordance with terms of loan agreement, the Bank should comply, among others, with the following covenants:

- The Bank is required to submit its audited annual financial statements prepared in accordance with IFRS within 180 days from the reporting date;
- The Bank is required to submit its unaudited interim financial statements for the six months ending 30 June prepared in accordance with IFRS within 90 days from the reporting date.

ABN AMRO Bank N.V. has the right to enforce obligations of the Bank regarding compliance with the covenants. No specific action is prescribed by the agreement in case of the Bank's non-compliance with the covenants.

23. SHARE CAPITAL

Share capital comprises:

	31 December 2009		31 December 2008	
	Number of shares, in units	Amount, in UAH thousand	Number of shares, in units	Amount, in UAH thousand
Total shares authorized, issued and fully paid	13,892	13,892,000	2,122	2,122,000
Total shares issued and fully paid, but not authorized	-	-	11,770	11,770,000
Total share capital	13,892	13,892,000	13,892	13,892,000

All ordinary shares have a nominal value of UAH 1,000 thousand per share, rank equally and carry one vote.

On 9 July 2008 the Government of Ukraine decided to increase the share capital of the Bank by issue of 200 new shares with the nominal value of UAH 1,000 thousand that was financed by a contribution from the state budget of Ukraine in the amount of UAH 200,000 thousand. As at 31 December 2008 the contribution was received and the increase was registered by the State Commission for securities and stock market.

On 26 October 2008 the Government of Ukraine decided to increase the share capital of the Bank by issue of 1,000 new shares with the nominal value of UAH 1,000 thousand. The financing was performed by contribution of a special issue of Ukrainian Government debt securities (OVDP) in the amount of UAH 1,000,000 thousand.

On 30 December 2008 the Government of Ukraine decided to increase the share capital of the Bank by issue of 11,770 new shares with the nominal value of UAH 1,000 thousand. The financing was performed by contribution of a special issue of Ukrainian Government debt securities (OVDP) in the amount of 11,770,000 thousand.

On 17 March 2009 the State Commission for securities and stock market issued the certificate on the registration of issue of 13,892 shares of the Bank.

24. COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Bank is a party to financial instruments with off-balance sheet risk in order to meet the needs of its customers. These instruments, involving varying degrees of credit risk, are not reflected in the statement of financial position.

The Bank's maximum exposure to credit loss under contingent liabilities and commitments to extend credit, in the event of non-performance by the other party where all counterclaims, collateral or security prove valueless, is represented by the contractual amounts of those instruments.

The Bank uses the same credit control and management policies in undertaking off-balance sheet commitments as it does for on-balance operations.

As at 31 December 2009 and 2008 provision for impairment losses on guaranties and other commitments amounted to UAH 4,123 thousand and UAH 6,622 thousand, respectively (Notes 5, 21).

As at 31 December 2009 and 2008 the nominal or contract amounts were:

	31 December 2009 Nominal amount	31 December 2008 Nominal amount
Contingent liabilities and credit commitments		
Letters of credit and other transaction related contingent obligations	-	169,400
Guarantees issued and similar commitments	197	32
Irrevocable commitments on loans and unused credit lines	<u>113,023</u>	<u>354,198</u>
Total contingent liabilities and credit commitments	<u>113,220</u>	<u>523,630</u>

Extension of loans to customers within loans and credit line limits is approved by the Bank on a case-by-case basis and depends on borrowers' financial performance, debt service and other conditions. As at 31 December 2009 and 2008 total amount of such revocable commitments come to UAH 1,724,352 thousand and UAH 1,207,684 thousand, respectively.

Capital commitments – As at 31 December 2009 and 2008 the Bank had no capital commitments.

Operating lease commitments – Where the Bank is the lessee, the future minimum lease payments under non cancellable operating leases are as follows:

	31 December 2009	31 December 2008
Less 1 year	63,907	56,491
Later than 1 year and not later than 5 years	76,335	72,191
Later than 5 years	<u>70,653</u>	<u>77,727</u>
Total operating lease commitments	<u>210,895</u>	<u>206,409</u>

Legal proceedings – From time to time and in the normal course of business, claims against the Bank are received from customers and counterparties. Management is of the opinion that no material unaccrued losses will be incurred and accordingly no provision has been made in these financial statements.

The NBU issued an instruction requiring the Bank to disclose effective interest rates on loans granted to individuals. In the judgment of the management there is no strict format of such disclosure required by the NBU. So, management is of the opinion that the Bank follows the NBU instructions.

Taxation – Due to presence in the Ukrainian commercial legislation, and tax legislation in particular, of provisions allowing more than one interpretation, and also due to the practice developed in a generally unstable environment by the tax authorities of making arbitrary judgment of business activities, if a particular treatment based on management’s judgment of the Bank’s business activities was to be challenged by the tax authorities, the Bank may be assessed additional taxes, penalties and interest. Such uncertainty may relate to the valuation of financial instruments, loss and impairment provisions and the market level for the pricing of deals. The Bank believes that it has already made all tax payments, and therefore no allowance has been made in the financial statements. Tax records remain open to review by the tax authorities for three years.

During the tax review conducted in 2006, additional tax liabilities and financial sanctions totalling UAH 11,070 thousand were assessed. The tax authorities challenged the tax deductibility of the provision for doubtful receivables. The Bank did not agree with the tax authorities and on 9 June 2006 filed a court case. On 20 September 2006 the court requested an external expert to assess the appropriateness of deductibility of the provision. On 12 March 2007 the Kyiv Research Institute of Legal Expertise agreed with the Bank’s approach. On 31 October 2007 the court found in favour of the Bank. The tax authorities appealed the decision under appeal procedure. This decision was confirmed by the Kyiv Administrative Court of Appeal, thus it has come into effect. Tax authorities appealed court decisions to the Higher Administrative Court of Ukraine; however as at the date of issue of these financial statements the date of court session was not yet appointed. No provisions for this additional tax assessment are made in these financial statements.

Pensions and retirement plans – Employees receive pension benefits in accordance with the laws and regulations of Ukraine, which requires current contributions by the employer calculated as a percentage of current gross salary payments; such expense is charged in the period the related salaries are earned. Employees have the right to receive pension in the amount of such accumulated payments from state pension fund. As at 31 December 2009 and 2008 the Bank was not liable for any supplementary pensions, post-retirement health care, insurance benefits, or retirement indemnities to its current or former employees.

Ongoing global liquidity crisis – The financial markets, both globally and in Ukraine, have faced significant volatility and liquidity constraints since the onset of the global financial crisis, which began to unfold in the autumn of 2007 and worsened since August 2008. A side effect of those events was an increased concern about the stability of the financial markets generally and the strength of counterparties, and many lenders and institutional investors have reduced funding to borrowers, which has significantly reduced the liquidity in the global financial system.

