Alfa-Bank Group

Consolidated Financial Statements

31 December 2008

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PRICEWATERHOUSECOOPERS

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders and Management Board of Alfa-Bank:

1 We have audited the accompanying consolidated financial statements of Alfa-Bank Group (the "Group"), which comprise the consolidated balance sheet as at 31 December 2008 and the consolidated income statement, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

LLC AF Pricewaterhousecoopers (Audit)

Kyiv, Ukraine
30 April 2009

In thousands of USD (as presentation currency, Note 3)	Note	31 December 2008	31 December 2007
ASSETS			
Cash and cash equivalents	7	328,250	202,753
Due from other banks	8	103,742	25,592
Loans and advances to customers	9	3,133,392	2,260,715
Investment securities	10	65,383	49,348
Current income tax prepayment		154	-
Deferred income tax assets	25	7,416	-
Intangible assets	11	1,493	1,582
Premises, leasehold improvements and equipment	11	69,459	53,253
Other financial assets	12	52,348	2,292
Other assets	12	3,006	2,779
TOTAL ASSETS		**3,764,643**	**2,598,314**
LIABILITIES			
Due to other banks	13	494,162	508,296
Due to the NBU	14	50,751	-
Customer accounts	15	1,429,338	842,751
Debt securities in issue	16	50,614	196,241
Loan participation notes	17	1,168,107	552,648
Current income tax liability		-	1,002
Deferred income tax liability	25	11,832	42
Other financial liabilities	18	28,041	4,924
Other liabilities	18	10,594	10,546
Subordinated debt	19	74,390	69,223
Prepaid non-registered share capital	34	-	100,000
TOTAL LIABILITIES		**3,317,829**	**2,285,673**
EQUITY			
Share capital	20	622,599	272,599
Additional paid-in capital		3,798	3,798
Retained earnings		50,895	15,040
Other reserves	21	(230,478)	21,204
TOTAL EQUITY		**446,814**	**312,641**
TOTAL LIABILITIES AND EQUITY		**3,764,643**	**2,598,314**

Approved for issue and signed on behalf of the Management Board on 30 April 2008.

O. Lukanov
President

S. Polovko
Acting Chairman of the Board

O. Malynska
Chief Financial Officer

In thousands of USD (as presentation currency, Note 3)	**Note**	**2008**	**2007**
Interest income	22	636,975	241,182
Interest expense	22	(299,779)	(125,533)
Net interest income	**22**	**337,196**	**115,649**
Provision for impairment of loans and advances to customers	9	(277,103)	(33,491)
Net interest income after provision for loan impairment		**60,093**	**82,158**
Fee and commission income	23	35,127	19,084
Fee and commission expense	23	(9,886)	(1,469)
Gain less losses from financial derivatives		84,751	2,571
Foreign exchange (losses less gains)/gains less losses		(719)	11,256
Foreign exchange translation gains less losses/(losses less gains)		45,740	(2,294)
Losses less gains on initial recognition of loans and receivables at rates below market measured at amortized cost	9	(4,081)	(3,422)
Losses on loans purchased from related party	33	(5,909)	-
Gains less losses on initial recognition of financial liabilities measured at amortised cost at rates below market	13	940	183
Losses less gains from disposal of investment securities available-for-sale		(81)	(110)
Provision for impairment of investment securities	10	(1,019)	(5)
Gain on early redemption of issued debt securities	16	3,440	-
Other operating income		2,953	852
Administrative and other operating expenses	24	(169,156)	(92,176)
Profit before tax		**42,193**	**16,628**
Income tax expense	25	(6,633)	(4,782)
Profit for the year		**35,560**	**11,846**

In thousands of USD (as presentation currency, Note 3)	**Note**	**Share capital**	**Additional paid-in capital**	**Other reserves (Note 21)**	**Retained earnings**	**Total equity**
Balance at 31 December 2006		**72,599**	**3,466**	**19,359**	**2,835**	**98,259**
Available-for-sale investments:						
- Fair value losses less gains	10	-	-	(105)	-	(105)
- Disposals	10			110		110
- Income tax recorded in equity	25	-	-	(1)	-	(1)
Land and buildings:						
- Revaluation of premises and land	11	-	-	2,934	-	2,934
- Depreciation transfer		-	-	(359)	359	-
- Income tax recorded in equity		-	-	(734)	-	(734)
Net income recognised directly in equity		**-**	**-**	**1,845**	**359**	**2,204**
Profit for the year		-	-	-	11,846	11,846
Total recognised income for the year		**-**	**-**	**1,845**	**12,205**	**14,050**
Share issue	20	200,000	-	-	-	200,000
Additional paid-in capital - difference between proceeds and amount at initial recognition of liabilities at rates below market	19	-	443	-	-	443
Income tax recorded in equity	25	-	(111)	-	-	(111)
Balance at 31 December 2007		**272,599**	**3,798**	**21,204**	**15,040**	**312,641**
Available-for-sale investments:						
- Fair value losses less gains	10	-	-	(613)	-	(613)
- Disposals	10	-	-	81	-	81
- Income tax recorded in equity	25	-	-	133	-	133
Land and buildings:						
- Revaluation of premises and land	11	-	-	24,006	-	24,006
- Depreciation transfer		-	-	(393)	393	-
- Income tax recorded in equity		-	-	(5,903)	(98)	(6,001)
Effect of translation to presentation currency		-	-	(274,513)	-	(274,513)
Net income recognised directly in equity		**-**	**-**	**(257,202)**	**295**	**(256,907)**
Profit for the year		-	-	-	35,560	35,560
Total recognised income for the year		**-**	**-**	**(257,202)**	**35,855**	**(221,347)**
Share issue	20	350,000	-	-	-	350,000
Share option plan						
- Value of services provided	21	-	-	5,520	-	5,520
Balance at 31 December 2008		**622,599**	**3,798**	**(230,478)**	**50,895**	**446,814**

In thousands of USD (as presentation currency, Note 3)	Note	31 December 2008	31 December 2007
Cash flows from operating activities			
Interest received		582,505	261,933
Interest paid		(306,297)	(113,843)
Fees and commissions received		34,420	18,936
Fees and commissions paid		(7,865)	(1,759)
Income received from trading in foreign currencies		(1,214)	6,781
Income received from financial derivatives		50,899	-
Other operating income received		2,865	740
Staff costs paid		(87,537)	(46,517)
Administrative and other operating expenses paid		(69,211)	(29,366)
Income tax paid		(8,637)	(8,466)
Cash flows from operating activities before changes in operating assets and liabilities		**189,928**	**88,439**
Changes in operating assets and liabilities			
Net (increase)/decrease in due from other banks		(86,971)	51,875
Net increase in loans and advances to customers		(1,477,847)	(1,358,201)
Net decrease/(increase) in other financial assets and other assets		4,521	(4,184)
Net increase in due to the NBU		80,784	-
Net increase in due to other banks		7,570	84,083
Net increase in customer accounts		933,971	311,417
Net increase in other financial liabilities and other liabilities		944	3,114
Net cash used in operating activities		**(347,100)**	**(823,457)**
Cash flows from investing activities			
Acquisition of investment securities available-for-sale		(345,428)	(256,820)
Proceeds from disposal of investment securities available-for-sale		286,803	216,573
Acquisition of premises, leasehold improvements and equipment		(22,950)	(18,972)
Proceeds from disposal of premises, leasehold improvements and equipment		2	7
Acquisition of intangible assets		(1,063)	(827)
Other investing cash inflows		-	396
Net cash used in investing activities		**(82,636)**	**(59,643)**
Cash flows from financing activities			
Purchase and redemption of debt securities in issue		(190,227)	-
Proceeds from issue and sale of debt securities in issue		85,284	181,407
Proceeds from loan participation notes	17	584,986	388,875
Proceeds from subordinated debt	19	-	54,980
Proceeds from issued non-registered ordinary shares	33	-	100,000
Issue of ordinary shares	20	250,000	200,000
Net cash from financing activities		**730,043**	**925,262**
Effect of exchange rate changes on cash and cash equivalents		(174,810)	2,182
Net increase in cash and cash equivalents		**125,497**	**44,344**
Cash and cash equivalents at the beginning of the year	7	202,753	158,409
Cash and cash equivalents at the end of the year	**7**	**328,250**	**202,753**

1 Introduction

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as at 31 December 2008 and for the year then ended for CJSC Alfa-Bank (the "Bank") and its special purpose entities (together referred to as the "Group").

The Bank was incorporated and domiciled in Ukraine. The Bank is a joint stock company of a closed type limited by shares and was set up in accordance with Ukrainian regulations.

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

Under Ukrainian law, changing the corporate form of a bank involves the process of termination of a bank with an old corporate form and registration of a bank with a new corporate form and includes the following:

- approval of the transformation plan by the National Bank of Ukraine;
- notification to the creditors, which may request early fulfillment of obligations;
- approval of the new Charter by the National Bank of Ukraine;
- registration of the bank with a new corporate form with the State Registrar;
- changing banking license; and
- registration of the issue of shares with the State Commission for Securities Market and Stock Exchange.

In addition, on 29 April 2009 a new Joint Stock Company Law enters into force, which provides that joint stock companies may be either public or private. The new Joint Stock Company Law establishes additional requirements for the banks to bring their statutory documents in compliance with this requirement by 29 April 2011.

Principal activity. The Bank was registered by the National Bank of Ukraine ("NBU") in January 2001, and is the legal successor of commercial bank "Kyiv investment bank", which was registered in July 1997, and, in its turn, was the legal successor of commercial bank "Vito", registered by the NBU in March 1993.

The Bank's principal business activity is commercial and retail banking operations within Ukraine. These services include taking deposits and granting loans and advances, investing in securities, transferring payments in Ukraine and abroad and exchanging currencies.

The Bank participates in the state deposit insurance scheme (registration #45 dated 2 September 1999), which operates according to the Law №2740-III "On Individuals Deposits Guarantee Fund" dated 20 September 2001 (as amended). Individuals Deposits Guarantee Fund guarantees repayment of individual deposits up to UAH 150 thousand (2007: UAH 50 thousand) per individual in case bank liquidation procedure is started.

At 31 December 2008 the Bank had 211 branches and mini-branches, and 705 retail outlets (31 December 2007: 220 branches and mini-branches and more than 1,000 retail outlets), which provided loans and other services to individuals throughout Ukraine.

The Bank's immediate parent is ABH Ukraine Limited (31 December 2007: ABH Ukraine Limited). The Bank is ultimately controlled by three Russian citizens Mr. Fridman, Mr. Khan and Mr. Kuzmichev. None of them individually controls or owns a 50% or more interest. They have entered into an agreement to vote as if they were a single shareholder and to vote consistently in relation to all matters. The next most senior parent that produces financial statements available for public use is ABH Holding Corp.

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

4/6 Desyatinna str.

Kiev, 01025, Ukraine

Presentation currency. These financial statements are presented in thousands of United States Dollars ("USD thousand").

These financial statements have been authorised for issue by the Chairman of the Board on 30 April 2009.

2 Operating Environment of the Group

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

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

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

In the light of the current economic turmoil, the IMF has agreed to issue an SDR 11 billion stabilizing loan to Ukraine if the country complies with certain requirements. The first tranche of SDR 3 billion has been received in November 2008 and the next tranche of SDR 1.25 billion was due in February 2009, however at the time of issue of these financial statements it has not been received. The major condition for qualifying for the loan is the development and ratification of a government anti-crisis package aiming to stabilize the economy, including determining the shortfall in capital and liquidity existing in the banking sector and taking the necessary steps to address the shortfalls. The loan is expected to have a positive effect on the Ukrainian economy, however the receipt of the next tranches is subject to the IMF's conclusion on progress made by Ukraine in addressing structural issues.

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

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

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

2 Operating Environment of the Group (Continued)

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

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

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

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

As a result of the recent volatility in financial markets there are no longer regularly occurring transactions on an arm's length basis for investment securities quoted on the Ukrainian market and, as such, in the opinion of management investment securities quoted on the Ukrainian market are no longer being quoted on an active market in accordance with IAS 39.AG71. Hence fair value as at 31 December 2008 of investment securities quoted on Ukrainian market has been determined using a valuation technique. The objective of the valuation technique is to establish what the transaction price would have been on the reporting date in an arm's length exchange motivated by normal business considerations. Determining fair value requires consideration of current market conditions, including the relative liquidity of the market and current credit spreads. The valuation techniques used by management to determine fair value in the absence of an active market include calculation of present value investment of securities based on market interest rates for respective currencies and terms and number months to maturity.

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

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

Management believes it is taking all the necessary measures to support the sustainability of the Group's business in the current circumstances.

3 Summary of Significant Accounting Policies

***Basis of Preparation*.** These financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS").

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of land and buildings, available-for-sale financial assets and derivatives. The principal accounting policies applied in the preparation of these 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 de-consolidated from the date that control ceases.

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

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

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any minority interest. The difference, if any, between the fair values of the net assets at the dates of exchange and at the date of acquisition is recorded directly in equity.

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

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

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.

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

3 Summary of Significant Accounting Policies (Continued)

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

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

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

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

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

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

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

Cash and cash equivalents. Cash and cash equivalents are items which are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value. Cash and cash equivalents include mandatory reserve deposits with the NBU and all interbank placements with original maturities of less than three months. Funds restricted for a period of more than three months on origination are excluded from cash and cash equivalents. Cash and cash equivalents are carried at amortised cost.

3 Summary of Significant Accounting Policies (Continued)

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

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

When financial assets are renegotiated or otherwise modified, except for the cases such as financial difficulties of the borrower or issuer, and if the renegotiated terms and conditions differ substantially from the previous terms, the new asset is initially recognised at its fair value.

Impairment of financial assets carried at amortised cost. Impairment losses are recognised in profit or loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If the Group determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. The primary factors that the Group considers whether a financial asset is impaired is its overdue status and realisability of related collateral, if any. The following other principal criteria are also used to determine that there is objective evidence that an impairment loss has occurred:

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

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics. 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.

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

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account through profit or loss.

Uncollectible assets are written off against the related impairment loss provision after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined.

3 Summary of Significant Accounting Policies (Continued)

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

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

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

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

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

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

Premises, leasehold improvements and equipment. Premises, leasehold improvements and equipment are stated at cost, or revalued amounts, as described below, less accumulated depreciation and provision for impairment, where required.

3 Summary of Significant Accounting Policies (Continued)

Land and buildings of the Group are subject to revaluation on a regular basis. The frequency of revaluation depends upon the movements in the fair values of the land and buildings being revalued. The revaluation reserve for land and buildings included in equity is transferred directly to retained earnings when the surplus is realised, i.e. either on the retirement or disposal of the asset, or as the asset is used by the 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.

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

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

If impaired, premises, leasehold improvements and equipment are written down to the higher of their value in use and fair value less costs to sell. The decrease in carrying amount is charged to profit or loss to the extent it exceeds the previous revaluation surplus in equity. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

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

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

Buildings	50 years
Furniture and equipment	5-10 years
Computers and motor vehicles	2-10 years
Leasehold improvements	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 residual value of an asset is nil if the Group expects to use the asset until the end of its physical life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Intangible assets. All of the Group's intangible assets have definite useful life and primarily include capitalised computer software.

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Development costs that are directly associated with identifiable and unique software controlled by the Group are recorded as intangible assets if the 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 to 10 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.

3 Summary of Significant Accounting Policies (Continued)

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

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

Debt securities in issue. Debt securities in issue include 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 balance sheet and the difference between the carrying amount of the liability and the consideration paid is included in gains arising from earlier retirement of debt.

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

Subordinated debt. Subordinated debt represents borrowing agreements that, in case of the Group's default, would be secondary to primary debt obligations. Subordinated debt is recognized initially at fair value, net of transaction costs incurred. For subordinated debt that represents in substance a transaction with shareholders acting in their capacity as shareholders, the difference between the nominal amount of the subordinated debt issued and its fair value upon initial recognition is recorded as additional paid-in capital. Subsequently, subordinated debt is stated at amortized cost and any difference between cost and the redemption value is recognized in the income statement using the effective interest rate method.

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

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

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

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 performed its obligations under the contract and are carried at amortised cost.

Prepaid non-registered share capital. Prepaid but non-registered share capital is accounted for as a liability until shareholders approve the results of the new share issue and make the respective changes to the charter.

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

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

Deferred income tax is provided using the balance sheet liability method for 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.

3 Summary of Significant Accounting Policies (Continued)

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

Deferred tax assets and liabilities are netted only within the individual companies of the Group.

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

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

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 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 retained no part of the loan package for itself or retained a part at the same effective interest rate as was applicable to 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, 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. Custody fees are recorded rateably over the period the services are provided.

Fiduciary assets. Assets held by the Group in its own name, but on the account of third parties, are not reported on the balance sheet. Commissions received from fiduciary activities are shown in fee and commission income.

Foreign currency translation. The functional currency of each of the Groups consolidated entities is the currency of the primary economic environment in which the entity operates. The functional currency of the Bank and its SPEs is the national currency of Ukraine, Ukrainian hryvnias ("UAH").

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

The Group uses the US dollar ("USD") as a currency in which it presents its financial statements. USD has been selected as the presentation currency for convenience and the benefit of the shareholders of the Group. USD is the currency in which Management of the Group monitors business risks and exposures, and measures the performance of its business and reports to the shareholders.

3 Summary of Significant Accounting Policies (Continued)

The results and financial position of the Group are translated from the functional currency (UAH) into the presentation currency (USD) as follows:

(i) assets and liabilities items other than the net profit or loss for the period that is included in the balance of retained earnings are translated at the closing rate at the date of that balance sheet; equity items are translated at historical foreign exchange rates which prevailed when the equity items were initially recognized;

(ii) income and expenses in the income statement are translated at average exchange rates on a quarterly basis, 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. Quarterly exchange rates used in preparation of the financial statements were as follows:

1 quarter 2008	UAH/USD 5.0500
2 quarter 2008	UAH/USD 4.9628
3 quarter 2008	UAH/USD 4.8467
4 quarter 2008	UAH/USD 6.2191

All resulting exchange differences are recognised as a separate component of equity within other reserves (Note 21).

