

**PRIVATBANK GROUP**

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

**31 December 2009**

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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 Public Joint Stock Company Commercial Bank PrivatBank (the "Bank") and its subsidiaries (together referred to as the "Group") which comprise the consolidated statement of financial position as of 31 December 2009 and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

*Management's Responsibility for the Financial Statements*

- 2 Management is responsible for the preparation and fair presentation of these 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 2009, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

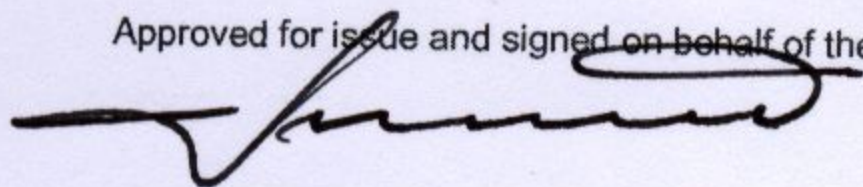
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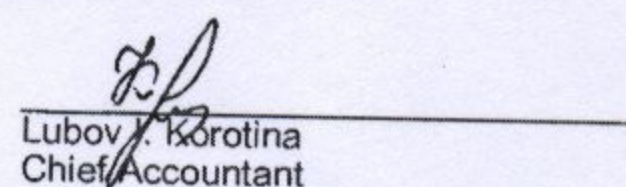
**PrivatBank Group**  
**Consolidated Statement of Financial Position**

<i>In millions of Ukrainian hryvnias</i>	Note	31 December 2009	31 December 2008
<b>ASSETS</b>			
Cash and cash equivalents and mandatory reserves	7	11,455	9,392
Trading securities and other financial assets at fair value through profit or loss		18	101
Due from other banks	8	4,069	2,662
Loans and advances to customers	9	66,597	68,074
Financial derivatives	27	2,005	2,551
Investment securities available-for-sale		8	4
Investment securities held to maturity		23	-
Current income tax prepayment		11	-
Deferred income tax asset	22	16	97
Goodwill		54	50
Intangible assets	10	3	3
Premises, leasehold improvements and equipment	10	2,935	3,486
Other financial assets	11	1,783	302
Other assets		712	798
<b>TOTAL ASSETS</b>		<b>89,689</b>	<b>87,520</b>
<b>LIABILITIES</b>			
Due to the NBU and other central banks	12	8,310	3,554
Due to other banks and other financing institutions	12	2,319	6,593
Customer accounts	13	57,133	56,970
Debt securities in issue	14	6,112	7,370
Current income tax liability		10	7
Deferred income tax liability	22	1,614	1,132
Provisions for liabilities and charges, other financial and non-financial liabilities	15	703	731
Subordinated debt	16	1,438	1,333
<b>TOTAL LIABILITIES</b>		<b>77,639</b>	<b>77,690</b>
<b>EQUITY</b>			
Share capital	17	8,064	5,939
Additional capital	18	462	462
Revaluation reserve for premises	18	628	908
Currency translation reserve	18	354	330
Retained earnings		2,387	2,097
<b>Net assets attributable to the equity holders of the Bank</b>		<b>11,895</b>	<b>9,736</b>
<b>Non-controlling interest</b>		<b>155</b>	<b>94</b>
<b>TOTAL EQUITY</b>		<b>12,050</b>	<b>9,830</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>89,689</b>	<b>87,520</b>

Approved for issue and signed on behalf of the Management Board on 16 April 2010.



Olexander V. Dubilet  
Chairman of the Board



Lubov K. Korotina  
Chief Accountant



**PrivatBank Group**  
**Consolidated Statement of Comprehensive Income**

<i>In millions of Ukrainian hryvnias</i>	<b>Note</b>	<b>2009</b>	<b>2008</b>
Interest income	19	14,549	11,607
Interest expense	19	(7,295)	(5,185)
<b>Net interest income</b>		<b>7,254</b>	<b>6,422</b>
Provision for impairment of loans and advances to customers	9	(5,497)	(4,507)
<b>Net interest income after provision for impairment of loans and advances to customers</b>		<b>1,757</b>	<b>1,915</b>
Fee and commission income	20	2,119	2,111
Fee and commission expense	20	(232)	(304)
Losses less gains from trading securities and other financial assets at fair value through profit or loss		(16)	(109)
Gains less losses/(losses less gains) from financial derivatives	27	2,643	(35)
Gains less losses from trading in foreign currencies		564	974
Foreign exchange translation (losses less gains)/gains less losses	24	(7)	2,897
Impairment of investment securities available-for-sale (Losses less gains)/Gains less losses from disposals of investment securities available-for-sale		(31)	(1)
Provision for credit related commitments	26, 15	(12)	43
Other operating income		(14)	(8)
Gains less losses/(losses less gains) arising from early retirement of debt		141	79
Administrative and other operating expenses	21	51	(9)
		(4,919)	(5,015)
<b>Profit before tax</b>		<b>2,044</b>	<b>2,538</b>
Income tax	22	(715)	(551)
<b>Profit for the year</b>		<b>1,329</b>	<b>1,987</b>
<b>Profit/(loss) is attributable to</b>			
Owners of the Bank		1,379	2,027
Non-controlling interest		(50)	(40)
<b>Profit for the year</b>		<b>1,329</b>	<b>1,987</b>
<b>Other comprehensive income:</b>			
Revaluation of premises		44	805
Decrease in the fair value of premises		(370)	(17)
Exchange differences on translation to presentation currency		90	332
Income tax recorded directly in other comprehensive income		82	(198)
<b>Other comprehensive (loss)/income for the year</b>		<b>(154)</b>	<b>922</b>
<b>Total comprehensive income for the year</b>		<b>1,175</b>	<b>2,909</b>
<b>Total comprehensive income/(loss) is attributable to:</b>			
Owners of the Bank		1,159	2,914
Non-controlling interest		16	(5)
<b>Total comprehensive income for the year</b>		<b>1,175</b>	<b>2,909</b>

**PrivatBank Group**  
**Consolidated Statement of Changes in Equity**

	Note	Attributable to Owners of the Bank					Non-controlling interest	Total equity	
		Share capital	Additional capital	Revaluation reserve for premises	Currency translation reserve	Retained earnings			Total
<i>In millions of Ukrainian hryvnias</i>									
Balance at 1 January 2008		2,967	462	361	33	1,484	5,307	99	5,406
Premises:									
- Revaluation	10	-	-	805	-	-	805	-	805
- Decrease in the fair value		-	-	(17)	-	-	(17)	-	(17)
Income tax recorded in equity	22	-	-	(198)	-	-	(198)	-	(198)
Currency translation differences		-	-	-	297	-	297	35	332
Other comprehensive income		-	-	590	297	-	887	35	922
Profit for the year		-	-	-	-	2,027	2,027	(40)	1,987
Total comprehensive income for the year		-	-	590	297	2,027	2,914	(5)	2,909
Realised revaluation reserve on premises		-	-	(43)	-	43	-	-	-
Paid-in share capital	17	1,515	-	-	-	-	1,515	-	1,515
Capitalisation of dividends	17	1,457	-	-	-	(1,457)	-	-	-
Balance at 31 December 2008		5,939	462	908	330	2,097	9,736	94	9,830

**PrivatBank Group**  
**Consolidated Statement of Changes in Equity**

	Note	Attributable to Owners of the Bank					Non-controlling interest	Total equity	
		Share capital	Additional capital	Revaluation reserve for premises	Currency translation reserve	Retained earnings			Total
<i>In millions of Ukrainian hryvnias</i>									
Balance at 31 December 2008		5,939	462	908	330	2,097	9,736	94	9,830
Premises:									
- Revaluation	10	-	-	44	-	-	44	-	44
- Decrease in the fair value	10	-	-	(370)	-	-	(370)	-	(370)
Income tax recorded in equity	22	-	-	82	-	-	82	-	82
Currency translation differences		-	-	-	24	-	24	66	90
Other comprehensive income		-	-	(244)	24	-	(220)	66	(154)
Profit for the year		-	-	-	-	1,379	1,379	(50)	1,329
Total comprehensive income for the year		-	-	(244)	24	1,379	1,159	16	1,175
- Realised revaluation reserve		-	-	(36)	-	36	-	-	-
Paid-in share capital	17	1,000	-	-	-	-	1,000	-	1,000
Capitalisation of dividends	17	1,125	-	-	-	(1,125)	-	-	-
Disposal of non-controlling interest		-	-	-	-	-	-	65	65
Purchase of non-controlling interest		-	-	-	-	-	-	(20)	(20)
Balance at 31 December 2009		8,064	462	628	354	2,387	11,895	155	12,050

**PrivatBank Group**  
**Consolidated Statement of Cash Flows**

<i>In millions of Ukrainian hryvnias</i>	<b>Note</b>	<b>2009</b>	<b>2008</b>
<b>Cash flows from operating activities</b>			
Interest received		11,773	10,831
Interest paid		(7,825)	(5,105)
Fees and commissions received		2,119	2,084
Fees and commissions paid		(232)	(304)
Losses from trading securities		(21)	(100)
Income received from/(expenses paid on) financial derivatives		2,690	(6)
Income received from trading in foreign currencies		564	974
Other operating income received		130	125
Staff costs paid		(1,737)	(1,919)
Administrative and other operating expenses paid		(3,312)	(3,258)
Income tax paid		(78)	(614)
<b>Cash flows from operating activities before changes in operating assets and liabilities</b>		<b>4,071</b>	<b>2,708</b>
<b>Changes in operating assets and liabilities</b>			
Net (increase)/decrease in mandatory reserve balances		(1,110)	852
Net decrease/(increase) in trading securities and other financial assets at fair value through profit or loss		87	(67)
Net increase in due from other banks		(1,328)	(465)
Net increase in loans and advances to customers		(277)	(14,318)
Net (increase)/ decrease in other financial assets		(1,632)	5
Net decrease/(increase) in other assets		616	(119)
Net increase in due to the NBU and other central banks		4,757	3,534
Net decrease in due to other banks and other financing institutions		(4,496)	(2,177)
Net increase in customer accounts		45	7,695
Net increase in provisions for liabilities and charges, other financial and non-financial liabilities		50	196
<b>Net cash from/(used in) operating activities</b>		<b>783</b>	<b>(2,156)</b>
<b>Cash flows from investing activities</b>			
Acquisition of investment securities available-for-sale		(9)	-
Acquisition of investment securities held to maturity		(21)	-
Proceeds from redemption of investment securities held to maturity		-	1,160
Acquisition of premises, leasehold improvements and equipment		(235)	(1,058)
Proceeds from disposal of premises, leasehold improvements and equipment		72	283
Acquisition of intangible assets		-	(3)
Dividends received		-	6
<b>Net cash (used in)/from investing activities</b>		<b>(193)</b>	<b>388</b>
<b>Cash flows from financing activities</b>			
Proceeds from subordinated debt		103	18
Repayment of subordinated debt		(51)	-
Issue of ordinary shares	17	1,000	1,515
Funds contributed by owners of non-controlling interest into share capital of subsidiaries		147	-
Proceeds from debt securities issued		-	862
Repayment of debt securities issued		(1,143)	(1,179)
<b>Net cash from financing activities</b>		<b>56</b>	<b>1,216</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b>		<b>307</b>	<b>2,845</b>
<b>Net increase in cash and cash equivalents</b>		<b>953</b>	<b>2,293</b>
Cash and cash equivalents at the beginning of the year		9,361	7,068
<b>Cash and cash equivalents at the end of the year</b>	<b>7</b>	<b>10,314</b>	<b>9,361</b>

Investing and financing transactions that did not require the use of cash and cash equivalents were excluded from the consolidated statement of cash flows 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 2009 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 public joint stock company limited by shares and was set up in accordance with Ukrainian regulations. As of 31 December 2009 and 2008 the ultimate major shareholders of the Bank were 2 Ukrainian citizens Mr I.V. Kolomoyskiy and Mr G.B. Bogolyubov who as of 31 December 2009 owned respectively 49.15% (2008: 49.02%) and 49.00% (2008: 48.86%) of the outstanding shares and neither of which individually controlled the Bank.

As of 31 December 2009 and 2008 composition of the Supervisory Board was as follows:

Chairman of the Supervisory Board:	Mr G.B. Bogolyubov
Members of the Supervisory Board:	Mr I.V. Kolomoyskiy
	Mr A.G. Martynov

As of the date of issuing of the consolidated financial statements composition of the Management Board was as follows:

Chairman of the Management Board:	Mr A.V. Dubilet
Members of the Management Board:	
General Deputy Chairman of the Management Board:	Mr Y.P. Pikush
First Deputy Chairman of the Management Board:	Mr V.A. Yatsenko
	Mr T.Y. Novikov
	Mr N.A. Volkov
Deputy Chairman of the Management Board:	Mr Y.V. Kandaurov
	Mrs. L.I. Chmona
	Mrs. T.M. Gurieva
	Mrs. L.A. Shmalchenko
	Mr. O.V. Gorohovskiy
	Mr. V.G. Zavorotniy
	Mr. A.P. Vitiaz
	Mr. S.V. Kryzhanovskiy
Chief Accountant:	Mrs. L.I. Korotina
Head of Financial Monitoring Department:	Mr. I.L. Terekhin

On 5 February 2010 Mr. A.P. Vitiaz and Mr. S.V. Kryzhanovskiy were introduced to the Management Board.

A new Joint Stock Company Law, which entered into force, on 29 April 2009, 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, re-organised into a closed joint stock entity in 2000 and into public joint stock company in 2009. 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 (2008: UAH 150 thousand) per individual in case bank liquidation procedure is started.

As of 31 December 2009 the Bank had 36 branches and 3,102 outlets within Ukraine and a branch in Cyprus (2008: 37 branches, 3,236 outlets in Ukraine and a branch in Cyprus). Additionally, as of 31 December 2009 and 2008 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.

## **1 Introduction (Continued)**

As of 31 December 2009 principal subsidiaries included in the consolidated financial statements, were as follows:

Name	Nature of business	Country of registration	Percentage of legal ownership	
			31 December 2009	31 December 2008
Moscomprivatbank	Banking	Russian Federation	92.34%	86.20%
JSC TaoPrivatBank	Banking	Georgia	75.00%	75.00%
AS PrivatBank	Banking	Latvia	50.04%	95.07%

As a result of an additional capital increase, the share of the Group in AS PrivatBank Latvia was decreased from 95.07% to 50.04%. However, the Group continues to have 95.07% of voting rights as of 31 December 2009.

**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 displays certain characteristics of an emerging market, including but not limited to, the existence of a currency that is not freely convertible outside of Ukraine, restrictive currency controls, high inflation of 12.3% for 2009 (2008: 22.3%) and high interest rates. The financial situation in the Ukrainian financial and corporate sectors significantly deteriorated since mid-2008. The global financial crisis has had a severe effect on the Ukrainian economy:

- Lower commodity prices and decrease in external demand have resulted in lower income from exports and thus lower domestic demand. Ukraine's economy contracted in 2009, real GDP decreased by approximately 15% and the volume of industrial production decreased by 21.9% compared to 2008.
- The rise in Ukrainian and emerging market risk premia resulted in a steep increase in foreign financing costs.
- The depreciation of the Ukrainian hryvnia against major foreign currencies increased the burden of foreign currency corporate and retail debt, which has risen considerably in recent years. The official UAH to US Dollar (USD) exchange rate of the NBU devalued from UAH 4.861 at 30 September 2008 to UAH 7.985 at 31 December 2009 and UAH 7.926 at the date of issuance of the consolidated financial statements.
- The country ratings by international rating agencies were downgraded in October 2008, February 2009 and November 2009. As of 31 December 2009 Ukraine's long-term foreign currency ratings were 'B-' by Fitch Ratings, 'B2' by Moody's and 'CCC+' by Standard & Poor's.
- The level of non-performing loans in corporate and retail portfolios of Ukrainian banks increased considerably in 2009.
- Since October 2008 the NBU introduced temporary administration at a number of Ukrainian banks due to their liquidity problems and started liquidation procedures at a number of banks.
- 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.

Management is unable to predict all developments which could have an impact on the banking sector and the wider economy and consequently what effect, if any, they could have on the future financial position of the Group.

## **2 Operating Environment of the Group (Continued)**

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, the second tranche of SDR 1.9 billion was received in May 2009, the third tranche of SDR 2.1 billion was received in July 2009 and the fourth tranche of SDR 2.5 billion was expected in November 2009. 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.

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 was approved only after the Executive Board of the IMF granted waivers of non-observance of certain performance criteria.

The allocation of the fourth tranche, worth SDR 2.5 billion, was scheduled for November 2009 following the third review of the IMF's cooperation program with Ukraine. The IMF mission completed its work in Kyiv late in October 2009; however, IMF was not satisfied with the measures taken by the Ukrainian government in order to overcome the negative consequences of the financial crisis. Therefore IMF delayed granting the fourth tranche.

Borrowers of the Group were adversely affected by the financial and economic environment, which in turn impacted their ability to repay the amounts owed. As a significant part of loans to customers was issued in foreign currencies, UAH depreciation against these currencies had a significant impact on borrowers' ability to service the loans. Deteriorating economic conditions for borrowers were reflected in revised estimates of expected future cash flows in impairment assessments.

The amount of provision for impaired loans is based on management's appraisals of these assets at the end of the reporting period 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 volatile global financial markets, resulting in a low level of liquidity for certain types of assets. In some cases the Group has also experienced unforeseeable delays in recovering collateral. As a result, the actual realisable value on future foreclosure may differ from the value ascribed in estimating allowances for impairment at the end of the reporting period. Under IFRS, impairment losses on financial assets expected as a result of future events, no matter how likely, cannot be recognised until such events arise.

The market in Ukraine for many types of real estate has been severely affected by the volatile global financial markets. As such the carrying value of premises measured at fair value in accordance with IAS 16 has been updated to reflect market conditions at the end of the reporting period. Further information is disclosed in Note 10.

