PJSC Credit Europe Bank

Financial Statements
31 December 2009

These financial statements contain 52 pages

Contents

(in thousands of UAH)	*Note*	**31 December 2009**	31 December 2008 (restated)	31 December 2007 (restated)
Assets				
Cash		**7,152**	12,677	1,587
Balances with the National Bank of Ukraine	*5*	**58,923**	79,605	42,181
Due from banks	*6*	**519,959**	1,188,716	1,030,575
Securities available-for-sale	*7*	**296,768**	161,534	247,602
Securities held-to-maturity	8	**-**	125,651	-
Loans and advances	*9*	**802,597**	1,039,314	222,083
Property, equipment and intangible assets	*10*	**26,837**	52,078	20,202
Investment property	*11*	**1,813**	-	-
Other assets	*12*	**3,016**	6,099	4,931
Total assets		**1,717,065**	2,665,674	1,569,161
Liabilities				
Due to banks	*13*	**1,078,819**	1,898,809	1,158,225
Current accounts	*14*	**50,820**	45,000	32,128
Deposits	*15*	**49,622**	191,850	40,544
Income tax payable		**25**	971	666
Deferred tax liability	*25*	**9,217**	737	994
Other liabilities	*16*	**2,170**	7,355	2,134
Total liabilities		**1,190,673**	2,144,722	1,234,691
Equity				
Share capital	*17*	**505,000**	505,000	329,088
Fair value reserve		**(6,993)**	(4,898)	(239)
Retained earnings		**28,385**	20,850	5,621
Total equity		**526,392**	520,952	334,470
Total liabilities and equity		**1,717,065**	2,665,674	1,569,161
Commitments and contingent liabilities	*18*			

The statement of financial position is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 7 to 52.

(in thousands of UAH)	*Note*	**2009**	2008 (restated)
Interest income	*19*	**230,089**	226,299
Interest expense	*20*	**(72,702)**	(89,922)
Net interest income		**157,387**	136,377
Fee and commission income	*21*	**24,608**	9,385
Fee and commission expense	*21*	**(5,382)**	(2,886)
Net fee and commission income	*21*	**19,226**	6,499
Net gains from dealing with foreign currencies		**28,523**	39,624
Net gains from sales of securities available-for-sale		**6,190**	-
Operating income		**211,326**	182,500
Salaries and employee benefits	*22*	**(53,034)**	(50,340)
General administrative expenses	*23*	**(41,659)**	(42,250)
Depreciation and amortisation	*10*	**(28,926)**	(8,012)
Provision for impairment	*24*	**(67,488)**	(62,103)
Operating expenses		**(191,107)**	(162,705)
Profit before tax		**20,219**	19,795
Income tax expense	*25*	**(12,684)**	(4,566)
Net profit		**7,535**	15,229
Other comprehensive loss		**-**	-
Net change in fair value of securities available-for-sale		**(2,095)**	(4,659)
Total comprehensive income		**5,440**	10,570

The statement of comprehensive income is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 7 to 52.

(in thousands of UAH)