The principal UAH exchange rates used in the preparation of the financial statements are as follows:

Currency	31 December 2008, UAH	31 December 2007, UAH
Euro	10.85546	7.41946
US dollar	7.70000	5.05000

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

Accounting for the effects of hyperinflation. Ukraine has previously experienced relatively high levels of inflation and was considered to be hyperinflationary as defined by IAS 29 “Financial Reporting in Hyperinflationary Economies” (“IAS 29”). IAS 29 requires that the financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date. It states that reporting operating results and financial position in the local currency without restatement is not useful because money loses purchasing power at such a rate that the comparison of amounts from transactions and other events that have occurred at different times, even within the same accounting period, is misleading.

The characteristics of the economic environment of Ukraine indicated that hyperinflation had ceased effective from 1 January 2001. Restatement procedures of IAS 29 are therefore only applied to assets acquired or revalued and liabilities incurred or assumed prior to that date. For these balances, the amounts expressed in the measuring unit current at as 31 December 2000 are the basis for the carrying amounts in these financial statements. The restatement was calculated using the conversion factors derived from Consumer Price Index (“CPI”), published by the Ukrainian Statistics Agency.

Staff costs and related contributions. Wages, salaries, contributions to Ukraine 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.

Share-based compensation. The Group’s parent operates a share-based compensation plan for Group employees. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense with corresponding increase in equity. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable.

3 Summary of Significant Accounting Policies (Continued)

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

Change in presentation. As described in Notes 5 and 10 below, the Group reclassified its debt investment securities from “available for sale” to “loans and receivables” measurement category, however all securities continue to be presented as a separate balance sheet item. Accordingly, the name of the balance sheet item “Investment securities available for sale” was changed to “Investment securities”, as it now contains financial assets from different measurement categories.

4 Critical Accounting Estimates, and Judgments in Applying Accounting Policies

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments 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 judgments, apart from those involving estimations, in the process of applying the accounting policies. Judgments that have the most significant effect on the amounts recognized in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Impairment losses on loans and advances. The Group regularly reviews its loan portfolios to assess impairment. In determining whether an impairment loss should be recorded in the consolidated income statement, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. A 10% increase or decrease in actual loss experience compared to the loss estimates used would result in an increase or decrease in loan impairment losses of USD 29,913 thousand (2007: USD 3,523 thousand), respectively, for loans collectively assessed for impairment. 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 USD 12,912 thousand (2007: USD 829 thousand), respectively.

Fair value of land and buildings. As stated in Note 3, land and building of the Group are subject to revaluation on a regular basis. Such revaluations are based on the results of work of independent valuers. The basis for their work is the sales comparison approach. When performing revaluation certain judgements and estimates are applied by the valuers in order to determine which comparable premises should be used in the sales comparison approach or what should be the useful lives of the assets revalued. Changes in assumptions about these factors could affect reported fair values. The valuation was based on comparative sales of property with the price per square meter varying from USD 6,683 thousand to USD 8,978 thousand depending upon the location of property. To the extent that the price per square meter differs by +/-5 percent, the fair value of property would be USD 895 thousand (31 December 2007: USD 1,399 thousand) higher or USD 895 thousand (31 December 2007: USD 1,399 thousand) lower.

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

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

Recognition of financial instruments. Management applies judgement to determine whether financial assets and financial liabilities should be recognised in the transaction where the counterparty for both asset and liability is the same. No asset or liability is recognised in the balance sheet where the arrangement is in the same currency, for the same amount and with the same maturity, unless there is a substantial business purpose for such an arrangement.

Gains and losses on initial recognition of financial instruments. Management applies judgment to determine whether gains and losses should be recorded at initial recognition of financial assets and liabilities in a transaction where the counterparty is not a related party of the Group. The basis for judgment is the level of prevailing market interest rates for transactions with similar terms, effective interest rate analysis, credit risk of the counterparty and specific terms of particular transaction.

The effect of change in estimated maturity. Carrying amounts of the financial asset or financial liability should be adjusted to reflect changes in the estimates of related cash payments or receipts. During the reporting period ended 31 December 2008 the Group recognized a gain of USD 2,886 thousand, representing the effect of the change in the estimate of expected maturity of subordinated debts received in the year ended 31 December 2007 to December 2009.

Classification of gains and losses on transactions with entities under common control. Management applies judgment to determine whether gains and losses arising from transactions with entities under common control should be recognised in the statement of changes in equity as transactions with shareholders in respect of capital contributions and distributions or in the income statement as results from operations. The basis for judgment is economic substance of the transaction. As disclosed in Note 33, in February and December 2008 the Group purchased corporate loans from an entity under common control for USD 21,302 thousand. The fair value of these loans as at the date of purchase was USD 15,760 thousand. As a result of this transaction, the Group recorded a loss on the purchase of USD 5,909 thousand. The difference amounting to USD 367 thousand is an effect of translation to presentation currency. The Group introduced the borrower to the related party. Following the loan's impairment, the Group decided to bear the loss and purchased the loan. This loss was recognised in the income statement to reflect its operational nature.

Special Purpose Entities. Judgment 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 judgments 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 such cases, the SPE is consolidated.

SPEs consolidated by the Group as at 31 December 2008 are established to serve as an integral part of the Bank's business and their operations are managed by the Bank.

Were the Group not to consolidate the assets, liabilities and the results of these consolidated SPEs, the net effect on the balance sheet would be an increase in net assets by USD 8,882 thousand (31 December 2007: Nil) and increase in net profit for the year by USD 10,639 thousand (31 December 2007: Nil).

5 Adoption of New or Revised Standards and Interpretations

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

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

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

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

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

Reclassification of Financial Assets—Amendments to IAS 39, Financial Instruments: Recognition and Measurement, and IFRS 7, Financial Instruments: Disclosures **and a subsequent amendment,** ***Reclassification of Financial Assets: Effective Date and Transition.*** The amendments allow entities the options (a) to reclassify a financial asset out of the held for trading category if, in rare circumstances, the asset is no longer held for the purpose of selling or repurchasing it in the near term; and (b) to reclassify an available-for-sale asset or an asset held for trading to the loans and receivables category, if the entity has the intention and ability to hold the financial asset for the foreseeable future or until maturity (subject to the asset otherwise meeting the definition of loans and receivables). The amendments may be applied with retrospective effect from 1 July 2008 for any reclassifications made before 1 November 2008; the reclassifications allowed by the amendments may not be applied before 1 July 2008 and retrospective reclassifications are only allowed if made prior to 1 November 2008. Any reclassification of a financial asset made on or after 1 November 2008 takes effect only from the date when the reclassification is made. Refer to Note 10 for the details of the reclassifications made.

6 New Accounting Pronouncements

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

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

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

IAS 23, Borrowing Costs (revised March 2007; effective for annual periods beginning on or after 1 January 2009). The main change to IAS 23 is the removal of the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. An entity is, therefore, required to capitalise such borrowing costs as part of the cost of the asset. The revised standard applies prospectively to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009. The Group is currently assessing the impact of the amendment to the standard on its financial statements.

6 New Accounting Pronouncements (Continued)

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

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

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

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

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

IFRIC 15, Agreements for the Construction of Real Estate (effective for annual periods beginning on or after 1 January 2009). The interpretation applies to the accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors, and provides guidance for determining whether agreements for the construction of real estate are within the scope of IAS 11 or IAS 18. It also provides criteria for determining when entities should recognise revenue on such transactions. IFRIC 15 is not relevant to the Group's operations because it does not have any agreements for the construction of real estate.

6 New Accounting Pronouncements (Continued)

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

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

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

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

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

6 New Accounting Pronouncements (Continued)

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

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

Improving Disclosures about Financial Instruments - Amendment to IFRS 7, Financial Instruments: Disclosures (issued in March 2009; effective for annual periods beginning on or after 1 January 2009). The amendment requires enhanced disclosures about fair value measurements and liquidity risk. The entity will be 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 Group is currently assessing the impact of the amendment on disclosures in its financial statements.

Embedded Derivatives - Amendments to IFRIC 9 and IAS 39 (effective for annual periods ending on or after 30 June 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.

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

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

7 Cash and Cash Equivalents

In thousands of USD (as presentation currency, Note 3)	31 December 2008	31 December 2007
Cash on hand	29,471	16,584
Cash balances with the NBU (other than mandatory reserve deposits)	21,574	94
Mandatory cash balances with the NBU	70,137	59,606
Correspondent accounts and overnight placements with other banks		
- Ukraine	2,566	1,054
- Other countries	194,489	33,451
Placements with other banks with original maturities of less than three months	10,013	91,964
Total cash and cash equivalents	**328,250**	**202,753**

As at 31 December 2008 mandatory reserve balance with the National Bank of Ukraine is calculated on the basis of a simple average over a monthly period (2007: monthly period) and should be maintained at the level of 0 to 5 per cent (2007: 0.5 to 5 per cent) of certain obligations of the Bank. As such, mandatory reserve balance with the National Bank of Ukraine can vary from day-to-day. For December 2008 the Bank's mandatory reserve balance was USD 70,137 thousand (December 2007: USD 59,606 thousand). The Bank may satisfy its mandatory reserve requirement with its balance on correspondent account with the National Bank of Ukraine. Mandatory reserve balances are non-interest bearing at 31 December 2008 and 31 December 2007.

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

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

In thousands of USD (as presentation currency, Note 3)	Cash on hand	Cash balances with the NBU	Correspondent accounts and overnight placements with other banks	Placements with other banks with original maturities less than three months	Total
Current and not impaired					
Cash on hand	29,471	-	-	-	29,471
Cash balances with the NBU (other than mandatory reserve deposits)	-	21,574	-	-	21,574
Mandatory cash balances with the NBU	-	70,137	-	-	70,137
Largest 20 Ukrainian banks	-	-	218		218
Other Ukrainian banks	-	-	2,348	10,013	12,361
Large OECD banks	-	-	186,189	-	186,189
Non-OECD banks	-	-	8,300	-	8,300
Total cash and cash equivalents	**29,471**	**91,711**	**197,055**	**10,013**	**328,250**

7 Cash and Cash Equivalents (Continued)

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

In thousands of USD (as presentation currency, Note 3)	**Cash on hand**	**Cash balances with the NBU**	**Correspondent accounts and overnight placements with other banks**	**Placements with other banks with original maturities less than three months**	**Total**
Current and not impaired					
Cash on hand	16,584	-	-	-	16,584
Cash balances with the NBU (other than mandatory reserve deposits)	-	94	-	-	94
Mandatory cash balances with the NBU	-	59,606	-	-	59,606
Largest 20 Ukrainian banks	-	-	219	46,211	46,430
Other Ukrainian banks	-	-	835	11,984	12,819
Large OECD banks	-	-	22,205	33,769	55,974
Non-OECD banks	-	-	11,246	-	11,246
Total cash and cash equivalents	**16,584**	**59,700**	**34,505**	**91,964**	**202,753**

The Group presents the above analysis by size and location of counterparties as larger entities and entities in OECD countries are generally considered to have higher credit quality.

Geographical, currency and interest rate analyses of cash and cash equivalents are disclosed in Note 27. The information on related party balances is disclosed in Note 33.

8 Due from Other Banks

In thousands of USD (as presentation currency, Note 3)	**31 December 2008**	**31 December 2007**
Short-term placements with other banks with original maturities of more than three months	96,359	3,453
Long-term placements with other banks	6,832	-
Reverse sale and repurchase agreements with other banks with original maturities of more than three months	551	22,139
Total due from other banks	**103,742**	**25,592**

At 31 December 2008 amounts due from other banks of USD 551 thousand (31 December 2007: 22,139) are effectively collateralized by securities purchased under reverse sale and repurchase agreements. These securities had a fair value of USD 519 thousand at 31 December 2008 (31 December 2007: 21,943) and the Group has a right to sell or re-pledge the securities.

8 Due from Other Banks (Continued)

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

In thousands of USD (as presentation currency, Note 3)	**Reverse sale and repurchase agreements**	**Short-term placements with other banks**	**Long-term placements with other banks**	**Total**
Current and not impaired				
- Largest 20 Ukrainian banks	551	-	-	551
- Other Ukrainian banks	-	-	390	390
- Non-OECD Banks	-	-	-	-
- Large OECD Banks	-	534	6,442	6,976
- Other OECD Banks	-	95,825	-	95,825
Total due from other banks	**551**	**96,359**	**6,832**	**103,742**

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

In thousands of USD (as presentation currency, Note 3)	**Reverse sale and repurchase agreements**	**Short-term placements with other banks**	**Total**
Current and not impaired			
- Largest 20 Ukrainian banks	21,416	-	21,416
- Other Ukrainian banks	723	2,071	2,794
- Non-OECD Banks	-	1,024	1,024
- Large OECD Banks	-	358	358
Total due from other banks	**22,139**	**3,453**	**25,592**

The Group presents the above analysis by size and location of counterparties as larger entities and entities in OECD countries are generally considered to have higher credit quality.

The primary factor that the Group considers whether a deposit is impaired is its overdue status. As at 31 December 2008 the Group had neither overdue nor impaired term placements with other banks (31 December 2007: nil).

At 31 December 2008 the Group had balances with 5 counterparty banks (31 December 2007: 8 banks) with total aggregate amount of USD 103,742 (31 December 2007: USD 25,592 thousand) or 100% of the total amount due from other banks (31 December 2007: 100%).

Geographical, currency, maturity and interest rate analysis of due from other banks is disclosed in Note 27.

9 Loans and Advances to Customers

In thousands of USD (as presentation currency, Note 3)	**31 December 2008**	**31 December 2007**
Corporate loans	2,294,620	1,611,908
Loans to individuals - consumer loans	296,406	240,782
Loans to individuals – mortgage and car loans	456,504	274,439
Loans to individuals - other loans	80,837	74,099
Small and medium enterprises	238,155	86,668
Reverse sale and repurchase agreements	8,473	8,045
Less: Provision for impairment	(241,603)	(35,226)
Total loans and advances to customers	**3,133,392**	**2,260,715**

At 31 December 2008 loans and advances to customers of USD 8,473 thousand (31 December 2007: USD 8,045 thousand) are effectively secured by securities purchased under reverse sale and repurchase agreements. The securities had a fair value of USD 6,205 thousand at 31 December 2008 (31 December 2007: USD 8,275 thousand), and the Group has a right to sell or repledge the securities.

Movements in the provision for impairment of loans and advances to customers during the year ended 31 December 2008 are as follows:

In thousands of USD (as presentation currency, Note 3)	**Corporate loans**	**Loans to individuals - consumer loans**	**Loans to individuals - mortgage and car loans**	**Loans to individuals - other loans**	**Small and medium enterprises**	**Reverse repur-chase agree-ments**	**Total**
Provision for impairment at 1 January 2008	**17,181**	**16,608**	**920**	-	**517**	-	**35,226**
Provision for impairment during the year	123,476	108,980	29,053	3,871	9,612	2,111	277,103
Amounts written off during the year as uncollectible	-	(46,635)	(3,450)	-	-	-	(50,085)
Translation difference	(9,519)	(7,271)	(1,668)	(1,177)	(600)	(406)	(20,641)
Provision for impairment at 31 December 2008	**131,138**	**71,682**	**24,855**	**2,694**	**9,529**	**1,705**	**241,603**

Movements in the provision for impairment of loans and advances to customers during the year ended 31 December 2007 are as follows:

In thousands of USD (as presentation currency, Note 3)	**Corporate loans**	**Loans to individuals - consumer loans**	**Loans to individuals - mortgage and car loans**	**Loans to individuals - other loans**	**Small and medium enterprises**	**Reverse repur-chase agree-ments**	**Total**
Provision for impairment at 1 January 2007	**8,161**	**10,107**	**-**	-	-	-	**18,268**
Provision for impairment during the year	8,391	23,165	1,418	-	517	-	33,491
Amounts written off during the year as uncollectible	-	(16,664)	(498)	-	-	-	(17,162)
Interest income	629	-	-	-	-	-	629
Provision for impairment at 31 December 2007	**17,181**	**16,608**	**920**	**-**	**517**	**-**	**35,226**

9 Loans and Advances to Customers (Continued)

At 31 December 2008 the Group had 10 borrowers (31 December 2007: 10 borrowers) with aggregated loan balances above USD 56,531 thousand (31 December 2007: USD 31,700 thousand). The total aggregate amount of these loans was USD 901,249 thousand (31 December 2007: USD 508,430 thousand) or 27% of the gross loan portfolio (31 December 2007: 22%).

As at 31 December 2008 the Group had 11 borrowers (31 December 2007: 11 borrowers) with aggregate loan balances in excess of 10% of net assets or USD 44,681 thousand (31 December 2007: USD 31,264 thousand).The total aggregate amount of these loans was USD 956,043 thousand (31 December 2007: USD 539,859 thousand) or 28% of the gross loan portfolio (31 December 2007: 24%). Refer to Note 27.

