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

Year ended 31 December 2010
Together with Independent Auditors’ Report

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INDEPENDENT AUDITORS' REPORT

To the Shareholder and the Board of Directors of Joint Stock Company "The State Export-Import Bank of Ukraine"

We have audited the accompanying consolidated financial statements of Joint Stock Company "The State Export-Import Bank of Ukraine" and its subsidiaries (the "Bank"), which comprise the consolidated statement of financial position as at 31 December 2010 and 2009 and the consolidated income statements, consolidated statements of comprehensive income, of changes in equity and of cash flows for the two years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2010 and 2009, and its financial performance and its cash flows for the two years then ended in accordance with International Financial Reporting Standards.

Ernst & Young Audit Services LLC

3 June 2011

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2010

(Thousands of Ukrainian hryvnia)

	Notes	*2010*	*2009 (restated)*
Assets			
Cash and cash equivalents	6	10,892,912	4,851,691
Amounts due from credit institutions	7	1,129,357	1,736,194
Loans to customers	8	43,681,189	43,311,110
Investment securities:	9		
- designated at fair value through profit and loss		107,796	575,040
- available-for-sale		8,861,028	987,443
- held-to-maturity		1,641,477	791,162
Investment securities pledged under repurchase agreements		94,640	-
Current income tax assets	14	570,144	614,358
Investment property	10	2,380,711	159,554
Assets held for sale	11	-	1,204,456
Property and equipment	12	2,204,565	2,019,674
Intangible assets	13	13,559	12,596
Deferred income tax assets	14	11,771	41,972
Other assets	16	265,359	158,865
Total assets		**71,854,508**	**56,464,115**
Liabilities			
Amounts due to the National Bank of Ukraine	17	4,156,617	8,108,811
Amounts due to credit institutions	18	7,379,450	8,536,555
Amounts due to customers	19	27,810,735	19,953,160
Eurobonds issued	20	11,789,395	5,780,200
Other debt securities issued	21	404,340	502,135
Current income tax liabilities	14	7,339	5,281
Subordinated debt	22	3,098,955	3,105,434
Provisions	15	181	3,521
Other liabilities	16	136,337	144,691
Total liabilities		**54,783,349**	**46,139,788**
Equity			
Share capital	23	17,106,742	10,716,745
Revaluation reserve	23	872,834	644,388
Accumulated deficit		(908,417)	(1,036,806)
Total equity		**17,071,159**	**10,324,327**
Total equity and liabilities		**71,854,508**	**56,464,115**

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

Mykola Udovychenko — Chairman of the Board

Natalia Potemska — Chief Accountant

2 June 2011

CONSOLIDATED INCOME STATEMENT
For the year ended 31 December 2010

(Thousands of Ukrainian hryvnia)

	Notes	2010	2009 (restated)
Interest income			
Loans to customers		5,534,383	6,037,480
Investment securities other than designated at fair value through profit or loss		719,262	232,936
Amounts due from credit institutions		63,266	187,435
Amounts due from the National Bank of Ukraine		12,205	2,537
		6,329,116	6,460,388
Investment securities designated at fair value through profit and loss		45,636	89,161
		6,374,752	6,549,549
Interest expense			
Amounts due to customers		(1,941,328)	(1,415,093)
Eurobonds issued		(612,370)	(527,678)
Amounts due to credit institutions		(375,019)	(251,255)
Subordinated debt		(347,984)	(239,339)
Amounts due to the National Bank of Ukraine		(465,054)	(940,322)
Other debt securities issued		(26,119)	(82,244)
		(3,767,874)	(3,455,931)
Net interest income		**2,606,878**	**3,093,618**
Allowance for loan impairment	7,8	(2,664,413)	(2,584,607)
Net interest (expense)/ income after allowance for loan impairment		**(57,535)**	**509,011**
Fee and commission income		459,535	377,109
Fee and commission expense		(99,049)	(56,969)
Fees and commissions, net	25	**360,486**	**320,140**
Net gains/(losses) from investment securities designated at fair value through profit and loss:			
- change in fair value		(9,493)	(118,369)
Net gains/(losses) from available-for-sale investment securities:			
- dealing		13,041	(41,481)
- losses on impairment		(11,298)	(19,480)
Net gains/(losses) from foreign currencies and precious metals:			
- dealing		272,450	401,673
- translation differences		53,334	(4,617)
Gain on initial recognition of financial liabilities		18,224	64,498
Gain on restructuring of financial liabilities		390,614	-
Other income		25,730	24,806
Non-interest income		**752,602**	**307,030**
Loss on initial recognition of loans to customers		(20,717)	(52,834)
Personnel expenses	26	(583,842)	(604,813)
Depreciation and amortisation	12, 13	(75,564)	(61,061)
Other operating expenses	26	(242,450)	(222,332)
Other impairment and provisions	15	131,437	(133,753)
Non-interest expense		**(791,136)**	**(1,074,793)**
Profit before income tax expense		**264,417**	**61,388**
Income tax expense	14	(138,459)	(26,035)
Profit for the year		**125,958**	**35,353**

The accompanying notes on pages 6 – 65 are an integral part of these consolidated financial statements

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2010

(Thousands of Ukrainian hryvnia)

	Notes	*2010*	*2009 (restated)*
Profit for the year		**125,958**	**35,353**
Other comprehensive income/(loss):			
Net gains/ (losses) on investment securities available-for-sale	23	17,769	(600)
Revaluation of property	23	179,128	-
Reversal of income tax relating to tangible fixed asset revaluations consequent upon enactment of new Tax Code	14, 23	92,341	-
Income tax relating to components of other comprehensive income	14, 23	(49,224)	150
Other comprehensive income/(loss) for the year, net of tax		**240,014**	**(450)**
Total comprehensive income for the year		**365,972**	**34,903**

The accompanying notes on pages 6 – 65 are an integral part of these consolidated financial statements

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2010

(Thousands of Ukrainian hryvnia)

	Share capital	*Revaluation reserve*	*Accumulated deficit*	*Total equity*
31 December 2008	**3,775,865**	**655,340**	**(491,779)**	**3,939,426**
Total comprehensive income for the year (restated)	-	(450)	35,353	34,903
Depreciation of revaluation reserve, net of tax (Note 23)	-	(10,291)	10,291	-
Disposal of property, net of tax (Note 23)	-	(211)	211	-
Increase in share capital	6,940,880	-	(590,882)	6,349,998
31 December 2009 (restated)	**10,716,745**	**644,388**	**(1,036,806)**	**10,324,327**
Total comprehensive income for the year	-	240,014	125,958	365,972
Depreciation of revaluation reserve, net of tax (Note 23)	-	(11,568)	11,568	-
Distribution of profit to the shareholder (Note 23)	-	-	(9,137)	(9,137)
Increase in share capital (Note 23)	6,389,997	-	-	6,389,997
31 December 2010	**17,106,742**	**872,834**	**(908,417)**	**17,071,159**

The accompanying notes on pages 6 – 65 are an integral part of these consolidated financial statements

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 31 December 2010

(Thousands of Ukrainian hryvnia)

	Notes	*2010*	*2009*
Cash flows from operating activities			
Interest and commissions received		6,578,217	5,848,944
Interest and commissions paid		(3,924,205)	(3,983,533)
Gains less losses from dealing in foreign currencies and precious metals		272,450	401,673
Other operating income received		15,783	24,661
Personnel expenses paid		(605,268)	(605,654)
Other operating expenses paid		(226,961)	(221,254)
Cash flow from operating activities before changes in operating assets and liabilities		**2,110,016**	**1,464,837**
Net (increase)/decrease in operating assets			
Amounts due from credit institutions		837,967	(361,878)
Deposit with the National Bank of Ukraine		(260,321)	(329,209)
Loans to customers		(3,942,057)	(8,810,580)
Other assets		96,589	(4,181)
Net increase / (decrease) in operating liabilities			
Amounts due to the National Bank of Ukraine		(3,311,798)	6,735,725
Amounts due to credit institutions		429,542	(203,676)
Amounts due to customers		8,147,114	2,603,125
Other liabilities		(11,382)	(30,015)
Net cash flows from operating activities before income tax		**4,095,670**	**1,064,148**
Income tax paid		(18,869)	(676,172)
Net cash flows from operating activities		**4,076,801**	**387,976**
Cash flows from investing activities			
Proceeds from sale and redemption of investment securities		6,284,776	9,685,039
Purchase of investment securities		(7,970,661)	(3,764,671)
Dividends received		85	93
Purchases of property, equipment and intangible assets		(82,029)	(173,485)
Proceeds from sale of property and equipment		533	349
Proceeds from sale of investment property		812	-
Net cash flows (used in)/from investing activities		**(1,766,484)**	**5,747,325**
Cash flows from financing activities			
Distribution of profit to the shareholder		(9,137)	-
Proceeds from borrowings from credit institutions		513,095	2,291,339
Repayment of borrowings from credit institutions		(2,646,405)	(9,757,200)
Redemption of Eurobonds issued		-	(2,023,643)
Proceeds from Eurobonds issued		5,969,635	-
Proceeds from subordinated debt issued		-	1,904,700
Proceeds from other debt securities issued		400,000	-
Redemption of other debt securities issued		(500,000)	(551,320)
Net cash flows from/(used in) financing activities		**3,727,188**	**(8,136,124)**
Effect of exchange rates changes on cash and cash equivalents		3,716	543,820
Net increase/(decrease) in cash and cash equivalents		**6,041,221**	**(1,457,003)**
Cash and cash equivalents, 1 January		**4,851,691**	**6,308,694**
Cash and cash equivalents, 31 December	6	**10,892,912**	**4,851,691**

The accompanying notes on pages 6 – 65 are an integral part of these consolidated financial statements

1. Principal activities

The State Export-Import Bank of Ukraine (EximBank) was founded in 1992. It was registered at the National Bank of Ukraine (the "NBU") on 23 January 1992 and on 18 September 2000 was re-registered as a joint stock company. Currently EximBank operates under a general banking licence #2 renewed by the NBU on 27 May 2009, which provides EximBank with the right to conduct banking operations, including currency operations.

As at 31 December 2010 and 2009, 100% of EximBank's shares were owned by the Cabinet Ministers of Ukraine on behalf of the State of Ukraine.

EximBank's head office is in Kyiv at 127 Gorky St. It has 29 branches and 93 operating outlets (2009: 29 branches and 93 operating outlets) located in Kyiv and other regions of Ukraine and 2 representative offices located in London and New-York. EximBank and its branches form a single legal entity.

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

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

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

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

"Ukreximleasing", a 100% owned subsidiary was founded in 1997 and operates in Ukraine in the leasing business.

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

2. Basis of preparation

General

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

The Bank is required to maintain its books of account in Ukrainian hryvnia and prepare statements for regulatory purposes in accordance with the "Regulations on the Organisation of Reporting and Publication for Ukrainian Banking Institutions" issued by the National Bank of Ukraine and in accordance with Ukrainian Accounting Standards ("UAS"). These consolidated financial statements are based on the Bank's UAS books and records, as adjusted and reclassified in order to comply with IFRS. The reconciliation between UAS and IFRS is presented later in this note.

The consolidated financial statements are prepared under the historical cost convention except as disclosed in the accounting policies, such as investment securities available-for-sale, investment securities designated at fair value through profit or loss, buildings and investment property have been measured at fair value.

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

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

Inflation accounting

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

Restatement of corresponding figures

In the course of preparation of the financial statements for the year ended 31 December 2010, the Bank identified the following:

A. In accordance with the requirements of IAS 39 "Financial Instruments: Recognition and Measurement" ("IAS 39"), interest income on impaired loans should be recognised using the rate of interest used to discount future cash flows for the purpose of measuring the impairment loss. During 2010, the Bank improved its system of discounting future cash flows of interest bearing assets. There was no effect on the net amount of loans to customers or on net income as the resulting reduction in interest income was compensated by an equivalent reduction in the allowance for loan impairment.
B. In accordance with the Bank's accounting policy if the loan restructuring is not caused by the financial difficulties of the borrower but the cash flows were renegotiated on the favourable terms for the borrower: in this case the loan is not recognised as impaired. The loan is not derecognised but the new effective interest rate is determined based on the remaining cash flows under the loan agreement till maturity. As at 31 December 2009, amortised cost of certain loans to customers restructured in 2009 was calculated using the original effective interest rate.
C. In accordance with the requirements of IAS 39, if modification of terms of the existing financial liability is not accounted for as extinguishment, the new effective interest rate should be calculated and used for calculation of amortised cost of the financial liability. As at 31 December 2009, certain financial liabilities with terms modified in 2009, were carried at amortised cost calculated using the original effective interest rate.

The effect of the restatements on the corresponding figures is as follows:

	As previously reported	*A*	*B*	*C*	*Total restatement*	*As restated*
Consolidated statement of financial position as at 31 December 2009						
Loans to customers, gross	48,029,296	(342,478)	310,996	-	(31,482)	47,997,814
Allowance for impairment	(5,023,051)	342,478	(6,131)	-	336,347	(4,686,704)
Loans to customers	43,006,245	-	304,865	-	304,865	43,311,110
Deferred income tax asset	45,929	-	(76,216)	72,259	(3,957)	41,972
Total assets	56,163,207	-	228,649	72,259	300,908	56,464,115
Amounts due to the NBU	7,819,774	-	-	289,037	289,037	8,108,811
Total liabilities	45,850,751	-	-	289,037	289,037	46,139,788
Accumulated deficit	(1,048,677)	-	228,649	(216,778)	11,871	(1,036,806)
Total equity	10,312,456	-	228,649	(216,778)	11,871	10,324,327

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

	As previously reported	*A*	*B*	*C*	*Total restatement*	*As restated*
Consolidated income statement for the year ended 31 December 2009						
Interest income on loans to customers	6,068,962	(342,478)	310,996	-	(31,482)	6,037,480
Interest expense on amounts due to the NBU	(651,285)	-	-	(289,037)	(289,037)	(940,322)
Net interest income	3,414,137	(342,478)	310,996	(289,037)	(320,519)	3,093,618
Allowance for loan impairment	(2,920,954)	342,478	(6,131)	-	336,347	(2,584,607)
Net interest income after allowance for impairment	493,183	-	304,865	(289,037)	15,828	509,011
Income tax expense	(22,078)	-	(76,216)	72,259	(3,957)	(26,035)
Profit for the year	23,482	-	228,649	(216,778)	11,871	35,353

There was no effect of the restatements shown in the table above on the Bank's statement of financial position as at 31 December 2008 and, consequently, this statement is not disclosed.

