PRIVATBANK GROUP

International Financial Reporting Standards Consolidated Financial Statements and Independent Auditor's Report

31 December 2008

CONTENTS

PRICEWATERHOUSECOOPERS

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders and Management Board of PrivatBank:

1 We have audited the accompanying consolidated financial statements of Closed Joint Stock Company Commercial Bank PrivatBank (the "Bank") and its subsidiaries (together referred to as the "Group") which comprise the consolidated balance sheet as of 31 December 2008 and the consolidated income statement, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

LLC AF PricewaterhouseCoopers (Audit)

30 June 2009
Kyiv, Ukraine

In millions of Ukrainian hryvnias	Note	31 December 2008	31 December 2007
ASSETS			
Cash and cash equivalents and mandatory reserves	7	9,392	7,952
Trading securities	8	87	16
Other financial assets at fair value through profit or loss		14	16
Due from other banks	9	2,662	1,328
Loans and advances to customers	10	68,074	43,070
Financial derivatives	32	2,551	41
Investment securities available for sale	11	4	4
Investment securities held to maturity	12	-	1,160
Deferred income tax asset	27	97	34
Goodwill		50	35
Intangible assets	13	3	1
Premises, leasehold improvements and equipment	13	3,486	2,245
Other financial assets	14	302	188
Other assets	15	798	180
TOTAL ASSETS		87,520	56,270
LIABILITIES			
Due to other banks and other financing institutions	16	10,147	6,240
Customer accounts	17	56,970	36,003
Debt securities in issue	18	7,370	6,359
Current income tax liability		7	295
Deferred income tax liability	27	1,132	646
Provisions for liabilities and charges, other financial and non-financial liabilities	19	731	384
Subordinated debt	20	1,333	937
TOTAL LIABILITIES		77,690	50,864
EQUITY			
Share capital	21	5,939	2,967
Additional capital	22	462	462
Revaluation reserve for premises	22	908	361
Currency translation reserve	22	330	33
Retained earnings		2,097	1,484
Net assets attributable to the equity holders of the Bank		9,736	5,307
Minority interest		94	99
TOTAL EQUITY		9,830	5,406
TOTAL LIABILITIES AND EQUITY		87,520	56,270

Approved for issue and signed on behalf of the Management Board on 30 June 2009.

Olexander V. Dubilet
Chairman of the Board

Kira P. Kudla
Acting Chief Accountant

In millions of Ukrainian hryvnias	Note	2008	2007
Interest income	23	11,607	7,034
Interest expense	23	(5,185)	(3,021)
Net interest income		**6,422**	**4,013**
Provision for impairment of loans and advances to customers	10	(4,507)	(666)
Net interest income after provision for impairment of loans and advances to customers		**1,915**	**3,347**
Fee and commission income	24	2,111	1,473
Fee and commission expense	24	(304)	(161)
Losses less gains from trading securities		(100)	-
Losses less gains from financial derivatives	32	(35)	(13)
Losses less gains from other financial assets at fair value through profit or loss		(9)	-
Gains less losses from trading in foreign currencies		974	351
Foreign exchange translation gains less losses	29	2,897	15
Impairment of investment securities available-for-sale	11	(1)	(607)
Gains less losses from disposals of investment securities available-for-sale	11	43	145
(Provision)/release of provision for credit related commitments	31, 19	(8)	48
Other operating income	25	79	87
(Losses less gains)/ gains less losses arising from early retirement of debt		(9)	5
Administrative and other operating expenses	26	(5,015)	(3,236)
Excess of interest in the fair value of the net assets of the subsidiary acquired over the cost of investment		-	60
Profit before tax		**2,538**	**1,514**
Income tax	27	(551)	(392)
Profit for the year		**1,987**	**1,122**
Profit is attributable to			
Equity holders of the Bank		2,027	1,101
Minority interest		(40)	21
Profit for the year		**1,987**	**1,122**

In millions of Ukrainian hryvnias	Note	Attributable to equity holders of the Bank							Minority Interest	Total equity
		Share capital	Additional capital	Revaluation reserve for premises	Revaluation reserve for securities available-for-sale	Currency translation reserve	Retained earnings	Total		
Balance at 1 January 2007		**2,335**	**82**	**356**	**6**	**5**	**381**	**3,165**	**83**	**3,248**
Securities available-for-sale:										
- Disposals	11	-	-	-	(8)	-	-	(8)	-	(8)
Premises:										
- Revaluation	13	-	-	9	-	-	-	9	3	12
- Realised revaluation reserve	13	-	-	(3)	-	-	3	-	-	-
Income tax recorded in equity	27	-	-	(1)	2	-	(1)	-	(1)	(1)
Currency translation differences		-	-	-	-	28	-	28	12	40
Net income recognised directly in equity		-	-	5	(6)	28	2	29	14	43
Profit for the year		-	-	-	-	-	1,101	1,101	21	1,122
Total recognised income for the year		-	-	5	(6)	28	1,103	1,130	35	1,165
Paid-in share capital	21	632	-	-	-	-	-	632	-	632
Additional capital										
- Cash contribution	22	-	506	-	-	-	-	506	-	506
- Income tax liability	22	-	(126)	-	-	-	-	(126)	-	(126)
Funds contributed by minority into share capital of subsidiaries		-	-	-	-	-	-	-	3	3
Purchase of minority		-	-	-	-	-	-	-	(62)	(62)
Business combinations		-	-	-	-	-	-	-	40	40
Balance at 31 December 2007		**2,967**	**462**	**361**	**-**	**33**	**1,484**	**5,307**	**99**	**5,406**

In millions of Ukrainian hryvnias	Note	Attributable to equity holders of the Bank							Minority Interest	Total equity
		Share capital	Additional capital	Revaluation reserve for premises	Revaluation reserve for securities available-for-sale	Currency translation reserve	Retained earnings	Total		
Balance at 31 December 2007		**2,967**	**462**	**361**	**-**	**33**	**1,484**	**5,307**	**99**	**5,406**
Premises:										
- Revaluation	13	-	-	805	-	-	-	805	-	805
- Impairment charge through equity		-	-	(17)	-	-	-	(17)	-	(17)
- Realised revaluation reserve		-	-	(43)	-	-	43	-	-	-
Income tax recorded in equity		-	-	(198)	-	-	-	(198)	-	(198)
Currency translation differences		-	-	-	-	297	-	297	35	332
Net income recognised directly in equity		-	-	547	-	297	43	887	35	922
Profit for the year		-	-	-	-	-	2,027	2,027	(40)	1,987
Total recognised income for the year		-	-	547	-	297	2,070	2,914	(5)	2,909
Paid-in share capital	21	1,515	-	-	-	-	-	1,515	-	1,515
Capitalisation of dividends	21	1,457	-	-	-	-	(1,457)	-	-	-
Balance at 31 December 2008		**5,939**	**462**	**908**	**-**	**330**	**2,097**	**9,736**	**94**	**9,830**

In millions of Ukrainian hryvnias	**Note**	**2008**	**2007**
Cash flows from operating activities			
Interest received		10,831	6,349
Interest paid		(5,105)	(2,599)
Fees and commissions received		2,084	1,405
Fees and commissions paid		(304)	(161)
Losses from trading in trading securities		(100)	-
Losses from financial derivatives		(6)	(10)
Income received from trading in foreign currencies		974	357
Other operating income received		125	91
Staff costs paid		(1,919)	(1,556)
Administrative and other operating expenses paid		(3,258)	(1,447)
Income tax paid		(614)	(174)
Cash flows from operating activities before changes in operating assets and liabilities		**2,708**	**2,255**
Changes in operating assets and liabilities			
Net decrease/(increase) in mandatory reserve balances		852	(416)
Net (increase)/decrease in trading securities		(72)	7
Net decrease in other financial assets at fair value through profit or loss		5	4
Net increase in due from other banks		(465)	(701)
Net increase in loans and advances to customers		(14,318)	(16,457)
Net decrease in other financial assets		5	14
Net increase in other assets		(119)	(71)
Net (decrease)/increase in due to other banks		(2,177)	1,846
Net increase in customer accounts		7,695	12,318
Net increase in provisions for liabilities and charges, other financial and non-financial liabilities		196	98
Net cash used in operating activities		**(5,690)**	**(1,103)**
Cash flows from investing activities			
Acquisition of investment securities available-for-sale		-	(539)
Proceeds from disposal of investment securities available-for-sale		-	596
Acquisition of investment securities held to maturity	12	-	(1,160)
Proceeds from redemption of investment securities held to maturity	12	1,160	-
Acquisition of premises, leasehold improvements and equipment		(1,058)	(737)
Proceeds from disposal of premises, leasehold improvements and equipment		283	3
Acquisition of intangible assets		(3)	-
Dividends received		6	-
Acquisition of subsidiaries, net of cash acquired		-	(38)
Net cash from/(used in) investing activities		**388**	**(1,875)**
Cash flows from financing activities			
Proceeds from refinancing loan from central banks	16	3,534	-
Proceeds from subordinated debt	20	18	-
Repayment of subordinated debt	20	-	(1)
Issue of ordinary shares	21	1,515	632
Proceeds from debt securities issued		862	5,331
Repayment of debt securities issued		(1,179)	(17)
Contributions from shareholders		-	506
Funds contributed by minority into share capital of subsidiaries		-	1
Net cash from financing activities		**4,750**	**6,452**
Effect of exchange rate changes on cash and cash equivalents		**2,845**	**186**
Net increase in cash and cash equivalents		**2,293**	**3,660**
Cash and cash equivalents at the beginning of the year		7,068	3,408
Cash and cash equivalents at the end of the year	7	**9,361**	**7,068**

Investing and financing transactions that did not require the use of cash and cash equivalents were excluded from the cash flow statement and are disclosed in Note 7.

1 Introduction

These financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2008 for PrivatBank (the “Bank”) and its subsidiaries (together referred to as the “Group” or “PrivatBank Group”).

The Bank was incorporated and is domiciled in Ukraine. The Bank is a closed joint stock company limited by shares and was set up in accordance with Ukrainian regulations. As of 31 December 2008 and 2007 the ultimate major shareholders of the Bank were 2 Ukrainian citizens Mr I.V. Kolomoyskiy and Mr G.B. Bogolyubov who as at 31 December 2008 owned respectively 49.02% (2007: 43.44%) and 48.86% (2007: 43.44%) of the outstanding shares and neither of which individually controlled the Bank.

Amendments to Ukrainian banking legislation introduced in 2006 provide that banks in Ukraine may exist either in the form of an open joint stock company or as a cooperative bank. The banks in other corporate forms, such as closed joint company or limited liability company must be transformed into open joint stock companies before September 2009.

In addition, on 29 April 2009 a new Joint Stock Company Law entered into force, which provides that joint stock companies may be either public or private. The new Joint Stock Company Law establishes additional requirements for the banks to bring their statutory documents in compliance with this requirement before 29 April 2011. The Group does not expect the transformation to have any impact on its consolidated financial statements apart from certain additional disclosures required for public companies.

Principal activity. The Bank’s principal business activity is commercial and retail banking operations within Ukraine. The Bank was initially registered as a commercial entity with limited liability and re-organised into a closed joint stock entity in 2000.The Bank has operated under a full banking licence issued by the National Bank of Ukraine (the “NBU”) since March 1992. The Bank participates in the state deposit insurance scheme (registration #113 dated 2 September 1999), which operates according to the Law №2740-III “On Individuals Deposits Guarantee Fund” dated 20 September 2001 (as amended). Individuals Deposits Guarantee Fund guarantees repayment of individual deposits up to UAH 150 thousand (2007: UAH 50 thousand) per individual in case bank liquidation procedure is started.

As at 31 December 2008 the Bank had 37 branches and 3,241 outlets within Ukraine and a branch in Cyprus (2007: 39 branches, 2,808 outlets in Ukraine and a branch in Cyprus). Additionally, as at 31 December 2008 and 2007 the Bank had subsidiary banks in the Russian Federation, Latvia, Georgia and representative offices in Kyiv (Ukraine), Moscow (Russia), Almaty (Kazakhstan), London (United Kingdom) and Beijing (China) and three special purpose entities in the United Kingdom.

As at 31 December 2008 principal subsidiaries included in the consolidated financial statements, were as follows:

			Percentage of legal ownership	
Name	**Nature of business**	**Country of registration**	**31 December 2008**	**31 December 2007**
AS PrivatBank	Banking	Latvia	95.07%	63.38%
Moscomprivatbank	Banking	Russian Federation	86.20%	86.20%
JSC TaoPrivatBank	Banking	Georgia	75.00%	75.00%

Registered address and place of business. The Bank’s registered address is:

50, Naberezhna Peremohy Str.,
49094, Dnipropetrovsk,
Ukraine.

Presentation currency. These financial statements are presented in millions of Ukrainian hryvnias ("UAH million"), unless otherwise stated.

2 Operating Environment of the Group

Ukraine continues to display characteristics of an emerging market. These characteristics include, but are not limited to, the existence of a currency that is not freely convertible outside of Ukraine, restrictive currency controls, and high inflation of 22.3% for the year ended 31 December 2008 (2007: 16.6%). The financial situation in the Ukrainian market significantly deteriorated during 2008, particularly in the fourth quarter.

The ongoing global financial and economic crisis that emerged out of the severe reduction in global liquidity which commenced in the middle of 2007 (often referred to as the "Credit Crunch") has resulted in, among other things, a lower level of capital market funding, lower liquidity levels across the banking sector and the wider economy, and, at times, higher interbank lending rates and very high volatility in stock and currency markets. The uncertainties in the global financial markets have also led to failures of banks and other financial sector participants and to bank rescues in the United States of America, Western Europe, Ukraine and elsewhere. Since October 2008 the NBU introduced temporary administration at a number of Ukrainian banks due to their liquidity problems. The full extent of the impact of the ongoing financial crisis is proving to be difficult to anticipate or completely guard against.

As a result of the global financial crisis, the Ukrainian economy experienced a reduced level of capital inflow and a decrease in demand for exports. Additionally, the country ratings by international rating agencies were downgraded in October 2008 and February 2009 (refer to Note 36). These factors, together with increasing domestic uncertainty, led to volatility in the currency exchange market and resulted in significant downward pressure on the Ukrainian hryvnia relative to major foreign currencies. Since October 2008 the NBU has been entering the market to support the national currency. The official UAH to US Dollar (USD) exchange rate of the National Bank of Ukraine devalued from UAH 4.861 per USD 1 at 30 September 2008 to UAH 7.70 per USD 1 at 31 December 2008 and UAH UAH 7.6303 per USD 1 at the date of approval of these consolidated financial statements for issue.

In the light of the current economic turmoil, the International Monetary Fund (the IMF) has agreed to issue an SDR 11 billion stabilizing loan to Ukraine if the country complies with certain requirements. The first tranche of SDR 3 billion has been received in November 2008 and the next tranche of SDR 1.25 billion was due in February 2009. However completion of the first review of Ukraine's economic performance under the Stand-By Arrangement was significantly delayed and the release of the second tranche of SDR 1.9 billion was approved only in May 2009 after the Executive Board of the IMF granted waivers of non-observance of certain performance criteria. The major condition for qualifying for the loan was the development and ratification of a government anti-crisis package aiming to stabilize the economy, including determining the shortfall in capital and liquidity existing in the banking sector and taking the necessary steps to address the shortfalls. The loan is expected to have a positive effect on the Ukrainian economy, however the receipt of the next tranches is subject to the IMF's conclusion on progress made by Ukraine in addressing structural issues.

A number of measures have been undertaken to support the Ukrainian financial markets, including the following:

- On 13 October 2008 National Bank of Ukraine took the decision to impose a limitation on pre-term withdrawal of deposits. Additional restrictions were imposed on credit and currency transactions, which significantly reduced the volume of lending operations.
- On 31 October 2008 the Parliament of Ukraine adopted the Law On Immediate Measures for Prevention of Negative Consequences of Financial Crisis and Changes to Certain Legal Acts of Ukraine, which, in particular, raised the guarantee repayment of individual deposit from Individual Deposits Guarantee Fund to UAH 150,000 per individual in case bank liquidation procedures are commenced.
- The list of assets which can be pledged under refinancing agreements with the NBU was significantly extended.
- The NBU significantly increased volumes of liquidity support provided to Ukrainian banks; during October-December 2008 the total volume of liquidity support operations including overnight loans, loans sold through auctions and other facilities amounted to UAH 99 billion.
- Mandatory reserves requirements were eased to provide additional liquidity to the banking sector.

2 Operating Environment of the Group (Continued)

The volume of wholesale financing has significantly reduced since August 2007. Such circumstances may affect the ability of the Group to obtain new borrowings and re-finance its existing borrowings at terms and conditions similar to those applied to earlier transactions. As a result of unfavourable market conditions, the volume of operations on interbank market has decreased significantly. The primary factors influencing the given dynamics are overall illiquid market conditions between Ukrainian banks and a tightening of the NBU's monetary policy in the first half of 2008.

Borrowers of the Group may be adversely affected by the financial and economic environment, which could in turn impact their ability to repay the amounts owed. As a significant part of loans to customers was issued in foreign currencies, UAH depreciation against these currencies had a significant impact on borrowers' ability to service the loans. Deteriorating economic conditions for borrowers may also have an impact on management's cash flow forecasts and assessment of the impairment of financial and non-financial assets. To the extent that information is available, management has properly reflected revised estimates of expected future cash flows in its impairment assessments.

The amount of provision for impaired loans is based on management's appraisals of these assets at the balance sheet date after taking into consideration the cash flows that may result from foreclosure less costs for obtaining and selling the collateral. The market in Ukraine for many types of collateral, especially real estate, has been severely affected by the recent volatility in global financial markets resulting in there being a low level of liquidity for certain types of assets. As a result, the actual realisable value on foreclosure may differ from the value ascribed in estimating allowances for impairment.

As a result of global volatility in financial and commodity markets, among other factors, there has been a significant decline in the Ukrainian stock market since mid-2008.

The fair values of quoted investments in active markets are based on current bid prices (financial assets) or offer prices (financial liabilities). If there is no active market for a financial instrument, the Group establishes fair value using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants. The valuation models reflect current market conditions at the measurement date which may not be representative of market conditions either before or after the measurement date. As at the balance sheet date management has reviewed its models to ensure they appropriately reflect current market conditions, including the relative liquidity of the market and credit spreads.

The market in Ukraine for many types of real estate has been severely affected by the recent volatility in global financial markets. As such the carrying value of land and buildings measured at fair value in accordance with IAS 16 has been updated to reflect market conditions at the reporting date.

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

Management is unable to reliably determine the effects on the Group's future 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 of the Group's business in the current circumstances. Refer also to Note 36.

3 Summary of Significant Accounting Policies

Basis of preparation. These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention, as modified by the initial recognition of financial instruments based on fair value, and by the revaluation of premises, available-for-sale financial assets, and financial instruments categorised as at fair value through profit or loss. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated (refer to Note 5).

3 Summary of Significant Accounting Policies (Continued)

Consolidated financial statements. Subsidiaries are those companies and other entities (including special purpose entities) in which the Group, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies so as to obtain benefits. The existence and effect of potential voting rights that are presently exercisable or presently convertible are considered when assessing whether the Group controls another entity. Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are deconsolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. The date of exchange is the acquisition date where a business combination is achieved in a single transaction, and is the date of each share purchase where a business combination is achieved in stages by successive share purchases.

The excess of the cost of acquisition over the acquirer's share of the fair value of the net assets of the acquiree at each exchange transaction is recorded as goodwill. The excess of the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired over cost ("negative goodwill") is recognised immediately in profit or loss.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any minority interest.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. The Bank and all of its subsidiaries use uniform accounting policies consistent with the Group's policies.

Minority interest is that part of the net results and of the net assets of a subsidiary attributable to interests which are not owned, directly or indirectly, by the Bank. Minority interest forms a separate component of the Group's equity.

Purchases and sales of minority interests. The Group applies the parent company model to account for transactions with minority shareholders. Any difference between the purchase consideration and the carrying amount of minority interest acquired is recorded as goodwill or negative goodwill. The Group recognises the difference between sales consideration and carrying amount of minority interest sold as a gain or loss in the consolidated income statement.

Financial instruments – key measurement terms. Depending on their classification financial instruments are carried at fair value, cost, or amortised cost as described below.

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

In other than active markets, the most recent arms length transactions are the basis of current fair values. Recent transaction prices are appropriately adjusted if they do not reflect current fair values, for example because the transaction was a distress sale. Fair value is not the amount that an entity would receive or pay in a forced transaction, involuntary liquidation or distress sale.

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

3 Summary of Significant Accounting Policies (Continued)

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition and includes *transaction costs*. Measurement at cost is only applicable to investments in equity instruments that do not have a quoted market price and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments.

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

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

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

Initial recognition of financial instruments. Trading securities, derivatives and other financial instruments at fair value through profit or loss are initially recorded at fair value. All other financial instruments are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date that the Group commits to deliver a financial asset. All other purchases are recognised when the entity becomes a party to the contractual provisions of the instrument.

Derecognition of financial assets. The Group derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all the risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

Cash and cash equivalents. Cash and cash equivalents are items which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. All short term interbank placements, beyond overnight placements, are included in due from other banks. Amounts, which relate to funds that are of a restricted nature, are excluded from cash and cash equivalents. Cash and cash equivalents include cash on hand, unrestricted demand and overnight deposits with central and other banks. Cash and cash equivalents are carried at amortised cost.

3 Summary of Significant Accounting Policies (Continued)

Mandatory cash balances with the NBU. Mandatory cash balances with the NBU are carried at amortised cost and represent non-interest bearing mandatory reserve deposits which are not available to finance the Group's day to day operations and hence are not considered as part of cash and cash equivalents for the purposes of the consolidated cash flow statement.

Trading securities. Trading securities are financial assets which are either acquired for generating a profit from short-term fluctuations in price or trader's margin, or are securities included in a portfolio in which a pattern of short-term trading exists. The Group classifies securities into trading securities if it has an intention to sell them within a short period after purchase, i.e. within 3 months. The Group may choose to reclassify a non-derivative trading financial asset out of the fair value through profit or loss category if the asset is no longer held for the purpose of selling it in the near term. Financial assets other than loans and receivables are permitted to be reclassified out of fair value through profit or loss category only in rare circumstances arising from a single event that is unusual and highly unlikely to reoccur in the near term. Financial assets that would meet the definition of loans and receivables may be reclassified if the Group has the intention and ability to hold these financial assets for the foreseeable future or until maturity.