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

In thousands of USD	**31 December 2008**		**31 December 2007**	
(as presentation currency, Note 3)	**Amount**	**%**	**Amount**	**%**
Retail and SME loans	1,071,901	32%	675,988	29%
Investment and lease companies	523,741	15%	144,868	6%
Wholesale trade	226,138	7%	142,347	6%
Construction and real estate	220,228	7%	100,106	4%
Food industry	178,179	5%	131,576	6%
Agriculture	168,526	5%	33,726	2%
Retail trade	168,166	5%	221,594	10%
Railways	152,162	4%	145,931	6%
Motor-car industry	110,523	3%	36,749	2%
Chemical and petrochemical industry	91,154	3%	61,779	3%
Natural gas industry	76,847	2%	113,093	5%
Military organizations and aircraft constructions	73,459	2%	47,234	2%
Power industry	70,438	2%	73,664	3%
Mechanical engineering and metal working industry	53,628	2%	40,005	2%
Transport	23,935	1%	47,958	2%
Coal-mining industry	18,681	1%	53,465	2%
Metallurgy	1,545	0%	42,390	2%
Other	145,744	4%	183,468	8%
Total loans and advances to customers (before impairment)	**3,374,995**	**100%**	**2,295,941**	**100%**

9 Loans and Advances to Customers (Continued)

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

In thousands of USD (as presentation currency, Note 3)	**Corporate loans**	**Loans to individuals - consumer loans**	**Loans to individuals - mortgage and car loans**	**Loans to individuals - other loans**	**Small and medium enterprises**	**Reverse repur-chase agree-ments**	**Total**
Unsecured loans	418,928	289,707	915	44,009	65,824	-	819,383
Loans collateralised by:							
- cash deposits with the Bank	478,485	-	-	9,257	214	-	487,956
- other real estate	418,745	-	28,475	19,522	10,171	-	476,913
- residential real estate	13,303	-	114,873	8,049	5,538	-	141,763
- securities	67,306	-	-		-	8,473	75,779
- guarantee	70,105	5,286			137,585		212,976
- other assets	827,748	1,413	312,241		18,823	-	1,160,225
Total loans and advances to customers	**2,294,620**	**296,406**	**456,504**	**80,837**	**238,155**	**8,473**	**3,374,995**

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

In thousands of USD (as presentation currency, Note 3)	**Corporate loans**	**Loans to individuals - consumer loans**	**Loans to individuals - mortgage and car loans**	**Loans to individuals - other loans**	**Small and medium enterprises**	**Reverse repur-chase agree-ments**	**Total**
Unsecured loans	205,192	240,782	-	11,560	68,652	-	526,186
Loans collateralised by:							
- cash deposits with the Bank	74,038	-	-	7,572	58	-	81,668
- other real estate	493,259	-	-	48,188	7,877	-	549,324
- residential real estate	15,634	-	93,597	-	-	-	109,231
- tradable securities	26,517	-	-	6,500	-	8,045	41,062
- other assets	797,268	-	180,842	279	10,081	-	988,470
Total loans and advances to customers	**1,611,908**	**240,782**	**274,439**	**74,099**	**86,668**	**8,045**	**2,295,941**

9 Loans and Advances to Customers (Continued)

Analysis by credit quality of loans and advances to customers outstanding at 31 December 2008:

In thousands of USD (as presentation currency, Note 3)	**Corporate loans**	**Loans to individuals - consumer loans**	**Loans to individuals - mortgage and car loans**	**Loans to individuals - other loans**	**Small and medium enterprises**	**Reverse repurchase agreements**	**Total**
Current and not impaired							
- Large borrowers with credit history with the Bank over 2 years	633,932	-	-	-	-	8,473	642,405
- Large new borrowers with credit history with the Bank less than 2 years	1,248,867	-	-	-	-	-	1,248,867
- Rating 1	-	188,261	362,552	39,354	188,909	-	779,076
- Rating 2	-	1,746	1,795	340	2,373	-	6,254
- Rating 3	-	192	687	32	139	-	1,050
- Rating 4	-	147	2,312	-	86	-	2,545
- Rating 5	-	860	975	6,815	65	-	8,715
- Unrated	-	-	-	16,073	-	-	16,073
- Loans renegotiated in 2008	-	1,470	-	-	-	-	1,470
Total current and not impaired	**1,882,799**	**192,676**	**368,321**	**62,614**	**191,572**	**8,473**	**2,706,455**
Past due but not impaired							
-less than 30 days overdue	56,402	39,940	40,183	160	31,360	-	168,045
-30 to 90 days overdue	24,649	37,855	28,361	11,939	13,484	-	116,288
-90 to 180 days overdue	12,759	-	-	-	508	-	13,267
-180 to 360 days overdue	3,081	-	-	-	224	-	3,305
Total past due but not impaired	**96,891**	**77,795**	**68,544**	**12,099**	**45,576**	-	**300,905**
Loans individually determined to be impaired (gross)							
- current	210,079	-	-	-	-	-	210,079
-less than 30 days overdue	24,664	-	-	-	-	-	24,664
-30 to 90 days overdue	33,267	-	-	-	-	-	33,267
-90 to 180 days overdue	25,661	25,935	13,478	6,124	885	-	72,083
-180 to 360 days overdue	20,985	-	6,161	-	63	-	27,209
-more than 360 days overdue	274	-	-	-	59	-	333
Total individually impaired loans (gross)	**314,930**	**25,935**	**19,639**	**6,124**	**1,007**	**-**	**367,635**
Less: Provision for impairment	(131,138)	(71,682)	(24,855)	(2,694)	(9,529)	(1,705)	(241,603)
Total loans and advances to customers	**2,163,482**	**224,724**	**431,649**	**78,143**	**228,626**	**6,768**	**3,133,392**

9 Loans and Advances to Customers (Continued)

Analysis by credit quality of loans and advances to customers as at 31 December 2007:

In thousands of USD (as presentation currency, Note 3)	**Corporate loans**	**Loans to individuals - consumer loans**	**Loans to individuals - mortgage and car loans**	**Loans to individuals - other loans**	**Small and medium enterprises**	**Reverse repur-chase agree-ments**	**Total**
Current and not impaired							
- Large borrowers with credit history with the Bank over 2 years	325,578	-	-	-	-	-	325,578
- Large new borrowers with credit history with the Bank less than 2 years	1,197,347	-	-	-	-	8,045	1,205,392
- Rating 1	-	215,438	264,845	74,099	75,765	-	630,147
- Rating 2	-	1,038	878	-	10,716	-	12,632
- Rating 3	-	80	49	-	53	-	182
- Rating 4	-	39	27	-	1	-	67
- Rating 5	-	4	-	-	-	-	4
Total current and not impaired	**1,522,925**	**216,599**	**265,799**	**74,099**	**86,535**	**8,045**	**2,174,002**
Past due but not impaired							
- less than 30 days overdue	70,792	11,686	6,296	-	133	-	88,907
- 30 to 90 days overdue	518	6,723	1,850	-	-	-	9,091
Total past due but not impaired	**71,310**	**18,409**	**8,146**	**-**	**133**	**-**	**97,998**
Loans individually determined to be impaired (gross)							
- less than 30 days overdue	12,000	-	-	-	-	-	12,000
- 90 to 180 days overdue	1,741	5,774	494	-	-	-	8,009
- 180 to 360 days overdue	3,932	-	-	-	-	-	3,932
Total individually impaired loans (gross)	**17,673**	**5,774**	**494**	**-**	**-**	**-**	**23,941**
Less: Provision for impairment	(17,181)	(16,608)	(920)	-	(517)	-	(35,226)
Total loans and advances to customers	**1,594,727**	**224,174**	**273,519**	**74,099**	**86,151**	**8,045**	**2,260,715**

Borrowers with longer credit history with the Bank are generally considered to have higher credit quality.

Classification of loans and advances to individuals and SME by credit quality is based on the NBU regulations. Credit risk categories presented in the table above are as follows:

- **Rating 1**. This category includes exposures with insignificant credit risk which is characterised by strong financial position of the borrower and good loan servicing;
- **Rating 2**. This category includes exposures with insignificant credit risk which however may increase as a result of unfavourable conditions; these are exposures to borrowers with good financial standing and good payment history or borrowers with strong financial position and payment history with delays not exceeding 90 days;
- **Rating 3.** This category includes exposures with significant credit risk which is characterised by weak financial position of the borrower and good loan servicing or good financial position of the borrower and poor loan servicing;

9 Loans and Advances to Customers (Continued)

- **Rating 4.** This category includes exposures with low probability of full repayment and is characterised by weak financial position of the borrower and poor payment history.
- **Rating 5.** This category includes exposures with low probability of full repayment and is characterised by poor financial position of the borrower and unsatisfactory payment history.

The primary factors that the Group considers whether a loan is impaired is its overdue status and realisability of related collateral, if any. The Group's policy is to consider a loan as not individually impaired until the loss can be specifically identified with the loan. The total impairment provisions may exceed the amount of individually impaired loans due to the application of collective impairment methodology described in Note 3.

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

During the year ended 31 December 2008 losses less gains on initial recognition amounting to USD 4,081 thousand (31 December 2007: USD 3,422 thousand) of loans and advances to customers at rates below market have been recorded in the income statement. Losses less gains on initial recognition were recognised for loans and advances to customers issued at rates below market rates during marketing campaigns and represent marketing expenses.

Past due but not impaired loans, except for consumer loans, 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.

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:

In thousands of USD (as presentation currency, Note 3)	**Corporate loans**	**Loans to individuals - mortgage and car loans**	**Small and medium enter-prises**	**Total**
Fair value of collateral - loan past due but not impaired				
- cash deposits with the Bank	770	-	21	791
- residential real estate	-	23,786	772	24,558
- other real estate	30,825	-	2,968	33,793
- other assets	988	23,922	86	24,996
Fair value of collateral - individually impaired loans				
- cash deposits with the Bank	119,429	-	-	119,429
- residential real estate	-	6,613	-	6,613
- other assets	29,115	5,391	-	34,506
Total	**181,127**	**59,712**	**3,847**	**244,686**

9 Loans and Advances to Customers (Continued)

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

In thousands of USD (as presentation currency, Note 3)	Corporate loans	Loans to individuals - mortgage and car loans	Small and medium enter-prises	Total
Fair value of collateral - loan past due but not impaired				
- residential real estate	-	3,403	-	3,403
- other real estate	18,340	-	-	18,340
- other assets	16,575	5,095	49	21,719
				-
Fair value of collateral - individually impaired loans				-
- other assets	3,422	-	-	3,422
Total	**38,337**	**8,498**	**49**	**46,884**

Geographical, currency, maturity and interest rate analysis of loans and advances to customers is disclosed in Note 27. The information on related party balances is disclosed in Note 33.

At 31 December 2008 corporate loans with carrying value USD 110,635 were pledged as collateral to refinancing loans received from the NBU (Note 14).

10 Investment Securities

In thousands of USD (as presentation currency, Note 3)	31 December 2008	31 December 2007
Municipal and state bonds available-for-sale	-	11,863
Municipal and state bonds	25,939	-
Corporate bonds available-for-sale	-	37,485
Corporate bonds	40,223	-
Total debt securities	66,162	49,348
Corporate shares available for sale (unquoted)	3	10
Less: Provision for impairment	(782)	(10)
Total investment securities	**65,383**	**49,348**

Movements in the impairment provision of investment securities during 2008 and 2007 are as follows:

	2008				2007
In thousands of USD (as presentation currency, Note 3)	Municipal and state bonds	Corporate bonds	Corporate shares available for sale (unquoted)	Total	Corporate shares available for sale (unquoted)
Provision for impairment at 1 January	**-**	**-**	**10**	**10**	**5**
Provision for impairment during the year	565	464	(10)	1,019	5
Translation differences	(109)	(138)	-	(247)	-
Provision for impairment at 31 December	**456**	**326**	**-**	**782**	**10**

10 Investment Securities (Continued)

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

In thousands of USD (as presentation currency, Note 3)	**Municipal and state bonds**	**Corporate bonds**	**Total**
Current and not impaired			
- City municipalities	12,529	-	12,529
- State organisations	12,954	-	12,954
- Large Ukrainian corporates	-	16,628	16,628
- Large Ukrainian banks	-	12,893	12,893
- Medium sized Ukrainian companies	-	10,376	10,376
Total investment securities	**25,483**	**39,897**	**65,380**

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

In thousands of USD (as presentation currency, Note 3)	**Municipal and state bonds available-for-sale**	**Corporate bonds available-for-sale**	**Total**
Current and not impaired			
- City municipalities	1,797	-	1,797
- State organisations	10,066	-	10,066
- Large Ukrainian corporates	-	9,754	9,754
- Medium sized Ukrainian banks	-	2,606	2,606
- Medium sized Ukrainian companies	-	25,125	25,125
Total investment securities	**11,863**	**37,485**	**49,348**

Larger entities are generally considered to have higher credit quality. State organisations have higher credit quality than municipalities.

The Group reclassified the following financial assets from the available-for-sale category during 2008 (Note 5):

In thousands of USD (as presentation currency, Note 3)	**Amount reclassified**	**Cash flows expected to be recovered**	**Effective interest rate**
Reclassified into loans and receivables			
Ukrainian municipal and state organisations	26,033	33,588	10%
Corporate bonds	84,804	91,661	19%
Total	**110,837**	**125,249**	

The reclassification was made effective from 1 September 2008. The Group's management analyzed the fluctuations on the Ukrainian Stock Market for the reporting period. During the period July-August 2008 index PFTS (Ukrainian stock trading system) was decreasing significantly. By the end of the August 2008 the volume of transactions on the debt security's market collapsed. Management treated such conditions as a "rare event" in accordance with the provisions of the new guidance on reclassifications of financial instruments (see Note 5). The decision was also made in order to better reflect the Group's revised intention regarding its portfolio of securities.

10 Investment Securities (Continued)

At 31 December 2008, the carrying amounts and fair values of financial assets that have been reclassified from available-for-sale category and which were not yet sold or otherwise derecognised, were as follows:

In thousands of USD (as presentation currency, Note 3)	**Carrying value (amortised cost)**	**Fair value**
Loans and receivables		
Ukrainian municipal and state organisations	16,144	9,802
Corporate bonds	39,731	37,218
Total	**55,875**	**47,020**

The fair value gain or loss on these financial assets up to the date of reclassification, income or loss recognised after reclassification, and fair value gain or loss that would have been recognised if the assets had not been reclassified, were as follows:

In thousands of USD (as presentation currency, Note 3)	**The fair value gain/(loss) recognised up to the date of reclassification**		**Income recognised after reclassification***	**Loss that would have been recognised in equity if the assets had not been reclassified**
	2008	**2007**		
Ukrainian municipal and state organisations	27	(27)	686	(6,342)
Corporate bonds	(1,016)	(110)	2,191	(1,702)
Total	**(989)**	**(137)**	**2,877**	**(8,044)**

* Income or loss recognised after reclassification comprises interest income, foreign exchange gains less losses and impairment losses.

At 31 December 2008 investment securities with a fair value of USD 8,379 thousand (2007: USD 4,201 thousand) have been pledged to third parties as collateral with respect to term placements of other banks. Refer to Notes 13 and 29.

Municipal and state bonds are Ukrainian hryvnia denominated Ukrainian municipal and state securities issued by the SMI, Vinnitsa, Berdyansk and Donetsk Cities. As at 31 December 2008 municipal and state bonds had maturity date from December 2010 to September 2013, coupon rate from 9.5% to 16% per annum and yield to maturity from 10% to 17% per annum depending on the type of bonds issue.

Ukrainian corporate bonds are Ukrainian hryvnia denominated securities issued by large and medium sized companies and banks. Corporate bonds are issued at a discount or premium to face value. As at 31 December 2008 corporate bonds had maturity date from January 2009 to December 2009, coupon rate from 13% to 26% per annum. (31 December 2007: 7% to 16% per annum) and yield to maturity from 11% to 28% per annum (31 December 2007: 8% to 18% per annum) depending on the type of bonds issue.

During the year ended 31 December 2008 the Group recognised a fair value loss in the equity amounting to USD 460 thousand, net of tax (2007: USD 79 thousand). In addition a loss of USD 61 thousand, net of tax (2007: USD 83 thousand) was removed from the equity and recognised in the income statement on disposal of investment securities available-for-sale.

Geographical, currency, maturity and interest rate analysis of investment securities is disclosed in Note 27.

11 Premises, Leasehold Improvements, Equipment and Intangible Assets

In thousands of USD (as presentation currency, Note 3)	**Land and buildings**	**Leasehold improve-ments**	**Furniture and equipment**	**Computer and motor vehicles**	**Total premises, leasehold improvements and equipment**	**Intangible assets**	**Total**
Cost or valuation at 1 January 2007	29,469	2,281	3,820	4,294	39,864	1,268	41,132
Accumulated depreciation and amortisation	(107)	(553)	(1,663)	(1,321)	(3,644)	(278)	(3,922)
Carrying amount at 1 January 2007	**29,362**	**1,728**	**2,157**	**2,973**	**36,220**	**990**	**37,210**
Additions	632	4,824	7,391	6,125	18,972	827	19,799
Revaluation	2,934	-	-	-	2,934	-	2,934
Disposals	-	(4)	(2)	(1)	(7)	-	(7)
Depreciation and amortisation charge	(658)	(705)	(1,612)	(1,891)	(4,866)	(235)	(5,101)
Transfers	33	-	(33)	-	-	-	-
Carrying amount at 31 December 2007	**32,303**	**5,843**	**7,901**	**7,206**	**53,253**	**1,582**	**54,835**
Cost or valuation at 31 December 2007	32,566	6,766	11,108	10,382	60,822	2,093	62,915
Accumulated depreciation and amortisation	(263)	(923)	(3,207)	(3,176)	(7,569)	(511)	(8,080)
Carrying amount at 31 December 2007	**32,303**	**5,843**	**7,901**	**7,206**	**53,253**	**1,582**	**54,835**
Additions	516	7,679	6,658	8,349	23,202	1,090	24,292
Revaluation	24,006	-	-	-	24,006	-	24,006
Disposals	-	(76)	(84)	(59)	(219)	-	(219)
Depreciation and amortization charge	(702)	(1,546)	(2,298)	(3,087)	(7,633)	(427)	(8,060)
Transfers	9	(19)	10	-	-	-	-
Translation differences	(11,058)	(3,905)	(4,052)	(4,135)	(23,150)	(752)	(23,902)
Carrying amount at 31 December 2008	**45,074**	**7,976**	**8,135**	**8,274**	**69,459**	**1,493**	**70,952**
Cost or valuation at 31 December 2008	45,728	9,605	11,745	12,433	79,511	2,119	81,630
Accumulated depreciation and amortisation	(654)	(1,629)	(3,610)	(4,159)	(10,052)	(626)	(10,678)
Carrying amount at 31 December 2008	**45,074**	**7,976**	**8,135**	**8,274**	**69,459**	**1,493**	**70,952**

As at 31 December 2008 and 31 December 2007 premises, leasehold improvements, equipment and intangible assets were classified as non-current assets.