Reconciliation of UAS and IFRS equity and profit for the year

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

	2010		*2009 (restated)*	
	Equity	*Profit for the year*	*Equity*	*Profit for the year*
UAS (combined)	**17,557,425**	**71,419**	**10,864,425**	**10,375**
Application of IAS 29	53,308	(523)	54,538	60
Measurement of financial instruments	(754,954)	(320,294)	(434,660)	(435,172)
Additional allowance for impairment	160,542	414,409	(253,867)	500,482
Accruals	1,736	724	1,012	15,289
Additional IFRS depreciation	(64,886)	1,768	(66,654)	198
Deferred tax	135,551	(21,696)	157,247	(43,543)
Other	(17,563)	(19,849)	2,286	(12,336)
IFRS	**17,071,159**	**125,958**	**10,324,327**	**35,353**

3. Summary of accounting policies

Changes in accounting policies

During the year, the Bank has adopted the following amended IFRS and new IFRIC Interpretations. The principal effects of these changes are as follows:

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

IFRS 3 "Business Combinations" (revised in January 2008) and IAS 27 "Consolidated and Separate Financial Statements" (revised in January 2008)
The revised standards were issued in January 2008 and became effective for financial years beginning on or after 1 July 2009. Revised IFRS 3 introduces a number of changes in the accounting for business combinations that impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results. Revised IAS 27 requires that a change in the ownership interest of a subsidiary is accounted for as an equity transaction.

Therefore, such a change has no impact on goodwill, nor it gives rise to a gain or loss. Furthermore, the revised standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes introduced by the revised Standards are applied prospectively.

IFRS 2 "Share-based Payment": Group Cash-settled Share-based Payment Transactions
The amendment to IFRS 2 was issued in June 2009 and became effective for financial years beginning on or after 1 January 2010. The amendment clarifies the scope and the accounting for group cash-settled share-based payment transactions. This amendment also supersedes IFRIC 8 and IFRIC 11. This amendment had no impact on the Bank's consolidated financial statements.

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

Improvements to IFRSs
In April 2009, the IASB issued the second omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. Most of the amendments are effective for annual periods beginning on or after 1 January 2010. There are separate transitional provisions for each standard. Amendments included in the April 2009 "Improvements to IFRS" had no impact on the accounting policies, financial position or performance of the Bank, except the following amendments resulting in changes to accounting policies, as described below.

- IFRS 5 Non-current Assets Held for Sale and Discontinued Operations: clarifies that the disclosures required in respect of non-current assets and disposal groups classified as held for sale or discontinued operations are only those set out in IFRS 5. The disclosure requirements of other IFRSs only apply if specifically required for such non-current assets or discontinued operations.
- IFRS 8 Operating Segment Information: clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker. As the Bank's chief operating decision maker does review segment assets and liabilities, the Bank continues to disclose this information.
- IAS 7 Statement of Cash Flows: Explicitly states that only expenditure that results in recognising an asset can be classified as a cash flow from investing activities.
- IAS 36 Impairment of Assets: The amendment clarifies that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in IFRS 8 before aggregation for reporting purposes. The amendment had no impact on the Bank as the Bank has no goodwill.

Subsidiaries

Basis of consolidation from 1 January 2010

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

A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction. Losses are attributed to the non-controlling interests even if that results in a deficit balance.

If the Bank loses control over a subsidiary, it derecognises the assets (including goodwill) and liabilities of the subsidiary, the carrying amount of any non-controlling interests, the cumulative translation differences, recorded in equity; recognises the fair value of the consideration received, the fair value of any investment retained and any surplus or deficit in profit or loss and reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss.

Basis of consolidation prior to 1 January 2010

In comparison to the above mentioned requirements which are applied on a prospective basis, the following differences applied:

- Losses incurred by the Bank were attributed to the non-controlling interests until the balance was reduces to nil. Any further excess losses were attributable to the parent, unless the non-controlling interest had a binding obligation to cover these.
- Upon loss of control, the Bank accounted for the investment retained at its proportionate share of net asset value at the date control was lost.

Financial assets

Initial recognition

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

Date of recognition

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

Financial assets at fair value through profit or loss

Financial assets designated at fair value through profit or loss at inception are included in the category 'investment securities'. Derivatives are also classified as held for trading unless they are designated and effective hedging instruments. Gains or losses on financial assets at fair value through profit or loss are recognised in the consolidated income statement.

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

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

Held-to-maturity investments

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

Loans and receivables

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

Available-for-sale financial assets

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

Investments in equity instruments that do not have a quoted market price in an active market and if their fair value cannot be reliably measured are accounted at cost less any allowance for impairment.

Determination of fair value

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

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

Offsetting

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

Reclassification of financial assets

If a non-derivative financial asset classified as held for trading is no longer held for the purpose of selling in the near term, it may be reclassified out of the fair value through profit or loss category in one of the following cases:

- a financial asset that would have met the definition of loans and receivables above may be reclassified to loans and receivables category if the Bank has the intention and ability to hold it for the foreseeable future or until maturity;
- other financial assets may be reclassified to available-for-sale or held to maturity categories only in rare circumstances.

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

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

Cash and cash equivalents

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

Precious metals

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

Repurchase and reverse repurchase agreements and securities lending

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

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

Promissory notes

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

Derivative financial instruments

In the normal course of business, the Bank enters into derivative financial instruments including swaps in the foreign exchange market. Such financial instruments are held for trading and recorded at fair value. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Gains and losses resulting from these instruments are included in the income statement as net gains/ (losses) from foreign currencies and precious metals dealing.

Derivatives embedded in other financial instruments are treated as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contract, and the host contract is not itself held for trading or designated at fair value through profit or loss.

Borrowings

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

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

Leases

i. Finance – Bank as lessor

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

ii. Operating – Bank as lessee

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

iii. Operating – Bank as lessor

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

Impairment of financial assets

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

Amounts due from credit institutions and loans to customers

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

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

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

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

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

Held-to-maturity investments

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

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

Available-for-sale financial assets

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

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

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

Renegotiated loans

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions.

The accounting treatment of such restructuring is as follows:

- If the currency of the loan has been changed the old loan is derecognised and the new loan is recognised.

- If the loan restructuring is not caused by the financial difficulties of the borrower but the cash flows were renegotiated on the favourable terms for the borrower: in this case the loan is not recognised as impaired. The loan is not derecognised but the new effective interest rate is determined based on the remaining cash flows under the loan agreement till maturity.

- If the loan is impaired after restructuring, the Bank uses the original effective interest rate in respect of new cash flows to estimate the recoverable amount of the loan. The difference between the recalculated present value of the new cash flows taking into account collateral and the carrying amount before restructuring is included in the provision charges for the period.

Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original or current effective interest rate.

Asset management

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

Derecognition of financial assets and liabilities

Financial assets

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

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

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

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

Financial liabilities

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

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

Financial guarantees

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

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

Taxation

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

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

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

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

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

Property and equipment

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

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

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

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

An annual transfer from the property revaluation reserve to retained earnings is made for the difference between depreciation based on the revalued carrying amount of the assets and depreciation based on the assets' original cost.

Additionally, accumulated depreciation as at the revaluation date is restated proportionally with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount. Upon disposal, any revaluation of property relating to the particular asset being sold is transferred to retained earnings.

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

	Years
Buildings	6-75 years
Furniture, fixtures and other assets	2-25 years
Equipment and computers	2-15 years
Motor vehicles	5 years

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

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

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

Intangible assets

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

Investment property

Investment property is property held to earn rental income or for capital appreciation and which is not occupied by the Bank.

Investment property is initially recognised at cost, including transaction costs, and subsequently re-measured at fair value based on its market value. Market value of the Bank's investment property is obtained from reports of independent and internal appraisers, who hold a recognised and relevant professional qualification and who have recent experience in valuation of property of similar location and category.

Assets held for sale

The Bank classifies a non-current asset as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the non-current asset must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets and its sale must be highly probable.

The sale qualifies as highly probable if the Bank's management is committed to a plan to sell the non-current asset and an active program to locate a buyer and complete the plan must have been initiated. Further, the non-current asset must have been actively marketed for a sale at price that is reasonable in relation to its current fair value and in addition the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification of the non-current asset as held for sale.

Provisions

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

Retirement and other benefit obligations

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

Share capital

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

Segment reporting

The Bank's segmental reporting is based on the following operating segments: Retail banking, Corporate banking and Financial institutions and investments.

Contingencies

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

Recognition of income and expense

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

Interest and similar income and expense

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

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

Fee and commission income

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

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

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

- Fee income from providing transaction services

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

Dividend income

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

Foreign currency translation

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

Differences between the contractual exchange rate of a transaction in a foreign currency and the NBU exchange rate on the date of the transaction are included in gains less losses from dealing in foreign currencies. The official NBU exchange rates at 31 December 2010 and 2009 were UAH 7.9617 and UAH 7.9850 to 1 US dollar and UAH 10.5731 and UAH 11.4489 to 1 Euro, respectively.

Future changes in accounting policies

Standards and interpretations issued but not yet effective

IAS 24 "Related party disclosures" (Revised)
The revised IAS 24, issued in November 2009, simplifies the disclosure requirements for government-related entities and clarifies the definition of a related party. Previously, an entity controlled or significantly influenced by a government was required to disclose information about all transactions with other entities controlled or significantly influenced by the same government. The revised standard requires disclosure about these transactions only if they are individually or collectively significant. The revised IAS 24 is effective for annual periods beginning on or after 1 January 2011. The Bank is currently evaluating the impact of the adoption of new Standard.

Amendments to IAS 32 "Financial instruments: Presentation": Classification of Rights Issues"
In October 2009, the IASB issued amendment to IAS 32. Entities shall apply that amendment for annual periods beginning on or after 1 February 2010. Earlier application is permitted. The amendment alters the definition of a financial liability in IAS 32 to classify rights issues and certain options or warrants as equity instruments. This is applicable if the rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, in order to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. The Bank expects that this amendment will have no impact on the Bank's consolidated financial statements.

IFRS 9 "Financial Instruments"
In November 2009, the IASB issued the first phase of IFRS 9 Financial instruments. This Standard will eventually replace IAS 39 Financial Instrument: Recognition and Measurement. IFRS 9 becomes effective for financial years beginning on

or after 1 January 2013. The first phase of IFRS 9 introduces new requirements relating to the classification and measurement of financial assets. In particular, for subsequent measurement all financial assets are to be classified at amortised cost or at fair value through profit or loss with the irrevocable option for equity instruments not held for trading to be measured at fair value through other comprehensive income. Further, in October 2010, the IASB added to IFRS 9 the requirements for classifying and measuring financial liabilities. Most of the requirements were carried forward unchanged from IAS 39. However, some changes were made to the fair value option for financial liabilities to address the problem of own credit risk. The Bank is currently evaluating the impact of the adoption of new Standard and is considering the initial application date.

IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments"
IFRIC Interpretation 19 was issued in November 2009 and is effective for annual periods beginning on or after 1 July 2010. The interpretation clarifies the accounting when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor to extinguish all or part of the financial liability. IFRIC 19 is not expected to have any impact on the Bank's consolidated financial statements.

Improvements to IFRSs
In May 2010, the IASB issued the third omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. Most of the amendments are effective for annual periods beginning on or after 1 January 2011. There are separate transitional provisions for each standard. Amendments included in May 2010 "Improvements to IFRS" will have an impact on the accounting policies, financial position or performance of the Bank, as described below.

- IFRS 3 Business Combinations was amended (i) to require measurement at fair value (unless another measurement basis is required by other IFRS standards) of non-controlling interests that are not a present ownership interest or do not entitle the holder to a proportionate share of net assets in the event of liquidation, (ii) to provide guidance on acquiree's share-based payment arrangements that were not replaced or were voluntarily replaced as a result of a business combination and (iii) to clarify that the contingent consideration from business combinations that occurred before the effective date of the revised IFRS 3 (issued in January 2008) will be accounted for in accordance with the guidance in the previous version of IFRS 3.
- IFRS 7 Financial instruments: Disclosures; introduces the amendments to quantitative and credit risk disclosures. The additional requirements are expected to have minor impact as information is expected to be readily available.
- IAS 34 Interim Financial Reporting: adds disclosure requirements about the circumstances affecting fair values and classification of financial instruments, about transfers of financial instruments between levels of the fair value hierarchy, changes in classification of financial assets and changes in contingent liabilities and assets. Additional disclosures required will be introduced in the interim financial statements of the Bank.
- Amendments to IFRS 1, IAS 1, IAS 27 and IFRIC 13 will have no impact on the accounting policies, financial position or performance of the Bank.

Amendments to IFRS 7 "Financial Instruments: Disclosures"
The Amendments were issued in October 2010 and are effective for annual periods beginning on or after 1 July 2011. The Amendments introduce additional disclosure requirements for transferred financial assets that are not derecognised. The Bank expects that these amendments will have no impact on the Bank's financial position.

Amendments to IAS 12 "Income Taxes" – Deferred tax: Recovery of underlying assets
In December 2010 the IASB issued amendments to IAS 12 effective for annual periods beginning on or after 1 January 2012. IAS 12 has been updated to include a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale and a requirement that deferred tax on non-depreciable assets, measured using the revaluation model in IAS 16, should always be measured on a sale basis. The Bank is currently evaluating the impact of the adoption of these amendments.

On 12 May 2011, the IASB issued four new standards that are applicable for annual periods beginning on or after 1 January 2013. Earlier application is permitted.

IFRS 10 "Consolidated Financial Statements"
IFRS 10 Consolidated Financial Statements provides a single consolidation model that identifies control as the basis for consolidation for all types of entities. The standard sets out requirements for situations when control is difficult to assess, including cases involving potential voting rights, agency relationships, control of specified assets and circumstances in

which voting rights are not the dominant factor in determining control. In addition IFRS 10 introduces specific application guidance for agency relationships. The standard also contains accounting requirements and consolidation procedures, which are carried over unchanged from IAS 27. IFRS 10 replaces the consolidation requirements in SIC-12 Consolidation—Special Purpose Entities and IAS 27 Consolidated and Separate Financial Statements. The Bank does not at present envisage that there will be any effect of the adoption of IFRS 10 on its financial position and performance.

IFRS 11 "Joint Arrangements"
IFRS 11 Joint Arrangements improves the accounting for joint arrangements by introducing a principle-based approach that requires a party to a joint arrangement to recognise its rights and obligations arising from the arrangement. The classification of a joint arrangement is determined by assessing the rights and obligations of the parties arising from that arrangement. There are only two types of arrangements provided in the standard - joint operation and joint venture. IFRS 11 also eliminates proportionate consolidation as a method to account for joint arrangements. IFRS 11 supersedes IAS 31 Interests in Joint Ventures and SIC-13 Jointly Controlled Entities—Non-monetary Contributions by Venturers. The Bank does not at present envisage that there will be any effect of the adoption of IFRS 10 on its financial position and performance.

IFRS 12 "Disclosure of Interests in Other Entities"
IFRS 12 Disclosure of Interests in Other Entities issued is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates and unconsolidated structured entities. IFRS 12 is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted. Adoption of the standard may require new disclosures to be made in the consolidated financial statements of the Bank but will have no impact on its financial position or performance.