Trading securities are carried at fair value. Interest earned on trading securities calculated using the effective interest method is presented in the consolidated income statement as interest income. Dividends are included in dividend income within other operating income when the Group's right to receive the dividend payment is established and it is probable that the dividends will be collected. All other elements of the changes in the fair value and gains or losses on derecognition are recorded in profit or loss as gains less losses from trading securities in the period in which they arise.

Other securities at fair value through profit or loss. Other securities at fair value through profit or loss are financial assets designated irrevocably, at initial recognition, into this category. Management designates securities into this category only if (a) such classification eliminates or significantly reduces an accounting mismatch that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or (b) a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information on that basis is regularly provided to and reviewed by the Group's key management personnel. Recognition and measurement of this category of financial assets is consistent with the above policy for trading securities.

Due from other banks. Amounts due from other banks are recorded when the Group advances money to counterparty banks with no intention of trading the resulting unquoted non-derivative receivable due on fixed or determinable dates. Amounts due from other banks are carried at amortised cost.

Loans and advances to customers. Loans and advances to customers are recorded when the Group advances money to purchase or originate an unquoted non-derivative receivable from a customer due on fixed or determinable dates and has no intention of trading the receivable. Loans and advances to customers are carried at amortised cost.

When impaired financial assets are renegotiated and the renegotiated terms and conditions differ substantially from the previous terms, the new asset is initially recognised at its fair value.

Impairment of financial assets carried at amortised cost. Impairment losses are recognised 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 Group 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 Group considers in determining whether a financial asset is impaired are its overdue status and realisability of related collateral, if any.

3 Summary of Significant Accounting Policies (Continued)

The following other principal criteria are also used to determine whether 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 the borrower's financial information that the Group 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; or
- 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. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of 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 the contractual cash flows of the assets and the 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 did not affect past periods and to remove the effects of past conditions that do not exist currently. Past experience is the basis for the estimation of the loss identification period, in particular the time lag between the actual loss event and identification of the loss event by the Group. This approach ensures that the impact of losses which have not yet been specifically identified, is included in the estimation of loan loss impairment.

If the terms of an impaired financial asset held at amortised cost are renegotiated or otherwise modified because of financial difficulties of the borrower or issuer, impairment is measured using the original effective interest rate before the modification of terms.

Impairment losses are always recognised through an allowance account to write down the asset's carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the original effective interest rate of the asset. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

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 recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account through profit or loss.

Uncollectible assets are written off against the related impairment loss provision after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to impairment loss account in the income statement.

Credit related commitments. The Group enters into credit related commitments, including commitments to extend credit, letters of credit and financial guarantees. Financial guarantees represent irrevocable assurances to make payments in the event that a customer cannot meet its obligations to third parties and carry the same credit risk as loans. Financial guarantees and commitments to provide a loan are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the commitment, except for commitments to originate loans if it is probable that the Group will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination; such loan commitment fees are deferred and included in the carrying value of the loan on initial recognition. At each balance sheet date, the commitments are measured at the higher of (i) the remaining unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the commitment at the balance sheet date.

3 Summary of Significant Accounting Policies (Continued)

Investment securities available for sale. This classification includes investment securities which the Group intends to hold for an indefinite period of time and which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. The Group classifies investments as available for sale at the time of purchase.

Investment securities available for sale are carried at fair value. Interest income on available-for-sale debt securities is calculated using the effective interest method and recognised in profit or loss. Dividends on available-for-sale equity instruments are recognised in profit or loss when the Group's right to receive payment is established and it is probable that the dividends will be collected. All other elements of changes in the fair value are deferred in equity until the investment is derecognised or impaired, at which time the cumulative gain or loss is removed from equity to profit or loss.

Impairment losses are recognised in profit or loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of investment securities available for sale. A significant or prolonged decline in the fair value of an equity security below its cost is an indicator that it is impaired. The cumulative impairment loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss. Impairment losses on equity instruments are not reversed through profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through current period's profit or loss.

Sale and repurchase agreements. Sale and repurchase agreements ("repo agreements") which effectively provide a lender's return to the counterparty are treated as secured financing transactions. Securities sold under such sale and repurchase agreements are not derecognised. The securities are not reclassified in the balance sheet unless the transferee has the right by contract or custom to sell or repledge the securities, in which case they are reclassified as repurchase receivables. The corresponding liability is presented within amounts due to other banks.

Securities purchased under agreements to resell ("reverse repo agreements") which effectively provide a lender's return to the Group are recorded as due from other banks or loans and advances to customers, as appropriate. The difference between the sale and repurchase price is treated as interest income and accrued over the life of repo agreements using the effective interest method.

Investment securities held to maturity. This classification includes quoted non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has both the intention and ability to hold to maturity. Management determines the classification of investment securities held to maturity at their initial recognition and reassesses the appropriateness of that classification at each balance sheet date. Investment securities held to maturity are carried at amortised cost.

Promissory notes purchased. Promissory notes purchased are included in trading securities, or in due from other banks or in loans and advances to customers, depending on their substance and are recorded, subsequently remeasured and accounted for in accordance with the accounting policies for these categories of assets.

Goodwill. Goodwill represents the excess of the cost of an acquisition over the fair value of the acquirer's share of the identifiable assets, liabilities and contingent liabilities of the acquired subsidiary at the date of exchange. Goodwill on acquisitions of subsidiaries is presented separately in the consolidated balance sheet. Goodwill on acquisitions of associates is included in the investment in associates. Goodwill is carried at cost less accumulated impairment losses, if any.

The Group tests goodwill for impairment at least annually and whenever there are indications that goodwill may be impaired. Goodwill is allocated to the cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the business combination. Such units or group of units represent the lowest level at which the Group monitors goodwill and are not larger than a segment. Gains or losses on disposal of an operation within a cash generating unit to which goodwill has been allocated include the carrying amount of goodwill associated with the operation disposed of, generally measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit which is retained.

3 Summary of Significant Accounting Policies (Continued)

Premises, leasehold improvements and equipment. Premises, leasehold improvements and equipment are stated at cost, restated to the equivalent purchasing power of the Ukrainian hryvnia at 31 December 2000 for assets acquired prior to 1 January 2001, or revalued amounts, as described below, less accumulated depreciation and provision for impairment, where required. Cost of premises and equipment of acquired subsidiaries is the estimated fair value at the date of acquisition.

Premises are subject to revaluation with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Increases in the carrying amount arising on revaluation are credited to revaluation reserve in equity. Decreases that offset previous increases of the same asset are charged against revaluation reserve directly in equity; all other decreases are charged to the income statement. The revaluation reserve for premises and equipment included in equity is transferred directly to retained earnings when the surplus is realised on the retirement or disposal of the asset, or as the asset is used by the Group; in the latter case, the amount of the surplus realised is the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost. At the date of revaluation accumulated depreciation is eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

Management has updated the carrying value of land and buildings measured in accordance with the revaluation model as at the reporting date using market based evidence and is satisfied that sufficient market based evidence of fair value is available to support the updated fair values.

Construction in progress is carried at cost less provision for impairment where required. Construction in progress is not depreciated until the asset is available for use.

All other items of premises and equipment are stated at cost less accumulated depreciation and impairment losses, if any.

Costs of minor repairs and maintenance are expensed when incurred. Costs of replacing major parts or components of premises and equipment items are capitalised and the replaced part is retired.

At each reporting date management assesses whether there is any indication of impairment of premises and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in the income statement to the extent it exceeds the previous revaluation surplus in equity. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in profit or loss.

Depreciation. Land is not depreciated. Depreciation on other items of premises, leasehold improvements and equipment is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives as follows:

Premises	50 years
Computers	4 years
Furniture and equipment	4-10 years
Motor vehicles	6 years
Other	3-5 years

Leasehold improvements are depreciated over the term of the underlying lease.

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Intangible assets. The Group's intangible assets other than goodwill have definite useful life and primarily include capitalised computer software.

3 Summary of Significant Accounting Policies (Continued)

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring them to use.

Development costs that are directly associated with identifiable and unique software controlled by the Group are recorded as intangible assets if an inflow of incremental economic benefits exceeding costs is probable. Capitalised costs include staff costs of the software development team and an appropriate portion of relevant overheads. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred. Capitalised computer software is amortised on a straight line basis over expected useful lives of 5 years.

Operating leases. Where the Group is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Group, the total lease payments are charged to profit or loss on a straight-line basis over the period of the lease.

Leases embedded in other agreements are separated if (a) fulfilment of the arrangement is dependent on the use of a specific asset or assets and (b) the arrangement conveys a right to use the asset.

In 2008 the Bank revised its disclosure of obligations under operating lease agreements and concluded that the lease agreements are in fact all cancellable. Therefore as at 31 December 2008 and 2007 the Bank had no commitments under non-cancellable operating lease agreements. Respective disclosure for 2007 has been adjusted to reflect this revision.

Finance lease liabilities. Where the Group is a lessee in a lease which transferred substantially all the risks and rewards incidental to ownership to the Group, the assets leased are capitalised in premises, leasehold improvements and equipment at the commencement of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance lease balance outstanding. The corresponding rental obligations, net of future finance charges, are included in other financial liabilities. The interest cost is charged to the income statement over the lease period using the effective interest method. The assets acquired under finance leases are depreciated over their useful life or the shorter lease term if the Group is not reasonably certain that it will obtain ownership by the end of the lease term.

Due to other banks and other financing institutions. Amounts due to other banks and other financing institutions are recorded when money or other assets are advanced to the Group by counterparty banks or other financing institutions. The non-derivative liability is carried at amortised cost. If the Group purchases its own debt, it is removed from the consolidated balance sheet and the difference between the carrying amount of the liability and the consideration paid is included in gains or losses arising from early retirement of debt.

Customer accounts. Customer accounts are non-derivative liabilities to individuals, state or corporate customers and are carried at amortised cost.

***Debt securities in issue**.* Debt securities in issue include Eurobonds, promissory notes and bonds issued by the Group. Debt securities are stated at amortised cost. If the Group purchases its own debt securities in issue, they are removed from the consolidated balance sheet and the difference between the carrying amount of the liability and the consideration paid is included in gains arising from early retirement of debt.

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

Derivative financial instruments. Derivative financial instruments, including foreign exchange contracts, forward rate agreements, currency swaps and currency options are carried at their fair value.

All derivative instruments are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of derivative instruments are included in profit or loss. The Group does not apply hedge accounting.

Certain derivative instruments embedded in other financial instruments are treated as separate derivative instruments when their risks and characteristics are not closely related to those of the host contract.

3 Summary of Significant Accounting Policies (Continued)

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

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

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax liabilities are not recorded for temporary differences on initial recognition of goodwill and subsequently for goodwill which is not deductible for tax purposes. Deferred tax balances are measured at tax rates enacted or substantively enacted at the balance sheet date which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets and liabilities are netted only within the individual companies of the Group. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

Deferred income tax is provided on post acquisition retained earnings and other post acquisition movements in reserves of subsidiaries, except where the Group controls the subsidiary's dividend policy and it is probable that the difference will not reverse through dividends or otherwise in the foreseeable future.

Uncertain tax positions. The Group's uncertain tax positions are reassessed by management at every balance sheet date. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the balance sheet date and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognised based on management's best estimate of the expenditure required to settle the obligations at the balance sheet date.

Provisions for liabilities and charges. Provisions for liabilities and charges are non-financial liabilities of uncertain timing or amount. They are accrued when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

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

Share capital. Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is recorded as share premium in equity.

Dividends. Dividends are recorded in equity in the period in which they are declared. Any dividends declared after the balance sheet date and before the financial statements are authorised for issue are disclosed in the subsequent events note. The statutory accounting reports of the Bank are the basis for profit distribution and other appropriations. Ukrainian legislation identifies the basis of distribution as the retained earnings.

Income and expense recognition. Interest income and expense are recorded in the consolidated income statement for all debt instruments on an accrual basis using the effective interest method. This method defers, as part of interest income or expense, all fees paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

3 Summary of Significant Accounting Policies (Continued)

Fees integral to the effective interest rate include origination fees received or paid by the entity relating to the creation or acquisition of a financial asset or issuance of a financial liability, for example fees for evaluating creditworthiness, evaluating and recording guarantees or collateral, negotiating the terms of the instrument and for processing transaction documents. Commitment fees received by the Group to originate loans at market interest rates are integral to the effective interest rate if it is probable that the Group will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination. The Group does not designate loan commitments as financial liabilities at fair value through profit or loss.

When loans and other debt instruments become doubtful of collection, they are written down to the present value of expected cash inflows and interest income is thereafter recorded for the unwinding of the present value discount based on the asset's effective interest rate which was used to measure the impairment loss.

All other fees, commissions and other income and expense items are generally recorded on an accrual basis by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided. Loan syndication fees are recognised as income when the syndication has been completed and the Group retains no part of the loan package for itself or retains a part at the same effective interest rate as for the other participants.

Commissions and fees arising from negotiating, or participating in the negotiation of a transaction for a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses, and which are earned on execution of the underlying transaction, are recorded on its completion. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-proportion basis. Asset management fees related to investment funds are recorded rateably over the period the service is provided. The same principle is applied for wealth management, financial planning and custody services that are continually provided over an extended period of time.

Recognition of deferred day one profit and loss. The Group has entered into transactions, where fair value is determined using valuation models for which not all inputs are market observable prices or rates. Such a financial instrument is initially recognised at the transaction price, which is the best indicator of fair value, although the value obtained from the relevant valuation model may differ. The difference between the transaction price and the model value, commonly referred to as "day one profit and loss", is not recognised immediately in profit and loss.

The timing of recognition of deferred day one profit and loss is determined individually. It is either amortised over the life of the transaction, deferred until the instrument's fair value can be determined using market observable inputs, or realised through settlement. The financial instrument is subsequently measured at fair value, adjusted for the deferred day one profit and loss. Subsequent changes in fair value are recognised immediately in the income statement without reversal of deferred day one profits and losses.

Foreign currency translation. The functional currency of each of the Group's consolidated entities is the currency of the primary economic environment in which the entity operates. The functional currency of the Bank, and the Group's presentation currency, is the national currency of Ukraine, Ukrainian hryvnia ("UAH").

Monetary assets and liabilities are translated into each entity's functional currency at the official exchange rate at the respective balance sheet dates. Foreign exchange gains and losses resulting from the settlement of transactions and from the translation of monetary assets and liabilities into each entity's functional currency at year-end official exchange rates are recognised in profit or loss. Translation at year-end rates does not apply to non-monetary items, including equity investments. Effects of exchange rate changes on the fair value of equity securities are recorded as part of the fair value gain or loss.

As the characteristics of the economic environment of Ukraine indicate that hyperinflation has ceased, effective from 1 January 2001 the Bank no longer applies the provisions of IAS 29. Accounting for the effects of hyperinflation prior to 1 January 2001 is detailed further below. The results and financial position of each group entity (the functional currency of none of which is a currency of a hyperinflationary economy) are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

3 Summary of Significant Accounting Policies (Continued)

(ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions);

(iii) components of equity are translated at the historic rate; and

(iv) all resulting exchange differences are recognised as a separate component of equity.

The principal rates of exchange used for translating foreign currency balances were as follows:

	31 December 2008, UAH	31 December 2007, UAH
1 US Dollar (USD)	7.700000	5.050000
1 Euro (EUR)	10.855460	7.419460
1 Russian Ruble (RUB)	0.262080	0.205790
1 Latvian Lat (LVL)	15.334737	10.644849
1 Georgian Lari (GEL)	4.085939	3.172908

Fiduciary assets. Assets held by the Group in its own name, but on the account of third parties, are not reported in the consolidated balance sheet. The extent of such balances and transactions is indicated in Note 31. For the purposes of disclosure, fiduciary activities do not encompass safe custody functions. Commissions received from fiduciary activities are shown in fee and commission income.

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

Accounting for the effects of hyperinflation. Prior to 2001 Ukraine experienced relatively high levels of inflation and was considered to be hyperinflationary as defined by IAS 29 “Financial Reporting in Hyperinflationary Economies” (“IAS 29”). In accordance with IAS 29, when an economy ceases to be hyperinflationary and an enterprise is not required to prepare and present financial statements in accordance with IAS 29, it should treat the amounts expressed in the measuring unit current at the end of the previous reporting period as the basis for the carrying amounts in its subsequent financial statements. Those non-monetary items that arose in the periods of hyperinflation or earlier periods need to be restated in terms of the purchasing power of Ukrainian hryvnia at the end of the reporting period preceding the period in which hyperinflation ceased.

This restatement was prepared by indexing the historical balances by changes in the general price index up to 31 December 2000.

Monetary assets and liabilities are not restated because they are already expressed in terms of the monetary unit current at the period end. Non-monetary assets and liabilities (items which are not expressed in terms of the monetary unit current at the period end) are restated by applying the relevant conversion factor. The effect of inflation on the Group’s net monetary position in 2000 and prior years is included in retained earnings.

Staff costs and related contributions. Wages, salaries, contributions to the Ukrainian state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits are accrued in the year in which the associated services are rendered by the employees of the Group.

Segment reporting**.** A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment) or in providing products or services within a particular economic environment (geographical segment), and which is subject to risks and rewards that are different from those of other segments. Segments with a majority of revenue earned from sales to external customers and whose revenue, result or assets are ten percent or more of all the segments are reported separately. Geographical segments of the Group have been reported separately within these consolidated financial statements based on the ultimate domicile of the counterparty, e.g. based on economic risk rather than legal risk of the counterparty.

Amendments of the financial statements after issue. The Bank’s shareholders and management have the power to amend the financial statements after issue.

4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies

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

Impairment losses on loans and advances. The Group regularly reviews its loan portfolios to assess impairment. In determining whether an impairment loss should be recorded in the consolidated income statement, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. A 10% increase or decrease in actual loss experience compared to the loss estimates used would result in an increase or decrease in loan impairment losses of UAH 422 million (2007: UAH 117 million), respectively. Impairment losses for individually significant loans are based on estimates of discounted future cash flows of the individual loans, taking into account repayments and realisation of any assets held as collateral against the loans. A 10% increase or decrease in the actual loss experience compared to the estimated future discounted cash flows from individually significant loans, which could arise from differences in amounts and timing of the cash flows, would result in an increase or decrease in loan impairment losses of UAH 50 million (2007: UAH 24 million), respectively.

Impairment of available-for-sale equity investments. The Group determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is significant or prolonged requires judgement. In making this judgement, the Group evaluates among other factors, the volatility in share price.

As at 31 December 2008 the Group's portfolio of equity investments were carried at cost less impairment. The cost of these equity investments was UAH 103 million and the carrying value was UAH 4 million (2007: cost UAH 623 million and carrying value UAH 4 million). For these equity securities, fair value cannot be reliably determined as there was no active market for these shares, the recent trades were effected at prices which vary significantly within the same day or recent trade prices were not publicly available. For the purposes of assessment of impairment of those equity securities for which fair value cannot be reliably determined, the Group has considered financial data of the investees, where available, and cash flows from subsequent sale of securities discounted at market interest rate.

In 2008 the Group sold or exchanged for other equity investments, shares with nil carrying value (2007: UAH 83 million) at the date of sale, whose fair value could not be reliably determined as at 31 December 2007. A gain of UAH 43 million (2007: UAH 139 million) was recognised in the consolidated income statement in respect of this sale.

In 2008 the Group recognised impairment losses on investment securities available-for-sale of UAH 1 million (2007: UAH 607 million). Had the Management adopted different assumptions and used different valuation judgements when determining whether or not the available-for-sale investment securities were impaired, the carrying amount of the available-for-sale equity investments could have been significantly increased. Management based its estimate of the carrying amount on available information. Had more information regarding equity securities been available, Management's estimate of the carrying amount and appropriateness of impairment charges may have changed.

4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies (Continued)

Fair value of derivatives. The fair values of financial derivatives that are not quoted in active markets are determined by using valuation techniques. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. To the extent practical, models use only observable data, however areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair values.

As at 31 December 2008 the Bank had loans to customers totalling UAH 17,247 million (31 December 2007: UAH 10,339 million) issued in UAH with the condition of compensation to be received by the Bank in the event that the official exchange rate of UAH depreciates against USD. The contract to receive compensation was accounted for by the Bank as a financial derivative with the fair value of UAH 2,551 million as at 31 December 2008 (31 December 2007: nil) estimated using a valuation technique. This valuation technique takes into account expected movements in exchange rates, discount factor and credit risk. Changing the assumptions about expected exchange rates may result in a different profit. If the expected UAH/USD exchange rate for the year 2009 would be higher/lower by 15%, the fair value of the derivative and the respective income statement amount would increase/decrease by UAH 625 million. If the discount rate used for fair valuation of the derivatives for the year 2009 would be higher/lower by 100 basis points, the fair value of the derivative and the respective income statement amount would decrease/ increase by UAH 12 million. If the credit risk of counterparties for the year 2009 would be higher/lower by 10%, the fair value of the derivative and the respective income statement amount would decrease/increase by UAH 282 million. Refer to Note 32.

Tax legislation. Ukrainian and Russian tax, currency and customs legislation is subject to varying interpretations. Refer to Note 31.

Initial recognition of related party transactions. In the normal course of business the Group enters into transactions with its related parties. IAS 39 requires initial recognition of financial instruments based on their fair values. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analysis. Terms and conditions of related party balances are disclosed in Note 35.

Valuation of own use premises. Premises of the Group are stated at fair value based on reports prepared by a valuation company. The basis for their work is sales comparison approach. At the date of revaluation accumulated depreciation was eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset. When performing revaluation certain judgements and estimates are applied by the valuers in determination of the comparison of premises to be used in sales comparison approach. Changes in assumptions about these factors could affect reported fair values. The valuation was based on comparative sales of premises with the price per square meter varying from UAH 170 to UAH 52,954, depending upon the location of premises. To the extent that the price per square meter differs by +/-5 percent, the fair value of premises would be UAH 215 million higher or UAH 215 million lower.

Additional capital contribution. As disclosed in the Note 22, in December 2007 the Bank's major shareholders made an additional capital contribution in the form of cash amounting to UAH 380 million net of income tax of UAH 126 million which was made through related and third parties as a settlement of debts due to the major shareholders of the Bank. Should a different judgement have been applied and the amounts received have been treated as income, the Group's interest income for the year ended 31 December 2007 would have been UAH 506 million higher and the income tax expense for the year ended 31 December 2007 would have been UAH 126 million higher.