The global financial turmoil has significantly affected Ukrainian economy. It has resulted in a decrease of Ukrainian GDP, significant declines in debt and equity prices and a substantial outflow of capital.

While many countries, including Ukraine, have recently reported improvement of the situation in the financial markets, a further downturn can still occur, and further state support measures might be required. Adverse changes arising from systemic risks in global financial systems, including any tightening of the credit environment could slow or disrupt Ukrainian economy, adversely affect the Bank’s access to capital and cost of capital for the Bank and, more generally, its business, results of operations, financial condition and prospects.

While Ukrainian government has introduced a range of stabilization measures aimed at providing liquidity to Ukrainian banks and companies, there continues to be uncertainty regarding the access to capital and cost of capital for the Bank and its counterparties, which could affect the Bank’s financial position, results of operations and business prospects.

Factors including increased unemployment in Ukraine, reduced corporate liquidity and profitability, and increased corporate and personal insolvencies, have affected the Bank's borrowers' ability to repay the amounts due to the Bank. In addition, changes in economic conditions have resulted in deterioration in the value of collateral held against loans and other obligations. To the extent that information is available, the Bank has reflected revised estimates of expected future cash flows in its impairment assessment.

Management is unable to reliably estimate the effects on the Bank's financial position of any further deterioration in the liquidity of the financial markets and the increased volatility in the currency and equity markets. Management believes it is taking all the necessary measures to support the sustainability and growth of the Bank's business in the current circumstances.

Operating environment – The principal business activities of the Bank are within Ukraine. Although in recent years there has been a general improvement in economic conditions in Ukraine, Ukraine continues to display certain characteristics of an emerging market. These include, but are not limited to, currency controls and convertibility restrictions, relatively high level of inflation and continuing efforts by the government to implement structural reforms.

As a result, laws and regulations affecting businesses in Ukraine continue to change rapidly. Tax, currency and customs legislation within Ukraine is subject to varying interpretations, and other legal and fiscal impediments contribute to the challenges faced by entities currently operating in Ukraine. The future economic direction of Ukraine is largely dependent upon the effectiveness of economic, fiscal and monetary measures undertaken by the government, together with legal, regulatory, and political developments.

25. SUBSEQUENT EVENTS

Subsequently to 31 December 2009 the Bank has applied to PJSC "NJSC "Naftogaz of Ukraine" with the request to purchase Ukrainian Government debt securities (Note 14). Mutual obligations between the Bank and PJSC "NJSC "Naftogaz of Ukraine" regarding sale of bonds and repayment of the loan under reverse repurchase agreement (Note 14) were effectively settled until 31 March 2010.

Subsequently to 31 December 2009 the Bank repaid deposits to the State Treasury in the amount of UAH 5,726,375 thousand, according to terms of deposit agreements.

Subsequently to 31 December 2009 state-owned company PJSC "NJSC "Naftogaz of Ukraine" repaid loans in the amount of UAH 2,107,085 thousand.

Subsequently to 31 December 2009 state-owned company PJSC "NJSC "Naftogaz of Ukraine" restructured part of obtained loans:

No. of loan agreement	Maturity	Interest rate, %	Maturity after restructuring	Interest rate after restructuring, %	Carrying value, 31 December 2009
244/31/2	30 March 2010	16.50	30 March 2011	16.50	345,981
274/31/2	4 June 2010	13.50	31 March 2015	13.50	3,774,267
280/31/2	21 June 2010	16.50	21 June 2011	16.50	307,388
218/31/2	30 June 2010	14.00	31 March 2015	13.00	6,345,063
220/31/2	29 December 2010	14.50	31 March 2015	13.75	12,009,704
					22,782,403

Subsequently to 31 December 2009 the Bank has purchased Ukrainian Government debt securities in the amount of UAH 4,530,375 thousand and deposit certificates of the National Bank of Ukraine in the amount of UAH 300,016 thousand.

Subsequently to 31 December 2009 the Bank prolonged outstanding loans received from the National Bank of Ukraine in the total amount of UAH 14,368,959 thousand (Note 18) until year 2015. Also, the Bank received new loans from the NBU in the total amount of UAH 2,124,722 thousand and maturity in year 2012.

Subsequently to 31 December 2009 the Bank paid share of profit based on the financial results of year 2009, to the general fund of State budget of Ukraine as in the accordance with the requirements of art. 59 Law of Ukraine “On State Budget of Ukraine of 2010” in the amount UAH 207,809 thousand.

26. TRANSACTIONS WITH RELATED PARTIES

Related parties or transactions with related parties, as defined by IAS 24 “Related Party Disclosures”, represent:

- (a) Parties that directly, or indirectly through one or more intermediaries: control, or are controlled by, or are under common control with, the Bank (this includes parents, subsidiaries and fellow subsidiaries); have an interest in the Bank that gives them significant influence over the Bank; and that have joint control over the Bank;
- (b) Associates – enterprises on which the Bank has significant influence and which is neither a subsidiary nor a joint venture of the investor;
- (c) Joint ventures in which the Bank is a venturer;
- (d) Members of key management personnel of the Bank or its parent;
- (e) Close members of the family of any individuals referred to in (a) or (d);
- (f) Parties that are entities controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or
- (g) Post-employment benefit plans for the benefit of employees of the Bank, or of any entity that is a related party of the Bank.

Other related parties are represented by state-owned entities, where ownership of the State is more than 50%, state-owned banks and state authorities.

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form. The Bank had the following transactions outstanding as at 31 December 2009 and 2008 with related parties:

	31 December 2009		31 December 2008	
	Related party balances	Total category as per financial statements caption	Related party balances	Total category as per financial statements caption
Balances with the NBU	1,083,131	1,083,131	1,357,055	1,357,055
Due from banks, net:	145,368	2,956,340	1,358,280	2,185,211
- other related parties	145,368		1,358,280	
Loans to customers, gross:	36,001,156	49,834,404	22,677,870	34,962,777
- key management personnel of the Bank	3,689		3,360	
- other related parties	35,997,467		22,674,510	