IFRS 13 "Fair Value Measurement"
IFRS 13 Fair Value Measurement defines fair value, and sets out in a single IFRS a framework for measuring fair value and requires disclosures about fair value measurements. The standard applies when other IFRSs require or permit fair value measurements. It does not introduce any new requirements to measure an asset or a liability at fair value, change what is measured at fair value in IFRSs or address how to present changes in fair value. The adoption of IFRS 13 may have an effect on the measurement of the Bank's assets and liabilities accounted for at fair value. Currently the Bank is evaluating the possible effect of the adoption of IFRS 13 on its financial position and performance.

4. Significant accounting judgements and estimates

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

Allowance for impairment of loans and receivables
The Bank regularly reviews its loans and receivables to assess impairment. The Bank uses its judgement to estimate the amount of any impairment loss in cases where a borrower is in financial difficulties and there is little available historical data relating to similar borrowers. Similarly, the Bank estimates changes in future cash flows based on the observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the Bank of loans and receivables. The Bank uses its judgement to adjust observable data for a group of loans or receivables to reflect current circumstances.

For the purposes of estimating the allowance for loan impairment assessment as at 31 December 2010, the Bank has updated its loan impairment methodology in particular: the Bank introduced a 'watch list' of loans as a separate pool in collective assessment and the procedure of estimating qualifying future cash flows for individually impaired loans. If the previously applied methodology had been used, the loan loss allowances as at 31 December 2010 and for the year then ended would have been reduced by UAH 202,852 thousand.

Deferred tax asset recognition
As at 31 December 2010, the Bank has recognised a deferred tax asset of UAH 280,975 thousand (2009: UAH 297,707 thousand). The Bank's management believes that within a reasonable period the Bank will have sufficient taxable profits enabling it to utilise its deferred tax benefit.

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

5. Segment information

For management purposes, the Bank is organised into three operating segments based on product and services as follows:

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

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance, as explained in the table below, is measured differently from profit or loss in the consolidated financial statements. Income taxes are managed on a group basis and are not allocated to operating segments.

For the purpose of segment reporting, interest is allocated based on a transfer pool rate determined by the Assets and Liabilities Committee based on the Bank's cost of borrowing.

No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Bank's total revenue in 2010 or 2009. Transactions and balances with state-owned entities are disclosed in Note 30.

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

The following table presents income and profit, certain asset and liabilities information regarding the Bank's operating segments for the year ended 31 December 2010:

	Retail banking	***Corporate banking***	***Financial institutions and investments***	***Other/ unallocated***	***Total***
Third party					
Interest income	214,765	5,325,854	834,133	-	6,374,752
Fee and commission income	295,567	146,814	17,154	-	459,535
Other income	2,246	16,499	498	6,487	25,730
Gains from foreign currencies and precious metals	152,234	82	128,947	44,521	325,784
Gain on initial recognition of financial liabilities	-	390,614	-	-	390,614
Gain on restructuring of financial liabilities	-	18,224	-	-	18,224
Gains from investment securities available-for-sale	12,311	-	730	-	13,041
Release of allowance for impairment of other assets and provisions	-	102,551	31,062	-	133,613
Inter-segmental revenue	**1,404,151**	**(4,086,475)**	**678,042**	**2,004,282**	**-**
Total revenue	**2,081,274**	**1,914,163**	**1,690,566**	**2,055,290**	**7,741,293**
Interest expenses	(1,353,433)	(1,078,776)	(1,335,665)	-	(3,767,874)
Fee and commission expense	(61,782)	(35,516)	(1,743)	(8)	(99,049)
Loan impairment charge	(45,312)	(2,619,101)	-	-	(2,664,413)
Loss from change in fair value of investment securities designated at fair value through profit and loss	-	-	(9,493)	-	(9,493)
Loss from investment securities available-for-sale	(17)	(631)	(9,926)	(724)	(11,298)
Loss on initial recognition of loans to customers	-	(20,717)	-	-	(20,717)
Personnel expenses	(268,219)	(136,533)	(38,822)	(140,268)	(583,842)
Depreciation and amortisation	(54,963)	(9,737)	(1,763)	(9,101)	(75,564)
Other operating expense	(54,645)	(133,915)	(12,944)	(40,946)	(242,450)
Charge of impairment of other assets and provisions	(42)	-	-	(2,134)	(2,176)
Segment results	**242,861**	**(2,120,763)**	**280,210**	**1,862,109**	**264,417**
Income tax expense					(138,459)
Profit for the year					**125,958**
Assets and liabilities					
Segment assets	4,281,452	45,391,567	21,282,952		70,955,971
Unallocated assets				898,537	898,537
Total assets					**71,854,508**
Segment liabilities	15,512,184	19,841,502	19,404,278		54,757,964
Unallocated liabilities				25,385	25,385
Total liabilities					**54,783,349**
Other segment information					
Capital expenditure	(59,737)	(8,104)	(1,467)	(7,574)	(76,882)

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

The following table presents income and profit and certain asset and liability information regarding the Bank's business segments for the year ended 31 December 2009 (restated):

	Retail banking	***Corporate banking***	***Financial institutions and investments***	***Other/ unallocated***	***Total***
Third party					
Interest income	290,925	5,779,326	479,298	-	6,549,549
Fee and commission income	262,735	99,474	14,900	-	377,109
Other income	4,719	15,773	312	4,002	24,806
Gain from foreign currencies and precious metals	181,695	1,692	253,016	-	436,403
Gains on initial recognition of financial liabilities	-	64,498	-	-	64,498
Inter-segmental revenue	**943,507**	**(3,740,148)**	**1,595,876**	**1,200,765**	**-**
Total revenue	**1,683,581**	**2,220,615**	**2,343,402**	**1,204,767**	**7,452,365**
Interest expenses	(997,144)	(760,170)	(1,698,617)	-	(3,455,931)
Fee and commission expense	(50,188)	(6,670)	(104)	(7)	(56,969)
Loan impairment charge	(136,356)	(2,448,251)	-	-	(2,584,607)
Loss from change in fair value of investment securities designated at fair value through profit and loss	-	-	(118,369)	-	(118,369)
Loss from investment securities available-for-sale	-	-	(60,961)	-	(60,961)
Loss from foreign currency and precious metals	-	-	-	(39,347)	(39,347)
Loss on initial recognition of loans to customers		(52,834)	-	-	(52,834)
Personnel expenses	(273,911)	(137,255)	(42,359)	(151,288)	(604,813)
Depreciation and amortisation	(44,933)	(7,741)	(1,389)	(6,998)	(61,061)
Other operating expense	(159,396)	(17,252)	(3,207)	(42,477)	(222,332)
Other impairment and provisions	(5,330)	(59,926)	(71,575)	3,078	(133,753)
Segment results	**16,323**	**(1,269,484)**	**346,821**	**967,728**	**61,388**
Income tax expense					(26,035)
Profit for the year					**35,353**
Assets and liabilities					
Segment assets	4,253,955	43,720,198	7,551,593		55,525,746
Unallocated assets				938,369	938,369
Total assets					**56,464,115**
Segment liabilities	11,691,894	16,565,106	17,844,936		46,101,936
Unallocated liabilities				37,852	37,852
Total liabilities					**45,139,788**
Other segment information					
Capital expenditure	(97,445)	(18,385)	(3,299)	(16,622)	(135,751)

Eximbank and its subsidiaries are located in Ukraine and almost 100% of the consolidated revenue is from Ukraine.

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

6. Cash and cash equivalents

Cash and cash equivalents comprise:

	2010	*2009*
Cash on hand	789,258	694,567
Current account with the National Bank of Ukraine	919,447	681,971
Current accounts with other credit institutions	4,729,303	2,357,131
Overnight deposits with other credit institutions	4,344,904	1,032,157
Time deposits with credit institutions up to 90 days	110,000	85,865
Cash and cash equivalents	**10,892,912**	**4,851,691**

As at 31 December 2010, included in current accounts with other credit institutions is UAH 4,246,534 thousand placed on current accounts with five OECD and CIS banks (2009: UAH 2,013,799 thousand). These banks are the main counterparties of the Bank in performing international settlements. The placements have been made under normal banking terms and conditions.

Overnight deposits represent overnight deposits placed with OECD banks. These placements bear market interest rates. As at 31 December 2010, UAH 4,205,959 thousand was placed with two OECD banks (2009: UAH 826,943 thousand).

Non-cash transactions
In 2010, the increase in the Bank's share capital was financed by Ukrainian state bonds of UAH 6,389,997 thousand (2009: UAH 6,349,998 thousand).

7. Amounts due from credit institutions

Amounts due from credit institutions comprise:

	2010	*2009*
Deposits with the NBU	590,685	329,209
Loans and deposits	545,754	1,423,987
Other amounts due from credit institutions	10,760	1,819
	1,147,199	**1,755,015**
Less – Allowance for impairment	(17,842)	(18,821)
Due from credit institutions	**1,129,357**	**1,736,194**

With effect from August 2009, Ukrainian banks were required to keep 50% of the obligatory reserve for the previous month on a separate account with the NBU. In May 2010, the obligatory reserve requirement was increased to 100%. The interest rate for this obligatory reserve is 30% of the official NBU discount rate. As at 31 December 2010, the amount placed by the Bank on this account is UAH 586,447 thousand (31 December 2009: UAH 329,209 thousand). As at 31 December 2010, Ukrainian State bonds with a carrying value of UAH 267,121 thousand were used by the Bank to partially cover its NBU obligatory reserve requirements (Note 9). The Bank's ability to withdraw this deposit is significantly restricted by statutory legislation.

With effect from August 2008, Ukrainian banks are required to deposit 20% of amounts attracted from non-residents in foreign currency for a period of less than 183 days on a separate account with the NBU in form of a non-interest bearing cash deposit. As at 31 December 2010, the amount placed by the Bank on this account was UAH 3,721 thousand. The Bank's ability to withdraw this deposit is significantly restricted by statutory legislation.

With effect from 2009, Ukrainian banks are required to deposit an amount equivalent to the impairment allowance (determined under UAR) created for loans granted in foreign currencies to borrowers with no foreign currency income on a separate account with the NBU in form of a non-interest bearing cash deposit. As at 31 December 2010, the amount placed by the Bank on this account was UAH 517 thousand. The Bank's ability to withdraw this deposit is significantly restricted by statutory legislation.

The Bank meets the NBU obligatory reserve requirements as at 31 December 2010 and 2009.

The Bank had entered into reverse repurchase agreements with a Ukrainian bank for UAH 21,726 thousand (2009: nil). The subject of these agreements is Ukrainian State bonds with a fair value of UAH 22,283 thousands (2009: nil).

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

The movements in allowance for impairment of amounts due from credit institutions is as follows:

	Amounts due from credit institutions
1 January 2010	18,821
Charge	(693)
Translation differences	(286)
31 December 2010	**17,842**
1 January 2009	-
Charge	18,821
31 December 2009	**18,821**

As at 31 December 2010, loans and deposits due from credit institutions include UAH 85,932 thousand of security deposits, placed mainly in respect of customers' transactions, such as letters of credit, performance guarantees and transactions with travellers' cheques (2009: UAH 62,485 thousand).

8. Loans to customers

Loans to customers comprise:

	2010	*2009 (restated)*
Commercial loans	49,664,629	47,428,823
Promissory notes	891,426	84,865
Finance lease receivables	304,808	215,480
Overdrafts	131,716	268,646
	50,992,579	**47,997,814**
Less – Allowance for impairment	(7,311,390)	(4,686,704)
Loans to customers	**43,681,189**	**43,311,110**

Allowance for impairment of loans to customers

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

	Commercial loans	*Overdrafts*	*Finance lease receivables*	*Promissory notes*	*Total*
At 1 January 2010	4,616,599	32,625	22,193	15,287	4,686,704
Charge for the year	2,626,857	(8,235)	5,396	41,088	2,665,106
Recoveries	10	-	-	-	10
Amounts written off	(5,041)	-	(3,293)	-	(8,334)
Translation differences	(32,048)	(1)	(47)	-	(32,096)
At 31 December 2010	**7,206,377**	**24,389**	**24,249**	**56,375**	**7,311,390**
Individual impairment	6,476,973	22,850	-	1,714	6,501,537
Collective impairment	729,404	1,539	24,249	54,661	809,853
	7,206,377	**24,389**	**24,249**	**56,375**	**7,311,390**
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	**11,946,818**	**30,881**	**-**	**1,714**	**11,979,413**

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

	Commercial loans (restated)	Overdrafts (restated)	Finance lease receivables (restated)	Promissory notes (restated)	Total (restated)
At 1 January 2009	2,170,908	11,071	8,227	9,700	2,199,906
Charge for the year	2,524,505	21,492	14,202	5,587	2,565,786
Recoveries	8	-	-	-	8
Amounts written off	(141,014)	-	(400)	-	(141,414)
Translation differences	62,192	62	164	-	62,418
At 31 December 2009	**4,616,599**	**32,625**	**22,193**	**15,287**	**4,686,704**
Individual impairment	3,623,583	27,000	-	14,761	3,665,344
Collective impairment	993,016	5,625	22,193	526	1,021,360
	4,616,599	**32,625**	**22,193**	**15,287**	**4,686,704**
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	**3,623,958**	**27,000**	**-**	**14,761**	**3,665,719**

Individually impaired loans

Interest income on loans, for which individual impairment allowances have been recognised, as at 31 December 2010, amounts to UAH 530,245 thousand (2009: UAH 8,050 thousand).

The fair value of collateral that the Bank holds relating to loans that are individually determined to be impaired at 31 December 2010 amounts to UAH 35,263 thousand (2009: UAH 374 thousand). The collateral consists of cash deposits placed with the Bank. In accordance with Ukrainian legislation, loans may only be written off with the approval of the Board of Directors and, in certain cases, with the respective decision of the Court.

Collateral and other credit enhancements

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

The main types of collateral obtained are as follows:

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

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

As at 31 December 2010, loans to customers with a carrying value of UAH 6,606,102 thousand are pledged as collateral under loans received from the NBU (2009: UAH 12,903,465 thousand) (Note 17).

Reverse repurchase agreements

The Bank has entered into reverse repurchase agreements with customers with a gross carrying amount of UAH 34,918 thousand (2009: nil). An allowance of UAH 458 thousand (2009: nil) was recognised against these loans.

The subject of these agreements is Ukrainian State bonds with a fair value of UAH 36,492 thousand (2009: nil).

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

Concentration of loans to customers

As at 31 December 2010, the Bank has a concentration of loans represented by UAH 14,450,647 thousand due from the ten largest borrowers (28.3% of gross loan portfolio) (2009: UAH 10,923,253 thousand or 22.8%). An allowance of UAH 939,653 thousand (2009: UAH 215,869 thousand) is recognised against these loans.