	2009	2008
Operating activities		
Interest received	**229,319**	212,378
Interest paid	**(102,789)**	(83,030)
Fees and commissions received	**24,608**	9,385
Fees and commissions paid	**(5,382)**	(2,886)
Net gains (losses) from dealing in foreign currencies	**33,729**	(3,133)
Operating expenses paid	**(92,665)**	(91,854)
Decrease (increase) in due from banks	**807,312**	(497,696)
Decrease (increase) in loans and advances	**216,278**	(863,264)
Increase in restricted balances with NBU	**(21,759)**	-
Increase in other assets	**(106)**	(434)
(Decrease) increase in due to banks	**(807,409)**	740,566
Increase in current accounts	**5,742**	12,873
(Decrease) increase in deposits	**(141,928)**	144,018
(Decrease) increase in other liabilities	**(375)**	105
Net cash from (used in) operating activities before tax	**144,575**	(422,972)
Income tax paid	**(2,819)**	(4,519)
Cash flows from (used in) operating activities	**141,756**	(427,491)
Investing activities		
(Increase) decrease in securities available-for-sale	**(140,760)**	85,418
Repayment (purchase) of securities held-to-maturity	**125,000**	(125,000)
Acquisition of property, equipment and intangible assets	**(6,324)**	(39,890)
Proceeds from disposal of property, equipment and intangible assets	**2,639**	-
Cash flows used in investing activities	**(19,445)**	(79,472)
Financing activities		
Proceeds from issue of shares	**-**	175,912
Cash flows from financing activities	**-**	175,912
Effect of exchange rates fluctuations on cash and cash equivalents	**4,610**	37,448
Net increase (decrease) in cash and cash equivalents	**126,921**	(293,603)
Cash and cash equivalents as at 1 January	**473,686**	767,289
Cash and cash equivalents as at 31 December	**600,607**	473,686

The statement of cash flows is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 7 to 52.

Cash and cash equivalents as at 31 December as shown in the cash flow statement is composed of the following items:

(in thousands of UAH)	*Note*	**31 December 2009**	31 December 2008
Cash		**7,152**	12,677
Balances with the National Bank of Ukraine	*5*	**37,164**	79,605
Balances due from banks with original maturity less than three months	*6*	**556,291**	381,404
Total cash and cash equivalents		**600,607**	473,686

The statement of cash flows is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 7 to 52.

(in thousands of UAH)	*Note*	**Share capital**	**Fair value reserve**	**Retained earnings**	**Total**
Balances as at 1 January 2008		329,088	(239)	5,621	334,470
Net profit		-	-	15,229	15,229
Other comprehensive loss:					
Net change in fair value of securities available-for-sale		-	(4,659)	-	(4,659)
Total comprehensive income		-	(4,659)	15,229	10,570
Issue of shares		175,912	-	-	175,912
Balances as at 31 December 2008		505,000	(4,898)	20,850	520,952
Net profit		-	-	**7,535**	**7,535**
Other comprehensive loss:					
Net change in fair value of securities available-for-sale		-	**(2,095)**	-	**(2,095)**
Total comprehensive income		-	**(2,095)**	**7,535**	**5,440**
Balances as at 31 December 2009		**505,000**	**(6,993)**	**28,385**	**526,392**

The statement of changes in equity is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 7 to 52.

1 Background

(a) Organization and operations

PJSC Credit Europe Bank (the Bank) was established as CJSC Finansbank according to Ukrainian legislation and registered by the National Bank of Ukraine (NBU) in August 2006.

The Bank started operations on 2 February 2007. In June 2007 the Bank changed its name to Closed Joint-Stock Company Credit Europe Bank. In October 2009 the Bank was reorganised from a closed joint-stock company to a public joint-stock company.

The Bank provides banking services to individuals and companies operating in different industries, including metallurgy, trade and others. These services include taking deposits and granting loans, investing in securities, transferring payments in Ukraine and abroad, exchanging of currencies and other services. In 2009 the Bank changed the lending policy due to worsened conditions in the economy that led to the decrease in number of branches and employees. During 2009, the Bank was focused on servicing and collection of the loan portfolio.

The head office is located at 2 Mechnikova str, in Kyiv, Ukraine.

The Bank has 7 branches as at 31 December 2009 (31 December 2008: 13). The Bank has 193 employees as at 31 December 2009 (31 December 2008: 341).

(b) Ukrainian business environment

Ukraine is experiencing political and economic change that has affected, and may continue to affect, the activities of entities operating in this environment. Consequently, operations in Ukraine involve risks that do not typically exist in other markets. In addition, the recent contraction in the capital and credit markets has further increased the level of economic uncertainty in the environment. The financial statements reflect management's assessment of the impact of the Ukrainian business environment on the operations and the financial position of the Bank. The future business environment may differ from management's assessment.