	31 December 2009		31 December 2008	
	Related party balances	Total category as per financial statements caption	Related party balances	Total category as per financial statements caption
Allowance for impairment of loans to customers:				
- key management personnel of the Bank	(2,066,245)	(4,118,127)	(367,964)	(1,071,259)
- other related parties	-		(863)	
	(2,066,245)		(367,101)	
Investments available for sale, net:				
- other related parties	3,423,243	4,012,431	15,219,097	15,712,489
	3,423,243		15,219,097	
Due to banks:	15,992,437	16,022,744	21,977,745	22,239,283
- other related parties	15,992,437		21,977,745	
Customer accounts:	7,627,342	24,672,908	2,219,284	17,492,921
- key management personnel of the Bank	15,008		5,317	
- other related parties	7,612,334		2,213,967	
Contingent liabilities and credit commitments:				
- key management personnel of the Bank	602,076	1,837,572	356,191	1,731,314
- other related parties	202		5,317	
	601,874		350,874	

Included in the statement of comprehensive income for the years ended 31 December 2009 and 2008 are the following amounts which arose due to transactions with related parties:

	Year ended 31 December 2009		Year ended 31 December 2008	
	Related party transactions	Total category as per financial statements caption	Related party transactions	Total category as per financial statements caption
Interest income	5,393,635	7,777,099	611,783	2,524,529
- key management personnel of the Bank	437		360	
- other related parties	5,393,198		611,423	
Interest expense	(2,499,270)	(3,641,294)	(308,713)	(1,051,131)
- key management personnel of the Bank	(1,337)		(230)	
- other related parties	(2,497,933)		(308,483)	
Fee and commission income	178,253	1,021,387	119,388	855,801
- other related parties	178,253		119,388	
Fee and commission expense	(126,469)	(169,519)	(36,565)	(141,231)
- other related parties	(126,469)		(36,565)	
Operating expenses	(50,308)	(1,796,806)	(37,901)	(1,706,699)
- key management personnel of the Bank	(25,288)		(14,395)	
- other related parties	(25,020)		(23,506)	

	31 December 2009		31 December 2008	
	Related party transactions	Total category as per financial information caption	Related party transactions	Total category as per financial statements caption
Key management personnel compensation:				
- short-term employee benefits	(25,288)	(1,292,528)	(14,395)	(1,242,616)
- social taxes	(23,852)		(12,942)	
	(1,436)		(1,453)	

27. FAIR VALUE OF FINANCIAL INSTRUMENTS

Estimated fair value disclosures of financial instruments are made in accordance with the requirements of IFRS 7 “Financial Instruments: Disclosures” and IAS 39 “Financial Instruments: Recognition and Measurement”. Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm’s length transaction, other than in forced or liquidation sale. The estimates presented herein are not necessarily indicative of the amounts the Bank could realize in a market exchange from the sale of its full holdings of a particular instrument.

The estimated fair values of financial instruments have been determined by the Bank using available market information, where it exists, and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to determine the estimated fair value. Ukraine continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. Market quotations may be outdated or reflect distress sale transactions and therefore not represent fair values of financial instruments. Management has used all available market information in estimating the fair value of financial instruments.

Financial instruments carried at fair value – Investment securities available for sale and derivatives are carried on the statement of financial position at their fair value that was estimated using available market information or appropriate valuation technique.

Cash and cash equivalents – Cash and cash equivalents are carried at amortized cost which approximates their current fair value.

Loans and receivables carried at amortized cost – The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates of new instruments with similar credit risk and remaining maturity. Discount rates depend on currency, maturity of the instrument and credit risk of the counterparty.

Liabilities carried at amortized cost – The estimated fair value of fixed interest rate instruments with stated maturity, for which quoted market price is not available, was estimated based on expected future cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. The fair value of liabilities repayable on demand or after a notice period is estimated as the amount payable on demand discounted from the first date that the amount could be required to be paid. Discounted rates used were consistent with the Bank’s credit risk and also depend on currency and maturity of the instrument.

The fair value of financial assets and liabilities compared with the corresponding carrying amount in the statement of financial position of the Bank is presented below:

	31 December 2009		31 December 2008	
	Carrying value	Fair value	Carrying value	Fair Value
Financial assets:				
Cash and balances with the National Bank of Ukraine	2,278,352	2,278,352	2,569,226	2,569,226
Due from banks	2,956,340	2,956,340	2,185,211	2,185,211
Loans to customers	45,716,277	45,442,767	33,891,518	33,745,092
Investments available for sale	4,012,431	4,012,431	15,712,489	15,712,489
Other financial assets	11,085	11,085	17,166	17,166
Derivative financial instruments	381	381	2,276	2,276
Total financial assets	54,974,866	54,701,356	54,377,886	54,231,460
Financial liabilities:				
Due to banks	16,022,744	16,022,744	22,239,283	22,239,283
Customer accounts	24,672,908	24,276,349	17,492,921	17,444,912
Debt securities issued	446,093	446,093	501,541	316,415
Other financial liabilities	37,383	37,383	36,426	36,426
Derivative financial instruments	2,002	2,002	6,290	6,290
Subordinated debt	824,578	824,578	793,276	793,276
Total financial liabilities	42,005,708	41,609,149	41,069,737	40,836,602

Financial instruments recognised at fair value are broken down for disclosure purposes into a three level fair value hierarchy based on the observability of inputs as follows:

- Quoted prices in an active market (Level 1) – Valuations based on quoted prices in active markets that the Bank has the ability to access for identical assets or liabilities. Valuation adjustments and block discounts are not applied to these financial instruments. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuations of these products does not entail a significant amount of judgment.
- Valuation techniques based on observable market data (Level 2) – Valuations based on inputs for which all significant inputs are observable, either directly or indirectly and valuations based on one or more observable quoted prices for orderly transactions in markets that are not considered active.
- Valuation techniques incorporating information other than observable market data (Level 3) – Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

The Bank's valuation approach and fair value hierarchy categorisation for certain significant classes of financial instruments recognised at fair value is as follows:

	Quoted prices in an active market (Level 1)	Valuation techniques based on observable market data (Level 2)	Valuation techniques incorporating information other than observable market data (Level 3)
31 December 2009			
Investments available for sale	1,769,985	1,694,077	548,369
31 December 2008			
Investments available for sale	716,068	1,912,394	13,084,027

28. DERIVATIVE FINANCIAL INSTRUMENTS

Foreign exchange derivative financial instruments entered into by the Bank are generally traded in an over-the-counter market with professional market counterparties on standardized contractual terms and conditions. Derivatives have potentially favourable (assets) or unfavourable (liabilities) conditions as a result of fluctuations in market interest rates, foreign exchange rates or other variables relative to their terms. The aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

The table below sets out fair values, at the reporting date, of currencies receivable or payable under currency swap and spot agreements entered into by the Bank. The table reflects gross positions before the netting of any counterparty positions (and payments) and covers the contracts with settlement dates after the respective reporting date. The contracts are short term in nature.

