PIVDENNYI BANK GROUP

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

31 December 2008

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders and Board of Directors of Pivdennyi Bank:

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

LLC AF PricewaterhouseCoopers (Audit)

30 April 2009
Kyiv, Ukraine

Auditor L. Pakhucha
Audit certificate # 0000025 issued by the National Bank of Ukraine

Аудиторська фірма * м.Київ * Україна * Товариство з обмеженою відповідальністю "ПрайсвотерхаусКуперс (Аудит)" Ідентифікаційний код 21603903

In thousands of Ukrainian hryvnias	Note	31 December 2008	31 December 2007
ASSETS			
Cash and cash equivalents and mandatory reserves	7	1,263,900	1,011,013
Securities at fair value through profit or loss	8	82,154	113,485
Due from other banks	9	44,250	94,918
Loans and advances to customers	10	9,686,752	6,855,950
Investment securities available for sale	11	16,818	14,222
Current income tax prepayment		191	1,961
Intangible assets	12	7,412	4,128
Premises and equipment	12	614,367	533,902
Other financial and non-financial assets	13	58,605	37,593
TOTAL ASSETS		**11,774,449**	**8,667,172**
LIABILITIES			
Due to the National Bank of Ukraine	14	350,000	90,000
Due to other banks	15	1,159,535	1,067,171
Customer accounts	16	7,356,151	5,957,828
Loan participation notes issued	17	794,014	518,145
Debt securities in issue	18	207,192	137,078
Other borrowed funds	19	380,967	-
Deferred income tax liability	25	15,210	38,919
Provisions for liabilities and charges and other liabilities	20	47,862	23,952
TOTAL LIABILITIES		**10,310,931**	**7,833,093**
EQUITY			
Share capital	21	655,446	563,896
Share premium	21	335,564	-
Revaluation reserve for premises		99,938	91,024
Revaluation reserve for investment securities available for sale		1,584	1,099
Currency translation reserve		73,450	7,504
Retained earnings		277,918	157,098
Net assets attributable to the Bank's equity holders		**1,443,900**	**820,621**
Minority interest		**19,618**	**13,458**
TOTAL EQUITY		**1,463,518**	**834,079**
TOTAL LIABILITIES AND EQUITY		**11,774,449**	**8,667,172**

Approved for issue and signed on behalf of the Board of Directors on 23 April 2009.

Vadim V. Morokhovskyi
Chairman of the Board

Ludmila V. Kovalenok
Chief Accountant

Код 20953647
ПІВДЕННИЙ
УКРАЇНА, м. Одеса
АКЦІОНЕРНИЙ БАНК "ПІВДЕННИЙ"

In thousands of Ukrainian hryvnias	Note	2008	2007
Interest income	22	1,208,757	663,047
Interest expense	22	(716,766)	(385,101)
Net interest income		**491,991**	**277,946**
Provision for impairment of loans to customers	10	(316,109)	(44,062)
Net interest income after provision for loan impairment		**175,882**	**233,884**
Fee and commission income	23	196,586	129,945
Fee and commission expense	23	(38,167)	(24,392)
Losses less gains from securities at fair value through profit or loss		(13,540)	(2,000)
Gains less losses from trading in foreign currencies		80,623	45,839
Foreign exchange translation gains less losses		139,279	1,239
Impairment of investment securities available for sale	11	(14)	(1,694)
(Losses less gains)/gains less losses from disposals of investment securities available for sale		(773)	138
Gains less losses/(losses less gains) from derivative financial instruments		1,799	(329)
(Provision)/recovery of provision for credit related commitments	20	(13,785)	5,857
Other operating income		3,051	2,001
Administrative and other operating expenses	24	(370,926)	(266,650)
Gains on purchase of additional shares of the subsidiary	34	1,086	12,228
Profit before tax		**161,101**	**136,066**
Income tax expense	25	(39,011)	(33,210)
Profit for the year		**122,090**	**102,856**
Profit is attributable to			
Equity holders of the Bank		120,820	98,597
Minority interest		1,270	4,259
Profit for the year		**122,090**	**102,856**

In thousands of Ukrainian hryvnias	Note	Attributable to equity holders of the Bank							Minority interest	Total equity
		Share capital	Share premium	Revaluation reserve for premises	Revaluation reserve for investment securities available for sale	Currency translation reserve	Retained earnings	Total		
Balance at 1 January 2007		**362,396**	**-**	**48,117**	**-**	**-**	**58,501**	**469,014**	**52,737**	**521,751**
Available-for-sale investments:										
- Fair value gains less losses	11	-	-	-	1,603	-	-	1,603	-	1,603
- Disposals	11	-	-	-	(138)	-	-	(138)	-	(138)
Premises and equipment:										
- Revaluation	12	-	-	57,209	-	-	-	57,209	-	57,209
Currency translation differences		-	-	-	-	7,504	-	7,504	1,869	9,373
Income tax recorded in equity	25	-	-	(14,302)	(366)	-	-	(14,668)	-	(14,668)
Net income recognised directly in equity		-	-	42,907	1,099	7,504	-	51,510	1,869	53,379
Profit for the year		-	-	-	-	-	98,597	98,597	4,259	102,856
Total recognised income for 2007		-	-	42,907	1,099	7,504	98,597	150,107	6,128	156,235
Share issue	21	201,500	-	-	-	-	-	201,500	-	201,500
Purchase of additional shares in the subsidiary		-	-	-	-	-	-	-	(45,407)	(45,407)
Balance at 31 December 2007		**563,896**	**-**	**91,024**	**1,099**	**7,504**	**157,098**	**820,621**	**13,458**	**834,079**
Available-for-sale investments:										
- Fair value gains less losses	11	-	-	-	647	-	-	647	-	647
Premises and equipment:										
- Revaluation	12	-	-	11,885	-	-	-	11,885	-	11,885
Currency translation differences		-	-	-	-	65,946	-	65,946	5,976	71,922
Income tax recorded in equity	25	-	-	(2,971)	(162)	-	-	(3,133)	-	(3,133)
Net income recognised directly in equity		-	-	8,914	485	65,946	-	75,345	5,976	81,321
Profit for the year		-	-	-	-	-	120,820	120,820	1,270	122,090
Total recognised income for 2008		-	-	8,914	485	65,946	120,820	196,165	7,246	203,411
Share issue	21	91,550	335,564	-	-	-	-	427,114	-	427,114
Treasury shares:										
- acquisition	21	836	3,095	-	-	-	-	3,931	-	3,931
- disposal	21	(836)	(3,095)	-	-	-	-	(3,931)	-	(3,931)
Purchase of additional shares in the subsidiary		-	-	-	-	-	-	-	(1,086)	(1,086)
Balance at 31 December 2008		**655,446**	**335,564**	**99,938**	**1,584**	**73,450**	**277,918**	**1,443,900**	**19,618**	**1,463,518**

In thousands of Ukrainian hryvnias	**Note**	**2008**	**2007**
Cash flows from operating activities			
Interest received		1,180,916	659,750
Interest paid		(656,254)	(328,049)
Fees and commissions received		194,807	129,945
Fees and commissions paid		(38,167)	(24,392)
Income received from trading in foreign currencies		80,623	45,510
Other operating income received		3,429	2,008
Staff costs paid		(186,565)	(137,488)
Administrative and other operating expenses paid		(141,627)	(106,572)
Income tax paid		(64,083)	(35,510)
Cash flows from operating activities before changes in operating assets and liabilities		**373,079**	**205,202**
Net increase in mandatory reserves balances		(1,751)	(83,180)
Net decrease in securities at fair value through profit or loss		34,108	1,314
Net decrease/(increase) in due from other banks		63,491	(63,032)
Net increase in loans and advances to customers		(1,013,628)	(3,661,278)
Net increase in other financial and non-financial assets		(17,908)	(10,829)
Net increase in due to the National Bank of Ukraine		260,000	8,000
Net (decrease)/increase in due to other banks		(299,028)	792,300
Net (decrease)/increase in customer accounts		(27,984)	2,671,382
Net decrease in debt securities in issue		-	(25,871)
Net decrease in other liabilities		(2,569)	(2,517)
Net cash used in operating activities		**(632,190)**	**(168,509)**
Cash flows from investing activities			
Acquisition of investment securities available for sale	11	(3,061)	(35,312)
Proceeds from disposal of investment securities available for sale		325	15,957
Proceeds from redemption of investment securities available for sale		-	22,766
Acquisition of premises and equipment	12	(91,193)	(70,280)
Proceeds from disposal of premises and equipment		642	436
Purchase of the additional shares of the subsidiary		-	(61,920)
Acquisition of intangible assets	12	(2,595)	(2,918)
Net cash used in investing activities		**(95,882)**	**(131,271)**
Cash flows from financing activities			
Proceeds from other borrowed funds	19	279,723	-
Repayment of other borrowed funds		-	(15,718)
Repayment of subordinated debt		-	(8,107)
Proceed from long-terms debt securities in issue		211,891	-
Redemption of long-term debt securities in issue		(179,713)	-
Loan participation notes issued		-	494,807
Issue of ordinary shares	21	427,114	201,500
Purchase of treasury shares		(3,931)	-
Disposal of treasury shares		3,931	-
Net cash from financing activities		**739,015**	**672,482**
Effect of exchange rate changes on cash and cash equivalents		**240,193**	**503**
Net increase in cash and cash equivalents		**251,136**	**373,205**
Cash and cash equivalents at the beginning of the year		863,318	490,113
Cash and cash equivalents at the end of the year	7	**1,114,454**	**863,318**

1 Introduction

These financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2008 for Pivdennyi Bank (the “Bank”) and its subsidiaries (together referred to as the “Group” or “Pivdennyi Bank Group”). Refer to Note 34 for the list of subsidiaries.

Pivdennyi Bank (the “Bank”) was founded in 1993. The Bank is registered in Ukraine to carry out banking and foreign exchange activities and operates under a banking license issued by the National Bank of Ukraine (the “NBU”). The Bank is a closed-type joint stock company limited by shares and was set up in accordance with Ukrainian regulations. As at 31 December 2008 the major shareholders of the Bank are six Ukrainian and one foreign companies and nine individuals which collectively own over 38% and over 60% of the outstanding shares, respectively (2007: six Ukrainian companies and nine individuals owned over 31% and 67% of the outstanding shares, respectively). As at 31 December 2008 and 2007 the main shareholders of the Bank were 2 Ukrainian nationals, Mr Y.O. Rodin and Mr M.I. Bekker.

Principal activity. The Group’s principal business activity is commercial and retail banking operations within Ukraine. The Bank participates in the State deposit insurance scheme (registration # 16 dated 3 April 2007), which operates according to the Law №2740-III “On Individuals Deposits Guarantee Fund” dated 20 September 2001 (as amended). Individuals Deposits Guarantee Fund guarantees repayment of individual deposits up to UAH 150 thousand (2007: UAH 50 thousand) per individual in case bank liquidation procedure is started.

The Bank has 17 (2007: 17) branches within Ukraine.

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

6/1, Krasnova str.
65059, Odessa
Ukraine

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

2 Operating Environment of the Group

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

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

As a result of the global financial crisis, the Ukrainian economy experienced a reduced level of capital inflow and a decrease in demand for exports. Additionally, the country ratings by international rating agencies were downgraded in October 2008. These factors, together with increasing domestic uncertainty, led to volatility in the currency exchange market and resulted in significant downward pressure on the Ukrainian hryvnia relative to major foreign currencies. Since October 2008 the NBU has been entering the market to support the national currency. The official UAH to US Dollar (USD) exchange rate of the NBU devalued by 37% from UAH 4.861 at 30 September 2008 to UAH 7.70 at 31 December 2008.

2 Operating Environment of the Group (Continued)

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

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

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

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

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

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

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

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

2 Operating Environment of the Group (Continued)

The market in Ukraine for many types of real estate has been severely affected by the recent volatility in global financial markets. As such the carrying value of buildings measured at fair value in accordance with IAS 16 has been updated to reflect market conditions at the reporting date. Further information is disclosed in Notes 4 and 12.

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

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

Economic environment of the Bank's subsidiary – Regional Investment Bank. Latvia is also adversely affected by the ongoing global financial and economic crisis. Such factors as reduced liquidity, disappearance of the active market for quoted financial instruments, negative impact on the ability of the borrowers to repay the amounts owed, as well as negative impact on the fair value of collateral describe the current economic situation. Management of the Regional Investment Bank is unable to reliably estimate the effects on the Bank's subsidiary financial position of any further deterioration in the liquidity of the financial markets and the increased volatility in the currency and equity markets. Management believes it is taking all the necessary measures to support the sustainability of the Bank's subsidiary business in the current circumstances.

3 Summary of Significant Accounting Policies

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

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

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

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

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

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

3 Summary of Significant Accounting Policies (Continued)

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

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

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

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

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

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

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

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

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

3 Summary of Significant Accounting Policies (Continued)

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

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

The Group uses discounted cash flow valuation techniques to determine the fair value of currency swaps that are not traded in an active market. Differences may arise between the fair value at initial recognition which is considered to be the transaction price and the amount determined at initial recognition using the valuation technique. Any such differences are amortised on a straight line basis over the term of the currency swaps.

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

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

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

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

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

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

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

3 Summary of Significant Accounting Policies (Continued)

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

The following other principal criteria are also used to determine whether there is objective evidence that an impairment loss has occurred:

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

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

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

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

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

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

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

3 Summary of Significant Accounting Policies (Continued)

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

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

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

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

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

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

Premises and equipment. Premises are recorded under the revaluation model and equipment is stated at cost, restated to the equivalent purchasing power of the Ukrainian hryvnia at 31 December 2000 for assets acquired prior to 1 January 2001, less accumulated depreciation and provision for impairment, where required.

Premises of the Group are subject to revaluation with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Increases in the carrying amount arising on revaluation are credited to revaluation reserve in equity. Decreases that offset previous increases of the same asset are charged against revaluation reserve directly in equity; all other decreases are charged to the income statement. The revaluation reserve for premises included in equity is transferred directly to retained earnings when the surplus is realised on the retirement or disposal of the asset.

Construction in progress is carried at cost, less provision for impairment where required. Upon completion, assets are transferred to premises at their carrying amount. Construction in progress is not depreciated until the asset is available for use.

3 Summary of Significant Accounting Policies (Continued)

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

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

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

Depreciation. Depreciation on premises and equipment is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives:

	Useful lives in years
Premises	50
Furniture and equipment	5
Motor vehicles	5
Computers	4
Other	1-7
Leasehold improvements	over the term of the underlying lease

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

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

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring them to use. Development costs that are directly associated with identifiable and unique software controlled by the Group are recorded as intangible assets if an inflow of incremental economic benefits exceeding costs is probable. Capitalised costs include staff costs of the software development team and an appropriate portion of relevant overheads. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred. Capitalised computer software is amortised on a straight line basis over expected useful lives of 2 to 10 years.

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

Due to other banks. Amounts due to other banks are recorded when money or other assets are advanced to the Group by counterparty banks. The non-derivative liability is carried at amortised cost.

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

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

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

***Other borrowed funds**.* Other borrowed funds include borrowings from non-banking financial institutions. Other borrowed funds are stated at amortised cost.