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

	2010	*2009 (restated)*
Private entities	40,245,846	39,975,148
State and municipal entities	9,637,664	6,715,721
Individuals	1,109,069	1,306,945
	50,992,579	**47,997,814**

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

	2010	*%*	*2009 (restated)*	*%*
Agriculture and food processing	9,821,168	19.3	9,143,156	19.0
Trade enterprises	8,625,342	16.9	10,253,531	21.4
Extractive industry	3,769,917	7.4	2,237,198	4.7
Engineering	3,713,969	7.3	3,347,066	7.0
Construction	3,634,111	7.1	3,203,329	6.7
Real estate	3,366,925	6.6	3,757,013	7.8
Chemistry	2,779,378	5.4	1,529,837	3.2
Road construction	2,129,838	4.2	2,129,838	4.4
Power utilities	1,984,831	3.9	1,048,844	2.2
Production of rubber and plastic goods	1,715,963	3.4	1,792,638	3.7
Production of construction materials	1,659,309	3.3	1,760,082	3.7
Transport & communications	1,654,078	3.2	1,432,385	3.0
Metallurgy	1,278,117	2.5	1,070,149	2.2
Individuals	1,109,069	2.2	1,306,945	2.7
Metal processing	930,286	1.8	939,879	2.0
Pulp and paper industry	681,027	1.3	792,350	1.7
Finance	517,886	1.0	544,427	1.1
Wood processing	408,603	0.8	449,593	0.9
Light industry	343,667	0.7	356,162	0.7
Culture and sport	229,892	0.4	245,950	0.5
Other	639,203	1.3	657,442	1.4
	50,992,579	**100**	**47,997,814**	**100**

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

	2010	*2009*
Gross investment in finance leases, receivable:		
Not later than 1 year	318,896	178,925
Later than 1 year and not later than 5 years	785	52,659
	319,681	231,584
Unearned future finance income on finance leases	(14,873)	(16,104)
Net investment in finance leases	**304,808**	**215,480**

	2010	*2009*
Net investment in finance leases, receivable:		
Not later than 1 year	304,097	166,483
Later than 1 year and not later than 5 years	711	48,997
Net investment in finance leases	**304,808**	**215,480**

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

9. Investment securities

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

	2010	*2009*
Corporate bonds	107,796	174,454
Ukrainian State bonds	-	400,586
Investment securities designated at fair value	**107,796**	**575,040**

Included in investment securities designated at fair value through profit and loss (designated at initial recognition) are the investments made by the Bank into Ukrainian State bonds and corporate bonds. This portfolio is risk managed on a fair value basis and its performance is reported on that basis to key management personnel.

Available-for-sale investment securities comprise:

	2010	*2009*
Corporate shares	6,355	6,371
Corporate bonds	444,680	485,304
Ukrainian State bonds	8,409,993	495,768
Available-for-sale investments	**8,861,028**	**987,443**

As at 31 December 2010, Ukrainian State bonds with a carrying value of UAH 267,121 thousand are used by the Bank to partially cover its NBU obligatory reserve requirements (Note 7).

Held-to-maturity investment securities comprise the following:

	2010		*2009*	
	Nominal value	***Carrying value***	***Nominal value***	***Carrying value***
Municipal bonds	200,000	203,252	200,000	203,578
Corporate bonds	1,414,943	1,478,880	637,620	659,190
		1,682,132		**862,768**
Less – Allowance for impairment (Note 15)		(40,655)		(71,606)
Held-to-maturity investments		**1,641,477**		**791,162**

10. Investment property

The movements of investment property are as follows:

	2010	*2009*
Investment property as at 1 January	159,554	-
Additions	1,020,543	158,449
Transfer from assets held for sale (Note 11)	1,204,456	-
Transfer from property and equipment (Note 12)	-	162
Disposals	(3,148)	-
Net (losses) / gains from fair value adjustment (Note 26)	(694)	943
Investment property as at 31 December	**2,380,711**	**159,554**

During 2010, the Bank received real estate objects (building and land) as a part consideration for loan repayment. The Bank decided to hold the property for the purpose of long term capital appreciation and rental growth, rather than sell the short-term and classified the assets as investment property.

During the year 2010, the Bank revalued its investment property. The valuation was performed by an independent appraiser, who holds a recognised and relevant professional qualification and who has recent experience in valuation of property of similar location and category. The fair value was determined by reference to market-based evidence.

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

The Bank leased out a portion of the investment property under operating lease. Future minimum receivables under non-cancellable operating lease comprise the following:

	2010	*2009*
Not later than 1 year	23,528	1,623
Later than 1 year and not later than 5 years	40,653	-
Late than 5 years	21,411	-
Future minimum receivables under non-cancellable operating lease	**85,592**	**1,623**

During the year 2010, the Bank has recognised rental income of UAH 1,988 thousand (2009: UAH 71 thousand) included in other income in the consolidated income statement.

11. Assets held for sale

The movements of assets held for sale were as follows:

	2010	*2009*
Assets held for sale as at 1 January	1,204,456	-
Additions	-	1,217,207
Transfer to investment property	(1,204,456)	-
Impairment (Note 26)	-	(12,751)
Assets held for sale as at 31 December	**-**	**1,204,456**

During 2010, assets held for sale with a carrying value of UAH 1,204,456 thousand were transferred to investment property (Note 11) as a consequence of changes in the Bank's intentions regarding these assets. The Bank decided to hold the property for the purpose of long term capital appreciation and rental growth, rather than sell the property in the short-term.

12. Property and equipment

The movements of property and equipment were as follows:

	Buildings	*Leasehold improve-ments*	*Computers and equipment*	*Furniture, fixtures and other assets*	*Motor vehicles*	*Construction in progress*	*Total*
Cost or revalued amount							
31 December 2009	**1,959,470**	**12,204**	**226,362**	**126,273**	**16,506**	**230,425**	**2,571,240**
Revaluation	233,985	-	-	-	-	-	233,985
Additions	10	-	27,114	29,416	2,978	17,360	76,878
Disposals	-	(961)	(2,932)	(1,241)	(1,701)	(42)	(6,877)
Transfers	115,091	405	-	-	-	(115,496)	-
31 December 2010	**2,308,556**	**11,648**	**250,544**	**154,448**	**17,783**	**132,247**	**2,875,226**
Accumulated depreciation							
31 December 2009	**(314,416)**	**(7,451)**	**(139,701)**	**(77,532)**	**(12,466)**		**(551,566)**
Revaluation	(54,408)	-	-	-	-		(54,408)
Charge for the year	(27,497)	(2,553)	(26,379)	(13,274)	(1,673)		(71,376)
Disposals	-	960	2,932	1,190	1,607		6,689
31 December 2010	**(396,321)**	**(9,044)**	**(163,148)**	**(89,616)**	**(12,532)**		**(670,661)**
Net book value:							
31 December 2009	**1,645,054**	**4,753**	**86,661**	**48,741**	**4,040**	**230,425**	**2,019,674**
31 December 2010	**1,912,235**	**2,604**	**87,396**	**64,832**	**5,251**	**132,247**	**2,204,565**

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

	Buildings	*Leasehold improve-ments*	*Computers and equipment*	*Furniture, fixtures and other assets*	*Motor vehicles*	*Construction in progress*	*Total*
Cost or revalued amount							
31 December 2008	**1,491,808**	**11,552**	**200,528**	**110,299**	**16,711**	**118,466**	**1,949,364**
Additions	63	-	29,060	16,794	864	581,543	628,324
Disposals	(244)	(865)	(3,226)	(820)	(1,069)	-	(6,224)
Transfers	468,067	1,517	-	-	-	(469,584)	-
Transfers to investment property (Note 10)	(224)	-	-	-	-	-	(224)
31 December 2009	**1,959,470**	**12,204**	**226,362**	**126,273**	**16,506**	**230,425**	**2,571,240**
Accumulated depreciation							
31 December 2008	**(294,995)**	**(5,841)**	**(120,740)**	**(65,078)**	**(12,301)**		**(498,955)**
Charge for the year	(19,642)	(2,055)	(21,919)	(13,258)	(1,406)		(58,280)
Disposals	159	445	2,958	804	1,241		5,607
Transfers to investment property (Note 10)	62	-	-	-	-		62
31 December 2009	**(314,416)**	**(7,451)**	**(139,701)**	**(77,532)**	**(12,466)**		**(551,566)**
Net book value:							
31 December 2008	**1,196,813**	**5,711**	**79,788**	**45,221**	**4,410**	**118,466**	**1,450,409**
31 December 2009	**1,645,054**	**4,753**	**86,661**	**48,741**	**4,040**	**230,425**	**2,019,674**

At 31 December 2010, buildings, leasehold improvements and equipment include assets with a cost or revalued amount of UAH 143,360 thousand which are fully depreciated (2009: UAH 129,873 thousand). These assets are still used by the Bank.

As at 31 December 2010, the Bank had capital commitments for the acquisition of property, plant and equipment of UAH 93,298 thousand (2009: UAH 122,057 thousand).

During 2010, the Bank revalued its buildings. The valuation was performed by an independent appraiser as at 30 June 2010 and the fair value was determined by reference to market-based evidence. If the buildings were measured using the cost model, the carrying amounts would be as follows:

	31 December 2010 (revalued)	*31 December 2010 (at cost)*	*31 December 2009 (revalued)*	*31 December 2009 (at cost)*
Cost	2,308,556	960,290	1,959,470	845,189
Accumulated depreciation	(396,321)	(92,387)	(314,416)	(80,314)
Net carrying amount	**1,912,235**	**867,903**	**1,645,054**	**764,875**

As at 31 December 2010, a revaluation of buildings of UAH 179,577 thousand includes UAH 449 thousand (2009: nil) of revaluation recognised in other income to the extent that it reverses a revaluation decrease of the same assets previously recognised in profit or loss.

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

13. Intangible assets

The movements of intangible assets were as follows:

	Computer software and licenses
Cost	
31 December 2009	**36,580**
Additions	5,151
31 December 2010	**41,731**
Accumulated amortisation	
31 December 2009	**(23,984)**
Charge for the year	(4,188)
31 December 2010	**(28,172)**
Net book value:	
31 December 2009	**12,596**
31 December 2010	**13,559**

	Computer software and licenses
Cost	
31 December 2008	**33,156**
Additions	5,218
Disposals	(1,794)
31 December 2009	**36,580**
Accumulated amortisation	
31 December 2008	**(22,997)**
Charge for the year	(2,781)
Disposals	1,794
31 December 2009	**(23,984)**
Net book value:	
31 December 2008	**10,159**
31 December 2009	**12,596**

At 31 December 2010, intangible assets include assets with a cost of UAH 18,086 thousand which are fully depreciated (2009: UAH 16,777 thousand). These assets are still used by the Bank.

14. Income tax

The corporate income tax charge comprises:

	2010	*2009 (restated)*
Current tax charge	65,141	51,534
Deferred tax charge/ (benefit)	73,318	(25,499)
Income tax expense	**138,459**	**26,035**

In 2010, Ukrainian corporate income tax was levied on taxable income less allowable expenses at the rate of 25% (2009: 25%).

In December 2010, the Ukrainian Parliament adopted the new Tax Code. According to the newly adopted provisions, the corporate income tax rate will be decreased to 23% with effect from 1 April 2011, to 21% from 1 January 2012, to 19% from 1 January 2013 and to 16% from 1 January 2014. Deferred tax balances are measured using the tax rates that will be applicable when temporary differences are expected to reverse.

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

Tax assets and liabilities consist of the following:

	2010	*2009 (restated)*
Current tax assets	570,144	614,358
Deferred tax asset	11,771	41,972
Tax asset	**581,915**	**656,330**
Current tax liabilities	7,339	5,281
Tax liabilities	**7,339**	**5,281**

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

	2010	*2009 (restated)*
Income before tax	264,417	61,388
Statutory tax rate	25%	25%
Income tax expense at the statutory rate	66,104	15,347
Effect of change in tax rates	23,477	-
Income recognised for tax purposes only	2,259	2,135
Non-deductible expenditures:		
- initial recognition of investment property	32,140	-
- salaries and bonuses	3,003	3,509
- consulting and marketing	2,415	1,478
- utilities	3,154	453
- repair and maintenance of property and equipment	1,279	665
- insurance	1,105	805
- charity	723	475
- lease expenses	369	417
- other expenses	2,431	751
Income tax expense	**138,459**	**26,035**

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

Deferred tax assets and liabilities as at 31 December comprise:

	2008	Origination and reversal of temporary differences: in the income statement (restated)	Origination and reversal of temporary differences: in other comprehensive income (restated)	2009 (restated)	Origination and reversal of temporary differences: in the income statement	Origination and reversal of temporary differences: in other comprehensive income	2010
Tax effect of deductible temporary differences:							
Allowance for loan impairment	258,291	17	-	258,308	3,589	-	261,897
Assets held for sale	-	3,187	-	3,187	(3,187)	-	-
Accruals	57,786	(38,706)	-	19,080	(2,616)	-	16,464
Valuation of financial instruments		13,531	150	13,681	(13,681)	-	-
Other asset/ liabilities	-	3,451	-	3,451	(837)	-	2,614
Deferred tax asset	**316,077**	**(18,520)**	**150**	**297,707**	**(16,732)**	**-**	**280,975**
Tax effect of taxable temporary differences:							
Property, equipment and intangible assets	(255,412)	(87)	-	(255,499)	(4,783)	47,559	(212,723)
Investment property	-	(236)	-	(236)	(17,960)	-	(18,196)
Valuation of financial instruments	(43,701)	43,701	-	-	(33,843)	(4,442)	(38,285)
Other assets/ liabilities	(641)	641	-	-	-	-	-
Deferred tax liability	**(299,754)**	**44,019**	**-**	**(255,735)**	**(56,586)**	**43,117**	**(269,204)**
Net deferred tax asset/ (liability)	**16,323**	**25,499**	**150**	**41,972**	**(73,318)**	**43,117**	**11,771**

15. Other impairment and provisions

The movements in other impairment and provisions are as follows:

	Investment securities held-to-maturity	*Other assets*	*Guarantees and commitments*	*Total*
31 December 2008	**-**	**50,787**	**102,742**	**153,529**
Translation differences	-	3,388	1,263	4,651
Charge	71,606	62,147	-	133,753
Write-offs	-	(4)	(100,484)	(100,488)
31 December 2009	**71,606**	**116,318**	**3,521**	**191,445**
Translation differences	-	(1,698)	(664)	(2,362)
Release	(30,951)	(97,810)	(2,676)	(131,437)
Write-offs	-	(672)	-	(672)
31 December 2010	**40,655**	**16,138**	**181**	**56,974**

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

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16. Other assets and liabilities

Other assets comprise:

	2010	*2009*
Precious metals	38,170	32,615
Prepayments	28,154	36,900
Service fee on financial guarantees issued	18,307	4,902
Inventory	9,031	8,803
Settlements on transactions with customers	8,730	151,111
Transit accounts in respect of card operations	7,355	5,367
Other accrued income	6,965	7,071
Collateral held for resale	1,258	-
Other tax assets, except those related to income tax	147,016	12,496
Other	16,511	15,918
	281,497	**275,183**
Less – Allowance for impairment (Note 15)	(16,138)	(116,318)
Other assets	**265,359**	**158,865**

As at 31 December 2010, other tax assets, except those related to income tax, mainly consist of a recognised VAT credit related to repossessed investment property (Note 10) which will be set-off against VAT liabilities recognised as a result of the future sale of the investment property.

