Joint Stock Company
"The State Export-Import Bank of Ukraine"
Consolidated Financial Statements

Year ended 31 December 2008
Together with Independent Auditors' Report

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Ernst & Young

Ernst & Young Audit Services LLC
Khreschatyk Street, 19A
Kyiv, 01001, Ukraine
Tel: +380 (44) 490 3000
Fax: +380 (44) 490 3030
Ukrainian Chamber of Auditors
Certificate: 3516
www.ey.com/ukraine

ТОВ «Ернст енд Янг Аудиторські Послуги»
Україна, 01001, Київ
вул. Хрещатик, 19А
Тел.: +380 (44) 490 3000
Факс: +380 (44) 490 3030
Свідоцтво Аудиторської
Палати України: 3516

INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDER AND THE BOARD OF DIRECTORS OF
JOINT STOCK COMPANY "THE STATE EXPORT-IMPORT BANK OF UKRAINE"

We have audited the accompanying consolidated financial statements of Open Joint Stock Company "The State Export-Import Bank of Ukraine" and its subsidiaries (the "Bank"), which comprise the consolidated balance sheet as at 31 December 2008 and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these 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 consolidated financial statements are free from material misstatement.

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

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

Opinion

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

Ernst & Young Audit Services LLC

3 April 2009

CONSOLIDATED BALANCE SHEET
As at 31 December 2008

(Thousands of Ukrainian hryvnia)

	Notes	*2008*	*2007*
Assets			
Cash and cash equivalents	6	6,308,694	3,460,104
Amounts due from credit institutions	7	963,014	279,139
Loans to customers	8	36,608,067	21,781,631
Investment securities:	9		
- designated at fair value through profit and loss		965,404	1,342,737
- available-for-sale		857,268	2,341
- held-to-maturity		192,767	508,025
Property and equipment	10	1,450,409	1,025,480
Intangible assets	11	10,159	9,228
Deferred income tax assets	12	16,323	-
Other assets	14	217,097	157,171
Total assets		**47,589,202**	**28,565,856**
Liabilities			
Amounts due to the National Bank of Ukraine	15	1,408,000	-
Amounts due to credit institutions	16	15,475,954	8,142,984
Amounts due to customers	17	16,599,704	10,594,902
Debt securities issued	19	1,062,149	1,287,093
Eurobonds issued	18	7,851,856	5,145,498
Current income tax liabilities	12	15,561	21,611
Deferred income tax liabilities	12	-	131,902
Subordinated debt	20	977,738	640,257
Provisions	13	102,742	7,301
Other liabilities	14	156,072	104,762
Total liabilities		**43,649,776**	**26,076,310**
Equity			
Share capital	21	3,775,865	2,199,232
Revaluation reserve	21	655,340	441,239
Accumulated deficit		(491,779)	(150,925)
Total equity		**3,939,426**	**2,489,546**
Total equity and liabilities		**47,589,202**	**28,565,856**

Signed and authorised for release on behalf of the Management Board of the Bank

Victor Kapustin Chairman of the Board

Natalia Potemska Chief Accountant

3 April 2009

The accompanying notes on pages 5 to 55 are an integral part of these consolidated financial statements.

CONSOLIDATED INCOME STATEMENT
For the year ended 31 December 2008

(Thousands of Ukrainian hryvnia)

	Notes	2008	2007
Interest income			
Loans to customers		3,686,525	2,301,813
Amounts due from credit institutions		177,501	137,198
Investment securities		98,110	7,413
		3,962,136	2,446,424
Securities at fair value through profit and loss		88,846	102,714
		4,050,982	2,549,138
Interest expense			
Amounts due to customers		(1,113,002)	(587,476)
Eurobonds issued		(407,249)	(383,440)
Amounts due to credit institutions		(679,068)	(375,403)
Debt securities issued		(121,754)	(94,383)
Subordinated debt		(57,727)	(53,975)
Amounts due to the National Bank of Ukraine		(42,453)	(2,144)
		(2,421,253)	(1,496,821)
Net interest income		**1,629,729**	**1,052,317**
Allowance for loan impairment	8	(1,293,899)	(196,370)
Net interest income after allowance for loan impairment		**335,830**	**855,947**
Fee and commission income		454,185	336,282
Fee and commission expense		(46,497)	(33,371)
Fees and commissions, net	23	**407,688**	**302,911**
Net gains from investment securities		18,513	290
Net gains from foreign currencies and precious metals:			
- dealing		262,456	132,227
- translation differences		62,983	2,110
Other income		48,672	28,645
Non interest income		**392,624**	**163,272**
Losses on initial recognition of financial instruments, net		(4,740)	(7,119)
Personnel expenses	24	(613,306)	(408,153)
Depreciation and amortisation	10, 11	(50,510)	(50,714)
Other operating expenses	24	(179,644)	(143,049)
Other impairment and provisions (reversal)	13	(108,022)	40,438
Non interest expense		**(956,222)**	**(568,597)**
Profit before income tax expense		**179,920**	**753,533**
Income tax expense	12	(57,647)	(200,690)
Profit for the year		**122,273**	**552,843**

The accompanying notes on pages 5 to 55 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2008

(Thousands of Ukrainian hryvnia)

	Share capital	*Revaluation reserve*	*Accumulated deficit*	*Total equity*
31 December 2006	**1,631,649**	**452,457**	**(347,403)**	**1,736,703**
Depreciation of revaluation reserve, net of tax (Note 21)	-	(11,156)	11,156	-
Disposal of property, net of tax (Note 21)		(62)	62	-
Total income and expense for the year recognised directly in equity	-	(11,218)	11,218	-
Profit for the year			552,843	552,843
Total income and expense for the year	-	(11,218)	564,061	552,843
Increase in share capital (Note 21)	367,583	-	(367,583)	-
Paid in share capital (Note 21)	200,000	-	-	200,000
31 December 2007	**2,199,232**	**441,239**	**(150,925)**	**2,489,546**
Revaluation of property, net of tax (Note 21)	-	229,505	-	229,505
Net loss on investment securities available-for-sale, net of tax (Note 21)		(1,896)		(1,896)
Depreciation of revaluation reserve, net of tax (Note 21)	-	(13,493)	13,493	-
Disposal of property, net of tax (Note 21)	-	(15)	15	-
Total income and expense for the year recognised directly in equity	-	214,101	13,508	227,609
Profit for the year	-	-	122,273	122,273
Total income and expense for the year	-	214,101	135,781	349,882
Increase in share capital (Note 21)	476,635	-	(476,635)	-
Paid in share capital (Note 21)	1,099,998	-	-	1,099,998
31 December 2008	**3,775,865**	**655,340**	**(491,779)**	**3,939,426**

The accompanying notes on pages 5 to 55 are an integral part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT
For the year ended 31 December 2008

(Thousands of Ukrainian hryvnia)

	Notes	*2008*	*2007*
Cash flows from operating activities			
Interest and commissions received		4,179,478	2,731,678
Interest and commissions paid		(2,283,963)	(1,342,089)
Gains less losses from dealing in foreign currencies, precious metals and securities		262,456	132,662
Other operating income received		48,171	28,149
Personnel expenses paid		(566,098)	(396,736)
Other operating and administrative expenses paid		(168,787)	(129,495)
Cash flow from operating activities before changes in operating assets and liabilities		**1,471,257**	**1,024,169**
Net increase in operating assets			
Amounts due from credit institutions		(523,729)	(125,756)
Loans to customers		(4,289,722)	(6,683,715)
Other assets		(90,735)	(70,464)
Net increase in operating liabilities			
Amounts due to the National Bank of Ukraine		1,408,000	-
Amounts due to credit institutions		254,657	384,890
Amounts due to customers		2,829,293	3,734,128
Other liabilities		24,562	8,956
Net cash flows used in operating activities before income tax		**1,083,583**	**(1,727,792)**
Income tax paid		(287,793)	(200,957)
Net cash flows used in operating activities		**795,790**	**(1,928,749)**
Cash flows from financing activities			
Proceeds from borrowings from credit institutions		7,069,497	5,204,626
Repayment of borrowings from credit institutions		(7,345,675)	(2,754,661)
Share capital increase		99,999	200,000
Proceeds from local bonds issued		-	775,112
Redemption of bonds issued		(223,680)	-
Net cash flows from financing activities		**(399,859)**	**3,425,077**
Cash flows from investing activities			
Proceeds from sale and redemption of investment securities		6,293,819	2,436,283
Purchase of investment securities		(5,445,856)	(3,417,102)
Purchases of property, equipment and intangible assets		(172,625)	(90,874)
Proceeds from sale of property and equipment		1,136	2,958
Net cash flows used in investing activities		**676,474**	**(1,068,735)**
Effect of exchange rates changes on cash and cash equivalents		1,776,185	88,567
Net change in cash and cash equivalents		**2,848,590**	**516,160**
Cash and cash equivalents, beginning of the year		**3,460,104**	**2,943,944**
Cash and cash equivalents, ending of the year	6	**6,308,694**	**3,460,104**

The accompanying notes on pages 5 to 55 are an integral part of these consolidated financial statements.

1. Principal activities

The State Export-Import Bank of Ukraine (the "EximBank") was founded in 1992. It was registered at the National Bank of Ukraine (the "NBU") on 23 January 1992 and on 18 September 2000 was re-registered as an joint stock company. Currently the EximBank operates under a general banking licence #2 renewed by the NBU on 25 December 2001, which provides the EximBank with the right to conduct banking operations, including currency operations.

As at 31 December 2008 and 2007, 100% of the EximBank's shares were owned by the Cabinet Ministers of Ukraine on behalf of the State of Ukraine.

The EximBank's head office is in Kyiv at 127 Gorky St. It has 30 branches and 100 operating outlets (2007: 30 branches and 95 operating outlets) located in Kyiv and other regions of Ukraine and 2 representative offices located in London and New-York. The EximBank and its branches form a single legal entity.

Historically, the main focus of the EximBank's operations was servicing various export-import transactions. Currently, the EximBank's customer base is diversified and includes some large industrial and State owned enterprises. The EximBank accepts deposits from the public and makes loans, transfers payments in Ukraine and abroad, exchanges currencies, invests funds and provides cash and settlements, and other banking services to its customers.

One of the activities of the EximBank is to facilitate, on behalf of the Ukrainian Government, the administration of loan agreements entered into by the Ukrainian Government with other foreign governments. The EximBank acts as an agent, on behalf of the Ukrainian Government, with respect to loans from foreign financial institutions based on the aforementioned agreements. The loan proceeds are advanced to various enterprises within Ukraine based on separate loan agreements between the EximBank and Ukrainian enterprises.

A letter from the Cabinet of Ministers dated 4 August 1995, which was subsequently formalised in an Agency Agreement dated 19 September 1996, confirms that the responsibility of the EximBank is to act as an agent of the Ukrainian Government for the above-described activities and thereby the loan obligations and related risks belong to the Government.

These consolidated financial statements comprise the EximBank, its subsidiaries and unincorporated mutual investment fund (together referred to as the "Bank"). A list of consolidated subsidiaries is as follows:

"Ukreximleasing", a 100% owned subsidiary was founded in 1997 and operates in Ukraine in the leasing business. The Bank is the main customer of and provider of finance to this company.

"Eximleasing" Ltd, a 100% owned subsidiary was founded in 2006.

In 2006, the EximBank established an unincorporated mutual investment fund - "Agat", which is of a non-diversified nature. As at 31 December 2008, the EximBank holds 99% of the investment certificates of "Agat" (2007: 99%) and the assets and liabilities of this investment fund were consolidated into the financial statements of the EximBank for the years ended 31 December 2008 and 2007 as the Eximbank has the power to exercise control over operations of "Agat".

2. Basis of preparation

General

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

The Bank is required to maintain their books of account in Ukrainian hryvnia and prepare statements for regulatory purposes in accordance with the "Regulations on the Organisation of Accounting and Reporting for Ukrainian Banking Institutions" issued by the National Bank of Ukraine and in accordance with Ukrainian Accounting

Standards ("UAS"). These consolidated financial statements are based on the Bank's UAS books and records, as adjusted and reclassified in order to comply with IFRS. The reconciliation between UAS and IFRS is presented later in this note.
The consolidated financial statements are prepared under the historical cost convention except as disclosed in the accounting policies below. For example, available-for-sale securities, financial assets designated at fair value through profit and loss and buildings have been measured at fair value.

These consolidated financial statements are presented in thousands of Ukrainian hryvnia ("UAH") unless otherwise indicated.

Inflation accounting

The Ukrainian economy was considered hyperinflationary until 31 December 2000. As such, the Bank has applied IAS 29 "Financial accounting in hyperinflationary economies". The effect of applying IAS 29 is that non-monetary items, including components of equity, were restated to the measuring units current at 31 December 2000 by applying the Consumer Price Indexes to the historical cost, and that these restated values were used as a basis for accounting in subsequent accounting periods.

Reconciliation of UAS and IFRS equity and profit for the year

Equity and profit for the year are reconciled between UAS and IFRS as follows:

	2008		*2007*	
	Equity	*Profit for the year*	*Equity*	*Profit for the year*
UAS (combined)	**4,495,495**	**620,171**	**2,560,797**	**507,127**
Application of IAS 29	63,485	(265)	50,729	(2)
Measurement of financial instrument	512	13,961	(13,449)	3,840
Additional allowance for impairment	(754,349)	(704,570)	(49,779)	58,124
Accruals	(14,277)	(9,729)	(4,548)	2,170
Additional IFRS depreciation	(66,852)	2,691	(69,543)	(4,640)
Deferred tax	200,790	181,962	18,828	(12,171)
Other	14,622	18,052	(3,430)	(1,599)
IFRS	**3,939,426**	**122,273**	**2,489,605**	**552,849**

Reclassifications

The following reclassifications have been made to 2007 balances to conform to the 2008 presentation.

Amount	*Previously reported*	*As reclassified*	*Comment*
59	Minority interest	Other liabilities	Reclassification of Minority interest based on its substance
6	Profit for the year attributable to minority shareholders of the subsidiary	Other expenses	Reclassification based on the substance
102,714	Interest income on Investment securities	Interest income on Securities at fair value through profit and loss	To achieve better presentation

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

3. Summary of accounting policies

Subsidiaries

Subsidiaries, which are those entities in which the Bank has an interest of more than one half of the voting rights, or otherwise has power to exercise control over their operations, are consolidated. Subsidiaries are consolidated from the date on which control is transferred to the Bank and are no longer consolidated from the date that control ceases. All intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated in full; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Bank.

Acquisition of subsidiaries

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Bank. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest.