Buildings were independently valued as at 31 December 2007. The valuation was carried out by an independent firm of valuers, International Law Company “Solomon-Group”, who hold a recognised and relevant professional qualification and who have recent experience in valuation of assets of similar location and category. The basis used for the appraisal was market value.

Land was independently valued as at 31 December 2008. The valuation was carried out by an independent firm of valuers, Company “Investkon”, who hold a recognised and relevant professional qualification and who have recent experience in valuation of assets of similar location and category. The basis used for the appraisal was market value.

11 Premises, Leasehold Improvements, Equipment and Intangible Assets (Continued)

Included in the above carrying amount is USD 40,774 thousand (31 December 2007: USD 25,421 thousand) representing revaluation surplus relating to land and buildings of the Group. At 31 December 2008 the carrying amount of land and buildings would have been USD 4,300 thousand (31 December 2007: USD 6,485 thousand) had the assets been carried at cost less depreciation.

12 Other Financial Assets and Other Assets

In thousands of USD (as presentation currency, Note 3)	**Note**	**31 December 2008**	**31 December 2007**
Other financial assets			
Receivables		1,914	2,152
Financial derivatives	30	50,434	140
Total financial assets		**52,348**	**2,292**
Other assets			
Prepayments for intangible assets and construction services		1,273	1,303
Prepaid expenses		1,844	1,505
Other assets		30	17
Less: Provision for impairment		(141)	(46)
Total other assets		**3,006**	**2,779**

As at 31 December 2008 and 31 December 2007 prepayments for intangible assets and construction services were classified as non-current assets, prepaid expenses and other assets were classified as current assets.

Movements in the provision for impairment of other assets during 2007 and 2008 are as follows:

In thousands of USD (as presentation currency, Note 3)	**2008**	**2007**
Provision for impairment at 1 January	**46**	**116**
Provision for impairment during the year	216	38
Amounts written off during the year as uncollectible	(62)	(108)
Translation difference	(59)	-
Provision for impairment at 31 December	**141**	**46**

12 Other Financial Assets and Other Assets (Continued)

Analysis by credit quality of other financial assets is as follows:

In thousands of USD (as presentation currency, Note 3)	**31 December 2008**			**31 December 2007**		
	Financial derivatives	**Receivables**	**Total**	**Financial derivatives**	**Receivables**	**Total**
Current and not impaired						
- Largest 20 Ukrainian banks	16,209	-	16,209	137	-	137
- Other Ukrainian banks	5,559	-	5,559	3	-	3
- Corporate customers with credit history with the Bank over 2 years	24,068	-	24,068	-	-	-
- Corporate customers with credit history with the Bank less than 2 years	4,598	-	4,598	-	-	-
- Others	-	1,914	1,914	-	2,152	2,152
Total other financial assets	**50,434**	**1,914**	**52,348**	**140**	**2,152**	**2,292**

Geographical and currency analysis of other financial assets and other assets is disclosed in Note 27. The information on related party balances is disclosed in Note 33.

13 Due to Other Banks

In thousands of USD (as presentation currency, Note 3)	**31 December 2008**	**31 December 2007**
Current accounts		
Domestic	904	3,483
OECD countries	118	-
Non-OECD countries	15,750	11,298
Deposits and loans		
Domestic	119,994	21,381
OECD countries	328,807	455,546
Non-OECD countries	15,769	16,588
Direct sale and repurchase agreements – domestic	12,820	-
Total due to other banks	**494,162**	**508,296**

Deposits and current accounts of OJSC “Alfa-Bank” (Russia), a related party under common control, amount to USD 21,410 thousand, or 4% of due to other banks as at 31 December 2008 (31 December 2007: USD 14,852 thousand, or 3%).

Deposits and current accounts amounting to USD 33,573 thousand, or 7% of due to other banks, are due to Amsterdam Trade Bank (Netherlands), a related party under common control, as at 31 December 2008 (31 December 2007: USD 170,218 thousand or 33% of due to other banks).

During the year ended 31 December 2008 a gain on initial recognition of due to other banks at rates below market in amount of USD 940 thousand has been recognised in the income statement (31 December 2007: USD 183 thousand).

Geographical, currency, maturity and interest rate analysis of due to other banks is disclosed in Note 27. The information on related party balances is disclosed in Note 33.

14 Due to the NBU

In thousands of USD (as presentation currency, Note 3)	**31 December 2008**	**31 December 2007**
Refinancing loans received from the NBU	50,751	-
Total due to the NBU	**50,751**	**-**

On 15 October 2008 and 21 October 2008 the Bank received refinancing loans from the NBU amounting to UAH 165,000 thousand (USD 33,537 thousand at the receipt date) and UAH 275,000 thousand (USD 55,160 thousand at the receipt date) respectively, bearing nominal interest rate of 17.5% per annum, and due on 2 October 2009.

These refinancing loans are collateralized by corporate loans with carrying value USD 110,635 thousand as at 31 December 2008 (Note 9, Note 29).

15 Customer Accounts

In thousands of USD (as presentation currency, Note 3)	**31 December 2008**	**31 December 2007**
State and public organisations		
- Current/settlement accounts	13,699	19,925
- Term deposits	58,015	15,943
Other legal entities		
- Current/settlement accounts	121,087	373,052
- Term deposits	964,799	339,132
Individuals		
- Current/demand accounts	47,938	27,449
- Term deposits	223,800	67,250
Total customer accounts	**1,429,338**	**842,751**

Economic sector concentrations within customer accounts are as follows:

In thousands of USD	**31 December 2008**		**31 December 2007**	
(as presentation currency, Note 3)	**Amount**	**%**	**Amount**	**%**
Investment and lease companies	421,448	29%	100,265	12%
Individuals	271,738	19%	94,699	11%
Communication	214,215	15%	171,876	20%
Natural gas industry	111,721	8%	44,237	5%
Wholesale trade	81,681	6%	56,614	7%
Food industry	74,344	5%	4,785	1%
Motor-car industry	45,874	3%	-	-
Military-industrial establishment and aircraft construction	28,670	2%	53,339	6%
Retail trade	25,835	2%	2,667	-
Mechanical engineering and metal-working industry	21,571	2%	12,635	2%
Insurance	18,967	1%	29,392	3%
Power industry	16,745	1%	8,312	2%
Construction and real estate	11,791	1%	1,537	-
Transport	10,917	1%	5,225	1%
Chemical and petrochemical industry	6,781	1%	62,904	7%
Metallurgy	5,759	-	53,532	6%
Coal-mining industry	1,880	-	102,177	12%
Other	59,401	4%	38,555	5%
Total customer accounts	**1,429,338**	**100%**	**842,751**	**100%**

15 Customer Accounts (continued)

At 31 December 2008 the Group had 10 customers (31 December 2007: 10 customers) with balances above USD 26,330 (31 December 2007: USD 18,200 thousand). The aggregate balance of these customers was USD 862,380 thousand (31 December 2007: USD 560,185 thousand) or 60% (31 December 2007: 66 %) of total customer accounts.

At 31 December 2008 included in customer accounts are deposits of USD 24,315 thousand (31 December 2007: USD 4,780 thousand) held as collateral for irrevocable commitments under import letters of credit. Refer to Note 29. As at 31 December 2008 included in customer accounts are deposits of USD 487,956 thousand (31 December 2007: USD 81,668 thousand) held as collateral for loans and advances to customers, issued by the Group. Refer to Note 9.

Geographical, currency, maturity and interest rate analysis of customer accounts is disclosed in Note 27. The information on related party balances is disclosed in Note 33.

16 Debt Securities in Issue

In thousands of USD (as presentation currency, Note 3)	**31 December 2008**	**31 December 2007**
Bonds issued on domestic market	50,614	196,241
Total debt securities in issue	**50,614**	**196,241**

At 31 December 2008 the Group has debt securities in issue of USD 50,614 thousand (31 December 2007: USD 196,241 thousand) denominated in Ukrainian hryvnas. These bonds were issued with following terms and conditions:

In thousands of USD (as presentation currency, Note 3)

Series of bonds	**Nominal value**	**Coupon rate**	**Yield to maturity**	**Maturity**	**Next option on early repayment and interest change**
C	727	16%	17%	08 December 2010	09 December 2009
D	292	20%	24%	20 December 2011	22 December 2009
E	28,571	12%	11%	24 April 2009	24 April 2009
F	3,896	16%	19%	10 September 2012	14 September 2009
G	91	15%	17%	10 September 2012	16 March 2009
H	14,545	14%	13%	14 March 2013	19 March 2009
Total debt securities in issue	**48,122**				

As at 31 December 2007:

In thousands of USD (as presentation currency, Note 3)

Series of bonds	**Nominal value**	**Coupon rate**	**Yield to maturity**	**Maturity**	**Next option on early repayment and interest change**
C	9,868	13%	12%	8 December 2010	10 December 2008
D	35,644	13%	14%	20 December 2011	23 December 2008
E	59,406	12%	12%	24 April 2009	-
F	57,426	10%	13%	9 September 2012	15 September 2008
G	29,010	8%	8%	9 September 2012	17 March 2008
Total debt securities in issue	**191,354**				

16 Debt Securities in Issue (continued)

On 17 March 2008, the Group redeemed bonds series G in the amount of UAH 230,000 thousand (USD 29,870 thousand at the reporting date); on 15 September 2008, the Group redeemed bonds series G and F in the amount UAH 15,800 thousand (USD 2,052 thousand at the reporting date) and UAH 175,000 thousand (USD 22,727 thousand at the reporting date) respectively; on 10 December 2008 and 23 December 2008 the Group redeemed bonds of series C and D in the amount of UAH 44,235 thousand (USD 5,745 thousand at the reporting date) and UAH 129,930 thousand (USD 16,874 thousand at the reporting date) respectively, presented for early repayment.

In addition, during the year the Group bought back bonds with total nominal value UAH 261,795 thousand (USD 34,000 thousand at the reporting date). Total gain from repurchase of bonds during the year comprised USD 3,440 thousand.

Geographical, currency and interest rate analyses of debt securities in issue are disclosed in Note 27.

17 Loan Participation Notes

In thousands of USD (as presentation currency, Note 3)	31 December 2008	31 December 2007
Loan participation notes	1,168,107	552,648
Total loan participation notes	**1,168,107**	**552,648**

In December 2006, the Group issued loan participation notes (the "Notes") through VTB Bank Europe Plc (the "Lender") with a par value of USD 160,000 thousand, nominal interest rate of 9.75% per annum, and due on 22 December 2009. In accordance with conditions of the loan agreement dated 18 December 2006, interest will be paid by the Group on 22 June and 22 December in each year in which the Notes remain outstanding.

The loan agreement, signed between Lender and the Bank includes the following financial covenants:

- limitation of any type of corporate restructuring without written consent of the Lender;
- it states a 12 month period, when the Bank shall not sell, lease, transfer or otherwise dispose of any part of the Bank's assets which constitute more than 10% of total assets; and
- the Bank shall not permit its capital adequacy ratio to fall below the minimum capital adequacy ratio required by the NBU.

In March 2007, the Group issued additional Notes through VTB Bank Europe Plc amounting to USD 188,700 thousand, with par value USD 185,000 thousand, nominal interest rate of 9.56% per annum, and due on 22 December 2009. In accordance with conditions of the loan agreement dated 18 December 2006, interest will be paid by the Group on 22 June and 22 December in each year in which the Notes remain outstanding.

In July 2007, the Group issued loan participation notes through Ukraine Issuance Plc amounting to USD 200,175 thousand, with par value USD 200,000 thousand, nominal interest rate of 9.25% per annum, and due on 26 July 2010. In accordance with conditions of the loan agreement dated 23 July 2007, interest will be paid by the Group on 26 July and 26 January in each year in which the Notes remain outstanding.

In April and May 2008, the Group issued loan participation notes through Ukraine Issuance Plc with par values of USD 100,000 thousand and USD 250,000 thousand, respectively, with nominal interest rate 9.75% p.a. and 9.25% respectively, and due dates on 4 May 2009 and in 26 July 2010 respectively. In accordance with conditions of the loan agreement dated 23 April 2008 (related to loan participation notes with par values USD 100,000 thousand), interest will be paid by the Group on 29 October 2008 and 29 April 2009. In accordance with conditions of the loan agreement dated 27 May 2008 (related to loan participation notes with par values USD 250,000 thousand), interest will be paid by the Group on 26 July and 26 January in each year in which the Notes remain outstanding. The Notes with nominal value of USD 250,000 thousand were issued with discount of USD 6,250 thousand.

17 Loan Participation Notes (Continued)

In August 2008, the Group issued loan participation notes through Ukraine Issuance Plc with par value of USD 250,000 thousand, with nominal interest rate 12% p.a. and due date on 11 August 2011. In accordance with conditions of the loan agreement, interest will be paid by the Group on 11 February and 11 August in each year in which the Notes remain outstanding. The Notes were issued with discount of USD 8,764 thousand. According to conditions of the loan agreement, holders of notes have a put option to sell notes to issuer on 11 August 2009.

The loan agreements, signed between Ukraine Issuance Plc and the Bank include the following financial covenants:

- The Bank shall not permit its capital adequacy ratio to fall below the minimum capital adequacy ratio required by the NBU or the relevant banking authority responsible for setting and supervising capital adequacy requirements for financial institutions in the jurisdiction in which the Bank carries out its banking business outside Ukraine.
- The Bank shall comply with all NBU rules and regulations applicable to banks, including but not limited to, the maximum credit risk per one counterparty and the maximum amount of loans, guarantees and sureties provided to one insider.

As at 31 December 2008 yield to maturity of loan participation notes was from 9.26% to 12.83% (31 December 2007: from 9.26% to 10.3%).

Geographical, maturity, currency and interest rate analyses of loan participation notes is disclosed in Note 27.

18 Other Financial Liabilities and Other Liabilities

Other liabilities comprise the following:

In thousands of USD (as presentation currency, Note 3)	**Note**	**31 December 2008**	**31 December 2007**
Other financial liabilities			
Derivative financial instruments	30	24,934	2,515
Other payables		3,107	2,409
Total other financial liabilities		**28,041**	**4,924**
Other liabilities			
Deferred fees for guarantees issued		4,679	-
Unused vacation reserve		2,654	2,384
Accrued bonuses		262	8,000
Other		2,999	162
Total other liabilities		**10,594**	**10,546**

Derivative financial instruments are carried at fair value. Refer to Note 30 and 31.

As at 31 December 2008 and 31 December 2007 unused vacation reserve and accrued bonuses were classified as current liabilities, deferred fees for guarantees issued and other were classified as non-current liabilities.

18 Other Financial Liabilities and Other Liabilities (Continued)

Movements in the unused vacation reserve and liability for bonuses are as follows:

In thousands of USD (as presentation currency, Note 3)	**Unused vacation reserve**	**Accrued bonuses**	**Total**
Carrying amount at 1 January 2008	**2,384**	**8,000**	**10,384**
Additions charged in profit and loss	5,348	-	5,348
Payments made	(3,759)	(7,262)	(11,021)
Translation difference	(1,319)	(476)	(1,795)
Carrying amount at 31 December 2008	**2,654**	**262**	**2,916**

Geographical, currency, maturity and interest rate analysis of other financial liabilities and other liabilities is disclosed in Note 27.

19 Subordinated Debt

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 Group 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 a related party, Westlaw Inc, are USD denominated subordinated debts issued in January 2007 and March 2007 in amount of USD 20,000 thousand and USD 4,980 thousand respectively, at 8.5% per annum with contractual maturity in January 2017. A gain on initial recognition of subordinated debts at rates below market in the amount of USD 260 thousand and USD 50 thousand, accordingly, was recognized in the statement of changes in equity, because it represented a capital contribution from the Group's owners.

In August 2007 the Group received subordinated debt amounting to USD 30,000 thousand from Westlaw Inc. The subordinated debt carries the interest rate of 8.5% per annum and matures in August 2017. Subordinated debt was registered by the NBU on 13 September 2007. A gain on initial recognition of subordinated debts at rates below market in the amount of USD 133 thousand was recognized in the statement of changes in equity, because it represented a capital contribution from the Group's owners.

The gain on subordinated debts originated in 2007 was assessed based on expected maturity in December 2007 according to the restructuring plan agreed between Management Board, shareholder and the lender. The expected maturity was subsequently reassessed to December 2009 and a gain of USD 2,886 thousand was recognised in income statement as an adjustment to interest expense on subordinated debts.

The rest of the amount is represented by USD denominated subordinated debts, provided by Westlaw Inc. These subordinated debts were issued in November 2002 in the amount of USD 6,800 thousand at 12-month LIBOR payable at maturity with contractual maturity in November 2010 and in June 2005 in the amount of USD 5,200 thousand at 12-month LIBOR payable at maturity with contractual maturity in June 2013. A gain on initial recognition of subordinated debts at rates below market in the amount of USD 3,214 thousand and USD 1,407 thousand, accordingly, was recognized in the statement of changes in equity at exchange rates at the dates of initial recognition, because it represented a capital contribution from the Group's owners.