As at 31 December 2010, prepayments include balances of UAH 2,081 thousand (2009: UAH 6,255 thousand) in respect of the construction of a branch and part of the head office buildings.

Other liabilities comprise:

	2010	*2009*
Accruals for unused vacations	36,895	41,331
Transit accounts in respect of card operations	24,647	20,460
Fair value of financial guarantees issued	22,155	23,631
Accrued salary payable	17,465	34,252
Payables to Guarantee Fund of Individuals' Deposits	13,009	9,339
Accrued expenses	10,692	2,224
Deferred income	3,118	3,703
Transit accounts in respect of operations with customers	2,822	3,841
Derivative financial liabilities	778	-
Accrued pension contribution	641	844
Other	4,115	5,066
Other liabilities	**136,337**	**144,691**

The table below shows the fair values of derivative financial instruments, recorded liabilities, together with their notional amounts.

	2010			*2009*		
	Notional amount	*Fair values*		*Notional amount*	*Fair value*	
		Asset	*Liability*		*Asset*	*Liability*
Foreign exchange contracts						
Forwards and Swaps – domestic	139,345	-	778	-	-	-
Total derivative assets/liabilities		-	778		-	-

As at 31 December 2010, the Bank has positions in swaps which are contractual agreements between two parties to exchange movements in foreign currency rates. Management considers that offsetting loans with the same counterparty bank nominated in different currencies are, in substance, equivalent to a currency swap. These transactions have been recorded on a net basis as derivative financial instruments rather than amounts due to/from credit institutions.

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17. Amounts due to the National Bank of Ukraine

Amounts due to the National Bank of Ukraine as at 31 December 2010 comprise:

Origination date	*Maturity date*	*Type of interest rate*	*Interest rate*	*Carrying value*
19 March 2009	12 November 2015	Floating (NBU rate + 0.5%)	8.25%	1,510,385
19 March 2009	12 November 2015	Floating (NBU rate + 0.5%)	8.25%	2,019,694
3 February 2010	24 January 2016	Floating (NBU rate + 2%)	9.75%	626,538
Total due to the NBU				**4,156,617**

Amounts due to the National Bank of Ukraine as at 31 December 2009 comprise:

Origination date	*Maturity date*	*Type of interest rate*	*Interest rate*	*Carrying value (restated)*
6 February 2009	3 February 2010	Fixed	14%	2,099,999
19 March 2009	12 March 2010	Fixed	16.5%	2,168,716
19 March 2009	3 December 2010	Floating (NBU rate + 2%)	12.25%	438,000
19 March 2009	12 November 2015	Floating (NBU rate + 0.5%)	10.75%	2,280,416
7 December 2009	3 December 2010	Floating (NBU rate + 2%)	12.25%	1,121,680
Total due to the NBU				**8,108,811**

All loans are secured with loans to customers (Note 8).

18. Amounts due to credit institutions

Amounts due to credit institutions comprise:

	2010	*2009*
Current accounts	413,210	256,445
Loans and deposits due to other banks	5,230,567	5,947,341
Loans due to international financial organisations	1,733,694	2,324,940
Other amounts due to credit institutions	1,979	7,829
Amounts due to credit institutions	**7,379,450**	**8,536,555**

As at 31 December 2010, included in current accounts is UAH 230,891 thousand received from five Ukrainian banks (2009: UAH 136,747 thousand). The amount was received under normal banking terms and conditions.

As at 31 December 2010, included in amounts due to credit institutions is UAH 1,249,293 thousand received from Ukrainian banks (2009: UAH 781,974 thousand).

The Bank had entered into repurchase agreements with a Ukrainian bank for UAH 90,572 thousand (2009: nil). The subject of these agreements is Ukrainian State bonds with a fair value of UAH 94,640 thousands (2009: nil).

As at 31 December 2010, loans and deposits due to other banks include UAH 217,656 thousand granted by Kreditanstalt fur Wiederaufbau ("KfW") under loan agreements for financing small and medium sized enterprises in Ukraine (2009: UAH 268,928 thousand). The loans are denominated in US dollars have a current interest rate of Libor+2.75% and mature in 2014.

As at 31 December 2010, loans and deposits due to other banks include UAH 1,757,992 thousand and UAH 271 thousand received from OECD banks and other foreign banks, respectively, under trade and export financing agreements (2009: UAH 2,305,787 thousand and UAH 2,962 thousand, respectively). These loans are denominated in US dollars, euros, Swiss francs and Japanese yen and bear fixed and floating interest rates and are matched in maturity with loans to customers issued under the respective trade and export financing programmes.

Loans due to international financial organisations include loans from the International Bank for Reconstruction and

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Development (the "IBRD") under the Export Development Project of UAH 140,078 thousand (2009: UAH 189,401 thousand). Proceeds from these loans are used to provide financing for eligible Ukrainian borrowers. These loans are denominated in US dollars or euros, have a coupon interest rate of LIBOR+0.5% with repricing twice a year and have a current interest rate of LIBOR+0.27% and mature in 2013. This debt is subject to various covenants and restrictions as described in Note 24.

As at 31 December 2010, loans due to international financial organisations include loans from the International Bank for Reconstruction and Development (the "IBRD") under the Second Export Development Project of UAH 693,406 thousand (2009: UAH 509,746 thousand) (total amount of this loan facility is USD 154,500 thousand). Proceeds from this loan are used to provide medium and long term financing for eligible Ukrainian borrowers and distributed through eligible Ukrainian commercial banks. This loan is denominated in US dollars, have a coupon interest rate of LIBOR+0.39% (at the date of signing the agreement) with repricing twice a year and have a current interest rate of LIBOR+0.46%. The loans mature in 2026.

Loans due to international financial organisations include loans from the European Bank for Reconstruction and Development (the EBRD) under the programme for energy efficiency of UAH 403,291 thousand (2009: UAH 467,685 thousand). The loans are denominated in US dollars, bear a floating interest rate of LIBOR+2.5% and LIBOR+5.5% and mature by 2014.

As at 31 December 2010, loans due to international financial organisations include an unsecured loan from the EBRD for UAH 395,124 thousand (2009: UAH 1,058,644 thousand). The loan bears interest at LIBOR+8.5% and matures in June 2011.

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

19. Amounts due to customers

Amounts due to customers comprise:

	2010	*2009*
Current accounts		
- Budget funds	3,390,755	974,866
- Legal entities	5,906,813	4,897,803
- Individuals	1,212,275	903,900
- Due to funds under the Bank's management (see below)	12,357	25,784
	10,522,200	**6,802,353**
Time deposits		
- Budget funds	763	1,004,709
- Legal entities	6,148,704	4,150,622
- Individuals	11,139,068	7,995,476
	17,288,535	**13,150,807**
Due to customers	**27,810,735**	**19,953,160**
Held as security against letters of credit	374,985	105,743
Held as security against guarantees and avals	397,160	407,209
Held as security against undrawn loan commitments	70,415	62,720
Held as security against loans to customers	552,902	614,874

As at 31 December 2010, legal entities current accounts of UAH 1,974,197 thousand (33.42% of legal entities current accounts) were due to ten clients (2009: UAH 1,579,866 thousand or 32.3%).

As at 31 December 2010, individuals' current accounts of UAH 16,196 thousand (8.5% of individuals' current accounts) were due to the ten largest clients (2009: UAH 13,930 thousand or 8.7%).

As at 31 December 2010, time deposits due to legal entities include UAH 2,489,385 thousand (40.5% of time deposits due to legal entities) attracted from five legal entities (2009: UAH 846,847 thousand or 20.4%).

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

As at 31 December 2010, time deposits due to individuals include UAH 739,077 thousand (6.6% of time deposits due to individuals) thousand attracted from ten individuals (2009: UAH 596,262 thousand or 7.5 %).

In accordance with Ukrainian legislation, the Bank is obliged to repay time deposits of individuals upon demand of a depositor. In the event that a term deposit is repaid upon demand of the depositor prior to maturity, interest is paid based on the interest rate for demand deposits, unless a different interest rate is specified in the agreement.

Funds under the Bank's management

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

	2010	*2009*
At 1 January	**25,784**	**14,701**
Funds attracted from individuals	95,684	105,321
Invested funds	(109,111)	(94,238)
At 31 December	**12,357**	**25,784**

An analysis of customer accounts by economic sector follows:

	2010	*%*	*2009*	*%*
Individuals	12,351,343	44.4	8,899,376	44.6
Budget	3,391,518	12.2	1,979,575	9.9
Transport and communications	1,765,876	6.3	1,688,617	8.5
Investment activity	1,670,000	6.0	-	-
Trade enterprises	1,482,461	5.3	1,668,167	8.4
Real estate	1,149,589	4.1	1,246,665	6.2
Finance	1,113,285	4.0	724,122	3.6
Agriculture and food processing	950,849	3.4	370,386	1.9
Engineering	802,058	2.9	1,223,208	6.1
Extractive industry	750,159	2.7	219,273	1.1
Construction	725,082	2.6	468,400	2.3
Health protection	154,429	0.6	150,340	0.7
Chemistry	145,701	0.5	109,815	0.6
Personal services	110,519	0.4	94,615	0.5
Metallurgy	108,955	0.4	79,336	0.4
Production of construction materials	108,336	0.4	83,659	0.4
Culture and sport	100,436	0.4	190,673	1.0
Production of rubber and plastic goods	77,208	0.3	63,885	0.3
Education	75,681	0.3	75,267	0.4
Metal processing	75,646	0.3	59,553	0.3
Power utilities	72,155	0.2	148,401	0.7
Other	629,449	2.3	409,827	2.1
Amounts due to customers	**27,810,735**	**100**	**19,953,160**	**100**

20. Eurobonds issued

	31 December 2010		*31 December 2009*	
	Nominal value	***Carrying value***	***Nominal value***	***Carrying value***
October 2005 issue	1,873,627	1,900,062	1,879,110	1,903,503
September 2006 issue	2,786,595	2,851,739	2,794,750	2,857,484
November 2006 issue	988,962	1,014,224	991,857	1,019,213
April 2010 issue	3,980,850	4,015,579	-	-
October 2010 issue	1,990,425	2,007,791	-	-
Eurobonds issued		**11,789,395**		**5,780,200**

In October 2005, the Bank obtained a loan of USD 250,000 thousand from Credit Suisse First Boston International (carrying value of UAH 1,900,062 thousand as at 31 December 2010 (2009: UAH 1,903,503 thousand). This loan was funded by 6.80% loan participation notes ("Eurobonds") issued by, but without recourse to, Credit Suisse First Boston International, for the sole purpose of funding this loan to the Bank. The loan matures in October 2012. Interest payments are made semi-annually in arrears on 4 April and 4 October of each year, commencing on 4 April 2006.

In September 2006, the Bank obtained a loan of USD 350,000 thousand from Credit Suisse International (carrying value of UAH 2,851,739 thousand as at 31 December 2010 (2009: UAH 2,857,484 thousand). The loan was funded by 7.65% loan participation notes ("Eurobonds) issued by, but without recourse to, Credit Suisse International, for the sole purpose of funding this loan to the Bank. The loan matures in September 2011. Interest payments are made semi-annually in arrears on 7 March and 7 September of each year, commencing on 7 March 2007.

In November 2006, the Bank obtained a further loan of USD 150,000 thousand from Credit Suisse International (carrying value is UAH 1,014,224 thousand as at 31 December 2010 (2009: UAH 1,019,213 thousand). This loan was funded by 7.65% loan participation notes ("Eurobonds") which were consolidated and form a single series with the notes issued in September 2006. The issue price of these notes was 101.25 per cent of principle amount plus accrued interest and the Bank received a premium amounting to USD 1,875 thousand.

In April 2010, the Bank, through BIZ Finance PLC, issued Eurobonds in the form of loan participation notes with a par value of USD 100,000 (UAH 792,580 at the exchange rate at the date of issue). The bonds carry a fixed coupon rate of 8.375% p.a. and mature in April 2015.

In October 2010, the Bank, through BIZ Finance PLC, issued Eurobonds in the form of loan participation notes with a par value of USD 100,000 (UAH 791,160 at the exchange rate at the date of issue). The bonds carry a fixed coupon rate of 8.375% p.a. and mature in April 2015 and were consolidated and form a single series with the notes issued in April 2010.

All Eurobonds issued are subject to various covenants and restrictions (Note 24).

21. Other debt securities issued

In June 2010, the Bank redeemed series C local bonds for a total nominal amount of UAH 500,000 thousand (carrying value of UAH 502,135 thousand as at 31 December 2009).

In November 2010, the Bank issued local bonds for a total nominal amount of UAH 400,000 thousand (carrying value of UAH 404,340 thousand as at 31 December 2010). The bonds are denominated in hryvnia, bear interest at 9 % p.a. and mature in November 2011. Interest payment is made at the date of maturity.

As at 31 December 2010, bonds with a carrying value of UAH 404,340 thousand were due to one legal entity (2009: UAH 365,713 thousand).

22. Subordinated debt

In February 2006, the Bank obtained a loan of USD 95,000 thousand (UAH 756,362 thousand) from Credit Suisse International (carrying value of UAH 769,839 thousand as at 31 December 2010 (2009: UAH 770,372 thousand). This loan was funded by 8.40% loan participation notes issued by on a limited recourse basis to Credit Suisse International, for the sole purpose of funding a subordinated loan to the Bank. The loan matures in February 2016 with an interest rate step-up in 2011 and includes a put option written subject to specific conditions. Interest payments are made semi-annually in arrears on 9 February and 9 August of each year, commencing on 9 August 2006.

In November 2006, the Bank obtained a further loan of USD 30,000 thousand (UAH 238,851 thousand) from Credit Suisse International (carrying value of UAH 244,936 thousand as at 31 December 2010 (2009: UAH 245,383 thousand). This loan was funded by 8.40% loan participation notes, which were consolidated and form a single series with the notes issued in February 2006.