The ongoing global liquidity crisis has resulted in, among other things, a lower level of capital market funding, lower liquidity levels across the Ukrainian banking sector, and higher interbank lending rates. The uncertainties in the global financial market have also led to bank failures and bank rescues around the world. Such circumstances could affect the ability of the Bank to obtain new borrowings and re-finance its existing borrowings at terms and conditions similar to those applied to earlier transactions. Loan customers may also be affected by the lower liquidity situation which could in turn impact their ability to repay the amounts owed. Deteriorating operating conditions for the Bank's borrowers may also have an impact on management's cash flow forecasts and assessment of the impairment of financial and non-financial assets.

The uncertainty in the global markets combined with other local factors during 2008 has led to a very significant fall in terms of prices and volume of trades in the Ukrainian stock markets and at times much higher than normal bid/ask spreads.

The market turmoil also resulted in the withdrawal of deposits from Ukrainian banks prior to their original maturity dates and closure of current accounts by individuals. As a result, many Ukrainian banks experienced liquidity shortages, and a number have been placed under NBU administration as a result.

On 11 October 2008 the NBU adopted Resolution 319 "On Additional Measures on Banks Operations" that requires lending operations and investment portfolios of Ukrainian banks to be capped at the amount of such operations as at 13 October 2008, except for dealing in government securities, NBU certificates of deposit, and interbank placements. On 16 October 2008, the NBU adopted Resolution 328 "Amendments to Resolution of the NBU 319 as at 11 October 2008" requiring lending operations in foreign currencies with borrowers who have no foreign currency income to be capped at the amount of such operations as at 13 October 2008. Furthermore, the NBU requires that Ukrainian banks repay liabilities to all categories of counterparties under all types of borrowing agreements in all currencies on the contractual maturity dates only. According to this resolution, from 11 October 2008 Ukrainian banks are recommended, among other things, to take measures to prevent withdrawal of funds from deposits, most importantly, Ukrainian hryvnia deposits, prior to the stated maturity dates. These paragraphs were cancelled by the NBU's resolution of 12 May 2009 "On Amendments to NBU Board Resolution 413 "On Certain Issues of Banking Activities" of 4 December 2008".

In response to ongoing crisis the NBU is taking a variety of other measures that may impact the Bank's operations and financial position. Such measures include, among other things, regulations over foreign exchange operations, and extended requirements for shareholders to increase share capital or provide additional financing in the form of subordinated loans. There has recently been more active application by the NBU of its regulation #369 "On adoption of Resolution on Applying Banking Law Enforcement Measures" dated 28 August 2001. Under this regulation, in case of continuing violation of certain required indicators including such ratios as regulatory capital adequacy and liquidity and further worsening of the financial position, the NBU may apply measures such as the introduction of temporary administration, temporary removal from office of key management personnel, limitations of rights of majority shareholders, withdrawal of banking licenses, and liquidation. Under these measures, a moratorium on payments to creditors for at least a six-month period may be introduced that would limit a bank's ability to conduct activities in the normal course of business.

On 22 July 2009 the NBU adopted Resolution 421 "On Additional Measures on Bank Operations" that requires immediate actions to increase the liquidity, profitability and reduce expenses. This Resolution also prohibits loss making banks according to the financial statements prepared in accordance with the NBU requirements to:

- pay dividends
- pay bonuses and other additional benefits to employees
- conclude agreements for any consultancy services
- open new branches
- grant unsecured loans
- grant loans and issue guaranties to related parties
- make charitable donations.

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

2 Basis of preparation

(a) Statement of compliance

The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS).

(b) Basis of measurement

The financial statements are prepared on the historical cost basis except for securities available-for-sale and investment property, which are stated at fair value.

(c) Functional and presentation currency

The national currency of Ukraine is the Ukrainian hryvnia (UAH). Consequently, the functional and presentation currency for the purposes of these financial statements is the Ukrainian hryvnia.