Derecognition of financial assets. Management applies judgement to determine if substantially all the significant risks and rewards of ownership of financial assets are transferred to counterparties, in particular which risks and rewards are the most significant and what constitutes substantially all risks and rewards. During the year ended 31 December 2007 the Group sold a portfolio of loans with carrying value of UAH 617 million to another Ukrainian bank which received a loan from the Group of UAH 617 million. However, these loans have not been derecognised in 2007 as in the Management's judgement the derecognition criteria were not met. During the year ended 31 December 2008 the counterparty bank attracted financing from third parties and partially repaid the loan outstanding to the Group. Taking into account changes in the circumstances, Management reassessed the treatment of this transaction. Respective loans to customers have now been derecognised together with recognition of related exposure to the counterparty bank. Refer also to Notes 9 and 10.

5 Adoption of New or Revised Standards and Interpretations

Certain new interpretations became effective for the Group from 1 January 2008:

- ***IFRIC 11, IFRS 2—Group and Treasury Share Transactions*** (effective for annual periods beginning on or after 1 March 2007);

- ***IFRIC 12, Service Concession Arrangements*** (effective for annual periods beginning on or after 1 January 2008); and

- ***IFRIC 14, IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*** (effective for annual periods beginning on or after 1 January 2008).

These interpretations did not have any significant effect on the Group's consolidated financial statements.

Reclassification of Financial Assets—Amendments to IAS 39, Financial Instruments: Recognition and Measurement, and IFRS 7, Financial Instruments: Disclosures and a subsequent amendment, Reclassification of Financial Assets: Effective Date and Transition. The amendments allow entities the options (a) to reclassify a financial asset out of the held for trading category if, in rare circumstances, the asset is no longer held for the purpose of selling or repurchasing it in the near term; and (b) to reclassify an available-for-sale asset or an asset held for trading to the loans and receivables category, if the entity has the intention and ability to hold the financial asset for the foreseeable future or until maturity (subject to the asset otherwise meeting the definition of loans and receivables). The amendments may be applied with retrospective effect from 1 July 2008 for any reclassifications made before 1 November 2008; the reclassifications allowed by the amendments may not be applied before 1 July 2008 and retrospective reclassifications are only allowed if made prior to 1 November 2008. Any reclassification of a financial asset made on or after 1 November 2008 takes effect only from the date when the reclassification is made. The Group has not elected to make any of the optional reclassifications during the period.

6 New Accounting Pronouncements

Certain new standards and interpretations have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2009 or later periods and which the Group has not early adopted:

IFRS 8, Operating Segments (effective for annual periods beginning on or after 1 January 2009). The standard applies to entities whose debt or equity instruments are traded in a public market or that file, or are in the process of filing, their financial statements with a regulatory organisation for the purpose of issuing any class of instruments in a public market. IFRS 8 requires an entity to report financial and descriptive information about its operating segments, with segment information presented on a similar basis to that used for internal reporting purposes. Management is currently assessing what impact the standard will have on segment disclosures in the Group's financial statements.

Puttable Financial Instruments and Obligations Arising on Liquidation—IAS 32 and IAS 1 Amendment (effective for annual periods beginning on or after 1 January 2009). The amendment requires classification as equity of some financial instruments that meet the definition of financial liabilities. The Group does not expect the amendment to affect its financial statements.

IAS 23, Borrowing Costs (revised March 2007; effective for annual periods beginning on or after 1 January 2009). The main change to IAS 23 is the removal of the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. An entity is, therefore, required to capitalise such borrowing costs as part of the cost of the asset. The revised standard applies prospectively to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009. The Group does not expect the amendment to the standard to have a material effect on its financial statements.

6 New Accounting Pronouncements (Continued)

IAS 1, Presentation of Financial Statements (revised September 2007; effective for annual periods beginning on or after 1 January 2009). The main change in IAS 1 is the replacement of the income statement by a statement of comprehensive income which will also include all non-owner changes in equity, such as the revaluation of available-for-sale financial assets. Alternatively, entities will be allowed to present two statements: a separate income statement and a statement of comprehensive income. The revised IAS 1 also introduces a requirement to present a statement of financial position (balance sheet) at the beginning of the earliest comparative period whenever the entity restates comparatives due to reclassifications, changes in accounting policies, or corrections of errors. The Group expects the revised IAS 1 to affect the presentation of its financial statements but to have no impact on the recognition or measurement of specific transactions and balances.

IAS 27, Consolidated and Separate Financial Statements (revised January 2008; effective for annual periods beginning on or after 1 July 2009). The revised IAS 27 will require an entity to attribute total comprehensive income to the owners of the parent and to the non-controlling interests (previously "minority interests") even if this results in the non-controlling interests having a deficit balance (the current standard requires the excess losses to be allocated to the owners of the parent in most cases). The revised standard specifies that changes in a parent's ownership interest in a subsidiary that do not result in the loss of control must be accounted for as equity transactions. It also specifies how an entity should measure any gain or loss arising on the loss of control of a subsidiary. At the date when control is lost, any investment retained in the former subsidiary will have to be measured at its fair value. The Group is currently assessing the impact of the amended standard on its financial statements.

Vesting Conditions and Cancellations—Amendment to IFRS 2, Share-based Payment (issued in January 2008; effective for annual periods beginning on or after 1 January 2009). The amendment clarifies that only service conditions and performance conditions are vesting conditions. Other features of a share-based payment are not vesting conditions. The amendment specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The Group does not expect the amendment to have a material effect on its financial statements.

IFRS 3, Business Combinations (revised January 2008; effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009). The revised IFRS 3 will allow entities to choose to measure non-controlling interests using the existing IFRS 3 method (proportionate share of the acquiree's identifiable net assets) or at fair value. The revised IFRS 3 is more detailed in providing guidance on the application of the purchase method to business combinations. The requirement to measure at fair value every asset and liability at each step in a step acquisition for the purposes of calculating a portion of goodwill has been removed. Instead, in a business combination achieved in stages, the acquirer will have to remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognise the resulting gain or loss, if any, in profit or loss. Acquisition-related costs will be accounted for separately from the business combination and therefore recognised as expenses rather than included in goodwill. An acquirer will have to recognise at the acquisition date a liability for any contingent purchase consideration. Changes in the value of that liability after the acquisition date will be recognised in accordance with other applicable IFRSs, as appropriate, rather than by adjusting goodwill. The revised IFRS 3 brings into its scope business combinations involving only mutual entities and business combinations achieved by contract alone. The Group is currently assessing the impact of the amended standard on its financial statements.

IFRIC 13, Customer Loyalty Programmes (effective for annual periods beginning on or after 1 July 2008). IFRIC 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. IFRIC 13 is not relevant to the Group's operations because no Group companies operate any loyalty programmes.

IFRIC 15, Agreements for the Construction of Real Estate (effective for annual periods beginning on or after 1 January 2009). The interpretation applies to the accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors, and provides guidance for determining whether agreements for the construction of real estate are within the scope of IAS 11 or IAS 18. It also provides criteria for determining when entities should recognise revenue on such transactions. The Group is currently assessing the impact of the amendment on its financial statements.

6 New Accounting Pronouncements (Continued)

IFRIC 16, Hedges of a Net Investment in a Foreign Operation (effective for annual periods beginning on or after 1 October 2008). The interpretation explains which currency risk exposures are eligible for hedge accounting and states that translation from the functional currency to the presentation currency does not create an exposure to which hedge accounting could be applied. The IFRIC allows the hedging instrument to be held by any entity or entities within a group except the foreign operation that itself is being hedged. The interpretation also clarifies how the gain or loss recycled from the currency translation reserve to profit or loss is calculated on disposal of the hedged foreign operation. Reporting entities will apply IAS 39 to discontinue hedge accounting prospectively when their hedges do not meet the criteria for hedge accounting in IFRIC 16. IFRIC 16 does not have any impact on these financial statements as the Group does not apply hedge accounting.

Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate—IFRS 1 and IAS 27 Amendment (issued in May 2008; effective for annual periods beginning on or after 1 January 2009). The amendment allows first-time adopters of IFRS to measure investments in subsidiaries, jointly controlled entities or associates at fair value or at previous GAAP carrying value as deemed cost in the separate financial statements. The amendment also requires distributions from pre-acquisition net assets of investees to be recognised in profit or loss rather than as a recovery of the investment. The amendments will not have any impact on the Group’s consolidated financial statements.

Eligible Hedged Items—Amendment to IAS 39, Financial Instruments: Recognition and Measurement (effective with retrospective application for annual periods beginning on or after 1 July 2009). The amendment clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation should be applied in particular situations. The amendment is not expected to have any impact on the Group's financial statements as the Group does not apply hedge accounting.

Improvements to International Financial Reporting Standards (issued in May 2008). In 2007, the International Accounting Standards Board decided to initiate an annual improvements project as a method of making necessary, but non-urgent, amendments to IFRS. The amendments consist of a mixture of substantive changes, clarifications, and changes in terminology in various standards. The substantive changes relate to the following areas: classification as held for sale under IFRS 5 in case of a loss of control over a subsidiary; possibility of presentation of financial instruments held for trading as non-current under IAS 1; accounting for sale of IAS 16 assets which were previously held for rental and classification of the related cash flows under IAS 7 as cash flows from operating activities; clarification of definition of a curtailment under IAS 19; accounting for below market interest rate government loans in accordance with IAS 20; making the definition of borrowing costs in IAS 23 consistent with the effective interest method; clarification of accounting for subsidiaries held for sale under IAS 27 and IFRS 5; reduction in the disclosure requirements relating to associates and joint ventures under IAS 28 and IAS 31; enhancement of disclosures required by IAS 36; clarification of accounting for advertising costs under IAS 38; amending the definition of the fair value through profit or loss category to be consistent with hedge accounting under IAS 39; introduction of accounting for investment properties under construction in accordance with IAS 40; and reduction in restrictions over manner of determining fair value of biological assets under IAS 41. Further amendments made to IAS 8, 10, 18, 20, 29, 34, 40, 41 and to IFRS 7 represent terminology or editorial changes only, which the IASB believes have no or minimal effect on accounting. The Group does not expect the amendments to have any material effect on its financial statements.

6 New Accounting Pronouncements (Continued)

Improvements to International Financial Reporting Standards (issued in April 2009; amendments to IFRS 2, IAS 38, IFRIC 9 and IFRIC 16 are effective for annual periods beginning on or after 1 July 2009; amendments to IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 36 and IAS 39 are effective for annual periods beginning on or after 1 January 2010). The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: clarification that contributions of businesses in common control transactions and formation of joint ventures are not within the scope of IFRS 2; clarification of disclosure requirements set by IFRS 5 and other standards for non-current assets (or disposal groups) classified as held for sale or discontinued operations; requiring to report a measure of total assets and liabilities for each reportable segment under IFRS 8 only if such amounts are regularly provided to the chief operating decision maker; amending IAS 1 to allow classification of certain liabilities settled by entity's own equity instruments as non-current; changing IAS 7 such that only expenditures that result in a recognised asset are eligible for classification as investing activities; allowing classification of certain long-term land leases as finance leases under IAS 17 even without transfer of ownership of the land at the end of the lease; providing additional guidance in IAS 18 for determining whether an entity acts as a principal or an agent; clarification in IAS 36 that a cash generating unit shall not be larger than an operating segment before aggregation; supplementing IAS 38 regarding measurement of fair value of intangible assets acquired in a business combination; amending IAS 39 (i) to include in its scope option contracts that could result in business combinations, (ii) to clarify the period of reclassifying gains or losses on cash flow hedging instruments from equity to profit or loss and (iii) to state that a prepayment option is closely related to the host contract if upon exercise the borrower reimburses economic loss of the lender; amending IFRIC 9 to state that embedded derivatives in contracts acquired in common control transactions and formation of joint ventures are not within its scope; and removing the restriction in IFRIC 16 that hedging instruments may not be held by the foreign operation that itself is being hedged. The Group does not expect the amendments to have any material effect on its financial statements.

IFRS 7 (Amendments) – Financial Instruments: Disclosures: Improving disclosures about financial instruments (issued in March 2009; effective for annual periods beginning on or after 1 January 2009). The amendments form part of the IASB's focused response to the financial crisis and addresses the G20 conclusions aimed at improved transparency and enhanced accounting guidance. The improvements also reflect discussions by the IASB's Expert Advisory Panel on measuring and disclosing fair values of financial instruments when markets are no longer active. The Bank is currently assessing the impact of the amended standard on its consolidated financial statements.

IFRIC 17, Distribution of Non-Cash Assets to Owners (effective for annual periods beginning on or after 1 July 2009). The amendment clarifies when and how distribution of non-cash assets as dividends to the owners should be recognised. An entity should measure a liability to distribute non-cash assets as a dividend to its owners at the fair value of the assets to be distributed. A gain or loss on disposal of the distributed non-cash assets will be recognised in profit or loss when the entity settles the dividend payable. IFRIC 17 is not relevant to the Group's operations because it does not distribute non-cash assets to owners.

IFRS 1, First-time Adoption of International Financial Reporting Standards (following an amendment in December 2008, effective for the first IFRS financial statements for a period beginning on or after 1 July 2009). The revised IFRS 1 retains the substance of its previous version but within a changed structure in order to make it easier for the reader to understand and to better accommodate future changes. The Group concluded that the revised standard does not have any effect on its financial statements.

IFRIC 18, Transfers of Assets from Customers (effective for annual periods beginning on or after 1 July 2009). The interpretation clarifies the accounting for transfers of assets from customers, namely, the circumstances in which the definition of an asset is met; the recognition of the asset and the measurement of its cost on initial recognition; the identification of the separately identifiable services (one or more services in exchange for the transferred asset); the recognition of revenue, and the accounting for transfers of cash from customers. IFRIC 18 is not expected to have any impact on the Group's financial statements.

Unless otherwise described above, the new standards and interpretations are not expected to significantly affect the Group's financial statements.

7 Cash and Cash Equivalents and Mandatory Reserves

In millions of Ukrainian hryvnias	2008	2007
Cash on hand	3,206	3,104
Cash balances with the NBU	78	942
Cash balances with the Central Bank of Russian Federation	241	198
Cash balances with the Central Bank of Latvia	127	124
Cash balances with the Central Bank of Cyprus	70	60
Cash balances with the Central Bank of Georgia	178	16
Correspondent accounts and overnight placements with other banks		
- Ukraine	132	1
- Other countries	5,360	3,507
Total cash and cash equivalents and mandatory reserves	**9,392**	**7,952**

As at 31 December 2008 and 2007 mandatory reserve balance with the National Bank of Ukraine is calculated on the basis of a simple average over a monthly period and should be maintained at the level of 0 to 5 per cent (2007: 0.5 to 5 per cent) of certain obligations of the Bank. As such, mandatory reserve balance with the National Bank of Ukraine can vary from day to day. For December 2008 the Bank's mandatory reserve balance was UAH 1,091 million (2007: UAH 828 million). The Bank may satisfy its mandatory reserve requirement with its balance on correspondent account with the National Bank of Ukraine. Mandatory reserve balances carry zero interest rate. As at 31 December 2008 the National Bank of Ukraine did not require the Bank to observe mandatory reserve requirements. All funds held on accounts with NBU could be used for settlements with third parties.

As at 31 December 2008 the mandatory reserve balances of the Bank's subsidiaries in Russia and Georgia that should be kept with respective central banks were UAH 31 million (2007: mandatory reserves in Russia, Latvia and Georgia were UAH 55 million).

As the respective liquid assets are not available to finance the Group's day-to-day operations, except for the mandatory reserves with the Bank of Latvia and the Central Bank of Cyprus and mandatory reserve with the NBU which was allowed for settlements with third parties as at 31 December 2008, for the purposes of the consolidated cash flow statement, the mandatory reserve balances relating to the Russian and Georgian subsidiaries (2007: mandatory reserve balances with the NBU and mandatory reserve balances of subsidiaries) are excluded from cash and cash equivalents. As at 31 December 2008 the Group's cash and cash equivalents for the purposes of consolidated cash flow statement were as follows:

In millions of Ukrainian hryvnias	2008	2007
Total cash and cash equivalents and mandatory reserves	9,392	7,952
Less mandatory reserves balances	(31)	(884)
Cash and cash equivalents for the purposes of the consolidated cash flow statement	**9,361**	**7,068**

7 Cash and Cash Equivalents and Mandatory Reserves (Continued)

Analysis by credit quality of cash and cash equivalents and mandatory reserve balances outstanding at 31 December 2008 is as follows:

In millions of Ukrainian hryvnias	Cash on hand	Cash balances with the Central Banks	Correspondent accounts and overnight placements with other banks	Total
Neither past due nor impaired				
Cash on hand	3,206	-	-	3,206
Cash balances with Central Banks	-	694	-	694
AA- rated	-	-	1,133	1,133
A+ rated	-	-	2,375	2,375
A rated	-	-	1,303	1,303
B- to BBB rated	-	-	49	49
RD rated	-	-	3	3
Unrated	-	-	629	629
Total cash and cash equivalents and mandatory reserves	**3,206**	**694**	**5,492**	**9,392**

Neither past due nor impaired assets were analysed based on Fitch ratings.

Analysis by credit quality of cash and cash equivalents and mandatory reserve balances outstanding at 31 December 2007 is as follows:

In millions of Ukrainian hryvnias	Cash on hand	Cash balances with the Central Banks	Correspondent accounts and overnight placements with other banks	Total
Neither past due nor impaired				
Cash on hand	3,104	-	-	3,104
Cash balances with Central Banks	-	1,340	-	1,340
AA rated	-	-	485	485
AA- rated	-	-	1,026	1,026
A+ rated	-	-	665	665
A rated	-	-	462	462
A- rated	-	-	794	794
BBB rated	-	-	10	10
B+ rated	-	-	51	51
B- rated	-	-	3	3
Unrated	-	-	12	12
Total cash and cash equivalents and mandatory reserves	**3,104**	**1,340**	**3,508**	**7,952**

7 Cash and Cash Equivalents and Mandatory Reserves (Continued)

Investing and financing transactions that did not require the use of cash and cash equivalents and were excluded from the cash flow statement are as follows:

In millions of Ukrainian hryvnias	**2008**	**2007**
Non-cash investing activities		
Acquisition of investment securities available for sale in exchange for other investment securities available for sale	-	(615)
Proceeds from disposal of investment securities available for sale in exchange for trading securities	43	-
Proceeds from disposal of investment securities available for sale in exchange for other investment securities available for sale	-	604
Non-cash investing activities	**43**	**(11)**
Non-cash financing activities		
Dividends	(1,457)	-
Increase in share capital	1,457	-
Non-cash financing activities	**-**	**-**

Geographical, currency, maturity and interest rate analysis of cash and cash equivalents and mandatory reserves is disclosed in Note 29.

8 Trading Securities

In millions of Ukrainian hryvnias	**2008**	**2007**
Ukrainian government bonds	13	16
Total debt securities	**13**	**16**
Corporate shares	74	-
Total trading securities	**87**	**16**

Corporate shares are shares of Ukrainian companies.

Trading securities are carried at fair value which also reflects any credit risk related write-downs. As trading securities are carried at their fair values based on observable market data and by reference to the investee’s net asset value, the Group does not analyse or monitor impairment indicators.

8 Trading Securities (Continued)

Analysis by credit quality of debt trading securities is as follows at 31 December 2008:

In millions of Ukrainian hryvnias	**Ukrainian government bonds**	**Total**
Neither past due nor impaired (at fair value)		
- B+ rated	13	13
Total debt trading securities	**13**	**13**

Analysis by credit quality of debt trading securities is as follows at 31 December 2007:

In millions of Ukrainian hryvnias	**Ukrainian government bonds**	**Total**
Neither past due nor impaired (at fair value)		
- BB- rated	16	16
Total debt trading securities	**16**	**16**

Neither past due nor impaired assets were analysed based on Fitch ratings.

Interest rate analysis of trading securities is disclosed in Note 29.

9 Due from Other Banks

In millions of Ukrainian hryvnias	**2008**	**2007**
Term placements with other banks	2,578	1,205
Guarantee deposits with other banks	84	123
Total due from other banks	**2,662**	**1,328**

Term placements with other banks include UAH 419 million of a placement with a local bank who purchased a portfolio of loans from the Group at the gross amount of UAH 617 million in December 2007.

Guarantee deposits represent balances placed with other banks as cover for letters of credit and for international payments. These are effectively restricted deposits, which are required to be maintained to complete the related trade finance activity. Refer to Note 31.

Amounts due from other banks are not collateralised. Analysis by credit quality of amounts due from other banks outstanding at 31 December 2008 is as follows:

In millions of Ukrainian hryvnias	**Term placements with other banks**	**Guarantee deposits with other banks**	**Total**
Neither past due nor impaired			
- A+ rated	12	12	24
- A rated	1	70	71
- B rated	-	2	2
- RD rated	3	-	3
- Unrated	2,562	-	2,562
Total due from other banks	**2,578**	**84**	**2,662**

9 Due from Other Banks (Continued)

Analysis by credit quality of amounts due from other banks outstanding at 31 December 2007 is as follows:

In millions of Ukrainian hryvnias	Term placements with other banks	Guarantee deposits with other banks	Total
Neither past due nor impaired			
- AA rated	115	29	144
- AA- rated	11	12	23
- A rated	6	76	82
- B rated	10	6	16
- Unrated	1,063	-	1,063
Total due from other banks	**1,205**	**123**	**1,328**

Neither past due nor impaired assets were analysed based on Fitch ratings.

The primary factor that the Group considers in determining whether a deposit is impaired is its overdue status.

As at 31 December 2008 the total aggregate amount of one counterparty of the Group amounted to UAH 1,970 million (2007: UAH 1,032 million) or 74% of the gross amount due from other banks (2007: 78%). These placements are denominated in USD and were placed with a private bank in an OECD country. As at 31 December 2008 out of this amount UAH 1,448 million was pledged against loans provided by the counterparty to the Group's customers totalling UAH 1,448 million. Refer to Note 31.

As an active participant in the banking markets, the Group has a significant concentration of credit risk with other financial institutions. In total, credit risk exposure to financial institutions is estimated to have amounted to UAH 11,502 million (2007: UAH 7,672 million) comprising cash and cash equivalents, deposits and other amounts due from banks, and financial derivatives.

Refer to Note 33 for the estimated fair value of each class of amounts due from other banks. Interest rate analysis of due from other banks is disclosed in Note 29.