In May 2009, the Bank obtained a loan amounting to USD 250,000 thousand (UAH 1,990,425 thousand) from the EBRD (carrying value of UAH 2,084,180 thousand as at 31 December 2010 (2009: UAH 2,089,679 thousand)). This loan bears interest at 13.24% p.a. The loan matures in May 2019 with an interest rate change in 2014. Interest payments are made semi-annually in arrears on 28 July and 28 January of each year, commencing on 28 July 2009.

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Subordinated debts are subject to various covenants and restrictions (Note 24).

23. Equity

As at 31 December 2010, the Bank's authorised issued share capital comprised 11,414,901 (2009: 6,965,507) ordinary shares, with a nominal value of UAH 1,436.15 per share (2009: 1,436.15). All shares have equal voting rights. As at 31 December 2010, 11,414,901 shares were fully paid and registered (2009: all shares were fully paid and registered).

These consolidated financial statements reflect the amount of paid-in share capital stated at cost, which is restated using the consumer price index for the contributions made before 31 December 2000. The share capital of the Bank was contributed in Ukrainian hryvnia.

The movements in share capital were as follows:

	Number of shares	*Nominal amount, UAH'000*	*Restated cost, UAH'000*
31 December 2008	**2,318,859**	**3,062,633**	**3,775,865**
Shares issued	4,646,648	6,940,880	6,940,880
31 December 2009	**6,965,507**	**10,003,513**	**10,716,745**
Shares issued	4,449,394	6,389,997	6,389,997
31 December 2010	**11,414,901**	**16,393,510**	**17,106,742**

In March 2010, according to the Resolution of the Cabinet of Ministers of Ukraine dated 20 January 2010, Eximbank's share capital was increased by UAH 1,799,999 thousand. The consideration for the increase was made in Ukrainian State bonds. In March 2010, part of the holdings of Ukrainian State bonds with a total nominal value of UAH 500,000 was sold to the National Bank of Ukraine at nominal value.

In March 2010, according to the Resolution of the Cabinet of Ministers of Ukraine dated 17 February 2010, Eximbank's share capital was increased by UAH 4,589,998 thousand. The consideration for the increase was made in Ukrainian State bonds. In March 2010, part of the holdings of Ukrainian State bonds with a total nominal value of UAH 2,000,000 was sold to the National Bank of Ukraine at nominal value.

In June 2010, according to the Law of Ukraine No. 2154-VI, dated 27 April 2010 "On state budget of Ukraine for 2010" and the Resolution of the Cabinet of Ministers No. 274 dated 22 March 2010, the Bank distributed profits of UAH 9,137 thousand to the shareholder.

The accumulated deficit shown in these consolidated financial statements arises as a result of capitalising profits from previous years (as shown in the financial statements prepared according to UAR) and profits for previous years according to IFRS which have been retained.

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Movements in revaluation reserves

Movements in reserve were as follows:

	Property revaluation reserve	*Unrealised gains/(losses) on investment securities available-for-sale*	*Revaluation reserve*
31 December 2008	**657,236**	**(1,896)**	**655,340**
Depreciation of revaluation reserve, net of tax	(10,291)	-	(10,291)
Disposal of property, net of tax	(211)	-	(211)
Realised losses on investment securities available-for-sale reclassified to the income statement	-	674	674
Unrealised losses on investment securities available-for-sale reclassified to the income statement on impairment	-	2,963	2,963
Net unrealised losses on available-for-sale investments	-	(4,237)	(4,237)
Tax effect of net losses on investment securities available-for-sale (Note 14)	-	150	150
31 December 2009	**646,734**	**(2,346)**	**644,388**
Revaluation of property	179,128	-	179,128
Depreciation of revaluation reserve, net of tax	(11,568)	-	(11,568)
Realised gains on investment securities available-for-sale reclassified to the income statement	-	(13,041)	(13,041)
Unrealised losses reclassified to the income statement on impairment	-	12,000	12,000
Net unrealised gains on available-for-sale investments	-	18,810	18,810
Reversal of income tax relating to tangible fixed asset revaluations consequent upon enactment of new Tax Code (Note 14)	92,341	-	92,341
Tax effect of revaluation of property and net gains on investment securities available-for-sale (Note 14)	(44,782)	(4,442)	(49,224)
31 December 2010	**861,853**	**10,981**	**872,834**

Nature and purpose of revaluation reserves

Property revaluation reserve

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

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

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

The Bank's distributable reserves are determined by the amount of its reserves as disclosed in the accounts prepared in accordance with UAR. As at 31 December 2010, the Bank has distributable reserves amounting to UAH 51,308 thousand (2009: UAH 30,697 thousand). The amount of non-distributable reserves was UAH 1,087,097 thousand (2009: UAH 846,384 thousand). Non-distributable reserves are represented by a statutory revaluation reserve and a general reserve fund, which is created to cover general banking risks, including future losses and other unforeseen risks or contingencies.

24. Commitments and contingencies

Operating environment

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

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

The Ukrainian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. The global financial crisis has resulted in a decline in the gross domestic product, instability in the capital markets, a significant deterioration in the liquidity of the banking sector, and tighter credit conditions within Ukraine. Whilst the Ukrainian Government continues to introduce various stabilisation measures aimed at supporting the banking sector and providing liquidity to Ukrainian banks and companies, there continues to be uncertainty regarding access to capital and its cost for the Bank and its counterparties, which could affect the Banks financial position, results of operations and business prospects.

In addition, factors including increased unemployment in Ukraine, reduced corporate liquidity and profitability, and increased corporate and personal insolvencies, have affected the ability of the Bank's borrowers to repay the amounts due to the Bank. In addition, changes in economic conditions have resulted in deterioration in the value of collateral held against loans and other obligations. To the extent that information is available, the Bank has reflected revised estimates of expected future cash flows in its impairment assessment.

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

Legal

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

Tax and other regulatory compliance risks

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

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

Financial commitments and contingencies

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

	2010	***2009***
Letters of credit	814,815	671,027
Guarantees	3,014,104	2,321,263
Avals on promissory notes	126,623	172,147
Undrawn loan commitments	343,680	213,955
	4,299,222	**3,378,392**
Less – Provisions (Note 15)	(181)	(3,521)
Financial commitments and contingencies (before deducting collateral)	**4,299,041**	**3,374,871**
Less – cash held as security against letters of credit, avals and guarantees, and undrawn loan commitments (Note 19)	(842,560)	(575,672)
Financial commitments and contingencies	**3,456,481**	**2,799,199**

As at 31 December 2010, the Bank issued letters of credit of UAH 758,074 thousand to four Ukrainian companies, which were not secured by a cash deposit (2009: UAH 561,969 thousand in favour of four Ukrainian companies secured by a cash deposit of UAH 79,850 thousand). As at 31 December 2010, the Bank issued guarantees of UAH 2,126,160 thousand in favour of four Ukrainian companies that are partially secured by a cash deposit of UAH 182,391 thousand (2009: UAH 1,506,017 thousand in favour of four Ukrainian companies secured by a cash deposit of UAH 148,748 thousand).

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

Financial covenants

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

25. Fees and commissions, net

Fees and commissions comprise:

	2010	*2009*
Fee and commission income		
Cash and settlement operations	265,766	236,453
Guarantees and letters of credit	124,495	69,426
Operations with banks	38,928	36,691
Credit servicing commission	14,189	22,020
Other	16,157	12,519
	459,535	**377,109**
Fee and commission expenses		
Cash and settlement operations	(60,746)	(48,700)
Guarantees and letters of credit	(34,962)	(1,561)
Currency conversion	(1,271)	(1,457)
Other	(2,070)	(5,251)
	(99,049)	**(56,969)**
Fees and commissions, net	**360,486**	**320,140**

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

26. Personnel and other operating expenses

Personnel and other operating expenses comprise:

	2010	*2009*
Salaries and bonuses	471,560	510,781
Employment taxes	112,282	94,032
Personnel expenses	**583,842**	**604,813**
Expenses related to Guarantee Fund of Individuals' Deposits	48,075	37,830
Repair and maintenance expenses	40,538	29,473
Occupancy and rent	27,904	33,183
Security	16,387	15,231
Marketing and advertising	15,971	16,420
Legal and consultancy	13,600	8,657
Electronic and data processing costs	11,896	11,253
Expenses for cash collection	11,618	8,383
Operating taxes	11,104	11,728
Communications	4,845	4,609
Expenses related to representative offices	4,709	4,759
Insurance	4,513	7,019
Business travel and related expenses	4,392	4,478
Charity	2,894	1,900
Loss on fair value adjustment for investment property (Note 10)	694	-
Impairment charge for assets held for sale (Note 11)	-	12,751
Other	23,310	14,658
Other operating expenses	**242,450**	**222,332**

Expenses on payment to the non-state pension fund comprised UAH 7,316 thousand (2009: UAH 7,807 thousand).

27. Risk management

Introduction

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

The Bank adheres to the following key risk management principles:

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

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

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

Risk management structure

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

Supervisory Board

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

Management Board

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

Assets and Liabilities Committee ("ALCO")

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

Credit Committee and Retail Business Committee

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

Treasury and Securities Divisions

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

Risk Management Division

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

Audit and Inspection Division

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

Risk measurement and risk reporting systems

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

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

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

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

Risk Mitigation

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

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

Excessive risks concentration

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

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

Credit risk

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

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

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

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

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

- setting targets (optimal and acceptable for the Bank), critical (undesirable, but manageable) and threshold (requiring urgent measures) values of the key credit risk exposures;

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

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

Individual credit risk

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

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

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

In order to limit individual credit risk, the Bank sets the following limits: maximum volume of credit transactions (loans, securities, receivables) per single counterparty (or Bank of related counterparties), including financial commitments and contingencies; maximum volume of credit transactions (loans, securities, receivables) for one insider, including financial commitments and contingencies.

Portfolio credit risk

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

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

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

Credit-related commitment risks

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

The table below shows the maximum exposure to credit risk for the components of the consolidated statement of financial position. The maximum exposure is shown without regard to the effect of risk mitigation through the use of master netting and collateral agreements and after deducting any allowance for impairment.

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

	Notes	Maximum exposure 2010	Maximum exposure 2009 (restated)
Cash and cash equivalents (excluding cash on hand)	6	10,103,654	4,157,124
Amounts due from credit institutions	7	1,129,357	1,736,194
Loans to customers	8	43,681,189	43,311,110
Investment securities	9	10,603,946	2,347,274
Investment securities pledged under repurchase agreements		94,640	-
Other assets	16	69,884	89,033
		65,682,670	**51,640,735**
Financial commitments and contingencies	24	4,299,041	3,374,871
Total credit risk exposure		**69,981,711**	**55,015,606**

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

Credit quality by class of financial assets

		Neither past due nor impaired				
31 December 2010	Notes	High grade	Standard grade	Sub-standard grade	Past due or individually impaired	Total
Amounts due from foreign credit institutions	7	96,153	-	-	-	96,153
Amounts due from Ukrainian credit institutions	7	591,224	158,376	301,446	-	1,051,046
Investment securities:	9					
At fair value through profit or loss		-	-	107,796	-	107,796
Available-for-sale		8,596,828	72,268	197,577	21,491	8,888,164
Held-to-maturity		370,795	203,252	1,108,085	-	1,682,132
Investment securities pledged under repurchase agreements		94,640	-	-	-	94,640
Loans to corporate customers:	8					
Commercial loans		6,461,480	18,487,967	11,360,558	12,245,648	48,555,653
Overdrafts		5,631	52,277	42,913	30,881	131,702
Finance lease receivables		-	-	304,729	-	304,729
Promissory notes		-	784,917	104,796	1,713	891,426
		6,467,111	19,325,161	11,812,996	12,278,242	49,883,510
Loans to individuals	8	227,855	445,073	123,522	312,619	1,109,069
Total		**16,444,606**	**20,204,130**	**13,651,422**	**12,612,352**	**62,912,510**

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

31 December 2009 (restated)	*Notes*	*Neither past due nor impaired*			*Past due or individually impaired*	*Total*
		High grade	*Standard grade*	*Sub-standard grade*		
Amounts due from foreign credit institutions	7	63,440	-	-	-	63,440
Amounts due from Ukrainian credit institutions	7	330,088	1,011,648	312,198	37,641	1,691,575
Investment securities:	9					
At fair value through profit or loss		400,586	-	174,454	-	575,040
Available-for-sale		495,768	-	485,363	21,258	1,002,389
Held-to-maturity		20,407	171,763	127,424	543,174	862,768
Loans to corporate customers:	8					
Commercial loans		3,710,893	16,630,253	21,898,234	3,905,707	46,145,087
Overdrafts		19,304	123,278	99,041	27,000	268,623
Finance lease receivables		-	201,379	14,101	-	215,480
Promissory notes		59,401	304	-	1,974	61,679
		3,789,598	16,955,214	22,011,376	3,934,681	46,690,869
Loans to individuals	8	364,504	593,206	132,467	216,768	1,306,945
Total		**5,464,391**	**18,731,831**	**23,243,282**	**4,753,522**	**52,193,026**

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

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

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

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

The ageing analysis of past due but not impaired loans is provided below.

31 December 2010	***Less than 30 days***	***31 to 60 days***	***61 to 90 days***	***More than 90 days***	***Total***
Loans to customers:					
Loans to corporate customers	357,456	154,818	18,692	488	531,454
Loans to individuals	20,395	46,891	12,708	-	79,994
Total	**377,851**	**201,709**	**31,400**	**488**	**611,448**

31 December 2009 (restated)	***Less than 30 days***	***31 to 60 days***	***61 to 90 days***	***More than 90 days***	***Total***
Loans to customers:					
Loans to corporate customers	139,300	299,816	17,529	-	456,645
Promissory notes	-	1,713	-	-	1,713
	139,300	**301,529**	**17,529**	**-**	**458,358**
Loans to individuals	11,280	8,591	7,501	-	27,372
Total	**150,580**	**310,120**	**25,030**	**-**	**485,730**

Of the total aggregate amount of gross past due but not impaired loans to customers, the fair value of collateral that the Bank held as at 31 December 2010 is UAH 10,962 thousand (2009: UAH 5,163 thousand).