Notes	31 December 2009		31 December 2008	
	Contracts with positive fair value	Contracts with negative fair value	Contracts with positive fair value	Contracts with negative fair value
Currency swap and spot agreements: fair values, at the reporting date, of:				
- USD receivable on settlement (+)	-	-	88,176	14,284
- USD payable on settlement (-)	(43,918)	(887,314)	(423,896)	(146,300)
- EUR receivable on settlement (+)	-	-	-	-
- EUR payable on settlement (-)	(70,411)	(17,173)	(22,797)	(105,389)
- UAH receivable on settlement (+)	141,112	902,485	676,518	231,115
- UAH payable on settlement (-)	-	-	(300,000)	-
- RUR receivable on settlement (+)	-	-	-	-
- RUR payable on settlement (-)	(26,402)	-	(15,725)	-
- CHF receivable on settlement (+)	-	-	87,058	-
- CHF payable on settlement (-)	-	-	(87,058)	-
Net fair value of currency swap and spot agreements	27	381	2,276	(6,290)

As at 31 December 2009 and 2008 fair value of currency swap and spot agreements is included in other assets (Note 17) and other liabilities (Note 21).

29. CAPITAL MANAGEMENT

The Bank manages its capital to ensure that the Bank will be able to continue as a going concern while maximizing the return to stakeholders through the optimization of the debt and equity balance.

The capital structure of the Bank consists of debt, which includes subordinated debt disclosed in Note 22, and equity, comprising issued capital, reserves and retained earnings as disclosed in statement of changes in equity.

The Management Board reviews the capital structure on a regular basis. As part of this review, the Board considers the cost of capital and the risks associated with each class of capital. Based on recommendations of the Management Board, the Bank balances its overall capital structure through new share issues as well as the issue of new debt or the redemption of existing debt.

30. REGULATORY MATTERS

The adequacy of the Bank's capital is monitored using, among other measures, the ratios established by the Basel Capital Accord 1988 and the ratios established by the NBU in supervising the Bank.

During the year ended 31 December 2009, the Bank had complied in full with all its externally imposed capital requirements.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios of total and Tier 1 capital to risk-weighted assets.

The following table analyzes the Bank's regulatory capital resources for capital adequacy purposes in accordance with the principles employed by the Basle Committee:

	31 December 2009	31 December 2008
Regulatory capital:		
Tier 1 capital		
Share capital	13,892,000	13,892,000
Retained earnings	322,315	212,846
Total Tier 1 qualified capital	14,214,315	14,104,846
Tier 2 capital		
Property revaluation reserve	1,147,251	1,147,679
Investments available for sale fair value reserve	(18,626)	(131,796)
Subordinated debt	798,500	770,000
Total Tier 2 qualified capital up to a limit 100% of total Tier 1 capital	1,927,125	1,785,883
Total regulatory capital	16,141,440	15,890,729
Capital ratios:		
Total regulatory capital expressed as a percentage of total risk- weighted assets	32.26%	41.47%
Total Tier 1 capital expressed as a percentage of total risk- weighted assets	28.41%	36.81%

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios of total (8%) and Tier 1 capital (4%) to risk-weighted assets.

As at 31 December 2009 the Bank included in the computation of Total capital for Capital adequacy purposes the subordinated debt received, limited to 50% of Tier 1 capital. In the event of bankruptcy or liquidation of the Bank, repayment of this debt is subordinate to the repayments of the Bank's liabilities to all other creditors.

31. RISK MANAGEMENT POLICIES

Management of risk is fundamental to the Bank's business and is an essential element of the Bank's operations. The main risks inherent to the Bank's operations are those related to credit exposures, liquidity and market movements in interest rates and foreign exchange rates. A description of the Bank's risk management policies in relation to those risks follows.

Risk management framework – The risk management policies aim to identify, analyze and manage the risks faced by the Bank, to set appropriate risk limits and controls and to continuously monitor risk levels and adherence to limits.

Risk management in the Bank is performed in accordance with the Risk Management Concept (the RMC), which was approved by both the Management Board and the Supervisory Board in 2004. The RMC is an overarching approach across the Bank, including all of its organizational departments, its headquarters, local and regional outlets and branches. It defines main risk categories that the Bank faces, and specifies the major organizational and functional levels of risk management.

The risk management functions are divided among the Supervisory Board, the Management Board, the Assets and Liabilities Management Committee (the "ALMC"), the Credit Committee of the Bank, the Regional Branch Assets and Liabilities Management Committee and Regional Branch Credit Committees according to their functional responsibilities and approved limits. The Risk Management Department is independent of other business lines and acts under supervision of the Chairman of the Management Board.

The Bank manages the following risks:

Market risk – Market risk is the risk that changes in the market prices, such as interest rates, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's/issuer's credit standing) will affect income or the value of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

The Bank separates its exposure to market risk between trading and non-trading portfolios.

Trading portfolios are mainly held by the Treasury Department.

Overall authority for market risk is vested in the ALMC. The Risk Management Department is responsible for the development of detailed risk management policies (subject to review and approval by the ALMC) and for monitoring of compliance with market risk limits and restrictions.

Credit risk – Credit risk is the risk of a financial loss if a customer or counterparty fails to meet its contractual obligations, and arises principally from loans and advances and investment securities. For risk management reporting purposes, the Bank considers and consolidates all elements of credit risk exposure (such as individual customer and counterparty default risk, country and industry risk).

Management uses the same procedures and methodologies, as defined in the policy for approving and procedures of consideration, approval and accompaniment of credit related commitments (unused loan commitments, letter of credit and guarantees) as it does for on statement of financial position credit obligations (loans). The maximum exposure to off balance sheet credit risk is reflected in Note 24.

The Bank's exposure to any single counterparty (including other banks) is further restricted by sub-limits covering on and off balance sheet exposures, which are set by the Credit Committee and the Management Board.

Management monitors concentration of credit risk by industry/sector and by geographic location.

The Bank manages its credit risk by establishing limits in relation to single borrowers and groups of borrowers, which are recommended by the relevant Credit Department and Risk Management Department, and approved by the relevant Credit Committee or the Management Board. In case the amount of loan exceeds the authority of the Management Board, the loan is approved by the Supervisory Board. The Bank also mitigates its credit risk by obtaining collateral and using other security arrangements.

The Bank decentralized the loan approval process and delegated credit risk responsibility from the Head Office Credit Committee to regional branches, by increasing the credit limit approval authorization of the Regional Credit Committees and providing regional offices with the authority to undertake certain transactions without the approval of other more senior credit committees.