3 Summary of Significant Accounting Policies (Continued)

Derivative financial instruments. Derivative financial instruments, including foreign exchange contracts, are carried at their fair value.

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

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

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

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

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

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

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

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

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

Share premium. Share premium represents the excess of contributions over the nominal value of the shares issued.

3 Summary of Significant Accounting Policies (Continued)

Treasury shares. Where the Bank or its subsidiaries purchase the Bank's equity instruments, the consideration paid, including any directly attributable external costs, net of income taxes, is deducted from equity attributable to the equity holders of the Bank until the equity instruments are reissued, cancelled or disposed of. Where such shares are subsequently disposed of/or are reissued, any consideration received in included in equity.

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

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

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

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

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

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

Foreign currency translation. The functional currency of each of the Group's consolidated entities is the currency of the primary economic environment in which the entity operates: Latvian lats ("LVL") for the "Regional Investment Bank" (Latvia) and Ukrainian hryvnias ("UAH") for "Pivdenny Asset Management" (Ukraine) The functional currency of the Bank, and the Group's presentation currency, is the national currency of Ukraine, Ukrainian hryvnias ("UAH").

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

3 Summary of Significant Accounting Policies (Continued)

The results and financial position of each group entity (the functional currency of none of which is a currency of a hyperinflationary economy) are translated into the presentation currency as follows:

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

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

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

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

At 31 December 2008 the principal rates of exchange used for translating foreign currency balances were as follows:

	31 December 2008, UAH	31 December 2007, UAH
1 US dollar (USD)	7.700000	5.05000
1 Euro (EUR)	10.85546	7.41946
1 Latvian Lat (LVL)	15.334737	10.6448
1 Russian Rouble (RUR)	0.262080	0.20579

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

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

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

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

Change in the useful lives of premises. During 2008 the Group reconsidered the period of useful lives of the premises and increased them from 20 to 50 years. New useful lives were applied by the Group prospectively in accordance with IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors”. Depreciation expenses for the year ended 31 December 2008 would have been higher by UAH 15,337 thousand had the Group continued to apply previous useful lives.

3 Summary of Significant Accounting Policies (Continued)

Changes in presentation. Where necessary, corresponding figures have been adjusted to conform to the presentation of the current year amounts. In particular, the Group amended the presentation of economic sector risk concentrations disclosure of loans and advances to customers (Note 10) and customer accounts (Note 16) as at 31 December 2007 as follows:

In thousands of Ukrainian hryvnias	**As originally presented**	**Reclassification**	**As reclassified**
Loans and advances to customers:			
Manufacturing	922,348	(597,002)	325,346
Construction and real estate	-	597,002	597,002
Tourism, hotel services and restaurant business	-	116,028	116,028
Other	651,185	(116,028)	535,157
Customer accounts:			
Local state authorities	-	28,860	28,860
Construction and real estate	-	8,464	8,464
Agriculture and food industry	-	69,844	69,844
Other	309,268	(107,168)	202,100

In addition, the Group amended the classification of certain items of premises and equipment and intangible assets by groups (Note 12):

In thousands of Ukrainian hryvnias	**As originally presented** (Net book value as at 31 December 2007)	**Reclassification**	**As reclassified** (Net book value as at 31 December 2007)
Furniture and equipment	18,252	(1,488)	16,764
Computers	14,449	3,433	17,882
Moror vehicles	8,685	104	8,789
Other	2,138	(1,658)	480
Intangible assets	4,519	(391)	4,128

Such reclassifications were made by the Group in order to improve the quality of the disclosure information.

4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies

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

Impairment losses on loans and advances. The Group regularly reviews its loan portfolios to assess impairment. In determining whether an impairment loss should be recorded in the consolidated income statement, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. A 10% increase or decrease between actual loss experience and the loss estimates used will result in an additional or lower charge for loan loss impairment of UAH 23,230 thousand (2007: UAH 10,073 thousand), respectively. Impairment provisions for individually significant loans are based on the estimate of discounted future cash flows of the individual loans taking into account repayments and realisation of any assets held as collateral against the loan. A 10% increase or decrease in the actual future cash flows from individually significant loans which could arise from a combination of differences in amounts and timing of the cash flows will result in lower or an additional charge for loan loss provision of UAH 26,078 thousand (2007: UAH 7,650 thousand), respectively.

***Valuation of premises**.* As stated in Note 3, premises of the Group are subject to revaluation on a regular basis. Such revaluations are based on the results of work of independent valuers. The basis for their work is a sales comparison approach. When performing a revaluation, certain judgements and estimates are applied by the valuers in determination of the comparison of premises to be used in a sales comparison approach. Changes in assumptions about these factors could affect reported fair values. The valuation was based on comparative sales of premises with the price per square meter varying from UAH 4,912 thousand to UAH 33,934 thousand (2007: from UAH 4,919 to UAH 34,224), depending upon the location of premises. To the extent that the price per square meter differs by +/-5 percent, the fair value of premises would be UAH 24,195 thousand higher or UAH 24,195 thousand lower (2007: UAH 21,855 thousand higher or UAH 21,855 thousand lower).

Tax legislation. Ukrainian tax, currency and customs legislation is subject to varying interpretations. Refer to Note 29.

Initial recognition of related party transactions. In the normal course of business the Group enters into transactions with its related parties. IAS 39 requires initial recognition of financial instruments based on their fair values. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analysis. Terms and conditions of related party balances are disclosed in Note 33.

5 Adoption of New or Revised Standards and Interpretations

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

- ***IFRIC 11, IFRS 2—Group and Treasury Share Transactions*** (effective for annual periods beginning on or after 1 March 2007);
- ***IFRIC 12, Service Concession Arrangements*** (effective for annual periods beginning on or after 1 January 2008); and
- ***IFRIC 14, IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*** (effective for annual periods beginning on or after 1 January 2008).

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

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

6 New Accounting Pronouncements

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

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

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

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

6 New Accounting Pronouncements (Continued)

IFRS 3, Business Combinations (revised January 2008; effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009). The revised IFRS 3 will allow entities to choose to measure non-controlling interests using the existing IFRS 3 method (proportionate share of the acquiree's identifiable net assets) or at fair value. The revised IFRS 3 is more detailed in providing guidance on the application of the purchase method to business combinations. The requirement to measure at fair value every asset and liability at each step in a step acquisition for the purposes of calculating a portion of goodwill has been removed. Instead, in a business combination achieved in stages, the acquirer will have to remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognise the resulting gain or loss, if any, in profit or loss. Acquisition-related costs will be accounted for separately from the business combination and therefore recognised as expenses rather than included in goodwill. An acquirer will have to recognise at the acquisition date a liability for any contingent purchase consideration. Changes in the value of that liability after the acquisition date will be recognised in accordance with other applicable IFRSs, as appropriate, rather than by adjusting goodwill. The revised IFRS 3 brings into its scope business combinations involving only mutual entities and business combinations achieved by contract alone. The Group does not expect the amendments to have any material effect on its consolidated financial statements.

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

Improving Disclosures about Financial Instruments - Amendment to IFRS 7, Financial Instruments: Disclosures (issued in March 2009; effective for annual periods beginning on or after 1 January 2009). The amendment requires enhanced disclosures about fair value measurements and liquidity risk. The entity will be required to disclose an analysis of financial instruments using a three-level fair value measurement hierarchy. The amendment (a) clarifies that the maturity analysis of liabilities should include issued financial guarantee contracts at the maximum amount of the guarantee in the earliest period in which the guarantee could be called; and (b) requires disclosure of remaining contractual maturities of financial derivatives if the contractual maturities are essential for an understanding of the timing of the cash flows. An entity will further have to disclose a maturity analysis of financial assets it holds for managing liquidity risk, if that information is necessary to enable users of its financial statements to evaluate the nature and extent of liquidity risk. The Group is currently assessing the impact of the amendment on disclosures in its consolidated financial statements.

Improvements to International Financial Reporting Standards (issued in April 2009). The IASB has issued 'Improvements to IFRSs', a collection of amendments to 12 standards as part of its program of annual improvements. Amendments relate to IFRS 2, IFRS 5, IFRS 8, IAS 21, IAS 7, IAS 17, IAS 18, IAS 36, IAS 38, IAS 39, IFRIC 9, IFRIC 16. The Group is currently assessing the impact of the amendments on its consolidated financial statements.

6 New Accounting Pronouncements (Continued)

Other new standards or interpretations. The Group has not early adopted the following other new standards or interpretations:

- IFRIC 13, Customer Loyalty Programmes (effective for annual periods beginning on or after 1 July 2008);
- IFRIC 15 - Agreements for the construction of real estate (effective for annual periods beginning on or after 1 January 2009);
- IFRIC 16 - Hedges of a net investment in a foreign operation (effective for annual periods beginning on or after 1 October 2008);
- IFRIC 17 – Distribution of non-cash assets to owners (effective for annual periods beginning on or after 1 July 2009, with earlier application permitted);
- IFRIC 18 – Transfer of assets from customers (effective for annual periods beginning on or after 1 July 2009);
- IFRS 1, First-time Adoption of International Financial Reporting Standards (following an amendment in December 2008, effective for the first IFRS financial statements for a period beginning on or after 1 July 2009);
- IAS 23, Borrowing Costs, revised March 2007 (effective for annual periods beginning on or after 1 January 2009);
- IAS 32 and IAS 1 Amendment - Puttable financial instruments and obligations arising on liquidation (effective for annual periods beginning on or after 1 January 2009);
- Vesting Conditions and Cancellations - Amendment to IFRS 2, *Share-based Payment* (issued in January 2008; effective for annual periods beginning on or after 1 January 2009);
- Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate - IFRS 1 and IAS 27 Amendment (effective for annual periods beginning on or after 1 January 2009);
- Eligible Hedged Items - Amendment to IAS 39, Financial Instruments: Recognition and Measurement (effective with retrospective application for annual periods beginning on or after 1 July 2009, with earlier application permitted); and
- Amendments to IFRIC 9 and IAS 39 - Embedded Derivatives (effective for annual periods ending on or after 30 June 2009).

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

7 Cash and Cash Equivalents and Mandatory Reserves

In thousands of Ukrainian hryvnias	2008	2007
Cash on hand	371,690	261,960
Cash balances with the NBU (other than mandatory reserve deposits)	46,989	230,375
Mandatory cash balances with the NBU	149,446	147,695
Cash balance with the Bank of Latvia	79,327	66,776
Correspondent accounts and overnight placements with other banks		
- Ukraine	265,463	117,416
- other countries	350,985	186,791
Total cash and cash equivalents and mandatory reserves	**1,263,900**	**1,011,013**

As at 31 December 2008 the mandatory reserve balance with the NBU is calculated on the basis of a simple average over a monthly period (2007: monthly period) and should be maintained at the level of 0 to 5 per cent (2007: 0.5 to 5 per cent) of certain obligations of the Bank. As such, the balance can vary from day-to-day. The Bank's mandatory reserve balance with the NBU for December 2008 was UAH 149,446 thousand (2007: UAH 147,695 thousand). The Bank may satisfy its mandatory reserve requirement by balance on account with the National Bank of Ukraine (2007: balance on account with the National Bank of Ukraine). Mandatory reserve balances carry 0% interest rate.

As at 31 December 2008, in accordance with the NBU regulations the Bank was required to maintain the balance on account with the NBU at the level not less than 90% of the mandatory reserve balance for the preceding month (2007: not less than 100% of the mandatory reserve balance for the preceding month). The Bank will not be subject to any sanctions if it fails to comply with the requirements less than 30 times within a 3 month period.

As the respective liquid assets are not available to finance the Group's day-to-day operations, for the purposes of the cash flow statement the mandatory reserve balance is excluded from cash and cash equivalents.

The Group's cash and cash equivalents for the purposes of consolidated cash flow statement were as follows:

In thousands of Ukrainian Hryvnias	2008	2007
Total cash and cash equivalents and mandatory reserves	1,263,900	1,011,013
Less: mandatory reserves balances	(149,446)	(147,695)
Cash and cash equivalents for the purposes of cash flow statement	**1,114,454**	**863,318**

Interest rate analysis of cash and cash equivalents is disclosed in Note 27.

7 Cash and Cash Equivalents and Mandatory Reserves (Continued)

The credit quality of cash and cash equivalents balances may be summarised as follows at 31 December 2008:

In thousands of Ukrainian hryvnias	**Cash on hand**	**Cash balances with the NBU, including mandatory reserves**	**Cash balances with the Bank of Latvia**	**Correspon-dent accounts and overnight placements with other banks**	**Total**
Neither past due nor impaired					
- Cash on hand	371,690	-	-	-	371,690
- National Bank of Ukraine	-	196,435	-	-	196,435
- Bank of Latvia	-	-	79,327	-	79,327
- Top 20 Ukrainian banks	-	-	-	161,890	161,890
- Other Ukrainian banks	-	-	-	103,573	103,573
- Large OECD banks	-	-	-	221,046	221,046
- Non-OECD banks	-	-	-	129,939	129,939
Total cash and cash equivalents	**371,690**	**196,435**	**79,327**	**616,448**	**1,263,900**

The credit quality of cash and cash equivalents and mandatory reserves balances at 31 December 2007 is as follows:

In thousands of Ukrainian hryvnias	**Cash on hand**	**Cash balances with the NBU, including mandatory reserves**	**Cash balances with the Bank of Latvia**	**Correspon-dent accounts and overnight placements with other banks**	**Total**
Neither past due nor impaired					
- Cash on hand	261,960	-	-	-	261,960
- National Bank of Ukraine	-	378,070	-	-	378,070
- Bank of Latvia	-	-	66,776	-	66,776
- Top 20 Ukrainian banks	-	-	-	114,908	114,908
- Other Ukrainian banks	-	-	-	2,508	2,508
- Large OECD banks	-	-	-	53,300	53,300
- Non-OECD banks	-	-	-	133,491	133,491
Total cash and cash equivalents	**261,960**	**378,070**	**66,776**	**304,207**	**1,011,013**

8 Securities at Fair Value Through Profit or Loss

In thousands of Ukrainian hryvnias	2008	2007
Corporate debt securities:		
- Ukrainian corporate debt securities	24,469	46,056
- Latvian corporate debt securities	19,053	11,444
- Other non-OECD corporate debt securities	6,698	25,769
Latvian government debt securities	31,147	24,305
Ukrainian municipal bonds	-	5,276
Total debt securities	81,367	112,850
Quoted corporate shares	455	-
Unquoted corporate shares	332	635
Total securities at fair value through profit or loss	**82,154**	**113,485**

The Group irrevocably designated the above securities, which are not part of its trading book, as at fair value through profit or loss, as they are managed on by the Group's management on the fair value basis.

Ukrainian corporate bonds are traded on Ukrainian trading system (PFTS). The bonds mature from June 2010 to July 2010 (2007: December 2008 to June 2010), have coupon rates of 12% - 18% per annum (2007: 12-18% per annum), and yield to maturity of 16.5% - 17.5% per annum (2007: 12-18% per annum).

Latvian government debt securities and Latvian corporate debt securities are listed on the Riga stock exchange. Other non-OECD region corporate debt securities are represented by securities of companies domiciled in Russia and Kazakhstan and are listed on the respective region stock exchanges.