The excess of purchase consideration over the Bank's share in the net fair value of the identifiable assets, liabilities and contingent liabilities is recorded as goodwill. If the cost of the acquisition is less than the Bank's share in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary acquired the difference is recognised directly in the consolidated income statement.

Minority interest is the interest in subsidiaries not held by the Bank. Minority interest at the balance sheet date represents the minority shareholders' share in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary at the acquisition date and the minorities' share in movements in equity since the acquisition date. Minority interest is presented within other liabilities.

Losses allocated to minority interest do not exceed the minority interest in the equity of the subsidiary unless there is a binding obligation of the minority to fund the losses. All such losses are allocated to the Bank.

Financial assets

Initial recognition

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

Date of recognition

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

Financial assets at fair value through profit or loss

Financial assets classified as held for trading and those designated at fair value through profit or loss at inception are included in the category 'financial assets at fair value through profit or loss'. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives are also classified as held for trading unless they are designated and effective hedging instruments. Gains or losses on financial assets at fair value through profit or loss are recognised in the consolidated income statement.

Financial asset classified in this category are designated by management on initial recognition when the following criteria are met:

- The designation eliminates or significantly reduces the inconsistent treatment that would other wise arise from measuring the assets or liabilities or recognising gains or losses on them on a different basis: or
- The assets are part of a group of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
- The financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Bank has the positive intention and ability to hold them to maturity. Investments intended to be held for an undefined period are not included in this classification. Held-to-maturity investments are subsequently measured at amortised cost. Gains and losses are recognised in the consolidated income statement when the investments are impaired, as well as through the amortisation process.

Loans and receivables

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

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial recognition available-for sale financial assets are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the consolidated income statement. However, interest calculated using the effective interest method is recognised in the consolidated income statement.

Investments in equity instruments that do not have a quoted market price in an active market are measured at cost less any allowance for impairment.

Determination of fair value

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

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

Offsetting

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

Reclassification of financial assets

If a non-derivative financial asset classified as held for trading is no longer held for the purpose of selling in the near term, it may be reclassified out of the fair value through profit or loss category in one of the following cases:
- a financial asset that would have met the definition of loans and receivables above may be reclassified to loans and receivables category if the Bank has the intention and ability to hold it for the foreseeable future or until maturity;
- other financial assets may be reclassified to available for sale or held to maturity categories only in rare circumstances.

A financial asset classified as available for sale that would have met the definition of loans and receivables may be reclassified to loans and receivables category of the Bank has the intention and ability to hold it for the foreseeable future or until maturity.

Financial assets are reclassified at their fair value on the date of reclassification. Any gain or loss already recognized in profit or loss is not reversed. The fair value of the financial asset on the date of reclassification becomes its new cost or amortised cost, as applicable.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, amounts due from the NBU, and amounts due from credit institutions that mature within ninety days of the date of origination and are free from contractual encumbrances.

Precious metals

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

Repurchase and reverse repurchase agreements and securities lending

Sale and repurchase agreements ("repos") are treated as secured financing transactions. Securities sold under sale and repurchase agreements are retained in the balance sheet and, in case the transferee has the right by contract or custom to sell or repledge them, reclassified as securities pledged under sale and repurchase agreements. The corresponding liability is presented within amounts due to credit institutions or customers. Securities purchased under agreements to resell ("reverse repo") are recorded as amounts due from credit institutions or loans to customers as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of repo agreements using the effective yield method.

Securities lent to counterparties are retained in the financial statements. Securities borrowed are not recorded in the consolidated financial statements, unless these are sold to third parties, in which case the purchase and sale are recorded within gains less losses from trading securities in the consolidated income statement. The obligation to return them is recorded at fair value as a trading liability.

Promissory notes

Promissory notes purchased are included in available-for-sale investment securities, or in amounts due from credit institutions or in loans to customers, depending on their substance and are accounted for in accordance with the accounting policies for these categories of assets.

Borrowings

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

If the Bank purchases its own debt, it is removed from the consolidated balance sheet and the difference between the carrying amount of the liability and the consideration paid is recognised in the consolidated income statement.

Leases

i. Finance – Bank as lessee

The Bank recognises finance leases as assets and liabilities in the consolidated balance sheet at the date of commencement of the lease term at amounts equal to the fair value of the leased property or, if lower, at the present value of the minimum lease payments. In calculating the present value of the minimum lease payments the discount factor used is the interest rate implicit in the lease, when it is practicable to determine; otherwise, the Bank's incremental borrowing rate is used. Initial direct costs incurred are included as part of the asset. Lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to periods during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

The costs identified as directly attributable to activities performed by the lessee for a finance lease, are included as part of the amount recognised as an asset under the lease.

ii. Finance – Bank as lessor

The Bank recognises lease receivables at value equal to the net investment in the lease, starting from the date of commencement of the lease term. Finance income is based on a pattern reflecting a constant periodic rate of return on the net investment outstanding. Initial direct costs are included in the initial measurement of the lease receivables.

iii. Operating – Bank as lessee

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

iv. Operating – Bank as lessor

The Bank presents assets subject to operating leases in the consolidated balance sheet according to the nature of the asset. Lease income from operating leases is recognised in the consolidated income statement on a straight-line basis over the lease term as other income. The aggregate cost of incentives provided to lessees is recognised as a reduction of rental income over the lease term on a straight-line basis. Initial direct costs incurred specifically to earn revenues from an operating lease are added to the carrying amount of the leased asset.

Impairment of financial assets

The Bank assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Amounts due from credit institutions and loans to customers

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

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

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

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

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the years on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the group or their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Held-to-maturity investments

For held-to-maturity investments the Bank assesses individually whether there is objective evidence of impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated income statement.

If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognised, any amounts formerly charged are credited to the consolidated income statement.

Available-for-sale financial assets

For available-for-sale financial assets, the Bank assesses at each balance sheet date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition coast and the current fair value, less any impairment loss on that investment previously recognised in the consolidated income statement – is removed from equity and recognised in the consolidated income statement. Impairment losses on equity investments are not reversed through the consolidated income statement; increases in their fair value after impairment are recognised directly in equity.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded in the consolidated income statement. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the consolidated income statement, the impairment loss is reversed through the consolidated income statement.

Renegotiated loans

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original or current effective interest rate.

Asset management

The Bank acts as an asset manager for a number of construction financing funds. The Bank acts as an agent in such arrangements and its responsibility is limited to fiduciary duties, which are commonly applied in the asset management business. Accordingly, the Bank does not recognise liabilities relating to the funds under management, but assesses the need to recognise any provisions related to additional guarantees issued by the Bank with respect to the activities of such funds. Funds under management are not legal entities under the laws of Ukraine. The management of fund activity is effectively delegated to the Bank. The funds keep their current accounts in the Bank to the extent to which the funds are not invested in eligible assets, which meet the investment profile for the fund.

Derecognition of financial assets and liabilities

Financial assets

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

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

Where the Bank has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Bank's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Bank's continuing involvement is the amount of the transferred asset that the Bank may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Bank's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

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

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

Financial guarantees

In the ordinary course of business, the Bank gives financial guarantees, consisting of letters of credit, guarantees and avals. Financial guarantees are initially recognised in the consolidated financial statements at fair value, in 'Other liabilities', being the premium received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amortised premium and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is taken to the consolidated income statement. The premium received is recognised in the consolidated income statement on a straight-line basis over the life of the guarantee.

Taxation

The current income tax charge is calculated in accordance with Ukrainian taxation regulations.

Deferred tax assets and liabilities are calculated in respect of temporary differences using the liability method. Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, except where the deferred income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Ukraine also has various operating taxes, which are assessed on the Bank's activities. These taxes are included as a component of administrative and operating expenses.

Property and equipment

Equipment is carried at cost or restated cost (for assets acquired prior to 31 December 2000), excluding the costs of day-to-day servicing, less accumulated depreciation and any accumulated impairment. Buildings are measured at fair value less depreciation and impairment charged subsequent to the date of the revaluation.

The carrying values of equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

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

Any revaluation surplus is credited to the property revaluation reserve which is included in equity, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in the consolidated income statement, in which case the increase is recognised in the consolidated income statement. A revaluation deficit is recognised in the consolidated income statement, except that a deficit directly offsetting a previous surplus on the same asset is directly offset against the surplus in the property revaluation reserve.

An annual transfer from the property revaluation reserve to retained earnings is made for the difference between depreciation based on the revalued carrying amount of the assets and depreciation based on the assets' original cost. Additionally, accumulated depreciation as at the revaluation date is restated proportionally with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount. Upon disposal, any revaluation of property relating to the particular asset being sold is transferred to retained earnings.

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

Depreciation of an asset begins when it is available for use. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

	Years
Buildings	6-75 years (6-50 years before 1 May 2008)
Furniture, fixtures and other assets	2-25 years
Equipment and computers	2-15 years
Motor vehicles	5 years

In 2008, the Bank's management made a decision to change useful life of buildings based on the results of the revaluation as at 1 May 2008. The effect of the change is disclosed in Note 10.

The amount of impact of adopted changes on future periods is not disclosed as the latter could not be estimated reliably because the information on fair value and movements of buildings in the future is not readily available.

Leasehold improvements (restructuring costs for premises in lease contract) are depreciated over a period not exceeding the leasing period.

The asset's residual values, useful lives and methods are reviewed, and adjusted as appropriate, at each financial year-end.

Costs related to repairs and renewals are charged when incurred and included in other operating and administrative expenses unless they qualify for capitalisation.

Intangible assets

Intangible assets include acquired computer software and licences. Intangible assets acquired separately are measured on initial recognition at cost or restated cost (for assets acquired prior to 31 December 2000). Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic lives of five to ten years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation periods and methods for intangible assets with finite useful lives are reviewed at least at each financial year-end.

Provisions

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

Retirement and other benefit obligations

The Bank has defined contribution pension plan separate from the State pension system of Ukraine, which requires current contributions by the employer calculated as a percentage of current gross salary payments; such expense is charged in the period the related salaries are earned. The contribution payable to a defined contribution plan is in proportion to the services rendered to the Bank by the employees, age of employees and years working for the Bank and is recorded as an expenses under "Personnel expenses". Unpaid contributions are recorded as a liability. In addition, the Bank has no post-retirement benefits or significant other compensated benefits requiring accrual.

Share capital

Ordinary shares are classified as equity. Share capital contributions received before 31 December 2000 are recognised at restated cost following the application of IAS 29 "Financial Reporting in Hyperinflationary Economies".

Segment reporting

A segment is a distinguishable component of the Bank that is engaged 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. Segment income, segment expenses and segment performance include transfers between business segments and between geographical segments.

Contingencies

Contingent liabilities are not recognised in the consolidated balance sheet but are disclosed unless the possibility of any outflow in settlement is not remote. A contingent asset is not recognised in the consolidated balance sheet but disclosed when an inflow of economic benefits is probable.

Recognition of income and expense

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Interest and similar income and expense

For all financial instruments measured at amortised cost and interest bearing securities classified as trading or available-for-sale, interest income or expense is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the original effective interest rate applied to the new carrying amount.

Fee and commission income

The Bank earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

- *Fee income earned from services that are provided over a certain period of time*

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and asset management, custody and other management and advisory fees. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the effective interest rate on the loan.

- *Fee income from providing transaction services*

Fees arising from negotiating or participating in the negotiation of a transaction for a third party – such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses – are recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

Dividend income

Revenue is recognised when the Bank's right to receive the payment is established.

Foreign currency translation

The consolidated financial statements are presented in Ukrainian hryvnia ("UAH"), which is the Bank's functional and presentation currency. Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. Gains and losses resulting from the translation of foreign currency transactions are recognised in the consolidated income statement as gains less losses from foreign currencies and precious metals – translation differences. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Differences between the contractual exchange rate of a transaction in a foreign currency and the NBU exchange rate on the date of the transaction are included in gains less losses from dealing in foreign currencies. The official NBU exchange rates at 31 December 2008 and 2007, were UAH 7.70 and UAH 5.05 to 1 US dollar and UAH 10.85546 and UAH 7.41946 to 1 Euro, respectively.

Future changes in accounting policies

Standards and interpretations issued but not yet effective

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

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

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

Amendments to IAS 32 "Financial Instruments: Presentation" and IAS 1 "Presentation of Financial Statements" – Puttable Financial Instruments and Obligations Arising on Liquidation
These amendments were issued in February 2008, and become effective for annual periods beginning on or after 1 January 2009. The amendments require puttable instruments that represent a residual interest in an entity to be classified as equity, provided they satisfy certain conditions. These amendments will have no impact on the Bank.

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

Amendments to IFRS 1 "First-time Adoption of IFRSs" and IAS 27 "Consolidated and Separate Financial Statements" - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
These amendments were issued in May 2008, and become effective for annual periods beginning on or after 1 January 2009. The revision to IAS 27 will have to be applied prospectively. The amendments to IFRS 1 allow an entity to determine the cost of investments in a subsidiary, jointly controlled entity or associate in its opening IFRS financial statements in accordance with IAS 27 or using a deemed cost. The amendment to IAS 27 requires all dividends from a subsidiary, jointly controlled entity or associate to be recognised in the income statement in the separate financial statements. The new requirements affect only the parent's separate financial statements and do not have an impact on the consolidated financial statements.

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

IFRS 3 "Business Combinations" (revised in January 2008) and IAS 27 "Consolidated and Separate Financial Statements" (revised in January 2008)
The revised standards were issued in January 2008 and become effective for financial years beginning on or after 1 July 2009. Revised IFRS 3 introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results. Revised IAS 27 requires that a change in the ownership interest of a subsidiary is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give raise to a gain or loss. Furthermore, the revised standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes introduced by the revised Standards must be applied prospectively and will affect only future acquisitions and transactions with minority interests.

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

IFRIC 13 "Customer Loyalty Programmes"
IFRIC Interpretation 13 was issued in June 2007 and becomes effective for annual periods beginning on or after 1 July 2008. This Interpretation requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted and therefore part of the fair value of the consideration received is allocated to the award credits and deferred over the period that the award credits are fulfilled. The Bank expects that this interpretation will have no impact on the Bank's consolidated financial statements as no such schemes currently exist.

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

IFRIC 16 "Hedges of a Net Investment in a Foreign Operation"
IFRIC Interpretation 16 was issued in July 2008 and is applicable for annual periods beginning on or after 1 October 2008. This Interpretation provides guidance on identifying the foreign currency risks that qualify for hedge accounting in the hedge of net investment, where within the group the hedging instrument can be held and how an entity should determine the amount of foreign currency gain or loss, relating to both the net investment and the hedging instrument, to be recycled on disposal of the net investment. The Bank expects that this interpretation will have no impact on the Bank's consolidated financial statements.