In making its corporate lending decisions, the Bank evaluates potential borrowers on the basis of their financial condition as reflected in their financial statements, their credit history with the Bank and other financial institutions and the amount of risk involved in lending to a particular borrower, using a rating scale.

In evaluating the risks associated with a particular borrower, the Bank takes into account the borrower's business and factors such as the quality of its management, its main business activities, its geographic location, suppliers, customers, other indebtedness, financial stability, turnover, likely return on the loan, the liquidity of the proposed collateral and whether it is sufficient in view of the credit risk. The Bank also considers risks associated with the industry in which the borrower operates.

Consumer loans are subject to a standardized approval procedure. Loans are subject to maximum limits depending on the applicant's income, stability of future earnings, liquidity and quality of collateral. The Regional Credit Committee (or, if the branch limit is exceeded, the Head Office Credit Committee) reviews a credit application and makes the relevant decision as to whether to grant a loan.

Financial assets are graded as follows: amounts due from banks are graded according to the current credit rating they have been issued by an internationally regarded agency. The highest possible rating is AAA. Investment grade financial assets have ratings from AAA to BBB. Financial assets which have ratings lower than BBB are classed as speculative grade.

As at 31 December 2009 and 2008 the balances with the NBU amounted to UAH 1,083,131 thousand and UAH 1,357,055 thousand, respectively. The credit rating of Ukraine according to the international rating agencies in 2009 corresponded to speculative level B-

Investments available for sale, in particular, OVDP of special issue, bonds issued by State Mortgage Institution and the NBU deposit certificates, which were not rated, were included by the Bank in the range from BBB to B- based on sovereign credit rating of Ukraine.

The following table details the credit ratings of financial assets held by the Bank:

	AAA - A-	BBB - B-	Below B-	Not rated	31 December 2009 Total
Due from banks	2,117,927	52,288	62,628	723,497	2,956,340
Loans to customers	-	2,455,444	27,299,842	15,960,991	45,716,277
Investments available for sale	-	3,739,148	3,547	269,736	4,012,431
	AAA - A-	BBB - B-	Below B-	Not rated	31 December 2008 Total
Due from banks	492,431	1,021,430	54,164	617,186	2,185,211
Loans to customers	-	-	18,636,806	15,254,712	33,891,518
Investments available for sale	-	15,072,755	-	639,734	15,712,489

The banking industry is generally exposed to credit risk through its financial assets and contingent liabilities. Credit risk exposure of the Bank is concentrated within Ukraine. The exposure is monitored on a regular basis to ensure that the credit limits and credit worthiness guidelines established by the Bank's risk management policy are not breached.

Concentration risk – Concentration risk is determined by the Bank as the risk of losses due to concentration of risk in specific instruments, operations and industries.

Joint Stock Company “State Savings Bank of Ukraine” is the largest state-owned bank of Ukraine and specific character of its activities is related to significant scale of operations with state-owned companies, including according to state programs, resulting in significant concentration of credit and investment risks in relation to certain counterparties and groups of related counterparties and industries.

As at 31 December 2009 67% of the assets and 56% of the liabilities were concentrated in operations with state-owned companies, the NBU, state banks and state authorities. The Bank obtains loans from the NBU to finance lending to the state-owned companies, which comprise 38% of the liabilities.

The Bank manages concentration risk in the loan and investment portfolios by setting limits for certain counterparties and group of counterparties. Detailed description of this process is stated above, in the section about the credit risk. The Bank also uses limits based on the NBU requirements to manage the risk.

To manage the credit risk the NBU sets the following limits: – limit of maximum exposure to credit risk per individual counterparty (N7), which is determined as ratio of amount of all claims of the Bank to this counterparty and all off-balance sheet claims, issued by the Bank to this counterparty (or group of counterparties) to regulatory capital of the Bank, the ratio should not exceed 20%; and – limit of large credit risks (N8), which is determined as credit risk for the counterparty (or group of counterparties) that comprises 10% or more of the regulatory capital of the Bank.

The Management Board of the NBU set individual limit of maximum exposure to credit risk (N7) for operations with PJSC “Naftogaz of Ukraine” by individual regulation. Concentration for this counterparty is disclosed in Note 14.

The Bank did not violate breach limits on management of credit risk set by the NBU as at 31 December 2009 and 2008.

An analysis of concentration of the assets and the liabilities by currencies, maturity and geography is disclosed in respective sections of the risk management policy.

Liquidity risk – Liquidity risk refers to the availability of sufficient funds to meet deposit withdrawals and other financial commitments associated with financial instruments as they actually fall due.

In order to manage liquidity risk, the Bank performs constant monitoring of future expected cash flows on clients' and banking operations, which is a part of assets/liabilities management process.

On a monthly basis the Assets and Liability Committee analyzes funding sources taking into account changes in interest rates for the previous month and makes respective decisions for assets and liability management.

The analysis of interest rate change and liquidity risk based on carrying value of financial assets and liabilities is presented in the following table:

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	31 December 2009 Total
FINANCIAL ASSETS							
Due from banks	2,934,717	-	-	-	-	-	2,934,717
Loans to customers	407,681	15,821,794	18,948,834	6,082,080	3,945,059	510,829	45,716,277
Investments available for sale	170,184	28,715	817,386	2,787,912	200,454	-	4,004,651
Total interest bearing assets	3,512,582	15,850,509	19,766,220	8,869,992	4,145,513	510,829	52,655,645
Cash and balances with the National Bank of Ukraine	2,100,822	-	-	-	-	177,530	2,278,352
Due from banks	535	995	20,093	-	-	-	21,623
Investments available for sale	-	-	-	-	-	7,780	7,780
Other financial assets	8,829	83	1,093	621	840	-	11,466
TOTAL FINANCIAL ASSETS	5,622,768	15,851,587	19,787,406	8,870,613	4,146,353	696,139	54,974,866
FINANCIAL LIABILITIES							
Due to banks	86,953	6,467,202	8,791,757	672,212	-	-	16,018,124
Customer accounts	11,849,952	7,927,866	1,556,815	2,708,611	60,202	-	24,103,446
Debt securities issued	-	8,093	-	438,000	-	-	446,093
Subordinated debt	33,610	-	-	-	790,968	-	824,578
Total interest bearing liabilities	11,970,515	14,403,161	10,348,572	3,818,823	851,170	-	41,392,241
Due to banks	4,620	-	-	-	-	-	4,620
Customer accounts	569,462	-	-	-	-	-	569,462
Other financial liabilities	11,005	2,614	25,700	37	29	-	39,385
TOTAL FINANCIAL LIABILITIES	12,555,602	14,405,775	10,374,272	3,818,860	851,199	-	42,005,708
Liquidity gap	(6,932,834)	1,445,812	9,413,134	5,051,753	3,295,154	696,139	
Interest sensitivity gap	(8,457,933)	1,447,348	9,417,648	5,051,169	3,294,343		
Cumulative interest sensitivity gap	(8,457,933)	(7,010,585)	2,407,063	7,458,232	10,752,575		
Cumulative interest sensitivity gap as a percentage of total assets	(15%)	(12%)	4%	13%	19%		