At 31 December 2008 included in securities at fair value through profit or loss are Latvian government debt securities pledged under sale and repurchase agreements whose fair value is UAH 12,786 thousand (2007: UAH 21,829 thousand). Refer to Notes 15 and 29.

Securities at fair value through profit or loss in the amount of UAH 4,839 thousand (2007: none) were pledged as collateral under operations with derivative financial instruments. Refer to Note 29.

Securities designated at fair value through profit or loss are carried at fair value which also reflects any credit risk related write-downs. As the securities are carried at their fair values based on observable market data, the Group does not analyse or monitor impairment indicators. Analysis by credit quality of debt securities designated at fair value through profit or loss outstanding at 31 December 2008 is as follows:

In thousands of Ukrainian hryvnias	Latvian government debt securities	Corporate bonds	Total
Neither past due nor impaired (at fair value)			
- Latvian government	31,147	-	31,147
- Large Ukrainian corporates	-	24,469	24,469
- Large Latvian corporates	-	19,053	19,053
- Large corporates of non-OECD countries	-	6,698	6,698
Total debt securities designated at fair value through profit or loss	**31,147**	**50,220**	**81,367**

8 Securities at Fair Value Through Profit or Loss (Continued)

Analysis by credit quality of debt securities at fair value through profit or loss outstanding at 31 December 2007 is as follows:

In thousands of Ukrainian hryvnias	Latvian govern-ment debt securities	Ukrainian municipal bonds	Corporate debt securities	Total
Neither past due nor impaired (at fair value)				
- Latvian government	24,305	-	-	24,305
- Ukrainian municipalities	-	5,276	-	5,276
- Large Ukrainian corporates	-	-	46,056	46,056
- Large Latvian corporates	-	-	9,574	9,574
- Large corporates of non-OECD countries	-	-	25,769	25,769
- Small companies	-	-	1,870	1,870
Total debt securities designated at fair value through profit or loss	**24,305**	**5,276**	**83,269**	**112,850**

The debt securities are not collateralised.

Interest rate analysis of securities at fair value through profit or loss is disclosed in Note 27.

9 Due from Other Banks

In thousands of Ukrainian hryvnias	2008	2007
Term placements with other banks	18,851	83,121
Guarantee deposits with other banks	25,399	11,797
Total due from other banks	**44,250**	**94,918**

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

In thousands of Ukrainian hryvnias	Short-term place-ments with other banks	Guarantee deposits with other banks	Total
Neither past due nor impaired			
- Top 20 Ukrainian banks	11,559	12,046	23,605
- Other Ukrainian banks	6,900	-	6,900
- Latvian banks	392	13,353	13,745
Total due from other banks	**18,851**	**25,399**	**44,250**

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

In thousands of Ukrainian hryvnias	Short-term place-ments with other banks	Reverse repurchase agreements	Total
Neither past due nor impaired			
- Top 20 Ukrainian banks	29,689	11,797	41,486
- Other Ukrainian banks	4,504	-	4,504
- Latvian banks	37,257	-	37,257
- Other non-OECD banks	11,671	-	11,671
Total due from other banks	**83,121**	**11,797**	**94,918**

At 31 December 2008 the Group had balances with three counterparty banks (2007: one bank) with aggregated amounts above UAH 6,900 thousand. The total aggregate amount of these deposits was UAH 30,505 thousand (2007: UAH 29,689 thousand) or 69% of the total amount due from other banks (2007: 31%).

At 31 December 2008 due from other banks amounting UAH 11,550 thousand were pledged as collateral against short-term placements of other banks in the amount of UAH 11,550 thousand. Refer also to Notes 15 and 29.

Included in guarantee deposits with other banks is an amount of UAH 13,353 thousand (2007: none) which was placed as a collateral under operations with derivative financial instruments. Refer to Note 29.

Refer to Note 31 for the estimated fair value of each class of amounts due from other banks. Interest rate analysis of due from other banks is disclosed in Note 27.

10 Loans and Advances to Customers

In thousands of Ukrainian hryvnias	2008	2007
Corporate loans	8,715,014	6,221,096
Mortgage loans	830,446	479,876
Loans to individuals other than mortgage	620,564	278,136
Loans to individuals - entrepreneurs	11,457	50,296
State and municipal bodies	2,349	-
Reverse sale and repurchase agreements	-	4,000
Less: Provision for loan impairment	(493,078)	(177,454)
Total loans and advances to customers	**9,686,752**	**6,855,950**

During 2008 a loss on initial recognition of loans at rates below market in the amount of UAH 5,268 thousand (2007: UAH 4,099 thousand) has been recorded in the consolidated income statement as part of staff costs as these loans were issued to employees of the Group.

At 31 December 2008 loans and advances to customers in the amount of UAH 1,113,940 thousand (2007: UAH 1,615,678 thousand) were collateralised by deposits of customers in the amount of UAH 1,194,412 thousand (2007: UAH 1,698,410 thousand). Refer to Note 16.

Additionally, at 31 December 2008 loans and advances to customers in the amount of UAH 539,114 thousand were pledged as collateral for the loans received from the NBU in the amount of UAH 350,000 thousand. Refer to Notes 14 and 29.

At 31 December 2008 loans and advances to customers in the amount of UAH 116,557 thousand (2007: UAH 343,161 thousand) were pledged as collateral for short-term placements of other banks in the amount of UAH 34,710 thousand (2006: UAH 143,263 thousand). Refer to Notes 15 and 29.

In addition, at 31 December 2008 loans and advances to customers in the amount of UAH 87,200 thousand were pledged as collateral for short-term deposits of legal entities in the amount of UAH 70,000 thousand. Refer to Notes 16 and 29.

At 31 December 2008 loans and advances to customers in the amount of UAH 417,349 thousand were pledged as collateral for other borrowed funds amounting UAH 153,456 thousand. Refer to Notes 19 and 29.

At 31 December 2007 loans and advances to customers of UAH 4,000 thousand are effectively collateralised by securities purchased under reverse sale and repurchase agreements at a fair value of UAH 4,000 thousand, of which the Group has a right to sell or repledge securities with a fair value of UAH 4,000 thousand.

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

In thousands of Ukrainian hryvnias	Corporate loans	Mortgage loans	Loans to individuals other than mortgage	Indivi-duals – entrepre-neurs	State and municipal bodies	Total
Provision for loan impairment at 1 January 2008	**146,637**	**15,344**	**15,350**	**123**	**-**	**177,454**
Provision for impairment during the year	245,089	30,986	39,968	3	63	316,109
Amounts written off during the year as uncollectible	(485)	-	-	-	-	(485)
Provision for loan impairment at 31 December 2008	**391,241**	**46,330**	**55,318**	**126**	**63**	**493,078**

10 Loans and Advances to Customers (Continued)

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

In thousands of Ukrainian hryvnias	Corporate loans	Mortgage loans	Loans to individuals other than mortgage	Individuals – entrepre-neurs	Reverse sale and repur-chase agree-ments	Total
Provision for loan impairment at 1 January 2007	**112,136**	**7,720**	**13,600**	**369**	**-**	**133,825**
Provision/(recovery) of provision for impairment during the year	34,934	7,624	1,750	(246)	-	44,062
Amounts written off during the year as uncollectible	(433)	-	-	-	-	(433)
Provision for loan impairment at 31 December 2007	**146,637**	**15,344**	**15,350**	**123**	**-**	**177,454**

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

	2008		**2007 (reclassified, Note 3)**	
In thousands of Ukrainian hryvnias	**Amount**	**%**	**Amount**	**%**
Trade and commerce	4,183,762	41	3,695,188	53
Individuals	1,452,021	14	758,012	11
Construction and real estate	1,428,150	14	597,002	11
Agricultural and food industry	1,180,603	12	743,685	8
Transport and communication	608,027	6	262,986	4
Manufacturing	491,118	5	325,346	4
Tourism, hotel services and restaurant business	158,317	1	116,028	2
Other	677,832	7	535,157	7
Total loans and advances to customers (before impairment)	**10,179,830**	**100**	**7,033,404**	**100**

As at 31 December 2008 the total aggregate amount of loans to the largest 10 borrowers of the Group was UAH 2,396,845 thousand (2007: UAH 2,128,334 thousand) or 24% of the gross loan portfolio (2007: 30 %). As at 31 December 2008 loans and advances to the largest 10 borrowers (2007: 10 borrowers) were collateralised by customer deposits in the amount of UAH 184,958 thousand (2007: UAH 868,585 thousand).

As at 31 December 2008 the total aggregate amount of exposures, which individually exceed 10% of equity of the Group, amount to UAH 701,035 thousand (2007: UAH 751,839 thousand).

10 Loans and Advances to Customers (Continued)

Information about collateral at 31 December 2008 is as follows:

In thousands of Ukrainian hryvnias	**Corporate loans**	**Mortgage loans**	**Loans to individuals other than mortgage**	**Individuals – entrepre-neurs**	**State and municipal bodies**	**Total**
Unsecured loans	740,584	13,904	125,486	158	2,349	882,481
Loans collateralised by:						
- residential real estate	288,474	213,428	168,508	225	-	670,635
- other real estate	4,875,137	583,558	231,367	2,119	-	5,692,181
- tradeable securities	118,564	-	-	1,011	-	119,575
- cash deposits (Note 16)	1,037,599	356	69,946	6,039	-	1,113,940
- other assets	1,654,657	19,200	25,256	1,905	-	1,701,018
Total loans and advances to customers	**8,715,015**	**830,446**	**620,563**	**11,457**	**2,349**	**10,179,830**

"Other assets" category includes the following types of collateral: goods in turnover, movable property, other property rights.

Information about collateral at 31 December 2007 is as follows:

In thousands of Ukrainian hryvnias	**Corporate loans**	**Mortgage loans**	**Loans to individuals other than mortgage**	**Individuals – entrepre-neurs**	**Reverse sale and repur-chase agree-ments**	**Total**
Unsecured loans	349,242	9,842	17,924	1,367	-	378,375
Loans collateralised by:						
- residential real estate	125,671	139,080	67,229	12,099	-	344,079
- other real estate	2,799,049	293,950	96,977	29,218	-	3,219,194
- tradable securities	110,773	-	7,653	720	-	119,146
- cash deposits (Note 16)	1,522,202	12,087	76,949	4,440	-	1,615,678
- other assets	1,314,159	24,917	11,404	2,452	4,000	1,356,932
Total loans and advances to customers	**6,221,096**	**479,876**	**278,136**	**50,296**	**4,000**	**7,033,404**

10 Loans and Advances to Customers (Continued)

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

In thousands of Ukrainian hryvnias	**Corporate loans**	**Mortgage loans**	**Loans to individuals other than mortgage**	**Individuals – entrepre-neurs**	**State and municipal bodies**	**Total**
Neither past due nor impaired						
- Large borrowers with credit history over two years	1,275,133	-	-	-	-	1,275,133
- Large new borrowers	427,284	-	-	-	-	427,284
- Loans to medium size entities	2,805,081	-	-	-	-	2,805,081
- Loans to small entities	2,738,585	-	-	11,446	-	2,750,031
- Loans to individuals	-	719,215	530,435	-	-	1,249,650
- State bodies	-	-	-	-	2,349	2,349
- Loans renegotiated in 2008	3,702	-	463	-	-	4,165
Total neither past due nor impaired	**7,249,785**	**719,215**	**530,898**	**11,446**	**2,349**	**8,513,693**
Past due but not impaired						
- less than 30 days overdue	743	-	5	-	-	748
- 31 to 90 days overdue	19,238	-	12	-	-	19,250
Total past due but not impaired	**19,981**	**-**	**17**	**-**	**-**	**19,998**
Loans individually and collectively determined to be impaired (gross)						
- not yet due	1,204,732	79,534	42,270	-	-	1,326,536
- less than 30 days overdue	103,208	617	543	-	-	104,368
- 31 to 90 days overdue	2,262	22,963	19,686	-	-	44,911
- 91 to 180 days overdue	94,989	2,493	16,743	-	-	114,225
- 181 to 360 days overdue	19,691	5,624	8,784	-	-	34,099
- over 360 days overdue	20,366	-	1,623	11	-	22,000
Total individually impaired loans (gross)	**1,445,248**	**111,231**	**89,649**	**11**	**-**	**1,646,139**
Gross carrying value of loans and advances to customers	**8,715,014**	**830,446**	**620,564**	**11,457**	**2,349**	**10,179,830**
Less impairment provisions	**(391,242)**	**(46,330)**	**(55,318)**	**(126)**	**(62)**	**(493,078)**
Total loans and advances to customers	**8,323,772**	**784,116**	**565,246**	**11,331**	**2,287**	**9,686,752**

Past due but not impaired loans include the whole amount of overdue exposures. Overdue instalments as at 31 December 2008 amounted to UAH 2,223 thousand.

Past due and impaired loans include the whole amount of overdue exposures. Overdue instalments on individually impaired loans as at 31 December 2008 amounted to UAH 141,985 thousand.

Past due and impaired corporate loans with 91 to 180 days overdue include UAH 30,581 thousand which were repaid in the beginning of 2009.

10 Loans and Advances to Customers (Continued)

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

In thousands of Ukrainian hryvnias	**Corporate loans**	**Mortgage loans**	**Loans to individuals other than mortgage**	**Individuals – entrepre-neurs**	**Reverse sale and repur-chase agree-ments**	**Total**
Neither past due nor impaired						
- Large borrowers with credit history over two years	1,346,482	-	-	-	-	1,346,482
- Large new borrowers	1,001,145	-	-	-	-	1,001,145
- Loans to medium size entities	1,873,662	-	-	-	-	1,873,662
- Loans to small entities	1,703,246	-	-	50,251	4,000	1,757,497
- Loans to individuals	-	463,014	241,706	-	-	704,720
Total neither past due nor impaired	**5,924,535**	**463,014**	**241,706**	**50,251**	**4,000**	**6,683,506**
Past due but not impaired						
- less than 30 days overdue	51,446	-	-	-	-	51,446
Total past due but not impaired	**51,446**	**-**	**-**	**-**	**-**	**51,446**
Loans individually and collectively determined to be impaired (gross)						
- not yet due	219,022	5,131	23,456	-	-	247,609
- less than 30 days overdue	4,475	4,065	550	33	-	9,123
- 31 to 90 days overdue	2,762	7,588	10,868	-	-	21,218
- 91 to 180 days overdue	-	78	80	12	-	170
- 181 to 360 days overdue	6,898	-	1,320	-	-	8,218
- over 360 days overdue	11,958	-	156	-	-	12,114
Total individually impaired loans (gross)	**245,115**	**16,862**	**36,430**	**45**	**-**	**298,452**
Gross carrying value of loans and advances to customers	**6,221,096**	**479,876**	**278,136**	**50,296**	**4,000**	**7,033,404**
Less impairment provisions	**(146,637)**	**(15,344)**	**(15,350)**	**(123)**	**-**	**(177,454)**
Total loans and advances to customers	**6,074,459**	**464,532**	**262,786**	**50,173**	**4,000**	**6,855,950**

Past due but not impaired loans included the whole amount of overdue exposures. Overdue instalments as at 31 December 2007 amounted to UAH 10,454 thousand.

Past due and impaired loans included the whole amount of overdue exposures. Overdue instalments on individually impaired loans as at 31 December 2007 amounted to UAH 15,487 thousand.