(d) Accounting estimates and judgments in applying accounting policies

The preparation of financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of policies and the reported amounts of assets, liabilities, income and expense. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from these estimates.

In particular, information about significant areas of estimation uncertainty in applying accounting policies is as follows:

Impairment of loans and advances. Management estimates impairment by assessing the likelihood of repayment of loans and advances based on analysis of individual accounts for individually significant loans, and collectively for loans with similar terms and risk characteristics. Factors taken into consideration when assessing individual loans include collection history, current financial condition of the borrower, timeliness of repayments and collateral, if any. To determine the amount of impairment, management estimates the amounts and timing of future payments of principal and interest and proceeds from the disposal of collateral, if any. These cash flows are then discounted using the loan's original interest rate. Actual principal and interest payments depend on the borrowers' ability to generate cash flows from operations or obtain alternative financing, and could differ from management's estimates.

Factors taken in consideration when estimating impairment on loans assessed collectively include historical loss experience, portfolio delinquency rates and overall economic conditions.

Note 9 contains a description of the sensitivity of the carrying amount of loans and advances to changes in estimates. Should actual repayments be less than management estimates, the Bank would be required to record additional impairment expense.

3 Significant accounting policies

The following significant accounting policies are consistently applied in the preparation of the financial statements:

(a) Foreign currency translation

Transactions in foreign currencies are translated to hryvnias at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to hryvnias at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in profit or loss. Non-monetary assets and liabilities denominated in foreign currencies are translated to hryvnias at the foreign exchange rate ruling at the date of the transaction.

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

Currency	**31 December 2009**	31 December 2008
US dollar	**7.99**	7.70
EUR	**11.45**	10.86

As at the date of these financial statements, 26 May 2010, the exchange rate is UAH 7.93 to USD 1.00 and UAH 9.69 to EUR 1.00.

(b) Financial instruments

Classification

Financial instruments at fair value through profit or loss include financial assets or liabilities held for trading, financial instruments designated at fair value through profit or loss at initial recognition, and derivative financial assets or liabilities.

A financial instrument is classified as held for trading if it is acquired principally for the purpose of selling it in the near term, or it is part of a portfolio for which there is evidence of a recent actual pattern of short-term profit taking, or it is a derivative.

Management designates financial assets and liabilities at fair value through profit or loss where either:

- the assets or liabilities are managed and evaluated on a fair value basis
- the designation eliminates or significantly reduces an accounting mismatch that would otherwise arise, or
- the asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

Financial assets and liabilities at fair value through profit or loss are not reclassified subsequent to initial recognition.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that management intends to sell immediately or in the near term, those that management upon initial recognition designates as at fair value through profit or loss, or those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

Loans and receivables include due from banks, including central banks, loans and advances, and other receivables.

Held-to-maturity assets are non-derivative financial assets with fixed or determinable payments and fixed maturity that management has the intent and ability to hold to maturity, other than those that:

- management upon initial recognition designates as at fair value through profit or loss,
- management designates as available-for-sale, or
- meet the definition of loans and receivables.

Available-for-sale assets are those financial assets that are designated as available-for-sale or are not classified as loans and receivables, held-to-maturity assets or financial instruments at fair value through profit or loss.

Financial liability is any liability that is a contractual obligation to deliver cash or another financial asset to another entity or to exchange financial instruments with another entity under conditions that are potentially unfavourable.

Management determines the appropriate classification of financial instruments at the time of the initial recognition. Derivative financial instruments and financial instruments designated as at fair value through profit or loss upon initial recognition are not reclassified out of at fair value through profit or loss category. Financial asset that would have met the definition of loan and receivables may be reclassified out of the fair value through profit or loss or available-for-sale category if the entity has an intention and ability to hold it for the foreseeable future or until maturity. Other financial instruments may be reclassified out of at fair value through profit or loss category only in rare circumstances. Rare circumstances arise from a single event that is unusual and highly unlikely to recur in the near term.