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, political instability and other legal and fiscal impediments contribute to the challenges faced by banks currently operating in Ukraine. The future economic direction of Ukraine is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory and political developments.

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



### **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).

**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 for the year.

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 non-controlling 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.

Non-controlling 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. Non-controlling interest forms a separate component of the Group's equity.

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

**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.

### **3 Summary of Significant Accounting Policies (Continued)**

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.

*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 items of the statement of financial position.

*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.

### **3 Summary of Significant Accounting Policies (Continued)**

**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.

**Mandatory cash balances with the NBU.** Mandatory cash balances with the NBU are carried at amortised cost and 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 statement cash flow.

**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 statement of comprehensive income 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 the consolidated statement of comprehensive income 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.

For the purposes of credit quality analysis the Group classifies such loans and advances based on the size of the loan exposure:

Large borrowers	Above UAH 100 million
Loans to medium size borrowers	From UAH 1 million to UAH 100 million
Loans to small borrowers	Less than UAH 1 million

When 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.



### **3 Summary of Significant Accounting Policies (Continued)**

**Impairment of financial assets carried at amortised cost.** Impairment losses are recognised in the statement of comprehensive income for the year 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.

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 for the year.

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 consolidated statement of comprehensive income.

### **3 Summary of Significant Accounting Policies (Continued)**

**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 the end of each reporting period, 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 end of the reporting period.

**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 the 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 for the year. Dividends on available-for-sale equity instruments are recognised in statement of comprehensive income for the year 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 recognised in other comprehensive income until the investment is derecognised or impaired, at which time the cumulative gain or loss is removed from other comprehensive income to profit or loss for the year.

Impairment losses are recognised in profit or loss for the year 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 other comprehensive income to profit or loss for the year. Impairment losses on equity instruments are not reversed and any subsequent gains are recognised in other comprehensive income. 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 profit or loss for the year.

**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 consolidated statement of financial position unless the transferee has the right by contract or custom to sell or repledge the securities, in which case they are reclassified as 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.

### **3 Summary of Significant Accounting Policies (Continued)**

**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 statement of financial position. 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 an operating 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.

**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 other comprehensive income and increase the revaluation surplus in equity. Decreases that offset previous increases of the same asset are recognised in other comprehensive income and decrease the previously recognised revaluation surplus in equity; all other decreases are charged to profit or loss for the year. The revaluation reserve for premises and equipment included in equity is transferred directly to retained earnings when the revaluation 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 premises measured in accordance with the revaluation model as of 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, leasehold improvements 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 profit or loss for the year 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 for the year.



### **3 Summary of Significant Accounting Policies (Continued)**

**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 the end of each reporting period.

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

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.

**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 profit or loss for the year 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 statement of financial position 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 statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains arising from early retirement of debt.

### **3 Summary of Significant Accounting Policies (Continued)**

**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 for the year. 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.

When the fair value of derivative does not change in response to the changes in the foreign exchange rates and other variables and future cash flows from the financial derivative become certain the Group ceased to account for a financial derivative and recognise a receivable within loans and advances to customers.

**Income taxes.** Income taxes have been provided for in the consolidated financial statements in accordance with legislation enacted or substantively enacted by the end of reporting period. The income tax charge comprises current tax and deferred tax and is recognised in profit or loss for the year except if it is recognised in other comprehensive income or directly in equity because it relates to transactions that are also recognised, in the same or a different period, in other comprehensive income or 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 end of the reporting period 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 the end of each reporting period. 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 end of each reporting period 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 end of the reporting period.

### **3 Summary of Significant Accounting Policies (Continued)**

**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 end of reporting period 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 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.

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.

### **3 Summary of Significant Accounting Policies (Continued)**

**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 the profit or 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 profit or loss for the year 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 of the NBU at the respective reporting period. 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 of the NBU are recognised in profit or loss for the year. Translation at year-end rates does not apply to non-monetary items that are measured at historical cost. Non-monetary items measured at fair value in a foreign currency, including equity instruments, are translated using the exchange rates at the date when the fair value was determined. 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 statement of financial position presented are translated at the closing rate at the end of the respective reporting period;
- (ii) income and expenses 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 in other comprehensive income.

When a subsidiary is disposed of through sale, liquidation, repayment of share capital or abandonment of all, or part of, the previously recognised exchange rate differences on translation to a different presentation currency are reclassified from other comprehensive income to profit or loss for the year.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

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

	<b>31 December 2009, UAH</b>	<b>31 December 2008, UAH</b>
1 US Dollar (USD)	7.985000	7.700000
1 Euro (EUR)	11.448893	10.855460
1 Russian Ruble (RUB)	0.264020	0.262080
1 Latvian Lat (LVL)	16.141115	15.334737
1 Georgian Lari (GEL)	4.765001	4.085939

### **3 Summary of Significant Accounting Policies (Continued)**

**Fiduciary assets.** Assets held by the Group in its own name, but on the account of third parties, are not reported in the consolidated statement of financial position. 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 statement of financial position 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. The Group has no legal or constructive obligation to make pension or similar benefit payments other than the payments to the statutory defined contribution scheme.

**Segment reporting.** Operating segments are reported in a manner consistent with the internal reporting provided to the Group's chief operating decision maker. Segments whose revenue, result or assets are ten percent or more of all the segments are reported separately.

**Changes in presentation.** Where necessary, corresponding figures have been adjusted to conform to the presentation of the current year amounts.

The revised IAS 1, *Presentation of Financial Statements*, which became effective from 1 January 2009 requires the Group to present a statement of financial position as of the beginning of the earliest comparative period ('opening statement of financial position'), when the Group applies an accounting policy retrospectively or makes a retrospective restatement or when it reclassifies items in its financial statements.

The Group decided to separately disclose balances with the NBU and other central banks on the face of the consolidated statement of financial position and in the Note 12. Opening consolidated statement of financial position as of 1 January 2008 is not presented as the balance of borrowings from the central banks was nil as of that date. However, opening balance as at 1 January 2008 is disclosed in the Note 12. In management's opinion, the omission of the opening consolidated statement of financial position is not material and is therefore permitted. Management considered that materiality of an omission is measured against its ability to influence the economic decisions of the users of the financial statements. The reclassifications in the consolidated statement of financial position had no impact on any other captions in the consolidated statement of financial position and related note disclosures.



### **3 Summary of Significant Accounting Policies (Continued)**

As of 31 December 2008 the effect of reclassifications for presentation purposes was as follows:

<i>In millions of Ukrainian hryvnias</i>	<b>As originally presented</b>	<b>Reclassification</b>	<b>As reclassified</b>
Due to other banks and other financing institutions	10,629	(8,310)	2,319
Due to the NBU and other central banks	-	8,310	8,310

Management concluded that it is sufficient for the Group to present the impact of the reclassification only in Note 12 and state in the consolidated financial statements that the other notes including disclosure about financial assets, required by IFRS 7, have not been materially impacted by the reclassification.

### **4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies**

The Group makes estimates and assumptions that affect the amounts recognised in the consolidated 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 consolidated 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 profit or loss for the year, 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 490 million (2008: UAH 422 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 500 million (2008: UAH 50 million).

**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.

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

As of 31 December 2009 the Bank had loans and advances to customers totalling UAH 36,608 million (2008: UAH 17,247 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 2,005 million as of 31 December 2009 (2008: UAH 2,551 million) 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. All contracts mature from 2010 to 2013, inclusive. If the expected UAH/USD exchange rate for these years would be higher/lower by 5%, the fair value of the derivative and the respective consolidated statement of comprehensive income amount would increase/decrease by UAH 1,518 million (2008: 15%; UAH 625 million). If the discount rate used for fair valuation of the derivatives as of 31 December 2009 would be higher/lower by 100 basis points, the fair value of the derivative and the respective consolidated statement of comprehensive income amount would decrease/increase by UAH 134 million (2008: UAH 12 million). If the credit risk of counterparties as of 31 December 2009 would be higher/lower by 10%, the fair value of the derivative and the respective consolidated statement of comprehensive income amount would decrease/increase by UAH 200 million (2008: UAH 282 million). Refer to Note 27.

**Tax legislation.** Ukrainian and Russian tax, currency and customs legislation is subject to varying interpretations. Refer to Note 26.

**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 852 to UAH 43,133 (2008: 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 108 million higher or UAH 108 million lower (2008: UAH 215 million higher or UAH 215 million lower).s

**Provision for credit related commitments.** The Group regularly reviews its outstanding credit related commitments to any provision to be created for credit related commitments. In determining whether a provision should be recorded in profit or loss for the year, the Group makes judgements as to whether there is any observable data indicating that credit related commitment will be executed and the best estimate of the expenditure required to settle the commitment at the end of the period is lower than the remaining unamortised balance of the amount at initial recognition.

Management uses estimates based on historical loss experience for commitments with credit risk characteristics 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.

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

**Special Purpose Entities (SPEs).** Judgement is also required to determine whether the substance of the relationship between the Group and a special purpose entity indicates that the special purpose entity is controlled by the Group.

The Group does not consolidate SPEs that it does not control. As it can sometimes be difficult to determine whether the Group does control an SPE, Management makes judgements about its exposure to the risks and rewards, as well as about its ability to make operational decisions for the SPE in question. In many instances, elements are present that, considered in isolation, indicate control or lack of control over an SPE, but when considered together make it difficult to reach a clear conclusion. In cases where more arguments are in place towards existence of control, the SPE is consolidated.

Were the Group not to consolidate the assets, liabilities and the results of these consolidated SPEs, the net effect on the consolidated statement of financial position would be a decrease in net assets by UAH 86 million (2008: a decrease in net assets by UAH 24 million) and increase in profit by UAH 78 million (2008: increase by UAH 4 million).

**Deferred income tax asset recognition.** The recognised deferred tax asset represents income taxes recoverable through future deductions from taxable profits and is recorded in the consolidated statement of financial position. Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable. The future taxable profits and the amount of tax benefits that are probable in the future are based on a medium term business plan prepared by management and extrapolated results thereafter. The business plan is based on management expectations that are believed to be reasonable under the circumstances. The Group does not recognise a deferred tax asset where it does not expect future taxable profits will be available against which the temporary differences can be utilised.

## **5 Adoption of New or Revised Standards and Interpretations**

Certain new standards and interpretations became effective for the Group from 1 January 2009:

**IFRS 8, Operating Segments.** 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. The adoption of IFRS 8 has not resulted in the change of reportable segments presented.

**IAS 23, Borrowing Costs, revised in March 2007.** The main change 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. Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that is not carried at fair value and that necessarily takes a substantial period of time to get ready for its intended use or sale (a qualifying asset) form part of the cost of that asset, if the commencement date for capitalisation is on or after 1 January 2009. Other borrowing costs are recognised as an expense using the effective interest method. The revised IAS 23 did not have an impact on these consolidated financial statements.

**IAS 1, Presentation of Financial Statements, revised in September 2007.** The main change in IAS 1 is the replacement of the income statement by a statement of comprehensive income which includes all non-owner changes in equity, such as the revaluation of available-for-sale financial assets. Alternatively, entities are allowed to present two statements: a separate income statement and a statement of comprehensive income. The Group has elected to present a single consolidated 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 revised IAS 1 had an impact on the presentation of the Group's consolidated financial statements but had no impact on the recognition or measurement of specific transactions and balances.

**Improvements to International Financial Reporting Standards** (issued in May 2008). In 2008, 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 amendments did not have an impact on the Group.

**Puttable Financial Instruments and Obligations Arising on Liquidation—IAS 32 and IAS 1 Amendment.** The amendment requires classification as equity of some financial instruments that meet the definition of financial liabilities. The amendment did not have an impact on these consolidated financial statements.

**Vesting Conditions and Cancellations—Amendment to IFRS 2, Share-based Payment.** The amendment clarified 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 amendment did not have an impact on these consolidated financial statements.

## 5 Adoption of New or Revised Standards and Interpretations (Continued)

**IFRIC 13, Customer Loyalty Programmes.** 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. The amendment did not have an impact on these consolidated financial statements.

**IFRIC 15, Agreements for the Construction of Real Estate.** 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 amendment did not have an impact on these consolidated financial statements.

**Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate—IFRS 1 and IAS 27 Amendment, issued in May 2008.** 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 for the year rather than as a recovery of the investment. The amendment did not have an impact on these consolidated financial statements.

**Improving Disclosures about Financial Instruments - Amendment to IFRS 7, Financial Instruments: Disclosures, issued in March 2009.** The amendment requires enhanced disclosures about fair value measurements and liquidity risk. The entity is required to disclose an analysis of financial instruments using a three-level fair value measurement hierarchy. The amendment (a) clarifies that the maturity analysis of liabilities should include issued financial guarantee contracts at the maximum amount of the guarantee in the earliest period in which the guarantee could be called; and (b) requires disclosure of remaining contractual maturities of financial derivatives if the contractual maturities are essential for an understanding of the timing of the cash flows. An entity will further have to disclose a maturity analysis of financial assets it holds for managing liquidity risk, if that information is necessary to enable users of its financial statements to evaluate the nature and extent of liquidity risk. The enhanced disclosures are included in these financial statements.

**Embedded Derivatives - Amendments to IFRIC 9 and IAS 39, issued in March 2009.** The amendments clarify that on reclassification of a financial asset out of the 'at fair value through profit or loss' category, all embedded derivatives have to be assessed and, if necessary, separately accounted for. The amendment did not have an impact on these consolidated financial statements.

**IFRIC 16, Hedges of a Net Investment in a Foreign Operation.** 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 currency translation gain or loss reclassified from other comprehensive income to profit or loss is calculated on disposal of the hedged foreign operation. Reporting entities apply IAS 39 to discontinue hedge accounting prospectively when their hedges do not meet the criteria for hedge accounting in IFRIC 16. IFRIC 16 did not have an impact on these consolidated financial statements.

**The International Financial Reporting Standard for Small and Medium-sized Entities (issued in July 2009) is a self-contained standard, tailored to the needs and capabilities of smaller businesses.** Many of the principles of full IFRS for recognising and measuring assets, liabilities, income and expense have been simplified, and the number of required disclosures have been simplified and significantly reduced. The IFRS for SMEs may be applied by entities which publish general purpose financial statements for external users and do not have public accountability. The Group is not eligible to apply the IFRS for SMEs due to the public accountability of its banking business.

Unless otherwise stated above, the amendments and interpretations did not have any significant effect on the Group's consolidated financial statements.



## **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 2010 or later periods and which the Group has not early adopted:

**IFRIC 17, Distributions of Non-Cash Assets to Owners** (effective for annual periods beginning on or after 1 July 2009). The interpretation 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 for the year 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.

**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 consolidated financial statements.

**IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments** (effective for annual periods beginning on or after 1 July 2010). The interpretation clarifies the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability. It does not address the accounting by the creditor. IFRIC 19 is not expected to have any impact on the Group's consolidated financial statements.

**Classification of Rights Issues - Amendment to IAS 32** (issued 8 October 2009; effective for annual periods beginning on or after 1 February 2010). The amendment exempts certain rights issues of shares with proceeds denominated in foreign currencies from classification as financial derivatives. The amendment is not expected to have any impact on the Group's consolidated financial statements.

**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 consolidated 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 for the year. 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 consolidated financial statements.

## 6 New Accounting Pronouncements (Continued)

**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 consolidated financial statements as the Group does not apply hedge accounting.

**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.

**Group Cash-settled Share-based Payment Transactions - Amendments to IFRS 2, Share-based Payment (effective for annual periods beginning on or after 1 January 2010)**. The amendments provide a clear basis to determine the classification of share-based payment awards in both consolidated and separate financial statements. The amendments incorporate into the standard the guidance in IFRIC 8 and IFRIC 11, which are withdrawn. The amendments expand on the guidance given in IFRIC 11 to address plans that were previously not considered in the interpretation. The amendments also clarify the defined terms in the Appendix to the standard. The Group does not expect the amendments to have any material effect on its consolidated financial statements.

**Additional Exemptions for First-time Adopters - Amendments to IFRS 1, First-time Adoption of IFRS** (effective for annual periods beginning on or after 1 January 2010). The amendments exempt entities using the full cost method from retrospective application of IFRSs for oil and gas assets and also exempt entities with existing leasing contracts from reassessing the classification of those contracts in accordance with IFRIC 4, 'Determining Whether an Arrangement Contains a Lease' when the application of their national accounting requirements produced the same result. The amendments will not have any impact on the Group's consolidated financial statements.

**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 for the year 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 consolidated financial statements.

**Amendment to IAS 24, Related Party Disclosures** (issued in November 2009 and effective for annual periods beginning on or after 1 January 2011). IAS 24 was revised in 2009 by: (a) simplifying the definition of a related party, clarifying its intended meaning and eliminating inconsistencies; and by (b) providing a partial exemption from the disclosure requirements for government-related entities.

## **6 New Accounting Pronouncements (Continued)**

**IFRS 9, Financial Instruments Part 1: Classification and Measurement.** IFRS 9 was issued in November 2009 and replaces those parts of IAS 39 relating to the classification and measurement of financial assets. Key features are as follows:

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.
- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent only payments of principal and interest (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.
- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.
- While adoption of IFRS 9 is mandatory from 1 January 2013, earlier adoption is permitted.

The Group is considering the implications of the standard, the impact on the Group and the timing of its adoption by the Group.

**Prepayments of a Minimum Funding Requirement – Amendment to IFRIC 14** (effective for annual periods beginning on or after 1 January 2011). This amendment will have a limited impact as it applies only to companies that are required to make minimum funding contributions to a defined benefit pension plan. It removes an unintended consequence of IFRIC 14 related to voluntary pension prepayments when there is a minimum funding requirement. The amendments will not have any impact on the Group's consolidated financial statements.

**Limited exemption from comparative IFRS 7 disclosures for first-time adopters - Amendment to IFRS 1** (effective for annual periods beginning on or after 1 July 2010). Existing IFRS preparers were granted relief from presenting comparative information for the new disclosures required by the March 2009 amendments to IFRS 7 'Financial Instruments: Disclosures'. This amendment to IFRS 1 provides first-time adopters with the same transition provisions as included in the amendment to IFRS 7. The amendments will not have any impact on the Group's consolidated financial statements.