10 Loans and Advances to Customers

In millions of Ukrainian hryvnias	2008	2007
Corporate loans	45,421	23,957
Loans to individuals - card	9,426	5,542
Loans to individuals - mortgage	7,361	5,075
Loans to individuals - auto	4,933	3,655
Loans to individuals - consumer	973	2,297
Loans to individuals - other	1,475	1,362
Loans to small and medium enterprises (SME)	6,252	3,924
Reverse sale and repurchase agreements – corporate (Reverse repo)	363	68
Less: Provision for loan impairment	(8,130)	(2,810)
Total loans and advances to customers	**68,074**	**43,070**

As at 31 December 2008 interest income of UAH 660 million (2007: UAH 329 million) was accrued on loans and advances to customers impaired at the year end.

10 Loans and Advances to Customers (Continued)

Movements in the provision for loan impairment during 2008 are as follows:

In millions of Ukrainian hryvnias	**Corporate loans**	**Loans to individuals**					**SME**	**Reverse repo**	**Total**
		Card	**Mortgage**	**Auto**	**Consumer**	**Other**			
Provision for loan impairment at 1 January 2008	**1,566**	**644**	**88**	**65**	**323**	**75**	**48**	**1**	**2,810**
Provision for impairment during the year	2,282	475	477	327	387	16	542	1	4,507
Amounts written off during the year as uncollectible	(219)	(22)	-	(9)	(696)	(31)	-	-	(977)
Currency translation differences	647	372	243	158	217	8	145	-	1,790
Provision for loan impairment at 31 December 2008	**4,276**	**1,469**	**808**	**541**	**231**	**68**	**735**	**2**	**8,130**

Movements in the provision for loan impairment during 2007 are as follows:

In millions of Ukrainian hryvnias	**Corporate loans**	**Loans to individuals**					**SME**	**Reverse repo**	**Total**
		Card	**Mortgage**	**Auto**	**Consumer**	**Other**			
Provision for loan impairment at 1 January 2007	**1,591**	**197**	**98**	**69**	**79**	**29**	**104**	**-**	**2,167**
(Recovery of)/provision for impairment during the year	(7)	444	(8)	(4)	251	46	(57)	1	666
Amounts written off during the year as uncollectible	(19)	-	(3)	-	(13)	-	-	-	(35)
Recovery of amounts previously written off as uncollectible	-	-	-	-	3	-	-	-	3
Acquisition of subsidiaries	-	-	-	-	1	-	1	-	2
Currency translation differences	1	3	1	-	2	-	-	-	7
Provision for loan impairment at 31 December 2007	**1,566**	**644**	**88**	**65**	**323**	**75**	**48**	**1**	**2,810**

10 Loans and Advances to Customers (Continued)

Economic sector risk concentrations within the customer loan portfolio are as follows:

	2008		2007	
In millions of Ukrainian hryvnias	**Amount**	**%**	**Amount**	**%**
Loans to individuals	24,168	32	17,931	39
Commerce and finance	14,772	19	7,038	15
Oil trading	10,774	14	3,117	7
Small and medium enterprises (SME)	6,252	8	3,924	9
Agriculture, forestry and food industry	4,054	5	3,838	8
Manufacturing	3,799	5	1,758	4
Metallurgy and mining	3,317	4	2,735	6
Securities trading	3,230	4	1,126	3
Construction	2,010	3	1,960	4
Tourism	1,166	2	666	1
Transport, storage and communication	258	1	812	2
Other	2,404	3	975	2
Total loans and advances to customers (before impairment)	**76,204**	**100**	**45,880**	**100**

As at 31 December 2008 the total aggregate amount of loans to the top 10 borrowers of the Group amounted to UAH 11,629 million (2007: UAH 4,871 million) or 15% of the gross loan portfolio (2007: 11%).

As at 31 December 2008 the Group had 8 borrowers (2007: 2 borrowers) with aggregate loan balances in excess of 10% or the net assets of UAH 1,034 million (2007: UAH 541 million). The total aggregate amount of these loans was UAH 10,127 million (2007: UAH 1,430 million)

As at 31 December 2007 the total loans and advances to customers included loans with total gross amount of UAH 617 million sold to a local commercial bank. As at 31 December 2007 the loans were not derecognised due to significant risks related the assets retained by the Group. As at 31 December 2008 all the significant risks were transferred to the purchaser bank and the total balance of the loans was derecognised.

The borrowers have the contractual right to early repay the loans. Based on the types of the loan products, the Group may charge penalties for such early repayments.

As at 31 December 2008 loans and advances to customers in the amount of UAH 1,270 million (2007: UAH 878 million) have been pledged as collateral with respect to the mortgage bonds issued and auto loans in the amount of UAH 497 million (2007: nil) have been pledged as collateral with respect to auto bonds issued. Please refer to Notes 18 and 31.

10 Loans and Advances to Customers (Continued)

Breakdown of loans and advances to customers by type of collateral taken as at 31 December 2008 is as follows:

In millions of Ukrainian hryvnias	Corporate loans	Loans to individuals					SME	Reverse repo	Total
		Card	Mortgage	Auto	Consumer	Other			
Unsecured exposures	16,627	9,426	634	520	109	690	1,990	-	29,996
Loans collateralised by:									
- cash deposits	8,454	-	100	102	-	65	7	-	8,728
- residential real estate	234	-	5,937	1	22	97	898	-	7,189
- other real estate	9,015	-	541	-	4	226	1,129	-	10,915
- tradable securities	1,796	-	24	-	-	193	6	363	2,382
- equipment	5,243	-	1	-	109	11	246	-	5,610
- guarantees	658	-	77	12	-	24	437	-	1,208
- transport vehicles	601	-	-	86	-	17	846	-	1,550
- auto (cars)	409	-	5	4,209	-	5	482	-	5,110
- other assets	2,384	-	42	3	729	147	211	-	3,516
Total loans and advances to customers (before impairment)	**45,421**	**9,426**	**7,361**	**4,933**	**973**	**1,475**	**6,252**	**363**	**76,204**

Breakdown of loans and advances to customers by type of collateral taken as at 31 December 2007 is as follows:

In millions of Ukrainian hryvnias	Corporate loans	Loans to individuals					SME	Reverse repo	Total
		Card	Mortgage	Auto	Consumer	Other			
Unsecured exposures	11,648	5,512	366	35	206	539	1,010	-	19,316
Loans collateralised by:									
- cash deposits	312	-	627	34	16	223	20	-	1,232
- residential real estate	478	-	3,801	199	30	60	741	-	5,309
- other real estate	1,380	-	173	31	31	170	716	-	2,501
- tradable securities	1,923	26	27	1	39	-	32	68	2,116
- equipment	1,949	-	-	2	101	9	206	-	2,267
- guarantees	937	4	21	4	166	28	211	-	1,371
- transport vehicles	960	-	4	130	74	13	534	-	1,715
- auto (cars)	463	-	55	3,217	98	39	429	-	4,301
- other assets	3,907	-	1	2	1,536	281	25	-	5,752
Total loans and advances to customers (before impairment)	**23,957**	**5,542**	**5,075**	**3,655**	**2,297**	**1,362**	**3,924**	**68**	**45,880**

Other assets held as collateral include gas, oil and other assets. Included in unsecured loans to corporate clients are mainly loans and advances to customers secured with property rights for future cash proceeds from the sales contracts.

This disclosure represents the lower of the carrying value of the loan or collateral taken; the remaining part is disclosed within the unsecured exposures. The carrying value of loans was allocated based on the liquidity of the assets taken as collateral.

10 Loans and Advances to Customers (Continued)

Analysis by credit quality of loans outstanding at 31 December 2008 is as follows:

In millions of Ukrainian hryvnias	**Corporate loans**	**Loans to individuals**					**SME**	**Reverse repo**	**Total**
		Card	**Mortgage**	**Auto**	**Consumer**	**Other**			
Neither past due nor impaired									
- Large borrowers with credit history with the Group over two years	15,667	-	684	799	-	-	-	-	17,150
- Large new borrowers with credit history with the Group less than 2 years	5,080	-	-	-	-	-	-	-	5,080
- Loans to medium size entities	10,888	-	-	-	-	-	637	332	11,857
- Loans to small entities	860	-	-	-	-	-	4,502	30	5,392
- Loans between UAH 1-100 million	-	18	819	6	-	946	-	-	1,789
- Loans less than UAH 1 million	-	5,964	3,781	3,124	624	328	-	-	13,821
- Loans renegotiated in 2008	1,297	-	200	-	-	11	-	-	1,508
Total neither past due nor impaired	**33,792**	**5,982**	**5,484**	**3,929**	**624**	**1,285**	**5,140**	**362**	**56,597**
Past due but not impaired									
- less than 30 days overdue	270	1,832	800	384	59	28	477	-	3,850
- 30 to 60 days overdue	205	-	398	136	39	20	205	-	1,003
Total past due but not impaired	**475**	**1,832**	**1,198**	**520**	**98**	**48**	**682**	**-**	**4,853**
Loans individually determined to be impaired (gross)									
- Not overdue	10,695	-	4	-	1	-	-	-	10,700
- less than 30 days overdue	107	-	-	-	-	-	-	-	107
- 30 to 90 days overdue	1	323	-	1	-	-	5	-	330
- 90 to 180 days overdue	123	575	334	316	79	78	219	-	1,724
- 180 to 360 days overdue	130	328	241	104	81	34	99	-	1,017
- over 360 days overdue	98	386	100	63	90	30	108	1	876
Total individually impaired loans (gross)	**11,154**	**1,612**	**679**	**484**	**251**	**142**	**431**	**1**	**14,754**
Less impairment provisions	(4,276)	(1,469)	(808)	(541)	(231)	(68)	(735)	(2)	(8,130)
Total loans and advances to customers	**41,145**	**7,957**	**6,553**	**4,392**	**742**	**1,407**	**5,517**	**361**	**68,074**

10 Loans and Advances to Customers (Continued)

Analysis by credit quality of loans outstanding at 31 December 2007 is as follows:

In millions of Ukrainian hryvnias	Corpo-rate loans	Loans to individuals Card	Mortgage	Auto	Consumer	Other	SME	Reverse repo	Total
Neither past due nor impaired									
- Large borrowers with credit history with the Group over two years	4,153	-	-	-	-	-	-	-	4,153
- Large new borrowers with credit history with the Group less than 2 years	5,322	-	-	-	-	-	-	-	5,322
- Loans to medium size entities	7,069	19	1,002	25	59	497	301	40	9,012
- Loans to small entities	759	4,581	3,576	3,243	1,684	707	3,436	28	18,014
- Loans renegotiated in 2007	818	28	6	-	-	69	18	-	939
Total neither past due nor impaired	**18,121**	**4,628**	**4,584**	**3,268**	**1,743**	**1,273**	**3,755**	**68**	**37,440**
Past due but not impaired									
- less than 30 days overdue	30	91	237	169	70	27	85	-	709
- 30 to 90 days overdue	44	-	145	117	-	20	31	-	357
Total past due but not impaired	**74**	**91**	**382**	**286**	**70**	**47**	**116**	**-**	**1,066**
Loans individually determined to be impaired (gross)									
- Not overdue	5,407	-	-	-	-	-	-	-	5,407
- less than 30 days overdue	2	-	-	-	-	-	-	-	2
- 30 to 90 days overdue	-	320	-	-	89	-	-	-	409
- 90 to 180 days overdue	83	171	56	53	95	18	18	-	494
- 180 to 360 days overdue	24	156	48	41	193	22	21	-	505
- over 360 days overdue	246	176	5	7	107	2	14	-	557
Total individually impaired loans (gross)	**5,762**	**823**	**109**	**101**	**484**	**42**	**53**	**-**	**7,374**
Less impairment provisions	(1,566)	(644)	(88)	(65)	(323)	(75)	(48)	(1)	(2,810)
Total loans and advances to customers	**22,391**	**4,898**	**4,987**	**3,590**	**1,974**	**1,287**	**3,876**	**67**	**43,070**

The Group applied the portfolio provisioning methodology prescribed by IAS 39, *Financial Instruments: Recognition and Measurement*, and created portfolio provisions for impairment losses that were incurred but have not been specifically identified with any individual loan by the balance sheet date. The Group's policy is to classify each loan as 'neither past due nor impaired' until specific objective evidence of impairment of the loan is identified. The impairment provisions may exceed the total gross amount of individually impaired loans as a result of this policy and the portfolio impairment methodology.

10 Loans and Advances to Customers (Continued)

The primary factors that the Group considers in determining whether a loan is impaired are its overdue status and realisability of related collateral, if any. As a result, the Group presents above an ageing analysis of loans that are individually determined to be impaired.

Neither past due nor impaired, but renegotiated loans represent the carrying amount of loans that would otherwise be past due or impaired whose terms have been renegotiated. Past due but not impaired loans, except for card loans to individuals, represent collateralised loans where the fair value of collateral covers the overdue interest and principal repayments. The amount reported as past due but not impaired is the whole balance of such loans, not only the individual instalments that are past due.

The fair value of collateral in respect of loans past due but not impaired and in respect of loans individually determined to be impaired at 31 December 2008 was as follows:

	Corpo-rate	Loans to individuals					SME	Total
In millions of Ukrainian hryvnias	**loans**	**Card**	**Mortgage**	**Auto**	**Consumer**	**Other**		
Fair value of collateral - loans past due but not impaired								
- cash deposits	59	-	9	-	-	8	-	76
- residential real estate	5	-	1,125	-	13	19	93	1,255
- other real estate	118	-	293	-	4	22	107	544
- tradable securities	2	-	-	-	-	-	-	2
- equipment	164	-	-	-	7	2	39	212
- guarantees	5	-	-	6	-	-	36	47
- transport vehicles	243	-	-	14	-	4	183	444
- auto (cars)	44	-	-	466	-	1	73	584
- other assets	5	-	-	-	2	2	6	15
Total fair value of collateral - loans past due but not impaired	**645**	**-**	**1,427**	**486**	**26**	**58**	**537**	**3,179**
Fair value of collateral - individually impaired loans								
- cash deposits	177	-	6	7	-	1	-	191
- residential real estate	12	-	459	-	2	7	48	528
- other real estate	2,326	-	37	-	5	17	65	2,450
- tradable securities	2	-	-	-	-	-	1	3
- equipment	3,042	-	-	-	39	2	30	3,113
- guarantees	8	-	2	-	-	-	43	53
- transport vehicles	45	-	-	20	-	8	106	179
- auto (cars)	247	-	-	570	-	1	49	867
- other assets	754	-	1	-	37	-	7	799
Total fair value of collateral - individually impaired loans	**6,613**	**-**	**505**	**597**	**83**	**36**	**349**	**8,183**

10 Loans and Advances to Customers (Continued)

The fair value of collateral in respect of loans past due but not impaired and in respect of loans individually determined to be impaired at 31 December 2007 was as follows:

In millions of Ukrainian hryvnias	**Corpo-rate loans**	**Loans to individuals**					**SME**	**Total**
		Card	**Mortgage**	**Auto**	**Consumer**	**Other**		
Fair value of collateral - loans past due but not impaired								
- cash deposits	3	-	-	1	13	13	-	30
- residential real estate	4	-	655	24	22	12	78	795
- other real estate	26	-	6	19	4	22	108	185
- tradable securities	2	8	-	-	1	-	2	13
- equipment	10	1	-	1	4	3	27	46
- guarantees	12	3	86	57	19	14	175	366
- transport vehicles	2	-	1	19	3	6	54	85
- auto (cars)	2	-	5	293	16	5	30	351
- other assets	100	-	-	1	253	30	19	403
Total fair value of collateral - loans past due but not impaired	**161**	**12**	**753**	**415**	**335**	**105**	**493**	**2,274**
Fair value of collateral - individually impaired loans								
- cash deposits	1	-	-	-	-	-	-	1
- residential real estate	18	-	125	2	11	-	11	167
- other real estate	255	-	-	1	1	-	14	271
- tradable securities	61	-	-	-	-	-	-	61
- equipment	703	-	-	-	9	-	20	732
- guarantees	140	-	20	16	54	-	51	281
- transport vehicles	79	-	-	5	1	-	9	94
- auto (cars)	12	-	3	88	10	-	10	123
- other assets	255	-	-	-	276	-	7	538
Total fair value of collateral - individually impaired loans	**1,524**	**-**	**148**	**112**	**362**	**-**	**122**	**2,268**

Fair value of residential real estate at the balance sheet date was estimated by indexing the values determined by the Group's internal credit department staff at the time of loan inception for the average changes in residential real estate prices by city and region. Fair value of other real estate and other assets was determined by the Group's credit department using the Group's internal guidelines.

Refer to Note 33 for the estimated fair value of each class of loans and advances to customers. Interest rate analysis of loans and advances to customers is disclosed in Note 29. Information on related party balances is disclosed in Note 35.

11 Investment Securities Available for Sale

In millions of Ukrainian hryvnias	2008	2007
Corporate shares – at cost	103	623
Less: Provision for impairment	(99)	(619)
Total investment securities available-for-sale	**4**	**4**

The movements in investment securities available for sale are as follows:

In millions of Ukrainian hryvnias	2008	2007
Carrying amount at 1 January	**4**	**484**
Gains less losses from disposals	43	145
Purchases	1	1,154
Disposals of investment securities available-for-sale	(43)	(1,200)
Acquisitions of subsidiaries	-	28
Provision for impairment during the year	(1)	(607)
Carrying amount at 31 December	**4**	**4**

Interest rate analysis of investment securities available for sale is disclosed in Note 29.

12 Investment Securities Held to Maturity

In millions of Ukrainian hryvnias	2008	2007
Deposit certificates of the NBU	-	1,160
Total investment securities held to maturity	**-**	**1,160**

Deposit certificates are short-term debt securities issued by the NBU with the initial maturity of 6-8 days and annual interest rate of 1%-2%. Investment securities held to maturity were fully redeemed in January 2008.

Refer to Note 33 for the disclosure of the fair value of investment securities held to maturity. Interest rate analysis of investment securities held to maturity is disclosed in Note 29.

13 Premises, Leasehold Improvements and Equipment and Intangible Assets

In millions of Ukrainian hryvnias	Note	Premises	Leasehold improve-ments	Computers	Motor vehicles	Furniture, equip-ment, intangible assets and other	Total
Cost or valuation at 1 January 2007		928	83	422	75	871	2,379
Accumulated depreciation and amortisation		(21)	(62)	(236)	(22)	(305)	(646)
Carrying amount at 1 January 2007		**907**	**21**	**186**	**53**	**566**	**1,733**
Acquisitions through business combinations		16	-	3	1	2	22
Additions		225	27	308	23	158	741
Disposals		(8)	-	-	(2)	(1)	(11)
Transfers		-	-	119	-	(119)	-
Depreciation and amortisation charge	26	(22)	(20)	(130)	(11)	(91)	(274)
Revaluation		12	-	-	-	-	12
Effect of translation to presentation currency		10	-	3	1	9	23
Carrying amount at 31 December 2007		**1,140**	**28**	**489**	**65**	**524**	**2,246**
Cost or valuation at 31 December 2007		1,186	106	916	95	827	3,130
Accumulated depreciation and amortisation		(46)	(78)	(427)	(30)	(303)	(884)
Carrying amount at 31 December 2007		**1,140**	**28**	**489**	**65**	**524**	**2,246**
Additions		260	45	338	18	112	773
Disposals		(45)	(1)	(18)	(3)	(3)	(70)
Depreciation and amortisation charge	26	(31)	(28)	(196)	(14)	(78)	(347)
Impairment charge to profit or loss		(1)	-	-	-	-	(1)
Impairment charge through equity		(17)	-	-	-	-	(17)
Revaluation		805	-	-	-	-	805
Transfers		-	-	133	-	(133)	-
Effect of translation to presentation currency		33	3	45	3	16	100
Carrying amount at 31 December 2008		**2,144**	**47**	**791**	**69**	**438**	**3,489**
Cost or valuation at 31 December 2008		2,172	150	1,283	106	690	4,401
Accumulated depreciation and amortisation		(28)	(103)	(492)	(37)	(252)	(912)
Carrying amount at 31 December 2008		**2,144**	**47**	**791**	**69**	**438**	**3,489**

13 Premises, Equipment and Intangible Assets (Continued)

Premises have been revalued to market value at 31 December 2008. The valuation was carried out by a firm of valuers who hold a recognised and relevant professional qualification and who have recent experience in valuation of assets of similar location and category. The basis of valuation of premises was market value and discounted cash flow techniques in cases where market value was not determinable.

Included in the above carrying amount is UAH 1,211 million (2007: UAH 512 million) representing revaluation surplus relating to premises of the Group. As at 31 December 2008 a cumulative deferred tax liability of UAH 303 million (2007: UAH 124 million) was calculated with respect to this valuation adjustment and has been recorded directly to equity. At 31 December 2008 the carrying amount of premises would have been UAH 676 million (2007: UAH 493 million) had the assets been carried at cost less depreciation.

During 2007 the Group transferred items of property with total carrying value of UAH 119 million from furniture, equipment, intangible assets and other category into computers. Assets transferred mainly consist of ATMs and POS-terminals.

As at 31 December 2008 the gross carrying amount of fully depreciated property, leasehold improvements and equipment that are still in use was UAH 153 million (2007: UAH 309 million).