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

4. Significant accounting judgements and estimates

Judgements

In the process of applying the Bank's accounting policies, management has made the following judgements, apart from those involving estimates, which have the most significant effect on the amounts recognised in the consolidated financial statements:

Classification of securities
Securities owned by the Bank comprise Ukrainian State and corporate bonds and corporate shares. Upon initial recognition, the Bank designates securities as financial assets with recognition of changes in fair value through profit or loss, held to maturity financial assets or available-for-sale financial assets with recognition of changes in fair value through equity.

Consolidation of mutual investment fund
In 2006, the EximBank established an unincorporated mutual investment fund "Agat", which is of a non-diversified nature. As at 31 December 2008, the EximBank holds 99% of the investment certificates of "Agat" (2007: 99%) and the assets and liabilities of this investment fund were consolidated into the financial statements of the EximBank for the years ended 31 December 2008 and 2007. The Bank has the power to exercise control over operations of "Agat" through the majority in the Supervisory Board.

Estimation uncertainty

In the process of applying the Bank's accounting policies, management has used its judgements and made estimates in determining the amounts recognised in the consolidated financial statements. The most significant use of judgements and estimates are as follows:

Allowance for impairment of loans and receivables
The Bank regularly reviews its loans and receivables to assess impairment. The Bank uses its judgement to estimate the amount of any impairment loss in cases where a borrower is in financial difficulties and there is little available historical data relating to similar borrowers. Similarly, the Bank estimates changes in future cash flows based on the 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 group of loans and receivables. The Bank uses its judgement to adjust observable data for a group of loans or receivables to reflect current circumstances.

Deferred tax asset recognition
As at 31 December 2008, the Bank has recognised a deferred tax asset of UAH 316,077 thousand (2007: UAH 81,927 thousand). The Bank's management believes that within a reasonable period the Bank will have sufficient taxable profit that will enable it to utilise its deferred tax benefit.

5. Segment information

The primary segment reporting format is determined to be business segments as the Bank's risks and rates of return are affected predominantly by differences in the products and services produced. Secondary information is not reported geographically due to the fact that the Bank operates solely on the territory of the Ukraine, which determines primary location of the Bank's assets and location of its clients. The operating businesses are organised and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets.

The business segmentation in the Bank is based on its financial structure. The financial structure of the Bank is organized into the following business segments:

Retail banking	Includes products offered on standard terms and conditions (as per the tariffs approved in the standard procedures) that do not require individual approach and are mainly offered to retail customers;
Corporate banking	Includes complex products that require individual approach and are mainly offered to corporate customers;
Financial institutions and investments	Includes products for securities transactions or for rendering services to financial market participants (interbank operations, stock market, etc.);
Other/Unallocated	Other not directly allocated operation.

For the purpose of segment reporting, interest is allocated based on a pool rate determined by Treasury based on the Bank's cost of borrowing.

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

Business segments
The following table presents income and profit and certain asset and liability information regarding the Bank's business segments for the year ended 31 December 2008:

	Retail banking	*Corporate banking*	*Financial institutions and investments*	*Other/ Unallocated*	*Total*
Interests income	219,763	3,477,519	353,700		4,050,982
Interests expenses	(774,518)	(530,857)	(1,115,878)	-	(2,421,253)
Allowance for loan impairment	(84,210)	(1,209,689)	-	-	(1,293,899)
Income from other segments	989,304	675,337	1,362,945	3,142,513	6,170,099
Expenses of other segments	(167,706)	(2,629,820)	(344,987)	(3,027,586)	(6,170,099)
Net interest income after allowance for loan impairment	**182,633**	**(217,510)**	**255,780**	**114,927**	**335,830**
Net fee and commission income	297,169	96,674	13,853	(8)	407,688
Other non-interest income	76,292	42,251	228,836	45,245	392,624
Non-interest expense	(421,352)	(213,898)	(55,747)	(265,225)	(956,222)
Segment results	**134,742**	**(292,483)**	**442,722**	**(105,061)**	**179,920**
Income tax expense				(57,647)	(57,647)
Profit for the year					**122,273**
Assets and liabilities					
Segment assets	4,210,327	35,304,013	7,888,867	-	47,403,207
Unallocated assets				185,995	185,995
Total assets					**47,589,202**
Segment liabilities	10,475,963	12,094,630	21,039,541	-	43,610,134
Unallocated liabilities				39,642	39,642
Total liabilities					**43,649,776**
Other segment information					
Capital expenditure	(124,481)	(20,164)	(3,684)	(17,703)	(166,032)
Depreciation and amortization	(37,319)	(6,401)	(1,169)	(5,621)	(50,510)
Other impairment and provisions	-	(73,075)	(2,369)	(32,578)	(108,022)

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

The following table presents income and profit and certain asset and liability information regarding the Bank's business segments for the year ended 31 December 2007:

	Retail banking	*Corporate banking*	*Financial institutions and investments*	*Other/ Unallocated*	*Total*
Interests income	82,331	2,223,620	243,187	-	**2,549,138**
Interests expenses	(400,546)	(285,447)	(810,820)	(8)	**(1,496,821)**
Allowance for loan impairment	692	(197,062)	-	-	**(196,370)**
Income from other segments	533,244	334,710	935,227	1,955,447	**3,758,628**
Expenses of other segments	(55,364)	(1,727,611)	(172,472)	(1,803,181)	**(3,758,628)**
Net interest income after allowance for loan impairment	**160,357**	**348,210**	**195,122**	**152,258**	**855,947**
Net fee and commission income	224,887	42,048	35,984	(8)	**302,911**
Other non-interest income	21,405	24,511	107,181	10,175	**163,272**
Non-interest expense	(290,394)	(85,320)	(30,604)	(162,279)	**(568,597)**
Segment results	**116,255**	**329,449**	**307,683**	**146**	**753,533**
Income tax expense					(200,690)
Profit for the year					**552,843**
Assets and liabilities					
Segment assets	2,354,483	21,027,664	5,017,435	-	28,399,582
Unallocated assets				166,274	166,274
Total assets					**28,565,856**
Segment liabilities	7,555,511	5,553,430	12,802,818	-	25,911,759
Unallocated liabilities				164,551	164,551
Total liabilities					**26,076,310**
Other segment information					
Capital expenditure	(83,151)	(14,756)	(2,665)	(14,733)	(115,305)
Depreciation and amortization	(36,424)	(6,603)	(1,178)	(6,509)	(50,714)
Other impairment and provisions		36,790	710	2,938	40,438

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

6. Cash and cash equivalents

Cash and cash equivalents comprise:

	2008	*2007*
Cash on hand	538,834	510,319
Current account with the National Bank of Ukraine	2,255,045	602,277
Current accounts with other credit institutions	2,064,340	1,194,024
Overnight deposits with other credit institutions	783,339	887,197
Time deposits with credit institutions up to 90 days	667,136	266,287
Cash and cash equivalents	**6,308,694**	**3,460,104**

Non-cash transactions performed by the Bank during 2008 are represented by:
- capitalisation of profit for the year ended 31 December 2007 determined under UAS of UAH 476,635 thousand (2007: UAH 367,583 thousand);
- contribution into share capital in the form of Ukrainian state bonds of UAH 999,999 thousand (2007: none)

Ukrainian State bonds of UAH 999,999 thousand received as a contribution to share capital of the Bank were sold to the NBU at nominal value in December 2008.

The current account with the NBU represents amounts deposited with the NBU relating to daily settlements and other activities. The Bank is also required to maintain, in the form of a non-interest earning cash deposit, certain cash reserves with the NBU (obligatory reserve), which are computed as a percentage of certain of the Bank's liabilities. There are no restrictions on the withdrawal of funds from the NBU, however, if minimum average reserve requirements are not met, the Bank could be subject to certain penalties. The Bank was obligated to and maintained the minimal cumulative average reserve calculated on a daily basis over a monthly period. The average daily requirement for the period from 1 to 31 December 2008 was UAH 324,804 thousand (2007: UAH 244,210 thousand). The Bank meets the NBU obligatory reserve requirements as at 31 December 2008 and 2007.

As at 31 December 2008, included in current accounts with other credit institutions is an amount of UAH 1,645,756 thousand placed on current accounts with five OECD and CIS banks (2007: UAH 1,088,139 thousand). These banks are the main counterparties of the Bank in performing international settlements. The placements have made under normal banking terms and conditions.

Overnight deposits represent overnight deposits placed with OECD banks. These placements bear market interest rates. As at 31 December 2008, UAH 755,901 thousand was placed with two OECD banks (2007: UAH 771,122 thousand).

7. Amounts due from credit institutions

Amounts due from credit institutions comprise:

	2008	*2007*
Loans and deposits	940,713	276,517
Other amounts due from credit institutions	22,301	2,622
Due from credit institutions	**963,014**	**279,139**

As at 31 December 2008, loans and deposits due from credit institutions include UAH 509,115 thousand of security deposits, placed mainly in respect of customers' transactions, such as letters of credit, performance guarantees and transactions with travellers' cheques (2007: UAH 6,910 thousand).

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

8. Loans to customers

Loans to customers comprise:

	2008	*2007*
Loans to customers	37,807,859	21,656,051
Overdrafts	695,783	612,465
Finance lease receivables	190,064	182,924
Promissory notes	114,267	63,159
	38,807,973	**22,514,599**
Less – Allowance for impairment	(2,199,906)	(732,968)
Loans to customers	**36,608,067**	**21,781,631**

Allowance for impairment of loans to customers

A reconciliation of the allowance for impairment of loans to customers by class is as follows:

	Loans to customers	***Overdrafts***	***Finance lease receivables***	***Promissory notes***	***Total***
At 1 January 2008	719,393	6,848	5,598	1,129	732,968
Change for the year	1,279,866	3,665	1,797	8,571	1,293,899
Recoveries	5,490	-	-	-	5,490
Amounts written off	(135,023)	-	(278)	-	(135,301)
Translation differences	301,182	558	1,110	-	302,850
At 31 December 2008	**2,170,908**	**11,071**	**8,227**	**9,700**	**2,199,906**
Individual impairment	1,088,137	4,154	-	9,360	1,101,651
Collective impairment	1,082,771	6,917	8,227	340	1,098,255
	2,170,908	**11,071**	**8,227**	**9,700**	**2,199,906**
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	**3,338,168**	**33,694**	**-**	**87,574**	**3,459,436**

	Loans to customers	***Overdrafts***	***Finance lease receivables***	***Promissory notes***	***Total***
At 1 January 2007	528,240	6,110	-	1,839	536,189
Charge for the year	189,591	661	5,598	520	196,370
Recoveries	1,144	-	-	-	1,144
Amounts written off	(3,721)	-	-	(1,230)	(4,951)
Translation differences	4,139	77	-	-	4,216
At 31 December 2007	**719,393**	**6,848**	**5,598**	**1,129**	**732,968**
Individual impairment	461,897	-	-	-	461,897
Collective impairment	257,496	6,848	5,598	1,129	271,071
	719,393	**6,848**	**5,598**	**1,129**	**732,968**
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	**798,446**	**-**	**-**	**-**	**798,446**

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

Individually impaired loans

Interest income on loans, for which individual impairment allowances have been recognised, as at 31 December 2008, comprised UAH 343,542 thousand (2007: UAH 87,401 thousand).

The fair value of collateral that the Bank holds relating to loans individually determined to be impaired at 31 December 2008 amounts to UAH 12,346 thousand (2007: UAH 46,891 thousand). The collateral consists of cash deposits placed with the Bank. In accordance with the Ukrainian legislation, loans may only be written off with the approval of the Board of Directors and, in certain cases, with the respective decision of the Court.

Collateral and other credit enhancements

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

The main types of collateral obtained are as follows:

- For securities lending and reverse repurchase transactions, cash or securities,
- For commercial lending, charges over real estate properties, inventory and trade receivables,
- For retail lending, mortgages over residential properties and vehicles.

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

As at 31 December 2008, loans to customers with a carrying value of UAH 2,420,122 thousand were pledged as collateral under loans received from the NBU (2007: none) (Note 15).

Concentration of loans to customers

As at 31 December 2008, the Bank had a concentration of loans represented by UAH 7,220,108 thousand due from the ten largest third party borrowers (18.60% of gross loan portfolio) (2007: UAH 3,596,968 thousand or 15.98%). An allowance of UAH 259,985 thousand (2007: UAH 41,857 thousand) was recognised against these loans.

Loans and advances have been extended to the following types of customers:

	2008	***2007***
Private entities	33,416,744	19,630,645
State and municipal entities	3,282,019	1,863,028
Individuals	2,109,210	1,020,926
	38,807,973	**22,514,599**

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

Loans are made principally within Ukraine to companies of the following industry sectors:

	2008	*%*	*2007*	*%*
Trade enterprises	10,661,956	27.5	7,027,727	31.2
Agriculture and food processing	6,246,479	16.1	3,247,242	14.4
Real estate	3,566,341	9.2	1,051,724	4.7
Construction	3,273,020	8.4	2,135,104	9.5
Engineering	2,307,998	5.9	1,455,335	6.5
Individuals	2,109,210	5.4	1,020,926	4.5
Production of rubber and plastic goods	1,888,834	4.9	966,336	4.3
Production of construction materials	1,653,311	4.3	946,898	4.2
Extractive industry	1,175,360	3.0	548,853	2.4
Metal processing	866,123	2.2	542,839	2.4
Transport & communications	834,761	2.2	956,304	4.3
Metallurgy	803,423	2.1	547,033	2.4
Power utilities	722,141	1.8	631,480	2.8
Light industry	703,049	1.8	439,022	2.0
Pulp and paper industry	642,751	1.7	279,870	1.2
Wood processing	369,116	1.0	140,492	0.6
Chemistry	353,786	0.9	252,827	1.1
Hotels and restaurant	85,539	0.2	35,109	0.2
Finance	32,294	0.1	98,114	0.4
Other	512,481	1.3	191,364	0.9
	38,807,973	**100**	**22,514,599**	**100**

Included in corporate lending portfolio are finance lease receivables. They may be analysed as follows:

	2008	*2007*
Gross investment in finance leases, receivable:		
Not later than 1 year	96,539	80,019
Later than 1 year and not later than 5 years	126,419	142,950
	222,958	222,969
Unearned future finance income on finance leases	(32,894)	(40,045)
Net investment in finance leases	**190,064**	**182,924**

9. Investment securities

Investment securities designated at fair value through profit or loss comprise:

	2008	*2007*
Corporate bonds	397,158	586,929
Ukrainian State bonds	568,246	755,808
Investment securities designated at fair value	**965,404**	**1,342,737**

As at 31 December 2008, corporate bonds designated at fair value include bonds issued by a number of Ukrainian entities maturing in 2009-2012 with an effective yield of 17.44% (2007: 2008-2014 with an effective yield 14.97%).