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

## **7 Cash and Cash Equivalents and Mandatory Reserves**

<i>In millions of Ukrainian hryvnias</i>	<b>2009</b>	<b>2008</b>
Cash on hand	3,494	3,206
Cash balances with the NBU	1,677	78
Cash balances with the Central Bank of Russian Federation	908	241
Cash balances with the Central Bank of Latvia	137	127
Cash balances with the Central Bank of Cyprus	98	70
Cash balances with the Central Bank of Georgia	45	178
Correspondent accounts and overnight placements with other banks		
- Ukraine	209	132
- Other countries	4,887	5,360
<b>Total cash and cash equivalents and mandatory reserves</b>	<b>11,455</b>	<b>9,392</b>

As of 31 December 2009 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 7 per cent (2008: 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 2009 the Bank's mandatory reserve balance was UAH 1,042 million (2008: UAH 1,091 million).

As at 31 December 2009 in accordance with the NBU regulations the Bank was required to maintain the balance on accounts with the NBU at the level not less than 90% of the mandatory reserves balance for the preceding month (31 December 2008: not less than 90% of the mandatory reserve balance for the preceding month). As at 31 December 2009 it was also required to maintain the balance on the separate account with the NBU at the level not less than 50% of the mandatory reserves balance for the preceding month, as a part of the total required level of mandatory reserves; the amount is subject to interest payments from the side of the NBU at rate 3.075% (30% of the NBU official interest rate), provided that the Bank is in compliance with the mandatory reserve requirements (31 December 2008: no such requirement was in place).

As of 31 December 2008 the National Bank of Ukraine did not require the Bank to observe mandatory reserve requirements. All funds held on accounts with the NBU could have been used for settlements with third parties.

As of 31 December 2009 the mandatory reserve balances of the Bank's subsidiaries in Russia and Georgia that should be kept with respective central banks were UAH 99 million (2008: mandatory reserves in Russia and Georgia were UAH 31 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, for the purposes of the consolidated statement of cash flows, the mandatory reserve balances relating to the Bank, Russian and Georgian subsidiaries (2008: mandatory reserve balances relating to the Russian and Georgian subsidiaries) are excluded from the cash and cash equivalents. As of 31 December 2009 the Group's cash and cash equivalents for the purposes of consolidated statement of cash flows were as follows:

<i>In millions of Ukrainian hryvnias</i>	<b>2009</b>	<b>2008</b>
Total cash and cash equivalents and mandatory reserves	11,455	9,392
Less mandatory reserves balances	(1,141)	(31)
<b>Cash and cash equivalents for the purposes of the consolidated statement of cash flows</b>	<b>10,314</b>	<b>9,361</b>

**7 Cash and Cash Equivalents and Mandatory Reserves (Continued)**

Analysis by credit quality of cash and cash equivalents and mandatory reserve balances may be summarised based on Moody's ratings at 31 December 2009 as follows:

	Cash on hand	Cash balances with the Central Banks, including mandatory reserves	Correspondent accounts and overnight placements with other banks	Total
<i>In millions of Ukrainian hryvnias</i>				
<i>Neither past due nor impaired</i>				
Cash on hand	3,494	-	-	3,494
Cash balances with the Central Banks	-	2,865	-	2,865
Aaa rated	-	-	78	78
Aa1 to Aa3 rated	-	-	3,895	3,895
A1 to A3 rated	-	-	530	530
Baa1 to Baa3 rated	-	-	212	212
Ba1 to Ba3 rated	-	-	2	2
B1 to B3 rated	-	-	36	36
Unrated	-	-	343	343
<b>Total cash and cash equivalents and mandatory reserves</b>	<b>3,494</b>	<b>2,865</b>	<b>5,096</b>	<b>11,455</b>

In 2009 the Group decided to provide credit quality analysis of neither past due nor impaired balances based on Moody's ratings, accordingly comparative numbers originally disclosed on Fitch's ratings were converted to the nearest equivalent on the Moody's rating scale.

Analysis by credit quality of cash and cash equivalents and mandatory reserve balances summarised based on Moody's ratings at 31 December 2008 is as follows:

	Cash on hand	Cash balances with the Central Banks, including mandatory reserves	Correspondent accounts and overnight placements with other banks	Total
<i>In millions of Ukrainian hryvnias</i>				
<i>Neither past due nor impaired</i>				
Cash on hand	3,206	-	-	3,206
Cash balances with the Central Banks	-	694	-	694
Aa3 rated	-	-	1,133	1,133
A1 rated	-	-	2,375	2,375
A2 rated	-	-	1,303	1,303
Baa2 to B3 rated	-	-	49	49
Unrated	-	-	632	632
<b>Total cash and cash equivalents and mandatory reserves</b>	<b>3,206</b>	<b>694</b>	<b>5,492</b>	<b>9,392</b>



## **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:

<i>In millions of Ukrainian hryvnias</i>	<b>2009</b>	<b>2008</b>
<b>Non-cash investing activities</b>		
Proceeds from disposal of investment securities available-for-sale in exchange for trading securities	-	43
<b>Non-cash investing activities</b>	<b>-</b>	<b>43</b>
<b>Non-cash financing activities</b>		
Dividends	(1,125)	(1,457)
Increase in share capital	1,125	1,457
<b>Non-cash financing activities</b>	<b>-</b>	<b>-</b>

Geographical, maturity and interest rate analysis of cash and cash equivalents and mandatory reserves is disclosed in Note 24.

## **8 Due from Other Banks**

<i>In millions of Ukrainian hryvnias</i>	<b>2009</b>	<b>2008</b>
Term placements with other banks	3,767	2,578
Guarantee deposits with other banks	302	84
<b>Total due from other banks</b>	<b>4,069</b>	<b>2,662</b>

Term placements with other banks include UAH 367 million (2008: UAH 419 million) of a placement with a local bank that purchased a portfolio of loans from the Group of 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 26.

Amounts due from other banks are not collateralised. Analysis by credit quality of amounts due from other banks outstanding at 31 December 2009 is as follows:

<i>In millions of Ukrainian hryvnias</i>	<b>Term placements with other banks</b>	<b>Guarantee deposits with other banks</b>	<b>Total</b>
<i>Neither past due nor impaired</i>			
- Aaa rated	191	10	201
- Aa1 rated	-	14	14
- Aa3 rated	268	276	544
- A1 rated	-	2	2
- B1 rated	47	-	47
- Unrated	3,261	-	3,261
<b>Total due from other banks</b>	<b>3,767</b>	<b>302</b>	<b>4,069</b>

## **8 Due from Other Banks (Continued)**

Analysis by credit quality of amounts due from other banks outstanding at 31 December 2008 is as follows:

<i>In millions of Ukrainian hryvnias</i>	<b>Term placements with other banks</b>	<b>Guarantee deposits with other banks</b>	<b>Total</b>
<i>Neither past due nor impaired</i>			
- A1 rated	12	12	24
- A2 rated	1	70	71
- B2 rated	3	2	5
- Unrated	2,562	-	2,562
<b>Total due from other banks</b>	<b>2,578</b>	<b>84</b>	<b>2,662</b>

In 2009 the Group decided to provide credit quality analysis of neither past due nor impaired balances based on Moody's ratings, accordingly comparative numbers originally disclosed on Fitch's ratings were converted to the nearest equivalent on the Moody's rating scale.

Unrated amounts of due from other banks represent balances with Ukrainian banks and non-OECD banks.

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

As of 31 December 2009 the total aggregate amount of one counterparty of the Group amounted to UAH 1,933 million (2008: UAH 1,970 million) or 48% (2008: 74%) of gross amount of due from other banks. These placements are denominated in USD and were placed with a private bank in an OECD country. As of 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 26.

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 gross amount of UAH 16,615 million (2008: UAH 10,808 million) comprising cash and cash equivalents, due from other banks and financial derivatives. Refer to Note 7 and 26.

Refer to Note 28 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 24.

## **9 Loans and Advances to Customers**

<i>In millions of Ukrainian hryvnias</i>	<b>2009</b>	<b>2008</b>
Corporate loans	55,071	45,421
Loans to individuals - card	7,579	9,426
Loans to individuals - mortgage	6,654	7,361
Loans to individuals - auto	3,851	4,933
Loans to individuals - consumer	408	973
Loans to individuals - other	1,414	1,475
Loans to small and medium enterprises (SME)	4,054	6,252
Reverse sale and repurchase agreements – corporate (Reverse repo)	145	363
Less: Provision for loan impairment	(12,579)	(8,130)
<b>Total loans and advances to customers</b>	<b>66,597</b>	<b>68,074</b>

As of 31 December 2009 interest income of UAH 1,857 million (2008: UAH 660 million) was accrued on loans and advances to customers impaired at the year end.

## 9 Loans and Advances to Customers (Continued)

Movements in the provision for loan impairment during 2009 are as follows:

<i>In millions of Ukrainian hryvnias</i>	Corpo- rate loans	Loans to individuals					SME	Reverse repo	Total
		Card	Mortgage	Auto	Consumer	Other			
<b>Provision for loan impairment at 1 January 2009</b>	<b>4,276</b>	<b>1,469</b>	<b>808</b>	<b>541</b>	<b>231</b>	<b>68</b>	<b>735</b>	<b>2</b>	<b>8,130</b>
Provision for impairment during the year	3,055	481	832	274	17	132	654	52	5,497
Amounts written off during the year as uncollectible	(58)	(976)	(12)	(34)	(199)	(7)	(7)	-	(1,293)
Currency translation differences	145	26	43	(2)	(5)	8	26	4	245
<b>Provision for loan impairment at 31 December 2009</b>	<b>7,418</b>	<b>1,000</b>	<b>1,671</b>	<b>779</b>	<b>44</b>	<b>201</b>	<b>1,408</b>	<b>58</b>	<b>12,579</b>

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

<i>In millions of Ukrainian hryvnias</i>	Corpo- rate loans	Loans to individuals					SME	Reverse repo	Total
		Card	Mortgage	Auto	Consumer	Other			
<b>Provision for loan impairment at 1 January 2008</b>	<b>1,566</b>	<b>644</b>	<b>88</b>	<b>65</b>	<b>323</b>	<b>75</b>	<b>48</b>	<b>1</b>	<b>2,810</b>
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
<b>Provision for loan impairment at 31 December 2008</b>	<b>4,276</b>	<b>1,469</b>	<b>808</b>	<b>541</b>	<b>231</b>	<b>68</b>	<b>735</b>	<b>2</b>	<b>8,130</b>

## **9 Loans and Advances to Customers (Continued)**

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

<i>In millions of Ukrainian hryvnias</i>	<b>2009</b>		<b>2008</b>	
	<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>
Oil trading	23,021	30	10,774	14
Loans to individuals	19,906	25	24,168	32
Commerce and finance	10,034	12	14,772	19
Agriculture, forestry and food industry	7,993	10	4,054	5
Small and medium enterprises (SME)	4,054	5	6,252	8
Construction	3,021	4	2,010	3
Manufacturing	2,916	4	3,799	5
Securities trading	2,036	2	3,230	4
Tourism	1,674	2	1,166	2
Metallurgy and mining	1,216	1	3,317	4
Transport, storage and communication	551	1	258	1
Other	2,754	4	2,404	3
<b>Total loans and advances to customers (before impairment)</b>	<b>79,176</b>	<b>100</b>	<b>76,204</b>	<b>100</b>

As of 31 December 2009 the total aggregate amount of loans to the top 10 borrowers of the Group amounted to UAH 15,319 million (2008: UAH 11,629 million) or 19% of the gross loan portfolio (2008: 15%).

As of 31 December 2009 the Group had 11 borrowers (2008: 8 borrowers) with aggregate loan balances in excess of 10% of the net assets or UAH 1,205 million (2008: UAH 983 million). The total aggregate amount of these loans was UAH 16,132 million (2008: UAH 10,127 million).

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 of 31 December 2009 mortgage loans in the amount of UAH 900 million (2008: UAH 1,270 million) have been pledged as collateral with respect to the mortgage bonds issued and auto loans in the amount of UAH 394 million (2008: 497 million) have been pledged as collateral with respect to auto bonds issued. Please refer to Notes 14 and 26. As of 31 December 2009 loans to 4 corporate borrowers in the amount of UAH 1,070 (2008: nil) million were pledged as collateral under the NBU refinancing. Please refer to Note 12 and 26.

## 9 Loans and Advances to Customers (Continued)

Breakdown of loans and advances to customers by type of collateral taken as of 31 December 2009 is as follows:

<i>In millions of Ukrainian hryvnias</i>	Corporate loans	Loans to individuals					SME	Reverse repo	Total
		Card	Mortgage	Auto	Consumer	Other			
Unsecured exposures	35,483	7,579	912	678	21	661	1,050	-	46,384
Loans collateralised by:									
- cash deposits	7,167	-	1	-	-	156	17	-	7,341
- residential real estate	214	-	5,112	-	4	81	708	-	6,119
- other real estate	1,930	-	537	-	10	143	914	-	3,534
- tradable securities	3,222	-	27	-	-	17	5	145	3,416
- equipment	1,473	-	-	-	58	6	128	-	1,665
- guarantees	655	-	59	6	-	27	101	-	848
- transport vehicles	945	-	-	48	-	17	663	-	1,673
- auto (cars)	467	-	5	3,119	-	12	384	-	3,987
- other assets	3,515	-	1	-	315	294	84	-	4,209
<b>Total loans and advances to customers (before impairment)</b>	<b>55,071</b>	<b>7,579</b>	<b>6,654</b>	<b>3,851</b>	<b>408</b>	<b>1,414</b>	<b>4,054</b>	<b>145</b>	<b>79,176</b>

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

<i>In millions of Ukrainian hryvnias</i>	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
<b>Total loans and advances to customers (before impairment)</b>	<b>45,421</b>	<b>9,426</b>	<b>7,361</b>	<b>4,933</b>	<b>973</b>	<b>1,475</b>	<b>6,252</b>	<b>363</b>	<b>76,204</b>

Other assets held as collateral mainly include gas, oil, iron ore and agricultural products. 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.



## 9 Loans and Advances to Customers (Continued)

Analysis by credit quality of loans outstanding at 31 December 2009 is as follows:

In millions of Ukrainian hryvnias	Corpo- rate 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	19,336	-	-	-	-	233	-	-	-	19,569
- Large new borrowers with credit history with the Group less than 2 years	7,867	-	-	-	-	-	-	-	-	7,867
- Loans to medium size borrowers	6,670	-	-	-	-	668	247	30	-	7,615
- Loans to small borrowers	371	-	-	-	-	-	1,405	12	-	1,788
- Loans between UAH 1-100 million	-	27	455	-	-	-	-	-	-	482
- Loans less than UAH 1 million	-	6,045	2,402	2,230	330	195	-	-	-	11,202
- Loans renegotiated in 2009	2,927	-	254	104	-	13	164	-	-	3,462
Total neither past due nor impaired										
	37,171	6,072	3,111	2,334	330	1,109	1,816	42	-	51,985
Past due but not impaired										
- less than 30 days overdue	247	19	443	302	7	26	275	-	-	1,319
- 30 to 90 days overdue	147	109	183	90	4	33	132	-	-	698
Total past due but not impaired										
	394	128	626	392	11	59	407	-	-	2,017
Loans individually determined to be impaired (gross)										
- Not overdue	13,799	16	272	4	2	2	2	89	-	14,186
- less than 30 days overdue	623	7	40	3	-	-	-	-	-	673
- 30 to 90 days overdue	1,066	3	30	3	-	-	6	-	-	1,108
- 90 to 180 days overdue	375	506	306	211	8	23	169	-	-	1,598
- 180 to 360 days overdue	1,539	491	1,905	667	16	219	1,216	14	-	6,067
- over 360 days overdue	104	356	364	237	41	2	438	-	-	1,542
Total individually impaired loans (gross)										
	17,506	1,379	2,917	1,125	67	246	1,831	103	-	25,174
Less impairment provisions										
	(7,418)	(1,000)	(1,671)	(779)	(44)	(201)	(1,408)	(58)	-	(12,579)
Total loans and advances to customers										
	47,653	6,579	4,983	3,072	364	1,213	2,646	87	-	66,597

## 9 Loans and Advances to Customers (Continued)

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

	Corpo- rate loans	Loans to individuals				SME	Reverse repo	Total	
		Card	Mortgage	Auto	Consumer				Other
<i>In millions of Ukrainian hryvnias</i>									
<i>Neither past due nor impaired</i>									
- Large borrowers with credit history with the Group over two years	15,667	-	-	-	-	-	-	-	15,667
- Large new borrowers with credit history with the Group less than 2 years	5,080	-	-	-	-	-	-	-	5,080
- Loans to medium size borrowers	10,888	-	-	-	-	-	637	332	11,857
- Loans to small borrowers	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	4,465	3,923	624	328	-	-	15,304
- Loans renegotiated in 2008	1,297	-	200	-	-	11	-	-	1,508
<b>Total neither past due nor impaired</b>	<b>33,792</b>	<b>5,982</b>	<b>5,484</b>	<b>3,929</b>	<b>624</b>	<b>1,285</b>	<b>5,139</b>	<b>362</b>	<b>56,597</b>
<i>Past due but not impaired</i>									
- 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
<b>Total past due but not impaired</b>	<b>475</b>	<b>1,832</b>	<b>1,198</b>	<b>520</b>	<b>98</b>	<b>48</b>	<b>682</b>	<b>-</b>	<b>4,853</b>
<i>Loans individually determined to be impaired (gross)</i>									
- Not overdue	10,695	-	4	-	1	-	-	-	10,700
- less than 30 days overdue	107	-	-	-	-	-	-	-	107
- 30 to 60 days overdue	1	323	-	1	-	-	5	-	330
- 60 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
<b>Total individually impaired loans (gross)</b>	<b>11,154</b>	<b>1,612</b>	<b>679</b>	<b>484</b>	<b>251</b>	<b>142</b>	<b>431</b>	<b>1</b>	<b>14,754</b>
Less impairment provisions	(4,276)	(1,469)	(808)	(541)	(231)	(68)	(735)	(2)	(8,130)
<b>Total loans and advances to customers</b>	<b>41,145</b>	<b>7,957</b>	<b>6,553</b>	<b>4,392</b>	<b>742</b>	<b>1,407</b>	<b>5,517</b>	<b>361</b>	<b>68,074</b>

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 end of reporting period. 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.