Based on the Assignment agreements dated 5 December 2007 all claims to the Group, related to all abovementioned subordinated debts, were irrevocably assigned and given by Primary Investor (Westlaw Inc) to New Investor (Overstand Limited). All respective changes were properly authorized by the NBU in February 2008.

Included in subordinated debt as at 31 December 2008 is accrued interest in the amount of USD 9,980 thousand (31 December 2007: USD 4,829 thousand).

Geographical, currency, maturity and interest rate analysis of subordinated debt is disclosed in Note 27. The information on related party balances is disclosed in Note 33.

20 Share Capital

Authorized, issued and fully paid capital of the Bank comprises:

In thousands of USD (as presentation currency, Note 3)	**Number of outstanding shares**	**Nominal amount, excluding share premium**	**Adjusted amount, including share premium**
At 31 December 2006	**360,000,000**	**71,287**	**72,599**
New shares issued	1,010,000,000	200,000	200,000
At 31 December 2007	**1,370,000,000**	**271,287**	**272,599**
New shares issued	1,606,565,000	325,963	325,963
Share premium paid	-		24,037
Translation differences	-	(210,683)	-
At 31 December 2008	**2,976,565,000**	**386,567**	**622,599**

The nominal amount of share capital disclosed in the table above represents the amount of registered share capital in UAH, translated at the official exchange rate of the NBU as at respective reporting date.

On 21 November 2007 the shareholders of the Bank took a decision to issue 374,710 thousand additional shares totalling UAH 374,710 thousand (equivalent of USD 74,200 thousand). In December 2007 ABH Ukraine Limited in compliance with agreements dated 14 December 2007 and 29 December 2007 made a payment of USD 100,000 thousand for shares with the nominal value USD 74,200 thousand. The shareholders meeting of 15 January 2008 approved the results of the new share issue and decided to make the respective changes to the Bank's Charter. On 26 March 2008 the NBU registered the increase in the share capital of the Bank in the amount of UAH 374,710 thousand (equivalent of USD 74,200 thousand) and the proceeds from share issue of USD 100,000 thousand were recognized as an increase in equity.

On 21 April 2008 the shareholders of the Bank took a decision to issue 505,000 thousand additional shares totalling UAH 505,000 thousand (equivalent of USD 100,000 thousand). In May-June 2008 ABH Ukraine Limited made a payment of USD 100,000 thousand to the Bank. The shareholders meeting of 16 June 2008 approved the results of the new share issue and decided to make the respective changes to the Bank's Charter. The Group recognized amounts received from the shareholders of USD 104,031 thousand as payment for new shares issued net of the negative share premium of USD 4,031 thousand, as part of equity. The negative share premium arose due to changes of the official exchange rate of the US dollar to Ukrainian hryvnia from 5.05 hryvnia for 1 US dollar as at 21 April 2008 (the date of the decision of shareholders to issue additional shares) to 4.8543 hryvnia for 1 US dollar as at 16 June 2008 (the date of recognition of amounts received as part of equity). On 8 August 2008 the NBU registered the increase in the share capital of the Bank in the amount of UAH 505,000 thousand (equivalent of USD 104,231 thousand at the registration date).

On 29 August 2008 the shareholders of the Bank took a decision to issue 726,855 thousand additional shares totalling UAH 726,855 thousand (equivalent of USD 150,000 thousand at the date of the decision). In October 2008 ABH Ukraine Limited made a payment of USD 150,000 thousand to the Bank. The shareholders meeting of 14 October 2008 approved the results of the new share issue and decided to make the respective changes to the Bank's Charter. The Group recognized amounts received from the shareholders of USD 147,732 thousand as payment for new shares issued net of the positive share premium of USD 2,268 thousand, as part of equity. The positive share premium arose due to changes of the official exchange rate of the US dollar to Ukrainian hryvnia from 4.8457 hryvnia for 1 US dollar as at 29 August 2008 (the date of the decision of shareholders to issue additional shares) to 4.9201 hryvnia for 1 US dollar as at 14 October 2008 (the date of recognition of amounts received as part of equity). On 9 December 2008 the NBU registered the increase in the share capital of the Bank in the amount of UAH 726,855 thousand (equivalent of USD 98,238 thousand at the registration date).

All ordinary shares have a nominal value of UAH 1 (USD equivalent as at 31 December 2008 0.13) per share, rank equally and each share carries one vote.

20 Share Capital (Continued)

The shareholders structure of the Bank was the following as at 31 December 2008:

In thousands of USD (as presentation currency, Note 3)	**31 December 2008**			**31 December 2007**		
Shareholder	**Number of shares issued**	**%**	**Nominal value**	**Number of shares issued**	**%**	**Nominal value**
ABH Ukraine Limited	2,976,531,006	99.9989%	386,563	1,369,966,818	99.9980%	271,277
Others	33,994	0.0011%	4	33,182	0.0020%	10
Total	**2,976,565,000**	**100.00%**	**386,567**	**1,370,000,000**	**100.00%**	**271,287**

In accordance with IAS 29, *Financial Reporting in Hyperinflationary Economies,* share capital was restated for effects of hyperinflation by USD 2,641 thousand (Note 3). The difference, amounting to USD 1,329 thousand, arose due to presentation of the share capital, denominated in UAH, in presentation currency USD (Note 3). This difference was recognized in equity in Other Reserves.

21 Other Reserves

In thousands of USD (as presentation currency, Note 3)	**31 December 2008**	**31 December 2007**
Revaluation reserve for land and building, net of tax	36,776	19,066
Effect of translation to presentation currency	(272,293)	2,220
Revaluation reserve for securities available-for-sale	(481)	(82)
Share option plan	5,520	-
Total other reserves	**(230,478)**	**21,204**

Revaluation reserve for available-for-sale securities is transferred to profit or loss when realised through sale or impairment. In addition, revaluation reserve in respect of securities reclassified to ‘loans and receivables” measurement category (refer to Notes 5 and 10) is amortised over the remaining life of the security using the effective interest method, similar to the amortisation of the respective premium or discount.

Revaluation reserve for land and buildings is transferred to retained earnings when realised through depreciation, impairment, sale or other disposal.

Currency translation differences included as a separate component of equity, result from translating income and expenses at the exchange rates at the dates of the transactions and assets and liabilities at the closing rate and translating the opening net assets at a closing rate that differs from the previous closing rate.

The share option plan was established in October 2008 by ABH Ukraine Limited (ABHU), the parent of the Group, for the top management of the Group. Under the terms of the plan, 233,000 options with an exercise price of USD 1.00 and 600,000 options at an exercise price of USD 53.61 were granted in 2008. The vesting condition for the share options is employment with the Group until 1 January 2009. Options are settled in cash in case of IPO or sale of ABHU or the Bank. Otherwise options are settled in ABHU’s equity after ABHU’s financial statements for the year ended 31 December 2010 are approved by shareholders.

The fair value of options granted during the period determined using a valuation model was USD 5,520 thousand. The significant inputs into the model were fair value of ABHU’s net assets at the grant date and the exercise price shown above. The volatility of the share price had no impact on the valuation as within the reasonable range of prices share options with an exercise price of USD 1.00 are in money, while those with an exercise price of USD 53.61 are out of money. The value of options granted was recognised as staff costs and increase in other reserves in equity.

In accordance with Ukrainian legislation, the Bank distributes profits or transfers them to reserves (fund accounts) on the basis of financial statements prepared in accordance with Ukrainian Accounting Rules.

22 Interest Income and Expense

In thousands of USD (as presentation currency, Note 3)	**2008**	**2007**
Interest income		
Loans and advances to customers	611,586	232,231
Debt investment securities	11,916	3,181
Cash and cash equivalents	7,479	3,320
Due from other banks	5,994	2,450
Total interest income	**636,975**	**241,182**
Interest expense		
Term deposits of legal entities	101,577	28,694
Loan participation notes	89,969	38,840
Term placements of other banks	44,303	28,552
Debt securities	21,509	12,344
Term deposits of individuals	19,455	4,831
Customer current/settlement accounts	8,982	5,944
Current/settlement accounts of other banks	6,999	1,771
Subordinated debt	4,092	4,534
Due to the NBU	2,852	-
Other	41	23
Total interest expense	**299,779**	**125,533**
Net interest income	**337,196**	**115,649**

Information on interest income and expense from transactions with related parties is disclosed in Note 33.

23 Fee and Commission Income and Expense

In thousands of USD (as presentation currency, Note 3)	**2008**	**2007**
Fee and commission income		
Fee and commission income in respect of financial instruments not at fair value through profit or loss:		
- Documentary operations	14,396	1,452
- Cash and settlement transactions	12,538	4,947
- Currency exchange	7,506	12,491
- Transaction with securities	376	61
- Fiduciary activities	128	133
- Other	183	-
Total fee and commission income	**35,127**	**19,084**
Fee and commission expense		
Fee and commission expense in respect of financial instruments not at fair value through profit or loss		
- Cash and settlement transactions	9,542	1,235
- Other	344	234
Total fee and commission expense	**9,886**	**1,469**
Net fee and commission income	**25,241**	**17,615**

Information on fee and commission income and expense from transactions with related parties is disclosed in Note 33.

24 Administrative and Other Operating Expenses

In thousands of USD (as presentation currency, Note 3)	Note	2008	2007
Salaries and employee benefits		90,199	55,737
Rent		22,146	9,101
Call centre services		12,175	3,813
Depreciation and amortization	11	8,060	5,101
Communication and IT		6,108	3,396
Marketing and advertising		3,682	1,039
Other administrative expenses		3,457	1,948
Administration and office maintenance		3,376	2,119
Travelling		2,704	1,399
Professional services		2,404	1,495
Security		1,941	698
Utilities		1,913	1,003
Entertainment expenses		780	1,211
Provision for impairment of other assets		216	38
Other		9,995	4,078
Total administrative and other operating expenses		**169,156**	**92,176**

Included in salaries and employee benefits are statutory pension contributions of USD 14,377 thousand (2007: USD 7,393 thousand) and social security contributions of USD 1,502 thousand (2007: USD 854 thousand).

Information on administrative and other operating expenses from transactions with related parties is disclosed in Note 33.

25 Income Taxes

Income tax expense comprises the following:

In thousands of USD (as presentation currency, Note 3)	31 December 2008	31 December 2007
Current tax	8,968	9,819
Deferred tax	(2,335)	(5,037)
Income tax expense for the period	**6,633**	**4,782**

The income tax rate applicable to the Bank's income is 25% (2007: 25%). The results of SPEs are taxed at rates from 0% to 25% depending on jurisdiction where they are located. A reconciliation between the expected and the actual taxation charge is provided below.

In thousands of USD (as presentation currency, Note 3)	2008	2007
IFRS profit before tax	**42,193**	**16,628**
Theoretical tax charge at applicable tax rate	14,253	4,157
Tax effect of items which are not deductible for taxation purposes:		
- Non deductible expenses	2,157	625
- Non taxable income	(1,034)	-
Differences arising from translation to presentation currency	(8,743)	-
Income tax expense for the period	**6,633**	**4,782**

25 Income Taxes (continued)

Income and expense items were translated to presentation currency at an average exchange rate depending on the period when they arose following the rules described in Note 3. As the timing of recognition of income and expense for tax purposes is different, there is a discrepancy between exchange rates applied for translation of income and expense and corresponding tax charge. The accumulated effect of such differences is presented as a difference from translation to presentation currency in the table above.

Differences between IFRS and statutory taxation regulations give rise to 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 applicable tax rate.

In thousands of USD (as presentation currency, Note 3)	**31 December 2006**	**(Charged)/ credited to income statement**	**Charged directly to equity**	**31 December 2007**	**(Charged)/ credited to income statement**	**Charged directly to equity**	Translation differences	**31 December 2008**
Tax effect of deductible/(taxable) temporary differences and tax loss carry forwards								
Loans and advances to customers	1,506	4,582	-	6,088	16,484		(4,659)	17,913
Premises, leasehold improvements and equipment	(6,034)	828	(734)	(5,940)	(936)	(6,001)	2,157	(10,720)
Due from banks	-	(1,919)	-	(1,919)	168		774	(977)
Debt securities	-	1,156	-	1,156	(156)		(379)	621
Financial and non-financial liabilities	(183)	(524)	(111)	(818)	(5,880)		992	(5,706)
Fair valuation of investment securities available-for-sale	36	541	(1)	576	302	133	(368)	643
Other non-financial assets	442	373	-	815	502		(341)	976
Other financial assets	-	-	-	-	(8,149)		983	(7,166)
Net deferred tax liability	**(4,233)**	**5,037**	**(846)**	**(42)**	**2,335**	**(5,868)**	**(841)**	**(4,416)**

As at 31 December 2008 and 31 December 2007 deferred tax assets and deferred tax liabilities were classified as non-current assets or liabilities respectively.

26 Segment Analysis

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

Business Segments. The Group is organised on a basis of three main business segments:

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

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

- Central treasury – undertakes the Group's funding and centralised risk management activities through borrowings, issues of debt securities and investing in liquid assets such as short-term placements and corporate and government debt securities.

26 Segment Analysis (Continued)

Transactions between the business segments are on normal commercial terms and conditions. Funds are ordinarily reallocated between segments, resulting in funding cost transfers disclosed in operating income. Interest charged for these funds is based on the 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.

Segment information for the main reportable business segments of the Group as at 31 December 2008 and for the year than ended is set out below:

In thousands of USD (as presentation currency, Note 3)	Corporate	Retail	Central treasury	Eliminations	Total
External revenues	425,220	200,516	49,319	-	675,055
Revenues from other segments	183,095	5,984	217,713	(406,792)	-
Total revenues	**608,315**	**206,500**	**267,032**	**(406,792)**	**675,055**
Total revenues comprise:					
- Interest income	576,874	201,364	265,529	(406,792)	636,975
- Fee and commission income	29,659	4,944	524	-	35,127
- Other operating income	1,782	192	979	-	2,953
Total revenues	**608,315**	**206,500**	**267,032**	**(406,792)**	**675,055**
Segment result	66,912	(168,520)	144,212	-	42,604
Unallocated costs					(411)
Profit before tax				**-**	**42,193**
Income tax expense					**(6,633)**
Profit					**35,560**
Segment assets	2,275,718	707,473	773,882		3,757,073
Current income tax prepayment					154
Deferred tax assets					7,416
Total assets					**3,764,643**
Segment liabilities	(1,548,277)	(95,022)	(1,654,813)		(3,298,112)
Current income tax liability					-
Deferred income tax liability					(11,832)
Other unallocated liabilities					(7,885)
Total liabilities					**(3,317,829)**
Other segment items					
Capital expenditure (Note 11)	9,474	12,632	2,186	**-**	24,292
Depreciation and amortisation expense (Note 11)	3,143	4,191	726	**-**	8,060
Impairment losses charged to profit or loss (Note 9, 10, 12)	61,140	141,904	75,294	**-**	278,338

26 Segment Analysis (Continued)

Segment information for the main reportable business segments of the Group as at 31 December 2007 and for the year than ended is set out below:

In thousands of USD (as presentation currency, Note 3)	Corporate	Retail	Central treasury	Eliminations	Total
External revenues	187,545	64,390	9,183	-	261,118
Revenues from other segments	52,790	1,867	109,875	(164,532)	-
Total revenues	**240,335**	**66,257**	**119,058**	**(164,532)**	**261,118**
Total revenues comprise:					
- Interest income	222,428	64,671	118,615	(164,532)	241,182
- Fee and commission income	17,786	1,087	211	-	19,084
- Other operating income	121	499	232	-	852
Total revenues	**240,335**	**66,257**	**119,058**	**(164,532)**	**261,118**
Segment result	22,438	(44,830)	43,596	-	21,204
Unallocated costs					(4,576)
Profit before tax					**16,628**
Income tax expense					(4,782)
Profit					**11,846**
Total segment assets	**1,781,421**	**548,396**	**268,497**	-	**2,598,314**
Segment liabilities	854,868	76,674	1,352,387	-	2,283,929
Current income tax liability					1,002
Deferred income tax liability					42
Other unallocated liabilities					700
Total liabilities					**2,285,673**
Other segment items					
Capital expenditure (Note 11)	7,722	10,295	1,782	**-**	19,799
Depreciation and amortisation expense (Note 11)	1,989	2,653	459	**-**	5,101
Impairment losses charged to profit or loss (9, 10, 12)	8,945	24,585	4	**-**	33,534

26 Segment Analysis (Continued)

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

In thousands of USD (as presentation currency, Note 3)	Ukraine	OECD	Non-OECD	Total
Total segment assets	**3,014,996**	**289,324**	**460,323**	**3,764,643**
External revenues	669,997	533	4,525	675,055
Capital expenditure (Note 11)	24,292	-	-	24,292
Credit related commitments (Note 29)	249,912	-	14	249,926

External revenues and assets, other than as detailed below, and credit related commitments have generally been allocated based on domicile of the counterparty. Cash on hand, premises, leasehold improvements and equipment and capital expenditure have been allocated based on the country in which they are physically held.

Segment information for the main geographical segments of the Group is set out below as at 31 December 2007.

In thousands of USD (as presentation currency, Note 3)	Ukraine	OECD	Non-OECD	Total
Total segment assets	**2,365,488**	**66,617**	**166,209**	**2,598,314**
External revenues	247,860	6,525	6,733	261,118
Capital expenditure (Note 11)	19,799	-	-	19,799
Credit related commitments (Note 29)	214,260	-	-	214,260

27 Financial Risk Management

The risk management function within the Group is carried out in respect of financial risks (credit, market, geographical, currency, liquidity and interest rate), operational risks and legal risks. 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.

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 balance sheet. For guarantees and commitments to extend credit, the maximum exposure to credit risk is the amount of the commitment. Refer to Note 29.