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

10 Loans and Advances to Customers (Continued)

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

In thousands of Ukrainian hryvnias	Corporate loans	Mortgage loans	Loans to individuals other than mortgage	Individuals – entrepreneurs	Total
Fair value of collateral - loans past due but not impaired					
- other real estate	106,695	-	-	-	106,695
Fair value of collateral - individually impaired loans					
- residential real estate	97,936	25,641	123,087	-	246,664
- other real estate	1,969,081	99,966	38,096	-	2,107,143
- cash deposits	35,506	-	75,470	-	110,976
- other assets	636,456	-	5,024	37	641,517
- tradeable securities	134,839	-	-	-	134,839
Total	**2,980,513**	**125,607**	**241,677**	**37**	**3,347,834**

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

In thousands of Ukrainian hryvnias	Corporate loans	Mortgage loans	Loans to individuals other than mortgage	Individuals – entrepreneurs	Total
Fair value of collateral - loans past due but not impaired					
- residential real estate	4,116	-	-	-	4,116
- other real estate	57,778	-	-	-	57,778
- other assets	47,731	-	-	-	47,731
Fair value of collateral - individually impaired loans					
- residential real estate	51,168	3,919	12,762	-	67,849
- other real estate	331,290	22,960	21,459	-	375,709
- cash deposits	36,970	-	3,111	-	40,081
- other assets	50,853	4,479	277	25	55,634
Total	**579,906**	**31,358**	**37,609**	**25**	**648,898**

The Group applied the portfolio provisioning methodology prescribed by IAS 39, *Financial Instruments: Recognition and Measurement*, and created portfolio provisions for impairment losses that were incurred but have not been specifically identified with any individual loan by the balance sheet date. The Group's policy is to classify each loan as 'current and not impaired' until specific objective evidence of impairment of the loan is identified.

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

Refer to Note 31 for the estimated fair value of each class of loans and advances to customers. Interest rate analysis of loans and advances to customers is disclosed in Note 27. Information on related party balances is disclosed in Note 33.

11 Investment Securities Available for Sale

In thousands of Ukrainian hryvnias	2008	2007
Quoted corporate shares	1,327	-
Ukrainian unquoted corporate shares	15,491	14,222
Total investment securities available for sale	**16,818**	**14,222**

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

In thousands of Ukrainian hryvnias	2008	2007
Carrying amount at 1 January	**14,222**	**17,724**
Fair value gains less losses	647	1,603
Amounts removed from equity and recognised in income statement	-	(138)
Impairment of investment securities available for sale	(14)	(1,694)
Interest income accrued	-	52
Interest income received	-	(52)
Purchases	3,061	35,312
Redemption and disposals of investment securities available for sale	(1,098)	(38,585)
Carrying amount at 31 December	**16,818**	**14,222**

Investment securities available for sale represent equity securities which mainly are not publicly traded. Due to the nature of the local financial markets, it is not possible to obtain current market value for these investments. For these investments, fair value is estimated by reference to the investee's net asset value.

Information on related party investment securities available for sale is disclosed in Note 33.

12 Premises, Equipment and Intangible Assets

In thousands of Ukrainian Hryvnias	Note	Premi-ses	Furniture and equip-ment	Compu-ters	Motor vehicles	Other	Constru-ction in progress	Total	Intan-gible assets	Total
Cost or valuation at 1 January 2007		172,036	24,271	22,606	8,893	4,550	235,272	467,628	3,411	471,039
Accumulated depreciation and amortisation		(1,359)	(10,582)	(14,480)	(4,073)	(3,759)	-	(34,253)	(1,079)	(35,332)
Carrying amount at 1 January 2007		**170,677**	**13,689**	**8,126**	**4,820**	**791**	**235,272**	**433,375**	**2,332**	**435,707**
Additions		15,136	8,768	11,316	5,874	3,187	25,999	70,280	2,918	73,198
Disposals		-	(63)	(24)	(108)	(1)	-	(196)	-	(196)
Transfers		215,814	-	-	-	-	(215,814)	-	-	-
Depreciation and amortisation charge	24	(14,306)	(4,208)	(5,051)	(1,901)	(1,839)	-	(27,305)	(766)	(28,071)
Revaluation		57,209	-	-	-	-	-	57,209	-	57,209
Effect of translation to presentation currency		-	66	82	-	-	-	148	35	183
Carrying amount at 31 December 2007		**444,530**	**18,252**	**14,449**	**8,685**	**2,138**	**45,457**	**533,511**	**4,519**	**538,030**
Cost or valuation at 31 December 2007		446,330	33,043	33,980	14,659	7,736	45,457	581,205	6,365	587,570
Accumulated depreciation and amortisation		(1,800)	(14,791)	(19,531)	(5,974)	(5,598)	-	(47,694)	(1,846)	(49,540)
Carrying amount at 31 December 2007		**444,530**	**18,252**	**14,449**	**8,685**	**2,138**	**45,457**	**533,511**	**4,519**	**538,030**
Change in the classification	3	-	(1,488)	3,433	104	(1,658)	-	391	(391)	-
Cost or valuation at 31 December 2007		446,330	27,662	39,101	13,527	7,789	45,457	579,866	7,704	587,570
Accumulated depreciation and amortisation		(1,800)	(10,898)	(21,219)	(4,738)	(7,309)	-	(45,964)	(3,576)	(49,540)
Carrying amount at 31 December 2007 (after reclassification)		**444,530**	**16,764**	**17,882**	**8,789**	**480**	**45,457**	**533,902**	**4,128**	**538,030**
Additions		6,983	7,308	17,603	2,626	2,050	54,623	91,193	2,595	93,788
Disposals		-	(32)	(269)	(135)	(164)	-	(600)	(44)	(644)
Transfers		35,681	-	-	-	-	(35,681)	-	-	-
Depreciation and amortisation charge	24	(8,188)	(4,398)	(8,372)	(2,557)	(1,178)	-	(24,693)	(1,163)	(25,856)
Revaluation		11,885	-	-	-	-	-	11,885	-	11,885
Effect of translation to presentation currency		-	1,600	716	55	309	-	2,680	1,896	4,576
Carrying amount at 31 December 2008		**490,891**	**21,242**	**27,560**	**8,778**	**1,497**	**64,399**	**614,367**	**7,412**	**621,779**
Cost or valuation at 31 December 2008		491,695	36,548	57,210	15,382	9,776	64,399	675,010	13,176	688,186
Accumulated depreciation and amortisation		(804)	(15,306)	(29,650)	(6,604)	(8,279)	-	(60,643)	(5,764)	(66,407)
Carrying amount at 31 December 2008		**490,891**	**21,242**	**27,560**	**8,778**	**1,497**	**64,399**	**614,367**	**7,412**	**621,779**

12 Premises, Equipment and Intangible Assets (Continued)

Construction in progress consists of construction and refurbishment of branch premises. Upon completion, assets are transferred to premises.

Premises have been revalued to market value at 1 December 2008. The valuation was carried out by an independent firm of valuers, Private Entrepreneur Kuzmenko G.V. (premises valuation) and Private Enterprise "Analytic" (land valuation), who hold a recognised and relevant professional qualification and who have recent experience in valuation of assets of similar location and category. The basis used for the appraisal was a sales comparison approach.

Included in the above carrying amount is UAH 133,250 thousand (2007: UAH 121,365 thousand) representing revaluation surplus relating to premises of the Group. At 31 December 2008 the carrying amount of premises would have been UAH 360,651 thousand (2007: UAH 326,665 thousand) had the assets been carried at cost less depreciation.

At 31 December 2008 premises with the carrying value of UAH 217,283 thousand (2007: none) have been pledged to third parties as collateral with respect to other borrowed funds. Refer to Notes 19 and 29.

13 Other Financial and Non-financial Assets

In thousands of Ukrainian hryvnias	Note	2008	2007
Other non-financial assets			
Prepayments for insurance		27,447	22,043
Prepayments for other services and assets		5,854	4,936
Inventory		1,633	1,457
Other		13,288	8,716
Less: provision for impairment		(1,558)	(1,462)
Total other non-financial assets		46,664	35,690
Other financial assets			
Fair value of derivatives	30	11,941	1,903
Total other financial assets		11,941	1,903
Total other financial and non-financial assets		**58,605**	**37,593**

As at 31 December 2008 prepayments for insurance included prepayments for insurance of premises in the amount of UAH 8,077 thousand (2007: UAH 7,586 thousand) and insurance of credit risks in the amount of UAH 19,370 thousand (2007: UAH 14,457 thousand). Total carrying value of loans insured by the Bank amounts to UAH 1,097,812 thousand (2007: 462,097 thousand). The agreements for insurance of premises cover a period up to 2010 (2007: up to 2010) and for insurance of credit risk up to 2017 (2007: up to 2011).

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

In thousands of Ukrainian Hryvnias	2008	2007
Provision for impairment of other assets at 1 January	**1,462**	**1,536**
Provision for impairment of other assets during the year	216	594
Other assets written off during the year as uncollectible	(120)	(668)
Provision for impairment of other assets at 31 December	**1,558**	**1,462**

The information on related party balances is disclosed in Note 33.

14 Due to the National Bank of Ukraine

As at 31 December 2008 due to the National Bank of Ukraine includes loans which mature in June-October 2009 (2007: mature in June 2008) and interest rates of 16 - 17% per annum (2007: 8.5% per annum).

As disclosed in Note 10, due to the National Bank of Ukraine in the amount of UAH 350,000 thousand (31 December 2007: UAH 90,000 thousand) is collateralised with loans and advances to customers in the amount of UAH 539,114 thousand (31 December 2007: UAH 158,171 thousand). Refer to Note 29.

Refer to Note 31 for the disclosure of the fair value of due to the National Bank of Ukraine. Currency and interest rate analysis of due to the National Bank of Ukraine is disclosed in Note 27.

15 Due to Other Banks

In thousands of Ukrainian hryvnias	2008	2007
Correspondent accounts and overnight placements of other banks	447,302	158,805
Short- term placements of other banks	700,840	888,273
Sale and repurchase agreements with other banks	11,393	20,093
Total due to other banks	**1,159,535**	**1,067,171**

At 31 December 2008, included in amounts due to other banks are syndicated loans of UAH 352,276 thousand (2007: UAH 378,859 thousand).

At 31 December 2008, included in amounts due to other banks are liabilities of UAH 11,393 thousand (2007: UAH 20,093 thousand) from sale and repurchase agreements. The carrying value of Latvian government bonds pledged under the agreements is LVL 834 thousand or UAH 12 786 thousand (2007: LVL 2,051 thousand or UAH 21,829 thousand). Refer to Note 8.

At 31 December 2008, included in amounts due to other banks are syndicated loans of UAH 352,276 thousand (2007: UAH 378,859 thousand) with maturity in May 2009.

As at 31 December 2008 term placements of other banks included deposits in the amount of UAH 34,710 thousand (2007: UAH 143,263 thousand) collateralised by loans to customers totalling UAH 116,557 thousand (2007: UAH 343,161 thousand). Refer to Notes 10 and 29.

As at 31 December 2008 term deposits of other banks include deposits amounting UAH 11,550 thousand collateralised by due from other banks amounting UAH 11,550 thousand. Refer to Notes 9 and 29.

Refer to Note 31 for the disclosure of the fair value of each class of amounts due to other banks. Currency and interest rate analysis of due to other banks is disclosed in Note 27.

16 Customer Accounts

In thousands of Ukrainian hryvnias	2008	2007
Legal entities		
- Current/settlement accounts	1,835,680	1,004,616
- Term deposits	2,220,216	2,619,591
Individuals		
- Current/demand accounts	453,367	441,636
- Term deposits	2,846,888	1,891,985
Total customer accounts	**7,356,151**	**5,957,828**

16 Customer Accounts (Continued)

Economic sector concentrations within customer accounts are as follows:

	2008		2007 (reclassified, Note 3).	
In thousands of Ukrainian hryvnias	**Amount**	**%**	**Amount**	**%**
Individuals	3 300 255	45	2,333,621	39
Trade and commerce	2 130 192	29	2,657,405	45
Finance and insurance	532 554	7	336,002	6
Transport and communication	502 709	7	188,904	3
Manufacturing	324 845	5	132,628	2
Construction and real estate	99 504	1	8,464	0
Agriculture and food industry	80 867	1	69,844	1
Local state authorities	27 941	0	28,860	1
Other	357 284	5	202,100	3
Total customer accounts	**7 356 151**	**100**	**5,957,828**	**100**

At 31 December 2008 the Group the aggregate balance on accounts of 10 largest customers was UAH 1,131,476 thousand (2007: UAH 1,316,771 thousand) or 15% (2007: 22 %) of total customer accounts.

At 31 December 2008 term deposits included deposits in the amount of UAH 1,194,412 thousand (2007: UAH 1,698,410 thousand) pledged as collateral for loans and advances to customers in the amount of UAH 1,113,940 thousand (2007: UAH 1,615,678 thousand). Refer to Note 10.

At 31 December 2008 term deposits included deposits in the amount of UAH 70,000 thousand collateralised by loans and advances to customers in the amount of UAH 87,200 thousand. Refer to Note 10 and 29.

Balances on customer accounts at 31 December 2008 in the amount of UAH 166,330 thousand were pledged as collateral under letters of credit (2007: none). Refer to Note 29.

Refer to Note 31 for the disclosure of the fair value of each class of customer accounts. Interest rate analysis of customer accounts is disclosed in Note 27. Information on related party balances is disclosed in Note 33.

17 Loan Participation Notes Issued

In August 2007 the Group issued Loan Participation Notes with a par value of USD 100,000 thousand (UAH 505,000 thousand at the exchange rate at the time of issue). The notes carry a fixed coupon rate of 10.25% per annum, effective interest rate of 10.93% per annum and mature in August 2010. As at 31 December 2008 the carrying value of these notes was UAH 794,014 thousand (2007: UAH 518,145 thousand).

Refer to Note 31 for the disclosure of the fair value of Loan Participation Notes issued.

18 Debt Securities in Issue

In thousands of Ukrainian hryvnias	**2008**	**2007**
Bonds issued on the Ukrainian market	107,840	-
Deposit certificates	99,352	106,736
Bonds issued on Latvian market	-	30,342
Total debt securities in issue	**207,192**	**137,078**

Bonds issued on the Ukrainian market mature in January 2011 and a have coupon rate of 12.50%. The bonds are quoted on PFTS. Under the terms of bonds issue, the holders of the bonds have the right to present the bonds for early redemption at par. The Group early redeemed these bonds in January-February 2009. Refer to Note 35.

Refer to Note 31 for the disclosure of the fair value of each class of debt securities in issue. Interest rate analysys of debt securities in issue is disclosed in Note 27.

19 Other Borrowed Funds

In thousands of Ukrainian hryvnias	**2008**	**2007**
Cargill Financial Services International Inc.	112,536	-
Black Sea Trade and Development Bank	153,456	-
Porelco Management Limited	114,975	-
Total other borrowed funds	**380,967**	**-**

In February 2008 the Group received a loan from Cargill Financial Services International Inc. of USD 4,533 thousand (equivalent of UAH 22,892 thousand at the exchange rate at the date of receipt) with interest rate 9.8% per annum and maturity in February 2009. The Group repaid this loan in February 2009. Refer to Note 35.