14 Other Financial Assets

In millions of Ukrainian hryvnias	**2008**	**2007**
Receivables from operations with customers	163	96
Plastic cards receivables	84	88
Accrued income receivable	54	36
Other	77	40
Less: Provision for impairment	(76)	(72)
Total other financial assets	**302**	**188**

14 Other Financial Assets (Continued)

Analysis by credit quality of other financial assets outstanding at 31 December 2008 is as follows:

In millions of Ukrainian hryvnias	**Receivables from operations with customers**	**Plastic cards receivables**	**Accrued income receivable**	**Other**	**Total**
Neither past due nor impaired					
- Large customers with credit history over two years	-	-	-	12	12
- Large new customers	-	-	2	32	34
- Small companies	22	2	49	27	100
- Large OECD banks	-	8	-	-	8
- Non-OECD banks	62	68	3	-	133
- Balances renegotiated during the year	-	1	-	6	7
Total neither past due nor impaired	**84**	**79**	**54**	**77**	**294**
Receivables individually determined to be impaired (gross)					
- 180 to 360 days overdue	79	5	-	-	84
Total receivables individually determined to be impaired	**79**	**5**	**-**	**-**	**84**
Less impairment provision	(73)	(3)	-	-	(76)
Total other financial assets	**90**	**81**	**54**	**77**	**302**

14 Other Financial Assets (Continued)

Analysis by credit quality of other financial receivables outstanding at 31 December 2007 is as follows:

In millions of Ukrainian hryvnias	**Receivables from operations with customers**	**Plastic cards receivables**	**Accrued income receivable**	**Other**	**Total**
Neither past due nor impaired					
- Large customers with credit history over two years	-	-	-	36	36
- Medium sized companies	-	-	2	-	2
- Small companies	14	-	34	1	49
- Large OECD banks	-	6	-	1	7
- Non-OECD banks	1	76	-	1	78
Total neither past due nor impaired	**15**	**82**	**36**	**39**	**172**
Receivables individually determined to be impaired (gross)					
- 30 to 90 days overdue	81	6	-	1	88
Total receivables individually determined to be impaired	**81**	**6**	**-**	**1**	**88**
Less impairment provision	(65)	(6)	-	(1)	(72)
Total other financial assets	**31**	**82**	**36**	**39**	**188**

The primary factors that the Group considers in determining whether a receivable is impaired are its overdue status and realisability of related collateral, if any. As a result, the Group presents above an ageing analysis of receivables that are individually determined to be impaired. Neither past due nor impaired, but renegotiated balances represent the carrying amount of receivables that would otherwise be past due or impaired whose terms have been renegotiated.

Refer to Note 33 for the disclosure of the fair value of each class of other financial assets.

15 Other Assets

In millions of Ukrainian hryvnias	**2008**	**2007**
Prepaid expenses	515	46
Precious metals held	152	37
Prepayments for premises and equipment	33	27
Inventory and other banking assets	27	22
Prepayments for taxes other than income tax	32	12
Other	39	36
Total other assets	**798**	**180**

16 Due to Other Banks and Other Financing Institutions

In millions of Ukrainian hryvnias	2008	2007
Term placements of other commercial banks	5,716	4,246
Term borrowings from the central banks	3,554	-
Long-term loans under the credit lines from other financing institutions	423	1,520
Correspondent accounts and overnight placements of other banks	449	469
Pledge deposits of other banks	5	5
Total due to other banks and other financing institutions	**10,147**	**6,240**

In October 2008 the Bank received a refinancing loan from the National Bank of Ukraine to support the Bank's liquidity. The refinancing loan of UAH 3,410 million is included in term borrowings from the central banks, carries a fixed interest rate of 15% p.a. and matures in October 2009. The loan is collateralised by 32,620,844 shares of the Bank owned by the majority shareholders.

In March 2008 the Bank received a syndicated loan of USD 200 million (UAH 1,010 million at the exchange rate applicable at the date of receipt). The syndicated loan is included in term placements of other commercial banks (UAH 1,540 million at the exchange rate applicable at 31 December 2008), carries a floating interest rate of LIBOR + 0.75% and matures in March 2009. The loan was fully repaid in March 2009. Refer to the Note 36.

As at 31 December 2008 included in term placements of other commercial banks are loans totalling UAH 286 million for financing of small and medium enterprises provided by international financial institutions. These loans are denominated in USD, loans totalling UAH 40 million have interest rates of LIBOR + 1.85% and mature in March 2009 and loans totalling UAH 246 million have interest rate of 7.5% and mature in July 2009.

At 31 December 2008 the Bank had an outstanding loan of USD 40 million provided by an OECD bank with contractual maturity in October 2012. However, the counterparty has a contractual right to call back the loan at the following dates: 6 October 2009, 6 October 2010 and 6 October 2011. In October 2008 the counterparty partly used this right and USD 210 million was repaid by the Bank.

Long-term loans under the credit lines from other financing institutions as at 31 December 2007 represented credit lines for small and medium enterprises. These loans were denominated in USD and EUR and were fully repaid during 2008 at their respective maturities.

Refer to Note 33 for the disclosure of the fair value of each class of amounts due to other banks and other financing institutions.

17 Customer Accounts

In millions of Ukrainian hryvnias	**2008**	**2007**
Individuals		
- Term deposits	30,620	18,953
- Current/demand accounts	6,191	5,908
Legal entities		
- Term deposits	11,647	2,624
- Current/settlement accounts	8,512	8,518
Total customer accounts	**56,970**	**36,003**

Economic sector concentrations within customer accounts are as follows:

	2008		**2007**	
In millions of Ukrainian hryvnias	**Amount**	**%**	**Amount**	**%**
Individuals	36,811	65	24,861	69
Trade	7,584	13	2,157	6
Manufacturing	3,512	6	492	1
Services	3,124	6	5,881	16
Transport and communication	1,837	3	319	1
Agriculture	674	1	206	1
Machinery	435	1	574	2
Other	2,993	5	1,513	4
Total customer accounts	**56,970**	**100**	**36,003**	**100**

At 31 December 2008 the aggregate balances of the top 10 customers of the Group amount to UAH 8,118 million (2007: UAH 2,720 million) or 14% (2007: 8%) of total customer accounts.

At 31 December 2008 included in customer accounts are deposits of UAH 490 million (2007: UAH 61 million) held as collateral for irrevocable commitments under import letters of credit, financial guarantees and promissory notes endorsements. Refer to Note 31.

As at 31 December 2008 included in customer accounts are deposits of UAH 8,737 million (2007: UAH 1,232 million) held as collateral for loans and advances to customers, issued by the Group.

Fair value of each class of customer accounts is disclosed in the Note 33.

Geographical, currency, maturity and interest rate analysis of customer accounts is disclosed in Note 29. Information on related party balances is disclosed in Note 35.

18 Debt Securities in Issue

In millions of Ukrainian hryvnias	**2008**	**2007**
Eurobonds	4,180	2,595
Private placements of bonds	1,795	2,977
Mortgage bonds	893	769
Auto bonds	497	-
Promissory notes	5	18
Total debt securities in issue	**7,370**	**6,359**

In February 2007 the Group issued USD denominated Eurobonds in form of loan participation notes with par value of USD 500 million (UAH 2,525 million at exchange rate at the date of issue) maturing in February 2012. The bonds carry a coupon rate of 8% per annum, and yield to maturity of 10%. The Eurobonds are listed on the Swiss Stock Exchange.

In February 2007 the Group issued USD denominated Residential Mortgage Backed Floating Rate Notes (referred to as Mortgage bonds) with a par value of USD 180 million (UAH 909 million at the exchange rate at the date of issue). The notes were issued in three series. The main features of the issues are described in the table below.

Notes	**Principal amount, USD thousand**	**Initial interest rate**	**Step-up date**	**Interest rate after step-up date**	**Maturity date**	**Issue price**
Class A	134,100	LIBOR + 2.1%	April 2014	LIBOR + 4.2%	December 2031	100%
Class B	36,900	LIBOR + 3.75%	April 2014	LIBOR + 7.5%	December 2031	100%
Class C	9,000	10%	-	-	December 2031	100%

The class C series bonds were repurchased by the Group according to the terms of issue.

In May 2007 the Latvian subsidiary of the Group issued EUR denominated mortgage bonds with a par value of UAH 67 million at the exchange rate at the date of issue, maturing in May 2010. The bonds carry a coupon rate of EURIBOR+1.55%.

In May 2008 the Group issued USD denominated Asset Backed Floating Rate Notes (referred to as Auto bonds) backed by car loans issued by the Group with a par value of USD 110 million (UAH 536 million at the exchange rate at the date of issue). The notes were issued in three series. The main features of the issues are described in the table below.

Notes	**Principal amount, USD thousand**	**Initial interest rate**	**Step-up date**	**Interest rate after step-up date**	**Maturity date**	**Issue price**
Class A	85,800	3 months LIBOR + 5.5%	May 2011	3-months LIBOR + 6.88%	November 2018	100%
Class B	18,700	3 months LIBOR + 7.5%	May 2011	3-months LIBOR + 9.38%	November 2018	100%
Class C	5,500	12%	-	-	November 2018	100%

18 Debt Securities in Issue (Continued)

As at 31 December 2008 auto bonds with the total nominal value of USD 49 million (UAH 377 million at the exchange rate applicable as at 31 December 2008) were repurchased by the Group and removed from the consolidated balance sheet, including all class C bonds repurchased according to the terms of the issue.

Mortgage bonds and auto bonds mature and are being repaid in line with the maturity of the underlying loans to customers.

Mortgage bonds issued with the carrying value of UAH 893 million (2007: UAH 769 million) are effectively collateralised with loans and advances to customers in the amount of UAH 1,270 million (2007: UAH 878 million). Auto bonds issued with the carrying value of UAH 497 million (2007: nil) are effectively collateralised with loans and advances to customers in the amount of UAH 497 million (2007: nil). Refer to Note 31.

The fair value of each class of debt securities in issue is disclosed in Note 33. Geographical, currency, maturity and interest rate analyses of debt securities in issue are disclosed in Note 29.

19 Provisions for Liabilities and Charges, Other Financial and Non-financial Liabilities

Provisions for liabilities and charges, other financial and non-financial liabilities comprise the following:

In millions of Ukrainian hryvnias	**2008**	**2007**
Other financial liabilities		
Liability for finance lease	171	96
Accounts payable	65	16
Funds in the course of settlement	59	39
Provision for credit related commitments	29	21
Financial derivatives (Note 32)	39	8
Other	87	23
Total other financial liabilities	**450**	**203**
Provisions for liabilities and charges and other liabilities		
Unused vacation reserve	160	66
Accrued salaries and bonuses	53	52
Provision for legal case	21	21
Other	47	42
Total provisions for liabilities and charges and other non-financial liabilities	**281**	**181**
Total provisions for liabilities and charges, other financial and non-financial liabilities	**731**	**384**

Specific provisions were created for losses incurred on financial guarantees and promissory notes endorsement whose financial conditions deteriorated. The balance at 31 December 2008 is expected to be utilised by the end of 2014 (2007: by the end of 2013).

Provisions for legal cases include a provision for certain legal claims brought against the Bank by individuals and entities, who provided money to former employees of branches of the Bank, when those employees held senior management positions in these branches. The balance as at 31 December 2008 is expected to be utilised by the end of 2018 (2007: by the end of 2017). In management's opinion, after taking appropriate legal advice, the outcome of these legal claims will not give rise to any significant loss beyond the accrued amounts. Refer to Note 31.

Refer to Note 33 for the disclosure of the fair value of each class of other financial liabilities. Geographical, currency, maturity and interest rate analyses of other financial liabilities are disclosed in Note 29. Information on related party balances is disclosed in Note 35.

20 Subordinated Debt

In millions of Ukrainian hryvnias	**2008**	**2007**
Subordinated debt provided by legal entities	1,275	899
Subordinated debt provided by individuals	58	38
Total subordinated debt	**1,333**	**937**

Subordinated debt represents long term borrowing agreements, which, in case of the Group's default, would be secondary to the Group's other obligations, including deposits and other debt instruments. In accordance with the Law of Ukraine on Banks and Banking Activities and the NBU regulations, subordinated debt cannot be withdrawn from the Bank for at least five years from the date of receipt.

The debts rank after all other creditors in case of liquidation.

Included in subordinated debt, provided by legal entities, are USD denominated subordinated debts issued in February 2006 in the amount of UAH 758 million at par at the exchange rate at the date of issue at 8.75% per annum payable quarterly with contractual maturity in February 2016 and USD denominated subordinated debt issued in March 2005 in the amount of UAH 30 million at the exchange rate at the date of issue at par at 10% per annum payable monthly with contractual maturity in March 2010. Under subordinated debt issued in February 2006 the Group has a call option exercisable in February 2011 at par.

Subordinated debt provided by individuals represents subordinated debt issued in USD, EUR and UAH during July 2004 – April 2005 with interest rates from 10% to 12% per annum payable monthly and contractual maturity from July 2009 to April 2010.

Refer to Note 33 for the disclosure of the fair value of each class of subordinated debt. Geographical, currency and maturity and interest rate analysis of subordinated debt is disclosed in Note 29. Information on related party balances is disclosed in Note 35.

21 Share Capital

In millions of UAH except for number of shares	**Number of outstanding shares, in millions**	**Nominal amount**	**Inflation adjusted amount**
At 1 January 2007	**20.8**	**2,082**	**2,335**
New shares issued	6.3	**632**	**632**
At 31 December 2007	**27.1**	**2,714**	**2,967**
New shares issued	15.2	1,515	1,515
Increase in the nominal amount of the shares	-	1,457	1,457
At 31 December 2008	**42.3**	**5,686**	**5,939**

The nominal registered amount of the Bank's issued share capital prior to restatement of capital contributions made before 1 January 2001 to the purchasing power of the Ukrainian hryvnia at 31 December 2008 is UAH 5,686 million (2007: UAH 2,714 million).

In February 2008, the Bank issued additional 15,150,000 ordinary shares with nominal amount of UAH 100 per share totalling UAH 1,515 million.

21 Share Capital (Continued)

In May 2008 the shareholders made a decision to increase the nominal amount of the Bank's issued shares from UAH 100 per share to UAH 134.5 per share. The increase was followed by an increase in the share capital by capitalisation of dividends in the amount of UAH 1,457 million.

The total authorised number of ordinary shares is 42.3 million shares (2007: 27.1 million shares) with a par value of UAH 134.5 per share (2007: UAH 100 per share). All issued ordinary shares are fully paid.

Each ordinary share carries one vote.

22 Other Reserves

Revaluation reserve for available-for-sale securities is transferred to profit or loss when realised through sale or impairment. Revaluation reserve for premises and equipment is transferred to retained earnings when realised through depreciation, sale or other disposal. Currency translation reserve is transferred to profit or loss when realised through disposal of a subsidiary by sale, liquidation, repayment of share capital or abandonment of all, or part of, that subsidiary.

In December 2007 the Bank's major shareholders made an additional capital contribution in the form of cash amounting to UAH 506 million, in respect of which the Group recognised income tax liability of UAH 126 million as at 31 December 2007. The contribution amounting to UAH 380 million, net of tax was made through related and third parties as a settlement of debts due to the major shareholders of the Bank.

23 Interest Income and Expense

In millions of Ukrainian hryvnias	**2008**	**2007**
Interest income		
Loans and advances to individuals	6,103	4,276
Loans and advances to legal entities	5,174	2,575
Due from other banks	278	168
Other	52	15
Total interest income	**11,607**	**7,034**
Interest expense		
Term deposits of individuals	2,847	1,526
Due to other banks and other financing institutions	434	580
Current/settlement accounts	509	341
Debt securities in issue	645	273
Term deposits of legal entities	542	196
Subordinated debt	100	85
Other	108	20
Total interest expense	**5,185**	**3,021**
Net interest income	**6,422**	**4,013**

Information on interest income and expense from transactions with related parties is disclosed in Note 35.

24 Fee and Commission Income and Expense

In millions of Ukrainian hryvnias	**2008**	**2007**
Fee and commission income		
Cash collection and cash transactions	1,043	730
Settlement transactions	989	669
Guarantees issued	18	19
Foreign exchange	29	17
Transactions with securities	16	15
Other	16	23
Total fee and commission income	**2,111**	**1,473**
Fee and commission expense		
Cash and settlement transactions	291	153
Other	13	8
Total fee and commission expense	**304**	**161**
Net fee and commission income	**1,807**	**1,312**

Information on fee and commission income from transactions with related parties is disclosed in Note 35.

25 Other Operating Income

In millions of Ukrainian hryvnias	**2008**	**2007**
Consulting services provided	31	23
Dividend income	6	1
Penalties received	4	35
Other	38	28
Total other operating income	**79**	**87**

26 Administrative and Other Operating Expenses

In millions of Ukrainian hryvnias	**Note**	**2008**	**2007**
Staff costs		2,487	1,562
Rent		483	268
Depreciation and amortisation of premises, leasehold improvements and equipment and intangible assets	13	347	274
Utilities and household expenses		240	145
Mail and telecommunication		221	168
Contributions to Individual Deposits Guarantee Fund		137	85
Maintenance of premises, leasehold improvements and equipment		135	123
Advertising and marketing		129	98
Insurance expenses		127	158
Taxes other than income		107	39
Security		104	70
Transportation		69	49
Other		429	197
Total administrative and other operating expenses		**5,015**	**3,236**

Included in staff costs are statutory pension contributions of UAH 496 million (2007: UAH 332 million) and social security contributions of UAH 73 million (2007: UAH 60 million). Pension contributions are made into State pension fund which is a defined contribution plan.

Information on administrative and other operating expenses from transactions with related parties is disclosed in Note 35.

27 Income Taxes

Income tax expense recorded in the income statement comprises the following:

In millions of Ukrainian hryvnias	**2008**	**2007**
Current tax	326	349
Deferred tax	225	43
Income tax expense for the year	**551**	**392**

The income tax rate applicable to the majority of the Group's income is 25% (2007: 25%). The income tax rate applicable to the majority of income of subsidiaries ranges from 15% to 30% (2007: from 15% to 30%). Reconciliation between the expected and the actual taxation charge is provided below.

27 Income Taxes (Continued)

In millions of Ukrainian hryvnias	2008	2007
Profit before tax	**2,538**	**1,514**
Theoretical tax charge at statutory rate (2008: 25%; 2007: 25%)	635	379
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Income which is exempt from taxation	(163)	-
- Non-deductible expenses	78	31
- Other	1	(17)
Profits taxed at different rates	-	(1)
Income tax expense for the year	**551**	**392**

During the year ended 31 December 2008 a deferred tax liability of UAH 198 million (2007: UAH 3 million) has been recorded directly in equity in respect of the revaluation of the Group's premises.

Differences between IFRS and statutory taxation regulations in Ukraine and other countries give rise to certain temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below and is recorded at the rate of 25% (2007: 25%), except for temporary differences that arise in respect of assets and liabilities of subsidiaries located in other countries.

In millions of Ukrainian hryvnias	31 December 2007	(Charged)/ credited to profit or loss	Charged directly to equity	31 December 2008
Tax effect of deductible temporary differences				
Accrued expenses and other liabilities	68	37	-	105
Prepaid expenses and other assets	6	17	-	23
Trading securities and investment securities available-for-sale	28	206	-	234
Loan impairment provision	-	157	-	157
Gross deferred tax asset	**102**	**417**	**-**	**519**
Less offsetting with deferred tax liability	(68)	(354)	-	(422)
Recognised deferred tax asset	**34**	**63**	**-**	**97**
Tax effect of taxable temporary differences				
Trading securities and investment securities available-for-sale	(42)	(102)	-	(144)
Premises, leasehold improvements and equipment	(176)	(34)	(198)	(408)
Loan impairment provision	(258)	127	-	(131)
Accrued income	(175)	131	-	(44)
Fair value of derivative financial instruments	(7)	(628)	-	(635)
Prepaid expenses and other assets	(6)	(101)	-	(107)
Deferral of transaction costs at initial recognition	(50)	(35)	-	(85)
Gross deferred tax liability	**(714)**	**(642)**	**(198)**	**(1,554)**
Less offsetting with deferred tax asset	68	354	-	422
Recognised deferred tax liability	**(646)**	**(288)**	**(198)**	**(1,132)**

27 Income Taxes (Continued)

In the context of the Group's current structure and Ukrainian tax legislation, tax losses and current tax assets of different group companies may not be offset against current tax liabilities and taxable profits of other group companies and, accordingly, taxes may accrue even where there is a consolidated tax loss. Therefore, deferred tax assets and liabilities are offset only when they relate to the same taxable entity and the same taxation authority.

In millions of Ukrainian hryvnias	31 December 2006	(Charged)/ credited to profit or loss	Charged directly to equity	31 December 2007
Tax effect of deductible temporary differences				
Accrued expenses and other liabilities	34	34	-	68
Prepaid expenses and other assets	-	6	-	6
Trading securities and investment securities available-for-sale	-	28	-	28
Gross deferred tax asset	**34**	**68**	**-**	**102**
Less offsetting with deferred tax liability	(34)	(34)	-	(68)
Recognised deferred tax asset	**-**	**34**	**-**	**34**
Tax effect of taxable temporary differences				
Trading securities and investment securities available-for-sale	(132)	88	2	(42)
Premises, leasehold improvements and equipment	(168)	(7)	(1)	(176)
Loan impairment provision	(218)	(40)	-	(258)
Accrued income	(62)	(113)	-	(175)
Fair value of derivative financial instruments	(11)	4	-	(7)
Prepaid expenses and other assets	(8)	2	-	(6)
Deferral of transaction costs at initial recognition	(5)	(45)	-	(50)
Gross deferred tax liability	**(604)**	**(111)**	**1**	**(714)**
Less offsetting with deferred tax asset	34	34	-	68
Recognised deferred tax liability	**(570)**	**(77)**	**1**	**(646)**

28 Segment Analysis

The Group's primary format for reporting segment information is business segments and the secondary format is geographical segments.

Business segments. The Group is organised on the basis of four main business segments:

- Retail banking – representing private banking services, private customer current accounts, savings, deposits, investment savings products, custody, credit and debit cards, consumer loans and mortgages.

- Corporate banking – representing direct debit facilities, current accounts, deposits, overdrafts, loan and other credit facilities, foreign currency and derivative products.

- Investment banking – representing financial instruments trading, structured financing, corporate leasing, merger and acquisitions advice.

- Treasury – representing interbank loans, deposits, foreign currency exchange operations, arrangement of funding in the international markets, asset and liabilities management, issue of senior bonds and assets backed securities, project financing, negotiation of limits for trade financing with financial institutions.