As at 31 December 2008, Ukrainian State bonds include State bonds issued by the Ministry of Finance in order to settle amounts due by the State in respect of refundable VAT of UAH 6,819 thousand (2007: UAH 25,197 thousand), maturing in 2009 with an effective yield of 20.68% (2007: 21.58%).

As at 31 December 2008, Ukrainian State bonds include state bonds issued by the Ministry of Finance for internal debt financing of UAH 561,427 thousand (2007: UAH 730,610 thousand), maturing in 2009-2010 and with an effective yield of 7.6% (2007: 7.26%).

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

Available-for-sale investment securities comprise:

	2008	*2007*
Corporate shares	2,303	2,341
Corporate bonds	278,617	-
Ukrainian State bonds	576,348	-
Available-for-sale investments	**857,268**	**2,341**

Held-to-maturity investment securities comprise the following:

	2008		*2007*	
	Nominal value	***Carrying value***	***Nominal value***	***Carrying value***
Ukrainian State bonds	-	-	14,616	14,689
NBU deposit certificates	-	-	300,000	300,074
Corporate bonds	190,000	192,767	190,000	193,262
Held-to-maturity investments		**192,767**		**508,025**

As at 31 December 2008, bonds with a carrying value of UAH 172,367 thousand were pledged as collateral under a loan received from the NBU (Note 15).

10. Property and equipment

The movements of property and equipment were as follows:

	Buildings	***Leasehold improve-ments***	***Computers and equipment***	***Furniture, fixtures and other assets***	***Motor vehicles***	***Construction in progress***	***Total***
Cost or revalued amount							
31 December 2007	**1,088,317**	**10,047**	**166,766**	**97,586**	**15,973**	**38,596**	**1,417,285**
Additions	822	-	12,536	8,609	94	146,429	168,490
Disposals	(128)	(192)	(5,111)	(1,008)	(1,608)	(326)	(8,373)
Transfers	30,835	1,697	26,337	5,112	2,252	(66,233)	-
Impairment	(1,623)	-	-	-	-	-	(1,623)
Revaluation	373,585	-	-	-	-	-	373,585
31 December 2008	**1,491,808**	**11,552**	**200,528**	**110,299**	**16,711**	**118,466**	**1,949,364**
Accumulated depreciation							
31 December 2007	**(210,463)**	**(3,698)**	**(109,055)**	**(56,194)**	**(12,395)**		**(391,805)**
Charge for the year	(16,991)	(2,186)	(16,796)	(9,892)	(1,441)		(47,306)
Disposals	37	43	5,111	1,008	1,535		7,734
Revaluation	(67,578)		-	-	-		(67,578)
31 December 2008	**(294,995)**	**(5,841)**	**(120,740)**	**(65,078)**	**(12,301)**		**(498,955)**
Net book value:							
31 December 2007	**877,854**	**6,349**	**57,711**	**41,392**	**3,578**	**38,596**	**1,025,480**
31 December 2008	**1,196,813**	**5,711**	**79,788**	**45,221**	**4,410**	**118,466**	**1,450,409**

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

	Buildings	*Leasehold improve-ments*	*Computers and equipment*	*Furniture, fixtures and other assets*	*Motor vehicles*	*Construction in progress*	*Total*
Cost or revalued amount							
31 December 2006	**1,065,235**	**7,311**	**139,176**	**79,284**	**14,809**	**30,769**	**1,336,584**
Additions		2	9,774	7,065	-	69,575	86,416
Disposals	(376)	(489)	(1,598)	(636)	(775)	(1,841)	(5,715)
Transfers	23,130	3,223	19,437	12,178	1,939	(59,907)	-
Reclassifications	328		(23)	(305)	-	-	-
31 December 2007	**1,088,317**	**10,047**	**166,766**	**97,586**	**15,973**	**38,596**	**1,417,285**
Accumulated depreciation							
31 December 2006	**(188,893)**	**(2,358)**	**(97,143)**	**(47,877)**	**(11,950)**		**(348,221)**
Charge for the year	(21,620)	(1,615)	(13,502)	(8,885)	(1,219)		(46,841)
Disposals	52	275	1,554	602	774		3,257
Reclassifications	(2)	-	36	(34)	-		-
31 December 2007	**(210,463)**	**(3,698)**	**(109,055)**	**(56,194)**	**(12,395)**		**(391,805)**
Net book value:							
31 December 2006	**876,342**	**4,953**	**42,033**	**31,407**	**2,859**	**30,769**	**988,363**
31 December 2007	**877,854**	**6,349**	**57,711**	**41,392**	**3,578**	**38,596**	**1,025,480**

As at 31 December 2008, the Bank had capital commitments to purchase property and equipment amounting to UAH 55,928 thousand (2007: UAH 51,435 thousand).

In May 2008, management revised its estimates of the useful economic lives for the Bank's buildings. This change in accounting estimate resulted in a decrease in the depreciation expense of approximately UAH 10,125 thousand for the year ended 31 December 2008.

During the year 2008, the Bank revalued its buildings. The valuation was performed by an independent appraiser as at 1 May 2008 and the fair value was determined by reference to market-based evidence. If the buildings were measured using the cost model, the carrying amounts would be as follows:

	31 December 2008 (revalued)	*31 December 2008 (at cost)*	*31 December 2007 (revalued)*	*31 December 2007 (at cost)*
Cost	1,491,808	377,191	1,088,317	345,662
Accumulated depreciation	(294,995)	(71,039)	(210,463)	(56,488)
Net carrying amount	**1,196,813**	**306,152**	**877,854**	**289,174**

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

11. Intangible assets

The movements of intangible assets were as follows:

	Computer software and licenses
Cost	
31 December 2007	**29,104**
Additions	3,404
Capital investments	731
Disposals	(83)
31 December 2008	**33,156**
Accumulated amortisation	
31 December 2007	**(19,876)**
Charge for the year	(3,204)
Disposals	83
31 December 2008	**(22,997)**
Net book value:	
31 December 2007	**9,228**
31 December 2008	**10,159**

	Computer software and licenses
Cost	
31 December 2006	**27,580**
Additions	1,718
Capital investments	2,740
Disposals	(2,934)
31 December 2007	**29,104**
Accumulated amortisation	
31 December 2006	**(18,934)**
Charge for the year	(3,873)
Disposals	2,931
31 December 2007	**(19,876)**
Net book value:	
31 December 2006	**8,646**
31 December 2007	**9,228**

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

12. Income tax

The corporate income tax charge comprises:

	2008	*2007*
Current tax charge	281,742	208,032
Deferred tax benefit	(224,095)	(7,342)
Income tax expense	**57,647**	**200,690**

In 2008, Ukrainian corporate income tax was levied on taxable income less allowable expenses at the rate of 25% (2007 - 25%).

Tax assets and liabilities consist of the following:

	2008	*2007*
Deferred tax asset	16,323	-
Tax asset	**16,323**	**-**
Current tax liabilities	15,561	21,611
Deferred tax liabilities	-	131,902
Tax liabilities	**15,561**	**153,513**

The effective income tax rate differs from the statutory income tax rate. A reconciliation of the income tax charge based on the statutory rate with the actual rate is as follows:

	2008	*2007*
Income before tax	179,920	753,539
Statutory tax rate	25%	25%
Income tax expense at the statutory rate	44,980	188,385
Non-deductible expenditures		
- salaries and bonuses	1,786	4,036
- consulting and marketing	2,769	2,318
- charity	2,737	1,543
- other expenses	5,375	4,408
Income tax expense	**57,647**	**200,690**

Deferred tax assets and liabilities as at 31 December comprise:

		Origination and reversal of temporary differences			***Origination and reversal of temporary differences***		
	2006	***in the income statement***	***directly in equity***	***2007***	***in the income statement***	***directly in equity***	***2008***
Tax effect of deductible temporary differences:							
Allowance for loan impairment	61,770	667	-	62,437	195,854	-	258,291
Accruals	11,296	7,620	-	18,916	38,870	-	57,786
Other asset/ liabilities	115	459	-	574	(574)	-	-
Deferred tax asset	**73,181**	**8,746**	**-**	**81,927**	**234,150**	**-**	**316,077**
Tax effect of taxable temporary differences:							
Property, equipment and intangible assets	(176,825)	(1,170)	-	(177,995)	(915)	(76,502)	(255,412)
Valuation of financial instruments	(35,600)	(234)	-	(35,834)	(8,499)	632	(43,701)
Other assets/ liabilities	-	-	-	-	(641)	-	(641)
Deferred tax liability	**(212,425)**	**(1,404)**	**-**	**(213,829)**	**(10,055)**	**(75,870)**	**(299,754)**
Deferred tax liability	**(139,244)**	**7,342**	**-**	**(131,902)**	**224,095**	**(75,870)**	**16,323**

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

13. Other impairment and provisions

The movements in other impairment and provisions are as follows:

	Investment securities	*Other assets*	*Guarantees and commitments*	*Total*
31 December 2006	**875**	**29,703**	**21,390**	**51,968**
Translation differences	-	171	1,751	1,922
Charge/(reversal)	352	(24,950)	(15,840)	(40,438)
Write-offs	(17)	(914)	-	(931)
31 December 2007	**1,210**	**4,010**	**7,301**	**12,521**
Translation differences	-	14,334	22,982	37,316
Charge	2,985	32,578	72,459	108,022
Write-offs	(60)	(135)	-	(195)
31 December 2008	**4,135**	**50,787**	**102,742**	**157,664**

Allowances for impairment of assets are deducted from the related assets. Provisions are recognised in liabilities.

14. Other assets and liabilities

Other assets comprise:

	2008	*2007*
Prepayments	114,435	80,834
Settlements on transactions with customers	85,906	5,011
Settlements on card operations	16,133	12,540
Precious metals	9,239	25,289
Inventory	6,980	5,056
Service fee on issued financial guarantees	6,860	25,492
Other accrued income	4,457	1,501
Collateral held for resale	219	19
Other	23,655	5,439
	267,884	**161,181**
Less – Allowance for impairment (Note 13)	(50,787)	(4,010)
Other assets	**217,097**	**157,171**

As at 31 December 2008, prepayments include balances of UAH 41,663 thousand (2007: UAH 47,581 thousand) in respect of the construction of branch buildings and for other fixed assets.

Other liabilities comprise:

	2008	*2007*
Provision for unused vacations	41,887	28,765
Settlements on card operations	33,940	21,833
Accrued salary payable	33,772	6
Deferred income	17,556	5,168
Payables to Guarantee Fund of Individuals' Deposits	8,142	4,433
Other accrued expenses	7,976	2,406
Fair value of financial guarantees issued	5,151	38,494
Accrued pension contribution	1,610	1,295
Settlements on transactions with customers	1,316	786
Minority interest	66	59
Other liabilities	4,656	1,517
Other liabilities	**156,072**	**104,762**

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

15. Amounts due to the National Bank of Ukraine

In November and December 2008, the Bank received three loans from the NBU for a total of UAH 1,408,000 thousand for current activity financing purposes. Loans are denominated in UAH, bear fixed interest rate at 16% for a loan of UAH 485,000 thousand (maturity in July 2009), 16.5% for a loan of UAH 138,000 thousand (maturity in June 2009) and 18% for a loan of UAH 785,000 thousand (matures in December 2009). Loans due to the NBU are secured with corporate bonds (Note 9) and loans to customers (Note 8).

16. Amounts due to credit institutions

Amounts due to credit institutions comprise:

	2008	*2007*
Current accounts	463,235	167,043
Loans and time deposits due to other banks	12,683,596	6,430,623
Loans due to international financial organisations	2,329,123	1,541,510
Other amounts due to credit institutions	-	3,808
Amounts due to credit institutions	**15,475,954**	**8,142,984**

As at 31 December 2008, included in current accounts is UAH 277,872 thousand received from two Ukrainian banks (2007: UAH 48,607 thousand). The amount was received under normal banking terms and conditions.

As at 31 December 2008, loans and deposits due to other banks include UAH 293,277 thousand granted by Kreditanstalt fur Wiederaufbau ("KfW") under loan agreements for financing small and medium sized enterprises in Ukraine (2007: UAH 24,709 thousand). The loans are denominated in US dollars, bear interest at a floating interest rate of 4.63% and mature in 2014.

As at 31 December 2008, loans and deposits due to other banks include UAH 4,550,179 thousand received from OECD banks under trade and export financing agreements (2007: UAH 2,083,869 thousand) and UAH 9,994 thousand received from other foreign banks under trade and export financing agreements (2007: UAH 124,615thousand). These loans are denominated in US dollars, euro, Swiss frank, Japanese yen, pound sterling and bear fixed and floating interest rates and are matched in maturity with loans to customers issued under these trade and export financing programmes.

Loans due to international financial organisations include loans from the International Bank for Reconstruction and Development (the "IBRD") under the Export Development Project of UAH 229,502 thousand (2007: UAH 182,058 thousand). Proceeds from these loans are used to provide financing for eligible Ukrainian borrowers. These loans are denominated in US dollars or Euro, have a coupon interest rate of LIBOR+0.5% with repricing twice a year and have a current interest rate of LIBOR+0.17% and mature in 2013. This debt is subject to various covenants and restrictions as described in Note 22.

As at 31 December 2008, loans due to international financial organisations include loans from the International Bank for Reconstruction and Development (the "IBRD") under the Second Export Development Project of UAH 374,442 thousand (2007: UAH 77,447 thousand) (total amount of this loan facility is USD 154,500 thousand). Proceeds from this loan are used to provide medium and long term financing for eligible Ukrainian borrowers and distributed through eligible Ukrainian commercial banks. This loan is denominated in US dollars, have a coupon interest rate of LIBOR+0.75% with repricing twice a year and have a current interest rate of LIBOR+0.42%. The loans mature in 2026.

Loans due to international financial organisations include loans from Cargill Financial Services Inc. of UAH 1,199,593 thousand (2007: UAH 1,012,196 thousand). Proceeds from these loans are used to provide financing to specified borrowers. The loans are denominated in US dollars and Swiss franks, bear fixed interest from 7.45% to 8.10% (for loans denominated in US dollars) and 8.45% (for loans denominated in Swiss franks) and mature in 2009.

Loans due to international financial organisations include loans from the European Bank for Reconstruction and Development under the program of energy efficiency of UAH 350,794 thousand. The loans are denominated in US dollars bear floating interest rate from 2.97% to 6.02% and mature to 2014.