## 9 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 2009 was as follows:

<i>In millions of Ukrainian hryvnias</i>	<b>Corporate loans</b>	<b>Loans to individuals</b>				<b>SME</b>	<b>Total</b>
		<b>Mortgage</b>	<b>Auto</b>	<b>Consumer</b>	<b>Other</b>		
<i>Fair value of collateral - loans past due but not impaired</i>							
- cash deposits	5	-	-	-	-	-	5
- residential real estate	18	489	-	-	18	93	618
- other real estate	74	47	-	5	10	119	255
- tradable securities	-	1	-	-	-	-	1
- equipment	58	-	1	-	-	26	85
- guarantees	-	-	-	-	2	-	2
- transport vehicles	87	-	14	-	1	83	185
- auto (cars)	29	8	350	-	1	42	430
- other assets	11	-	-	12	-	5	28
<b>Total fair value of collateral - loans past due but not impaired</b>	<b>282</b>	<b>545</b>	<b>365</b>	<b>17</b>	<b>32</b>	<b>368</b>	<b>1,609</b>
<i>Fair value of collateral - individually impaired loans</i>							
- cash deposits	6	-	-	-	3	-	9
- residential real estate	68	1,711	-	-	31	175	1,985
- other real estate	1,045	446	-	18	50	233	1,792
- tradable securities	-	-	-	-	2	-	2
- equipment	542	-	22	-	3	60	627
- guarantees	-	-	-	-	17	-	17
- transport vehicles	115	-	17	-	9	208	349
- auto (cars)	298	13	514	-	3	106	934
- other assets	248	-	-	28	4	24	304
<b>Total fair value of collateral - individually impaired loans</b>	<b>2,322</b>	<b>2,170</b>	<b>553</b>	<b>46</b>	<b>122</b>	<b>806</b>	<b>6,019</b>

## 9 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 2008 was as follows:

<i>In millions of Ukrainian hryvnias</i>	<b>Corporate loans</b>	<b>Loans to individuals</b>				<b>SME</b>	<b>Total</b>
		<b>Mortgage</b>	<b>Auto</b>	<b>Consumer</b>	<b>Other</b>		
<i>Fair value of collateral - loans past due but not impaired</i>							
- 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
<b>Total fair value of collateral - loans past due but not impaired</b>	<b>645</b>	<b>1,427</b>	<b>486</b>	<b>26</b>	<b>58</b>	<b>537</b>	<b>3,179</b>
<i>Fair value of collateral - individually impaired loans</i>							
- 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
<b>Total fair value of collateral - individually impaired loans</b>	<b>6,613</b>	<b>505</b>	<b>597</b>	<b>83</b>	<b>36</b>	<b>349</b>	<b>8,183</b>

Fair value of residential real estate at the end of the reporting period 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 28 for the estimated fair value of each class of loans and advances to customers. Geographical, maturity and interest rate analysis of loans and advances to customers is disclosed in Note 24. Information on related party balances is disclosed in Note 30.

**10 Premises, Leasehold Improvements and Equipment and Intangible Assets**

	Note	Premises	Leasehold improve- ments	Computers	Motor vehicles	Furniture, equip- ment, intangible assets and other	Total
<i>In millions of Ukrainian hryvnias</i>							
Cost or valuation at 1 January 2008		1,186	106	916	95	827	3,130
Accumulated depreciation and amortisation		(46)	(78)	(427)	(30)	(303)	(884)
<b>Carrying amount at 1 January 2008</b>		<b>1,140</b>	<b>28</b>	<b>489</b>	<b>65</b>	<b>524</b>	<b>2,246</b>
Additions		260	45	338	18	112	773
Disposals		(45)	(1)	(18)	(3)	(3)	(70)
Depreciation and amortisation charge	21	(31)	(28)	(196)	(14)	(78)	(347)
Impairment charge to profit or loss		(1)	-	-	-	-	(1)
Impairment charge through other comprehensive income		(17)	-	-	-	-	(17)
Revaluation		805	-	-	-	-	805
Transfers		-	-	133	-	(133)	-
Effect of translation to presentation currency		33	3	45	3	16	100
<b>Carrying amount at 31 December 2008</b>		<b>2,144</b>	<b>47</b>	<b>791</b>	<b>69</b>	<b>438</b>	<b>3,489</b>
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)
<b>Carrying amount at 31 December 2008</b>		<b>2,144</b>	<b>47</b>	<b>791</b>	<b>69</b>	<b>438</b>	<b>3,489</b>
Additions		36	11	92	7	112	258
Disposals		(41)	(4)	(13)	(2)	(10)	(70)
Depreciation and amortisation charge	21	(44)	(28)	(235)	(14)	(79)	(400)
Impairment charge to profit or loss		(32)	-	-	-	-	(32)
Reversal of impairment through profit		4	-	-	-	-	4
Impairment charge through other comprehensive income		(370)	-	-	-	-	(370)
Revaluation		44	-	-	-	-	44
Effect of translation to presentation currency		7	1	4	1	2	15
<b>Carrying amount at 31 December 2009</b>		<b>1,748</b>	<b>27</b>	<b>639</b>	<b>61</b>	<b>463</b>	<b>2,938</b>
Cost or valuation at 31 December 2009		1,799	123	1,249	105	765	4,041
Accumulated depreciation and amortisation		(51)	(96)	(610)	(44)	(302)	(1,103)
<b>Carrying amount at 31 December 2009</b>		<b>1,748</b>	<b>27</b>	<b>639</b>	<b>61</b>	<b>463</b>	<b>2,938</b>

## **10 Premises, Leasehold Improvements and Equipment and Intangible Assets (Continued)**

Premises have been revalued at fair value at 31 December 2009 and at 31 December 2008. The valuations were 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 observable market prices in an active market and discounted cash flow techniques in the cases where there was no market-based evidence of fair value because of the specialised nature of the item of premises and the item is rarely sold. The main assumption used is the comparability of premises, for which selling prices were taken.

Included in the above carrying amount is UAH 837 million (2008: UAH 1,211 million) representing revaluation surplus relating to premises of the Group. As of 31 December 2009 a cumulative deferred tax liability of UAH 209 million (2008: UAH 303 million) was calculated with respect to this valuation adjustment and has been recorded directly to equity. At 31 December 2009 the carrying amount of premises would have been UAH 1,843 million (2008: UAH 676 million) had the assets been carried at cost less depreciation.

Included in the above category "Premises" are assets held under finance lease with the carrying amount of UAH 60 million (2008: UAH 61 million). Included in the above category "Computers" are assets held under finance lease with the carrying amount of UAH 27 million (2008: UAH 101 million).

As of 31 December 2009 the gross carrying amount of fully depreciated premises, leasehold improvements and equipment that are still in use was UAH 134 million (2008: UAH 153 million).

At 31 December 2009 premises carried at UAH 1,212 million (2008: nil) have been pledged to the NBU as collateral with respect to the refinancing loan. Refer to Note 12 and 26.

## **11 Other Financial Assets**

<i>In millions of Ukrainian hryvnias</i>	<b>2009</b>	<b>2008</b>
Receivables arising from financial derivative	1,440	-
Receivables from operations with customers	182	163
Plastic cards receivables	130	84
Accrued income receivable	26	54
Other	109	77
Less: Provision for impairment	(104)	(76)
<b>Total other financial assets</b>	<b>1,783</b>	<b>302</b>

## 11 Other Financial Assets (Continued)

Analysis by credit quality of other financial assets outstanding at 31 December 2009 is as follows:

<i>In millions of Ukrainian hryvnias</i>	Receivables arising from financial derivatives	Receivables from operations with customers	Plastic cards receivables	Accrued income receivable	Other	Total
<i>Neither past due nor impaired</i>						
- Large customers with credit history over two years	1,440	-	-	-	22	1,462
- Small companies	-	57	52	26	-	135
- Large OECD banks	-	-	9	-	3	12
- Non-OECD banks	-	-	52	-	26	78
- Balances renegotiated during the year	-	-	1	-	44	45
<b>Total neither past due nor impaired</b>	<b>1,440</b>	<b>57</b>	<b>114</b>	<b>26</b>	<b>95</b>	<b>1,732</b>
<i>Receivables individually determined to be impaired (gross)</i>						
- Not overdue	-	61	-	-	-	61
- less than 30 days overdue	-	20	-	-	-	20
- 30 to 90 days overdue	-	8	-	-	-	8
- 90 to 180 days overdue	-	8	-	-	-	8
- 180 to 360 days overdue	-	3	-	-	-	3
- over 360 days overdue	-	25	16	-	14	55
<b>Total receivables individually determined to be impaired</b>	<b>-</b>	<b>125</b>	<b>16</b>	<b>-</b>	<b>14</b>	<b>155</b>
Less impairment provision	-	(74)	(16)	-	(14)	(104)
<b>Total other financial assets</b>	<b>1,440</b>	<b>108</b>	<b>114</b>	<b>26</b>	<b>95</b>	<b>1,783</b>

## 11 Other Financial Assets (Continued)

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

<i>In millions of Ukrainian hryvnias</i>	<b>Receivables from operations with customers</b>	<b>Plastic cards receivables</b>	<b>Accrued income receivable</b>	<b>Other</b>	<b>Total</b>
<i>Neither past due nor impaired</i>					
- 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
<b>Total neither past due nor impaired</b>	<b>84</b>	<b>79</b>	<b>54</b>	<b>77</b>	<b>294</b>
<i>Receivables individually determined to be impaired (gross)</i>					
- 180 to 360 days overdue	79	5	-	-	84
<b>Total receivables individually determined to be impaired</b>	<b>79</b>	<b>5</b>	<b>-</b>	<b>-</b>	<b>84</b>
Less impairment provision	(73)	(3)	-	-	(76)
<b>Total other financial assets</b>	<b>90</b>	<b>81</b>	<b>54</b>	<b>77</b>	<b>302</b>

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 other financial assets 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 28 for the disclosure of the fair value of each class of other financial assets. Geographical, maturity and interest rate analysis of loans and advances to customers is disclosed in Note 24. Information on related party balances is disclosed in Note 30.

## 12 Due to the NBU and Other Central Banks and Due to Other Banks and Other Financing Institutions

Due to the NBU and other central banks at 31 December 2009 and 31 December 2008:

<i>In millions of Ukrainian hryvnias</i>	<b>2009</b>	<b>2008 1 January 2008</b>	
Term borrowings from the NBU and other central banks	8,310	3,554	-
<b>Total due to the NBU and other central banks</b>	<b>8,310</b>	<b>3,554</b>	<b>-</b>

The Group decided to separately disclose balances with the NBU and other central banks on the face of the consolidated statement of financial position. Opening consolidated statement of financial position as of 1 January 2008 is not presented as the balance of borrowings from the central banks was nil as of that date. Opening balance as of 1 January 2008 is presented in this Note.



**12 Due to the NBU and Other Central Banks and Due to Other Banks and Other Financing Institutions (Continued)**

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 was carried at fixed interest rate of 15% p.a. and initial maturity in October 2009. In October 2009 the NBU prolonged the existing refinancing loan. In December 2009 the NBU increased the exposure to UAH 8,310 million. Refinancing loans from the NBU carry fixed interest rates of 15% to 16.5% p.a. with maturities from September 2010 to October 2015.

As of 31 December 2009 loans and advances to customers with the carrying amount of UAH 1,070 million, premises of the Group with the carrying value of UAH 1,212 million and property rights for shares of the Bank held by 2 major owners of the Group were pledged as collateral in respect of the NBU refinancing loans. Refer to Notes 9, 10 and 26.

Due to the other banks and other financing institutions at 31 December 2009 and 31 December 2008:

In millions of Ukrainian hryvnias	2009	2008
Term placements of other commercial banks	2,115	5,716
Correspondent accounts and overnight placements of other banks	181	449
Long-term loans under the credit lines from other financing institutions	22	423
Pledge deposits of other banks	1	5
<b>Total due to other banks and other financial institutions</b>	<b>2,319</b>	<b>6,593</b>

Term placements of other commercial banks represent placements of commercial banks in UAH, USD and EUR with maturities from January 2010 to April 2017.

In March 2008 the Group 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 was included in term placements of other commercial banks (UAH 1,540 million at the exchange rate applicable at 31 December 2008), carried a floating interest rate of LIBOR + 0.75% and had maturity in March 2009. The loan was fully repaid in March 2009.

As of 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 the international financial institutions. These loans were denominated in USD, loans totalling UAH 40 million had interest rates of LIBOR + 1.85% and maturity date in March 2009 and loans totalling UAH 246 million had interest rate of 7.5% and maturity date in July 2009. These loans were fully repaid by the Group in 2009.

In October 2007 the Group obtained a loan of USD 250 million from an OECD bank with a contractual maturity in October 2012. However, the counterparty had a contractual right to call back the loan at the following dates: 6 October 2008, 6 October 2009, 6 October 2010 and 6 October 2011. The counterparty partly used the right and USD 210 million was repaid in October 2008 and the remaining USD 40 million was repaid by the Group in October 2009.

Geographical, maturity and interest rate analysis of due to other banks and other financial institutions is disclosed in Note 24.

Refer to Note 28 for the disclosure of the fair value of each class of amounts due to other banks and other financing institutions.

### 13 Customer Accounts

<i>In millions of Ukrainian hryvnias</i>	2009	2008
<b>Individuals</b>		
- Term deposits	32,035	30,620
- Current/demand accounts	7,121	6,191
<b>Legal entities</b>		
- Term deposits	9,869	11,647
- Current/settlement accounts	8,108	8,512
<b>Total customer accounts</b>	<b>57,133</b>	<b>56,970</b>

Economic sector concentrations within customer accounts are as follows:

<i>In millions of Ukrainian hryvnias</i>	2009		2008	
	Amount	%	Amount	%
Individuals	39,156	69	36,811	65
Manufacturing	5,299	9	3,512	6
Trade	4,944	9	7,584	13
Services	1,804	3	3,124	6
Machinery	928	2	435	1
Agriculture	865	2	674	1
Transport and communication	784	1	1,837	3
Other	3,353	5	2,993	5
<b>Total customer accounts</b>	<b>57,133</b>	<b>100</b>	<b>56,970</b>	<b>100</b>

At 31 December 2009 the aggregate balances of the top 10 customers of the Group amount to UAH 6,171 million (2008: UAH 8,118 million) or 11% (2008: 14%) of total customer accounts.

At 31 December 2009 included in customer accounts are deposits of UAH 338 million (2008: UAH 490 million) held as collateral for irrevocable commitments under import letters of credit, guarantees issued by the Group. Refer to Note 26.

At 31 December 2009 included in customer accounts are deposits of UAH 7,341 million (2008: UAH 8,728 million) held as collateral for loans and advances to customers, issued by the Group. Refer to Note 9.

Fair value of each class of customer accounts is disclosed in Note 28. Geographical, maturity and interest rate analysis of customer accounts is disclosed in Note 24. Information on related party balances is disclosed in Note 30.

## 14 Debt Securities in Issue

<i>In millions of Ukrainian hryvnias</i>	<b>2009</b>	<b>2008</b>
Eurobonds	3,757	4,180
Private placements of bonds	1,290	1,795
Mortgage bonds	745	893
Auto bonds	319	497
Promissory notes	1	5
<b>Total debt securities in issue</b>	<b>6,112</b>	<b>7,370</b>

In February 2007 the Group issued USD denominated Eurobonds with a par value of UAH 2,525 million maturing in February 2012. The bonds carry a coupon rate of 8% per annum and yield to maturity of 23.57% (2008: 51.58%). 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 the issue). The notes were issued in three series. The main features of the issues are described in the table below.

<b>Notes</b>	<b>Principal amount, USD million</b>	<b>Initial interest rate</b>	<b>Step-up date</b>	<b>Interest rate after step-up date</b>	<b>Maturity date</b>	<b>Issue price</b>
Class A	134	LIBOR + 2.1%	April 2014	LIBOR + 4.2%	December 2031	100%
Class B	37	LIBOR + 3.75%	April 2014	LIBOR + 7.5%	December 2031	100%
Class C	9	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 maturing in May 2010. The bonds carry a coupon rate of EURIBOR+1.55%.

As at 31 December 2009 the Group had UAH denominated bonds issued in March 2007 with a par value of UAH 500 million maturing in March 2012. The bonds were issued under the terms of a private placement.

As at 31 December 2009 the Group had UAH denominated bonds issued in March 2007 with a par value of UAH 500 million maturing in March 2010. The bonds were issued under the terms of a private placement. Refer to Note 31.

As at 31 December 2008 the Group had UAH denominated bonds issued in July 2007 with a par value of UAH 250 million maturing not earlier than March 2010. The bonds were issued under the terms of a private placement.

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.

<b>Notes</b>	<b>Principal amount, USD million</b>	<b>Initial interest rate</b>	<b>Step-up date</b>	<b>Interest rate after step-up date</b>	<b>Maturity date</b>	<b>Issue price</b>
Class A	86	3 months LIBOR + 5.5%	May 2011	3-months LIBOR + 6.88%	November 2018	100%
Class B	19	3 months LIBOR + 7.5%	May 2011	3-months LIBOR + 9.38%	November 2018	100%
Class C	5	12%	-	-	November 2018	100%

#### **14 Debt Securities in Issue (Continued)**

As of 31 December 2009 Auto bonds with the total nominal value of USD 37 million (UAH 293 million at the exchange rate applicable as of 31 December 2009) were repurchased by the Group and removed from the consolidated statement of financial position, including all class C bonds repurchased according to the terms of the issue.