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

28 Segment Analysis (Continued)

Segment information for the main reportable business segments of the Group for the years ended 31 December 2008 and 2007 is set out below:

In millions of Ukrainian hryvnias	Retail banking	Corporate banking	Investment banking	Treasury	Unallo-cated	Elimina-tions	Total
2008							
External revenues	6,182	7,404	77	127	7	-	13,797
Revenues from other segments	1,636	-	-	1,414	1,560	(4,610)	-
Total revenues	**7,818**	**7,404**	**77**	**1,541**	**1,567**	**(4,610)**	**13,797**
Total revenues comprise:							
- Interest income	6,738	6,676	6	1,237	1,560	(4,610)	11,607
- Fee and commission income	1,069	689	65	288	-	-	2,111
- Other operating income	11	39	6	16	7	-	79
Total revenues	**7,818**	**7,404**	**77**	**1,541**	**1,567**	**(4,610)**	**13,797**
Segment result	**950**	**(28)**	**(309)**	**1,503**	**422**	**-**	**2,538**
Income tax expense							(551)
Profit							**1,987**
Segment assets	25,119	55,044	248	6,071	941	-	87,423
Current and deferred tax assets	-	-	-	-	-	-	97
Total assets							**87,520**
Segment liabilities	38,763	18,978	223	18,471	116	-	76,551
Current and deferred tax liabilities	-	-	-	-	-	-	1,139
Total liabilities							**77,690**
Capital expenditure	621	190	6	4	240	-	1,061
Depreciation and amortisation expense	199	32	1	1	114	-	347
Impairment losses charged to profit or loss	2,082	2,486	1	-	(61)	-	4,508

28 Segment Analysis (Continued)

In millions of Ukrainian hryvnias	Retail banking	Corporate banking	Investment banking	Treasury	Unallo-cated	Elimina-tions	Total
2007							
External revenues	4,543	3,562	56	433	-	-	8,594
Revenues from other segments	359	-	-	833	1,310	(2,502)	-
Total revenues	**4,902**	**3,562**	**56**	**1,266**	**1,310**	**(2,502)**	**8,594**
Total revenues comprise:							
- Interest income	3,972	3,065	10	1,179	1,310	(2,502)	7,034
- Fee and commission income	893	460	38	82	-	-	1,473
- Other operating income	37	37	8	5	-	-	87
Total revenues	**4,902**	**3,562**	**56**	**1,266**	**1,310**	**(2,502)**	**8,594**
Segment result	**952**	**689**	**(556)**	**245**	**184**	**-**	**1,514**
Income tax expense							(392)
Profit							**1,122**
Segment assets	23,023	23,598	103	8,646	866	-	56,236
Current and deferred tax assets							34
Total assets							**56,270**
Segment liabilities	25,227	9,895	343	14,356	102	-	49,923
Current and deferred tax liabilities							941
Total liabilities							**50,864**
Capital expenditure	418	118	4	3	194	-	737
Depreciation and amortisation expense	129	43	1	1	100	-	274
Impairment losses charged to profit or loss	683	(48)	607	-	-	-	1,242

28 Segment Analysis (Continued)

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

In millions of Ukrainian hryvnias	Ukraine	OECD	Non-OECD	Total
2008				
Segment assets	68,340	3,283	15,800	87,423
External revenues	11,448	204	2,145	13,797
Capital expenditure	(963)	-	(98)	(1,061)
Credit related commitments (Note 31)	5,131	-	82	5,213
2007				
Segment assets	42,247	6,156	7,833	56,236
External revenues	7,438	100	1,056	8,594
Capital expenditure	(663)	-	(74)	(737)
Credit related commitments (Note 31)	2,033	-	41	2,074

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

29 Financial Risk Management

The risk management function within the Group is carried out in respect of financial risks (credit, market, and liquidity risks), operational risks and legal risks. Financial risk comprises market risk (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The primary objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risks stays within these limits. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures to minimise operational and legal risks.

Risk Management Bodies
Risk management policy, monitoring and control are conducted by a number of bodies of the Group under the supervision of the credit committee (the “Credit Committee”) and the recently created Security Committee. Other bodies responsible for risk management within the Group include the Treasury, the Finance and Risk Division (comprising the Risk Control Department and the Analytical Risk Management Centre) and the Financial Risks Department. The Group also has a system of internal controls which is supervised and monitored by its Internal Audit Department and Financial Monitoring Department.

Credit Committee
The Credit Committee, which is composed of the Chairman of the Bank, its Deputies, the Head of the Dnipropetrovsk regional branch, the Head of the Finance and Risk Division and the Head of the Analytical Risk Management Centre, meets bi-weekly and is responsible for setting credit policy, approving loans over the prescribed lending limits and the limits for counterparty banks, monitoring loan performance and the quality of the Group’s loan portfolio and reviewing large loan projects and the lending policies of the Bank’s branches. The Credit Committee also monitors the interest rates set for a range of currencies by the Group’s main competitors and the overall market situation and determines the Group’s pricing policy on the basis on the above. In addition, due to the importance of liquidity risk management, the Credit Committee is also responsible for preparing and formulating management decisions with regard to increasing the Group’s funding base.

29 Financial Risk Management (Continued)

Security Committee
The Security Committee is primarily responsible for reducing transaction risk, including assisting management in preventing fraud; enhancing the security of the Group's staff and its information systems, including the implementation of the Group's personnel security policy; and improving the Group's ability to resist internal and external threats to its systems, including threats to the Group's IT security. The Security Committee meets monthly and the members in attendance vary depending on the topic of the meeting.

Treasury
Day-to-day asset and liability management is done by the Treasury. The Treasury is responsible for overseeing the Group's assets and liabilities and liquidity and interest rate sensitivity analysis based on instructions and guidelines from the Financial Risks Department and its own assessments. The Treasury is responsible for the operational aspects of asset and liability management.

Financial Risks Department
The Financial Risks Department calculates and monitors the Bank's compliance with the mandatory ratios set by the NBU, the requirement to maintain mandatory reserves on the Bank's correspondent account with the NBU and its internal liquidity ratios (in accordance with the Bank's internal Methodology for Liquidity Risk Assessment and Control). In carrying out these functions, the Financial Risks Department works with the Treasury, its back office, and depositary and credit service officers of the head office business divisions and the Credit Committee.

In order to monitor and control liquidity within the Bank and its branches and sub-branches, the Financial Risks Department prepares daily reports on the maximum liquidity gap by matching assets and liabilities with different maturities and currencies as well as providing daily forecasts of the Group's balances on its correspondent account with the NBU to ensure the Bank's compliance with the mandatory reserve requirement and with the instant, current and short-term liquidity ratios set by the NBU. The liquidity reports are maintained in an electronic database that is accessible by the Treasury and is used for purposes of liquidity management. In addition, the Financial Risks Department prepares guidelines for head office business divisions seeking to raise long-term funds and/or reviews decisions of the Credit Committee on the implementation of programmes to increase the Bank's funding base in order to ensure that the Group's short- and long-term liquidity requirements are met.

Risk Control Department
The Risk Control Department analyses the creditworthiness of counterparty banks, calculates provisions for the Group's active operations and limits for counterparty banks, monitors problem assets in the loan portfolio under credit programs, monitors compliance with interbank transaction limits, reviews the lending authority limits of branch and sub-branch heads, analyses lending policies of the branches and sub-branches and provides the Credit Committee with suggestions for improving its policies. It also determines the strategy and basic methodological approaches in the Group's risk management system and oversees its compliance with the requirements established by the NBU as well as the Group's internal guidelines (including, among others, transaction limits and balance sheet structural limits for branches and sub-branches).

Analytical Risk Management Centre
The Analytical Risk Management Centre reviews and checks the results of work performed by the divisions of the Group and assists in formulating management decisions on enhancing transactional security and reducing risk based on data derived from this verification process. In particular, the Analytical Risk Management Centre develops methodologies for detecting suspicious and fraudulent transactions and for reducing errors in statistical analysis of data from the Group's accounting software and other sources, and verifies risk assumptions based on the results of such analyses.

29 Financial Risk Management (Continued)

Credit risk. The Group takes on exposure to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Exposure to credit risk arises as a result of the Group's lending and other transactions with counterparties giving rise to financial assets.

The Group's maximum exposure to credit risk is reflected in the carrying amounts of financial assets on the consolidated balance sheet. For guarantees and commitments to extend credit, the maximum exposure to credit risk is the amount of the commitment. Refer to Note 31. The credit risk is mitigated by collateral and other credit enhancements.

The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Limits on the level of credit risk by product and industry sector are approved regularly by management. Such risks are monitored on a revolving basis and subject to an annual or more frequent review.

The general principles of the Group's credit policy are outlined in the formal Group's Credit Policy. Formal and unified Group's Credit Manual regulates every significant aspect of the lending operations of the Group and outlines procedures for analysing the financial position of borrowers and the valuation of any proposed collateral and specifies the requirements for loan documentation and the procedures for the monitoring of loans.

The Group has collateral policy based on a thorough review and assessment of the value of collateral. The Group's goal is to ensure that there is sufficient collateral to cover a particular loan if the quality of that loan should deteriorate in value. A substantial portion of the Group's loan portfolio generally includes acceleration clauses in case of deterioration of the financial position of the borrower. Credit products are, except in very unusual circumstances, only made available to customers that hold accounts with the Group. This policy provides the dual benefits of additional security for the credit products and additional business for the Group in other areas of corporate banking services.

The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to a single borrower, or groups of affiliated borrowers, and by close on-going supervision of concentrations in geographical and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review. Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and principal payment obligations and by changing the lending limits where appropriate. Exposure to credit risk is also managed, in part, by obtaining collateral and corporate and personal guarantees.

Basic information on the level of credit risk, including reports on the loan portfolio and the volume of problem assets broken down by credit programme and manager, is posted on the Group's internal website. This information is updated weekly and can be viewed both as at the current date and over a period of time. There are specific sections of the Group's website dedicated to problem assets for both corporate and retail clients and the portfolio of corporate loans.

A review of the lending and deposit-taking policy of each branch is presented to the Credit Committee twice per month. The following information on the Bank's branch loan portfolio is considered by the Credit Committee:

- information on the major risks taken (being the ten largest exposures in the portfolio);
- information on the ten largest problem loans; and
- information on the ten largest problem loans that have been passed to the Group's Security Service.

29 Financial Risk Management (Continued)

Loan Approval Procedure
The lending policies and credit approval procedures of the Group are based on strict guidelines in accordance with the NBU regulations. The Group also has detailed regulations for collateral assessment, which is conducted by Group's trained specialists on collateral.

The Bank sets lending authority limits to limit risks to the Group arising from lending activities. Lending authority limits for senior managers of branches (comprising heads of branches, general and first deputy heads) are set twice per year by the Risk Control Department in the head office and approved by an order of the Bank together with proxies authorizing the relevant heads to make lending decisions. The lending authority limit of a branch or sub-branch head depends on the amount of own funds of a branch or sub-branch, overall rating of a branch or sub-branch and its integrated lending activity efficiency rating.

Lending authority limits for junior managers (heads of departments and divisions) are set by the head of the relevant branch or sub-branch and apply to a particular individual.

If the amount of a proposed loan does not exceed the lending authority limit of a head of a branch or sub-branch, the decision on granting the loan is taken by the credit committee of a branch. If the amount exceeds this limit, lending authority is granted from the head office in accordance with the Bank's credit procedures.

Off-Balance Sheet Policy
Credit risk for off-balance sheet financial instruments is defined as the possibility of sustaining a loss as a result of another party to a financial instrument failing to perform in accordance with the terms of the contract. The Group uses the same credit policies in respect of conditional obligations as it does for balance sheet financial instruments, which include credit approval procedures, risk control limits and monitoring procedures.

Loan Monitoring
The Group's IT systems allow the Management monitoring of loans' performance on-line.

The Group reassesses the credit risk on each loan on an ongoing basis by (i) monitoring the financial and market position of the borrower and (ii) assessing the sufficiency of collateral for the loan. The financial and market position of the borrower is regularly reviewed and, on the basis of such review, the internal credit rating of the borrower may be revised. The review is based on the flow of funds into the customer's accounts, its most recent financial statements and other business and financial information submitted by the borrower or otherwise obtained by the Group.

The current market value of collateral is monitored regularly to assess its sufficiency with respect to the loan in question. The review of collateral is performed by independent appraisal companies. The frequency of such reviews depends on the security provided and the degree of volatility of the asset's market price.

Problem loans are identified on a daily basis based on signs of debt servicing deterioration. The Group carries out analyses of problem loans by collecting information about such loans, investigating the causes of problems and working out measures for their early redemption. On the basis of the findings of such analyses, a report is submitted to the Bank's Board regarding the problem loans in the Group's loan portfolio and the level of acceptable credit risk. To improve the quality of the loan portfolio, the Group applies a policy of on-line blocking the ability of a sub-branch or manager responsible for a particular lending programme to grant further loans if the percentage of non-performing loans issued by a particular sub-branch or manager exceeds the maximum permitted level of problem assets until this level decreases.

Management maintains individual records of significant number of Ukrainian retail customers, which constitutes the largest credit bureau in Ukraine, allowing the Group to mitigate credit risks by targeting borrowers, who have a good credit history.

29 Financial Risk Management (Continued)

Problem Loan Recovery
The Credit Committee has developed a systematic approach involving a comprehensive set of procedures intended to enable the Group to realise the highest possible level of repayment on non-performing loans.

If a borrower does not perform its obligations under a loan agreement, it is the responsibility of the relevant credit officer to take initial actions to determine whether the cause of late payments is administrative or credit-related in nature. At this stage, the officers of the dedicated monitoring unit contact the borrower, request repayment and check the availability of any collateral. The monitoring unit calls borrowers to remind them of their repayment obligation several days before the scheduled repayment date, and after such date to demand repayment (during day-time and night-time). If such measures do not result in the repayment of the loan and the non-performance exceeds 90 days, the loan is classified as a “problem loan”. The Risk Control Department, which is able to identify all problem loans in the Group, issues a banking order each month to transfer problem loans from the relevant credit unit’s books to a specialised unit within Security Division (the “Security Service”).

The Security Service is responsible for all loans issued by the Group classified as “problem loans”, excluding loans where the total debt amounts to less than UAH 1,000 (which continue to be processed by the monitoring unit). The Security Service obtains and reviews all documentation relating to the borrower, performs an official internal investigation to identify the reasons for the problem, draws up a plan of action for the repayment of the debt and reviews the collateral (which may entail organising protection). In a number of enforcement actions the Group initiates court proceedings. The Security Service will often engage in negotiations with the borrower over a problem loan either concurrently with, or prior to, initiating court proceedings the collateral for sale at auction, to attach the borrower’s account(s) with another bank or to take possession of property under a mortgage or transport facilities. If collateral is available, and upon satisfactory results of an analysis of whether the borrower is undergoing purely temporary business difficulties and of that borrower’s willingness and capacity to repay its debt, negotiations usually aim at debt restructuring and include requirements to obtain additional collateral, personal guarantees by shareholders and management, increased interest rates and revised repayment schedules.

Other legal actions available to the Group include executive proceedings for the enforcement of debt and bankruptcy proceedings. In the event of any criminal action on the part of the borrower, irrespective of the borrower’s readiness to repay its debt, the Group involves the relevant state authorities. The Credit Committee meets monthly to review the status of non-performing loans.

The Group maintains a policy that problem loans are not refinanced without convincing evidence that they will be repaid or reliably secured.

Sector Concentrations
The Credit Committee regularly reviews and adopts sector exposure adjustments in response to submissions of the Risk Control Department and its own sector analyses.

Related Party Lending
The Group conducts its business with related parties on a commercial, arm’s-length basis. The Group competes with other banking institutions for the business of these parties. Each loan request from a related party is subject to the same credit approval procedures as are applied to any other loan applicant.

Market risk. The Group takes on exposure to market risks. Market risks arise from open positions in (a) currency, (b) interest rate and (c) equity products, all of which are exposed to general and specific market movements. Management sets limits on the value of risk that may be accepted, which is monitored on a daily basis. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

29 Financial Risk Management (Continued)

Currency risk. Currency risk is the risk that the value of financial instruments owned by the Group will fluctuate due to changes in foreign exchange rates. The Group's major currency positions are in Ukrainian hryvnia, U.S. dollars and Euros. In respect of currency risk, Management sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily.

The Group's policy in respect of open currency positions is restricted under Ukrainian law to certain thresholds and strictly monitored by the NBU on a daily basis. In order to hedge its currency risk, the Group enters into arrangements with other banks pursuant to which the Group makes term deposits with other banks and accepts term deposits for the same term from the same counterparty banks in a different currency.

The Group also enters into currency options in the Group's loan agreements with some customers requiring the customers to pay compensation in case of depreciation of the Ukrainian hryvnia relative to the U.S. dollar. Refer to Note 32.

The table below summarises the Group's exposure to foreign currency exchange rate risk at the balance sheet date:

	At 31 December 2008				**At 31 December 2007**			
In millions of Ukrainian hryvnias	**Monetary financial assets**	**Monetary financial liabilities**	**Swaps, spots and forwards**	**Net balance sheet position**	**Monetary financial assets**	**Monetary financial liabilities**	**Swaps, spots and forwards**	**Net balance sheet position**
Ukrainian hryvnias	31,780	28,967	85	2,898	26,162	23,068	322	3,416
US Dollars	41,172	33,617	2,154	9,709	19,394	18,509	(1,420)	(535)
Euros	6,640	10,562	(2,277)	(6,199)	5,590	6,462	1,096	224
Other	3,411	3,104	-	307	2,618	1,700	(1)	917
Total	**83,003**	**76,250**	**(38)**	**6,715**	**53,764**	**49,739**	**(3)**	**4,022**

Derivatives presented above are monetary financial assets or monetary financial liabilities, but are presented separately in order to show the Group's gross exposure.

Amounts disclosed in respect of derivatives represent the fair value, at the balance sheet date, of the respective currency that the Group agreed to buy (positive amount) or sell (negative amount) before netting of positions and payments with the counterparty. The amounts by currency are presented gross as stated in Note 32. The net total represents the fair value of the currency derivatives.

Fair value of option derivative embedded in loans and advances to customers (refer to Note 32) was included in the table above together with host instruments into UAH denominated financial assets. The above analysis includes only monetary assets and liabilities. Investments in equities and non-monetary assets are not considered to give rise to any material currency risk.

As disclosed in the above table, the Group had significant open positions in USD and EUR at the end of 2008. Due to this factor and depreciation of UAH against these currencies as described in Notes 1 and 3, the Group accumulated unrealised foreign exchange translation gains less losses of UAH 2,897 million during the year ended 31 December 2008.

The following table presents sensitivities of profit or loss and equity to reasonably possible changes in exchange rates applied at the balance sheet date relative to the functional currency of the respective Group entities, with all other variables held constant:

29 Financial Risk Management (Continued)

	At 31 December 2008		At 31 December 2007	
In millions of Ukrainian hryvnias	**Impact on profit or loss**	**Impact on equity**	**Impact on profit or loss**	**Impact on equity**
US Dollar strengthening by 25% (2007: strengthening by 5%)	2,534	2,534	(27)	27
US Dollar weakening by 25% (2007: weakening by 5%)	(2,534)	(2,534)	27	(27)
Euro strengthening by 25% (2007: strengthening by 5%)	(1,548)	(1,548)	11	11
Euro weakening by 25% (2007: weakening by 5%)	1,548	1,548	(11)	(11)
Other strengthening by 25% (2007: strengthening by 5%)	77	77	46	46
Other weakening by 25% (2007: weakening by 5%)	(77)	(77)	(46)	(46)
Total	**-**	**-**	**-**	**-**

The exposure was calculated only for monetary balances denominated in currencies other than the functional currency of the respective entity of the Group.

Interest rate risk. The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. Management monitors on a daily basis and sets limits on the level of mismatch of interest rate repricing that may be undertaken.

The Group is exposed to interest rate risk, principally as a result of lending at fixed interest rates, in amounts and for periods, which differ from those of term borrowings at fixed interest rates. In practice, interest rates are generally fixed on a short-term basis. Also, interest rates that are contractually fixed on both assets and liabilities are usually renegotiated to reflect current market conditions.

The Board sets limits on the level of mismatch of interest rates on assets and liabilities sensitive to interest rates, which is monitored regularly. In the absence of any available hedging instruments, the Group normally seeks to match its interest rate positions.

The Finance and Risk Division and the Credit Committee are both responsible for interest rate risk management. The Finance and Risk Division establishes the principal policies and approaches to interest rate risk management and the Credit Committee conducts weekly monitoring and revision of interest rates for various currencies within certain time limits and product categories. The Group regularly monitors interest rate risk by means of interest rate gap analysis, which is based on ordering assets and liabilities sensitive to interest rates into a number of time bands. Fixed interest rate assets and liabilities are arranged by the time remaining until maturity, while assets and liabilities with a variable interest rate are arranged by the nearest possible term of repricing. The net sensitivity gap between assets and liabilities in a given time band represents the volume sensitive to changes of market interest rates. The product of this difference and the presumed change of interest rates represents the approximate changes of net interest income. A negative net sensitivity gap in a given time band, which means that interest-bearing liabilities exceed interest-earning assets in that time band, represents a risk of a decline in net interest income in the event of increases in market interest rates. A positive net sensitivity gap in a given time band, which means that interest-bearing liabilities, represent a risk of a decline in net interest income in the event of a decline in market interest rates.

29 Financial Risk Management (Continued)

The table below summarises the Group's exposure to interest rate risks. The table presents the aggregated amounts of the Group's financial assets and liabilities at carrying amounts, categorised by the earlier of contractual interest repricing or maturity dates.

In millions of Ukrainian hryvnias	**Demand and less than 1 month**	**From 1 to 6 months**	**From 6 to 12 months**	**More than 1 year**	**Non-monetary**	**Total**
31 December 2008						
Total financial assets	13,002	8,630	30,647	30,724	83	83,086
Total financial liabilities	21,554	12,090	29,282	13,324	20	76,270
Net interest sensitivity gap at 31 December 2008	**(8,552)**	**(3,460)**	**1,365**	**17,400**	**63**	**6,816**
31 December 2007						
Total financial assets	10,777	1,805	15,332	25,723	138	53,775
Total financial liabilities	17,139	5,893	20,565	6,145	-	49,742
Net interest sensitivity gap at 31 December 2007	**(6,362)**	**(4,088)**	**(5,233)**	**19,578**	**138**	**4,033**

All of the Group's debt instruments reprice within 5 years, except for loans and advances to customers totalling UAH 68,074 million which reprice within 6 to 24 years (2007: all reprice within 5 years, except for loans and advances to customers totalling UAH 43,070 million which reprice within 6 to 24 years and debt securities in issue totalling UAH 769 million which reprice within 6 years).

At 31 December 2008, if interest rates at that date had been 200 basis points lower (2007: 50 basis points lower) with all other variables held constant, profit for the year would have been UAH 111 million (2007: UAH 9 million) higher, mainly as a result of lower interest expense on variable interest liabilities.

If interest rates had been 200 basis points higher (2007: 50 basis points higher), with all other variables held constant, profit would have been UAH 111 million (2007: UAH 9 million) lower, mainly as a result of higher interest expense on variable interest liabilities.