In May 2008 the Group received a loan from Cargill Financial Services International Inc. of USD 9,141 thousand (equivalent of UAH 44,334 thousand at the exchange rate at the date of receipt) with fixed interest rate 9.8% per annum and maturity in May 2009.

In June 2008 the Group received a loan from Black Sea Trade and Development Bank of USD 20,000 thousand (equivalent of UAH 96,994 thousand at the exchange rate at the date of receipt) with variable interest rate 6 month LIBOR +3.5% per annum and maturity in June 2013.

In December 2008 the Group received a loan from Porelco Management Limited (Cyprus) of USD 15,000 (UAH 115,503 thousand at the exchange rate at the date of receipt) with fixed interest rate of 18% per annum and maturity in January 2011. This borrowing is collateralised by the premises of the Group. Please refer to Notes 12 and 29.

At 31 December 2008 loan from Black Sea Trade and Development Bank amounting to UAH 153,456 thousand was collateralised by loans and advances to customers amounting UAH 417,349 thousand. Refer to Notes 10 and 29.

Refer to Note 31 for disclosure of the fair value of each class of other borrowed funds. Interest rate analysis of other borrowed funds is disclosed in Note 27.

20 Provisions for Liabilities and Charges and Other Liabilities

Provisions and other liabilities comprise the following:

In thousands of Ukrainian hryvnias	**Note**	**2008**	**2007**
Other financial liabilities			
Provision for credit related commitments	29	13,785	-
Accrued expenses		4,311	3,221
Fair value of derivatives	30	2,420	1,238
Amounts in course of settlement		-	4,647
Total other financial liabilities		20,516	9,106
Other non-financial liabilities			
Accrued employee benefit costs		15,953	8,982
Trade payables		2,420	2,471
Amounts payable to Individuals' Deposits Guarantee Fund		3,935	1,877
Taxes other than on income payable		173	155
Other accrued liabilities		4,865	1,361
Total other non-financial liabilities		27,346	14,846
Total provisions for liabilities and charges and other liabilities		**47,862**	**23,952**

Accrued employee benefit costs include bonuses payable and provision for unused vacations.

Movements in provisions for credit related commitments are as follows:

In thousands of Ukrainian hryvnias	**2008**	**2007**
Carrying amount at 1 January	**-**	**5,857**
Fees received	33,278	16,326
Amortisation of fees	(33,278)	(16,326)
Provision/(reversal of provision) for credit related commitments	13,785	(5,857)
Carrying amount at 31 December	**13,785**	**-**

21 Share Capital

In thousands of Ukrainian hryvnias except for number of shares	**Number of outstanding ordinary shares**	**Nominal amount**	**Inflation adjusted amount**
At 1 January 2007	**353,500,000**	**353,500**	**362,396**
New shares issued for cash	201,500,000	201,500	201,500
At 31 December 2007	**555,000,000**	**555,000**	**563,896**
New shares issued for cash	91,550,000	91,550	91,550
Own shares purchased	836,000	836	836
Own shares sold	(836,000)	(836)	(836)
At 31 December 2008	**646,550,000**	**646,550**	**655,446**

At 31 December 2008 and 2007, all of the Bank's outstanding shares were authorised, issued and fully paid in.

All ordinary shares have a nominal value of UAH 1 per share (2007: UAH 1 per share) and rank equally. Each share carries one vote.

On 30 January 2007 the shareholders of the Bank took a decision to issue 110 million shares with the nominal value of UAH 110,000 thousand and to make the respective changes to the Bank's Charter. All shares were fully paid by the end of March 2007. On 2 April 2007 the National Bank of Ukraine registered the respective changes to the Bank's Charter.

On 23 April 2007 the shareholders of the Bank took a decision to issue 60 million shares totalling UAH 60,000 thousand and to make the respective changes to the Bank's Charter. All shares were fully paid by the end of June 2007. On 11 July 2007 the National Bank of Ukraine registered the respective changes to the Bank's Charter.

On 22 August 2007 the shareholders of the Bank took a decision to issue 31,500 thousand shares totalling UAH 31,500 thousand and to make the respective changes to the Bank's Charter. All shares were fully paid by the 2 October 2007. On 24 October 2007 the National Bank of Ukraine registered the respective changes to the Bank's Charter.

In February 2008 the Bank issued 61,550 thousand shares with nominal amount of UAH 61,550 thousand. 61,543 thousand shares with the nominal amount of UAH 61,543 thousand, representing 9.98% of the share capital, were purchased by "East Capital Explorer Financial Institutions Fund AB" (Sweden) for UAH 397,107 thousand. As a result of this transaction share premium of UAH 335,564 thousand was recognised in the financial statements of the Bank.

The remaining part of shares was purchased by existing shareholders for their nominal amount of UAH 7 thousand.

In September 2008 the Bank's shareholders decided to increase share capital by UAH 30,000 thousand (30,000 thousand of shares) and to distribute them among existing shareholders using current proportion of ownership. All shares were fully paid by 28 October 2008. On 26 November 2009 the National Bank of Ukraine registered the respective changes to the Bank's Charter.

In December 2008 the Bank's shareholders decided to capitalize dividends in the amount of UAH 64,655 thousand. In addition, they also decided to increase the par value of shares from UAH 1 per share to UAH 1.1 per share. As at the date of these consolidated financial statements the respective share capital increase and changes to the Bank's charter were registered by the relevant authorities. On 9 February 2009 the National Bank of Ukraine registered the respective changes to the Bank's Charter. Please also refer to Note 35.

Other reserves. In accordance with Ukrainian legislation, the Bank distributes profits or transfers them to reserves (fund accounts) on the basis of financial statements prepared in accordance with Ukrainian Accounting Rules. The Bank's unaudited distributable reserves under Ukrainian Accounting Rules at 31 December 2008 are UAH 245,834 thousand (31 December 2007: UAH 139,969 thousand).

22 Interest Income and Expense

In thousands of Ukrainian hryvnias	**2008**	**2007**
Interest income		
Loans and advances to legal entities	980,358	538,855
Loans and advances to individuals	142,988	65,799
Interest income on impaired loans and advances to customers	57,120	28,966
Due from other banks	20,651	18,599
Debt securities at fair value through profit or loss	7,640	4,805
Debt investment securities available-for-sale	-	6,023
Total interest income	**1,208,757**	**663,047**
Interest expense		
Term deposits of individuals	259,886	155,009
Term deposits of legal entities	201,633	103,107
Placements of other banks	95,332	51,168
Loan participation notes issued	59,823	23,913
Current/settlement accounts	35,590	29,137
Due to the NBU	27,232	7,613
Debt securities in issue	24,370	13,833
Other borrowed funds	12,900	1,063
Subordinated debt	-	258
Total interest expense	**716,766**	**385,101**
Net interest income	**491,991**	**277,946**

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

23 Fee and Commission Income and Expense

In thousands of Ukrainian hryvnias	**2008**	**2007**
Fee and commission income		
Fee and commission income in respect of financial instruments not at fair value through profit or loss:		
- Cash and settlement transactions with customers	113,500	81,144
- Purchase and sale of foreign currency	39,736	25,371
- Guarantees issued (Note 20)	33,278	16,326
- Cash and settlement transactions with other banks	5,612	2,817
- Transactions with securities	642	306
- Fiduciary activities	123	91
- Other	3,695	3,890
Total fee and commission income	**196,586**	**129,945**
Fee and commission expense		
Fee and commission expense in respect of financial instruments not at fair value through profit or loss		
- Cash and settlement transactions with other banks	21,968	15,202
- Other	16,199	9,190
Total fee and commission expense	**38,167**	**24,392**
Net fee and commission income	**158,419**	**105,553**

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

24 Administrative and Other Operating Expenses

In thousands of Ukrainian hryvnias	Note	2008	2007
Staff costs		200,329	139,056
Depreciation of premises and equipment	12	24,693	27,305
Advertising and marketing services		21,016	11,010
Maintenance of premises and equipment		17,485	15,896
Taxes other than on income		14,996	9,760
Insurance of premises and credit risks		13,232	9,483
Operating lease expense		13,174	10,925
Contributions to Individuals' Deposits Guarantee Fund		12,179	7,196
Security services		9,230	5,244
Mail and telecommunications		9,070	10,175
Professional services		8,459	5,822
Utilities		4,725	2,969
Amortisation of intangible assets	12	1,163	766
Other		21,175	11,043
Total administrative and other operating expenses		**370,926**	**266,650**

Included in staff costs are statutory social security and pension contributions of UAH 42,352 thousand (2007: UAH 28,004 thousand). Pension contributions are made into State pension fund which is a defined contribution plan and amounted to UAH 37,626 thousand in 2008 (2007: UAH 24,988 thousand).

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

25 Income Taxes

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

In thousands of Ukrainian hryvnias	**2008**	**2007**
Current tax	65,853	34,802
Deferred tax	(26,842)	(1,592)
Income tax expense for the year	**39,011**	**33,210**

The income tax rate applicable to the majority of the Group's income during 2008 is 25% (2007: 25%). The income tax rate applicable to the majority of income of subsidiaries is 15% (2007: 15%). A reconciliation between the expected and the actual taxation charge is provided below.

In thousands of Ukrainian hryvnias	**2008**	**2007**
Profit before tax	**161,101**	**136,066**
Theoretical tax charge at statutory rate (2008: 25%; 2007: 25%)	40,275	34,017
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Gain on purchase of additional shares of the subsidiary	(272)	(3,057)
- Effect of differences in tax rates	(942)	(569)
- Non-taxable income	(175)	-
- Non-deductible expenses	125	2,819
Income tax expense for the year	**39,011**	**33,210**

The Group has not recorded a deferred tax liability in respect of temporary differences of UAH 4,638 thousand (2007: UAH 4,367 thousand) associated with investments in subsidiaries as the Group is able to control the timing of the reversal of those temporary differences and does not intend to reverse them in the foreseeable future.

A deferred tax expense of UAH 2,971 thousand (2007: UAH 14,302 thousand) has been recorded directly in equity in respect of the revaluation of the Group's premises. Refer to Note 12. A deferred tax expense of UAH 162 thousand (2007: UAH 366 thousand) has been recorded directly in equity in respect of the fair valuation of investment securities available for sale.

25 Income Taxes (Continued)

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

In thousands of Ukrainian hryvnias	**31 December 2007**	**Credited/ (charged) to profit or loss**	**Charged directly to equity**	**31 December 2008**
Tax effect of deductible/(taxable) temporary differences				
Premises and equipment	(26,546)	(6,656)	(2,971)	(36,173)
Loan impairment provision	(1,755)	27,972	-	26,217
Other assets impairment provision	365	24	-	389
Fair valuation of investment securities available-for-sale and securities at fair value through profit or loss	(7,249)	3,252	(162)	(4,159)
Accrued income	(5,510)	(1,352)	-	(6,862)
Accrued expenses	2,727	1,387	-	4,114
Amortised cost of financial instruments	(951)	101	-	(850)
Other liabilities	-	2,114	-	2,114
Net deferred tax asset/(liability)	**(38,919)**	**26,842**	**(3,133)**	**(15,210)**
Recognised deferred tax asset	3,092	29,742	-	32,834
Recognised deferred tax liability	(42,011)	(2,900)	(3,133)	(48,044)
Net deferred tax asset/(liability)	**(38,919)**	**26,842**	**(3,133)**	**(15,210)**

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

25 Income Taxes (Continued)

In thousands of Ukrainian hryvnias	31 December 2006	Credited/ (charged) to profit or loss	Charged directly to equity	31 December 2007
Tax effect of deductible/(taxable) temporary differences				
Premises and equipment	(17,136)	4,892	(14,302)	(26,546)
Loan impairment provision	(3,655)	1,900	-	(1,755)
Other assets impairment provision	-	365	-	365
Fair valuation of investment securities available-for-sale and securities at fair value through profit or loss	(4,629)	(2,254)	(366)	(7,249)
Accrued income	(4,045)	(1,465)	-	(5,510)
Accrued expenses	3,191	(464)	-	2,727
Amortised cost of financial instruments	431	(1,382)	-	(951)
Net deferred tax asset/(liability)	**(25,843)**	**1,592**	**(14,668)**	**(38,919)**
Recognised deferred tax asset	3,622	(530)	-	3,092
Recognised deferred tax liability	(29,465)	2,122	(14,668)	(42,011)
Net deferred tax asset/(liability)	**(25,843)**	**1,592**	**(14,668)**	**(38,919)**

26 Segment Analysis

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

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

- Retail banking – representing private banking services, private customer current accounts, savings, deposits, investment savings products, custody, credit and debit cards, consumer loans and mortgages;
- Corporate banking – representing direct debit facilities, current accounts, deposits, overdrafts, loan and other credit facilities, foreign currency trading;
- Treasury – interbank loans and deposits, structured financing and derivative products;
- Investment banking – representing financial instruments trading, corporate leasing, merger and acquisitions advice.

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

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

In thousands of Ukrainian hryvnias	**Retail banking**	**Corporate banking**	**Treasury**	**Investment banking**	**Unallocated**	**Eliminations**	**Total**
2008							
External revenues	180,472	1,157,238	56,971	10,662	-	-	1,405,343
Revenues from other segments	211,559	2,342	174,588	21,094	-	(409,583)	-
Total revenues	**392,031**	**1,159,580**	**231,559**	**31,756**	**-**	**(409,583)**	**1,405,343**
Total revenues comprise:							
- Interest income	354,548	1,039,820	195,239	28,733	-	(409,583)	1,208,757
- Fee and commission income	37,483	119,760	36,320	3,023	-	-	196,586
Total revenues	**392,031**	**1,159,580**	**231,559**	**31,756**	**-**	**(409,583)**	**1,405,343**

26 Segment Analysis (Continued)

In thousands of Ukrainian hryvnias	Retail banking	Corporate banking	Treasury	Investment banking	Unallocated	Eliminations	Total
2008 (continued)							
Segment result	**(46,947)**	**233,026**	**5,909**	**(9,573)**	**(22,400)**	**-**	**160,015**
Gain on purchase of additional shares of the subsidiary							1,086
Profit before tax							**161,101**
Income tax expense							(39,011)
Profit							**122,090**
Total segment assets	**1,689,753**	**8,992,309**	**953,377**	**99,180**	**39,639**	**-**	**11,774,258**
Current income tax prepayment							191
Total assets							**11,774,449**
Total segment liabilities	**3,305,822**	**4,070,565**	**2,700,852**	**207,263**	**11,219**	**-**	**10,295,721**
Deferred tax liabilities							15,210
Total liabilities							**10,310,931**
Other segment items							
Capital expenditure	37,515	51,583	938	469	3,283	-	93,788
Depreciation and amortisation expense (Note 12)	10,342	14,221	259	129	905	-	25,856
Provision for loan impairment	70,954	245,155	-	-	-	-	316,109