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

Loan applications originated by the relevant client relationship managers are passed on to the relevant Credit Committee for approval of credit limit. Exposure to credit risk is also managed, in part, by obtaining collateral and corporate and personal guarantees. Risks of the Group's credit portfolio are monitored and reviewed on a weekly basis. Lending limits for individual borrowers and any changes to those limits are set by the relevant Credit Committee. Credit limits include limits on the amount and repayment schedule for each loan agreement and restrictions on the purpose of the loan. The credit officers of the Group monitor operations with the Group's customers on a regular basis and notify the relevant Credit Committee in the event of any change in customer's circumstances. The Group either confirms existing limits or contacts a customer if it is necessary to review the terms of a loan.

When structuring loans to customers, the Group follows certain basic principles. It sets out repayment schedules and adapts them so as to take into account any seasonality in a borrower's business and, where applicable, also obtains guarantees from affiliates of the borrower, enters into collateral agreements to secure related loans, prescribes the borrower's own equity contribution for the project to be financed and requires cash flows from the financed project or counter-parties to be directed to current accounts opened with the Group. In the case of loans to both corporate and individual customers, except for consumer loans, the Group typically takes collateral to secure such loan. As the Group's lending policy is to give priority to the quality of the borrower over the quality of the collateral available, lending decisions are always based on risk assessment rather than on the quality of the collateral. When taking security, the Group gives preference to the most liquid form of collateral with the highest re-sale value. The Group also considers regional factors when determining the value of collateral.

The Group applies the same credit policies and procedures for evaluating and monitoring credit risk for off-balance sheet and contingent liabilities. Furthermore, the Group applies the same procedures to transactions with related parties as it applies to other borrowers. In such cases, if the level of risk does not fall within the parameters set by the Group, it either rejects the loan application or requires the transaction to be secured by additional collateral.

The Group also follows a policy of diversifying its loan portfolio in order to reduce risk. The Group's Credit Committees take into account the performance of specific sectors of the economy and industries when considering loan applications.

The Group's Risk Management department reviews ageing analysis of outstanding loans and follows up past due balances. Management therefore considers appropriate to provide ageing and other information about credit risk as disclosed in Notes 7, 8, 9, and 10.

Credit risks related to interbank operations mainly arises as a result of exposures to counterparties being unsecured, notwithstanding that such exposures typically have relatively short-term maturities (which generally range from several hours up to one month, with an average duration of one week). The Group sets separate limits for counterparty banks based on its evaluation of their financial statements and on any available non-financial information (such as information on the borrowers' shareholders, customers, quality of management, market position, concentration of activity and growth rate).

27 Financial Risk Management (Continued)

The Executive Board is responsible for approving and changing the limits for each category of counterparty banks on a monthly basis. If the Risk Management Department determines that the financial performance of a counter-party bank has deteriorated or is likely to deteriorate, the Risk Management Department suspends the credit limit and notifies respective departments accordingly.

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 of losses resulting from adverse movements in different foreign currency exchange rates. Currency risk results from the Group having open positions in different currencies. Such positions are calculated as differences between assets and liabilities in the same currency as of the balance sheet date. The Group evaluates, monitors and sets limits for long and short foreign exchange open positions using hryvnia as its base currency. Limits on open currency positions are set for the Group as a whole. The Group complies with all applicable NBU requirements in addition to using its own methods for evaluating currency rate risk. Currency risk is centrally controlled at the head office level while a clear segregation of duties between divisions and branches enables the Group to minimize possible losses caused by currency risk. The Group's net open position is monitored on a daily basis by the Treasury. The Treasury reports to the Assets and Liabilities Credit Committee (hereinafter ALCO) at each ALCO meeting in order to review strategy and limits on the level of foreign currency exposures by currencies.

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

	At 31 December 2008			
In thousands of USD (as presentation currency, Note 3)	**Monetary financial assets**	**Monetary financial liabilities**	**Derivative (SWAP, forward)**	**Net balance sheet position**
Ukrainian hryvnias	1,152,581	819,074	(295,302)	38,205
US Dollars	2,108,456	2,171,613	386,718	323,561
Euros	122,580	257,082	81,977	(52,525)
Other	249,065	22,700	(147,893)	78,472
Total	**3,632,682**	**3,270,469**	**25,500**	**387,713**

	At 31 December 2007			
In thousands of USD (as presentation currency, Note 3)	**Monetary financial assets**	**Monetary financial liabilities**	**Derivative (SWAP)**	**Net balance sheet position**
Ukrainian hryvnias	1,020,799	602,693	(134,752)	283,354
US Dollars	1,247,565	1,281,964	139,101	104,702
Euros	66,468	170,499	101,573	(2,458)
Other	205,728	116,412	(107,881)	(18,565)
Total	**2,540,560**	**2,171,568**	**(1,959)**	**367,033**

Prepaid non-registered share capital was excluded from currency disclosure as it will be settled in shares rather then cash.

Derivatives in each column represents the fair value, at the balance sheet date, of the respective currency that the Group agreed to buy (positive amount) or sell (negative amount) before netting of positions and payments with the counterparty. The 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.

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

	At 31 December 2008	
In thousands of USD (as presentation currency, Note 3)	**Impact on profit or loss**	**Impact on equity**
US Dollars strengthening by 20%	64,712	64,712
US Dollars weakening by 20%	(64,712)	(64,712)
Euro strengthening by 25%	(13,131)	(13,131)
Euro weakening by 25%	13,131	13,131
Other strengthening by 20%	15,694	15,694
Other weakening by 20%	(15,694)	(15,694)

	At 31 December 2007	
In thousands of USD (as presentation currency, Note 3)	**Impact on profit or loss**	**Impact on equity**
US Dollars strengthening by 5%	5,235	5,235
US Dollars weakening by 5%	(5,235)	(5,235)
Euro strengthening by 10%	(246)	(246)
Euro weakening by 10%	246	246
Other strengthening by 5%	(928)	(928)
Other weakening by 5%	928	928

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

Fixed interest rate assets and liabilities, can be renegotiated to reflect current market conditions. The Group's interest rate risk management procedures are the same for all currencies. The ALCO and the Treasury are responsible for interest rate risk management. The ALCO sets limits on the level of mismatch in interest rate repricing that may be undertaken, which is monitored weekly by the Treasury. In the absence of any available hedging instruments, the Group normally seeks to match its interest rate positions. The evaluation and analysis of interest rate risk is performed at each ALCO meeting. The Treasury monitors changes in benchmark interest rates, market volatility or similar events on a day-to-day basis. The results of such evaluation and analysis are discussed at ALCO meetings. The ALCO also establishes the principal policies and approaches to interest rate risk management, including minimum credit loan and maximum borrowing rates in respect of products, customer groups and tenors. The Corporate Business and Retail Banking and Consumer Finance departments, with the approval of the Treasury, will recommend altering certain interest rates to the ALCO following changes in market conditions or for the Group's internal reasons. The ALCO has delegated certain authorities to Heads of the Corporate Business and the Treasury to alter interest rates. In addition to applying standard calculations, the Group uses stress tests. These involve determining the level of interest rate risk that would apply in the event of unforeseen circumstances or contingencies arising. This approach enables the Group to evaluate changes in net interest income for future periods and determine the priority areas for interest risk management. Results of the tests are reviewed and discussed at ALCO meetings.

27 Financial Risk Management (Continued)

Interest rate risk management is conducted using the gap analysis method, whereby the difference or "gap" between rate sensitive assets and rate sensitive liabilities is determined and analysed. The Group can perform interest rate sensitivity scenario analysis of the net interest income (the analysis is based on gap reports) for periods of up to one year, although it considers such analysis to be most reliable over a period of three months. Limits on interest rate risk are set by the ALCO after assessment of the sensitivity of net interest income to a 100 basis points upward shift in interest rates. In deciding the size of interest rate risk limits the ALCO considers losses acceptable in the event of adverse movements in interest rates, taking into account possible movements in interest rates for major types of interest bearing assets and liabilities, such as corporate and retail loans, inter-bank loans, securities and corporate and retail deposits. Limits are subject to review depending on the volatility of interest rate movements. The Treasury is responsible for making recommendations to review such limits, which are subject to approval by the ALCO. Gaps are maintained within prescribed limits for all periods. Gap analysis is supplemented by interest rate forecasts over periods of up to one year for major types of assets and liabilities. This allows the ALCO to evaluate not only the level of interest rate risk but also the most likely changes in net interest income.

The Group continually monitors interest rate spread and net interest income. In order to minimise potential losses from unforeseen movements in interest rates, when entering into agreements the Group provides for interest rate reviews in light of current market rates. The Group also manages interest risk by setting minimum interest rates for loans and maximum interest rates for deposits. The Group sets interest rates for major types of assets and liabilities by maturity and currency. The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of Group. It is unusual for a bank's interest rates ever to be completely matched as business transacted is often of uncertain terms and of different types. An unmatched position may potentially enhance profitability, but can also increase the risk of losses.

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

In thousands of USD (as presentation currency, Note 3)	**Demand and less than 1 month**	**From 1 to 3 months**	**From 3 to 12 months**	**More than 1 year**	**Over 5 years**	**Non-interest bearing**	**Total**
31 December 2008							
Total financial assets	825,395	438,482	1,104,821	957,761	304,308	52,348	3,683,115
Total financial liabilities	905,465	368,772	1,516,170	464,711	12,244	28,041	3,295,403
Net interest sensitivity gap at 31 December 2008	**(80,070)**	**69,710**	**(411,349)**	**493,050**	**292,064**	**24,307**	**387,712**
31 December 2007							
Total financial assets	551,704	433,494	629,789	742,906	182,492	315	2,540,700
Total financial liabilities	717,159	169,906	576,734	705,360	-	4,924	2,174,083
Net interest sensitivity gap at 31 December 2007	**(165,455)**	**263,588**	**53,055**	**37,546**	**182,492**	**(4,609)**	**366,617**

27 Financial Risk Management (Continued)

Prepaid non-registered share capital was excluded from interest rate disclosure as it will be settled in shares rather then cash.

At 31 December 2008, if interest rates had been 100 basis points higher, with all other variables held constant, profit and equity would have been USD 334 thousand lower (31 December 2007: USD 479 thousand and USD 412 thousand higher, respectively), mainly as a result of higher interest expense on variable interest liabilities. If interest rates had been 100 basis points lower, with all other variables held constant, profit and equity would have been USD 334 thousand higher (31 December 2007: USD 479 thousand and USD 546 thousand lower, respectively), mainly as a result of lower interest expense on variable interest liabilities.

Sensitivity analysis is calculated for all interest bearing financial instruments with the floating interest rates, which are carried at amortised cost and are subject to changes in market interest rate. In addition, changes in market interest rates have an impact on fair value of fixed interest instruments classified as available-for-sale. Sensitivity analysis is prepared based on the assumption that all other variables are held constant and changes in the market interest rate would only affect interest bearing financial instruments with the floating interest rate carried at amortised cost and fair value of available-for-sale debt securities.

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

	31 December 2008				**31 December 2007**			
In % p.a.	**UAH**	**USD**	**Euro**	**Other**	**UAH**	**USD**	**Euro**	**Other**
Assets								
Placements with other banks with original maturities of less than three months	-	23%	-	-	11%	7%	4%	8%
Due from other banks	24%	20%	0%	-	13%	10%	-	-
Loans and advances to customers	21%	18%	14%	11%	16%	14%	11%	10%
Investment securities	15%	-	-	-	12%	-	-	-
Liabilities								
Due to other banks	18%	9%	9%	12%	3%	9%	9%	6%
Customer accounts								
- current and settlement accounts	1%	1%	1%	1%	1%	1%	1%	1%
- term deposits	24%	12%	14%	10%	11%	8%	8%	10%
Debt securities in issue	13%	-	-	-	11%	-	-	-
Loan participation notes	-	11%	-	-	-	10%	-	-
Subordinated debt	-	10%	-	-	-	10%	-	-

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

27 Financial Risk Management (Continued)

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

In thousands of USD (as presentation currency, Note 3)	**Ukraine**	**OECD**	**Non-OECD**	**Total**
Assets				
Cash and cash equivalents	133,761	186,189	8,300	328,250
Due from other banks	940	102,802	-	103,742
Loans and advances to customers	2,681,466	333	451,593	3,133,392
Investment securities	65,383	-	-	65,383
Other financial assets	51,928	-	420	52,348
Total financial assets	**2,933,478**	**289,324**	**460,313**	**3,683,115**
Non-financial assets				
Intangible assets	1,493	-	-	1,493
Premises, leasehold improvements and equipment	69,459	-	-	69,459
Other non-financial assets	3,150	-	10	3,160
Deferred income tax assets	7,416	-	-	7,416
Total non-financial assets	**81,518**	**-**	**10**	**81,528**
Total assets	**3,014,996**	**289,324**	**460,323**	**3,764,643**
Liabilities				
Due to other banks	133,718	328,925	31,519	494,162
Due to NBU	50,751	-	-	50,751
Customer accounts	1,107,347	308,871	13,120	1,429,338
Debt securities in issue	50,614	-	-	50,614
Loan participation notes	-	1,168,107	-	1,168,107
Other financial liabilities	2,018	3,056	22,967	28,041
Subordinated debt	-	-	74,390	74,390
Total financial liabilities	**1,344,448**	**1,808,959**	**141,996**	**3,295,403**
Non-financial liabilities				
Current income tax liability	-	-	-	-
Deferred income tax liability	11,832	-	-	11,832
Other non-financial liabilities	10,474	-	120	10,594
Prepaid non-registered share capital	-	-	-	-
Total non-financial liabilities	**22,306**	**-**	**120**	**22,426**
Total liabilities	**1,366,754**	**1,808,959**	**142,116**	**3,317,829**
Net balance sheet position	**1,648,242**	**(1,519,635)**	**318,207**	**446,814**
Credit related commitments	**249,912**	**-**	**14**	**249,926**

27 Financial Risk Management (Continued)

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

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

In thousands of USD (as presentation currency, Note 3)	Ukraine	OECD	Non-OECD	Total
Assets				
Cash and cash equivalents and mandatory reserve balance	135,533	55,974	11,246	202,753
Due from other banks	24,210	358	1,024	25,592
Loans and advances to customers	2,096,518	10,268	153,929	2,260,715
Investment securities available-for-sale	49,348	-	-	49,348
Other financial assets	2,269	17	6	2,292
Total financial assets	**2,307,878**	**66,617**	**166,205**	**2,540,700**
Non-financial assets				
Intangible assets	1,582	-	-	1,582
Premises, leasehold improvements and equipment	53,253	-	-	53,253
Other non-financial assets	2,775	-	4	2,779
Total non-financial assets	**57,610**	**-**	**4**	**57,614**
Total assets	**2,365,488**	**66,617**	**166,209**	**2,598,314**
Liabilities				
Due to other banks	24,864	455,546	27,886	508,296
Customer accounts	746,059	265	96,427	842,751
Debt securities in issue	196,241	-	-	196,241
Loan participation notes	-	552,648	-	552,648
Other financial liabilities	4,891	-	33	4,924
Subordinated debt	-	-	69,223	69,223
Total financial liabilities	**972,055**	**1,008,459**	**193,569**	**2,174,083**
Non-financial liabilities				
Current income tax liability	1,002	-	-	1,002
Deferred income tax liability	42	-	-	42
Other non-financial liabilities	10,545	-	1	10,546
Prepaid non-registered share capital	-	-	100,000	100,000
Total non-financial liabilities	**11,589**	**-**	**100,001**	**111,590**
Total liabilities	**983,644**	**1,008,459**	**293,570**	**2,285,673**
Net balance sheet position	**1,381,844**	**(941,842)**	**(127,361)**	**312,641**
Credit related commitments	**214,260**	**-**	**-**	**214,260**

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 Note 9.

27 Financial Risk Management (Continued)

Liquidity risk. Liquidity risk is defined as 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 draw downs, 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 the Asset/Liability Committee of the Group.

The Group seeks to maintain a stable funding base comprising primarily amounts due to other banks, corporate and retail customer deposits and debt securities and invest 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 Group 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 85% at 31 December 2008 (31 December 2007: 32%).

- Current liquidity ratio (N5), which is calculated as the ratio of liquid assets to liabilities maturing within 31 calendar days; the ratio was 77% at 31 December 2008 (31 December 2007: 68%).

- Short-term liquidity ratio (N6), which is calculated as the ratio of assets maturing in one year to regulatory capital and liabilities maturing in one year; the ratio was 36% at 31 December 2008 (31 December 2007: 36%).

The Treasury Department receives information about the liquidity profile of the financial assets and liabilities. The Treasury then provides for an adequate portfolio of short-term liquid assets, largely made up of short-term deposits with banks and other interbank 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.

The table below shows liabilities at 31 December 2008 by their remaining contractual maturity. The amounts disclosed in the maturity table are the contractual undiscounted cash flows, prices specified in deliverable forward agreements to purchase financial assets for cash, contractual amounts to be exchanged under a gross settled currency swaps, and gross loan commitments. Such undiscounted cash flows differ from the amount included in the balance sheet because the balance sheet amount is based on discounted cash flows. Net settled derivatives are included at the net amounts expected to be paid.