As of 31 December 2009 Mortgage bonds with the total nominal value of USD 9 million (UAH 72 million at the exchange rate applicable as of 31 December 2009) were repurchased by the Group and removed from the consolidated statement of financial position, 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 of the carrying value of UAH 745 million (2008: UAH 893 million) are effectively collateralised by loans and advances to customers in the amount of UAH 900 million (2008: UAH 1,270 million). Auto bonds issued of the carrying value of UAH 319 million (2008: UAH 497 million) are effectively collateralised by loans and advances to customers in the amount of UAH 394 million (2008: UAH 497 million). Refer to Note 9.

The fair value of each class of debt securities in issue is disclosed in Note 28. Geographical, currency, maturity and interest rate analyses of debt securities in issue are disclosed in Note 24.

#### **15 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:

<i>In millions of Ukrainian hryvnias</i>	<b>Note</b>	<b>2009</b>	<b>2008</b>
<i>Other financial liabilities</i>			
Liability for finance lease		110	171
Accounts payable		102	65
Funds in the course of settlement		62	59
Provision for credit related commitments	26	43	29
Financial derivatives	27	19	39
Other		82	87
<b>Total other financial liabilities</b>		<b>418</b>	<b>450</b>
<i>Provisions for liabilities and charges and other liabilities</i>			
Unused vacation reserve		172	160
Provision for legal case		21	21
Accrued salaries and bonuses		19	53
Other		73	47
<b>Total provisions for liabilities and charges and other non-financial liabilities</b>		<b>285</b>	<b>281</b>
<b>Total provisions for liabilities and charges, other financial and non-financial liabilities</b>		<b>703</b>	<b>731</b>

Specific provisions were created for losses incurred on guarantees issued by the Group to borrowers whose financial condition deteriorated. The balance at 31 December 2009 is expected to be utilised by the end of 2015 (2008: by the end of 2014). Refer to Note 26.

Refer to Note 28 for the disclosure of the fair value of each class of other financial liabilities. Geographical, maturity and interest rate analyses of other financial liabilities are disclosed in Note 24. Information on related party balances is disclosed in Note 30.

## **16 Subordinated Debt**

<i>In millions of Ukrainian hryvnias</i>	<b>2009</b>	<b>2008</b>
Subordinated debt provided by legal entities	1,425	1,275
Subordinated debt provided by individuals	13	58
<b>Total subordinated debt</b>	<b>1,438</b>	<b>1,333</b>

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 January to April 2010.

Refer to Note 28 for the disclosure of the fair value of each class of subordinated debt. Geographical, maturity and interest rate analysis of subordinated debt is disclosed in Note 24. Information on related party balances is disclosed in Note 30.

## **17 Share Capital**

<i>In millions of UAH except for number of shares</i>	<b>Number of outstanding shares, in millions</b>	<b>Nominal amount</b>	<b>Inflation adjusted amount</b>
<b>At 1 January 2008</b>	<b>27.08</b>	<b>2,714</b>	<b>2,967</b>
New shares issued	15.20	1,515	1,515
Increase in the nominal amount of the shares	-	1,457	1,457
<b>At 31 December 2008</b>	<b>42.28</b>	<b>5,686</b>	<b>5,939</b>
New shares issued	6.21	1,000	1,000
Increase in the nominal amount of the shares	-	1,125	1,125
<b>At 31 December 2009</b>	<b>48.49</b>	<b>7,811</b>	<b>8,064</b>

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 2009 is UAH 7,811 million (2008: UAH 5,686 million).

In April 2009 the shareholders made a decision to increase the nominal amount of the Bank's issued shares from UAH 134.45 per share to UAH 161.08 per share. The increase was followed by an increase in the share capital by capitalisation of dividends in the amount of UAH 1,125 million.

In July 2009, the Bank issued an additional 6,208,100 ordinary shares with nominal amount of UAH 161.08 per share totalling UAH 1,000 million.

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

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 134.45 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 48.49 million shares (2008: 42.28 million shares) with a par value of UAH 161.08 per share (2008: UAH 134.45 per share). All issued ordinary shares are fully paid.

Each ordinary share carries one vote.

## **18 Other Reserves**

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

## **19 Interest Income and Expense**

<i>In millions of Ukrainian hryvnias</i>	<b>2009</b>	<b>2008</b>
<b>Interest income</b>		
Loans and advances to legal entities	8,399	5,174
Loans and advances to individuals	5,846	6,103
Due from other banks	291	278
Other	13	52
<b>Total interest income</b>	<b>14,549</b>	<b>11,607</b>
<b>Interest expense</b>		
Term deposits of individuals	3,956	2,847
Due to the NBU and other central banks	1,091	81
Term deposits of legal entities	794	542
Current/settlement accounts	480	509
Due to other banks and other financing institutions	413	353
Debt securities in issue	358	645
Subordinated debt	176	100
Other	27	108
<b>Total interest expense</b>	<b>7,295</b>	<b>5,185</b>
<b>Net interest income</b>	<b>7,254</b>	<b>6,422</b>

Information on interest income and expense from transactions with related parties is disclosed in Note 30.

## **20 Fee and Commission Income and Expense**

<i>In millions of Ukrainian hryvnias</i>	<b>2009</b>	<b>2008</b>
<b>Fee and commission income</b>		
Cash collection and cash transactions	1,238	1,043
Settlement transactions	790	989
Guarantees issued	25	18
Transactions with securities	20	16
Foreign exchange	13	29
Other	33	16
<b>Total fee and commission income</b>	<b>2,119</b>	<b>2,111</b>
<b>Fee and commission expense</b>		
Cash and settlement transactions	190	291
Other	42	13
<b>Total fee and commission expense</b>	<b>232</b>	<b>304</b>
<b>Net fee and commission income</b>	<b>1,887</b>	<b>1,807</b>

Information on fee and commission income from transactions with related parties is disclosed in Note 30.

## **21 Administrative and Other Operating Expenses**

<i>In millions of Ukrainian hryvnias</i>	<b>Note</b>	<b>2009</b>	<b>2008</b>
Staff costs		2,171	2,487
Rent		541	483
Insurance expenses		443	127
Depreciation and amortisation of premises, leasehold improvements and equipment and intangible assets	10	400	347
Mail and telecommunication		215	221
Utilities and household expenses		208	240
Contributions to Individual Deposits Guarantee Fund		171	137
Security		144	104
Maintenance of premises, leasehold improvements and equipment		135	135
Taxes other than income		112	107
Advertising and marketing		72	129
Transportation		68	69
Other		239	429
<b>Total administrative and other operating expenses</b>		<b>4,919</b>	<b>5,015</b>

Included in staff costs are statutory pension contributions of UAH 442 million (2008: UAH 496 million) and social security contributions of UAH 71 million (2008: UAH 73 million). Pension contributions are made into the 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 30.

## **22 Income Taxes**

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

<i>In millions of Ukrainian hryvnias</i>	<b>2009</b>	<b>2008</b>
Current tax	70	326
Deferred tax	645	225
<b>Income tax expense for the year</b>	<b>715</b>	<b>551</b>

The income tax rate applicable to the majority of the Group's income is 25% (2008: 25%). The income tax rate applicable to the majority of income of subsidiaries ranges from 15% to 30% (2008: from 15% to 30%). Reconciliation between the expected and the actual taxation charge is provided below.

<i>In millions of Ukrainian hryvnias</i>	<b>2009</b>	<b>2008</b>
<b>Profit before tax</b>	<b>2,040</b>	<b>2,538</b>
Theoretical tax charge at statutory rate (2009: 25%; 2008: 25%)	510	635
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Income which is exempt from taxation	-	(163)
- Non-deductible expenses	145	78
- Unrecognised deferred tax assets	60	1
<b>Income tax expense for the year</b>	<b>715</b>	<b>551</b>



## 22 Income Taxes (Continued)

During the year ended 31 December 2009 a deferred tax asset of UAH 82 million (2008: deferred tax liability of UAH 198 million) has been recorded directly in other comprehensive income 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% (2008: 25%), except for temporary differences that arise in respect of assets and liabilities of subsidiaries, which are taxed at different rates.

	31 December 2008	(Charged)/ credited to profit or loss	Charged directly to other compre- hensive income	31 December 2009
<i>In millions of Ukrainian hryvnias</i>				
<b>Tax effect of deductible temporary differences</b>				
Loan impairment provision	26	150	-	176
Accrued expenses and other liabilities	105	(15)	-	90
Deferral of transaction costs at initial recognition	(85)	124	-	39
<b>Gross deferred tax asset</b>	<b>46</b>	<b>259</b>	<b>-</b>	<b>305</b>
Less offsetting with deferred tax liability	51	(280)	-	(229)
Less: unrecognised deferred tax asset	-	(60)	-	(60)
<b>Recognised deferred tax asset</b>	<b>97</b>	<b>(81)</b>	<b>-</b>	<b>16</b>
<b>Tax effect of taxable temporary differences</b>				
Accrued income	(44)	(653)	-	(697)
Fair value of derivative financial instruments	(635)	134	-	(501)
Prepaid expenses and other assets	(84)	(194)	-	(278)
Premises, leasehold improvements and equipment	(408)	79	82	(247)
Trading securities and investment securities available-for-sale	90	(210)	-	(120)
<b>Gross deferred tax liability</b>	<b>(1,081)</b>	<b>(844)</b>	<b>82</b>	<b>(1,843)</b>
Less offsetting with deferred tax asset	(51)	280	-	229
<b>Recognised deferred tax liability</b>	<b>(1,132)</b>	<b>(564)</b>	<b>82</b>	<b>(1,614)</b>

## 22 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.

	31 December 2007	(Charged)/ credited to profit or loss	Charged directly to other compre- hensive income	31 December 2008
<i>In millions of Ukrainian hryvnias</i>				
<b>Tax effect of deductible temporary differences</b>				
Accrued expenses and other liabilities	68	37	-	105
Trading securities and investment securities available-for-sale	(14)	104	-	90
Loan impairment provision	(258)	284	-	26
<b>Gross deferred tax asset</b>	<b>(204)</b>	<b>425</b>	<b>-</b>	<b>221</b>
Less offsetting with deferred tax liability	238	(362)	-	(124)
<b>Recognised deferred tax asset</b>	<b>34</b>	<b>63</b>	<b>-</b>	<b>97</b>
<b>Tax effect of taxable temporary differences</b>				
Fair value of derivative financial instruments	(7)	(628)	-	(635)
Premises, leasehold improvements and equipment	(176)	(34)	(198)	(408)
Deferral of transaction costs at initial recognition	(50)	(35)	-	(85)
Prepaid expenses and other assets	-	(84)	-	(84)
Accrued income	(175)	131	-	(44)
<b>Gross deferred tax liability</b>	<b>(408)</b>	<b>(650)</b>	<b>(198)</b>	<b>(1,256)</b>
Less offsetting with deferred tax asset	(238)	362	-	124
<b>Recognised deferred tax liability</b>	<b>(646)</b>	<b>(288)</b>	<b>(198)</b>	<b>(1,132)</b>

## **23 Segment Analysis**

Starting from 1 January 2009, the Group prepares its segment analysis in accordance with IFRS 8, *Operating segments*, which replaced IAS 14, *Segment reporting*. Comparatives were adjusted to conform to the presentation of current period amounts.

Operating segments are components that engage in business activities that may earn revenues or incur expenses, whose operating results are regularly reviewed by the chief operating decision maker (CODM) and for which discrete financial information is available. The CODM is the person or group of persons who allocates resources and assesses the performance for the entity. The functions of CODM are performed by the management board of the Group.

### ***(a) Description of products and services from which each reportable segment derives its revenue***

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.

Included in other are assets, liabilities, revenues and expenses that are not allocated to any of the above segments.

### ***(b) Factors that management used to identify the reportable segments***

The Group's segments are strategic business units that focus on different customers. They are managed separately because each business unit requires different marketing strategies and service level.

Segment financial information reviewed by the CODM does not include information of the Group's subsidiaries. Regular review of these subsidiary banks is delegated to the local management teams. The CODM obtains financial statements of the Bank's subsidiaries. Management considered that information on subsidiary banks is available less frequently in concluding that segments exclude details of the subsidiaries.

## **23 Segment Analysis (Continued)**

### ***(c) Measurement of operating segment profit or loss, assets and liabilities***

The CODM reviews financial information of the Bank prepared based on Ukrainian accounting standards adjusted to meet the requirements of NBU reporting rules and before consolidation of subsidiaries. Such financial information differs in certain aspects from International Financial Reporting Standards:

- funds are generally reallocated between segments at internal interest rates set by the treasury department, which are determined by reference to market interest rate benchmarks, contractual maturities for loans and observed actual maturities of customer accounts balances;
- income taxes are not allocated to segments;
- loan loss provisions are recognised based on the statutory accounting rules;
- loans and advances to customers are written-off based on statutory requirements;
- fair value of derivative is not recognised in statutory accounts;
- SWAP operations are recognised at cost;
- commission income related to lending is recognised immediately rather than deferred using the effective interest method; and
- consolidation of subsidiaries.

The CODM evaluates performance of each segment based on profit before tax.

## 23 Segment Analysis (Continued)

### (d) Information about reportable segment profit or loss, assets and liabilities

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

<i>In millions of Ukrainian hryvnias</i>	<b>Retail banking</b>	<b>Corporate banking</b>	<b>Investment banking</b>	<b>Treasury</b>	<b>Total reportable segments</b>	<b>Other</b>	<b>Total</b>
Cash and cash equivalents and mandatory reserves	2,822	198	-	3,266	6,286	-	6,286
Trading securities	-	-	105	-	105	-	105
Due from other banks	140	-	158	8,172	8,470	-	8,470
Loans and advances to customers	12,345	49,302	22	-	61,669	-	61,669
Investment securities available-for-sale	-	9	50	-	59	-	59
Investment securities held to maturity	-	-	-	372	372	-	372
Investment in subsidiaries	-	-	796	-	796	-	796
Intangible assets	2	1	-	1	4	1	5
Premises, leasehold improvements and equipment	682	242	6	15	945	362	1,307
Other financial assets	231	31	10	6,036	6,308	-	6,308
Other assets	61	57	-	6	124	16	140
Non-current assets held for sale	-	-	-	-	-	44	44
<b>Total reportable segment assets</b>	<b>16,283</b>	<b>49,840</b>	<b>1,147</b>	<b>17,868</b>	<b>85,138</b>	<b>423</b>	<b>85,561</b>
Due to the NBU	-	-	-	8,310	8,310	-	8,310
Due to other banks and other financing institutions	-	-	-	7,193	7,193	-	7,193
Customer accounts	35,935	12,905	414	741	49,995	-	49,995
Debt securities in issue	-	1	-	1,289	1,290	-	1,290
Current income tax liability	-	-	-	-	-	9	9
Deferred income tax liability	-	-	-	-	-	42	42
Other financial liabilities	1,221	486	60	5,356	7,123	-	7,123
Other non-financial liabilities	8	12	2	1	23	5	28
Subordinated debt	-	61	-	1,239	1,300	-	1,300
<b>Total reportable segment liabilities</b>	<b>37,164</b>	<b>13,465</b>	<b>476</b>	<b>24,129</b>	<b>75,234</b>	<b>56</b>	<b>75,290</b>
<b>Capital expenditure</b>	<b>102</b>	<b>36</b>	<b>1</b>	<b>2</b>	<b>141</b>	<b>54</b>	<b>195</b>

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**23 Segment Analysis (Continued)**

	Retail banking	Corporate banking	Investment banking	Treasury	Total reportable segments	Other	Total
<i>In millions of Ukrainian hryvnias</i>							
<b>2009</b>							
External revenues	6,106	10,982	69	2,779	19,936	-	19,936
Revenues from other segments	2,161	(5,678)	(143)	2,370	(1,290)	1,290	-
<b>Total revenues</b>	<b>8,267</b>	<b>5,304</b>	<b>(74)</b>	<b>5,149</b>	<b>18,646</b>	<b>1,290</b>	<b>19,936</b>
Total revenues includes:							
- Interest income	5,909	4,391	(142)	4,868	15,026	1,290	16,316
- Fee and commission income	2,106	859	66	126	3,157	-	3,157
- Other operating income	252	54	2	155	463	-	463
<b>Total revenues</b>	<b>8,267</b>	<b>5,304</b>	<b>(74)</b>	<b>5,149</b>	<b>18,646</b>	<b>1,290</b>	<b>19,936</b>
Interest expense	(4,103)	(966)	(6)	(3,868)	(8,943)	-	(8,943)
Provision for loan impairment	(752)	(4,309)	-	145	(4,916)	-	(4,916)
Impairment of investment securities available-for-sale	-	-	(12)	-	(12)	-	(12)
Release of provision for credit related commitments	-	254	-	-	254	-	254
Fee and commission expense	(102)	-	(59)	(482)	(643)	-	(643)
Losses less gains from trading securities	-	-	(430)	-	(430)	-	(430)
Gains less losses from trading in foreign currencies	-	-	-	192	192	-	192
Gains less losses from disposals of investment securities available-for-sale	-	-	11	-	11	-	11
Administrative and other operating expenses	(2,328)	(811)	(57)	(85)	(3,281)	(1,022)	(4,303)
<b>Segment result</b>	<b>982</b>	<b>(528)</b>	<b>(627)</b>	<b>1,051</b>	<b>878</b>	<b>268</b>	<b>1,146</b>
<b>Income tax</b>							<b>(96)</b>
<b>Income for the year</b>							<b>1,050</b>

Capital expenditure represents additions to non-current assets other than financial instruments, deferred tax assets, post-employment benefit assets and rights arising under insurance contracts.