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	31 December 2008 Total
FINANCIAL ASSETS							
Due from banks	1,970,376	79,920	100,000	-	-	-	2,150,296
Loans to customers	731,162	2,564,656	13,747,378	12,000,646	4,586,515	261,161	33,891,518
Investments available for sale	1,001,785	179,791	13,439,615	1,067,663	-	-	15,688,854
Total interest bearing assets	3,703,323	2,824,367	27,286,993	13,068,309	4,586,515	261,161	51,730,668
Cash and balances with the National Bank of Ukraine	2,487,747	-	-	-	-	81,479	2,569,226
Due from banks	34,915	-	-	-	-	-	34,915
Investments available for sale	-	-	23,635	-	-	-	23,635
Other financial assets	13,224	465	4,725	886	142	-	19,442
TOTAL FINANCIAL ASSETS	6,239,209	2,824,832	27,315,353	13,069,195	4,586,657	342,640	54,377,886
FINANCIAL LIABILITIES							
Due to banks	259,838	-	21,977,740	-	-	-	22,237,578
Customer accounts	10,807,614	336,710	1,819,312	4,068,222	62,871	-	17,094,729
Debt securities issued	-	6,946	300,000	194,595	-	-	501,541
Subordinated debt	31,570	-	-	-	761,706	-	793,276
Total interest bearing liabilities	11,099,022	343,656	24,097,052	4,262,817	824,577	-	40,627,124
Due to banks	1,705	-	-	-	-	-	1,705
Customer accounts	398,192	-	-	-	-	-	398,192
Other financial liabilities	13,176	1,258	28,249	4	29	-	42,716
TOTAL FINANCIAL LIABILITIES	11,512,095	344,914	24,125,301	4,262,821	824,606	-	41,069,737
Liquidity gap	(5,272,886)	2,479,918	3,190,052	8,806,374	3,762,051	342,640	
Interest sensitivity gap	(7,395,699)	2,480,711	3,189,941	8,805,492	3,761,938		
Cumulative interest sensitivity gap	(7,395,699)	(4,914,988)	(1,725,047)	7,080,445	10,842,383		
Cumulative interest sensitivity gap as a percentage of total assets	(13%)	(9%)	(3%)	13%	19%		

The Bank's liquidity risk management includes estimation of core current accounts, i.e. funds associated with stable customer relationships, with statistical methods applied to historic information on fluctuations of customer accounts balances. As at 31 December 2009 and 2008 core current accounts amounted to UAH 8,389,464 thousand and UAH 8,165,480 thousand, respectively. Based on going concern assumption effective maturity of core current accounts is considered to be undefined. Information as to the expected periods of repayment of customer accounts and effective liquidity gaps as at 31 December 2009 and 2008 is as follows:

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	31 December 2009 Total
TOTAL FINANCIAL ASSETS	<u>5,622,768</u>	<u>15,851,587</u>	<u>19,787,406</u>	<u>8,870,613</u>	<u>4,146,353</u>	<u>696,139</u>	<u>54,974,866</u>
TOTAL FINANCIAL LIABILITIES	<u>12,555,602</u>	<u>14,405,775</u>	<u>10,374,272</u>	<u>3,818,860</u>	<u>851,199</u>	<u>-</u>	<u>42,005,708</u>
Liquidity gap	(6,932,834)	1,445,812	9,413,134	5,051,753	3,295,154	696,139	
Corrected for: Current customer accounts analyzed based on expected withdrawal dates	<u>(8,389,464)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,389,464</u>	
TOTAL FINANCIAL LIABILITIES based on expected withdrawal dates for current customer accounts	<u>4,166,138</u>	<u>14,405,775</u>	<u>10,374,272</u>	<u>3,818,860</u>	<u>851,199</u>	<u>8,389,464</u>	
Liquidity gap based on expected withdrawal dates for current customer accounts	<u>1,456,630</u>	<u>1,445,812</u>	<u>9,413,134</u>	<u>5,051,753</u>	<u>3,295,154</u>	<u>(7,693,325)</u>	

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	31 December 2008 Total
TOTAL FINANCIAL ASSETS	6,239,209	2,824,832	27,315,353	13,069,195	4,586,657	342,640	54,377,886
TOTAL FINANCIAL LIABILITIES	11,512,095	344,914	24,125,301	4,262,821	824,606	-	41,069,737
Liquidity gap	(5,272,886)	2,479,918	3,190,052	8,806,374	3,762,051	342,640	
Corrected for: Current customer accounts analyzed based on expected withdrawal dates	(8,165,480)	-	-	-	-	8,165,480	
TOTAL FINANCIAL LIABILITIES based on expected withdrawal dates for current customer	3,346,615	344,914	24,125,301	4,262,821	824,606	8,165,480	
Liquidity gap based on expected withdrawal dates for current customer accounts	2,892,594	2,479,918	3,190,052	8,806,374	3,762,051	(7,822,840)	

A further analysis of the liquidity and interest rate risks is presented in the following tables in accordance with IFRS 7. The amounts disclosed in these tables do not correspond to the amounts recorded on the statement of financial position as the presentation below includes a maturity analysis for financial liabilities that indicates the total remaining undiscounted contractual payments (including future interest payments), which are not recognized in the statement of financial position under the effective interest rate method.