26 Segment Analysis (Continued)

In thousands of Ukrainian hryvnias	**Retail banking**	**Corpo-rate banking**	**Treasury**	**Invest-ment banking**	**Unallo-cated**	**Elimina-tions**	**Total**
2007							
External revenues	94,092	620,693	62,952	13,951	1,304	-	792,992
Revenues from other segments	183,314	-	64,628	-	-	(247,942)	-
Total revenues	**277,406**	**620,693**	**127,580**	**13,951**	**1,304**	**(247,942)**	**792,992**
Total revenues comprise:							
- Interest income	249,113	567,821	83,227	10,828	-	(247,942)	663,047
- Fee and commission income	28,293	52,872	44,353	3,123	1,304	-	129,945
Total revenues	**277,406**	**620,693**	**127,580**	**13,951**	**1,304**	**(247,942)**	**792,992**
Segment result	**20,859**	**103,367**	**6,004**	**4,304**	**(10,696)**	**-**	**123,838**
Gain on purchase of additional shares of the subsidiary	-	-	-	-	-	-	12,228
Profit before tax	**-**	**-**	**-**	**-**	**-**	**-**	**136,066**
Income tax expense	-	-	-	-	-	-	(33,210)
Profit	**-**	**-**	**-**	**-**	**-**	**-**	**102,856**
Total segment assets	**789,582**	**7,064,367**	**596,065**	**145,555**	**6,038**	**-**	**8,601,607**
Current income tax prepayment	-	-	-	-	-	-	1,961
Other unallocated assets	-	-	-	-	-	-	63,604
Total assets	**-**	**-**	**-**	**-**	**-**	**-**	**8,667,172**
Total segment liabilities	**2,333,621**	**3,805,846**	**1,527,241**	**104,423**	**23,043**	**-**	**7,794,174**
Deferred tax liabilities	-	-	-	-	-	-	38,919
Total liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**7,833,093**
Other segment items							
Capital expenditure	29,432	40,827	2,185	754	-	-	73,198
Depreciation and amortisation expense (Note 12)	11,757	15,143	870	301	-	-	28,071
Provision for loan impairment	27,573	16,404	-	85	-	-	44,062

26 Segment Analysis (Continued)

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

In thousands of Ukrainian hryvnias	**Ukraine**	**OECD**	**Non-OECD**	**Total**
2008				
Segment assets	9,983,861	649,004	1,141,393	11,774,258
External revenues	1,355,237	19,870	30,234	1,405,342
Capital expenditure	86,894	-	6,894	93,788
Credit related commitments (Note 29)	564,452	-	63,136	627,588
2007				
Total segment assets	7,479,984	292,954	828,669	8,601,607
External revenues	710,064	20,313	62,615	792,992
Capital expenditure	68,791	-	4,407	73,198
Credit related commitments (Note 29)	387,880	-	129,538	517,418

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

27 Financial Risk Management

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

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

The Group's maximum exposure to credit risk is reflected in the carrying amounts of financial assets on the consolidated balance sheet. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant. For guarantees and commitments to extend credit, the maximum exposure to credit risk is the amount of the commitment. Refer to Note 29.

The Group has implemented the system of restricting credit risk by imposing external limits and internal limits (set and monitored by the Assets and Liabilities Management Committee (ALMC)). Internal limits cover all credit operations of the Group and should be set at the levels that do not contradict external limits. The system of internal limits is aimed at restricting counterparty risks and portfolio risks (concentration risks).

Limits restricting counterparty risks are further divided between:

- maximum amount of counterparty exposure set by the types of counterparty groups – groups of borrowers, corporates, individuals; and
- maximum amount of insider exposure set for the Group in aggregate and for separate structural divisions of the Group.

Limits restricting portfolio risks (concentration risks) are further divided between:

- overall limit for groups of borrowers on credit operations;
- limits on concentration by currency;
- limits covering minimal weighted average profitability of credit operations;
- limits restricting maximum terms (maturity) of loans;
- limits regulating concentration by industries;
- limits on types of collateral; and
- limits on quality of loan portfolio.

Exposure to credit risk is also managed, in part, by obtaining collateral and corporate and personal guarantees, as well as insuring of credit risks.

In order to minimise the credit risk and taking substantiated decisions when performing credit operations or raising provisions, the Group has set up special permanent bodies – Credit Committee of the Primary Level, Credit Committee of the Secondary Level, Credit Committee of the subsidiary and Credit Commissions in the branches of the Group.

Limits and restrictions relating to credit risk could be adjusted depending upon changes of the market conditions or risk tolerance.

The Group's credit department reviews ageing analysis of outstanding loans and follows up past due balances. Management therefore considers appropriate to provide ageing and other information about credit risk as disclosed in Notes 8, 9, 10 and 11.

Credit risk for off-balance sheet financial instruments is defined as the possibility of sustaining a loss as a result of another party to a financial instrument failing to perform in accordance with the terms of the contract. The Group uses the same credit policies in making conditional obligations as it does for on-balance sheet financial instruments through established credit approvals, risk control limits and monitoring procedures.

27 Financial Risk Management (Continued)

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

Currency risk. In respect of currency risk, the Management sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily. The table below summarises the Group's exposure to foreign currency exchange rate risk at the balance sheet date. The Bank evaluates, monitors and sets limits for long and short foreign exchange open positions by currency using hryvnia as its base currency. Open position limits are set at the level established by the NBU regulations calculated as a percentage of open currency position of regulatory capital of the Bank. Compliance with these limits is monitored by Risk Management Department on a daily basis. The Risk Management Departments reports to Asset and Liability Management Committee (ALCO).

	At 31 December 2008				**At 31 December 2007**			
In thousands of Ukrainian hryvnias	**Monetary financial assets**	**Monetary financial liabilities**	**Derivatives**	**Net balance sheet position**	**Monetary financial assets**	**Monetary financial liabilities**	**Derivatives**	**Net balance sheet position**
Ukrainian hryvnias	4,306,088	(3,631,233)	-	674,855	4,013,284	(3,979,534)	91,306	125,056
US Dollars	5,721,918	(5,438,850)	(58,263)	224,805	3,479,549	(3,332,397)	(127,407)	19,745
Euros	833,159	(1,057,044)	214,567	(9,318)	382,549	(386,360)	36,895	33,084
Other	215,104	(138,828)	(146,783)	(70,507)	199,349	(79,799)	(129)	119,421
Total	**11,076,269**	**(10,265,955)**	**9,521**	**819,835**	**8,074,731**	**(7,778,090)**	**665**	**297,306**

Amounts disclosed in respect of derivatives represent the fair value, at the balance sheet date, of the respective currency that the Group agreed to buy (positive amount) or sell (negative amount) before netting of positions and payments with the counterparty. The amounts by currency are presented gross as stated in Note 30. The net total represents the fair value of the currency derivatives. The above analysis includes only monetary assets and liabilities. Investments in equities and non-monetary assets are not considered to give rise to any material currency risk.

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

	At 31 December 2008		**At 31 December 2007**	
In thousands of Ukrainian hryvnias	**Impact on profit or loss**	**Impact on equity**	**Impact on profit or loss**	**Impact on equity**
US Dollar strengthening by 17% (2007: strengthening by 1%)	38,217	38,217	197	197
US Dollar weakening by 17% (2007: weakening by 1%)	(38,217)	(38,217)	(197)	(197)
Euro strengthening by 25% (2007: strengthening by 10%)	(2,330)	(2,330)	3,308	3,308
Euro weakening by 25% (2007: weakening by 10%)	2,330	2,330	(3,308)	(3,308)
Other strengthening by 25% (2007: strengthening by 5%)	(17,627)	(17,627)	5,971	5,971
Other weakening by 25% (2007: weakening by 5%)	17,627	17,627	(5,971)	(5,971)

27 Financial Risk Management (Continued)

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

Interest rate risk. The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. Management monitors on a daily basis and sets limits on the level of mismatch of interest rate repricing that may be undertaken. The table below summarises the Group's exposure to interest rate risks. The table presents the aggregated amounts of the Group's financial assets and liabilities at carrying amounts, categorised by the earlier of contractual interest repricing or maturity dates.

In thousands of Ukrainian hryvnias	**Demand and less than 1 month**	**From 1 to 6 months**	**From 6 to 12 months**	**More than 1 year**	**Non-monetary**	**Total**
31 December 2008						
Total financial assets	2,417,466	2,453,750	2,578,864	3,638,130	17,605	11,105,815
Total financial liabilities	(3,388,529)	(2,739,014)	(2,013,318)	(2,127,514)	-	(10,268,375)
Net interest sensitivity gap at 31 December 2008	**(971,063)**	**(285,264)**	**565,546**	**1,510,616**	**17,605**	**837,440**
31 December 2007						
Total financial assets	2,091,136	1,273,094	1,110,875	3,601,529	14,857	8,091,491
Total financial liabilities	(2,550,793)	(1,310,255)	(2,027,211)	(1,891,069)	-	(7,779,328)
Net interest sensitivity gap at 31 December 2007	**(459,657)**	**(37,161)**	**(916,336)**	**1,710,460**	**14,857**	**312,163**

Majority of the Group's debt instruments reprice within 5 years (2007: all reprice within 5 years).

At 31 December 2008, if interest rates at that date had been 50 basis points lower (2007: 50 basis points lower) with all other variables held constant, profit for the year would have been UAH 4,446 thousand (2007: UAH 3,482 thousand) higher, mainly as a result of lower interest expense on variable interest liabilities.

If interest rates had been 50 basis points higher (2007: 50 basis points higher), with all other variables held constant, profit would have been UAH 4,446 thousand (2007: UAH 3,482 thousand) lower, mainly as a result of higher interest expense on variable interest liabilities.

27 Financial Risk Management (Continued)

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

	2008, %				2007, %			
In % p.a.	**UAH**	**USD**	**Euro**	**Other**	**UAH**	**USD**	**Euro**	**Other**
Assets								
Cash and cash equivalents	0	3	1	2	3	3	0	0
Debt securities at fair value through profit or loss	8	9	5	5	15	-	-	-
Due from other banks	14	10	4	0	7	1	4	-
Loans and advances to customers	17	13	10	10	16	12	11	13
Liabilities								
Due to the National Bank of Ukraine	14	-	-	-	9	-	-	-
Due to other banks	13	8	12	6	5	8	0	-
Customer accounts								
- current and settlement accounts	3	1	1	0	3	0	0	7
- term deposits	14	11	9	9	13	10	9	10
Loan participation notes	-	11	-	-	-	11	-	-
Debt securities in issue	12	11	9	-	-	11	11	-
Other borrowed funds	-	9	-	-	-	-	-	-

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

27 Financial Risk Management (Continued)

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

In thousands of Ukrainian hryvnias	Ukraine	OECD	Non-OECD	Total
Assets				
Cash and cash equivalents and mandatory reserves	822,486	221,046	220,368	1,263,900
Securities at fair value through profit or loss	25,256	-	56,898	82,154
Due from other banks	30,505	-	13,745	44,250
Loans and advances to customers	8,442,437	422,190	822,125	9,686,752
Investment securities available for sale	16,818	-	-	16,818
Other financial assets	1,982	5,768	4,191	11,941
Total financial assets	**9,339,484**	**649,004**	**1,117,327**	**11,105,815**
Non-financial assets	643,568	-	25,066	668,634
Total assets	**9,983,052**	**649,004**	**1,142,393**	**11,774,449**
Liabilities				
Due to the National Bank of Ukraine	350,000	-	-	350,000
Due to other banks	520,162	545,927	93,446	1,159,535
Customer accounts	5,724,132	548,413	1,083,606	7,356,151
Loan participation notes issued	-	794,014	-	794,014
Debt securities in issue	207,192	-	-	207,192
Other borrowed funds	-	266,234	114,733	380,967
Other financial liabilities	15,697	-	4,819	20,516
Total financial liabilities	**6,817,183**	**2,154,588**	**1,296,604**	**10,268,375**
Non-financial liabilities	35,699	-	6,856	42,556
Total liabilities	**6,852,882**	**2,154,588**	**1,303,460**	**10,310,931**
Net balance sheet position	**3,130,170**	**(1,505,584)**	**(161,067)**	**1,463,518**
Credit related commitments (Note 29)	**564,452**	**-**	**63,136**	**627,588**

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

27 Financial Risk Management (Continued)

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

In thousands of Ukrainian hryvnias	**Ukraine**	**OECD**	**Non-OECD**	**Total**
Assets				
Cash and cash equivalents and mandatory reserves	751,108	134,878	125,027	1,011,013
Securities at fair value through profit or loss	51,966	-	61,519	113,485
Due from other banks	45,990	-	48,928	94,918
Loans and advances to customers	6,115,999	158,076	581,875	6,855,950
Investment securities available for sale	14,222	-	-	14,222
Other financial assets	1,020	-	883	1,903
Total financial assets	**6,980,305**	**292,954**	**818,232**	**8,091,491**
Non-financial assets	**565,244**	**-**	**10,437**	**575,681**
Total assets	**7,545,549**	**292,954**	**828,669**	**8,667,172**
Liabilities				
Due to the National Bank of Ukraine	90,000	-	-	90,000
Due to other banks	534,860	399,680	132,631	1,067,171
Customer accounts	5,268,500	160,840	528,488	5,957,828
Loan participation notes issued	-	518,145	-	518,145
Debt securities in issue	106,736	-	30,342	137,078
Other financial liabilities	4,532	-	4,574	9,106
Total financial liabilities	**6,004,628**	**1,078,665**	**696,035**	**7,779,328**
Non-financial liabilities	**52,174**	**-**	**1,591**	**53,765**
Total liabilities	**6,056,802**	**1,078,665**	**697,626**	**7,833,093**
Net balance sheet position	**1,488,747**	**(785,711)**	**131,043**	**834,079**
Credit related commitments (Note 29)	**387,880**	**-**	**129,538**	**517,418**

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

27 Financial Risk Management (Continued)

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

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

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

- Instant liquidity ratio (N4), which is calculated as the ratio of highly-liquid assets to liabilities payable on demand. The ratio was 57.53% at 31 December 2008 (2007: 69.11%), and the weighted average ratio for December 2008 was 36.52% (December 2007: 38.44%), with the required ratio being not less than 20%;
- Current liquidity ratio (N5), which is calculated as the ratio of liquid assets to liabilities maturing within 31 calendar days. The ratio was 90.81% at 31 December 2008 (2007: 92.4%), with the required ratio being not less than 40%.
- Short-term liquidity ratio (N6), which is calculated as the ratio of liquid assets to liabilities with original maturity of up to one year. The ratio was 31.13% at 31 December 2008 (2007: 33.08%), with the required ratio being not less than 20%.

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

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

The table below shows liabilities at 31 December 2008 by their remaining contractual maturity. The amounts disclosed in the maturity table are the contractual undiscounted cash flows, contractual amounts to be exchanged under gross settled currency swaps and gross loan commitments. Such undiscounted cash flows differ from the amount included in the balance sheet because the balance sheet amount is based on discounted cash flows.