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

	2010	***2009 (restated)***
Loans to customers:		
Commercial loans	20,481,213	16,406,546
Overdrafts	2,367	14,668
Finance lease receivables	1,713	1,713
Total	**20,485,293**	**16,422,927**

Impairment assessment

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

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

Geographical concentration

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

	2010			
	Ukraine	***OECD countries***	***CIS and other non-OECD countries***	***Total***
Assets:				
Cash and cash equivalents	1,847,715	8,797,306	247,891	10,892,912
Due from credit institutions	1,033,204	50,173	45,980	1,129,357
Loans to customers	43,673,968	349	6,872	43,681,189
Investment securities:				
- designated at fair value through profit or loss	107,796	-	-	107,796
- available-for-sale	8,861,028	-	-	8,861,028
- held-to-maturity	1,641,477	-	-	1,641,477
Investment securities pledged under repurchase agreements	94,640	-	-	94,640
Other assets (monetary)	41,730	-	-	41,730
	57,301,558	**8,847,828**	**300,743**	**66,450,129**
Liabilities:				
Amounts due to the National Bank of Ukraine	4,156,617	-	-	4,156,617
Due to credit institutions	1,251,272	6,126,777	1,401	7,379,450
Due to customers	25,718,126	1,863,158	229,451	27,810,735
Eurobonds issued	-	11,789,395	-	11,789,395
Other debt securities issued	-	404,340	-	404,340
Subordinated debt	-	3,098,955	-	3,098,955
Other liabilities (monetary)	105,439	1,498	12	106,949
	31,231,454	**23,284,123**	**230,864**	**54,746,441**
Net position	**26,070,104**	**(14,436,295)**	**69,879**	**11,703,688**
Financial commitments and contingencies (Note 24)	**3,452,997**	**2,887**	**597**	**3,456,481**

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

	2009 (restated)			
	Ukraine	***OECD countries***	***CIS and other non-OECD countries***	***Total***
Assets:				
Cash and cash equivalents	1,528,294	3,133,090	190,307	4,851,691
Due from credit institutions	1,672,754	58,444	4,996	1,736,194
Loans to customers	43,242,482	473	68,155	43,311,110
Investment securities:				
- designated at fair value through profit or loss	575,040	-	-	575,040
- available-for-sale	981,072	-	-	981,072
- held-to-maturity	791,162	-	-	791,162
Other assets (monetary)	52,133	-	-	52,133
	48,842,937	**3,192,007**	**263,458**	**52,298,402**
Liabilities:				
Amounts due to the National Bank of Ukraine	8,108,811	-	-	8,108,811
Due to credit institutions	792,921	7,740,391	3,243	8,536,555
Due to customers	19,659,872	176,882	116,406	19,953,160
Eurobonds issued	-	5,780,200	-	5,780,200
Other debt securities issued	502,135	-	-	502,135
Subordinated debt	-	3,105,434	-	3,105,434
Other liabilities (monetary)	108,688	3,603	-	112,291
	29,172,427	**16,806,510**	**119,649**	**46,098,586**
Net position	**19,670,510**	**(13,614,503)**	**143,809**	**6,199,816**
Financial commitments and contingencies (Note 24)	**2,796,041**	**240**	**2,918**	**2,799,199**

Liquidity risk

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

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

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

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

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

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

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

Assessment of the liquidity position

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

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As at 31 December, the liquidity position, assessed by respective liquidity ratios established by the NBU, was as follows:

	2010, %	*2009, %*
N4 "Instant Liquidity Ratio" (vault cash and balances on nostro accounts with banks / balances on customers' current accounts) (minimum required by the NBU – 20%)	93.09	66.40
N5 "Current Liquidity Ratio" (vault cash, balances on nostro accounts with banks, banking metals, claims on banks maturing within with residual maturity of up to 31 days, bills and bonds with residual maturity of up to 31 days/ balances on customers' current accounts, term deposits, debt obligations and commitments with residual maturity of up to 31 days) (minimum required by the NBU – 40%)	83.26	62.07
N6 "Short-Term Liquidity Ratio" (vault cash, balances on nostro accounts with banks, banking metals, claims on banks with residual maturity of up to 1 year, bills and bonds with residual maturity of up to 1 year / balances on customers' current accounts, term deposits, debt obligations and commitments with residual maturity of up to 1 year) (minimum required by the NBU: 2009 – 20%; 2010 – 60%)	103.01	24.82

Analysis of financial liabilities by remaining contractual maturities

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

Financial liabilities As at 31 December 2010	***Less than 3 months***	***3 to 12 months***	***1 to 5 years***	***Over 5 years***	***Total***
Amounts due to the NBU	100,647	307,531	5,789,393	633,870	6,831,441
Amounts due to credit institutions	1,317,801	1,068,094	3,645,227	2,826,675	8,857,797
Amounts due to customers	16,284,892	7,702,249	4,398,863	49,590	28,435,594
Eurobonds issued	227,300	4,378,293	9,686,079	-	14,291,672
Other debt securities issued	8,877	423,079	-	-	431,956
Subordinated debt	-	346,533	1,387,081	3,889,990	5,623,604
Gross settled derivative financial instruments:					
- Contractual amounts payable	140,123	-	-	-	140,123
- Contractual amounts receivable	(139,345)	-	-	-	(139,345)
Other liabilities	60,316	-	-	-	60,316
Total undiscounted financial liabilities	**18,000,611**	**14,225,779**	**24,906,643**	**7,400,125**	**64,533,158**

Financial liabilities As at 31 December 2009 (restated)	***Less than 3 months***	***3 to 12 months***	***1 to 5 years***	***Over 5 years***	***Total***
Amounts due to the NBU	1,050,433	1,260,307	5,268,013	2,715,041	10,293,794
Amounts due to credit institutions	4,472,643	1,910,963	981,305	2,492,117	9,857,028
Amounts due to customers	13,434,210	5,174,006	2,088,282	97,382	20,793,880
Eurobonds issued	102,934	314,521	6,088,083	-	6,505,538
Other debt securities issued	12,021	510,017	-	-	522,038
Subordinated debt	-	347,547	1,391,141	4,248,921	5,987,609
Other liabilities	55,222	-	-	-	55,222
Total undiscounted financial liabilities	**19,127,463**	**9,517,361**	**15,816,824**	**9,553,461**	**54,015,109**

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

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

	Less than 3 months	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total*
2010	640,272	948,975	2,672,528	37,447	4,299,222
2009	551,092	1,272,517	1,331,643	223,140	3,378,392

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

Market risk

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

Market risk management is performed by systematic combination of:

- interest risk management;
- foreign currency risk management.

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

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

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

Interest rate risk

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

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

Interest rate risk management is performed by systematic combination of:

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

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

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

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

The table below demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Bank's consolidated income statement.

The sensitivity of the consolidated income statement to the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets, financial liabilities and investment securities designated at fair value through profit or loss held at 31 December 2010.

	2010				
Currency	***Base for interest rate***	***Increase in basis points***	***Effect on profit before income tax expense***	***Decrease in basis points***	***Effect on profit before income tax expense***
UAH	NBU	+100	54,070	-100	(40,227)
USD	LIBOR	+75	1,545	-75	(1,740)
USD	Euribor	+75	(77)	-75	-
USD	NBU	+100	322	-100	(241)
EUR	LIBOR	+75	1,434	-75	(1,434)
EUR	Euribor	+75	4,658	-75	(4,834)
EUR	NBU	+100	160	-100	(120)
Other	LIBOR	+75	1,074	-75	(1,147)
Other	Euribor	+75	5	-75	(5)
Total			**63,191**		**(49,748)**

	2009				
Currency	***Base for interest rate***	***Increase in basis points***	***Effect on profit before income tax expense***	***Decrease in basis points***	***Effect on profit before income tax expense***
UAH	NBU	+100	34,830	-100	(26,058)
USD	LIBOR	+75	277	-75	195
EUR	LIBOR	+75	1,835	-75	(1,835)
EUR	Euribor	+75	7,947	-75	(8,122)
Other	LIBOR	+75	2,294	-75	(2,294)
Total			**47,183**		**(38,114)**

The sensitivity of equity is calculated by revaluing fixed rate available-for-sale financial assets at 31 December for the effects of the assumed changes in interest rates based on the assumption that there are parallel shifts in the yield curve. The effect of the +/- 60% variation of the KIACR rate effective at 31 December on the Bank's equity is: UAH (251) thousand/ UAH 15,719 thousand (2009: UAH (3,630) thousands/ UAH 18,284 thousand).

Currency risk

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

Currency risk management is performed by systematic combination of:

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

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and amount of foreign currency cash outflow in short, medium and long term time horizon taking into consideration estimated and unpredictable changes in foreign currency exchange rates.

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

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

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

The tables below indicate the currencies to which the Bank has significant exposure at 31 December 2010 on its non-trading monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against hryvnia, with all other variables held constant on the consolidated income statement (due to the fair value of currency sensitive non-trading monetary assets and liabilities). The effect on equity does not differ from the effect on the consolidated income statement. A negative amount in the table reflects a potential net reduction in consolidated income statement or equity, while a positive amount reflects a net potential increase.

	2010		***2009***	
Currency	***Change in currency rate***	***Effect on profit before income tax expense***	***Change in currency rate***	***Effect on profit before income tax expense***
USD/UAH	+40.00%	(1,654,595)	+40.00%	(658,990)
EUR/UAH	+40.00%	(59,123)	+40.00%	(137,995)
Total		**(1,713,718)**		**(796,985)**
USD/UAH	-30.00%	1,240,946	-30.00%	494,243
EUR/UAH	-30.00%	44,342	-30.00%	103,496
Total		**1,285,288**		**597,739**

Operational risk

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

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28. Fair values of financial instruments

Fair value of financial assets and liabilities not carried at fair value

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

	2010			2009 (restated)		
	Carrying value	Fair value	Unrecognised gain/(loss)	Carrying value	Fair value	Unrecognised gain/(loss)
Assets						
Cash and cash equivalents	10,892,912	10,892,912	-	4,851,691	4,851,691	-
Amounts due from other banks	1,129,357	1,129,357	-	1,736,194	1,736,194	-
Loans to customers	43,681,189	43,184,204	(496,985)	43,311,110	40,999,657	(2,311,453)
Investment securities:						
- held to maturity	1,641,477	1,641,477	-	791,162	791,162	-
Other assets	41,730	41,730	-	52,133	52,133	-
Liabilities						
Amounts due to the National Bank of Ukraine	4,156,617	4,156,617	-	8,108,811	8,108,811	-
Amounts due to other banks	7,379,450	7,379,450	-	8,536,555	8,536,555	-
Due to customers	27,810,735	26,844,659	966,076	19,953,160	19,903,506	49,654
Eurobonds issued	11,789,395	12,189,230	(399,835)	5,780,200	4,837,750	942,450
Other debt securities issued	404,340	404,340	-	502,135	502,135	-
Subordinated debt	3,098,955	3,098,955	-	3,105,434	3,105,434	-
Other liabilities	60,317	60,317	-	50,156	50,156	-
Total unrecognised change in unrealised fair value			**69,256**			**(1,319,349)**

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

Assets for which fair value approximates carrying value

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

Fixed rate financial instruments

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

Financial instruments reported at fair value

The Bank applies the following hierarchal structure of evaluation methods for measurement of and disclosure of information about fair value of financial assets that includes variations of fair value due to certain alternative assumptions used in the evaluation model:

- Level 1: fair value is measured directly on the basis of financial instrument market quotations in the active markets.

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- Level 2: in respect of financial instruments for which market quotations are not available, their fair value is measured through evaluation models based on assumptions confirmed by observed market prices and rates effective on the reporting date, i.e. directly or indirectly based on market observations;
- Level 3: for financial instruments, which fair value cannot be measured on the basis of market quotations and evaluation models based on market observations, the Bank uses evaluation models with initial data that have considerable effect on the reported fair value of financial instruments that are not based on market observations. Such approach is adequate for investments in non-listed equity and debt securities.

The following table presents evaluation methods used for measurement of fair value of financial instruments at fair value through profit or loss or other comprehensive income:

31 December 2010	***Level 1***	***Level 2***	***Level 3***	***Total***
Investment securities designed at fair value through profit or loss	-	-	107,796	**107,796**
Available-for-sale investment securities	140,030	-	8,720,998	**8,861,028**
Investment securities pledged under repurchase agreements	-	-	94,640	**94,640**
Total assets	**140,030**	**-**	**8,923,434**	**9,063,464**
Financial liabilities				
Derivative financial liabilities	**-**	**778**	**-**	**778**

31 December 2009	***Level 1***	***Level 2***	***Level 3***	***Total***
Investment securities designed at fair value through profit or loss	-	-	575,040	**575,040**
Available-for-sale investment securities	184,413	-	803,030	**987,443**
Total assets	**184,413**	**-**	**1,378,070**	**1,562,483**

The following is a description of the determination of fair value for financial instruments which are recorded at fair value using valuation techniques. These incorporate the Bank's estimate of assumptions that a market participant would make when valuing the instruments.

Investment securities designated at fair value through profit or loss and available-for-sale investment securities

Securities designated at fair value through profit or loss and investment securities available-for-sale valued using a valuation technique or pricing models primarily consist of unquoted equity and debt securities. These securities are valued using models which incorporate only data, which is not based on the market observations. The non-observable inputs to the models include assumptions regarding the future financial performance of the investee, its risk profile, and economic assumptions regarding the industry and geographical jurisdiction in which the investee operates, level of enterprise good-will, its management and founders/ shareholders.

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Movements in level 3 financial instruments measured at fair value

The following table shows a reconciliation of the opening and closing amount of Level 3 financial assets and liabilities which are recorded at fair value:

	At 1 January 2010	Total gain/ (loss) recorded in: profit or loss	Total gain/ (loss) recorded in: other comprehensive income	Purchases	Settlements	Transfers to Level 3	As 31 December 2010
Investment securities designed at fair value through profit or loss	575,040	36,143[a]	-	-	(503,387)[c]	-	107,796
Available-for-sale investment securities	803,030	152,260[b]	350	12,294,185	(4,580,274)[d]	51,447	8,720,998
Investment securities pledged under repurchase agreements	-	-	-	94,640	-	-	94,640
Total assets	**1,378,070**	**188,403**	**350**	**12,388,825**	**(5,083,661)**	**51,447**	**8,923,434**

	At 1 January 2009	Total gain/ (loss) recorded in: profit or loss	Total gain/ (loss) recorded in: other comprehensive income	Purchases	Settlements	Transfers to Level 3	As 31 December 2009
Investment securities designed at fair value through profit or loss	568,246	(106,908) [a]	-	-	(164,674)[c]	278,376	575,040
Available-for-sale investment securities	578,636	2,474	(799)	671,506	(584,904)[d]	136,117	803,030
Total assets	**1,146,882**	**(104,434)**	**(799)**	**671,506**	**(749,578)**	**414,493**	**1,378,070**

[a] UAH 45,636 thousand of gain is included within interest income from investment securities designated at fair value through profit or loss and UAH 9,493 thousand of loss is included in net gains/ (losses) from change in fair value of investment securities designated at fair value through profit or loss (2009: UAH 11,461 thousand of gain is included within interest income from investment securities designated at fair value through profit or loss and UAH 118,369 thousand of loss is included in net gains/ (losses) from change in fair value of investment securities designated at fair value through profit or loss.)

[b] UAH 139,289 thousand of gain is included within interest income from investment securities other than designated at fair value through profit or loss and UAH 12,971 thousand of gains is included in net gains/ (losses) available-for-sale investment securities.