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	31 December 2009 Total
FINANCIAL LIABILITIES						
Due to banks	93,088	992,780	14,997,663	870,749	-	16,954,280
Customer accounts	12,449,395	8,096,406	1,772,663	4,563,813	111,381	26,993,658
Debt securities issued	3,866	7,358	34,296	485,113	-	530,633
Subordinated debt	33,610	-	35,933	362,519	907,695	1,339,757
Total interest bearing financial liabilities	12,579,959	9,096,544	16,840,555	6,282,194	1,019,076	45,818,328
Other financial liabilities	11,005	2,614	25,700	37	29	39,385
Contingent liabilities and irrevocable loan commitments	808	68,854	43,141	417	-	113,220
Non-derivative financial liabilities	12,591,772	9,168,012	16,909,396	6,282,648	1,019,105	45,970,933
Gross settled currency swap and spot agreements	1,045,393	-	-	-	-	1,045,393
TOTAL FINANCIAL LIABILITIES	13,637,165	9,168,012	16,909,396	6,282,648	1,019,105	47,016,326
	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	31 December 2008 Total
FINANCIAL LIABILITIES						
Due to banks	262,165	-	23,185,512	-	-	23,447,677
Customer accounts	11,561,549	818,460	3,209,356	2,385,933	36,495	18,011,793
Debt securities issued	-	15,094	335,438	215,750	-	566,282
Subordinated debt	31,570	-	34,650	489,528	805,228	1,360,976
Total interest bearing financial liabilities	11,855,284	833,554	26,764,956	3,091,211	841,723	43,386,728
Other financial liabilities	13,176	1,258	28,249	4	29	42,716
Contingent liabilities and irrevocable loan commitments	238,361	88,407	87,930	91,689	17,243	523,630
Non-derivative financial liabilities	12,106,821	923,219	26,881,135	3,182,904	858,995	43,953,074
Gross settled currency swap and spot agreements	1,102,586	-	-	-	-	1,102,586
TOTAL FINANCIAL LIABILITIES	13,209,407	923,219	26,881,135	3,182,904	858,995	45,055,660

Interest rate risk – The Bank manages fair value interest rate risk through periodic estimation of potential losses that could arise from adverse changes in market conditions.

The Assets and Liabilities Management Committee manages interest rate and market risks by matching its interest rate position, which provides the Bank with a positive interest margin. The Assets and Liabilities Management Committee conducts monitoring of the Bank’s current financial performance, estimates the Bank’s sensitivity to changes in interest rates and its influence on the Bank’s profitability.

The following table presents an analysis of interest rate risk and thus the potential of the Bank for gain or loss. Effective interest rates are presented by categories of financial assets and liabilities to determine interest rate exposure and effectiveness of the interest rate policy used by the Bank.

	31 December 2009				31 December 2008			
	UAH %	USD %	EUR %	Other %	UAH %	USD %	EUR %	Other %
ASSETS								
Due from banks	13%	1%	0.2%	2%	20%	6%	2%	3%
Loans to customers	16%	13%	14%	-	16%	13%	12%	-
Investments available for sale:								
Ukrainian Government debt securities	19%	-	-	-	10%	-	-	-
Other securities	16%	-	-	-	15%	-	-	-
LIABILITIES								
Due to banks	13%	1%	1%	2%	13%	10%	6%	-
Customer accounts:								
Current accounts	2%	5%	6%	-	2%	1%	-	-
Deposits	16%	10%	7%	-	12%	9%	8%	2%
Debt securities issued	13%	-	-	-	10%	-	-	-
Subordinated debt	-	9%	-	-	-	9%	-	-

The majority of the Bank’s loan contracts and other financial assets and liabilities contain clauses enabling the interest rate to be changed at the option of the lender. The Bank monitors its interest rate margin and consequently does not consider itself exposed to significant interest rate risk or consequential cash flow risk.

The following table presents a sensitivity analysis of interest rate risk, which has been determined based on “reasonably possible changes in the risk variable”. The level of these changes is determined by management and is contained within the risk reports provided to key management personnel.

Impact on profit before tax:

	<u>As at 31 December 2009</u>		<u>As at 31 December 2008</u>	
	Interest rate +1%	Interest rate -1%	Interest rate +1%	Interest rate -1%
Assets:				
Due from banks	29,347	(29,347)	21,503	(21,503)
Loans to customers	457,163	(457,163)	338,915	(338,915)
Investments available for sale	40,047	(40,047)	156,889	(156,889)
Liabilities:				
Due to banks	(160,181)	160,181	(222,376)	222,376
Customer accounts	(241,034)	241,034	(170,947)	170,947
Debt securities issued	(4,461)	4,461	(5,015)	5,015
Subordinated debt	(8,246)	8,246	(7,933)	7,933
Net impact on profit before tax	<u>112,635</u>	<u>(112,635)</u>	<u>111,036</u>	<u>(111,036)</u>

Price risk – Price risk is the risk that the value of a financial instrument will fluctuate as a result of unfavourable fluctuation in securities prices in the trading portfolio of the Bank, in the prices of derivative or other instruments and commodities, other than those caused by the changes in foreign exchange rates or interest rates.

The Treasury Department of the Bank performs operations with securities in compliance with internal limits, restrictions and regulations, by-laws and procedures on price risk, decisions of responsible committees and the Management Board of the Bank based on its authorities.

Currency risk – Currency risk is defined as the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Bank is exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows.

The Department of Foreign Exchange Transactions and Operations with Precious Metals, the Treasury Department and the Risk Management Department monitor Bank's open currency position on a daily basis with the aim to match requirements set by the NBU and also stipulated in loan agreements with financial organizations.

Based on the information prepared by the Department of Foreign Exchange Transactions and Operations with Precious Metals, the Treasury Department and the Risk Management Department, the Assets and Liabilities Management Committee control currency risk by management of the open currency position on the estimated basis of UAH devaluation and other macroeconomic indicators, which gives the Bank an opportunity to optimize risks of significant currency rates fluctuations towards its national currency.

Foreign currency exchange rate risk – The Bank’s exposure to foreign currency exchange rate risk is presented in the table below:

	UAH	USD USD 1 = UAH 7.98500	EUR EUR 1 = UAH 11.44889	Other currencies	31 December 2009 Total
FINANCIAL ASSETS					
Cash and balances with the National Bank of Ukraine	1,982,178	190,501	83,795	21,878	2,278,352
Due from banks	745,816	1,708,840	424,412	77,272	2,956,340
Loans to customers	37,773,755	6,718,717	1,223,805	-	45,716,277
Investments available for sale	4,012,431	-	-	-	4,012,431
Other financial assets	10,279	544	635	8	11,466
TOTAL FINANCIAL ASSETS	44,524,459	8,618,602	1,732,647	99,158	54,974,866
FINANCIAL LIABILITIES					
Due to banks	15,994,309	23,340	2,809	2,286	16,022,744
Customer accounts	16,315,178	6,670,999	1,647,334	39,397	24,672,908
Debt securities issued	446,093	-	-	-	446,093
Other financial liabilities	38,655	271	364	95	39,385
Subordinated debt	-	824,578	-	-	824,578
TOTAL FINANCIAL LIABILITIES	32,794,235	7,519,188	1,650,507	41,778	42,005,708
OPEN BALANCE SHEET POSITION	11,730,224	1,099,414	82,140	57,380	

Derivative financial instruments and spot contracts – The Bank performs transactions with derivative financial instruments, which include cross currency swap and spots. Derivatives are contracts or agreements whose value is derived from one or more underlying indices or asset values inherent in the contract or agreement, which require no or little initial net investment and are settled at a future date.