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

27 Financial Risk Management (Continued)

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

In thousands of Ukrainian hryvnias	**Demand and less than 1 month**	**From 1 to 3 months**	**From 3 to 12 months**	**From 12 months to 5 years**	**Over 5 years**	**Total**
Liabilities						
Due to the National Bank of Ukraine	4,644	9,288	366,080	-	-	380,012
Due to other banks	602,100	8,175	386,470	207,164	19,943	1,223,852
Customer accounts – individuals	779,843	696,702	1,800,413	180,236	3,041	3,460,235
Customer accounts – legal entities	1,895,275	328,458	1,305,518	825,477	-	4,354,728
Debt securities in issue	108,559	750	107,519	-	-	216,828
Loan participation notes issued	39,463	-	39,463	848,925	-	927,851
Other borrowed funds	-	38,329	120,199	292,590	-	451,118
Other financial liabilities	4,788	1,340	14,388	-	-	20,516
Gross settled forwards	622,696	-	-	-	-	622,696
Gross loan commitments	29,078	-	-	-	-	29,078
Total potential future payments for financial obligations	**4,086,446**	**1,083,042**	**4,140,050**	**2,354,392**	**22,984**	**11,686,914**

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

In thousands of Ukrainian hryvnias	**Demand and less than 1 month**	**From 1 to 3 months**	**From 3 to 12 months**	**From 12 months to 5 years**	**Over 5 years**	**Total**
Liabilities						
Due to the NBU	650	1,258	91,656	-	-	93,564
Due to other banks	665,226	23,393	398,422	-	-	1,087,041
Customer accounts – individuals	643,402	261,150	1,149,161	428,217	15,874	2,497,804
Customer accounts – legal entities	1,222,932	147,297	868,111	1,781,748	5,375	4,025,463
Debt securities in issue	-	-	32,016	113,784	-	145,800
Loan participation notes issued	-	26,825	25,810	608,809	-	661,444
Other financial liabilities	7,868	-	-	-	-	7,868
Gross settled forwards and swaps	202,381	135,428	-	-	-	337,809
Gross loan commitments	121,437	-	-	-	-	121,437
Total potential future payments for financial obligations	**2,863,896**	**595,351**	**2,565,176**	**2,932,558**	**21,249**	**8,978,230**

Customer accounts are classified in the above analysis based on contractual maturities. However, in accordance with Ukrainian Civil Code, individuals have a right to withdraw their deposits prior to maturity if they forfeit their right to accrued interest.

27 Financial Risk Management (Continued)

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

In thousands of Ukrainian hryvnias	**Demand and less than 1 month**	**From 1 to 3 months**	**From 3 to 12 months**	**From 12 months to 5 years**	**Over 5 years**	**No stated maturity**	**Total**
Assets							
Cash and cash equivalents and mandatory reserves	1,263,900	-	-	-	-	-	1,263,900
Securities at fair value through profit or loss	64,426	-	-	16,941	-	787	82,154
Due from other banks	13,445	154	30,651	-	-	-	44,250
Loans and advances to customers	1,063,754	1,459,410	3,542,399	3,335,253	285,936	-	9,686,752
Investment securities available for sale	-	-	-	-	-	16,818	16,818
Other financial assets	11,941	-	-	-	-	-	11,941
Total financial assets	**2,417,466**	**1,459,564**	**3,573,050**	**3,352,194**	**285,936**	**17,605**	**11,105,815**
Liabilities							
Due to the National Bank of Ukraine	-	-	350,000	-	-		350,000
Due to other banks	601,407	7,763	364,921	167,036	18,408	-	1,159,535
Customer accounts	2,626,319	938,996	2,869,840	918,483	2,513	-	7,356,151
Loan participation notes issued	32,447	-	-	761,567	-	-	794,014
Debt securities in issue	107,840	738	98,614	-	-	-	207,192
Other borrowed funds		37,954	75,156	267,857	-	-	380,967
Other financial liabilities	4,788	1,340	14,388	-	-	-	20,516
Total financial liabilities	**3,372,801**	**986,791**	**3,772,919**	**2,114,943**	**20,921**	**-**	**10,268,375**
Net liquidity gap at 31 December 2008	**(955,335)**	**472,773**	**(199,869)**	**1,237,251**	**265,015**	**17,605**	**837,440**
Cumulative liquidity gap at 31 December 2008	**(955,335)**	**(482,562)**	**(682,431)**	**554,820**	**819,835**	**837,440**	

27 Financial Risk Management (Continued)

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

In thousands of Ukrainian hryvnias	**Demand and less than 1 month**	**From 1 to 3 months**	**From 3 to 12 months**	**From 12 months to 5 years**	**Over 5 years**	**No stated maturity**	**Total**
Assets							
Cash and cash equivalents and mandatory reserves	1,011,013	-	-	-	-	-	1,011,013
Securities at fair value through profit or loss	66,795	-	30,506	15,549	-	635	113,485
Due from other banks	-	72,171	22,747	-	-	-	94,918
Loans and advances to customers	1,002,504	736,578	1,473,707	3,231,377	411,784	-	6,855,950
Investment securities available for sale	-	-	-	-	-	14,222	14,222
Other financial assets	1,903	-	-	-	-	-	1,903
Total financial assets	**2,082,215**	**808,749**	**1,526,960**	**3,246,926**	**411,784**	**14,857**	**8,091,491**
Liabilities							
Due to the National Bank of Ukraine	-	-	90,000	-	-	-	90,000
Due to other banks	664,421	23,311	379,439	-	-	-	1,067,171
Customer accounts	1,865,463	401,797	1,894,431	1,784,334	11,803	-	5,957,828
Loan participation notes issued	-	22,287	-	495,858	-	-	518,145
Debt securities in issue	-	-	30,342	106,736	-	-	137,078
Other financial liabilities	4,459	4,647	-	-	-	-	9,106
Total financial liabilities	**2,534,343**	**452,042**	**2,394,212**	**2,386,928**	**11,803**	**-**	**7,779,328**
Net liquidity gap at 31 December 2007	**(452,128)**	**356,707**	**(867,252)**	**859,998**	**399,981**	**14,857**	**312,163**
Cumulative liquidity gap at 31 December 2007	**(452,128)**	**(95,421)**	**(962,673)**	**(102,675)**	**297,306**	**312,163**	**-**

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

The Group has a significant cumulative maturity mismatch of the assets and liabilities maturing within 12 months. This liquidity mismatch arises due to the fact that a significant source of finance for the Group as at 31 December 2008 and 2007 were customer accounts and interbank deposits being on demand and maturing in up to 12 months. Management believes that in spite of the substantial portion of customer accounts and interbank deposits being on demand and maturing in up to 12 months, diversification of these balances and the past experience of the Group indicate that these deposits provide a long-term and stable source of finance for the Group.

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

28 Management of Capital

The Group's objectives when managing capital are (i) to comply with the capital requirements set by the National Bank of Ukraine, (ii) to safeguard the Group's ability to continue as a going concern and (iii) to maintain a sufficient capital base to achieve a capital adequacy ratio based on the Basel Accord of at least 8%. The Group considers total capital under management to be equity as shown in the consolidated balance sheet. The amount of capital that the Group managed as of 31 December 2008 was UAH 1,463,518 thousand (2007: UAH 834,079 thousand). Compliance with capital adequacy ratios set by the National Bank of Ukraine is monitored monthly with reports outlining their calculation reviewed and signed by the Bank's Chairman of the Board and Chief Accountant. Other objectives of capital management are evaluated annually.

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

In thousands of Ukrainian hryvnias	**2008**	**2007**
Primary capital	1,066,662	567,654
Additional capital	333,593	193,276
Deduction	(126,805)	(98,103)
Total regulatory capital	**1,273,450**	**662,827**

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

In thousands of Ukrainian hryvnias	**2008**	**2007**
Tier 1 capital		
Share capital	655,446	563,896
Share premium	335,564	-
Retained earnings	277,918	157,098
Minority interest	19,618	13,458
Total tier 1 capital	**1,288,546**	**734,452**
Tier 2 capital		
Revaluation reserves	101,522	92,123
Cumulative translation reserve	73,450	7,504
Total tier 2 capital	**174,972**	**99,627**
Total capital	**1,463,518**	**834,079**

The Group and the Bank have complied with all externally imposed capital requirements as at 31 December 2008 and 2007. Adequacy ratio of Group's capital calculated in accordance with requirements of Basel Capital Accord was 14.5% at 31 December 2008 (2007: 12.9%).

29 Contingencies and Commitments

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

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

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

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

Capital expenditure commitments. At 31 December 2008 the Group has contractual capital expenditure commitments in respect of premises and equipment totalling UAH 6,766 thousand (2007: UAH 1,111 thousand).

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

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

In thousands of Ukrainian hryvnias	**2008**	**2007**
Not later than 1 year	13,882	6,352
Later than 1 year and not later than 5 years	38,260	5,623
Later than 5 years	96,802	718
Total operating lease commitments	**148,944**	**12,693**

Subsidiary of the Bank has entered into an operating lease agreement for its office premises. The lease agreement expires in June 2025. The non-cancellable lease liabilities payable within a year are LVL 381 thousand (or equivalent of UAH 4,137 thousand at 31 December 2008).

Compliance with covenants. The Group is subject to certain covenants related primarily to due to other banks, other borrowed funds and Loan Participation Notes. Non-compliance with such covenants may result in negative consequences for the Group including growth in the cost of borrowings and declaration of default. In particular, the Group is required to maintain a certain level of equity, capital adequacy ratio, and level of aggregate indebtedness. Failure to comply with these requirements could lead to early withdrawal of funds by the creditors upon their discretion. Management believes that the Group was in compliance with such covenants as at 31 December 2008 and 31 December 2007.

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

29 Contingencies and Commitments (Continued)

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

Outstanding credit related commitments are as follows:

In thousands of Ukrainian hryvnias	**Note**	**2008**	**2007**
Undrawn credit lines		29,078	121,437
Import letters of credit		323,002	56,661
Guarantees issued		289,293	339,320
Less: Provision for credit related commitments	20	(13,785)	-
Total credit related commitments, net of provision		**627,588**	**517,418**

The total outstanding contractual amount of undrawn credit lines, letters of credit, and guarantees does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded. The fair value of credit related commitments was UAH 13,785 thousand at 31 December 2008.

As disclosed in Note 16, balances on customer accounts at 31 December 2008 in the amount of UAH 166,330 thousand were pledged as collateral under letters of credit (2007: none).

Credit related commitments are denominated in currencies as follows:

In thousands of Ukrainian hryvnias	**2008**	**2007**
Ukrainian hryvnias	140,840	284,047
US Dollars	170,835	97,410
EURO	312,678	99,285
Other	3,235	36,676
Total	**627,588**	**517,418**

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

In thousands of Ukrainian Hryvnias	**2008 Nominal value**	**2007 Nominal value**
Shares in Ukrainian companies held on behalf of the Group's customers	-	7,233

As at 31 December 2008 the Latvian subsidiary of the Group has the following funds under trust management:

In thousands of Ukrainian Hryvnias	**2008**	**2007**
Assets under trust		
Loans	1,843	17,823
Liabilities under trust		
Private individuals	1,843	6,434
Private companies	-	11,389

29 Contingencies and Commitments (Continued)

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

In thousands of Ukrainian hryvnias	Notes	2008 Asset pledged	2008 Related liability	2007 Asset pledged	2007 Related liability
Securities at fair value through profit or loss	8, 15	12,786	11,393	21,829	20,093
Loans and advances to customers	10, 14 15, 16, 19	1,160,220	608,166	501,332	225,263
Due from other banks	9, 15	11,550	11,550	-	-
Premises and equipment	12, 19	217,283	114,975	-	-
Total		**1,401,839**	**746,084**	**523,161**	**245,356**

Securities at fair value through profit or loss in the amount of UAH 4,839 thousand as well as amounts due from other banks in the amount of UAH 13,353 thousand (2007: none) were provided as security under transactions with derivative financial instruments. Refer to Notes 8 and 9.

In addition, mandatory cash balances with the NBU in the amount of UAH 149,446 thousand (2007: UAH 147,695 thousand) represent mandatory reserve deposits which are not available to finance the Group's day to day operations. Refer to Note 7.

Guarantee deposits in the amount of UAH 12,046 thousand (2007: UAH 11,797 thousand) represent balances placed with other banks as cover for guarantees, import letters of credit and plastic cards transactions. These are effectively restricted deposits, which are required to be maintained to complete the related trade financing activity. Refer to Note 9.

30 Derivative Financial Instruments

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

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

	Notes	**2008**		**2007**	
In thousands of Ukrainian hryvnias		**Contracts with positive fair value**	**Contracts with negative fair value**	**Contracts with positive fair value**	**Contracts with negative fair value**
Foreign exchange forwards: fair values, at the balance sheet date, of	27				
- USD payable on settlement (-)		(73,220)	-	-	-
- Euros receivable on settlement (+)		78,143	-	-	67,331
- Euros payable on settlement (-)		-	(87,432)	(67,331)	-
- Other currencies receivable on settlement (+)		-	85,973	67,968	-
- Other currencies payable on settlement (-)		-	-	-	(68,097)
Foreign exchange swaps: fair values, at the balance sheet date, of	27				
- USD receivable on settlement (+)		115,704	27,547	37,610	-
- USD payable on settlement (-)		(62,306)	(65,988)	(117,414)	(47,603)
- Euros receivable on settlement (+)		217,890	85,752	37,128	37,131
- Euros payable on settlement (-)		(52,726)	(27,060)	(37,364)	-
- UAH receivable on settlement (+)		-	-	81,306	10,000
- Other currencies receivable on settlement (+)		21,211	-	-	-
- Other currencies payable on settlement (-)		(232,755)	(21,212)	-	-
Net fair value of foreign exchange forwards	**13, 20**	**11,941**	**(2,420)**	**1,903**	**(1,238)**

31 Fair Value of Financial Instruments

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

In thousands of Ukrainian hryvnias	**Fair value by measurement method:** Quoted price in an active market	**Fair value by measurement method:** Valuation technique with inputs observable in markets	**Fair value by measurement method:** Valuation technique with significant non-observable inputs	**Total fair value**	**Carrying value**
FINANCIAL ASSETS					
Cash and cash equivalents and mandatory reserves					
- Cash on hand	-	371,690	-	371,690	371,690
- Cash balances with the NBU (including mandatory reserve)	-	196,435	-	196,435	196,435
- Cash balances with the Bank of Latvia	-	79,327	-	79,327	79,327
- Correspondent accounts and overnight placements	-	616,448	-	616,448	616,448
Securities at fair value through profit or loss					
- Ukrainian corporate debt securities	24,469	-	-	24,469	24,469
- Latvian corporate debt securities	19,053	-	-	19,053	19,053
- Other non-OECD debt securities	6,698	-	-	6,698	6,698
- Latvian government debt securities	31,147	-	-	31,147	31,147
- Corporate shares	455	332	-	787	787
Investment securities available for sale	1,327	-	15,491	16,818	16,818
Due from other banks					
- Term placements with other banks	-	32,204	-	32,204	32,204
- Guarantee deposits with other banks	-	12,046	-	12,046	12,046
Loans and advances to customers					
- Corporate loans	-	8,325,675	-	8,325,675	8,323,772
- Loans to individuals other than mortgage	-	555,871	-	555,871	565,246
- Loans to individuals - entrepreneurs	-	11,498	-	11,498	11,331
- Mortgage loans	-	751,958	-	751,958	784,116
- State and municipal bodies	-	2,270	-	2,270	2,287
Other financial assets	-	11,941	-	11,941	11,941
TOTAL FINANCIAL ASSETS	**83,149**	**10,967,695**	**15,491**	**11,066,335**	**11,105,815**