Recognition

Financial assets and liabilities are recognised in the statement of financial position when the Bank becomes a party to the contractual provisions of instrument. All regular way purchases of financial assets are accounted for at the settlement date.

Measurement

A financial asset or liability is initially measured at its fair value plus, in the case of a financial asset or liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or liability.

Subsequent to initial recognition, financial assets, including derivatives that are assets, are measured at their fair values, without any deduction for transaction costs that may be on sale or other disposal, except for:

- loans and receivables that are measured at amortised cost using the effective interest method
- held-to-maturity investments that are measured at amortised cost using the effective interest method, and
- investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, which are measured at cost less impairment losses.

All financial liabilities, other than those designated at fair value through profit or loss and financial liabilities that arise when a transfer of a financial asset carried at fair value does not qualify for de-recognition, are measured at amortised cost. Amortised cost is calculated using the effective interest method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument. Where a valuation based on observable market data indicates a fair value gain or loss on initial recognition of an asset or liability, the gain or loss is recognised immediately in profit or loss. Where an initial gain or loss is not based entirely on observable market data, it is deferred and recognised over the life of the asset or liability on an appropriate basis, or when prices become observable, or on disposal of the asset or liability.

Financial assets or liabilities originated at interest rates different from market rates are re-measured at origination to their fair value, being future interest payments and principal repayments discounted at market interest rates for similar instruments. The difference between the fair value and the nominal value at origination is credited or charged to profit or loss or equity (if financial assets or liabilities originated with the shareholders acting in their capacity as shareholders) as gains or losses on origination of financial instrument at rates different from market rates. Subsequently, the carrying amount of such assets or liabilities is adjusted for amortization of the gains/losses on origination and the related income/expenses is recorded in profit or loss using the effective interest method.

Fair value measurement principles

The fair value of financial instruments is based on their quoted market price at the reporting date without any deduction for transaction costs. If a quoted market price is not available, the fair value of the instrument is estimated using pricing models or discounted cash flow techniques with a maximum use of market inputs.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates using a discount rate representing a market rate at the statement of financial position date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market related measures at the reporting date.

Gains and losses on subsequent measurement

A gain or loss arising from a change in the fair value of a financial asset or liability is recognised as follows:

- a gain or loss on a financial instrument classified as at fair value through profit or loss is recognised in profit or loss
- a gain or loss on an available-for-sale financial asset is recognised directly in equity (except for impairment losses and foreign exchanges gains and losses) until the asset is derecognised, at which time the cumulative gain or loss previously recognised in equity is recognised in profit or loss. Interest in relation to an available-for-sale financial asset is recognised as earned in profit or loss and is calculated using the effective interest method.

For financial assets and liabilities carried at amortised cost, a gain or loss is recognised in profit or loss when the financial asset or liability is derecognised or impaired, and through the amortization process.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Bank has transferred substantially all risks and rewards of ownership. A financial liability is derecognised when it is extinguished, i.e. when the obligation specified in the contract is discharged, cancelled or expires.

The Bank also derecognizes certain assets when it writes off balances pertaining to the assets deemed to be uncollectible.

All impairment losses in respect of loans and receivables are recognized in profit or loss and are only reversed if a subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

When a loan is uncollectable, it is written off against the related allowance for loan impairment. The Bank writes off a loan balance (and any related allowances for loan losses) when management determines that the loans are uncollectible and when all necessary steps to collect the loan are completed.

Interest bearing borrowings

Interest bearing borrowings are recognised initially at cost, net of any transaction costs incurred. Subsequent to initial recognition, interest bearing borrowings are stated at amortised cost and any difference between cost and redemption value is recognised in profit or loss over the period of the borrowings.

When borrowings are repurchased or settled before maturity, any difference between the amount repaid and the carrying amount is immediately recognised in profit or loss.