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

For the purpose of cash flow statement presentation, the Bank segregates funds attracted from credit institutions into operating and financing activities. Funds attracted from Ukrainian banks were included in operating activity and from other banks – in financing activity.

17. Amounts due to customers

Amounts due to customers comprise:

	2008	*2007*
Current accounts		
- Budget funds	274,939	345,813
- Legal entities	5,344,933	2,247,337
- Individuals	717,849	602,539
- Due to funds under the Bank's management (see below)	14,701	11,858
	6,352,422	**3,207,547**
Time deposits		
- Budget funds	76,558	78,519
- Legal entities	3,074,301	2,634,033
- Individuals	7,096,423	4,674,803
	10,247,282	**7,387,355**
Due to customers	**16,599,704**	**10,594,902**
Held as security against letters of credit	94,824	58,294
Held as security against guarantees and avals	147,629	184,900
Held as security against undrawn loan commitments	86,368	-

As at 31 December 2008, legal entities current accounts of UAH 1,848,863 thousand (34.6% of legal entities current accounts) were due to the ten largest clients (2007: UAH 490,929 thousand or 21.8%).

As at 31 December 2008, time deposits due to companies include UAH 992,878 thousand attracted from five legal entities (2007: UAH 967,789 thousand).

In accordance with the Ukrainian legislation, the Bank is obliged to repay such deposits upon demand of a depositor. In October 2008 the NBU introduced a moratorium on early withdrawal of deposits for the indefinite period of time.
In case a term deposit is repaid upon demand of the depositor prior to maturity, interest on it is paid based on the interest rate for demand deposits, unless a different interest rate is specified in the agreement.

Funds under the Bank's management

The Bank acts as a fund manager for construction-financing funds. Amounts due to funds under the Bank's management are summarised as follows:

	2008	*2007*
At 1 January	**11,858**	**1,157**
Funds attracted from individuals	132,446	43,114
Invested funds	(129,603)	(32,413)
At 31 December	**14,701**	**11,858**

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

An analysis of customer accounts by economic sector follows:

	2008	*%*	*2007*	%
Individuals	7,814,272	47.1	5,277,342	49.8
Trade enterprises	1,474,291	8.9	790,817	7.4
Real estate	1,053,945	6.3	569,927	5.4
Finance	957,243	5.8	612,124	5.8
Extractive industry	810,163	4.9	92,208	0.9
Engineering	795,443	4.8	568,444	5.4
Transport and communications	664,183	4.0	716,222	6.7
Agriculture and food processing	443,925	2.7	154,222	1.5
Construction	421,857	2.5	331,658	3.1
Non-residents	382,071	2.3	242,219	2.3
Budget	351,497	2.1	424,332	4.0
Power utilities	182,985	1.1	127,030	1.2
Metallurgy	180,213	1.1	16,452	0.2
Chemistry	169,386	1.0	94,254	0.9
Production of rubber and plastic goods	107,545	0.6	22,407	0.2
Production of construction materials	103,545	0.6	73,062	0.7
Wood processing	63,050	0.4	26,167	0.2
Pulp and paper industry	53,536	0.3	41,852	0.4
Metal processing	51,321	0.3	21,273	0.2
Light industry	29,136	0.2	27,407	0.3
Hotels and restaurant	10,222	0.1	9,230	0.1
Other	479,875	2.9	356,253	3.3
Amounts due to customers	**16,599,704**	**100**	**10,594,902**	**100**

18. Eurobonds issued

	2008		*2007*	
	Nominal value	***Carrying value***	***Nominal value***	***Carrying value***
September 2004 issue	1,155,000	1,163,198	757,500	759,973
February 2005 issue	770,000	798,483	505,000	523,109
October 2005 issue	1,925,000	1,947,961	1,262,500	1,276,316
September 2006 issue	2,695,000	2,753,170	1,767,500	1,804,295
November 2006 issue	1,155,000	1,189,044	757,500	781,805
Eurobonds issued		**7,851,856**		**5,145,498**

In September 2004, the Bank obtained a loan amounting to USD 150,000 thousand (UAH 1,155,000 thousand), from Dresdner bank AG (carrying value of UAH 1,163,198 thousand as at 31 December 2008 (2007: UAH 759,973 thousand). This loan was funded by 7.75% loan participation notes ("Eurobonds") issued by, but without recourse to, Dresdner Bank AG, for the sole purpose of funding the loan to the Bank. The loan matures in September 2009. The interest rate on the loan is 7.75% p.a. Interest payments are made semi-annually in arrears on 23 March and 23 September of each year, commencing 23 March 2005.

In February 2005, the Bank obtained a further loan amounting to USD 100,000 thousand (UAH 770,000 thousand) from Dresdner Bank AG (carrying value of UAH 798,483 thousand as at 31 December 2008 (2007: UAH 523,109 thousand). This loan was funded by 7.75% loan participation notes ("Eurobonds") which were consolidated and form a single series with the notes issued in September 2004.

In October 2005, the Bank obtained a loan amounting to USD 250,000 thousand (UAH 1,925,000 thousand) from Credit Suisse First Boston International (carrying value of UAH 1,947,961 thousand as at 31 December 2008 (2007: UAH 1,276,316 thousand). This loan was funded by 6.80% loan participation notes ("Eurobonds") issued by, but without recourse to, Credit Suisse First Boston International, for the sole purpose of funding this loan to the Bank. The loan matures in October 2012 and the interest rate is 6.80% p.a. Interest payments are made semi-annually in arrears on 4 April and 4 October of each year, commencing on 4 April 2006.

In September 2006, the Bank obtained a loan amounting to USD 350,000 thousand (UAH 2,695,000 thousand) from Credit Suisse International (carrying value of UAH 2,753,170 thousand as at 31 December 2008 (2007: UAH 1,804,295 thousand). The loan was funded by 7.65% loan participation notes ("Eurobonds) issued by, but without recourse to, Credit Suisse International, for the sole purpose of funding this loan to the Bank. The loan matures in September 2011 and the interest rate is 7.65% p.a. Interest payments are made semi-annual in arrears on 7 March and 7 September of each year, commencing on 7 March 2007.

In November 2006, the Bank obtained a further loan amounting to USD 150,000 thousand (UAH 1,155,000 thousand) from Credit Suisse International (carrying value is UAH 1,189,044 thousand as at 31 December 2008 (2007: UAH 781,805 thousand). This loan was funded by 7.65% loan participation notes ("Eurobonds") which were consolidated and form a single series with the notes issued in September 2006. The issue price of these notes was 101.25 per cent of principle amount plus accrued interest and the Bank received a premium amounting to USD 1,875 thousand.

19. Debt securities issued

In October 2006, the Bank issued local bonds series B amounting to UAH 276,320 thousand (carrying value of UAH 284,066 thousand as at 31 December 2008 (2007: UAH 308,847 thousand). The bonds are denominated in hryvnia, bear interest at 10.5% p.a. and mature in October 2009. Interest payments are made semi-annually in arrears in April and October. As at 31 December 2008, bonds with a carrying value of UAH 252,896_thousand were due to two legal entities (2007: UAH 213,423 thousand).

In June 2007, the Bank issued local bonds series C amounting to UAH 500,000 thousand (carrying value of UAH 502,005 thousand as at 31 December 2008 (2007: UAH 501,735 thousand). The bonds are denominated in hryvnia, bear interest at 9.75% p.a. and mature in June 2010. Interest payments are made semi-annually in arrears in June and December. As at 31 December 2008, bonds with a carrying value of UAH 479,821 thousand were due to one legal entity (2007: UAH 501,735 thousand due to two legal entities).

In June 2007, the Bank issued local bonds series D amounting to UAH 275,000 thousand (carrying value of UAH 276,078 thousand as at 31 December 2008 (2007: UAH 275,395 thousand). The bonds are denominated in hryvnia, bear interest at 9.55% p.a. and mature in June 2012. Interest payments are made semi-annually in arrears in June and December. Holders of these bonds have the right for early redemption, which is exercisable on 17 June 2009. As at 31 December 2008, bonds with carrying value of UAH 276,078 thousand were due to one legal entity (2007: UAH 275,395 thousand).

20. Subordinated debt

In February 2006, the Bank obtained a loan amounting to USD 95,000 thousand (UAH 731,500 thousand) from Credit Suisse International (carrying value of UAH 741,354 thousand as at 31 December 2008 (2007: UAH 485,296 thousand). This loan was funded by 8.40% loan participation notes issued by on a limited recourse basis to Credit Suisse International, for the sole purpose of funding a subordinated loan to the Bank. The loan matures in February 2016 with an interest rate step-up in 2011. Interest payments are made semi-annually in arrears on 9 February and 9 August of each year, commencing on 9 August 2006.

In November 2006, the Bank obtained a further loan amounting to USD 30,000 thousand (UAH 231,000 thousand) from Credit Suisse International (carrying value of UAH 236,384 thousand as at 31 December 2008 (2007: UAH 154,961 thousand). This loan was funded by 8.40% loan participation notes, which were consolidated and form a single series with the notes issued in February 2006.

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

21. Equity

As at 31 December 2008, the Bank's authorised issued share capital comprised 3,062,633 (2007: 1,486,000) ordinary shares, with a nominal value of UAH 1,320.75 per share. All shares have equal voting rights. As at 31 December 2008, all issued shares were fully paid and registered (2007: all shares were fully paid and registered).

These consolidated financial statements reflect the amount of paid-in share capital stated at cost, which is restated using the consumer price index for the contributions made before 31 December 2000. The share capital of the Bank was contributed in Ukrainian hryvnia and US dollars and the Government, as the shareholder, is entitled to dividends and any capital distributions in Ukrainian hryvnia.
The movements in share capital were as follows:

	Number of shares	*Nominal amount, UAH'000*	*Restated cost, UAH'000*
31 December 2006	**918,417**	**918,417**	**1,631,649**
Shares issued	567,583	567,583	567,583
31 December 2007	**1,486,000**	**1,486,000**	**2,199,232**
Shares issued	1,576,633	1,576,633	1,576,633
31 December 2008	**3,062,633**	**3,062,633**	**3,775,865**

In February 2008, the Eximbank's Supervisory Board approved a decision to increase the share capital through capitalisation of profit for 2007 in the amount of UAH 476,635 thousand. This decision was approved by the Cabinet of Ministers of Ukraine on 22 February 2008.

In accordance with the Decision of the Cabinet of Ministers of Ukraine dated 25 June 2008, the Bank's share capital was further increased by UAH 99,999 thousand through additional cash contribution.

In addition to cash contribution, according to the Decision of the Cabinet of Ministers of Ukraine dated 26 November 2008 Ukrainian State bonds of UAH 999,999 thousand were received as a contribution to share capital of the Bank.

Movements in revaluation reserves
Movements in reserve were as follows:

	Property revaluation reserve	***Unrealised gains/(losses) on investment securities available-for-sale***	***Revaluation reserve***
31 December 2006	**452,457**	**-**	**452,457**
Depreciation of revaluation reserve, net of tax	(11,156)		(11,156)
Disposal of property, net of tax	(62)		(62)
31 December 2007	**441,239**	**-**	**441,239**
Revaluation of buildings (Note 10)	306,007		306,007
Tax effect of revaluation of buildings (Note 12)	(76,502)		(76,502)
Depreciation of revaluation reserve, net of tax	(13,493)		(13,493)
Disposal of property, net of tax	(15)		(15)
Net unrealised losses on available-for-sale investments		(2,528)	(2,528)
Tax effect of net gains on investment securities available-for-sale (Note 12)		632	632
31 December 2008	**657,236**	**(1,896)**	**655,340**

Nature and purpose of revaluation reserves
Property revaluation reserve

The revaluation reserve for property and equipment is used to record increases in the fair value of buildings and decreases to the extent that such decrease relates to an increase on the same asset previously recognised in equity.

Unrealised gains/(losses) on investment securities available-for-sale

This reserve records changes in fair value of available-for-sale investments.

The Bank's distributable reserves are determined by the amount of its reserves as disclosed in the accounts prepared in accordance with UAR. As at 31 December 2008, the Bank has distributable reserves amounting to UAH 622,035 thousand (2007: UAH 501,724 thousand). The amount of non-distributable reserves was UAH 821,042 thousand (2007: UAH 575,709 thousand). Non-distributable reserves are represented by a statutory revaluation reserve and a general reserve fund, which is created to cover general banking risks, including future losses and other unforeseen risks or contingencies.

22. Commitments and contingencies

Operating environment

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

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

In addition, the borrowers of the Bank may have been affected by a deterioration in their own liquidity, which could in turn impact their ability to repay the amounts due to the Bank. Due to the decrease in values in the Ukrainian real estate market may affect recoverability of the Bank's loans secured by pledges of property. To the extent that information is available, the Bank has reflected revised estimates of expected future cash flows in its impairment assessment.

Whilst management believes it is taking appropriate measures to support the sustainability of the Bank's business in the current circumstances, unexpected further deterioration in the areas described above could negatively affect the Bank's results and financial position in a manner not currently determinable.

Legal

In the ordinary course of business, the Bank is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations of the Bank.

Tax and other regulatory compliance risks

Ukrainian legislation and regulations regarding taxation and other operational matters, including currency exchange control and custom regulations, continue to evolve. Legislation and regulations are not always clearly written and are subject to varying interpretations by local, regional and national authorities, and other Governmental bodies. Instances of inconsistent interpretations are not unusual. Management believes that its interpretation of the relevant legislation is appropriate and that the Bank has complied with all regulations and paid or accrued all taxes and withholdings that are applicable.

At the same time it is a risk that transactions and interpretations that have not been challenged in the past may be challenged by the authorities in the future, although this risk significantly diminishes with the passage of time. It is not practical to determine the amount of unasserted claims that may manifest, if any, or the likelihood of any unfavourable outcome.

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

Financial commitments and contingencies

The Bank's financial commitments and contingencies comprise the following:

	2008	*2007*
Letters of credit	1,016,741	974,364
Guarantees	2,117,327	934,149
Avals on promissory notes	76,678	107,083
Undrawn loan commitments	546,381	517,399
	3,757,127	**2,532,995**
Less – Provisions	(102,741)	(7,301)
Financial commitments and contingencies (before deducting collateral)	**3,654,386**	**2,525,694**
Less – cash held as security against letters of credit, avals and guarantees, and undrawn loan commitments	(328,821)	(243,194)
Financial commitments and contingencies	**3,325,565**	**2,282,500**

As at 31 December 2008, the Bank issued letters of credit of UAH 535,820 thousand to four Ukrainian companies partially secured by a cash deposit of UAH 9,788 thousand (2007: UAH 458,089 thousand). As at 31 December 2008, the Bank issued guarantees of UAH 1,298,367 thousand in favour of four Ukrainian companies that are partially secured by a cash deposit of UAH 68,899 thousand (2007: UAH 632,134 thousand in favour of four Ukrainian companies secured by a cash deposit of UAH 64,872 thousand).