31 Fair Value of Financial Instruments (Continued)

In thousands of Ukrainian hryvnias	**Fair value by measurement method:** Quoted price in an active market	Valuation technique with inputs observable in markets	Valuation technique with significant non-observable inputs	**Total fair value**	**Carrying value**
FINANCIAL LIABILITIES					
Due to the National Bank of Ukraine	-	350,000	-	350,000	350,000
Due to other banks					
- Correspondent accounts and overnight placements of other banks	-	447,302	-	447,302	447,302
- Short-term placements of other banks	-	700,840	-	700,840	700,840
- Sale and repurchase agreements with other banks	-	12,786	-	12,786	11,393
Customer accounts					
- Current/settlement accounts of other legal entities	-	1,835,680	-	1,835,680	1,835,680
- Term deposits of other legal entities	-	2,252,440		2,252,440	2,220,216
- Current/demand accounts of individuals	-	453,367	-	453,367	453,367
- Term deposits of individuals	-	2,850,214	-	2,850,214	2,846,888
Loan participation notes issued	377,300	-	-	377,300	794,014
Debt securities in issue					
- Bonds issued on Ukrainian market	102,380	-	-	102,380	107,840
- Deposit certificates	-	99,352	-	99,352	99,352
Other borrowed funds	-	344,542	-	344,542	380,967
Other financial liabilities	-	20,516	-	20,516	20,516
TOTAL FINANCIAL LIABILITIES	**479,680**	**9,367,039**	**-**	**9,846,719**	**10,268,375**

31 Fair Value of Financial Instruments (Continued)

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

In thousands of Ukrainian hryvnias	Fair value by measurement method: Quoted price in an active market	Valuation technique with inputs observable in markets	Valuation technique with significant non-observable inputs	Total fair value	Carrying value
FINANCIAL ASSETS					
Cash and cash equivalents and mandatory reserves					
- Cash on hand	-	261,960	-	261,960	261,960
- Cash balances with the NBU (including mandatory reserve)	-	378,070	-	378,070	378,070
- Cash balances with the Bank of Latvia	-	66,776	-	66,776	66,776
- Correspondent accounts and overnight placements	-	304,207	-	304,207	304,207
Securities at fair value through profit or loss					
- Ukrainian corporate debt securities	46,056	-	-	46,056	46,056
- Latvian corporate debt securities	11,444	-	-	11,444	11,444
- Other non-OECD debt securities	25,769	-	-	25,769	25,769
- Latvian government debt securities	24,305	-	-	24,305	24,305
- Ukrainian municipal bonds	5,276	-	-	5,276	5,276
- Corporate shares	635	-	-	635	635
Investment Securities Available for Sale	-	14,222	-	14,222	14,222
Due from other banks					
- Short-term placements with other banks	-	83,121	-	83,121	83,121
- Guarantee deposits with other banks	-	11,797	-	11,797	11,797
Loans and advances to customers					
- Corporate loans	-	6,053,656	-	6,053,656	6,074,459
- Loans to individuals other than mortgage	-	261,886	-	261,886	262,786
- Loans to individuals – entrepreneurs	-	50,001	-	50,001	50,173
- Mortgage loans	-	462,941	-	462,941	464,532
- Reverse sale and repurchase agreements	-	4,000	-	3,986	4,000
Other financial assets	-	1,903	-	1,903	1,903
TOTAL FINANCIAL ASSETS	**113,485**	**7,954,527**	**-**	**8,068,012**	**8,091,491**

31 Fair Value of Financial Instruments (Continued)

In thousands of Ukrainian hryvnias	Fair value by measurement method: Quoted price in an active market	Valuation technique with inputs observable in markets	Valuation technique with significant non-observable inputs	Total fair value	Carrying value
FINANCIAL LIABILITIES					
Due to the National Bank of Ukraine	-	90,000	-	90,000	90,000
Due to other banks					
- Correspondent accounts and overnight placements of other banks	-	158,805	-	158,805	158,805
- Short-term placements of other banks	-	888,923	-	888,923	888,273
- Sale and repurchase agreements with other banks	-	20,093	-	20,093	20,093
Customer accounts					
- Current/settlement accounts of other legal entities	-	1,004,616	-	1,004,616	1,004,616
- Term deposits of other legal entities	-	2,597,341	-	2,597,341	2,619,591
- Current/demand accounts of individuals	-	441,636	-	441,636	441,636
- Term deposits of individuals	-	1,952,493	-	1,952,493	1,891,985
Loan participation notes issued	479,750	-	-	479,750	518,145
Debt securities in issue					
- Deposit certificates	-	106,736	-	106,736	106,736
- Bonds issued on Latvian market	29,987	-	-	29,987	30,342
Other financial liabilities	-	9,106	-	9,106	9,106
TOTAL FINANCIAL LIABILITIES	**509,737**	**7,269,749**	**-**	**7,779,486**	**7,779,328**

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by an active quoted market price. Where quoted market prices are not available, the Group used valuation techniques. Certain valuation techniques required assumptions that were not supported by observable market data. Changing any such used assumptions to a reasonably possible alternative would not result in significantly different profit, income, total assets or total liabilities.

31 Fair Value of Financial Instruments (Continued)

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

	2008	**2007**
Due from other banks		
Term placements with other banks	3 % to 17%	3% to 9%
Guarantee deposits with other banks	1%	1%
Loans and advances to customers		
Corporate loans	12% to 20%	8 % to 16%
Mortgage loans	15%	11 % to 16%
Loans to individuals other than mortgage	15 % to 20%	12% to 15%
Individuals – entrepreneurs	20%	17%
Reverse sale and repurchase agreements	n/a	19%
State and municipal organisations	17%	n/a
Due to other banks		
- Correspondent accounts and overnight placements of other banks	0% to 35%	0 % to 9%
- Short-term placements of other banks	3% to 26%	6% to 12%
- Sale and repurchase agreements with other banks	3%	n/a
Customer accounts		
- Term deposits of legal entities	8% to 14%	7% to 10%
- Term deposits of individuals	11% to 19%	10% to 15%
Debt securities in issue		
- Deposit certificates	11%	n/a
Other borrowed funds	21%	n/a

32 Presentation of Financial Instruments by Measurement Category

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

In thousands of Ukrainian hryvnias	**Loans and receivables**	**Available for sale assets**	**Trading assets**	**Assets at FVTPL**	**Total**
ASSETS					
Cash and cash equivalents and mandatory reserves	1,263,900	-	-	-	1,263,900
Securities at fair value through profit or loss	-	-	-	82,154	82,154
Due from other banks		-			
- Term placements with other banks	32,204	-	-	-	32,204
- Guarantee deposits with other banks	12,046	-	-	-	12,046
Loans and advances to customers					
- Corporate loans	8,323,772	-	-	-	8,323,772
- Loans to individuals other than mortgage	565,246	-	-	-	565,246
- Loans to individuals - entrepreneurs	11,331	-	-	-	11,331
- Mortgage loans	784,116	-	-	-	784,116
- State and municipal bodies	2,287	-	-	-	2,287
Investment securities available for sale	-	16,818	-	-	16,818
Other financial assets	**-**	**-**	11,941	-	11,941
TOTAL FINANCIAL ASSETS	**10,994,902**	**16,818**	**11,941**	**82,154**	**11,105,815**
NON-FINANCIAL ASSETS					**668,634**
TOTAL ASSETS					**11,774,449**

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

32 Presentation of Financial Instruments by Measurement Category (Continued)

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

In thousands of Ukrainian hryvnias	**Loans and receivables**	**Available for sale assets**	**Trading assets**	**Assets at FVTPL**	**Total**
ASSETS					
Cash and cash equivalents and mandatory reserves	1,011,013	-	-	-	1,011,013
Securities at fair value through profit or loss	-	-	-	113,485	113,485
Due from other banks					
- Short-term placements with other banks	83,121	-	-	-	83,121
- Guarantee deposits with other banks	11,797	-	-	-	11,797
Loans and advances to customers					
- Corporate loans	6,074,459	-	-	-	6,074,459
- Loans to individuals other than mortgage	262,786	-	-	-	262,786
- Loans to individuals - entrepreneurs	50,173	-	-	-	50,173
- Mortgage loans	464,532	-	-	-	464,532
- Reverse sale and repurchase agreements	4,000	-	-	-	4,000
Investment securities available for sale	-	14,222	-	-	14,222
Other financial assets	-	-	1,903	-	1,903
TOTAL FINANCIAL ASSETS	**7,961,881**	**14,222**	**1,903**	**113,485**	**8,091,491**
NON-FINANCIAL ASSETS	-	-			**575,681**
TOTAL ASSETS	-	-			**8,667,172**

33 Related Party Transactions

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

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

In thousands of Ukrainian hryvnias	**Ultimate shareholders**	**Other significant shareholders**	**Entities under control of ultimate shareholders**	**Other related parties**
Gross amount of loans and advances to customers (contractual interest rate: 6-22 %)	8,776	13,328	216,499	3,050
Impairment provisions for loans and advances to customers at 31 December	(313)	(330)	(8,729)	(120)
Investment securities available for sale:				
- Shares of “Pharmatsiya” ltd (8.06 % holding)	-	-	12,216	-
- Shares of “Kholodmash” ltd (9.55 % holding)	-	-	1,287	-
Other assets	-	27,447	-	-
Customer accounts (contractual interest rate: 0 - 18 %)	68,333	121,742	15,212	12,306

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

In thousands of Ukrainian hryvnias	**Ultimate shareholders**	**Other significant shareholders**	**Entities under control of ultimate shareholders**	**Other related parties**
Interest income	1,957	2,661	23,459	202
Interest expense	(4,431)	(11,521)	(1,550)	(1,250)
Provision for loan impairment	(312)	(328)	(6,956)	(89)
Fee and commission income	-	-	1,242	10
Impairment of investment securities available for sale	-	-	(1,065)	-
Gains less losses from securities at fair value through profit or loss	-	(11)	11	-
Losses less gains from disposal of securities available for sale	-	-	(773)	-
Other operating income	-	407	1	-
Administrative and other operating expenses	-	(13,847)	(5,282)	-

33 Related Party Transactions (Continued)

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

In thousands of Ukrainian hryvnias	**Ultimate shareholders**	**Other significant shareholders**	**Entities under control of ultimate shareholders**	**Other related parties**
Unused credit lines	519	205	-	678
Guarantees issued by the Group at the year end	-	8	-	-

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

In thousands of Ukrainian hryvnias	**Ultimate shareholders**	**Other significant shareholders**	**Entities under control of ultimate shareholders**	**Other related parties**
Amounts lent to related parties during the period	49,256	43,951	201,567	1,446
Amounts repaid by related parties during the period	40,424	42,815	124,610	901

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

In thousands of Ukrainian hryvnias	**Ultimate shareholders**	**Other shareholders**	**Entities under control of ultimate shareholders**	**Other related parties**
Gross amount of loans and advances to customers (contractual interest rate: 5 – 18%)	59	13,198	106,830	619
Impairment provisions for loans and advances to customers at 31 December	(1)	(264)	(2,137)	(12)
Investment securities available-for-sale				
- Shares of OJSC “Farmatsiya” (8.06% holding)	-	-	12,216	-
- Shares of OJSC “Kholodmash” (9.55% holding)	-	-	631	-
- Shares of OJSC “Kotovskoe ZPP” (10% holding)	-	-	865	-
Other assets	-	22,043	-	-
Customer accounts (contractual interest rate: 0 – 18%)	50,813	83,039	77,191	3,850

33 Related Party Transactions (Continued)

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

In thousands of Ukrainian hryvnias	Ultimate shareholder	Other shareholders	Entities under control of ultimate shareholders	Other related parties
Interest income	258	1,387	13,037	42
Interest expense	7,289	5,053	3,244	410
(Charge)/reversal of provision for loan impairment	219	101	(890)	76
Gains less losses from trading in foreign currencies	-	-	129	-
Fee and commission income	-	50	548	-
Impairment of investment securities available-for-sale	-	-	1,694	-
Other operating income	-	332	20	-
Administrative and other operating expenses	10,849	12,927	10,056	224

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

In thousands of Ukrainian hryvnias	Ultimate shareholders	Other shareholders	Entities under control of ultimate shareholders	Other related parties
Guarantees issued by the Group at the year end	-	-	172	-
Import letters of credit at the year end	-	-	5,290	-

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

In thousands of Ukrainian hryvnias	Ultimate shareholders	Other shareholders	Entities under control of ultimate shareholders	Other related parties
Amounts lent to related parties during the period	238	1,334	175,028	984
Amounts repaid by related parties during the period	11,163	7,548	152,595	709

The Bank's ultimate shareholders are Mr Y.O. Rodin and Mr M.I. Bekker (2007: Mr Y.O. Rodin and Mr M.I. Bekker).

33 Related Party Transactions (Continued)

Key management compensation is presented below:

In thousands of Ukrainian hryvnias	2008 Expense	2008 Accrued liability	2007 Expense	2007 Accrued liability
Short-term benefits:				
- Salaries	9,031	-	5,398	-
- Short-term bonuses	2,289	1,694	910	143
Post-employment benefits:				
- State pension and social security costs	963	-	403	36
Total	**12,283**	**1,694**	**6,711**	**179**

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

34 Principal Subsidiaries and Business Combinations

Name	Nature of business	Country of registration	Percentage of ownership 31 December 2008	Percentage of ownership 31 December 2007
Regional Investment Bank (Riga, Latvia)	Banking	Latvia	91%	89%
Pivdenny Asset Management	Financial services	Ukraine	100%	100%

During 2007 the Bank increased its stake in the RIB's share capital to 89%. As a result of this transaction the gain on purchase of additional shares of a subsidiary in the amount of UAH 12,228 thousand was recognised in the consolidated income statement.

During 2008 the Bank increased its stake in the RIB's share capital to 91%. As a result of this transaction the gain on purchase of additional shares of a subsidiary in the amount of UAH 1,086 thousand was recognised in the consolidated income statement.

35 Events After the Balance Sheet Date

As disclosed in Note 18, in January-February 2009 the Group early redeemed own bonds in the amount of UAH 100,000 thousand, which were issued by the Group in January 2008.

As disclosed in Note 21, in December 2008 shareholders of the Bank took a decision to capitalise dividends in the amount of UAH 64,655 thousand. On 9 February 2009 the National Bank of Ukraine registered the respective changes to the Bank's Charter.

In February 2009 the Group repaid a loan of USD 4,533 thousand (UAH 34,904 thousand at the exchange rate as at 31 December 2008) received in February 2008 from Cargill Financial Services International Inc. Refer to the Note 19.

In March 2009 the Group received a loan from the NBU in the amount of UAH 300,000 thousand with maturity in March 2010 and interest rate of 16.5% per annum.

On 12 February 2009 Fitch Ratings downgraded Ukraine's long-term foreign and local currency Issuer Default Ratings to 'B' from 'B+'. This reflects the increased risk of a banking and currency crisis in Ukraine, due to intensified stress on the financial system. The Outlooks on both Issuer Default Ratings are 'negative'. The agency has also downgraded the Country Ceiling to 'B' from 'B+'.

On 25 February 2009 Ukraine's credit rating was cut two levels by Standard & Poor's due to the political turmoil. The long-term foreign currency rating was lowered to CCC+. The agency left Ukraine's outlook 'negative', indicating it might reduce the ratings further.

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