29 Financial Risk Management (Continued)

The Group monitors interest rates for its financial instruments. The table below summarises interest rates based on reports reviewed by key management personnel:

	2008				2007			
In % p.a.	**USD**	**UAH**	**Euro**	**Other**	**USD**	**UAH**	**Euro**	**Other**
Assets								
Correspondent accounts and overnight deposits with other banks	0	0	1	1	1	-	3	0
Correspondent accounts with NBU, Central Bank of Russian Federation and Central Bank of Latvia, Central Bank of Cyprus and Central Bank of Georgia	-	0	-	0	-	0	-	0
Debt trading securities	-	10	-	-	-	10	-	-
Other debt securities at fair value through profit or loss	-	-	-	-	-	-	-	8
Due from other banks	11	0	0	3	11	-	3	-
Loans and advances to legal entities	14	22	10	20	12	13	11	17
Loans and advances to individuals	15	30	9	36	15	34	15	24
Debt investment securities held to maturity	-	-	-	-	-	1	-	-
Other financial assets	3	0	1	2	0	0	0	0
Liabilities								
Correspondent accounts and overnight deposits of other banks	1	4	0	8	0	2	0	0
Term placements of other banks	4	5	6	4	8	8	6	6
Long-term loans under the credit lines from international financial institutions	10	-	6	-	8	-	8	-
Customer accounts								
- current accounts of customers	0	0	0	0	0	0	0	0
- term deposits of legal entities	11	9	7	3	6	9	7	6
- term deposits of individuals	11	15	8	6	9	14	7	11
Debt securities in issue	8	11	-	12	8	12	-	10
Subordinated debt	9	12	10	10	9	12	11	7
Other financial liabilities	17	0	0	6	16	0	0	0

The sign “-“ in the table above means that the Group does not have the respective assets or liabilities in the corresponding currency.

The Group is exposed to prepayment risk through providing fixed or variable rate loans, including mortgages, which give the borrower the right to early repay the loans. The Group’s current year profit and equity at the current balance sheet date would not have been significantly impacted by changes in prepayment rates because such loans are carried at amortised cost and the prepayment right is at or close to the amortised cost of the loans and advances to customers (2007: no material impact).

29 Financial Risk Management (Continued)

Geographical risk concentrations. The geographical concentration of the Group's financial assets and liabilities at 31 December 2008 is set out below:

In millions of Ukrainian hryvnias	**Ukraine**	**OECD**	**Non OECD**	**Total**
Assets				
Cash and cash equivalents and mandatory reserves	2,984	5,234	1,174	9,392
Trading securities	87	-	-	87
Other financial assets at fair value through profit or loss	-	-	14	14
Due from other banks	425	2,220	17	2,662
Loans and advances to customers	51,947	2,280	13,847	68,074
Financial derivatives	2,551	-	-	2,551
Investment securities available for sale	3	1	-	4
Other financial assets	38	46	218	302
Total financial assets	**58,035**	**9,781**	**15,270**	**83,086**
Non-financial assets	**3,697**	**128**	**609**	**4,434**
Total assets	**61,732**	**9,909**	**15,879**	**87,520**
Liabilities				
Due to other banks and other financing institutions	3,447	6,060	640	10,147
Customer accounts	43,085	3,413	10,472	56,970
Debt securities in issue	850	6,290	230	7,370
Other financial liabilities	161	16	273	450
Subordinated debt	58	1,188	87	1,333
Total financial liabilities	**47,601**	**16,967**	**11,702**	**76,270**
Non-financial liabilities	**1,354**	**-**	**66**	**1,420**
Total liabilities	**48,955**	**16,967**	**11,768**	**77,690**
Net balance sheet position	**12,777**	**(7,058)**	**4,111**	**9,830**
Credit related commitments	**2,352**	**1,468**	**1,393**	**5,213**

29 Financial Risk Management (Continued)

Assets, liabilities and credit related commitments have been based on the country in which the counterparty is located. Balances with Ukrainian counterparties actually outstanding to/from offshore companies of these Ukrainian counterparties are allocated to the caption "Ukraine". Cash on hand, precious metals and premises and equipment have been allocated based on the country in which they are physically held.

The geographical concentration of the Group's assets and liabilities at 31 December 2007 is set out below:

In millions of Ukrainian hryvnias	Ukraine	OECD	Non OECD	Total
Assets				
Cash and cash equivalents and mandatory reserves	3,593	3,460	899	7,952
Trading securities	16	-	-	16
Other financial assets at fair value through profit or loss	-	-	16	16
Due from other banks	17	1,297	14	1,328
Loans and advances to customers	35,282	1,542	6,246	43,070
Financial derivatives	41	-	-	41
Investment securities available-for-sale	4	-	-	4
Investment securities held to maturity	1,160	-	-	1,160
Other financial assets	98	5	85	188
Total financial assets	**40,211**	**6,304**	**7,260**	**53,775**
Non-financial assets	**2,071**	**13**	**411**	**2,495**
Total assets	**42,282**	**6,317**	**7,671**	**56,270**
Liabilities				
Due to other banks	421	5,110	709	6,240
Customer accounts	30,304	1,293	4,406	36,003
Debt securities in issue	250	5,934	175	6,359
Other financial liabilities	70	6	127	203
Subordinated debt	115	777	45	937
Total financial liabilities	**31,160**	**13,120**	**5,462**	**49,742**
Non-financial liabilities	**1,055**	**5**	**62**	**1,122**
Total liabilities	**32,215**	**13,125**	**5,524**	**50,864**
Net balance sheet position	**10,067**	**(6,808)**	**2,147**	**5,406**
Credit related commitments	**2,035**	**-**	**39**	**2,074**

Other risk concentrations. Management monitors and discloses concentrations of credit risk by obtaining reports listing exposures to borrowers with aggregated loan balances in excess of 10% of net assets. Refer to Notes 9 and 10.

29 Financial Risk Management (Continued)

Liquidity risk. Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Group is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan drawdowns, guarantees and from margin and other calls on cash-settled derivative instruments. The Group does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. Liquidity risk is managed by Treasury Department of the Group.

The Group has developed specific approaches to liquidity issues based on medium-term (i.e., three to twelve months), short-term (i.e., two to fifteen weeks) and current (i.e., up to fourteen days) time periods. With respect to medium-term liquidity, the Treasury, in co-ordination with the Financial Risks Department, performs an analysis of the Group's payments calendar over this period and considers contingency options available to the Group in the event that unfavourable developments or crisis situations occur.

Decisions on short-term liquidity management are taken by the Treasury. These decisions are based on an analysis of the volatility of various assets and liabilities. Estimates are made after application of internally developed models as to the volume and likelihood of unexpected withdrawals of funds and the probability that additional funding might be required. In order to minimise unanticipated changes in funding, the Group separately analyses the possible consequences of the withdrawal of a large amount of funds by major customers. Client managers and senior Group management work closely with major customers to coordinate plans with regard to movement of funds.

Decisions with respect to current liquidity management are taken by the head of Treasury. Reports on actions taken are made to the Credit Committee. The Group's payments calendar for each upcoming 14-day period is analysed, and decisions taken on the attraction of short-term interbank deposits, the immediate sale of securities from the Treasury portfolio, and other facilities available to the Group. The Treasury implements decisions on a real-time basis.

The Group seeks to maintain a stable funding base primarily consisting of amounts due to other banks, corporate and retail customer deposits and debt securities. The Group invests the funds in diversified portfolios of liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

The liquidity management of the Group requires considering the level of liquid assets necessary to settle obligations as they fall due; maintaining access to a range of funding sources; maintaining funding contingency plans; and monitoring balance sheet liquidity ratios against regulatory requirements. The Bank calculates liquidity ratios on a daily basis in accordance with the requirement of the National Bank of Ukraine. These ratios are:

- Instant liquidity ratio (N4), which is calculated as the ratio of highly-liquid assets to liabilities payable on demand. The ratio was 57% at 31 December 2008 (2007: 61%).

- Current liquidity ratio (N5), which is calculated as the ratio of liquid assets to liabilities maturing within 31 calendar days. The ratio was 56% at 31 December 2008 (2007: 87%).

- Short-term liquidity ratio (N6), which is calculated as the ratio of liquid assets to liabilities with original maturity of up to one year. The ratio was 37% at 31 December 2008 (2007: 46%).

The Treasury Department receives information about the liquidity profile of the financial assets and liabilities. The Treasury Department then provides for an adequate portfolio of short-term liquid assets, largely made up of short-term liquid trading securities, deposits with banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Group as a whole.

The daily liquidity position is monitored and regular liquidity stress testing under a variety of scenarios covering both normal and more severe market conditions is performed by the Treasury Department.

29 Financial Risk Management (Continued)

The table below shows liabilities at 31 December 2008 by their remaining contractual maturity. The amounts disclosed in the maturity table are the contractual undiscounted cash flows, including gross finance lease obligations (before deducting future finance charges), prices specified in deliverable forward agreements to purchase financial assets for cash, contractual amounts to be exchanged under gross settled currency swaps, and gross loan commitments. Such undiscounted cash flows differ from the amount included in the balance sheet because the balance sheet amount is based on discounted cash flows.

When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the reporting date. Foreign currency payments are translated using the spot exchange rate at the balance sheet date.

The maturity analysis of financial liabilities at 31 December 2008 is as follows:

In millions of Ukrainian hryvnias	**Demand and less than 1 month**	**From 1 to 3 months**	**From 3 to 12 months**	**From 12 months to 5 years**	**Over 5 years**	**Total**
Liabilities						
Due to other banks and other financing institutions	1,001	2,444	8,900	1,731	486	14,562
Customer accounts	23,747	7,136	20,725	8,025	85	59,718
Debt securities in issue	39	261	972	7,570	259	9,101
Subordinated debt	1	53	101	444	1,500	2,099
Other financial liabilities	196	25	111	121	245	698
Gross settled SWAPs and forwards	2,870	-	-	-	-	2,870
Total contractual future payments for financial obligations	**27,854**	**9,919**	**30,809**	**17,891**	**2,575**	**89,048**
Credit related commitments, gross (Note 31)	**1,789**	**672**	**1,760**	**1,021**	**-**	**5,242**

The maturity analysis of financial liabilities at 31 December 2007 is as follows:

In millions of Ukrainian hryvnias	**Demand and less than 1 month**	**From 1 to 3 months**	**From 3 to 12 months**	**From 12 months to 5 years**	**Over 5 years**	**Total**
Liabilities						
Due to other banks and other financing institutions	1,101	498	2,636	2,602	305	7,142
Customer accounts	16,274	4,828	15,005	652	43	36,802
Debt securities in issue	7	446	1,239	5,364	-	7,056
Subordinated debt	8	44	130	339	1,022	1,543
Other financial liabilities	83	6	29	89	102	309
Gross settled SWAPs and forwards	1,598	-	-	-	-	1,598
Total contractual future payments for financial obligations	**19,071**	**5,822**	**19,039**	**9,046**	**1,472**	**54,450**
Credit related commitments, gross (Note 31)	**99**	**-**	**325**	**1,671**	**-**	**2,095**

29 Financial Risk Management (Continued)

Payments in respect of gross settled swaps and forwards will be accompanied by related cash inflows which are disclosed at their present values in Note 32. Customer accounts are classified in the above analysis based on contractual maturities. However, in accordance with Ukrainian Civil Code, individuals have a right to withdraw their deposits prior to maturity if they forfeit their right to accrued interest.

The Group does not use the above undiscounted maturity analysis to manage liquidity. Instead, the Group monitors expected maturities, which may be summarised as follows at 31 December 2008:

In millions of Ukrainian hryvnias	**Demand and less than 1 month**	**From 1 to 3 months**	**From 3 to 12 months**	**Over 1 year**	**No stated maturity**	**Total**
Assets						
Cash and cash equivalents and mandatory reserves	9,392	-	-	-	-	9,392
Trading securities	-	-	12	-	75	87
Other financial assets at fair value through profit or loss	-	-	-	8	6	14
Due from other banks	181	42	2,005	434	-	2,662
Loans and advances to customers	2,591	7,431	27,055	30,997	-	68,074
Financial derivatives	-	938	1,613	-	-	2,551
Investment securities available-for-sale	-	-	-	1	3	4
Other financial assets	255	22	3	3	19	302
Total financial assets	**12,419**	**8,433**	**30,688**	**31,443**	**103**	**83,086**
Liabilities						
Due to other banks and other financing institutions	740	2,253	4,958	2,196	-	10,147
Customer accounts	19,462	8,468	22,935	6,105	-	56,970
Debt securities in issue	35	191	672	6,472	-	7,370
Other financial liabilities	197	36	81	131	5	450
Subordinated debt	1	41	45	1,246	-	1,333
Total financial liabilities	**20,435**	**10,989**	**28,691**	**16,150**	**5**	**76,270**
Net liquidity gap at 31 December 2008	**(8,016)**	**(2,556)**	**1,997**	**15,293**	**98**	**6,816**
Cumulative liquidity gap at 31 December 2008	**(8,016)**	**(10,572)**	**(8,575)**	**6,718**	**6,816**	**-**
Credit related commitments	**1,787**	**667**	**1,747**	**1,012**	**-**	**5,213**

29 Financial Risk Management (Continued)

The analysis by expected maturities may be summarised as follows at 31 December 2007:

In millions of Ukrainian hryvnias	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	Over 1 year	No stated maturity	Total
Assets						
Cash and cash equivalents and mandatory reserves	7,952	-	-	-	-	7,952
Trading securities	16	-	-	-	-	16
Other financial assets at fair value through profit or loss	16	-	-	-	-	16
Due from other banks	30	93	1,109	96	-	1,328
Loans and advances to customers	1,197	1,493	13,931	26,449	-	43,070
Investment securities available-for-sale	-	-	-	1	3	4
Investment securities held to maturity	1,160	-	-	-	-	1,160
Other financial assets	186	-	-	43	-	229
Total financial assets	**10,557**	**1,586**	**15,040**	**26,589**	**3**	**53,775**
Liabilities						
Due to other banks and other financing institutions	1,055	486	2,496	2,203	-	6,240
Customer accounts	9,111	8,145	18,546	201	-	36,003
Debt securities in issue	26	413	1,117	4,803	-	6,359
Other financial liabilities	86	6	23	88	-	203
Subordinated debt	-	28	79	830	-	937
Total financial liabilities	**10,278**	**9,078**	**22,261**	**8,125**	**-**	**49,742**
Net liquidity gap at 31 December 2007	**279**	**(7,492)**	**(7,221)**	**18,464**	**3**	**4,033**
Cumulative liquidity gap at 31 December 2007	**279**	**(7,213)**	**(14,434)**	**4,030**	**4,033**	**-**
Credit related commitments	**98**	**-**	**322**	**1,654**	**-**	**2,074**

The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Group. It is unusual for banks ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Group and its exposure to changes in interest and exchange rates.

Management believes that in spite of a substantial portion of customer accounts being on demand, diversification of these deposits by number and type of depositors, and the past experience of the Group would indicate that these customer accounts provide a long-term and stable source of funding for the Group.

Liquidity requirements to support calls under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Group does not generally expect the third party to draw funds under the agreement. The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

30 Management of Capital

The Group's objectives when managing capital are (i) to comply with the capital requirements set by the National Bank of Ukraine, (ii) to safeguard the Group's ability to continue as a going concern and (iii) to maintain a sufficient capital base to achieve a capital adequacy ratio based on the Basel Accord of at least 8%. The Group considers total capital under management to be equity as shown in the consolidated balance sheet. The amount of capital that the Group managed as of 31 December 2008 was UAH 10,341 million (2007: UAH 5,406 million). Compliance with capital adequacy ratios set by the National Bank of Ukraine is monitored monthly with reports outlining their calculation reviewed and signed by the Bank's Chairman and Chief Accountant. Other objectives of capital management are evaluated annually.

Under the current capital requirements set by the National Bank of Ukraine banks have to maintain a ratio of regulatory capital to risk weighted assets ("statutory capital ratio") above a prescribed minimum level. Regulatory capital is based on the Bank's reports prepared under Ukrainian accounting standards and comprises:

In millions of Ukrainian hryvnias	**2008**	**2007**
Net assets unadjusted for accruals, provisions and taxes	7,474	4,941
Plus subordinated debt	780	807
Less investments into subsidiaries	(556)	(553)
Other	(9)	(11)
Total regulatory capital	**7,689**	**5,184**

The Group and the Bank are also subject to minimum capital requirements established by covenants stated in loan agreements, including capital adequacy levels calculated in accordance with the requirements of the Basel Accord, as defined in the International Convergence of Capital Measurement and Capital Standards (updated April 1998) and Amendment to the Capital Accord to incorporate market risks (updated November 2005), commonly known as Basel I. The composition of the Group's capital calculated in accordance with Basel Accord is as follows:

In millions of Ukrainian hryvnias	**2008**	**2007**
Tier 1 capital		
Share capital	5,939	2,967
Disclosed reserves	2,191	1,582
Cumulative translation reserve	330	34
Less: goodwill	(50)	(35)
Total tier 1 capital	**8,410**	**4,548**
Tier 2 capital		
Asset revaluation reserves	908	361
Additional capital	462	462
Subordinated debt	1,204	799
Total tier 2 capital	**2,574**	**1,622**
Total capital	**10,984**	**6,170**

The Group and the Bank have complied with all externally imposed capital requirements as at 31 December 2008 and 31 December 2007.

31 Contingencies and Commitments

Legal proceedings. From time to time and in the normal course of business, claims against the Group are received. On the basis of its own estimates and both internal and external professional advice the Management is of the opinion that no material losses will be incurred in respect of claims, except as described below.

The Group is the subject of suits by individuals and entities who provided money to former employees of branches of the Bank, whilst those employees held senior management positions in these branches. Those former employees are currently the subject of criminal proceedings relating to the embezzlement of money of the Bank and individuals and entities. The individuals and entities are claiming that the Bank is responsible for the criminal actions of the former employees and are seeking amounts totalling approximately UAH 34 million. The Group believes that the two former employees will be found guilty in the criminal cases and that, on the basis of such a finding of criminal liability, the civil suits against the Group will be partly rejected. As such, a provision of UAH 21 million (2007: UAH 21 million) has been made in this respect. Refer to Note 19.

Tax legislation. Ukrainian tax and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant authorities.

The Ukrainian tax authorities may be taking a more assertive and sophisticated approach in their interpretation of the legislation and tax examinations. Combined with a possible increase in tax collection efforts to respond to budget pressures, the above may lead to an increase in the level and frequency of scrutiny by the tax authorities and it is possible that transactions and activities that have not been challenged in the past may be challenged.

As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

Ukrainian transfer pricing legislation provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of all controllable transactions, provided that the transaction price differs from market price.

Controllable transactions include transactions with related parties, as determined under the Corporate Profit Tax (CPT) Law, whose definition significantly different from IFRS, all transactions with non-residents (irrespective whether performed between related or unrelated parties) and transactions with non-standard CPT payers.

There is no formal guidance as to how these rules should be applied in practice. The procedure for assessing additional tax liabilities using transfer pricing rules requires the tax authorities to obtain a court decision approving the tax amount. It is not clear at the moment when (or if) new or more detailed transfer pricing regulations will be introduced. It is possible with the evolution of the interpretation of the transfer pricing rules in Ukraine and the changes in the approach of the Ukrainian tax authorities, that transfer prices could potentially be challenged. The impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the entity.

The Group includes companies incorporated outside of Ukraine. Tax liabilities of the Group are determined on the assumption that these companies are not subject to Ukrainian profits tax because they do not have a permanent establishment in Ukraine. Ukrainian tax laws do not provide detailed rules on taxation of foreign companies within a Ukrainian group. It is possible that with the evolution of the interpretation of these rules and the changes in the approach of the Ukrainian tax authorities, the non-taxable status of some or all of the foreign companies of the Group in Ukraine may be challenged. The impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the entity.

31 Contingencies and Commitments (Continued)

Ukrainian tax legislation does not provide definitive guidance in certain areas. From time to time, the Group adopts interpretations of such uncertain areas that reduce the overall tax rate of the Group. As noted above, such tax positions may come under heightened scrutiny. The impact of any challenge by the tax authorities cannot be reliably estimated; however, it may be significant to the financial condition and/or the overall operations of the entity.

The Group's Management believes that its interpretation of the relevant legislation is appropriate and the Group's tax position will be sustained. Accordingly, as at 31 December 2008 no provision for potential tax liabilities had been recorded (2007: no provision).

Capital expenditure commitments. At 31 December 2008 the Group has contractual capital expenditure commitments in respect of construction of premises, computers and furniture and equipment totalling UAH 8 million (2007: UAH 89 million). The Group believes that future net income and funding will be sufficient to cover this and any similar such commitments.

Operating lease commitments. As at 31 December 2008 and 2007 the Group had no commitments under non-cancellable operating leases.

Compliance with covenants. The Group is subject to certain covenants related primarily to its foreign borrowings. In particular, the Bank is required to maintain certain level of share capital, a certain capital adequacy ratio, certain level of regulatory ratios. Non-compliance with such covenants may result in negative consequences for the Group including growth in the cost of borrowings and declaration of default. The Group was in compliance with covenants as at 31 December 2008 and 31 December 2007.

Credit related commitments. The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate or cash deposits and therefore carry less risk than a direct borrowing.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments, if the unused amounts were to be drawn down. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group monitors the term to maturity of credit related commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments. Outstanding credit related commitments are as follows:

In millions of Ukrainian hryvnias	**Note**	**2008**	**2007**
Import letters of credit		2,137	909
Guarantees issued		2,965	1,177
Irrevocable commitments to extend credit		140	9
Less: Provision for credit related commitments	19	(29)	(21)
Total credit related commitments		**5,213**	**2,074**

The total outstanding contractual amount of undrawn credit lines, letters of credit, and guarantees does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded. The fair value of credit related commitments was UAH 38 million at 31 December 2008 (2007: UAH 21 million).

As at 31 December 2008 UAH 1,448 million or 28% of the total amount of credit related commitments was represented by exposure to 2 counterparties of the Group. The Group's on-balance sheet exposure to these counterparties represented by loans and advances to customers, amounted to UAH 905 million.