Financial covenants

The Bank is a party to various arrangements with other credit institutions, which contain financial covenants relating to the financial performance and general risk profile of the Bank. Under such covenants, the Bank is required to maintain a minimum international risk based capital adequacy ratio of 10%, to limit credit exposure to a single borrower and to ensure a certain level of operating activity. These financial covenants may restrict the Bank's ability to execute certain business strategies and enter into other significant transactions in the future.

23. Fees and commissions, net

Fees and commissions comprise:

	2008	*2007*
Fee and commission income		
Cash and settlement operations	192,880	150,564
Currency conversion	126,500	91,258
Off-balance sheet operations	73,028	57,404
Operations with banks	38,637	24,678
Credit servicing commission	15,593	7,412
Other	7,547	4,966
	454,185	**336,282**
Fee and commission expenses		
Cash and settlement operations	(41,310)	(28,539)
Currency conversion	(1,395)	(1,291)
Other	(3,792)	(3,541)
	(46,497)	**(33,371)**
Fees and commissions, net	**407,688**	**302,911**

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

24. Personnel and other administrative and operating expenses

Personnel and other administrative and operating expenses comprise:

	2008	2007
Salaries and bonuses	516,895	335,712
Employment taxes	96,411	72,441
Personnel expenses	**613,306**	**408,153**
Expenses related to Guarantee Fund of Individuals' Deposits	29,587	16,472
Repair and maintenance expenses	25,116	20,166
Occupancy and rent	24,749	13,361
Marketing and advertising	19,673	9,035
Sundry expenses	12,735	10,088
Security	11,824	7,756
EDP costs	9,568	7,834
Expenses for cash collection	7,204	5,555
Charity	6,949	6,176
Legal and consultancy	5,914	7,059
Business travel and related expenses	5,754	5,156
Operating taxes	5,218	2,614
Communications	4,880	4,449
Expenses related to representative offices	2,649	2,086
Impairment charge for property (Note 10)	1,623	-
Pledged assets written off	-	17,111
Other	6,201	8,131
Other administrative and operating expenses	**179,644**	**143,049**

Expenses on payment to the non-state pension fund comprised to UAH 13,795 thousand (2007: UAH 9,724 thousand).

25. Risk management

Introduction

The Bank is exposed to risks i.e. credit risk, liquidity risk and market risk (which is subdivided into interest rate risk, currency risk and trading book risk), operational risk as well as strategic and reputation risk which are continuously identified, assessed and controlled within the Risk management process. Risk management process is decisive for ensuring the Bank's efficiency and profitability and each employee of the Bank is responsible for respecting the risk management rules and procedures in the course of fulfilling their tasks and duties.

The Bank adheres to the following key risk management principles:

- centralisation of liquidity, interest and currency risk management at the Head Office level;
- unification of analysis and monitoring procedures for credit projects, assessment of the creditworthiness of each borrower and establishment of credit rating and rules for creating allowance for loan impairment across all branches of the Bank;
- clear definition of the roles of all participants in the risk management process and the interrelations among those participants;
- definition of risk limits for transaction volumes: by Bank or Branch Officer, limits on exposures to single borrowers, limits on exposures to related parties, credit portfolio concentration limits (by industry, counterparty groups, separate transactions/ balance sheet items, etc.);
- ensuring continuous risk monitoring and control and compliance with all established limits;
- avoidance of conflicts of interest;
- ensuring internal control over compliance with policies and procedures.

The risk management process includes four stages: identification of risk, its sources and risk areas; estimation of the level of risk; minimisation of risk or limitation of risk at an acceptable levels; on-going monitoring of positions at risk.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. These risks are monitored through the Bank's strategic planning process.

Risk management structure

Supervisory Board is generally responsible for establishment and approval of missions in the sphere of risk management and management of capital. In addition, the Bank has separate independent bodies responsible for managing and monitoring risks. The following bodies are responsible for the risk management process at the Bank: Management Board, Assets and Liabilities Committee ("ALCO"), Credit Committee, Retail Business Committee, Security Division, Treasury Division, Risk Management Division, Audit and Revision Division.

Supervisory Board

Supervisory Board is responsible for the overall risk management approach and for approving the risk strategies and principles.

Management Board

Management Board has the overall responsibility for the development of the risk strategy and implementing of principles, frameworks, policies and limits within the Bank. Fundamental risk issues are managed and monitored by relevant risk decisions based on quarterly reports of Risk Management Division, ALCO, Credit Committee and Retail Business Committee. Management Board approves the Bank's risk management policy for the next year on an annual basis.

Assets and Liabilities Committee

ALCO has the overall responsibility for the implementing of principles, frameworks, policies and limits regarding liquidity and market risks within the Bank and ensuring that liquidity and market risks are within the specified ranges approved by the Management Board. ALCO reports to the Management Board.

Credit Committee and Retail Business Committee

Credit Committee and Retail Business Committee have the overall responsibility for the implementing of principles, frameworks, policies and limits regarding credit risk within the Bank and ensuring that credit risk indicators are within the specified ranges approved by the Management Board. These Committees report to the Management Board.

Treasury and Securities Divisions

Treasury is responsible for management of the Bank's liquidity position via money market operations, while Securities Division is responsible for management of the Bank's liquidity position via capital market operations. Treasury Division and Securities Division report to the Management Board.

Risk Management Division

Risk Management Division is responsible for control, monitoring, analysis and reporting of key risk indicators connected with the Bank's activities. In addition, Risk Management Division elaborates and supervises implementation of risk management methodologies, norms and procedures, estimates the risk of all banking products and structured transactions. Risk Management Division reports to the Management Board.

Audit and Inspection Division

The risk management processes are audited on a regular basis by Audit and Inspection Division, which examines both the adequacy of procedures and the Bank's compliance with those procedures. Audit findings, conclusions and recommendations are submitted to the Risk Management Division, the Management Board and the Supervisory Board.

Risk measurement and risk reporting systems

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

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

Information regarding the balance-sheet structure, capital adequacy, compliance with limits and indicators established by ALCO, and covenants under contractual obligations of the Bank is submitted to ALCO on a monthly basis. Management Board receives a comprehensive risk report once a quarter which is designed to provide all the necessary information to assess and conclude on the risks of the Bank.

For all levels of the Bank's management, various risk reports are prepared in order to provide access all of the Bank's units to comprehensive, relevant and up-to-date information.

Risk Mitigation

The Bank does not use derivatives to manage risks arising from changes in interest rates, foreign exchange rates, credit risk and liquidity risk since a market for such financial instruments does not yet exist in Ukraine.

The Bank extensively uses collateral to minimize the credit risk (see below for more detail).

Excessive risks concentration

Concentration arises when a number of counterparts are engaged in similar business activities, or activities in the same geographic region, or have similar economic characteristics, which determine their ability to meet contractual obligations that are equally affected by the changes in economic, political or other environment. Concentration indicates the relative sensitivity of the Bank's performance to the developments affecting a particular industry or geographical area.

In order to avoid excessive concentrations of risks, the Bank's internal policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations risks concentration is duly controlled and managed.

Credit risk

The Banks considers a credit risk as a probability of untimely and/or insufficient receipt of funds from customers (counterparties) under their commitments.

Credit risk management is primarily aimed at ensuring fulfilment of commitments by the Bank's customers (counterparties) in form, volume and time periods adequate for maintaining liquidity, yield and capital adequacy ratios within the limits acceptable for the Bank.

While managing credit risk, the Bank is considering the combination of the following;

- the structural (strategic) management – acceptable level of loan portfolio structure and volume (on balance sheet and off balance sheet) in short, medium and long term horizon taking into consideration estimated and unpredictable changes in the financial and economic environment;
- ongoing (operational) management - acceptable quality and volume of individual loans and commitments taking into consideration estimated and unpredictable changes in the financial and economic environment;
- structural (strategic) and ongoing (operational) management of the allowance for impairment effect on the Bank's capital adequacy ratio in short, medium and long term horizon taking into consideration estimated and unpredictable changes in quality of the individual loans, credit portfolios and total credit portfolio.

The Bank manages and controls credit risk based on the following principles:

- setting target (optimal and acceptable for the Bank), critical (undesirable, but manageable) and threshold (requiring urgent measures) values of the key credit risk exposures;
- providing loans or loan related commitments solely in accordance with the approved Credit policy and the Bank's internal regulations;
- creation and maintaining allowances and provisions for loan related operations in volumes, which are not lower than the Bank's best estimates;
- constant monitoring of the actual values of the key credit risk exposures at the level of individual loans/commitments, credit portfolios and total credit portfolio;
- taking efficient measures if the actual values of credit risk exposures approach their critical and/or threshold values.

Key credit risk exposures, their target, critical and threshold values are updated at least annually and approved by the Management Board of the Bank.

Individual credit risk

Individual credit risk is a risk which can be attributed to a particular transaction or counterparty.

Individual credit risk is managed through: loan and customer (or counterparty) classification via the system of internal credit ratings determined on the basis of the customer's (counterparties') creditworthiness and an evaluation of their loan repayment quality; evaluation and monitoring of collateral value and liquidity; setting credit risk limits and monitoring compliance with the limits; creation of adequate allowance for asset's impairment.

The Bank's lending policy determines the type of collateral required for a particular transaction, industry or customer. The primary types of collateral include: guarantees of primary banks, deposits with the Bank, real estate property and pledges of equipment or vehicles. The Bank requires obligatory insurance of collateral to be provided by the customer.

In order to limit individual credit risk, the Bank sets the following limits: maximum volume of credit transactions (loans, securities, receivables) per single counterparty (or group of related counterparties), including off-balance sheet obligations; maximum volume of credit transactions (loans, securities, receivables) for one insider, including off-balance sheet obligations.

Portfolio credit risk

Portfolio credit risk is the risk typical for a group of credit transactions (loans, securities, receivables) and group of counterparties with similar credit characteristics.

Portfolio credit risk management is exercised through: industry classification on the basis of an internal system of industry ratings, which characterises the systematic risk of the industry; monitoring of the credit portfolio structure (by category of customers, industries and credit ratings of customers and loans); establishment of concentration limits and appropriate monitoring and control thereof; diversification of credit portfolio (both by industry and customer category).

Diversification of credit portfolio (both by industry and customer category) is provided through establishment of the following limits: by industry; by maximum total volume of "large" loans (which constitute 10% or more of the regulatory capital of the Bank as to each counterparty or group of related counterparties); by maximum total volume of loans to insiders; by credit portfolio concentration per category of customers; by total indebtedness of 5 largest customers; by total indebtedness of 10 largest customers; by total indebtedness of 20 largest customers.

Credit-related commitment risks

The Bank issues guarantees to its customers, under which the Bank may be required to make payments on behalf of the relevant customers. Such payments are collected from customers under the terms of the letters of credit. The mentioned guarantees expose the Bank to the risks similar to the credit risks, which are mitigated by the similar control procedures and principles.

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

The table below shows the maximum credit risk exposures under the balance sheet items. The maximum exposure is shown gross without regard to risk mitigation effect through the execution of the Master netting and collateral agreements and after deducting any allowance for impairment.

	Notes	Maximum exposure 2008	Maximum exposure 2007
Cash and cash equivalents (excluding cash on hand)	6	5,769,860	2,949,785
Amounts due from credit institutions	7	963,014	279,139
Loans to customers	8	36,608,067	21,781,631
Investment securities	9	2,013,136	1,850,762
Other assets	14	177,004	121,368
		45,531,081	**26,982,685**
Financial commitments and contingencies	22	3,654,386	2,525,694
Total credit risk exposure		**49,185,467**	**29,510,720**

If recorded at fair value, the amounts shown above represent the current credit risk exposure but not the maximum risk exposure that could arise in future as a result of changes in values.

Credit quality per class of financial assets

	Notes	Neither past due nor impaired				
		High grade 2008	Standard grade 2008	Sub-standard grade 2008	Past due or individually impaired 2008	Total 2008
Amounts due from foreign credit institutions	7	509,115	-	-	-	509,115
Amounts due from Ukrainian credit institutions	7	73,869	185,216	194,814	-	453,899
Investment securities:	9					
Fair value through profit or loss		568,246	397,158	-	-	965,404
Available-for-sale		776,232	78,733	-	-	854,965
Held-to-maturity		192,767	-	-	-	192,767
Loans to corporate customers:	8					
Loans		18,839,524	9,802,094	3,607,258	3,449,773	35,698,649
Overdrafts		562,896	91,274	-	41,613	695,783
Finance lease receivables		-	190,064	-	-	190,064
Promissory notes		9,307	15,863	1,523	87,574	114,267
		19,411,727	10,099,295	3,608,781	3,578,960	36,698,763
Loans to individuals	8	1,127,914	824,405	33,911	122,980	2,109,210
Total		**22,659,870**	**11,584,807**	**3,837,506**	**3,701,940**	**41,784,123**

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

		Neither past due nor impaired				
	Notes	**High grade 2007**	**Standard grade 2007**	**Sub-standard grade 2007**	**Past due or individually impaired 2007**	**Total 2007**
Amounts due from foreign credit institutions	7	9,533	-	-	-	9,533
Amounts due from Ukrainian credit institutions	7	178,257	81,249	10,100	-	269,606
Investment securities:	9					
Held-to-maturity		335,151	-	172,874	-	508,025
Loans to corporate customers:	8					
Loans		10,293,859	7,056,988	2,485,670	798,621	20,635,138
Overdrafts		537,386	75,066	-	-	612,452
Finance lease receivables		21,659	157,248	4,017	-	182,924
Promissory notes		39,651	23,508	-	-	63,159
		10,892,555	7,312,810	2,489,687	798,621	21,493,673
Loans to individuals	8	407,215	575,232	12,747	25,732	1,020,926
Total		**11,822,711**	**7,969,291**	**2,685,408**	**824,353**	**23,301,763**

The following table shows the principle, according to which the credit quality grades were assigned to financial assets.

		Rating values		
	Rating system	**High grade**	**Standard grade**	**Sub-standard grade**
Amounts due from foreign credit institutions	Fitch rating system	AAA, AA+, AA, AA-, A+, A, BBB+, BBB, BBB-	BB+, BB, BB-, B+, B, B-	CCC+, CCC, CCC-, CC, C
Amounts due from Ukrainian credit institutions	The NBU's classification system for credit institutions	A	B	C, D, E
Loans to corporate customers Investment securities	Internal rating system for corporate customers	1,2	3	4,5,6,7
Loans to individual customers	The NBU's classification system for individual customers	A	B	C, D, E

It is the Bank's policy to maintain accurate and consistent risk rating across the credit portfolio. The rating system is supported by a variety of financial analytics, combined with the processed market information to provide the main inputs for the measurement of counterparty risk. All internal risk ratings are tailored to the various categories and are derived in accordance with the Bank's rating policy. The attributable risk ratings are assessed and updated regularly.