Fair value of derivative financial instruments and spot contracts are included in the currency analysis presented above and the following table presents further analysis of currency risk by types of derivative financial instruments and spot contracts:

	UAH	USD USD 1 = UAH 7.98500	EUR EUR 1 = UAH 11.44889	Other currencies	31 December 2009 Total
Accounts receivable on spot and derivative contracts	1,043,597	-	-	-	1,043,597
Accounts payable on spot and derivative contracts	-	(931,232)	(87,584)	(26,402)	(1,045,218)
OPEN POSITION	12,773,821	168,182	(5,444)	30,978	

	UAH	USD USD 1 = UAH 7.70000	EUR EUR 1 = UAH 10.85546	Other currencies	31 December 2008 Total
FINANCIAL ASSETS					
Cash and balances with the National Bank of Ukraine	2,240,115	188,665	100,952	39,494	2,569,226
Due from banks	1,555,307	551,816	42,831	35,257	2,185,211
Loans to customers	31,109,571	2,398,391	365,924	17,632	33,891,518
Investments available for sale	15,712,489	-	-	-	15,712,489
Other financial assets	19,181	228	32	1	19,442
TOTAL FINANCIAL ASSETS	50,636,663	3,139,100	509,739	92,384	54,377,886
FINANCIAL LIABILITIES					
Due to banks	21,979,932	236,343	21,838	1,170	22,239,283
Customer accounts	15,790,750	1,287,121	381,918	33,132	17,492,921
Debt securities issued	501,541	-	-	-	501,541
Other financial liabilities	39,962	2,735	19	-	42,716
Subordinated debt	-	793,276	-	-	793,276
TOTAL FINANCIAL LIABILITIES	38,312,185	2,319,475	403,775	34,302	41,069,737
OPEN BALANCE SHEET POSITION	12,324,478	819,625	105,964	58,082	
	UAH	USD USD 1 = UAH 7.70000	EUR EUR 1 = UAH 10.85546	Other currencies	31 December 2008 Total
Accounts receivable on spot and derivative contracts	907,633	102,460	-	87,058	1,097,151
Accounts payable on spot and derivative contracts	(300,000)	(570,196)	(128,186)	(102,783)	(1,101,165)
OPEN POSITION	12,932,111	351,889	(22,222)	42,357	

Currency risk sensitivity – The following table details the Bank’s sensitivity to an increase and decrease in the USD and EURO against the UAH, in result of possible changes in currency rates. Sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management’s assessment of the possible change in foreign currency exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the period for the appropriate change in foreign currency rates. The sensitivity analysis includes external loans within the Bank where the denomination of the loan is in a currency other than the currency of the lender or the borrower.

	<u>As at 31 December 2009</u>		<u>As at 31 December 2008</u>	
	<u>UAH/USD</u>	<u>UAH/USD</u>	<u>UAH/USD</u>	<u>UAH/USD</u>
	+10%	-10%	+20%	-20%
Impact on profit before tax	16,818	(16,818)	70,378	(70,378)

	<u>As at 31 December 2009</u>		<u>As at 31 December 2008</u>	
	<u>UAH/EUR</u>	<u>UAH/EUR</u>	<u>UAH/EUR</u>	<u>UAH/EUR</u>
	+10%	-10%	+20%	-20%
Impact on profit before tax	(544)	544	(4,444)	4,444

Limitations of sensitivity analysis – The above tables demonstrate the effect of a change in a key assumption while other assumptions remain unchanged. In reality there is a correlation between the assumptions and other factors. It should also be noted that these sensitivities are non-linear, and larger or smaller impacts should not be interpolated or extrapolated from these results.

The sensitivity analyses do not take into consideration that the Bank's assets and liabilities are actively managed. Additionally, the financial position of the Bank may vary at the time that any actual market movement occurs. For example, the Bank's financial risk management strategy aims to optimize the exposure to market fluctuations on the Bank activities. As investment markets move past various trigger levels, management actions could include selling investments, changing investment portfolio allocation and taking other protective action. Consequently, the actual impact of a change in the assumptions may not have any impact on the liabilities, whereas assets are held at market value on the statement of financial position. In these circumstances, the different measurement bases for liabilities and assets may lead to volatility in shareholder equity.

Other limitations in the above sensitivity analyses include the use of hypothetical market movements to demonstrate potential risk that only represent the Bank's view of possible near-term market changes that cannot be predicted with any certainty; and the assumption that all interest rates move in an identical fashion.

Geographical concentration – The geographical concentration of assets and liabilities is set out below:

	Ukraine	Other non-OECD countries	OECD countries	31 December 2009 Total
FINANCIAL ASSETS				
Cash and balances with the National				
Bank of Ukraine	2,278,352	-	-	2,278,352
Due from banks	783,906	54,507	2,117,927	2,956,340
Loans to customers	45,716,277	-	-	45,716,277
Investments available for sale	4,012,431	-	-	4,012,431
Other financial assets	11,466	-	-	11,466
TOTAL FINANCIAL ASSETS	52,802,432	54,507	2,117,927	54,974,866
FINANCIAL LIABILITIES				
Due to banks	16,012,958	9,786	-	16,022,744
Customer accounts	24,672,908	-	-	24,672,908
Debt securities issued	446,093	-	-	446,093
Other financial liabilities	39,380	1	4	39,385
Subordinated debt	-	-	824,578	824,578
TOTAL FINANCIAL LIABILITIES	41,171,339	9,787	824,582	42,005,708
NET POSITION	11,631,093	44,720	1,293,345	
	Ukraine	Other non-OECD countries	OECD countries	31 December 2008 Total
FINANCIAL ASSETS				
Cash and balances with the National				
Bank of Ukraine	2,569,226	-	-	2,569,226
Due from banks	1,657,329	27,397	500,485	2,185,211
Loans to customers	33,891,518	-	-	33,891,518
Investments available for sale	15,712,489	-	-	15,712,489
Other financial assets	19,442	-	-	19,442
TOTAL FINANCIAL ASSETS	53,850,004	27,397	500,485	54,377,886
FINANCIAL LIABILITIES				
Due to banks	22,201,351	37,932	-	22,239,283
Customer accounts	17,486,614	3,169	3,138	17,492,921
Debt securities issued	501,541	-	-	501,541
Other financial liabilities	42,716	-	-	42,716
Subordinated debt	-	-	793,276	793,276
TOTAL FINANCIAL LIABILITIES	40,232,222	41,101	796,414	41,069,737
NET POSITION	13,617,782	(13,704)	(295,929)	