[c] UAH 503,387 thousand of settlements comprise: UAH 66,087 thousand of sales (2009: nil) and UAH 437,300 thousand of redemptions (2009: UAH 164,674 thousand).

[d] UAH 4,580,274 thousand of settlements comprise: UAH 3,995,919 thousand of sales (2009: nil) and UAH 584,355 thousand of redemptions (2009: UAH 584,904 thousand).

During the year, the Bank transferred certain financial assets from level 1 to level 3 of the fair value hierarchy. The carrying amount of the total assets transferred was UAH 51,447 thousand (2009: UAH 414,949 thousand). The cumulative unrealised gain at the time of transfer was UAH 1,447 thousand (2009: UAH 5,512 thousand).

The reason for the transfers from level 1 to level 3 is that the market for some securities has become inactive, which has led to a change in the method used to determine fair value.

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

Gains or losses on level 3 financial instruments included in the profit or loss for the period comprise:

	2010		
	Realised gains	*Unrealised losses*	*Total*
Total gains and losses included in the profit or loss for the year	197,896	(9,493)	188,403

	2009		
	Realised gains	*Unrealised losses*	*Total*
Total gains and losses included in the profit or loss for the year	13,935	(118,369)	(104,434)

Impact on fair value of level 3 financial instruments measured at fair value of changes to key assumptions

The following table shows the impact on the fair value of level 3 instruments of using reasonably possible alternative assumptions:

	31 December 2010	
	Carrying value	*Influence of possible alternative assumptions*
Investment securities designed at fair value through profit or loss	107,796	(18,374)
Available-for-sale investment securities	8,720,998	(50,922)
Investment securities pledged under repurchase agreements	94,640	(1,331)

	31 December 2009	
	Carrying value	*Influence of possible alternative assumptions*
Investment securities designed at fair value through profit or loss	575,040	(1,466)
Available-for-sale investment securities	803,030	(16,103)

In order to determine reasonably possible alternative assumptions the Bank adjusted key unobservable model inputs as follows:

- For equities, the Bank adjusted the assumptions as to the possibility of bankruptcy or losses that were used to determine the credit component in fair value. The adjustment made was to increase the assumption up to 100% subject to individual characteristics of the investee;
- For debt securities (except for Ukrainian State bonds), the Bank adjusted the probability of default and loss given default assumption by increasing and decreasing the value of assumptions by 20% being the range corresponding to the internal ratings of counterparts' credit risk applied by the Bank. In addition, the Bank adjusted the probability of changes in interest rate assumption applied for discounting cash flows from debt securities within the range of +/- 40% of the level as at the end of the reporting period.
- For Ukrainian State bonds the Bank made assumptions upon the provisions of the applicable law of Ukraine, which provides for the possibility of sale at the price not less than the face value that minimize the impact made by the change in the interest rates on the carrying value thereof.

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29. Maturity analysis of assets and liabilities

The table below shows an analysis of assets and liabilities according to when they are expected to be recovered or settled. See Note 27 "Risk management" for the Bank's contractual undiscounted repayment obligations.

	2010			*2009 (restated)*		
	Within one year	*More than one year*	*Total*	*Within one year*	*More than one year*	*Total*
Assets						
Cash and cash equivalents	10,892,912	-	10,892,912	4,851,691	-	4,851,691
Due from credit institutions	709,104	420,253	1,129,357	1,238,934	497,260	1,736,194
Loans to customers	16,197,209	27,483,980	43,681,189	18,818,196	24,492,914	43,311,110
Investment securities:						
- designated at fair value through profit or loss	14,025	93,771	107,796	400,586	174,454	575,040
- available-for-sale	278,013	8,583,015	8,861,028	503,632	483,811	987,443
- held-to-maturity	171,099	1,470,378	1,641,477	20,405	770,757	791,162
Investment securities pledged under repurchase agreements	-	94,640	94,640	-	-	-
Current tax assets	570,144	-	570,144	614,358	-	614,358
Investment property	-	2,380,711	2,380,711	-	159,554	159,554
Assets held for sale	-	-	-	1,204,456	-	1,204,456
Property and equipment	-	2,204,565	2,204,565	-	2,019,674	2,019,674
Intangible assets	-	13,559	13,559	-	12,596	12,596
Deferred tax assets	-	11,771	11,771	-	41,972	41,972
Other assets	265,359	-	265,359	158,865	-	158,865
Total	**29,097,865**	**42,756,643**	**71,854,508**	**27,811,123**	**28,652,992**	**56,464,115**
Liabilities						
Amounts due to the National Bank of Ukraine	-	4,156,617	4,156,617	5,828,395	2,280,416	8,108,811
Amounts due to other banks	2,095,136	5,284,314	7,379,450	1,978,071	6,558,484	8,536,555
Due to customers	23,912,785	3,897,950	27,810,735	18,199,412	1,753,748	19,953,160
Eurobonds issued	3,987,925	7,801,470	11,789,395	122,611	5,657,589	5,780,200
Other debt securities issued	404,340	-	404,340	502,135	-	502,135
Subordinated debt	146,149	2,952,806	3,098,955	146,777	2,958,657	3,105,434
Current tax liabilities	7,339	-	7,339	5,281	-	5,281
Provisions	181	-	181	3,521	-	3,521
Other liabilities	136,337	-	136,337	131,004	13,687	144,691
Total	**30,690,192**	**24,093,157**	**54,783,349**	**26,917,207**	**19,222,581**	**46,139,788**
Net	**(1,592,327)**	**18,663,486**	**17,071,159**	**893,916**	**9,430,411**	**10,324,327**

The maturity analysis does not reflect the historical stability of current accounts. Their liquidation has historically taken place over a longer period than indicated in the tables above. These balances are included in amounts due within one year in the tables above. Also included in due to customers are term deposits of individuals. In accordance with Ukrainian legislation, the Bank is obliged to repay such deposits within five days upon the demand of a depositor. However, the Bank does not expect that many customers will request repayment at dates earlier than their maturity and expects that many deposits will be rolled-over. These balances are included above in accordance with their contractual maturity.

30. Related party disclosures

In accordance with IAS 24 "Related Party Disclosures", parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

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

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

	2010		*2009 (restated)*	
	State controlled entities	***Key management personnel***	***State controlled entities***	***Key management personnel***
Correspondent account with the NBU at 31 December	**919,447**	**-**	**681,971**	**-**
Current account with other credit institutions	**10**	**-**	**10**	
Deposits with the NBU	**590,685**	**-**	**329,209**	**-**
Loans and deposits from credit institutions at 31 December	**159,361**	**-**	**190,166**	**-**
Ukrainian state bonds designated at fair value through profit and loss at 1 January	**400,586**	**-**	**568,246**	**-**
Purchase of securities	-	-	-	-
Sale of securities	(400,000)	-	(164,674)	-
Other movements	(586)	-	(2,986)	-
Ukrainian state bonds designated at fair value through profit and loss at 31 December	**-**	**-**	**400,586**	**-**
Held-to-maturity other corporate bonds at 1 January	**659,190**	**-**	**192,767**	**-**
Purchase of other corporate bonds	797,323	-	447,620	-
Redemption of other corporate bonds	(20,000)	-	-	
Other movements	42,367	-	18,803	-
Held-to-maturity other corporate bonds at 31 December , gross	**1,478,880**	**-**	**659,190**	**-**
Less: allowance for impairment	-		(30,934)	
Held-to-maturity other corporate bonds at 31 December, net	**1,478,880**	**-**	**628,256**	**-**
Held-to-maturity municipal bonds at 1 January	**203,578**	**-**	**-**	**-**
Purchase of other corporate bonds	-	-	200,000	-
Other movements	(326)	-	3,578	-
Held-to-maturity municipal bonds at 31 December, gross	**203,252**	**-**	**203,578**	-
Less: allowance for impairment	(40,655)		(40,672)	
Held-to-maturity municipal bonds at 31 December, net	**162,597**		**162,906**	**-**
Ukrainian state bonds classified as available-for-sale at 1 January	**495,768**	**-**	**576,348**	**-**
Increase in share capital	6,389,997	**-**	6,349,998	**-**
Purchase of securities	6,827,280	-	2,883,735	-
Redemption of securities	(5,515,317)	-	(9,291,681)	-
Other movements	212,265	-	(22,632)	-
State bonds classified as available-for-sale at 31 December	**8,409,993**	**-**	**495,768**	**-**

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

	2010		*2009 (restated)*	
	State controlled entities	***Key management personnel***	***State controlled entities***	***Key management personnel***
Ukrainian state bonds pledged under repurchase agreements at 1 January	**-**	-	**-**	-
Purchase of securities	75,510	-	-	-
Other movements	19,130	-	-	-
Ukrainian state bonds pledged under repurchase agreements at 31 December	**94,640**	**-**	**-**	**-**
Corporate bonds classified as available-for-sale at 1 January	**132,486**	-	**40,587**	-
Purchase of securities	107,000	-	121,275	-
Redemption of securities	(50,712)	-	(24,700)	-
Other movements	8,762	-	(4,676)	-
Corporate bonds classified as available-for-sale at 31 December	**197,536**	**-**	**132,486**	**-**
Loans outstanding at 1 January, gross (less overdrafts)	**6,623,445**	**-**	**3,246,626**	**-**
Loans issued during the year	13,350,541	2,213	10,309,217	-
Loan repayments during the year	(10,288,124)	(85)	(7,039,447)	-
Other movements	(51,905)	29	107,049	-
Loans outstanding at 31 December, gross (less overdrafts)	**9,633,957**	**2,157**	**6,623,445**	**-**
Overdrafts at 31 December	3,707	123	92,276	279
Loans outstanding at 31 December, gross (including overdrafts)	9,637,664	2,280	6,715,721	279
Less: allowance for impairment at 31 December	(204,725)	(32)	(122,267)	-
Loans outstanding at 31 December, net	**9,432,939**	**2,248**	**6,593,454**	**279**
Other assets at 31 December	**15,160**	**-**	**4,035**	**-**
Loans due to the NBU at 1 January	**8,108,811**	**-**	**1,408,000**	**-**
Loans received during the year	1,318,000	-	13,287,943	-
Loans repaid during the year	(4,628,896)	-	(6,551,983)	-
Other movements	(641,298)	-	(35,149)	-
Loans due to the NBU at 31 December	**4,156,617**	**-**	**8,108,811**	**-**
Amounts due to credit institutions	**15,894**	**-**	**16,567**	**-**
Current accounts at 31 December	**6,049,848**	**1,494**	**2,922,337**	**4,808**
Time deposits as at 1 January	**1,912,056**	**61,875**	**232,791**	**52,682**
Time deposits received during the year	1,607,346	103,459	6,732,966	66,592
Time deposits repaid during the year	(2,533,400)	(149,975)	(5,023,711)	(57,793)
Other movements	(197,483)	(593)	(29,990)	394
Time deposits as at 31 December	**788,519**	**14,766**	**1,912,056**	**61,875**
Amounts due to customers	**6,838,367**	**16,260**	**4,834,393**	**66,683**
Other liabilities	**19,532**	**-**	**17,744**	**-**

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

	2010		*2009 (restated)*	
	State controlled entities	***Key management personnel***	***State controlled entities***	***Key management personnel***
Commitments and guarantees issued	**2,011,601**	**-**	**1,326,212**	**-**
Interest income on loans	1,070,796	72	863,740	56
Interest income on securities	673,540	-	227,398	-
Interest income on amounts due from the NBU	12,205	-	2,537	-
Interest income on amounts due from credit institutions	2,154	-	5,601	-
Interest income	**1,758,695**	**72**	**1,099,276**	**56**
Interest expenses on amounts due to credit institutions	(1,997)	-	-	-
Interest expense on clients' deposits	(274,038)	(2,899)	(147,494)	(2,057)
Interest expenses on other debt securities issued	(3,985)	-	(8,975)	-
Interest expenses on amounts due to the NBU	(465,054)	-	(940,322)	-
Interest expenses	**(745,074)**	**(2,899)**	**(1,096,791)**	**(2,057)**
Commission income	103,311	31	62,873	37
Commission expenses	-	-	(7)	-
Gain on initial recognition of financial liabilities	18,224	-	64,498	-
Gain on restructuring of financial liabilities	390,614	-	-	-
Translation differences	(12,883)	(335)	267,878	(73)
Other operating income	270	-	6	-
Other operating expenses	(832)	-	(895)	-

The aggregate short term benefits paid to key management personnel for 2010 is UAH 31,077 thousand (UAH 543 thousand payment to non-state pension fund) (2009: UAH 37,597 thousand (UAH 815 thousand payment to non-state pension fund)).

31. Capital

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

During 2010, the Bank had complied in full with all its externally imposed capital requirements.

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

The Bank manages its capital structure and makes adjustments to it in line with observed and expected changes in business environment and the risk characteristics of its activities.

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

NBU capital adequacy ratio

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

As at 31 December 2010, the Bank's regulatory capital adequacy ratio on this basis was as follows:

	2010	***2009***
Main capital	15,666,181	9,460,540
Additional capital	3,725,025	3,708,552
Less: deductions from capital	-	-
Total capital	**19,391,206**	**13,169,092**
Risk weighted assets	**44,801,436**	**39,069,508**
Capital adequacy ratio	43.28%	33.71%

Regulatory capital comprises Tier 1 capital (Main capital) consisting of paid-in registered share capital plus reserves less expected losses, intangible assets, accumulated deficit and losses of current period and Tier 2 capital (Additional capital), consisting of credit risk provisions, asset revaluation reserve, current profit, subordinated capital (in the amount not exceeding 100% of Tier 1 capital) and retained earnings. For Regulatory capital calculation purposes the qualifying Tier 2 capital amount is limited to 100% of Tier 1 capital.

Capital adequacy ratio under Basel Capital Accord 1988

As at 31 December 2010 and 2009, the Bank's Regulatory capital and capital adequacy ratio, computed in accordance with the Basel Capital Accord 1988 were as follows:

	2010	***2009 (restated)***
Tier 1 capital	16,198,325	9,679,939
Tier 2 capital	3,858,471	3,749,822
Total capital	**20,056,796**	**13,429,761**
Risk weighted assets	**60,431,003**	**53,024,173**
Tier 1 capital ratio	26.80%	18.26%
Total capital ratio	33.19%	25.33%

32. Events after the reporting period

In February 2011, the Bank, through BIZ Finance PLC, issued Eurobonds in the form of deposit linked notes with a par value of UAH 1,250 thousand with total nominal value of the issue of UAH 2,385,050 thousand. The bonds carry a fixed coupon rate of 11% p.a. and mature in February 2014.

In May 2011, according to the Resolution of the Cabinet of Ministers of Ukraine dated 2 February 2011, Eximbank's share capital was increased by UAH 19,976 thousand through capitalisation of part of profit and retained earnings for 2009 determined under UAR.