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

Aging analysis of past due loans is provided below. The most past due loans are not considered to be impaired.

	Less than 30 days	***31 to 60 days***	***More than 61 days***	***Total***
2008	87,342	44,085	111,077	**242,504**
2007	20,159	4,445	1,303	**25,907**

Of the total aggregate amount of gross past due but not impaired loans to customers, the fair value of collateral that the Bank held as at 31 December 2008 was nil (2007: UAH 7,509 thousand).

The table below shows the carrying amount for renegotiated financial assets, by class:

	2008	***2007***
Loans to customers:		
Loans	4,625,375	1,928,238
Overdrafts	-	12,181
Finance lease receivables	-	3,044
Total	**4,625,375**	**1,943,463**

Impairment assessment

The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue by more than 90 days or there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the respective contract. The Bank addresses impairment assessment in two areas: individually assessed allowances and collectively assessed allowances (on a portfolio basis).

The geographical concentration of the Bank's monetary assets and liabilities is set out below:

	2008			
	Ukraine	***OECD countries***	***CIS and other non-OECD countries***	***Total***
Assets:				
Cash and cash equivalents	3,464,715	2,596,131	247,848	6,308,694
Due from credit institutions	453,899	503,853	5,262	963,014
Loans to customers	36,586,944	2,619	18,504	36,608,067
Investment securities:				
- designated at fair value through profit or loss	965,404	-	-	965,404
- available-for-sale	857,268	-	-	857,268
- held-to-maturity	192,767	-	-	192,767
Other assets (monetary)	113,356	-	-	113,356
	42,634,353	**3,102,603**	**271,614**	**46,008,570**
Liabilities:				
Amounts due to the National Bank of Ukraine	1,408,000	-	-	1,408,000
Due to credit institutions	936,972	14,528,584	10,398	15,475,954
Due to customers	16,105,714	276,682	217,308	16,599,704
Eurobonds issued	-	7,851,856	-	7,851,856
Bonds issued	1,062,149	-	-	1,062,149
Subordinated debt	-	977,738	-	977,738
Other liabilities (monetary)	128,208	336	99	128,643
	19,641,043	**23,635,196**	**227,805**	**43,504,044**
Net balance sheet position	**22,993,310**	**(20,532,593)**	**43,809**	**2,504,526**
Net off balance sheet position – financial commitments and contingencies (Note 21)	**3,323,210**	**770**	**1,585**	**3,325,565**

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

	2007			
	Ukraine	*OECD countries*	*CIS and other non-OECD countries*	*Total*
Assets:				
Cash and cash equivalents	1,381,821	1,915,731	162,552	3,460,104
Due from credit institutions	269,606	4,398	5,135	279,139
Loans to customers	21,771,429	1,612	8,590	21,781,631
Investment securities:				
- designated at fair value through profit or loss	1,342,737	-	-	1,342,737
- available-for-sale	2,341	-	-	2,341
- held-to-maturity	508,025	-	-	508,025
Other assets (monetary)	44,544	-	-	44,544
	25,320,503	**1,921,741**	**176,277**	**27,418,521**
Liabilities:				
Due to credit institutions	564,699	7,188,484	389,801	8,142,984
Due to customers	10,285,890	218,876	90,136	10,594,902
Eurobonds issued		5,145,498	-	5,145,498
Bonds issued	198,372	978,247	110,474	1,287,093
Subordinated debt	-	640,257	-	640,257
Other liabilities (monetary)	59,083	438	3	59,524
	11,108,044	**14,171,800**	**590,414**	**25,870,258**
Net balance sheet position	**14,212,459**	**(12,250,059)**	**(414,137)**	**1,548,263**
Net off balance sheet position – financial commitments and contingencies (Note 21)	**2,281,616**	**505**	**379**	**2,282,500**

Liquidity risk

The Bank considers liquidity risk as a risk of inability to finance growth of the Bank's assets and to fulfil its own obligations when fall due.

The main purpose of liquidity risk management is to ensure the unconditional ability of the Bank to fulfil its obligations when fall due by maintaining acceptable (manageable) liquidity gaps.

While managing liquidity risk, the Bank is considering the combination of the following;

- structural (short and long-term) assets and liabilities management focused on ensuring appropriate liquidity level in the short and long-term time horizon;
- current (short-term) assets and liabilities management focused on ensuring appropriate level of instant and current liquidity taking into consideration estimated and unpredictable cash flow changes.

Liquidity risk management is based on acceptable levels of maturity gaps (by currency) and on the following principles:

- setting target (optimal and acceptable to the Bank), critical (undesirable but manageable) and threshold (requiring urgent measures) levels of key liquidity risk indicators;
- permanent monitoring of actual key liquidity risk indicators;
- use of adequate corrective actions if actual key liquidity risk indicators approach their critical and/or threshold levels.

Key liquidity risk indicators, their respective target, critical and threshold levels are updated at least annually and approved by the Management Board of the Bank.

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

Assessment of the liquidity position

The adherence to the internal limits set by the Bank is in line with the liquidity risk standards established by the National Bank of Ukraine. The liquidity position is assessed and managed by the Bank, based on certain liquidity ratios established by the NBU as described in the Short-Term Liquidity Risk Management section.
As at 31 December, the liquidity position, assessed by respective liquidity ratios established by the NBU, was as follows:

	2008, %	*2007, %*
N4 "Instant Liquidity Ratio" (vault cash and balances on nostro accounts with banks / balances on customers' current accounts) (minimum required by the NBU – 20%)	93.42	108.43
N5 "Current Liquidity Ratio" (vault cash, balances on nostro accounts with banks, banking metals, claims on banks maturing within with residual maturity of up to 31 days, bills and bonds with residual maturity of up to 31 days/ balances on customers' current accounts, term deposits, debt obligations and commitments with residual maturity of up to 31 days) (minimum required by the NBU – 40%)	82.96	100.00
N6 "Short-Term Liquidity Ratio" (vault cash, balances on nostro accounts with banks, banking metals, claims on banks with residual maturity of up to 1 year, bills and bonds with residual maturity of up to 1 year / balances on customers' current accounts, term deposits, debt obligations and commitments with residual maturity of up to 1 year) (minimum required by the NBU – 20%)	34.92	38.25

Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Bank's financial liabilities at 31 December based on contractual undiscounted repayment obligations. Less than 3 months liabilities are those that due on the earliest date. However, the Bank expects that many customers will not demand repayment on the earliest date when the Bank could be required to make a respective repayment and the table does not reflect the expected cash flows calculated by the Bank on the basis of information on deposit repayment in previous period.

Financial liabilities As at 31 December 2008	***Less than 3 months***	***3 to 12 months***	***1 to 5 years***	***Over 5 years***	***Total***
Amounts due to credit institutions	3,767,592	6,673,684	6,805,114	4,069,447	21,315,837
Amounts due to the NBU	59,590	1,529,194	-	-	1,588,784
Amounts due to customers	10,189,974	5,073,258	2,768,547	317,982	18,349,761
Eurobonds issued	268,028	3,814,331	11,040,705	-	15,123,064
Bonds issued	78,761	683,583	1,760,396	-	2,522,740
Subordinated debt	26,730	66,387	535,867	1,943,292	2,572,276
Other liabilities	128,643	-	-	-	128,643
Total undiscounted financial liabilities	**14,519,318**	**17,840,437**	**22,910,629**	**6,330,721**	**61,601,105**

Financial liabilities As at 31 December 2007	***Less than 3 months***	***3 to 12 months***	***1 to 5 years***	***Over 5 years***	***Total***
Amounts due to credit institutions	1,866,660	4,136,849	2,056,930	1,043,952	9,104,391
Amounts due to customers	5,718,617	4,506,520	792,691	38,224	11,056,052
Eurobonds issued	146,502	232,447	6,072,445	-	6,451,394
Bonds issued	29,235	318,188	1,166,359	-	1,513,782
Subordinated debt	26,513	26,588	212,100	816,838	1,082,039
Other liabilities	59,524	-	-	-	59,524
Total undiscounted financial liabilities	**7,847,051**	**9,220,592**	**10,300,525**	**1,899,014**	**29,267,182**

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

The table below shows the contractual expiry by maturity of the Bank's financial commitments and contingencies.

	Less than 3 months	***3 to 12 months***	***1 to 5 years***	***Over 5 years***	***Total***
2008	1,162,746	1,141,781	1,235,952	216,648	3,757,127
2007	857,500	1,212,135	401,780	61,580	2,532,995

The Bank expects that not all of the contingent liabilities or commitments will be drawn before their expiry. In order to limit liquidity risk arising from asymmetric prepayment and early repayment prospective of the term assets and liabilities, the Bank incorporates in standard client agreements conditions that motivate customers not to use the options of prepayment and early repayment.

Market risk

The Bank considers market risk as an aggregate of interest rate risk and currency risk, i.e. inability to secure excess of income (including interest income) over expenses (including interest expenses) by currency in volumes required to fulfil the Bank's obligations and to maintain liquidity and capital adequacy risks within the range acceptable to the Bank.

Market risk management is performed by systematic combination of:

- interest risk management;
- foreign currency risk management.

Market risk management is aimed at securing the excess of income (including interest income) over expenses (including interest expenses) by currency in volumes required to fulfil the Bank's obligations and to maintain liquidity risk and capital adequacy risk within the range acceptable to the Bank and is carried out by:

- setting target (optimal and acceptable to the Bank), critical (undesirable but manageable) and threshold (requiring urgent measures) levels of key market risk indicators;
- permanent monitoring of actual values of key market risk indicators;
- taking efficient measures if the actual values of key market risk indicators approach their critical and/or threshold levels.

Key market risk indicators their target, critical and threshold levels are updated at least annually and approved by the Management Board of the Bank.

Interest rate risk

Interest rate risk is considered by the Bank as inability to secure excess of interest income over interest expenses in volumes required to fulfil the Bank's interest payment obligations and to maintain liquidity and capital adequacy risks within the range acceptable to the Bank. The Bank considers the mismatch of interest receipts and interest payments by volumes or dates to be the main source of interest rate risk.

The Bank considers interest rate risk management as an integral part of the Bank's operations including the effect of negative impact by internal and external factors.

Interest rate risk management is performed by systematic combination of:

- structural (strategic) and current (operational) management of interest-bearing assets aimed at achieving acceptable structure and volume of interest income in short, middle and long-term time horizon taking into consideration estimated and unpredictable changes in interest rates;
- structural (strategic) and current (operational) management of interest-bearing liabilities aimed at achieving acceptable structure and volume of interest expenses in short, middle and long-term time horizon taking into consideration estimated and unpredictable changes in interest rates.

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Interest rate risk management is aimed at securing the excess of interest income over interest expenses in volumes sufficient to fulfil the Bank's interest payment obligations and to maintain liquidity and capital adequacy risks within the range acceptable to the Bank. Interest rate risk management is performed via:

- setting target (optimal and acceptable to the Bank), critical (undesirable but manageable) and threshold (requiring urgent measures) levels of key interest rate risk indicators;
- permanent monitoring of actual values of key interest rate risk indicators;
- taking efficient measures if the actual value of key interest rate risk indicators approach their critical and/or threshold levels.

Key interest rate risk indicators, their respective target, critical and threshold levels are updated at least annually and approved by the Management Board of the Bank.

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

		2008			
Currency	***Base for interest rate***	***Increase in basis points***	***Effect on profit before income tax expense***	***Decrease in basis points***	***Effect on profit before income tax expense***
UAH	LIBOR	+75	-	-75	-
	EurIBOR	+75	-	-75	-
	NBU	+100	24,418	-100	(24,418)
UAH Total			**24,418**		**(24,418)**
USD	LIBOR	+75	210,683	-75	(210,683)
EUR	EurIBOR	+75	14,912	-75	(14,912)
Other	LIBOR	+75	21,200	-75	(21,200)
Total			**271,213**		**(271,213)**

		2007			
Currency	***Base for interest rate***	***Increase in basis points***	***Effect on profit before income tax expense***	***Decrease in basis points***	***Effect on profit before income tax expenses***
UAH	LIBOR	+75	62	-75	(62)
	EurIBOR	+75	116	-75	(116)
	NBU	+100	17,472	-100	(4,842)
UAH Total			**17,650**		**(5,020)**
USD	LIBOR	+75	28,452	-75	16,954
EUR	EurIBOR	+75	5,762	-75	(3,164)
Other	LIBOR	+75	470	-75	1,109
Total			**52,334**		**9,879**

Currency risk

The Bank considers currency risk as inability to secure excess of foreign currency cash inflow over foreign currency cash outflow (by currency) in amount required to maintain liquidity and capital adequacy risks within the range acceptable to the Bank. The Bank considers the inconsistency of fluctuations in foreign currency exchange rates to be the main source of currency risk.

Currency risk management is performed by systematic combination of:

- structure (strategic) and current (operational) management of assets by currency aimed at achieving an acceptable structure and amount of foreign currency cash inflow in short, medium and long term time horizon taking into consideration estimated and unpredictable changes in foreign currency exchange rates;

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- structure (strategic) and current (operational) liabilities management aimed at achieving an acceptable structure and amount of foreign currency cash outflow in short, medium and long term time horizon taking into consideration estimated and unpredictable changes in foreign currency exchange rates.

Currency risk management is aimed at securing the excess of foreign currency cash inflow over foreign currency cash outflow at the level acceptable for the Bank and necessary for maintaining liquidity and capital adequacy risks within the range acceptable to the Bank, and is performed via:

- setting target (optimal and acceptable to the Bank), critical (undesired but manageable) and threshold (urgent measures) values of key currency risk indicators;
- continuous monitoring of actual values of key currency risk indicators;
- taking efficient measures if the actual values of key currency risk indicators approach their critical and/or threshold values.

Key currency risk indicators, their target, critical and threshold values are updated at least annually and approved by the Management Board of the Bank.

The tables below indicate the currencies to which the Bank had significant exposure at 31 December 2008 on its non-trading monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against hryvnia, with all other variables held constant on the consolidated income statement (due to the fair value of currency sensitive non-trading monetary assets and liabilities). The effect on equity does not differ from the effect on the consolidated income statement. A negative amount in the table reflects a potential net reduction in consolidated income statement or equity, while a positive amount reflects a net potential increase.