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

27 Financial Risk Management (Continued)

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

In thousands of USD (as presentation currency, Note 3)	**Demand and less than 1 month**	**From 1 to 3 months**	**From 3 to 12 months**	**From 12 months to 5 years**	**Over 5 years**	**Total**
Liabilities						
Due to other banks	199,215	21,297	252,285	37,425	2,043	512,265
Due to NBU	740	1,480	55,192	-	-	57,412
Customer accounts	669,930	275,385	549,246	42,792	15,099	1,552,452
Debt securities in issue	-	15,346	37,357	-	-	52,703
Loan participation notes	20,819	20,093	779,581	491,768	-	1,312,261
Gross settled derivatives (outflow only)	404,824	44,937	203,776	-	-	653,537
Other financial liabilities	4,021	2,371	21,649	-	-	28,041
Subordinated debt	-	-	-	15,439	101,739	117,178
Total contractual future payments for financial obligations	**1,299,549**	**380,909**	**1,899,086**	**587,424**	**118,881**	**4,285,849**
Undrawn credit lines (Note 29)	**301**	**3,306**	**2,956**	**1**	**-**	**6,564**

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

In thousands of USD (as presentation currency, Note 3)	**Demand and less than 1 month**	**From 1 to 3 months**	**From 3 to 12 months**	**From 12 months to 5 years**	**Over 5 years**	**Total**
Liabilities						
Due to other banks	194,080	73,761	249,241	2,946	1,876	521,904
Customer accounts	494,223	79,750	287,012	40,242	-	901,227
Debt securities in issue	-	3,485	17,603	245,013	-	266,101
Loan participation notes	9,359	-	43,135	619,914	-	672,408
Gross settled derivatives (outflow only)	317,522	63,724	29,543	-	-	410,789
Other financial liabilities	1,902	373	31	103	-	2,409
Subordinated debt	-	-	-	8,907	109,426	118,333
Total contractual future payments for financial obligations	**1,017,086**	**221,093**	**626,565**	**917,125**	**111,302**	**2,893,171**
Undrawn credit lines (Note 29)	**20,465**	**26,962**	**15,396**	**39,604**	**-**	**102,427**

Prepaid non-registered share capital was excluded from maturity analysis as it will be settled in shares rather than cash.

Payments in respect of gross settled forwards will be accompanied by related cash inflows which are disclosed at their present values in Note 29. The inflows are not included in the tables above. 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.

Guarantees issued and letters of credit are carried in the balance sheet at the unamortised balances of fees received. The Group does not expect any of the guarantees to materialise as a cash outflow and has therefore not presented them in the above tables. The gross amount of the guarantees is disclosed in the Note 29.

27 Financial Risk Management (Continued)

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

In thousands of USD (as presentation currency, Note 3)	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 12 months to 5 years	Over 5 years	Total
Assets						
Cash and cash equivalents	328,250	-	-	-	-	328,250
Due from other banks	534	5,086	91,128	6,994	-	103,742
Loans and advances to customers	480,933	405,298	986,273	953,236	307,652	3,133,392
Investment securities	6,598	11,511	22,492	24,782	-	65,383
Other financial assets	5,331	21,753	24,853	411	-	52,348
Total financial assets	**821,646**	**443,648**	**1,124,746**	**985,423**	**307,652**	**3,683,115**
Liabilities						
Due to other banks	199,092	20,804	237,528	34,810	1,928	494,162
Due to NBU	-	-	50,751	-	-	50,751
Customer accounts	663,851	261,236	470,099	21,909	12,243	1,429,338
Debt securities in issue	-	14,800	35,814	-	-	50,614
Loan participation notes	17,979	12,238	695,089	442,801	-	1,168,107
Other financial liabilities	4,021	2,371	21,649	-	-	28,041
Subordinated debt	-	-	61,176	13,214	-	74,390
Total financial liabilities	**884,943**	**311,449**	**1,572,106**	**512,734**	**14,171**	**3,295,403**
Net liquidity gap at 31 December 2008	**(63,297)**	**132,199**	**(447,360)**	**472,689**	**293,481**	**387,712**
Cumulative liquidity gap at 31 December 2008	**(63,297)**	**68,902**	**(378,458)**	**94,231**	**387,712**	
Credit related commitments (Note 29)	**24,502**	**56,208**	**142,311**	**26,905**	**-**	**249,926**

27 Financial Risk Management (Continued)

The expected maturity analysis at 31 December 2007 is as follows:

In thousands of USD (as presentation currency, Note 3)	**Demand and less than 1 month**	**From 1 to 3 months**	**From 3 to 12 months**	**From 12 months to 5 years**	**Over 5 years**	**Total**
Assets						
Cash and cash equivalents	202,753	-	-	-	-	202,753
Due from other banks	22,139	1,024	2,429	-	-	25,592
Loans and advances to customers	324,385	429,895	595,890	728,052	182,493	2,260,715
Investment securities available-for-sale	447	3,191	897	44,813	-	49,348
Other financial assets	2,240	42	10	-	-	2,292
Total financial assets	**551,964**	**434,152**	**599,226**	**772,865**	**182,493**	**2,540,700**
Liabilities						
Due to other banks	193,539	71,141	240,411	2,292	913	508,296
Customer accounts	503,931	69,880	231,987	36,953	-	842,751
Debt securities in issue	-	28,903	102,859	64,479	-	196,241
Loan participation notes	8,022	-	884	543,742	-	552,648
Other financial liabilities	3,764	373	684	103	-	4,924
Subordinated debt	-	-	-	6,488	62,735	69,223
Total financial liabilities	**709,256**	**170,297**	**576,825**	**654,057**	**63,648**	**2,174,083**
Net liquidity gap at 31 December 2007	**(157,292)**	**263,855**	**22,401**	**118,808**	**118,845**	**366,617**
Cumulative liquidity gap at 31 December 2007	**(157,292)**	**106,563**	**128,964**	**247,772**	**366,617**	
Credit related commitments (Note 29)	**25,310**	**51,168**	**60,574**	**49,586**	**27,622**	**214,260**

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 customers 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 customers' 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.

28 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 Basel Accord of at least 8%. 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 Chief Financial Officer and Chief Accountant.

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 Group's daily reports prepared based on the statutory trial balance unadjusted for accruals, provisions and taxes and comprises:

In thousands of USD (as presentation currency, Note 3)	**31 December 2008**	**31 December 2007**
Net assets unadjusted for accruals, provisions and taxes	443,646	274,354
Plus subordinated debt approved by the NBU	41,352	64,260
Other	50,359	44,199
Total regulatory capital	**535,357**	**382,813**

The Bank is 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 Bank's capital calculated in accordance with Basel Accord is as follows:

In thousands of USD (as presentation currency, Note 3)	**31 December 2008**	**31 December 2007**
Tier 1 capital		
Share capital	622,599	272,599
Disclosed reserves	50,895	15,040
Total tier 1 capital	**673,494**	**287,639**
Tier 2 capital		
Revaluation reserves	36,776	19,066
Cumulative translation reserve	(272,293)	2,220
Fair value reserve	(481)	(82)
Subordinated debt	68,817	69,129
Share-option plan	5,520	-
Total tier 2 capital	**(161,661)**	**90,333**
Total capital	**511,833**	**377,972**

The Bank's capital adequacy ratio calculated in accordance with the Basel Accord is 16.5% as at 31 December 2008 (31 December 2007: 16.1%).

The Bank has complied with the capital requirements imposed by the NBU and loan providers (loan covenants) throughout years ended 31 December 2008 and 31 December 2007.

In addition to the above, management monitors and targets return on IFRS equity based on the monthly budgets. Any variances between the budgets and actual results are quantified and followed up.

29 Contingencies and Commitments

***Legal proceedings*.** From time to time and in the normal course of business, claims against the Group may be received. On the basis of its own estimates and both internal and external professional advice Management is of the opinion that no material losses will be incurred in respect of claims and accordingly no provision has been made in these financial statements.

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 position in their interpretation of the legislation and assessments, 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.

Capital expenditure commitments. At 31 December 2008 the Group has contractual capital expenditure commitments in respect of premises, leasehold improvements and equipment totalling USD 1,309 thousand (31 December 2007: USD 2,588 thousand).

The Group has already allocated the necessary resources in respect of these commitments. The Group believes that future net income and funding will be sufficient to cover this and any similar such commitments.

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

In thousands of USD (as presentation currency, Note 3)	**31 December 2008**	**31 December 2007**
Not later than 1 year	15,783	13,266
Later than 1 year and not later than 5 years	30,301	20,107
Later than 5 years	4,367	56
Total operating lease commitments	**50,451**	**33,429**

Compliance with covenants. The Bank is subject to certain covenants related primarily to its borrowings. Non-compliance with such covenants may result in negative consequences for the Bank. The Bank is in compliance with covenants as at 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. 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.

29 Contingencies and Commitments (Continued)

Outstanding credit related commitments are as follows:

In thousands of USD (as presentation currency, Note 3)	**31 December 2008**	**31 December 2007**
Guarantees issued	28,628	60,951
Undrawn credit lines	6,564	102,427
Letters of credit	214,123	48,869
Avals issued	611	2,013
Total credit related commitments	**249,926**	**214,260**

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. Credit related commitments are denominated in currencies as follows:

In thousands of USD (as presentation currency, Note 3)	**31 December 2008**	**31 December 2007**
Ukrainian hryvnias	32,885	120,426
Euros	118,948	64,868
US Dollars	95,868	28,966
Other	2,225	-
Total credit related commitments	**249,926**	**214,260**

As at 31 December 2008 the estimated fair value of credit related commitments was insignificant (31 December 2007: insignificant).

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

	31 December 2008		**31 December 2007**	
In thousands of USD (as presentation currency, Note 3)	**Number of securities**	**Nominal value**	**Number of securities**	**Nominal value**
Shares held on behalf of the Bank's customers	3,954,220,581	296,161	3,688,053,391	352,119
Bonds held on behalf of the Bank's customers	559,585	23,907	708,160	47,471
Investment certificates held on behalf of the Bank's customers	191,199	24,942	93,909	18,651
Total fiduciary assets	**3,954,971,365**	**345,010**	**3,688,855,460**	**418,241**

Assets pledged and restricted. At 31 December 2008 the Group has the following assets pledged as collateral:

	Notes	**31 December 2008**		**31 December 2007**	
In thousands of USD (as presentation currency, Note 3)		**Asset pledged**	**Related liability**	**Asset pledged**	**Related liability**
Investment securities	10	13,992	13,728	4,201	4,201
Loans and advances to customers	9,14	110,635	50,751	-	-
Gross receivables under swap agreements		222,840	201,877	406,482	408,857
Total		**347,467**	**266,356**	**410,683**	**413,058**

29 Contingencies and Commitments (Continued)

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

As disclosed in Note 15, balances of customers accounts totaling USD 24,315 thousand (31 December 2007: USD 4,780 thousand) have been pledged as cover for letters of credit and international payments.

30 Derivative Financial Instruments

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

The table below sets out fair values, at the balance sheet date, of currencies receivable or payable under foreign exchange forwards contracts entered into by the Group. The table reflects gross positions before the netting of any counterparty positions (and payments) and covers the contracts with settlement dates after the respective balance sheet date. The contracts are short term in nature.

In thousands of USD (as presentation currency, Note 3)	Note	31 December 2008 Contracts with positive fair value	31 December 2008 Contracts with negative fair value	31 December 2007 Contracts with positive fair value	31 December 2007 Contracts with negative fair value
Foreign exchange swaps: fair values, at the balance sheet date, of					
- USD receivable on settlement (+)		153,288	54,451	185,510	145,907
- USD payable on settlement (-)		(11,005)	(500)	(72,600)	(2,491)
- Euros receivable on settlement (+)		-	-	-	2,465
- Euros payable on settlement (-)		-	-	-	(126,414)
- UAH receivable on settlement (+)		11,020	674	72,600	-
- UAH payable on settlement (-)		(131,535)	(58,496)	(185,370)	(21,982)
- Other receivable on settlement (+)		-	3,407	-	-
- Other payable on settlement (-)		-	(340)	-	-
Foreign exchange forwards: fair values, at the balance sheet date, of					
- USD receivable on settlement (+)		237,575	96,586	-	-
- USD payable on settlement (-)		(81,632)	(62,045)	-	-
- UAH receivable on settlement (+)		-	33,429	-	-
- UAH payable on settlement (-)		(150,394)	-	-	-
- EUR receivable on settlement (+)		81,977	-	-	-
- CHF payable on settlement (-)		-	(98,730)	-	-
- GBP receivable on settlement (+)		-	6,630	-	-
- JPY payable on settlement (-)		(58,860)	-	-	-
Net fair value of foreign exchange forwards		**50,434**	**(24,934)**	**140**	**(2,515)**

31 Fair Value of Financial Instruments

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

In thousands of USD (as presentation currency, Note 3)	**Fair value by measurement method:** Quoted price in an active market	**Fair value by measurement method:** Valuation technique with inputs observable in markets	**Total fair value**	**Carrying value**
FINANCIAL ASSETS				
Cash and cash equivalents	-	**328,250**	**328,250**	**328,250**
Cash on hand	-	29,471	29,471	29,471
Cash balances with the NBU (other than mandatory reserve deposits)	-	21,574	21,574	21,574
Mandatory cash balances with the NBU	-	70,137	70,137	70,137
Correspondent accounts and overnight placements with other banks	-			
- Ukraine	-	2,566	2,566	2,566
- Other countries	-	194,489	194,489	194,489
Placements with other banks with original maturities of less than three months	-	10,013	10,013	10,013
Due from other banks	-	**102,488**	**102,488**	**103,742**
Short-term placements with other banks with original maturities of more than three months	-	96,359	96,359	96,359
Long-term placements with other banks	-	5,610	5,610	6,832
Reverse sale and repurchase agreements with other banks with original maturities of more than three months	-	519	519	551
Loans and advances to customers	-	**2,874,955**	**2,874,955**	**3,133,392**
Corporate loans	-	1,962,795	1,962,795	2,163,482
Loans to individuals - consumer loans	-	224,724	224,724	224,724
Loans to individuals – mortgage and car loans	-	373,900	373,900	431,649
Loans to individuals - other loans	-	78,143	78,143	78,143
Small and medium enterprises	-	228,625	228,625	228,626
Reverse sale and repurchase agreements	-	6,768	6,768	6,768
Investment securities	-	**53,589**	**53,589**	**65,383**
Municipal and state bonds	-	15,896	15,896	25,484
Corporate bonds	-	37,693	37,693	39,899
Other financial assets	-	**52,348**	**52,348**	**52,348**
Receivables	-	1,914	1,914	1,914
Financial derivatives	-	50,434	50,434	50,434
TOTAL FINANCIAL ASSETS	-	**3,411,630**	**3,411,630**	**3,683,115**

31 Fair Value of Financial Instruments (Continued)

In thousands of USD (as presentation currency, Note 3)	**Fair value by measurement method:** Quoted price in an active market	Valuation technique with inputs observable in markets	**Total fair value**	**Carrying value**
FINANCIAL LIABILITIES				
Due to other banks	-	**488,225**	**488,225**	**494,162**
Current accounts	-	16,772	16,772	16,772
Deposits and loans	-	458,633	458,633	464,570
Payables for repurchased debt securities – domestic	-	12,820	12,820	12,820
Due to NBU	-	**50,751**	**50,751**	**50,751**
Customer Accounts	-	**1,415,705**	**1,415,705**	**1,429,338**
Current/settlement accounts of state and public organisations	-	13,699	13,699	13,699
Term deposits of state and public organisations	-	57,980	57,980	58,015
Current/settlement accounts of other legal entities	-	121,087	121,087	121,087
Term deposits of other legal entities	-	958,519	958,519	964,799
Current/demand accounts of individuals	-	47,938	47,938	47,938
Term deposits of individuals	-	216,482	216,482	223,800
Debt Securities in Issue	-	**47,759**	**47,759**	**50,614**
Loan Participation Notes	**686,493**	**-**	**686,493**	**1,168,107**
Subordinated Debt	-	**43,797**	**43,797**	**74,390**
Other Financial Liabilities	-	**28,041**	**28,041**	**28,041**
Derivative financial instruments	-	24,934	24,934	24,934
Other payables	-	3,107	3,107	3,107
TOTAL FINANCIAL LIABILITIES	**686,493**	**2,074,278**	**2,760,771**	**3,295,403**

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

In thousands of USD (as presentation currency, Note 3)	**Fair value by measurement method:** Quoted price in an active market	Valuation technique with inputs observable in markets	**Total fair value**	**Carrying value**
FINANCIAL ASSETS				
Cash and cash equivalents	-	**202,753**	**202,753**	**202,753**
Cash on hand	-	16,584	16,584	16,584
Cash balances with the NBU (other than mandatory reserve deposits)	-	94	94	94
Mandatory cash balances with the NBU	-	59,606	59,606	59,606
Correspondent accounts and overnight placements with other banks	-			
- Ukraine	-	1,054	1,054	1,054
- Other countries	-	33,451	33,451	33,451
Placements with other banks with original maturities of less than three months	-	91,964	91,964	91,964

31 Fair Value of Financial Instruments (Continued)

In thousands of USD (as presentation currency, Note 3)	**Fair value by measurement method:** Quoted price in an active market	Valuation technique with inputs observable in markets	**Total fair value**	**Carrying value**
Due from other banks	-	**25,592**	**25,592**	**25,592**
Short-term placements with other banks with original maturities of more than three months	-	3,453	3,453	3,453
Reverse sale and repurchase agreements with other banks with original maturities of more than three months	-	22,139	22,139	22,139
Loans and advances to customers	-	**2,244,217**	**2,244,217**	**2,260,715**
Corporate loans	-	1,579,088	1,579,088	1,594,727
Loans to individuals - consumer loans	-	224,173	224,173	224,174
Loans to individuals – mortgage and car loans	-	272,660	272,660	273,519
Loans to individuals - other loans	-	74,099	74,099	74,099
Small and medium enterprises	-	86,151	86,151	86,151
Reverse sale and repurchase agreements	-	8,046	8,046	8,045
Investment securities	**43,263**	**6,085**	**49,348**	**49,348**
Municipal and state bonds available-for-sale	11,863	-	11,863	11,863
Corporate bonds available-for-sale	31,400	6,085	37,485	37,485
Other financial assets	-	**2,292**	**2,292**	**2,292**
Receivables	-	2,152	2,152	2,152
Financial derivatives	-	140	140	140
TOTAL FINANCIAL ASSETS	**43,263**	**2,480,939**	**2,524,202**	**2,540,700**
FINANCIAL LIABILITIES				
Due to other banks	-	**508,296**	**508,296**	**508,296**
Current accounts	-	14,781	14,781	14,781
Deposits and loans	-	493,515	493,515	493,515
Payables for repurchased debt securities – domestic	-	-	-	-
Customer Accounts	-	**842,751**	**842,751**	**842,751**
Current/settlement accounts of state and public organisations	-	19,925	19,925	19,925
Term deposits of state and public organisations	-	15,943	15,943	15,943
Current/settlement accounts of other legal entities	-	373,052	373,052	373,052
Term deposits of other legal entities	-	339,132	339,132	339,132
Current/demand accounts of individuals	-	27,449	27,449	27,449
Term deposits of individuals	-	67,250	67,250	67,250
Debt Securities in Issue	-	**197,077**	**197,077**	**196,241**
Loan Participation Notes	**552,648**	**-**	**552,648**	**552,648**
Subordinated Debt	-	**68,738**	**68,738**	**69,223**
Other Financial Liabilities	-	**4,924**	**4,924**	**4,924**
Derivative financial instruments	-	2,515	2,515	2,515
Other payables	-	2,409	2,409	2,409
TOTAL FINANCIAL LIABILITIES	**552,648**	**1,621,786**	**2,174,434**	**2,174,083**

31 Fair Value of Financial Instruments (Continued)

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by an active quoted market price.