31 Contingencies and Commitments (Continued)

Credit related commitments are denominated in currencies as follows:

In millions of Ukrainian hryvnias	2008	2007
Ukrainian Hryvnias	780	483
US Dollars	2,690	926
Euro	1,498	623
Other currencies	245	42
Total	**5,213**	**2,074**

Fiduciary assets. These assets are not included in the Group's consolidated balance sheet as they are not assets of the Group. Nominal values disclosed below are normally different from the fair values of respective securities. The fiduciary assets held by the Group on behalf of its customers fall into the following categories:

In millions of Ukrainian hryvnias	2008 Nominal value	2007 Nominal value
Shares of Ukrainian companies	4,906	7,020
Domestic corporate bonds	1,711	308
Investment certificates	91	69

Assets pledged and restricted. The Group had assets pledged as collateral with the following carrying value:

	Note	2008		2007	
In millions of Ukrainian hryvnias		Asset pledged	Related liability/ commitment	Asset pledged	Related liability/ commitment
Gross receivables under swap agreements	32	2,654	2,692	1,496	1,499
Due from other banks	9	1,448	1,448	-	-
Loans and advances to customers	10, 18	1,767	1,390	946	769
Total		**5,869**	**5,530**	**2,442**	**2,268**

Gross receivables under swap agreements presented above are recognised on a net basis in the balance sheet, giving rise to a derivative financial asset or liability within other assets or other liabilities, respectively.

As disclosed in Note 9, balances due from other banks totalling UAH 84 million (2007: UAH 123 million) have been pledged as cover for letters of credit and international payments.

In addition, mandatory cash balances in the amount of UAH 31 million (2007: UAH 884 million) represent mandatory reserve deposits which are not available to finance the Group's day to day operations as disclosed in Note 7.

32 Derivative Financial Instruments

Foreign exchange and other derivative financial instruments entered into by the Group are generally traded in an over-the-counter market with professional market counterparties on standardised 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 balance sheet date, of currencies receivable or payable under foreign exchange forward contracts entered into by the Group. The table reflects gross positions before the netting of any counterparty positions (and payments) and covers the contracts with settlement dates after the respective balance sheet date. The contracts are short term in nature.

	2008		2007	
In millions of Ukrainian hryvnias	**Contracts with positive fair value**	**Contracts with negative fair value**	**Contracts with positive fair value**	**Contracts with negative fair value**
Foreign exchange swaps: fair values, at the balance sheet date, of				
- USD receivable on settlement (+)	1,310	1,111	86	-
- USD payable on settlement (-)	(18)	(249)	(270)	(1,172)
- Euros receivable on settlement (+)	18	130	261	811
- Euros payable on settlement (-)	(1,309)	(1,116)	-	(5)
- UAH receivable on settlement (+)	-	85	15	358
- UAH payable on settlement (-)	-	-	(51)	-
- Other currencies payable on settlement (-)	-	-	(36)	-
Foreign exchange forwards: fair values, at the balance sheet date, of				
- USD payable on settlement (-)	-	-	(35)	(29)
- LTV receivable on settlement (+)	-	-	35	-
- Euros receivable on settlement (+)	-	-	-	29
Net fair value of foreign exchange forwards and swaps	**1**	**(39)**	**5**	**(8)**

At 31 December 2008, the Group had outstanding obligations from unsettled spot transactions with foreign currencies of UAH 3,789 million (2007: UAH 537 million). The net fair value of unsettled spot transactions is insignificant.

During the year ended 31 December 2008 the Group incurred loss of UAH 284 million resulting from foreign exchange forwards and swaps.

In addition, as disclosed in Note 4, as at 31 December 2008 the Group had outstanding derivatives embedded in loans issued to customers which were separated from the host instrument and carried at fair value of UAH 2,551 million. During the year ended 31 December 2008 the Group recognised a gain of UAH 249 million (2007: a loss of UAH 44 million) in respect of change in fair value of a financial derivative that arises on the issue of UAH denominated loans with the condition of compensation in the case of UAH devaluation against USD. This embedded derivative is represented by a currency option maturing in up to 5 years. The strike price was from UAH 4.84 to UAH 7.88 per USD 1 (2007: UAH 5.05 per USD 1). The fair value gain was recorded in losses less gains from financial derivatives in the consolidated income statement. The gain resulted from changes in fair value of the option between the date of initial recognition and 31 December 2008.

33 Fair Value of Financial Instruments

Fair values of financial instruments are as follows at 31 December 2008:

	Fair value by measurement method:			Total fair value	Carrying value
In millions of Ukrainian hryvnias	**Quoted price in an active market**	**Valuation technique with inputs observable in markets**	**Valuation technique with significant non-observable inputs**		
FINANCIAL ASSETS					
Cash and cash equivalents and mandatory reserves					
Cash on hand	-	3,206	-	3,206	3,206
Cash balances with Central Banks	-	694	-	694	694
Correspondent accounts and overnight placements with other banks	-	5,492	-	5,492	5,492
Trading securities					
Government bonds	13	-	-	13	13
Corporate shares	-	-	74	74	74
Other financial assets at fair value through profit or loss					
Government bonds	8	-	-	8	8
Corporate shares	-	6	-	6	6
Due from other banks					
Term placements with other banks	-	2,578	-	2,578	2,578
Guarantee deposits with other banks	-	84	-	84	84
Loans and advances to customers					
Corporate loans	-	40,191	-	40,191	41,145
Loans to individuals - card	-	7,958	-	7,958	7,957
Loans to individuals - mortgage	-	6,471	-	6,471	6,553
Loans to individuals - auto	-	4,283	-	4,283	4,392
Loans to individuals - consumer	-	728	-	728	742
Loans to individuals - other	-	1,407	-	1,407	1,407
Loans to small and medium enterprises (SME)	-	5,520	-	5,520	5,517
Reverse sale and repurchase agreements - corporate	-	361	-	361	361
Investment securities available for sale					
Unquoted shares	-	-	4	4	4
Financial derivatives	-	-	2,551	2,551	2,551
Other financial assets					
Receivables from operations with customers	-	90	-	90	90
Plastic cards receivables	-	81	-	81	81
Accrued income receivable	-	54	-	54	54
Other	-	77	-	77	77
TOTAL FINANCIAL ASSETS	**21**	**79,281**	**2,629**	**81,931**	**83,086**

33 Fair Value of Financial Instruments (Continued)

In millions of Ukrainian hryvnias	Fair value by measurement method: Quoted price in an active market	Valuation technique with inputs observable in markets	Valuation technique with significant non-observable inputs	Total fair value	Carrying value
FINANCIAL LIABILITIES					
Due to other banks and other financing institutions					
Term placements of other banks	-	5,716	-	5,716	5,716
Term borrowings from the central banks	-	3,554	-	3,554	3,554
Long-term loans under the credit lines from other financing institutions	-	423	-	423	423
Correspondent accounts and overnight placements of other banks	-	449	-	449	449
Pledge deposits of other banks	-	5	-	5	5
Customer accounts					
Term deposits of individuals	-	30,620	-	30,620	30,620
Current/demand accounts of individuals	-	6,191	-	6,191	6,191
Term deposits of other legal entities	-	11,647	-	11,647	11,647
Current/settlement accounts of other legal entities	-	8,512	-	8,512	8,512
Debt securities in issue					
Eurobonds	2,111	-	-	2,111	4,180
Private placements of bonds	-	1,705	-	1,705	1,795
Mortgage bonds	893	-	-	893	893
Auto bonds	497	-	-	497	497
Promissory notes	-	5	-	5	5
Other financial liabilities					
Liability for finance lease	-	171	-	171	171
Accounts payable	-	65	-	65	65
Funds in the course of settlement	-	59	-	59	59
Provision for credit related commitment	-	29	-	29	29
Financial derivatives	-	39	-	39	39
Other	-	87	-	87	87
Subordinated debt					
Subordinated debt	-	910	-	910	1,333
TOTAL FINANCIAL LIABILITIES	**3,501**	**70,187**	**-**	**73,688**	**76,270**

33 Fair Value of Financial Instruments (Continued)

Fair values of financial instruments are as follows at 31 December 2007:

In millions of Ukrainian hryvnias	Fair value by measurement method: Quoted price in an active market	Valuation technique with inputs observable in markets	Valuation technique with significant non-observable inputs	Total fair value	Carrying value
FINANCIAL ASSETS					
Cash and cash equivalents and mandatory reserves					
Cash on hand	-	3,104	-	3,104	3,104
Cash balances with Central Banks	-	1,340	-	1,340	1,340
Correspondent accounts and overnight placements with other banks	-	3,508	-	3,508	3,508
Trading securities					
Government bonds	16	-	-	16	16
Other financial assets at fair value through profit or loss					
Government bonds	9	-	-	9	9
Corporate shares	-	7	-	7	7
Due from other banks					
Term placements with other banks	-	1,205	-	1,205	1,205
Guarantee deposits with other banks	-	123	-	123	123
Loans and advances to customers					
Corporate loans	-	22,486	-	22,486	22,391
Loans to individuals - card	-	4,898	-	4,898	4,898
Loans to individuals - mortgage	-	5,120	-	5,120	4,987
Loans to individuals - auto	-	3,674	-	3,674	3,590
Loans to individuals - consumer	-	2,137	-	2,137	1,974
Loans to individuals - other	-	1,287	-	1,287	1,287
Loans to small and medium enterprises (SME)	-	3,876	-	3,876	3,876
Reverse sale and repurchase agreements - corporate	-	67	-	67	67
Investment securities available for sale					
Unquoted shares	-	4	-	4	4
Investment securities held to maturity					
Government bonds	1,160	-	-	1,160	1,160
Financial derivatives	-	41	-	41	41
Other financial assets					
Receivables from operations with customers	-	31	-	31	31
Plastic cards receivables	-	82	-	82	82
Accrued income receivable	-	36	-	36	36
Other	-	39	-	39	39
TOTAL FINANCIAL ASSETS	**1,185**	**53,065**	**-**	**54,250**	**53,775**

33 Fair Value of Financial Instruments (Continued)

In millions of Ukrainian hryvnias	Fair value by measurement method: Quoted price in an active market	Valuation technique with inputs observable in markets	Valuation technique with significant non-observable inputs	Total fair value	Carrying value
FINANCIAL LIABILITIES					
Due to other banks and other financing institutions					
Term placements of other banks	-	4,246	-	4,246	4,246
Correspondent accounts and overnight placements of other banks	-	469	-	469	469
Long-term loans under the credit lines from other financing institutions	-	1,520	-	1,520	1,520
Pledge deposits of other banks	-	5	-	5	5
Customer accounts					
Term deposits of individuals	-	18,980	-	18,980	18,953
Current/demand accounts of individuals	-	5,908	-	5,908	5,908
Term deposits of other legal entities	-	2,624	-	2,624	2,624
Current/settlement accounts of other legal entities	-	8,518	-	8,518	8,518
Debt securities in issue					
Eurobonds	2,397	-	--	2,397	2,595
Private placements of bonds	-	2,960	-	2,960	2,977
Mortgage bonds	769	-	-	769	769
Promissory notes	-	18	-	18	18
Other financial liabilities					
Liability for finance lease	-	96	-	96	96
Funds in the course of settlement	-	39	-	39	39
Accounts payable	-	16	-	16	16
Provision for credit related commitment	-	21	-	21	21
Financial derivatives	-	8	-	8	8
Other	-	23	-	23	23
Subordinated debt					
Subordinated debt	-	931	-	931	937
TOTAL FINANCIAL LIABILITIES	**3,166**	**46,382**	**-**	**49,548**	**49,742**

33 Fair Value of Financial Instruments (Continued)

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by an active quoted market price. Where quoted market prices are not available, the Group used valuation techniques. Certain valuation techniques required assumptions that were not supported by observable market data. The total net fair value loss estimated using valuation techniques that was recognised in profit or loss amounts to UAH 35 million (2007: UAH 13 million).

The fair value of floating rate instruments that are not quoted in an active market was estimated to be equal to their carrying amount. The fair value of unquoted fixed interest rate instruments was estimated based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Discount rates used depend on currency, maturity of the instrument and credit risk of the counterparty and were as follows:

	2008	**2007**
Loans and advances to customers		
Corporate loans	12 % to 48 % p.a.	10 % to 18 % p.a.
Loans to individuals - mortgage	12 % to 24 % p.a.	9 % to 18 % p.a.
Loans to individuals - auto	12 % to 24 % p.a.	9 % to 18 % p.a.
Loans to individuals - consumer	9 % to 68 % p.a.	10 % to 67 % p.a.
Loans to individuals - card	9 % to 57 % p.a.	10 % to 54 % p.a.
Loans to individuals - other	9 % to 68 % p.a.	10 % to 67 % p.a.
Loans to small and medium enterprises (SME)	10 % to 53 % p.a.	10 % to 47% p.a.
Reverse sale and repurchase agreements - corporate	8 % to 14 % p.a.	8 % to 25% p.a.

34 Presentation of Financial Instruments by Measurement Category

For the purposes of measurement, IAS 39, *Financial Instruments: Recognition and Measurement*, classifies financial assets into the following categories: (a) loans and receivables; (b) available-for-sale financial assets; (c) financial assets held to maturity and (d) financial assets at fair value through profit or loss ("FVTPL"). Financial assets at fair value through profit or loss have two subcategories: (i) assets designated as such upon initial recognition, and (ii) those classified as held for trading. The following table provides a reconciliation of financial assets with these measurement categories as of 31 December 2008:

In millions of Ukrainian hryvnias	**Loans and receiv-ables**	**Availa-ble-for-sale assets**	**Trading assets**	**Assets desig-nated at FVTPL**	**Held to maturity**	**Total**
ASSETS						
Cash and cash equivalents and mandatory reserves	9,392	-	-	-	-	9,392
Trading securities		-	87	-	-	87
Other financial assets at fair value through profit or loss	-	-	-	14	-	14
Due from other banks						
Term placements with other banks	2,578	-	-	-	-	2,578
Guarantee deposits with other banks	84	-	-	-	-	84
Loans and advances to customers						
Corporate loans	41,145	-	-	-	-	41,145
Loans to individuals - card	7,957	-	-	-	-	7,957
Loans to individuals - mortgage	6,553	-	-	-	-	6,553
Loans to individuals - auto	4,392	-	-	-	-	4,392
Loans to individuals - consumer	742	-	-	-	-	742
Loans to individuals - other	1,407	-	-	-	-	1,407
Loans to small and medium enterprises (SME)	5,517	-	-	-	-	5,517
Reverse sale and repurchase agreements - corporate	361	-	-	-	-	361
Investment securities available-for-sale	-	4	-	-	-	4
Financial derivatives	-	-	2,551	-	-	2,551
Other financial assets						
Receivables from operations with customers	90	-	-	-	-	90
Plastic cards receivables	81	-	-	-	-	81
Accrued income receivable	54	-	-	-	-	54
Other	77	-	-	-	-	77
TOTAL FINANCIAL ASSETS	**80,430**	**4**	**2,638**	**14**	**-**	**83,086**
NON-FINANCIAL ASSETS						**4,434**
TOTAL ASSETS						**87,520**

As of 31 December 2008 and 31 December 2007 all of the Group's financial liabilities except for derivatives were carried at amortised cost. Derivatives belong to the fair value through profit or loss measurement category.

34 Presentation of Financial Instruments by Measurement Category (Continued)

The following table provides a reconciliation of classes of financial assets with these measurement categories as of 31 December 2007:

In millions of Ukrainian hryvnias	Loans and receiv-ables	Availa-ble-for-sale assets	Trading assets	Assets desig-nated at FVTPL	Held to maturity	Total
ASSETS						
Cash and cash equivalents and mandatory reserves	7,952	-	-	-	-	7,952
Trading securities	-	-	16	-	-	16
Other financial assets at fair value through profit or loss	-	-	-	16	-	16
Due from other banks						
Term placements with other banks	1,205	-	-	-	-	1,205
Guarantee deposits with other banks	123	-	-	-	-	123
Loans and advances to customers						
Corporate loans	22,391	-	-	-	-	22,391
Loans to individuals - card	4,898	-	-	-	-	4,898
Loans to individuals - mortgage	4,987	-	-	-	-	4,987
Loans to individuals - auto	3,590	-	-	-	-	3,590
Loans to individuals - consumer	1,974	-	-	-	-	1,974
Loans to individuals - other	1,287	-	-	-	-	1,287
Loans to small and medium enterprises (SME)	3,876	-	-	-	-	3,876
Reverse sale and repurchase agreements - corporate	67	-	-	-	-	67
Investment securities available-for-sale	-	4	-	-	-	4
Investment securities held to maturity	-	-	-	-	1,160	1,160
Financial derivatives	-	-	41	-	-	41
Other financial assets						
Accrued income receivable	36	-	-	-	-	36
Receivables from operations with customers	31	-	-	-		31
Plastic cards receivables	82	-	-	-	-	82
Other	39	-	-	-	-	39
TOTAL FINANCIAL ASSETS	**52,538**	**4**	**57**	**16**	**1,160**	**53,775**
NON-FINANCIAL ASSETS						**2,495**
TOTAL ASSETS						**56,270**

35 Related Party Transactions

Parties are generally considered to be related if the parties are under common control or one party has the ability to control the other party or can exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

At 31 December 2008 and 31 December 2007, the outstanding balances with related parties were as follows:

	2008			2007		
In millions of Ukrainian hryvnias	**Share-holders**	**Manage-ment**	**Companies under control of major shareholders**	**Share-holders**	**Manage-ment**	**Companies under control of major shareholders**
Gross amount of loans and advances to customers (contractual interest rate: 2008: UAH - 13%, USD - 13%, EUR - 7%; 2007: UAH - 13%, USD - 13%, EUR -10%)	-	19	5,699	-	20	2,556
Impairment provisions for loans and advances to customers at 31 December	-	-	(1,305)	-	-	(337)
Loans and advances to customers written off as uncollectable	-	-	(78)	-	-	-
Other financial assets	-	-	247	-	-	3
Other assets	-	-	432	-	-	-
Customer accounts (contractual interest rate: 2008: UAH - 1%, USD - 8%, EUR - 15%; 2007: UAH - 1%, USD - 1%, EUR - 9%)	1,130	-	2,715	-	1	855
Other financial liabilities	-	-	-	-	-	6
Provision for losses on credit related commitments	-	-	-	-	-	7
Subordinated debt (contractual interest rate: 2008: UAH - 3%, RUR - 7%; 2007: UAH - 3%, RUR - 7%)	-	-	-	-	-	98

35 Related Party Transactions (Continued)

The income and expense items with related parties for 2008 and 2007 were as follows:

	2008			2007		
In millions of Ukrainian hryvnias	Share-holders	Manage-ment	Companies under control of major shareholders	Share-holders	Manage-ment	Companies under control of major shareholders
Interest income	-	2	747	-	2	291
Interest expense	-	-	(33)	-	-	(33)
Provision for loan impairment	-	-	(45)	-	-	(25)
Fee and commission income	-	-	81	-	-	30
Losses less gains from financial derivatives	-	-	(429)	-	-	-
Other operating income	-	-	5	-	-	4
Administrative and other operating expenses, excluding management remuneration	-	-	(135)	-	-	(169)

At 31 December 2008 and 31 December 2007, other rights and obligations with related parties were as follows:

	2008			2007		
In millions of Ukrainian hryvnias	Share-holders	Manage-ment	Companies under control of major shareholders	Share-holders	Manage-ment	Companies under control of major shareholders
Guarantees issued	-	-	530	-	-	55
Irrevocable commitments to extend credit	-	-	-	-	2	-
Import letters of credit	-	-	186	-	-	109

Aggregate amounts lent to and repaid by related parties during 2008 and 2007 were:

	2008			2007		
In millions of Ukrainian hryvnias	Share-holders	Manage-ment	Companies under control of major shareholders	Share-holders	Manage-ment	Companies under control of major shareholders
Amounts lent to related parties during the period	-	10	11,395	-	21	8,401
Amounts repaid by related parties during the period	-	20	10,286	-	15	9,720

35 Related Party Transactions (Continued)

The ultimate major shareholders of the Bank are 2 Ukrainian citizens, Mr I. V. Kolomoyski and Mr G. B. Bogolyubov, neither of which individually controls the Bank.

In 2008, the remuneration of the members of the Board of Directors comprised salaries, discretionary bonuses, pension contributions and other short-term benefits totalling UAH 6 million (2007: UAH 6 million) including UAH 1 million (2007: UAH 1 million) of contributions into the State pension fund and UAH 0.1 million (2007: UAH 0.1 million) of social security contributions.

Short-term bonuses fall due wholly within twelve months after the end of the period in which management rendered the related services.

During 2008 the majority shareholders of the bank offered an option to management of the bank who hold shares of the Bank to sell part or all of their shares to the major shareholders. The option was immediately exercisable and was open for a limited period of time. The price of each share under the offer was determined based on an assumption that the Bank's market capitalisation at the time the option was offered was USD 2 billion. As a result of the offer, some of the managers sold part or all of their shares to the majority shareholders.

36 Events After the Balance Sheet Date

In February 2009 Fitch Ratings downgraded Ukraine's long-term foreign and local currency Issuer Default Ratings to 'B' from 'B+'. This reflects the increased risk of a banking and currency crisis in Ukraine, due to intensified stress on the financial system. The Outlooks on both Issuer Default Ratings are ‘negative’. The agency has also downgraded the Country Ceiling to 'B' from 'B+'. Also in February 2009 Ukraine’s credit rating was cut two levels by Standard & Poor’s. The long-term foreign currency rating was lowered to CCC+. The agency left Ukraine’s outlook ‘negative’, indicating it might reduce the ratings further.

Dividends. On 21 April 2009 at the General Shareholders Meeting the shareholders decided to increase the share capital of the Bank by an additional UAH 1,125 million. The share capital was increased by capitalising dividends.

Increase in share capital. On 30 April 2009 the shareholders took a decision to increase the Bank’s share capital by UAH 1,000 million up to nominal value of UAH 7,811 million. An increase will be performed through additional contributions by existing shareholders of the Bank.

Refinancing. In March 2009 the Bank signed a refinancing credit line agreement with the NBU for a total of UAH 5 billion with the interest rate of 16.5 per cent p.a. maturing in March 2010. As at 30 June 2009 the Bank utilised UAH 4,272 million out of this credit line.

Repayments of significant borrowings. The Bank fully repaid an outstanding syndicated loan of USD 200 million (equivalent of UAH 1,540 million at the exchange rate as at 31 December 2008) which matured on 17 March 2009. Additionally, UAH 500 million related to the private placements was repaid in May 2009 and USD 70 million (equivalent of UAH 539 million at the exchange rate as at 31 December 2008) related to Eurobonds was repaid in April 2009.

Other events. In May 2009 the shareholders decided to change the legal status of the Bank from a closed joint stock company into a public joint stock company in order to comply with the changes in Ukrainian company legislation.