## 23 Segment Analysis (Continued)

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

<i>In millions of Ukrainian hryvnias</i>	<b>Retail banking</b>	<b>Corporate banking</b>	<b>Investment banking</b>	<b>Treasury</b>	<b>Total reportable segments</b>	<b>Other</b>	<b>Total</b>
Cash and cash equivalents and mandatory reserves	2,490	218	-	1,654	4,362	-	4,362
Trading securities	-	-	552	-	552	-	552
Due from other banks	-	2	83	6,301	6,386	-	6,386
Loans and advances to customers	16,355	48,562	17	907	65,841	-	65,841
Investment securities available-for-sale	-	1	3	167	171	-	171
Investment securities held to maturity	-	-	-	258	258	-	258
Investment in associates	-	-	556	-	556	-	556
Intangible assets	3	1	-	-	4	1	5
Premises, leasehold improvements and equipment	832	274	9	7	1,122	339	1,461
Other financial assets	175	29	10	-	214	-	214
Other assets	50	41	7	26	124	18	142
Non-current assets held for sale	-	-	-	-	-	49	49
<b>Total reportable segment assets</b>	<b>19,905</b>	<b>49,128</b>	<b>1,237</b>	<b>9,320</b>	<b>79,590</b>	<b>407</b>	<b>79,997</b>
Due to the NBU	-	-	-	3,410	3,410	-	3,410
Due to other banks and other financing institutions	-	-	4	11,275	11,279	-	11,279
Customer accounts	35,656	14,437	338	2,595	53,026	-	53,026
Debt securities in issue	-	1	-	1,794	1,795	-	1,795
Current income tax liability	-	-	-	-	-	16	16
Deferred income tax liability	-	-	-	-	-	7	7
Other financial liabilities	588	215	2	116	921	-	921
Other non-financial liabilities	21	10	4	2	37	11	48
Subordinated debt	58	46	-	1,196	1,300	-	1,300
<b>Total reportable segment liabilities</b>	<b>36,323</b>	<b>14,709</b>	<b>348</b>	<b>20,388</b>	<b>71,768</b>	<b>34</b>	<b>71,802</b>
<b>Capital expenditure</b>	<b>465</b>	<b>153</b>	<b>5</b>	<b>3</b>	<b>626</b>	<b>189</b>	<b>815</b>

**23 Segment Analysis (Continued)**

	Retail banking	Corporate banking	Investment banking	Treasury	Total reportable segments	Other	Total
<i>In millions of Ukrainian hryvnias</i>							
<b>2008</b>							
External revenues	5,862	6,172	81	2,825	14,940	-	14,940
Revenues from other segments	1,636	(4,392)	(218)	1,414	(1,560)	1,560	-
<b>Total revenues</b>	<b>7,498</b>	<b>1,780</b>	<b>(137)</b>	<b>4,239</b>	<b>13,380</b>	<b>1,560</b>	<b>14,940</b>
Total revenues includes:							
- Interest income	5,033	714	(212)	1,867	7,402	1,560	8,962
- Fee and commission income	2,373	1,030	65	2,344	5,812	-	5,812
- Other operating income	92	36	10	28	166	-	166
<b>Total revenues</b>	<b>7,498</b>	<b>1,780</b>	<b>(137)</b>	<b>4,239</b>	<b>13,380</b>	<b>1,560</b>	<b>14,940</b>
Interest expense	(2,942)	(715)	(24)	(1,289)	(4,970)	-	(4,970)
Provision for loan impairment	(1,709)	(1,629)	-	58	(3,280)	-	(3,280)
Provision for credit related commitments	-	(178)	-	-	(178)	-	(178)
Fee and commission expense	(204)	(1)	-	(242)	(447)	-	(447)
Losses less gains from trading securities	-	-	(550)	-	(550)	-	(550)
Gains less losses from trading in foreign currencies	565	411	(7)	(90)	879	-	879
Losses less gains from disposals of investment securities available-for-sale	-	-	(1)	-	(1)	-	(1)
Administrative and other operating expenses	(2,497)	(862)	(107)	(103)	(3,569)	(939)	(4,508)
<b>Segment result</b>	<b>711</b>	<b>(1,194)</b>	<b>(826)</b>	<b>2,573</b>	<b>1,264</b>	<b>621</b>	<b>1,885</b>
<b>Income tax</b>							<b>(593)</b>
<b>Income for the year</b>							<b>1,292</b>



## **23 Segment Analysis (Continued)**

### **Reconciliation of reportable segment revenues, profit or loss, assets and liabilities**

Total consolidated revenues comprise interest income, fee and commission income and other operating income.

<i>In millions of Ukrainian hryvnias</i>	<b>2009</b>	<b>2008</b>
<b>Total revenues for reportable segments</b>	<b>18,646</b>	<b>13,380</b>
(a) Recognition of financial derivatives	(1,560)	567
(b) Consolidation adjustments	(1,258)	1,036
(c) Reclassification of forex gains less losses	(275)	(2,800)
(d) Other adjustments	(34)	54
(e) Unallocated revenues	1,290	1,560
<b>Total consolidated revenues</b>	<b>16,809</b>	<b>13,797</b>

Reconciliation of reportable profit or loss:

<i>In millions of Ukrainian hryvnias</i>	<b>2009</b>	<b>2008</b>
<b>Total reportable segment result</b>	<b>878</b>	<b>1,264</b>
(a) Recognition of financial derivatives	1,083	336
(b) Consolidation adjustments	(341)	(408)
(d) Other adjustments	201	814
(e) Unallocated revenues and expenses	268	621
(f) Provision for impairment of loans and advances to customers	(115)	(390)
(k) Release of provision for credit related commitments	70	301
<b>Profit before tax</b>	<b>2,044</b>	<b>2,538</b>

Reconciliation of reportable assets:

<i>In millions of Ukrainian hryvnias</i>	<b>2009</b>	<b>2008</b>
<b>Total reportable segment assets</b>	<b>85,138</b>	<b>79,590</b>
(a) Recognition of financial derivatives	1,943	336
(b) Consolidation adjustments	8,793	6,709
(d) Other adjustments	(444)	(313)
(e) Unallocated assets	423	407
(f) Release of provision for impairment of loans and advances to customers	602	976
(g) SWAP operations at fair value	(6,766)	(185)
<b>Total consolidated assets</b>	<b>89,689</b>	<b>87,520</b>

## 23 Segment Analysis (Continued)

Reconciliation of reportable liabilities:

<i>In millions of Ukrainian hryvnias</i>	2009	2008
<b>Total reportable segment liabilities</b>	<b>75,234</b>	<b>71,768</b>
(b) Consolidation adjustments	8,118	5,385
(d) Other adjustments	(513)	(340)
(e) Unallocated liabilities	56	34
(g) SWAP operations at fair value	(6,766)	(182)
(h) Deferred income tax liability	1,510	1,025
<b>Total consolidated liabilities</b>	<b>77,639</b>	<b>77,690</b>

Reconciliation of material items of income for the year ended 31 December 2009 is as follows:

<i>In millions of Ukrainian hryvnias</i>	Interest income	Fee and commission income	Gains less losses from financial derivatives
<b>Total amount for all reportable segment</b>	<b>15,026</b>	<b>3,157</b>	<b>-</b>
(a) Recognition of financial derivatives	(1,560)	-	2,643
(b) Consolidation adjustments	(1,525)	277	-
(d) Other adjustments	(34)	-	-
(e) Unallocated revenues	1,290	-	-
(h) Reclassifications	1,352	(1,315)	-
<b>As reported under IFRS</b>	<b>14,549</b>	<b>2,119</b>	<b>2,643</b>

Reconciliation of material items of expense for the year ended 31 December 2009 is as follows:

<i>In millions of Ukrainian hryvnias</i>	Interest expense	Provision for impairment of loans and advances to customers	Administrative and other operating expenses
<b>Total amount for all reportable segment</b>	<b>(8,943)</b>	<b>(4,916)</b>	<b>(3,281)</b>
(b) Consolidation adjustments	1,470	(255)	(874)
(d) Other adjustments	142	27	20
(e) Unallocated expenses	-	-	(1,022)
(f) Impairment charge	-	(115)	-
(h) Reclassifications	36	(238)	238
<b>As reported under IFRS</b>	<b>(7,295)</b>	<b>(5,497)</b>	<b>(4,919)</b>

## 23 Segment Analysis (Continued)

Reconciliation of material items of income for the year ended 31 December 2008 is as follows:

<i>In millions of Ukrainian hryvnias</i>	Interest income	Fee and commission income	Result from translation in foreign currencies
<b>Total amount for all reportable segment</b>	<b>7,402</b>	<b>5,812</b>	<b>-</b>
(a) Recognition of financial derivatives	567	-	-
(b) Consolidation adjustments	774	262	(366)
(d) Other adjustments	119	(79)	92
(e) Unallocated revenues	1,560	-	-
(h) Reclassifications	1,185	(3,884)	3,171
<b>As reported under IFRS</b>	<b>11,607</b>	<b>2,111</b>	<b>2,897</b>

Reconciliation of material items of expense for the year ended 31 December 2008 is as follows:

<i>In millions of Ukrainian hryvnias</i>	Interest expense	Provision for impairment of loans and advances to customers	Administrative and other operating expenses
<b>Total amount for all reportable segment</b>	<b>(4,970)</b>	<b>(3,280)</b>	<b>(3,569)</b>
(b) Consolidation adjustments	(206)	(364)	(958)
(d) Other adjustments	(9)	(473)	451
(e) Unallocated expenses	-	-	(939)
(f) Provision for impairment of loans and advances to customers	-	(390)	-
<b>As reported under IFRS</b>	<b>(5,185)</b>	<b>(4,507)</b>	<b>(5,015)</b>

## 23 Segment Analysis (Continued)

Reconciliation of material assets at 31 December 2009 is as follows:

<i>In millions of Ukrainian hryvnias</i>	<b>Cash and cash equivalents and mandatory reserves</b>	<b>Due from other banks</b>	<b>Loans and advances to customers</b>	<b>Financial derivatives</b>	<b>Other financial assets</b>
<b>Total amount for all reportable segment</b>	<b>6,286</b>	<b>8,470</b>	<b>61,668</b>	<b>-</b>	<b>6,308</b>
(a) Recognition of financial derivatives	-	-	(1,503)	2,005	-
(b) Consolidation adjustments	2,847	834	4,142	-	194
(d) Other adjustments	(497)	-	26	-	56
(f) Release of provision for impairment	-	274	329	-	-
(g) SWAP operations at fair value	-	(748)	-	-	(6,018)
(h) Reclassification	2,819	(4,761)	1,935	-	(197)
(i) Recognition of receivable arising from financial derivative	-	-	-	-	1,440
<b>As reported under IFRS</b>	<b>11,455</b>	<b>4,069</b>	<b>66,597</b>	<b>2,005</b>	<b>1,783</b>

Reconciliation of material liabilities at 31 December 2009 is as follows:

<i>In millions of Ukrainian hryvnias</i>	<b>Due to the NBU and other central banks</b>	<b>Due to other banks and other financing institutions</b>	<b>Customer accounts</b>	<b>Debt securities in issue</b>	<b>Provisions for liabilities and charges, other financial and non-financial liabilities</b>	<b>Subordinated debt</b>
<b>Total amount for all reportable segment</b>	<b>8,310</b>	<b>7,193</b>	<b>49,995</b>	<b>1,290</b>	<b>7,151</b>	<b>1,309</b>
(b) Consolidation adjustments	-	(11)	6,684	718	448	141
(d) Other adjustments	-	7	41	(17)	39	(12)
(g) SWAP operations at fair value	-	(749)	-	-	(6,018)	-
(h) Reclassification	-	(4,121)	413	4,121	(917)	-
<b>As reported under IFRS</b>	<b>8,310</b>	<b>2,319</b>	<b>57,133</b>	<b>6,112</b>	<b>703</b>	<b>1,438</b>

Reconciliation of material assets at 31 December 2008 is as follows:

<i>In millions of Ukrainian hryvnias</i>	<b>Cash and cash equivalents and mandatory reserves</b>	<b>Due from other banks</b>	<b>Loans and advances to customers</b>	<b>Financial derivatives</b>	<b>Other financial assets</b>
<b>Total amount for all reportable segment</b>	<b>4,362</b>	<b>6,386</b>	<b>65,841</b>	<b>-</b>	<b>214</b>
(a) Recognition of financial derivatives	-	-	(2,214)	2,551	-
(b) Consolidation adjustments	1,314	105	3,748	-	210
(d) Other adjustments	(348)	1	243	-	28
(f) Release of provision for impairment	12	407	556	-	-
(g) SWAP operations at fair value	-	(185)	-	-	-
(h) Reclassification	4,052	(4,052)	(100)	-	(150)
<b>As reported under IFRS</b>	<b>9,392</b>	<b>2,662</b>	<b>68,074</b>	<b>2,551</b>	<b>302</b>

## 23 Segment Analysis (Continued)

Reconciliation of material liabilities at 31 December 2008 is as follows:

<i>In millions of Ukrainian hryvnias</i>	Due to the NBU and other central banks	Due to other banks and other financing institutions	Customer accounts	Debt securities in issue	Provisions for liabilities and charges, other financial and non-financial liabilities	Subordi nated debt
<b>Total amount for all reportable segment</b>	<b>3,410</b>	<b>11,279</b>	<b>53,026</b>	<b>1,795</b>	<b>969</b>	<b>1,315</b>
(b) Consolidation adjustments	-	81	3,750	1,078	349	41
(d) Other adjustments	144	(23)	(8)	(31)	(118)	(23)
(g) SWAP operations at fair value	-	(216)	-	-	34	-
(h) Reclassifications	-	(4,528)	202	4,528	(202)	-
(k) Release of provision for impairment	-	-	-	-	(301)	-
<b>As reported under IFRS</b>	<b>3,554</b>	<b>6,593</b>	<b>56,970</b>	<b>7,370</b>	<b>731</b>	<b>1,333</b>

The reconciling items are attributable to the following:

(a), (i) – Financial derivatives are accounted for at fair value. Receivables arising from financial derivatives are accounted at amortised cost less impairment. In statutory accounts results from operations with financial derivatives are accounted when cash is received within interest income.

(b) – Segment reporting is prepared before consolidation of subsidiaries.

(c), (h) – Reclassifications are done based on the economic substance of transactions. The Bank presented debt securities issued separately in IFRS financial statements.

(e) – Unallocated balances represent balances which were not included in the reportable segments.

(f) – In Segment reporting the Bank analyses provision for impairment created in accordance with the National Bank of Ukraine requirements.

(g) – The Bank presented SWAP operations on a net basis in its IFRS financial statements.

(j) – Deferred tax liability calculated based on IFRS carrying amounts of assets and liabilities.

(k) – Provision for credit related commitments calculated based on historical loss experience.

### **(f) Analysis of revenues by products and services**

The Group's revenues are analysed by products and services in Notes 19 (interest income), Note 20 (fee and commission income).

**23 Segment Analysis (Continued)**

**(f) Geographical information**

Revenues for each individual country for which the revenues are material are reported separately as follows:

<i>In millions of Ukrainian hryvnias</i>	<b>2009</b>	<b>2008</b>
Ukraine	14,684	12,112
Other countries	2,125	1,685
<b>Total consolidated revenues</b>	<b>16,809</b>	<b>13,797</b>

The analysis is based on domicile of the customer. Revenues from off-shore companies of Ukrainian customers are reported as revenues from Ukraine. Revenues comprise interest income, fee and commission income and other operating income.

The Bank does not analyze the capital expenditure, current and deferred income tax in segment reporting.

**(g) Major customers**

The Group does not have customers with the revenues exceeding 10% of the total revenue of the Group.

## **24 Financial Risk Management**

The risk management function within the Group is carried out in respect of financial 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, Risk-Management Division, Internal Control and Fraud-Management Division, the Finance and Risk Division including 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, Head of Risk-Management Division, Head of Internal Control and Fraud-Management Division, 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 of 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.

### ***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. In 2009 Security Committee was renamed to Internal Control Committee, the functions of the Committee remained the same.

### ***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.

## **24 Financial Risk Management (Continued)**

### ***Risk-Management Division***

The Risk-Management Division 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, sets the lending authority limits of branch and sub-branch heads. 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.

### ***Internal Control and Fraud-Management Division***

The Internal Control and Fraud-Management Division 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 Internal Control and Fraud-Management Division 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.

**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 statement of financial position. For guarantees and commitments to extend credit, the maximum exposure to credit risk is the amount of the commitment. Refer to Note 26. 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.

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. 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.



## **24 Financial Risk Management (Continued)**

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 of 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.

Credit Committee on a monthly basis reviews the effectiveness of the credit policies for each business division and analysis information on the levels of non-performing loans.

### *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 Risk-Management Division 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 financial instruments accounted for in the consolidated statement of financial position, 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.

## **24 Financial Risk Management (Continued)**

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.

### *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 loan inspectors contact the borrower, request repayment and check the availability of any collateral. Loan inspector 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-Management Division, 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.

### *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.

## 24 Financial Risk Management (Continued)

**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.

**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 27.

The table below summarises the Group's exposure to foreign currency exchange rate risk at the end of the reporting period:

<i>In millions of Ukrainian hryvnias</i>	At 31 December 2009				At 31 December 2008			
	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	48,528	34,111	(634)	13,783	31,780	28,967	85	2,898
US Dollars	27,151	30,883	(4,303)	(8,035)	41,172	33,617	2,154	9,709
Euros	6,881	7,552	4,433	3,762	6,640	10,562	(2,277)	(6,199)
Other	3,382	3,124	486	744	3,411	3,104	-	307
<b>Total</b>	<b>85,942</b>	<b>75,670</b>	<b>(18)</b>	<b>10,254</b>	<b>83,003</b>	<b>76,250</b>	<b>(38)</b>	<b>6,715</b>

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 end of the reporting period, 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 27. 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 27) 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 losses less gains of UAH 7 million during the year ended 31 December 2009 (2008: gains less losses of UAH 2,897 million).