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

Financial instruments carried at fair value. Investment securities available-for-sale and financial derivatives are carried on the balance sheet at their fair value. Fair values of investment securities available-for-sale at 31 December 2007 were determined based on quoted market prices except for certain investment securities available-for-sale for which there were no available external independent market price quotations. These securities have been fair valued by the Group on the basis of results of recent sales of securities between unrelated third parties, consideration of other relevant information such as discounted cash flows and financial data of the investees and application of other valuation methodologies. At 31 December 2008 all financial instruments carried at fair value were valued by valuation techniques using observable market data. Cash and cash equivalents are carried at amortised cost which approximates current fair value.

Loans and receivables carried at amortised cost. The fair value of floating rate instruments is normally their carrying amount. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates 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:

In thousands of USD (as presentation currency, Note 3)	**31 December 2008**	**31 December 2007**
Placements with other banks with original maturities of less than three months	23%p.a.	4% to 12%p.a.
Due from other banks – Note 8		
Short-term placements with other banks with original maturities of more than three months	17% to 21%p.a.	11% to 16%p.a.
Long-term placements with other banks	23% to 36%p.a.	-
Reverse sale and repurchase agreements with other banks with original maturities of more than three months	36%	13% to 15%p.a.
Investment securities – Note 10		
Corporate bonds	36% to 48%p.a.	-
Ukrainian municipal and state organisations	36%p.a.	-
Loans and advances to customers – Note 9		
Corporate loans	17% to 36%p.a.	9% to 15%p.a.
Loans to individuals - consumer loans	10% to 75%p.a.	10% to 108%p.a.
Loans to individuals - mortgage and car loans	18% to 29%p.a.	10% to 18%p.a.
Loans to individuals - other loans	10% to 36%p.a.	10% to 18%p.a.
Small and medium enterprises	11% to 37%p.a.	11% to 43%p.a.
Reverse sale and repurchase agreements	36% to 45%p.a.	8% to 25%p.a.

Liabilities carried at amortised cost. The fair value of loan participation notes is based on quoted market prices. The estimated fair value of fixed interest rate instruments with stated maturity, for which a quoted market price is not available, was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. The fair value of liabilities repayable on demand or after a notice period ("demandable liabilities") is estimated as the amount payable on demand, discounted from the first date that the amount could be required to be paid. Discount rates used were consistent with the relevant Group entity's credit risk and also depend on currency and maturity of the instrument and ranged from 1% p.a. to 79% p.a. (2007: from 1 % p.a. to 12% p.a.)

Derivative financial instruments. All derivative financial instruments are carried at fair value as assets when the fair value is positive and as liabilities when the fair value is negative. The fair values are based on valuation models with inputs based on observable market prices. Refer to Note 30.

32 Reconciliation of Classes of Financial Instruments with Measurement Categories

For the purposes of measurement, the Group classified financial assets into the following categories defined in IAS 39, *Financial Instruments: Recognition of Measurement*: (a) loans and receivables; (b) available-for-sale financial assets (c) trading assets at fair value through profit or loss. The following table provides a reconciliation of classes of financial assets with these measurement categories as at 31 December 2008.

In thousands of USD (as presentation currency, Note 3)	**Loans and receivables**	**Available-for-sale assets**	**Trading assets at fair value through profit or loss**	**Total**
Assets				
Cash and cash equivalents	**328,250**	**-**	**-**	**328,250**
Due from other banks	**103,742**	**-**	**-**	**103,742**
- Short-term placements with other banks with original maturities of more than three months	96,359	-	-	96,359
- Long-term placements with other banks with original maturities of more than three months	6,832	-	-	6,832
- Reverse sale and repurchase agreements with other banks with original maturities of more than three months	551	-	-	551
Loans and advances to customers	**3,133,392**	**-**	**-**	**3,133,392**
- Corporate loans	2,163,482	-	-	2,163,482
- Loans to individuals - consumer loans	224,724	-	-	224,724
- Loans to individuals - mortgage and car loans	431,649	-	-	431,649
- Loans to individuals - other loans	78,143	-	-	78,143
- Small and medium enterprises	228,626	-	-	228,626
- Reverse sale and repurchase agreements	6,768	-	-	6,768
Investment securities	**65,380**	**3**	**-**	**65,383**
Other financial assets	**1,914**	**-**	**50,434**	**52,348**
- Financial derivatives	-	-	50,434	50,434
- Receivables	1,914	-	-	1,914
TOTAL FINANCIAL ASSETS	**3,632,678**	**3**	**50,434**	**3,683,115**
NON-FINANCIAL ASSETS	**-**	**-**	**-**	**81,528**
TOTAL ASSETS	**-**	**-**	**-**	**3,764,643**

32 Reconciliation of Classes of Financial Instruments with Measurement Categories (Continued)

A reconciliation of classes of financial assets with these measurement categories as at 31 December 2007:

In thousands of USD (as presentation currency, Note 3)	Loans and receivables	Available-for-sale assets	Trading assets at fair value through profit or loss	Total
ASSETS				
Cash and cash equivalents	**202,753**	**-**	**-**	**202,753**
Due from other banks	**25,592**	**-**	**-**	**25,592**
- Short-term placements with other banks with original maturities of more than three months	3,453	-	-	3,453
-Reverse sale and repurchase agreements with other banks with original maturities of more than three months	22,139	-	-	22,139
Loans and advances to customers	**2,260,715**	**-**	**-**	**2,260,715**
- Corporate loans	1,594,727	-	-	1,594,727
- Loans to individuals - consumer loans	224,174	-	-	224,174
- Loans to individuals - mortgage and car loans	273,519	-	-	273,519
- Loans to individuals - other loans	74,099	-	-	74,099
-Small and medium enterprises	86,151	-	-	86,151
- Reverse sale and repurchase agreements	8,045	-	-	8,045
Investment securities available-for-sale	**-**	**49,348**	**-**	**49,348**
Other financial assets	**2,152**	**-**	**140**	**2,292**
-Financial derivatives	-	-	140	140
- Receivables	2,152	-	-	2,152
TOTAL FINANCIAL ASSETS	**2,491,212**	**49,348**	**140**	**2,540,700**
NON-FINANCIAL ASSETS	**-**	**-**	**-**	**57,614**
TOTAL ASSETS	**-**	**-**	**-**	**2,598,314**

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

33 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.

There were neither balances nor transactions other than royalty payments, share issue, and prepayment for share capital with parent, ABH Ukraine Limited as at 31 December 2008 and as at 31 December 2007 and for the periods ended 31 December 2008 and 31 December 2007. Information on share issues is disclosed in Note 20. The amount of royalties paid to ABH Ukraine Limited during 2008 is USD 1,942 thousand (2007: nil).

Key management personnel, who are represented by the President of the Bank (Deputy head of Supervisory Board) and members of the Management Board, received remuneration as follows:

In thousands of USD (as presentation currency, Note 3)	**2008**	**2007**
Salaries and other related payments	6,499	3,910
Share option plan (Note 21)	5,520	-
Bonus paid (short-term)	4,557	2,155
Contributions to state pension and social insurance funds paid	106	83
Total remuneration received by the Management	**16,682**	**6,148**

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

	31 December 2008		**31 December 2007**	
In thousands of USD (as presentation currency, Note 3)	**Entities under common control**	**Key manage-ment personnel**	**Entities under common control**	**Key manage-ment personnel**
Cash and cash equivalents	8,220	-	11,333	-
Gross loans and advances to customers (contractual interest rate from 11% to 26%; 2007: from 9% to 16%)	695,947	945	247,218	519
Less: provision for loan impairment of loans and advances to customers	(76,508)	(3)	(188)	-
Other financial assets	5,278	-	6	-
Due to other banks (contractual interest rate from 0% to 13%; 2007: from 0% to 17%)	54,983	-	185,070	-
Customer accounts (contractual interest rate from 0% to 40%; 2007: from 0% to 14%)	544,096	31,379	258,410	854
Subordinated debt (contractual interest rate from 4% to 9%; 2007: 4% to 9%)	74,390	-	69,223	-
Other financial liabilities	19,993	-	-	-
Other liabilities	4,783	-	-	-

As at 31 December 2008 included in loans and advances to entities under common control are loans of USD 269,798 thousand (31 December 2007: USD 44,586 thousand) collateralised by cash deposits placed with the Group.

33 Related Party Transactions (Continued)

The income, expense and equity items with related parties for the year ended 31 December 2008 were as follows (except for key management compensation disclosed on the previous page):

	2008		2007	
In thousands of USD (as presentation currency, Note 3)	**Entities under common control**	**Key management personnel**	**Entities under common control**	**Key management personnel**
Interest income	57,031	86	12,627	66
Fee and commission income	3,516	23	234	-
Foreign exchange translation gains less losses	4,516	24	50	-
Interest expense	(46,681)	(1,995)	(22,223)	8
Impairment charge	(75,962)	-	(188)	-
Gain on initial recognition of liabilities at rates below market	997	-	183	-
Gains less losses from disposal of investment securities available-for-sale	17		-	-
Losses less gain from financial derivatives	(19,010)		-	-
Administrative and other operating expenses	(2,060)	-	-	-
Other income	2,736	-		
Losses on loan purchased from related parties	(5,909)	-	-	-
Gain on origination of subordinated debt recognised directly in equity	-	-	443	-

Outstanding credit related commitments are as follows:

	31 December 2008		31 December 2007	
In thousands of USD (as presentation currency, Note 3)	**Entities under common control**	**Key management personnel**	**Entities under common control**	**Key management personnel**
Guarantees issued	396	-	2,864	-
Undrawn credit lines	818	-	140	-
Letters of credit	7,881	-	-	-

The currency positions and effective interest rates of transactions with entities under common control as at 31 December 2008 are as follows:

In thousands of USD (as presentation currency, Note 3)	**UAH**	**Interest rate**	**USD**	**Interest rate**	**EUR**	**Interest rate**	**Other**	**Interest rate**
Cash and cash equivalents	-	-	-	-	1	-	8,219	-
Loans and advances to customers	205,105	21%	369,002	16%	36,717	14%	85,124	13%
Due to other banks	15,292	-	39,193	8.9%	498	13%	-	-
Customer accounts	189,094	29%	265,038	15%	87,404	12%	2,560	12%
Subordinated debt	-	-	74,390	10%	-	-	-	-

The foreign currency positions and interest rates of transactions with entities under common control as at 31 December 2007 are as follows:

In thousands of USD (as presentation currency, Note 3)	**UAH**	**Interest rate**	**USD**	**Interest rate**	**EUR**	**Interest rate**	**Other**	**Interest rate**
Cash and cash equivalents	-	-	8,094	-	150	-	3,089	-
Loans and advances to customers	6,741	14%	171,950	12%	296	11%	68,231	10%
Due to other banks	11,294	-	22,528	10%	147,691	10%	3,557	6%
Customer accounts	121,870	9%	135,355	8%	1,185	9%	-	-
Subordinated debt	-	-	69,223	10%	-	-	-	-

33 Related Party Transactions (Continued)

The contractual remaining maturities of balances with entities under common control as at 31 December 2008 are as follows:

In thousands of USD (as presentation currency, Note 3)	**Demand and less than 1 month**	**From 1 to 3 months**	**From 3 to 12 months**	**From 12 months to 5 years**	**Over 5 years**	**Total**
Cash and cash equivalents	8,220	-	-	-	-	8,220
Loans and advances to customers	19,865	67,577	404,546	104,255	99,704	695,947
Other financial assets	31	-	4,837	410	-	5,278
Due to other banks	48,264	5,417	1,302	-	-	54,983
Customer accounts	181,120	43,978	304,922	2,960	11,116	544,096
Subordinated debt	-	-	-	13,214	61,176	74,390
Other financial liabilities	40	-	19,953	-	-	19,993

The contractual remaining maturities of balances with entities under common control as at 31 December 2007 are as follows:

In thousands of USD (as presentation currency, Note 3)	**Demand and less than 1 month**	**From 1 to 3 months**	**From 3 to 12 months**	**From 12 months to 5 years**	**Over 5 years**	**Total**
Cash and cash equivalents	11,333	-	-	-	-	11,333
Loans and advances to customers	30,758	68,445	51,033	33,245	63,737	247,218
Other assets	6	-	-	-	-	6
Due to other banks	160,475	20,040	4,555	-	-	185,070
Customer accounts	67,386	57,052	131,865	2,107	-	258,410
Subordinated debt	-	-	-	6,488	62,735	69,223

The currency positions and effective interest rates of transactions with key management personnel as at 31 December 2008 are as follows:

In thousands of USD (as presentation currency, Note 3)	**USD**	**EUR**	**UAH**	**Other**	**Interest rate**
Loans and advances to customers	928	-	17	-	13%
Customer accounts	27,487	1,056	276	2,560	12%

The foreign currency positions and interest rates of transactions with key management personnel as at 31 December 2007 are as follows:

In thousands of USD (as presentation currency, Note 3)	**USD**	**EUR**	**UAH**	**Other**	**Interest rate**
Loans and advances to customers	519	-	-	-	11%
Customer accounts	76	358	420	-	9%

The contractual remaining maturities of balances with key management personnel as at 31 December 2008 are as follows:

In thousands of USD (as presentation currency, Note 3)	**Demand and less than 1 month**	**From 1 to 3 months**	**From 3 to 12 months**	**From 12 months to 5 years**	**Over 5 years**	**Total**
Loans and advances to customers	9	16	85	252	583	945
Customer accounts	571	761	30,047	-	-	31,379

33 Related Party Transactions (Continued)

The contractual remaining maturities of balances with key management personnel as at 31 December 2007 are as follows:

In thousands of USD (as presentation currency, Note 3)	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 12 months to 5 years	Over 5 years	Total
Loans and advances to customers	9	17	73	306	114	519
Customer accounts	783	-	55	16	-	854

Aggregate amounts lent to and repaid by related parties during the year ended as at 31 December 2008 and year ended as at 31 December 2007 were:

	31 December 2008		31 December 2007	
In thousands of USD (as presentation currency, Note 3)	Entities under common control	Key management personnel	Entities under common control	Key management personnel
Amounts lent to related parties during the period	1,951,637	576	622,079	1,140
Amounts repaid by related parties during the period	1,211,828	156	430,459	190

In February and December 2008 the Group purchased corporate loans from an entity under common control for USD 21,302 thousand. The fair value of these loans as at the date of purchase was USD 15,760 thousand. As a result of this transaction, the Group recorded a loss on the purchase of USD 5,909 thousand. The difference amounting to USD 367 is a translation effect arose from presentation to presentation currency. The Group introduced the borrowers to the related party. The Group is taking steps to recover the loans from the borrowers in full.

During the year ended 31 December 2008 entities related by virtue of common control contributed to the development of customer base and expansion of the Group's business and incurred expenses of USD 50,081 thousand (31 December 2007: USD 16,412 thousand). Entities under common control will not require reimbursement of incurred expenses from the Group.

In addition, during 2008 an entity related by virtue of common control received compensation of USD 12,700 thousand for services related to the Group’s activity, namely customer identification services performed by the Bank for lending by another related party (31 December 2007: USD 7,944 thousand). The related party recipient of the compensation is not required to transfer the compensation received to the Bank. As such, no receivable or income has been recognised by the Bank.

34 Subsequent Events

In February-April 2009 the Bank received refinancing loans from the National Bank of Ukraine, namely:

- 26 February 2009 - UAH 360,000 (USD 46,753 at the reporting date) thousand at 16.5% per annum, due on 9 February 2010;
- 6 March 2009 - UAH 340,000 (USD 44,153 at the reporting date) thousand at 16.5% per annum, due on 9 February 2010;
- 6 April 2009 - UAH 750,000 (USD 97,404 at the reporting date) thousand at 16.5% per annum, due on 2 April 2010;

All tranches are collateralized by the Group’s assets (loans and advances, promissory notes, and other assets). The last tranche was granted by the NBU for the special purpose of financing of Kiev City State Administration. This tranche is collateralized by the promissory notes issued by Kiev City State Administration.

In March 2009 the Group received two tranches of subordinated debt amounting to USD 130,000 thousand and USD 36,000 thousand from Overstand Limited. The subordinated debt carries the interest rate of 14.23% per annum and matures on 21 March 2014. Subordinated debt was registered by the NBU on 19 March 2009.