	2008		**2007**	
Currency	***Change in currency rate***	***Effect on profit before income tax expenses***	***Change in currency rate***	***Effect on profit before income tax expenses***
USD/UAH	+50.00%	(116,171)	+3.10%	12,188
EUR/UAH	+50.00%	(17,349)	+10.10%	(9,391)
Total		**(133,520)**		**2,797**
USD/UAH	-50.00%	116,171	-2.80%	(11,009)
EUR/UAH	-50.00%	17,349	-8.40%	7,811
Total		**133,520**		**(3,198)**

Operational risk

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

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26. Fair values of financial instruments

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

	Carrying value 2008	***Fair value 2008***	***Unrecognised gain/(loss) 2008***	***Carrying value 2007***	***Fair value 2007***	***Unrecognised gain/(loss) 2007***
Financial assets						
Cash and cash equivalents	6,308,694	6,308,694	-	3,460,104	3,460,104	-
Due from credit institutions	963,014	963,014	-	279,139	279,139	-
Loans to customers	36,608,067	36,041,103	(566,964)	21,781,631	22,122,212	340,581
Investment securities:						
- designated at fair value through profit or loss	965,404	965,404	-	1,342,737	1,342,737	-
- available-for-sale	857,268	857,268	-	2,341	2,341	-
- held-to-maturity	192,767	192,767	-	508,025	508,025	-
Other assets	108,900	108,900	-	43,043	43,043	-
Financial liabilities						
Amounts due to the NBU	1,408,000	1,408,000	-	-	-	-
Amounts due to credit institutions	15,475,954	15,475,954	-	8,142,984	8,142,984	-
Amounts due to customers	16,599,704	16,430,866	168,838	10,594,902	10,497,212	97,690
Eurobonds issued	7,851,856	3,886,370	3,965,486	5,145,498	5,022,831	122,667
Debt securities issued	1,062,149	1,062,149	-	1,287,093	1,287,093	-
Subordinated debt	977,738	977,738	-	640,257	640,257	-
Other liabilities	47,956	47,956	-	65,042	65,042	-
Total unrecognised change in unrealised fair value			**3,567,360**			**560,938**

The following describes the methodologies and assumptions used to determine fair values for those financial instruments, which are not recorded at fair value in the financial statements.

Assets for which fair value approximates carrying value

For financial assets and financial liabilities that are liquid or having a short term maturity (less than thee months) it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits, savings accounts without a specific maturity and variable rate financial instruments.

Fixed rate financial instruments

The fair value of fixed rate financial assets and liabilities carried at amortised cost are estimated by comparing market interest rates when they were first recognised with current market rates offered for similar financial instruments. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and maturity. For quoted debt issued the fair values are calculated based on quoted market prices. For those notes issued where quoted market prices are not available, a discounted cash flow model is used based on a current interest rate yield curve appropriate for the remaining term to maturity.

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Financial instruments recorded at fair value

As at 31 December 2008, the Bank's investment securities designated at fair value through profit or loss of UAH 965,404 thousand (2007: UAH 1,342,737 thousand) and available-for-sale UAH 854,965 thousand (2007: nil) were recorded at fair value based on quoted market prices.

27. Maturity analysis of financial assets and liabilities

The table below shows an analysis of financial assets and liabilities according to when they are expected to be recovered or settled.

	2008			*2007*		
	Within one year	***More than one year***	***Total***	***Within one year***	***More than one year***	***Total***
Financial assets						
Cash and cash equivalents	6,308,694	-	6,308,694	3,460,104	-	3,460,104
Amounts due from credit institutions	563,835	399,179	963,014	208,238	70,901	279,139
Loans to customers	17,127,502	19,400,022	36,527,524	10,014,272	11,767,359	21,781,631
Investment securities:						
- designated at fair value through profit or loss	486,354	479,050	965,404	1,342,737	-	1,342,737
- available-for-sale	814,378	42,890	857,268	2,341		2,341
- held-to-maturity	-	192,767	192,767	316,016	192,009	508,025
Other assets	113,356	-	113,356	41,283	3,261	44,544
Total	**25,414,119**	**20,513,908**	**45,928,027**	**15,384,991**	**12,033,530**	**27,418,521**
Financial liabilities						
Amounts due to the National Bank of Ukraine	1,408,000	-	1,408,000			
Amounts due to credit institutions	9,020,289	6,455,665	15,475,954	5,699,392	2,443,592	8,142,984
Amounts due to customers	14,409,989	2,189,715	16,599,704	9,863,963	730,939	10,594,902
Eurobonds issued	1,961,681	5,890,175	7,851,856	95,245	5,050,253	5,145,498
Debt securities issued	287,149	775,000	1,062,149	235,773	1,051,320	1,287,093
Subordinated debt	31,891	945,847	977,738	19,928	620,329	640,257
Other liabilities	128,643	-	128,643	51,445	8,079	59,524
Total	**27,247,642**	**16,256,402**	**43,504,044**	**15,965,746**	**9,904,512**	**25,870,258**
Net	**(1,833,523)**	**4,257,506**	**2,423,983**	**(580,755)**	**2,129,018**	**1,548,263**

The Bank has received significant funds from different credit and international financial institutions (Note 15 and 16). Any significant withdrawal of these funds would have an adverse impact on the operations of the Bank. Management believes that this level of funding will remain with the Bank for the foreseeable future and that in the event of withdrawal of funds, the Bank would be given sufficient notice so as to realise its liquid assets to enable repayment.

Long-term loans are generally not available in Ukraine, except for programmes set up by international financial institutions. However, in the Ukrainian marketplace, many short-term credits are granted with the expectation of renewing the loans at maturity. As such, the ultimate maturity of assets may be different from the analysis presented above. In addition, the maturity analysis does not reflect the historical stability of current accounts. Their liquidation has historically taken place over a longer period than indicated in the tables above. These balances are included in amounts due within one year in the tables above. While investment securities are shown as realisable within one year, realising such assets upon demand is dependent upon financial market conditions. Significant security positions may not be liquidated in a short period of time without adverse price effects.

In accordance with the Ukrainian legislation, the Bank is obliged to repay such deposits upon demand of a depositor. In October 2008 the NBU introduced a moratorium on early withdrawal of deposits for the indefinite period of time.
In case a term deposit is repaid upon demand of the depositor prior to maturity, interest on it is paid based on the interest rate for demand deposits, unless a different interest rate is specified in the agreement

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28. Related party disclosures

In accordance with IAS 24 "Related Party Disclosures", parties are considered to be related if one party has the ability to control the other party or 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.

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

The outstanding balances of related party transactions at the year end, and related expense and income for the years are as follows:

	2008		2007	
	State controlled entities	Key management personnel	State controlled entities	Key management personnel
Correspondent account with the NBU at 31 December	**2,255,045**	**-**	**602,277**	**-**
Amounts due from credit institutions at 31 December	**5**	**-**	**1**	**-**
State bonds designated at fair value through profit and loss at 1 January	**755,808**	**-**	**210,964**	**-**
Purchase of securities	-	-	603,131	-
Sale of securities	(193,184)	-	(45,600)	-
Other movements	5,622	-	(12,687)	-
State bonds designated at fair value through profit and loss at 31 December	**568,246**	**-**	**755,808**	**-**
Held-to-maturity State bonds at 1 January	**14,689**	**-**	**98,526**	**-**
Purchase of State bonds	-	-	-	-
Redemption of State bonds	(14,616)	-	(78,000)	-
Other movements	(73)	-	(5,837)	-
Held-to-maturity State bonds at 31 December	**-**	**-**	**14,689**	**-**
Held-to-maturity NBU deposit certificates at 1 January	**300,074**	**-**	**-**	**-**
Purchase of NBU deposit certificates	-	-	300,000	-
Redemption of deposit certificates	(300,000)	-	-	-
Other movements	(74)	-	74	-
Held-to-maturity NBU deposit certificates at 31 December	**-**		**300,074**	**-**
Held-to-maturity other corporate bonds at 1 January	**193,263**	**-**	**20,384**	**-**
Purchase of other corporate bonds	-	-	190,000	-
Redemption of other corporate bonds	-	-	(20,000)	-
Other movements	(496)	-	2,879	-
Held-to-maturity other corporate bonds at 31 December	**192,767**	**-**	**193,263**	
NBU deposit certificates classifies as	**-**	**-**	**-**	**-**

available-for-sale at 1 January				
Purchase of NBU deposit certificates	1,350,000	-	-	-
Sale of NBU deposit certificates	(1,350,000)	-	-	-
NBU deposit classifies as available-for-sale at 31 December	-	-	-	-
State bonds classifies as available-for-sale at 1 January	**-**	**-**	**-**	**-**
Purchase of securities	584,904	-	-	-
Other movements	(8,556)	-	-	-
State bonds classifies as available-for-sale at 31 December	**576,348**	**-**	**-**	**-**
Corporate bonds classifies as available-for-sale at 1 January	**-**	-	-	-
Purchase of securities	40,000		-	
Other movements	587		-	
Corporate bonds classifies as available-for-sale at 31 December	**40,587**	**-**	**-**	**-**
Loans outstanding at 1 January, gross (less overdrafts)	**1,753,479**	**129**	**1,243,119**	**-**
Loans issued during the year	3,595,795	-	4,227,278	129
Loan repayments during the year	(3,014,772)	(129)	(3,719,776)	-
Other movements	912,124	-	2,858	-
Overdrafts at 31 December	35,393	317	109,549	221
Loans outstanding at 31 December, gross	3,282,019	317	1,863,028	129
Less: allowance for impairment at 31 December	(354,940)	-	(101,839)	-
Loans outstanding at 31 December, net	**2,927,079**	**317**	**1,761,189**	**350**
Other assets at 31 December	**2,366**	**-**	**6,326**	**-**
Loans due to the NBU at 1 January	**-**	**-**	**100,044**	**-**
Loans received during the year	(295,000)	-	(100,000)	-
Loans repaid during the year	1,703,000	-	-	-
Other movements	-	-	(44)	-
Loans due to the NBU at 31 December	**1,408,000**	**-**	**-**	**-**
Amounts due to credit institutions	**1,225**	**-**	**130,809**	**-**
Current accounts at 31 December	**2,101,164**	1,705	792,686	130
Time deposits as at 1 January	**130,288**	38,489	89,681	27,033
Time deposits received during the year	1,628,340	67,053	449,276	23,631
Time deposits repaid during the year	(1,548,093)	(59,188)	(413,841)	(12,485)
Other movements	22,256	6,328	5,172	310
Time deposits as at 31 December	**232,791**	**52,682**	**130,288**	**38,489**
Amounts due to customers	**2,333,955**	**54,387**	**922,974**	**38,619**
Debt securities issued	**102,803**	**-**	**102,949**	**-**
Other liabilities	**3,639**	**-**	**13,358**	**-**
Provisions	**22,220**	**-**	**7,287**	**-**
Commitments and guarantees issued	**954,074**	**-**	**329,414**	**-**

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

Interest income on loans	300,362	38	185,695	44
Interest income on securities	87,221	-	40,087	-
Interest income on amounts due from the NBU	-	-	149	-
Interest income on amounts due from credit institutions	3,285	-	52	-
Interest income	**390,868**	**38**	**225,983**	**44**
Interest expenses on amounts due to credit institutions	(916)	-	(6,235)	-
Interest expense on clients' deposits	(48,929)	(1,556)	(30,329)	(404)
Interest expenses on debt securities issued	(13,837)	-	(11,940)	-
Interest expenses on amounts due to the NBU	(42,453)	-	(2,144)	-
Interest expenses	**(106,135)**	**(1,556)**	**(50,648)**	**(404)**
Commission income	39,145	-	24,784	-
Commission expenses	(57)	-	(112)	-
Translation differences	331,137	(4,543)	(17,625)	(106)
Other operating income	39	-	1	-
Measurement of financial instruments	-	-	(3,100)	-
Other operating and administrative expenses	(221)	-	(258)	-

The aggregate remuneration and other benefits paid to the key management personnel for 2008 is UAH 39,322 thousand (UAH 1,404 thousand payment to non-state pension fund) (2007: UAH 20,837 thousand (UAH 798 thousand payment to non-state pension fund)).

As at 31 December 2008, members of Management and Board of Directors have UAH 0 thousand (2007: UAH 136 housand) of loans issued under normal terms and conditions.

All transactions with related parties have been effected on the same terms and conditions as transactions between unrelated parties.

29. Capital

The Bank maintains an actively managed adequate capital level to cover external risks inherent in the business. The adequacy of the Bank's capital is monitored using the ratios established by the NBU and Basel Capital Accord 1988.

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

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

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities.

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

NBU capital adequacy ratio

The NBU requires banks to maintain a capital adequacy ratio of 10% of the amount of risk-weighted assets, computed in accordance with the UAS.

As at 31 December 2008 and 2007, the Bank's capital adequacy ratio on this basis was as follows:

	2008	***2007***
Main capital	3,162,978	1,561,965
Additional capital	1,781,134	1,561,965
Less: deductions from capital	-	(6,633)
Total capital	**4,944,112**	**3,117,297**
Risk weighted assets	**45,922,299**	**27,288,100**
Capital adequacy ratio	10.77%	11.42%

Regulatory capital of Tier 1 comprises Tier 1 capital (Main capital) consisting of paid-in registered share capital, reserves less expected losses, and Tier 2 capital (Additional capital), consisting of credit risk provisions, asset revaluation provision, current profit, subordinated capital and retained earnings. Tier 2 capital is limited to 100% of Tier 1 capital. Subordinated capital is limited to 50% of Tier 1 capital.

Capital adequacy ratio under Basel Capital Accord 1988

As at 31 December 2008 and 2007 the Bank's capital adequacy ratio, computed in accordance with the Basel Capital Accord 1988 amended to include market risk was as follows:

	2008	***2007***
Tier 1 capital	3,284,086	2,048,368
Tier 2 capital	1,286,590	1,081,496
Total capital	**4,570,676**	**3,129,864**
Risk weighted assets	**41,641,190**	**24,056,671**
Tier 1 capital ratio	7.89%	8.51%
Total capital ratio	10.98%	13.01%

30. Events after the balance sheet date

In January 2009, according to the Resolution of the Cabinet of Ministers of Ukraine dated 17 December 2008, the Bank's share capital was increased by UAH 3,699,999 thousand. The increase was financed by Ukrainian State bonds. In February – March 2009, these Ukrainian State bonds were sold to the National Bank of Ukraine at nominal value.

In February 2009, the EximBank sold the investment certificates of unincorporated mutual investment fund "Agat". Gain of UAH 22,390 thousand was recognised on this sale.