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

## 24 Financial Risk Management (Continued)

<i>In millions of Ukrainian hryvnias</i>	At 31 December 2009		At 31 December 2008	
	Impact on profit or loss	Impact on equity	Impact on profit or loss	Impact on equity
US Dollar strengthening by 5% (2008: strengthening by 25%)	(402)	(402)	2,427	2,427
US Dollar weakening by 5% (2008: weakening by 25%)	402	402	(2,427)	(2,427)
Euro strengthening by 5% (2008: strengthening by 25%)	188	188	(1,550)	(1,550)
Euro weakening by 5% (2008: weakening by 25%)	(188)	(188)	1,550	1,550
Other strengthening by 5% (2008: strengthening by 25%)	37	37	77	77
Other weakening by 5% (2008: weakening by 25%)	(37)	(37)	(77)	(77)
<b>Total</b>	-	-	-	-

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.

## 24 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.

<i>In millions of Ukrainian hryvnias</i>	<b>Demand and less than 1 month</b>	<b>From 1 to 3 months</b>	<b>From 3 to 12 months</b>	<b>More than 1 year</b>	<b>Non- monetary</b>	<b>Total</b>
<b>31 December 2009</b>						
Total financial assets	28,780	5,533	23,673	27,956	16	85,958
Total financial liabilities	24,445	10,326	25,606	15,293	60	75,730
<b>Net interest sensitivity gap at 31 December 2009</b>	<b>4,335</b>	<b>(4,793)</b>	<b>(1,933)</b>	<b>12,663</b>	<b>(44)</b>	<b>10,228</b>
<b>31 December 2008</b>						
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
<b>Net interest sensitivity gap at 31 December 2008</b>	<b>(8,552)</b>	<b>(3,460)</b>	<b>1,365</b>	<b>17,400</b>	<b>63</b>	<b>6,816</b>

All of the Group's debt instruments reprice within 5 years.

At 31 December 2009, if interest rates at that date had been 200 basis points lower (2008: 200 basis points lower) with all other variables held constant, profit for the year would have been UAH 3 million (2008: UAH 111 million) higher, mainly as a result of lower interest expense on variable interest liabilities.

If interest rates had been 200 basis points higher (2008: 200 basis points higher), with all other variables held constant, profit would have been UAH 3 million (2008: UAH 111 million) lower, mainly as a result of higher interest expense on variable interest liabilities.

## 24 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:

<i>In % p.a.</i>	2009				2008			
	USD	UAH	Euro	Other	USD	UAH	Euro	Other
<b>Assets</b>								
Correspondent accounts and overnight deposits with other banks	0	0	2	2	0	0	1	1
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	-	-
Other debt securities at fair value through profit or loss	-	-	-	7	-	-	-	-
Due from other banks	5	1	3	0	11	0	0	3
Loans and advances to legal entities	14	19	10	30	14	22	10	20
Loans and advances to individuals	15	29	9	44	15	30	9	36
Debt investment securities held to maturity	-	-	-	-	-	-	-	-
Other financial assets	3	-	3	0	3	0	1	2
<b>Liabilities</b>								
<b>Due to the NBU and other central banks</b>	-	16	-	-	-	15	-	-
Correspondent accounts and overnight deposits of other banks	3	0	0	3	1	4	0	8
Term placements of other banks	1	-	3	7	4	5	6	4
Long-term loans under the credit lines from international financial institutions	-	-	4	-	10	-	6	-
Customer accounts								
- current accounts of customers	2	0	4	4	0	0	0	0
- term deposits of legal entities	11	14	11	11	11	9	7	3
- term deposits of individuals	12	21	12	15	11	15	8	6
Debt securities in issue	8	7	6	-	8	11	-	12
Subordinated debt	8	11	10	10	9	12	10	10
Other financial liabilities	11	0	0	1	17	0	0	6

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 end of the reporting period 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 (2008: no material impact).

## 24 Financial Risk Management (Continued)

**Geographical risk concentrations.** The geographical concentration of the Group's financial assets and liabilities at 31 December 2009 is set out below:

<i>In millions of Ukrainian hryvnias</i>	<b>Ukraine</b>	<b>OECD</b>	<b>Non OECD</b>	<b>Total</b>
<b>Assets</b>				
Cash and cash equivalents and mandatory reserves	4,773	4,732	1,950	11,455
Trading securities and other financial assets at fair value through profit or loss	-	-	18	18
Due from other banks	452	3,617	-	4,069
Loans and advances to customers	51,730	1,758	13,109	66,597
Financial derivatives	2,005	-	-	2,005
Investment securities available-for-sale	7	-	1	8
Investment securities held to maturity	23	-	-	23
Other financial assets	1,553	63	167	1,783
<b>Total financial assets</b>	<b>60,543</b>	<b>10,170</b>	<b>15,245</b>	<b>85,958</b>
<b>Non-financial assets</b>	<b>3,167</b>	<b>14</b>	<b>550</b>	<b>3,731</b>
<b>Total assets</b>	<b>63,710</b>	<b>10,184</b>	<b>15,795</b>	<b>89,689</b>
<b>Liabilities</b>				
Due to the NBU and other central banks	8,310	-	-	8,310
Due to other banks and other financing institutions	169	1,962	188	2,319
Customer accounts	41,859	3,952	11,322	57,133
Debt securities in issue	46	5,884	182	6,112
Other financial liabilities	122	29	267	418
Subordinated debt	14	1,284	140	1,438
<b>Total financial liabilities</b>	<b>50,520</b>	<b>13,111</b>	<b>12,099</b>	<b>75,730</b>
<b>Non-financial liabilities</b>	<b>1,815</b>	<b>-</b>	<b>94</b>	<b>1,909</b>
<b>Total liabilities</b>	<b>52,335</b>	<b>13,111</b>	<b>12,193</b>	<b>77,639</b>
<b>Net balance sheet position</b>	<b>11,375</b>	<b>(2,927)</b>	<b>3,602</b>	<b>12,050</b>
<b>Credit related commitments</b>	<b>979</b>	<b>14</b>	<b>573</b>	<b>1,566</b>

## 24 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 2008 is set out below:

<i>In millions of Ukrainian hryvnias</i>	<b>Ukraine</b>	<b>OECD</b>	<b>Non OECD</b>	<b>Total</b>
<b>Assets</b>				
Cash and cash equivalents and mandatory reserves	2,984	5,234	1,174	9,392
Trading securities and other financial assets at fair value through profit or loss	87	-	14	101
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
<b>Total financial assets</b>	<b>58,035</b>	<b>9,781</b>	<b>15,270</b>	<b>83,086</b>
<b>Non-financial assets</b>	<b>3,697</b>	<b>128</b>	<b>609</b>	<b>4,434</b>
<b>Total assets</b>	<b>61,732</b>	<b>9,909</b>	<b>15,879</b>	<b>87,520</b>
<b>Liabilities</b>				
Due to the NBU and other central banks	3,410	-	144	3,554
Due to other banks and other financing institutions	37	6,060	496	6,593
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
<b>Total financial liabilities</b>	<b>47,601</b>	<b>16,967</b>	<b>11,702</b>	<b>76,270</b>
<b>Non-financial liabilities</b>	<b>1,354</b>	<b>-</b>	<b>66</b>	<b>1,420</b>
<b>Total liabilities</b>	<b>48,955</b>	<b>16,967</b>	<b>11,768</b>	<b>77,690</b>
<b>Net balance sheet position</b>	<b>12,777</b>	<b>(7,058)</b>	<b>4,111</b>	<b>9,830</b>
<b>Credit related commitments</b>	<b>2,352</b>	<b>1,468</b>	<b>1,393</b>	<b>5,213</b>

**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 8 and 9.



## **24 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 2009 (2008: 57%) with the minimum required limit of 20% (2008: 20%).
- Current liquidity ratio (N5), which is calculated as the ratio of liquid assets to liabilities maturing within 31 calendar days. The ratio was 80% at 31 December 2009 (2008: 56%) with the minimum required limit of 40% (2008: 40%).
- 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 45% at 31 December 2009 (2008: 37%) with the minimum required limit of 20% (2008: 20%).

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.

## 24 Financial Risk Management (Continued)

The table below shows liabilities at 31 December 2009 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 statement of financial position because amounts disclosed in consolidated statement of financial position are 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 end of the reporting period.

The maturity analysis of financial liabilities at 31 December 2009 is as follows:

<i>In millions of Ukrainian hryvnias</i>	<b>Demand and less than 1 month</b>	<b>From 1 to 3 months</b>	<b>From 3 to 12 months</b>	<b>From 12 months to 5 years</b>	<b>Over 5 years</b>	<b>Total</b>
<b>Liabilities</b>						
Due to the NBU and other central banks	122	232	2,030	8,950	1,495	12,829
Due to other banks and other financing institutions	433	244	13	1,147	684	2,521
Customer accounts	30,148	6,269	20,604	1,636	118	58,775
Debt securities in issue	18	740	619	5,333	236	6,946
Subordinated debt	1	66	54	294	1,441	1,856
Other financial liabilities	318	3	37	60	-	418
Gross settled SWAPs and forwards	7,468	-	-	-	-	7,468
<b>Total contractual future payments for financial obligations</b>	<b>38,508</b>	<b>7,554</b>	<b>23,357</b>	<b>17,420</b>	<b>3,974</b>	<b>90,813</b>
<b>Credit related commitments, gross (Note 26)</b>	<b>191</b>	<b>213</b>	<b>439</b>	<b>766</b>	<b>-</b>	<b>1,609</b>

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

<i>In millions of Ukrainian hryvnias</i>	<b>Demand and less than 1 month</b>	<b>From 1 to 3 months</b>	<b>From 3 to 12 months</b>	<b>From 12 months to 5 years</b>	<b>Over 5 years</b>	<b>Total</b>
<b>Liabilities</b>						
Due to the NBU and other central banks	187	83	3,703	-	-	3,973
Due to other banks and other financing institutions	814	2,361	5,197	1,731	486	10,589
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	2,692	-	-	-	-	2,692
<b>Total contractual future payments for financial obligations</b>	<b>27,676</b>	<b>9,919</b>	<b>30,809</b>	<b>17,891</b>	<b>2,575</b>	<b>88,870</b>
<b>Credit related commitments, gross (Note 26)</b>	<b>1,789</b>	<b>672</b>	<b>1,760</b>	<b>1,021</b>	<b>-</b>	<b>5,242</b>

## 24 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 27. 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 2009:

<i>In millions of Ukrainian hryvnias</i>	<b>Demand and less than 1 month</b>	<b>From 1 to 3 months</b>	<b>From 3 to 12 months</b>	<b>Over 1 year</b>	<b>No stated maturity</b>	<b>Total</b>
<b>Assets</b>						
Cash and cash equivalents and mandatory reserves	11,455	-	-	-	-	11,455
Other financial assets at fair value through profit or loss	10	-	-	-	8	18
Due from other banks	1,869	806	929	465	-	4,069
Loans and advances to customers	11,118	4,729	22,669	28,081	-	66,597
Financial derivatives	574	336	1,005	90	-	2,005
Investment securities available-for-sale	-	-	-	-	8	8
Investment securities held to maturity	3	-	20	-	-	23
Other financial assets	376	306	1,063	38	-	1,783
<b>Total financial assets</b>	<b>25,405</b>	<b>6,177</b>	<b>25,686</b>	<b>28,674</b>	<b>16</b>	<b>85,958</b>
<b>Liabilities</b>						
Due to the NBU and other central banks	-	-	998	7,312	-	8,310
Due to other banks and other financing institutions	371	234	42	1,672	-	2,319
Customer accounts	23,632	8,887	23,351	1,263	-	57,133
Debt securities in issue	11	689	435	4,977	-	6,112
Other financial liabilities	284	7	25	66	36	418
Subordinated debt	1	101	-	1,336	-	1,438
<b>Total financial liabilities</b>	<b>24,299</b>	<b>9,918</b>	<b>24,851</b>	<b>16,626</b>	<b>36</b>	<b>75,730</b>
<b>Net liquidity gap at 31 December 2009</b>	<b>1,106</b>	<b>(3,741)</b>	<b>835</b>	<b>12,048</b>	<b>(20)</b>	<b>10,228</b>
<b>Cumulative liquidity gap at 31 December 2009</b>	<b>1,106</b>	<b>(2,635)</b>	<b>(1,800)</b>	<b>10,248</b>	<b>10,228</b>	
<b>Credit related commitments</b>	<b>180</b>	<b>198</b>	<b>422</b>	<b>766</b>	<b>-</b>	<b>1,566</b>

## 24 Financial Risk Management (Continued)

The analysis by expected maturities may be summarised as follows at 31 December 2008:

<i>In millions of Ukrainian hryvnias</i>	<b>Demand and less than 1 month</b>	<b>From 1 to 3 months</b>	<b>From 3 to 12 months</b>	<b>Over 1 year</b>	<b>No stated maturity</b>	<b>Total</b>
<b>Assets</b>						
Cash and cash equivalents and mandatory reserves	9,392	-	-	-	-	9,392
Trading securities and other financial assets at fair value through profit or loss	-	-	12	8	81	101
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
<b>Total financial assets</b>	<b>12,419</b>	<b>8,433</b>	<b>30,688</b>	<b>31,443</b>	<b>103</b>	<b>83,086</b>
<b>Liabilities</b>						
Due to the NBU and other central banks	144	-	3,410	-	-	3,554
Due to other banks and other financing institutions	596	2,253	1,548	2,196	-	6,593
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
<b>Total financial liabilities</b>	<b>20,435</b>	<b>10,989</b>	<b>28,691</b>	<b>16,150</b>	<b>5</b>	<b>76,270</b>
<b>Net liquidity gap at 31 December 2008</b>	<b>(8,016)</b>	<b>(2,556)</b>	<b>1,997</b>	<b>15,293</b>	<b>98</b>	<b>6,816</b>
<b>Cumulative liquidity gap at 31 December 2008</b>	<b>(8,016)</b>	<b>(10,572)</b>	<b>(8,575)</b>	<b>6,718</b>	<b>6,816</b>	<b>-</b>
<b>Credit related commitments</b>	<b>1,787</b>	<b>667</b>	<b>1,747</b>	<b>1,012</b>	<b>-</b>	<b>5,213</b>

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.

## **25 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 statement of financial position. The amount of capital that the Group managed as of 31 December 2009 was UAH 12,050 million (2008: UAH 9,830 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:

<i>In millions of Ukrainian hryvnias</i>	<b>2009</b>	<b>2008</b>
Net assets unadjusted for accruals, provisions and taxes	8,390	7,474
Plus subordinated debt	1,210	780
Less investments into subsidiaries	(796)	(556)
Other	(2)	(9)
<b>Total regulatory capital</b>	<b>8,802</b>	<b>7,689</b>

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:

<i>In millions of Ukrainian hryvnias</i>	<b>2009</b>	<b>2008</b>
<b>Tier 1 capital</b>		
Share capital	8,064	5,939
Disclosed reserves	2,542	2,191
Cumulative translation reserve	354	330
Less: goodwill and intangible assets	(57)	(53)
<b>Total tier 1 capital</b>	<b>10,903</b>	<b>8,407</b>
<b>Tier 2 capital</b>		
Asset revaluation reserves	628	908
Additional capital	462	462
Subordinated debt	1,198	1,204
<b>Total tier 2 capital</b>	<b>2,288</b>	<b>2,574</b>
<b>Total capital</b>	<b>13,191</b>	<b>10,981</b>

The Group and the Bank have complied with all externally imposed capital requirements as of 31 December 2009 and 31 December 2008.

## **26 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.

**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 is 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.

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 of 31 December 2009 no provision for potential tax liabilities had been recorded (2008: no provision).

## **26 Contingencies and Commitments (Continued)**

**Capital expenditure commitments.** At 31 December 2009 the Group has contractual capital expenditure commitments in respect of construction of premises, computers and furniture and equipment totalling UAH 17 million (2008: UAH 8 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 of 31 December 2009 and 2008 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 of 31 December 2009 and 31 December 2008.

**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:

<i>In millions of Ukrainian hryvnias</i>	<b>Note</b>	<b>2009</b>	<b>2008</b>
Guarantees issued		914	2,965
Import letters of credit		616	2,794
Irrevocable commitments to extend credit		123	140
Less: Cash covered letters of credit		(44)	(657)
Less: Provision for credit related commitments	15	(43)	(29)
<b>Total credit related commitments</b>		<b>1,566</b>	<b>5,213</b>

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 43 million at 31 December 2009 (2008: UAH 29 million).

As of 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.

As of 31 December 2009 irrevocable commitments under letters of credit and guarantees issued by the Group of gross amount of UAH 1,530 million (2008: UAH 5,759 million) are secured by UAH 338 million (2008: UAH 490 million). Refer to note 13.

## 26 Contingencies and Commitments (Continued)

Credit related commitments are denominated in currencies as follows:

<i>In millions of Ukrainian hryvnias</i>	2009	2008
Ukrainian Hryvnias	376	780
US Dollars	454	2,690
Euro	606	1,498
Other currencies	130	245
<b>Total</b>	<b>1,566</b>	<b>5,213</b>

**Fiduciary assets.** These assets are not included in the Group's consolidated statement of financial position 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:

<i>In millions of Ukrainian hryvnias</i>	2009 Nominal value	2008 Nominal value
Shares of Ukrainian companies	3,836	4,906
Domestic corporate bonds	1,879	1,711
Investment certificates	48	91

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

<i>In millions of Ukrainian hryvnias</i>	Note	2009		2008	
		Asset pledged	Related liability/commitment	Asset pledged	Related liability/commitment
Gross receivables under swap, forward and spot agreements	27	7,450	7,468	2,654	2,692
Due from other banks	8	-	-	1,448	1,448
Loans and advances to customers	9, 14	1,294	1,064	1,767	1,390
Premises, loans and advances to customers	9, 10, 12	2,282	8,310	-	-
<b>Total</b>		<b>11,026</b>	<b>16,842</b>	<b>5,869</b>	<b>5,530</b>

Gross receivables under swap, forward and spot agreements presented above are recognised on a net basis in the statement of financial position, giving rise to a derivative financial asset or liability within other assets or other liabilities, respectively.

As disclosed in Note 8, balances due from other banks totalling UAH 158 million (2008: UAH 84 million) have been pledged as cover for letters of credit and international payments.

In addition, mandatory reserve balances in the amount of UAH 1,141 million (2008: UAH 31 million) represent mandatory reserve deposits which are not available to finance the Group's day to day operations as disclosed in Note 7.



## 27 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 end of the reporting period, 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 end of the reporting period. The contracts are short term in nature.

	2009		2008	
	Contracts with positive fair value	Contracts with negative fair value	Contracts with positive fair value	Contracts with negative fair value
<i>In millions of Ukrainian hryvnias</i>				
<b>Foreign exchange swaps, forwards and spots: fair values, at the end of the reporting period date, of</b>				
- USD receivable on settlement (+)	998	490	1,310	1,111
- USD payable on settlement (-)	(641)	(5,150)	(18)	(249)
- Euros receivable on settlement (+)	244	5,126	18	130
- Euros payable on settlement (-)	(883)	(54)	(1,309)	(1,116)
- UAH receivable on settlement (+)	-	-	-	85
- UAH payable on settlement (-)	(173)	(461)	-	-
- Other currencies receivable on settlement (+)	535	57	-	-
- Other currencies payable on settlement (-)	(79)	(27)	-	-
<b>Net fair value of foreign exchange forwards and swaps</b>	<b>1</b>	<b>(19)</b>	<b>1</b>	<b>(39)</b>

At 31 December 2009, the Group had outstanding obligations from unsettled spot transactions with foreign currencies of UAH 6,020 million (2008: UAH 3,789 million). The net fair value of unsettled spot transactions is insignificant.

During the year ended 31 December 2009 the Group incurred loss of UAH 36 million (2008: UAH 284 million) resulting from foreign exchange forwards and swaps.

In addition, as disclosed in Note 4, as of 31 December 2009 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 2,005 million (2008: UAH 2,551 million). During the year ended 31 December 2009 the Group recognised a gain of UAH 2,679 million (2008: UAH 249 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 3 years. The strike price was from UAH 7.7 to UAH 8.5 per USD 1 (2008: UAH 4.84 to UAH 7.88 per USD 1).

## 28 Fair Value of Financial Instruments

### (a) Fair values of financial instruments carried at amortised cost.

Fair values of financial instruments carried at amortised cost are as follows:

<i>In millions of Ukrainian hryvnias</i>	<b>2009</b>		<b>2008</b>	
	<b>Fair value</b>	<b>Carrying value</b>	<b>Fair value</b>	<b>Carrying value</b>
<b>FINANCIAL ASSETS</b>				
<b><i>Cash and cash equivalents and mandatory reserves</i></b>				
Cash on hand	3,494	3,494	3,206	3,206
Cash balances with Central Banks	2,865	2,865	694	694
Correspondent accounts and overnight placements with other banks	5,096	5,096	5,492	5,492
<b><i>Trading securities and other financial assets at fair value through profit or loss</i></b>				
Government bonds	10	10	21	21
Corporate shares	8	8	80	80
<b><i>Due from other banks</i></b>				
Term placements with other banks	3,767	3,767	2,578	2,578
Guarantee deposits with other banks	302	302	84	84
<b><i>Loans and advances to customers</i></b>				
Corporate loans	46,907	47,653	40,191	41,145
Loans to individuals - card	6,579	6,579	7,958	7,957
Loans to individuals - mortgage	4,595	4,983	6,471	6,553
Loans to individuals - auto	3,054	3,072	4,283	4,392
Loans to individuals - consumer	356	364	728	742
Loans to individuals - other	1,195	1,213	1,407	1,407
Loans to small and medium enterprises (SME)	2,501	2,646	5,520	5,517
Reverse sale and repurchase agreements - corporate	87	87	361	361
<b><i>Financial derivatives</i></b>	<b>2,005</b>	<b>2,005</b>	<b>2,551</b>	<b>2,551</b>
<b><i>Investment securities available-for-sale</i></b>				
Unquoted shares	8	8	4	4
<b><i>Investment securities held to maturity</i></b>				
Government bonds	24	23	-	-
<b><i>Other financial assets</i></b>				
Receivables arising from financial derivative	1,440	1,440	-	-
Receivables from operations with customers	108	108	90	90
Plastic cards receivables	114	114	81	81
Accrued income receivable	26	26	54	54
Other	95	95	77	77
<b>TOTAL FINANCIAL ASSETS</b>	<b>84,636</b>	<b>85,958</b>	<b>81,931</b>	<b>83,086</b>

**28 Fair Value of Financial Instruments (Continued)**

<i>In millions of Ukrainian hryvnias</i>	<b>2009</b>		<b>2008</b>	
	<b>Fair value</b>	<b>Carrying value</b>	<b>Fair value</b>	<b>Carrying value</b>
<b>FINANCIAL LIABILITIES</b>				
<b><i>Due to the NBU and other central banks</i></b>				
Due to the NBU and other central banks	8,310	8,310	3,554	3,554
<b><i>Due to other banks and other financing institutions</i></b>				
Term placements of other banks	2,115	2,115	5,716	5,716
Correspondent accounts and overnight placements of other banks	181	181	449	449
Long-term loans under the credit lines from other financing institutions	22	22	423	423
Pledge deposits of other banks	1	1	5	5
<b><i>Customer accounts</i></b>				
Term deposits of individuals	32,035	32,035	30,620	30,620
Current/demand accounts of individuals	7,121	7,121	6,191	6,191
Term deposits of other legal entities	9,869	9,869	11,647	11,647
Current/settlement accounts of other legal entities	8,108	8,108	8,512	8,512
<b><i>Debt securities in issue</i></b>				
Eurobonds	2,856	3,757	2,111	4,180
Private placements of bonds	1,299	1,290	1,705	1,795
Mortgage bonds	745	745	893	893
Auto bonds	319	319	497	497
Promissory notes	1	1	5	5
<b><i>Other financial liabilities</i></b>				
Liability for finance lease	110	110	171	171
Accounts payable	102	102	65	65
Funds in the course of settlement	62	62	59	59
Provision for credit related commitment	43	43	29	29
Financial derivatives	18	18	39	39
Other	83	83	87	87
<b><i>Subordinated debt</i></b>				
Subordinated debt	1,001	1,438	910	1,333
<b>TOTAL FINANCIAL LIABILITIES</b>	<b>74,401</b>	<b>75,730</b>	<b>73,688</b>	<b>76,270</b>

## 28 Fair Value of Financial Instruments (Continued)

### (b) Analysis by fair value hierarchy of financial instruments carried at fair value.

For financial instruments carried at fair value, the level in the fair value hierarchy into which the fair values are categorised are as follows:

	2009			2008		
	Quoted price in an active market (Level 1)	Valuation technique with inputs observable in markets (Level 2)	Valuation technique with significant non-observable inputs (Level 3)	Quoted price in an active market (Level 1)	Valuation technique with inputs observable in markets (Level 2)	Valuation technique with significant non-observable inputs (Level 3)
In millions of Ukrainian hryvnias						
<b>FINANCIAL ASSETS</b>						
<i>Trading securities and other financial assets at fair value through profit or loss</i>						
Government bonds	10	-	-	21	-	74
Corporate shares	-	-	8	-	6	-
<i>Financial derivatives</i>	-	-	2,005	-	-	2,551
<i>Other financial assets</i>	-	-	1	-	-	1
<b>TOTAL FINANCIAL ASSETS CARRIED AT FAIR VALUE</b>	<b>10</b>	<b>-</b>	<b>2,014</b>	<b>21</b>	<b>6</b>	<b>2,626</b>
<i>Debt securities in issue</i>						
Eurobonds	2,856	-	-	2,111	-	-
Private placements of bonds	-	1,299	-	-	1,705	-
Mortgage bonds	745	-	-	893	-	-
Auto bonds	319	-	-	497	-	-
Promissory notes	-	1	-	-	5	-
<i>Other financial liabilities</i>	-	-	72	-	-	68
<b>TOTAL FINANCIAL LIABILITIES CARRIED AT FAIR VALUE</b>	<b>3,920</b>	<b>1,300</b>	<b>72</b>	<b>3,501</b>	<b>1,710</b>	<b>68</b>

## 28 Fair Value of Financial Instruments (Continued)

### **(c) Reconciliation of movements in instruments belonging to the level 3 of the fair value hierarchy.**

A reconciliation of movements in Level 3 of the fair value hierarchy of the financial derivatives for the year ended 31 December 2009 and 31 December 2008 is as follows:

<i>In million of Ukrainian hryvnias</i>	<b>Financial derivatives</b>
<b>Fair value at 1 January 2008</b>	-
Recognition of financial derivative on loan origination	2,368
Gains less losses recognised in profit or loss for the year (Note 27)	249
Cash received	(66)
<b>Fair value at 31 December 2008</b>	<b>2,551</b>
Gains less losses recognised in profit or loss for the year (Note 27)	2,679
Cash received	(2,730)
Amortisation of gain to interest income	(495)
<b>Fair value at 31 December 2009</b>	<b>2,005</b>
<b>Cumulative revaluation gains less losses recognised in profit or loss for the current and prior years for assets held at 31 December 2009</b>	<b>2,928</b>

Financial derivatives are classified into level 3 instruments because these instruments require management to make assumptions about credit risk of the counterparty which are not supportable by observable market data.

The sensitivity to valuation assumptions is disclosed in the Note 4.

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 gain estimated using valuation techniques that was recognised in profit or loss amounts to UAH 2,643 million (2008: loss of UAH 35 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:

	<b>2009</b>	<b>2008</b>
<b>Loans and advances to customers</b>		
Corporate loans	12% to 27% p.a.	12 % to 48 % p.a.
Loans to individuals - mortgage	15% to 30% p.a.	12 % to 24 % p.a.
Loans to individuals - auto	11% to 21% p.a.	12 % to 24 % p.a.
Loans to individuals - consumer	12% to 54% p.a.	9 % to 68 % p.a.
Loans to individuals - card	12% to 60% p.a.	9 % to 57 % p.a.
Loans to individuals - other	14% to 36% p.a.	9 % to 68 % p.a.
Loans to small and medium enterprises (SME)	18% to 32% p.a.	10 % to 53 % p.a.
Reverse sale and repurchase agreements - corporate	12% to 24% p.a.	8 % to 14 % p.a.

## 29 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 2009:

	Loans and receiv- ables	Availa- ble-for- sale assets	Assets desig- nated at FVTPL	Held to maturity	Total
<i>In millions of Ukrainian hryvnias</i>					
<b>ASSETS</b>					
<b>Cash and cash equivalents and mandatory reserves</b>	11,455	-	-	-	11,455
<b>Trading securities and other financial assets at fair value through profit or loss</b>	-	-	18	-	18
<b>Due from other banks</b>					
Term placements with other banks	3,767	-	-	-	3,767
Guarantee deposits with other banks	302	-	-	-	302
<b>Loans and advances to customers</b>					
Corporate loans	47,653	-	-	-	47,653
Loans to individuals - card	6,579	-	-	-	6,579
Loans to individuals - mortgage	4,983	-	-	-	4,983
Loans to individuals - auto	3,072	-	-	-	3,072
Loans to individuals - consumer	364	-	-	-	364
Loans to individuals - other	1,213	-	-	-	1,213
Loans to small and medium enterprises (SME)	2,646	-	-	-	2,646
Reverse sale and repurchase agreements - corporate	87	-	-	-	87
<b>Financial derivatives</b>	-	-	2,005	-	2,005
<b>Investment securities available-for-sale</b>	-	8	-	-	8
<b>Investment securities held-to-maturity</b>	-	-	-	23	23
<b>Other financial assets</b>	342	-	1,441	-	1,783
<b>TOTAL FINANCIAL ASSETS</b>	<b>82,463</b>	<b>8</b>	<b>3,464</b>	<b>23</b>	<b>85,958</b>
<b>NON-FINANCIAL ASSETS</b>					<b>3,731</b>
<b>TOTAL ASSETS</b>					<b>89,689</b>

As of 31 December 2009 and 31 December 2008 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.

## 29 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 2008:

	Loans and receiv- ables	Availa- ble-for- sale assets	Trading assets	Assets desig- nated at FVTPL	Total
<i>In millions of Ukrainian hryvnias</i>					
<b>ASSETS</b>					
<b>Cash and cash equivalents and mandatory reserves</b>	9,392	-	-	-	9,392
<b>Trading securities and other financial assets at fair value through profit or loss</b>	-	-	87	14	101
<b>Due from other banks</b>					
Term placements with other banks	2,578	-	-	-	2,578
Guarantee deposits with other banks	84	-	-	-	84
<b>Loans and advances to customers</b>					
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
<b>Financial derivatives</b>	-	-	-	2,551	2,551
<b>Investment securities available-for-sale</b>	-	4	-	-	4
<b>Other financial assets</b>	301	-	-	1	302
<b>TOTAL FINANCIAL ASSETS</b>	<b>80,429</b>	<b>4</b>	<b>87</b>	<b>2,566</b>	<b>83,086</b>
<b>NON-FINANCIAL ASSETS</b>					<b>4,434</b>
<b>TOTAL ASSETS</b>					<b>87,520</b>

### 30 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 2009 and 31 December 2008, the outstanding balances with related parties were as follows:

	2009			2008		
	Share- holders	Manage- ment	Companies under control of major shareholders	Share- holders	Manage- ment	Companies under control of major shareholders
<i>In millions of Ukrainian hryvnias</i>						
Gross amount of loans and advances to customers (contractual interest rate: 2009: UAH - 14%, USD - 14%, EUR - 13%; 2008: UAH - 13%, USD - 13%, EUR - 7%)	-	21	6,147	-	19	5,699
Impairment provisions for loans and advances to customers at 31 December	-	-	(2,288)	-	-	(1,305)
Loans and advances to customers written off as uncollectable	-	-	-	-	-	(78)
Financial derivatives	-	-	225	-	-	-
Other financial assets	-	-	2	-	-	247
Other assets	-	-	414	-	-	432
Customer accounts (contractual interest rate: 2009: UAH - 8%, USD - 1%, EUR - 13%; 2008: UAH - 1%, USD - 8%, EUR - 15%)	455	102	2,129	1,130	-	2,715
Other financial liabilities	-	-	10	-	-	-
Provision for losses on credit related commitments	-	-	-	-	-	-
Subordinated debt (contractual interest rate: 2009: UAH - 6%, RUR - 1%; 2008: UAH - 3%, RUR - 7%)	-	-	125	-	-	-



### 30 Related Party Transactions (Continued)

The income and expense items with related parties for 2009 and 2008 were as follows:

<i>In millions of Ukrainian hryvnias</i>	2009			2008		
	Share-holders	Management	Companies under control of major shareholders	Share-holders	Management	Companies under control of major shareholders
Interest income	-	9	1,287	-	2	747
Interest expense	(67)	(5)	(144)	-	-	(33)
Provision for loan impairment	-	-	(1,029)	-	-	(45)
Fee and commission income	-	-	65	-	-	81
Losses less gains from financial derivatives	-	-	(104)	-	-	(429)
Other operating income	-	-	6	-	-	5
Administrative and other operating expenses, excluding management remuneration	-	(2)	(452)	-	-	(135)

At 31 December 2009 and 31 December 2008, other rights and obligations with related parties were as follows:

<i>In millions of Ukrainian hryvnias</i>	2009			2008		
	Share-holders	Management	Companies under control of major shareholders	Share-holders	Management	Companies under control of major shareholders
Guarantees issued	-	-	7	-	-	530
Irrevocable commitments to extend credit	-	-	-	-	-	-
Import letters of credit	-	-	70	-	-	186
Less: Provision for credit related commitments	-	-	(33)	-	-	-
Total credit related commitments	-	-	44	-	-	716

Aggregate amounts lent to and repaid by related parties during 2009 and 2008 were:

<i>In millions of Ukrainian hryvnias</i>	2009			2008		
	Share-holders	Management	Companies under control of major shareholders	Share-holders	Management	Companies under control of major shareholders
Amounts lent to related parties during the period	-	18	8,020	-	10	11,395
Amounts repaid by related parties during the period	-	34	8,700	-	20	10,286

In October 2009 the Group partially disposed an interest in the Latvian subsidiary to a party under common control in amount of UAH 60 million.

### **30 Related Party Transactions (Continued)**

In 2009, the remuneration of the members of the Board of Directors comprised salaries, discretionary bonuses, pension contributions and other short-term benefits totalling UAH 16 million (2008: UAH 6 million), including contributions into the State pension fund of UAH 1 million (2008: UAH 1 million) and social security contributions of UAH 0.1 million (2008: UAH 0.1 million). This amount consists of expenses included in PrivatBank Group consolidated statement of comprehensive income and expenses incurred by the Group's related party on behalf of the Group, which are not reimbursable to the related party and therefore have not been reflected in the PrivatBank Group consolidated statement of comprehensive income.

In 2008 the majority shareholders of the Bank offered an option to the 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 members of the Bank's management sold part or all of their shares to the majority shareholders.

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

### **31 Events After the End of the Reporting Period**

**Repayments of significant borrowings.** In March 2010 Bank repaid UAH 500 million related to series K of private placements and UAH 500 million related to series L of private placements.

**Increase in share capital.** On 20 March 2010 the shareholders took a decision to increase the Bank's share capital by UAH 1,049 million up to nominal value of UAH 8,860 million. The share capital was increased by capitalising dividends attributable to the shareholders of the Bank for the year ended 31 December 2009.

**Other events.** In January 2010 the NBU increased interest rate under refinancing loan to 17.3% and in March 2010 decreased the interest rate from 17.3% to NBU discount rate (since 12 August 2009: 10.25%) + 2% in respect of the whole amount of loan outstanding of UAH 8,310 million.

In March 2010, Ukraine's long-term foreign currency rating was increased by Standard & Poor's from CCC+ to B-/C, national currency rating was increased from B-/C to B/B and national-scale sovereign rating was increased from uaBBB to uaA. Fitch Ratings has revised Ukraine's sovereign debt outlook from negative to stable.