(c) Impairment

Assets are reviewed at each statement of financial position date to determine whether there is objective evidence of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

For all loans that are considered individually significant, the Bank assesses on a case-by-case basis at each reporting date whether there is any objective evidence that the loan is impaired. Special emphasis is placed on the timing of the contractual cash flows from interest payments and principal repayments. Other impairment indicators include, but are not limited to, significant financial difficulties, an actual breach of the loan contract, a high probability of bankruptcy or other financial reorganisation of the borrower.

The impairment review requires estimating the expected timing and amount of cash flows from interest and principal payments and other cash flows, including amounts recoverable from guarantees and collateral, and discounting them at the loan's original effective interest rate. The loan is impaired if its carrying amount exceeds its estimated recoverable amount. A separate impairment loss is recorded on an individually significant impaired loan.

All remaining loans that have not been identified as individually significant are to be assessed on a portfolio basis. The collective impairment is determined based on a statistical data of historical trends of default and amount of consequential loss, based on the delinquency of loans within a portfolio of homogeneous loans. Other historical data and current economic conditions are also evaluated when calculating the appropriate level of provision for impairment required covering incurred loss.

Calculation of recoverable amount

Loans and advances

Management reviews the loan portfolio to assess impairment on a regular basis. A loan (or a group of loans) is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the loan and that event (or events) has an impact on the estimated future cash flows of the loan (or the group of loans) that can be reliably estimated.

Management first assesses whether objective evidence of impairment exists individually for loans and advances that are individually significant, and individually or collectively for loans and advances that are not individually significant. If no objective evidence of impairment exists for an individually assessed loan, whether significant or not, it includes the loan in a group of loans with similar credit risk characteristics and collectively assesses them for impairment. Loans 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 objective evidence that an impairment loss on a loan has been incurred, the amount of the loss is measured as the difference between the loan carrying amount and the present value of estimated future cash flows including amounts recoverable from guarantees and collateral (excluding future losses that have not been incurred) discounted at the loan's original effective interest rate. Contractual cash flows and historical loss experience adjusted on the basis of relevant observable data that reflect current economic conditions provide the basis for estimating expected cash flows.

In some cases the observable data required to estimate the amount of an impairment loss on a loan may be limited or no longer fully relevant to current circumstances. This may be the case when a borrower is in financial difficulties and there is little available historical data relating to similar borrowers. In such cases, management uses its experience and judgment to estimate the amount of any impairment loss.

The assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Available-for-sale assets

Impairment losses on available-for-sale assets are recognised by transferring the cumulative loss that has been recognised in other comprehensive income to profit or loss as a reclassification adjustment. The cumulative loss that is reclassified from other comprehensive income to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

For an investment in an equity security available-for-sale, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

Non financial assets

Other non financial assets, other than deferred taxes, are assessed at each reporting date for any indications of impairment. The recoverable amount of non financial assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognized when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

All impairment losses in respect of non financial assets are recognized in profit or loss and reversed only if there has been a change in the estimates used to determine the recoverable amount. Any impairment loss reversed is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Reversal of impairment

An impairment loss in respect of a held-to-maturity asset or a loan or a receivable carried at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised. An impairment loss in respect of an investment in an equity instrument classified as available-for-sale is not reversed. If the fair value of a debt instrument classified as available-for-sale increases and the increase can be related objectively to an event occurring after the impairment loss was recognised in profit or loss, then the impairment loss is reversed, with the amount of the reversal recognised in profit or loss.

In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognised.

Credit related commitments

In the normal course of business, the Bank enters into credit related commitments, comprising undrawn loan commitments, letters of credit and guarantees, and provides other forms of credit insurance.

Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

A financial guarantee liability is recognised initially at fair value net of associated transaction costs, and is measured subsequently at the higher of the amount initially recognised less cumulative amortisation or the amount of provision for losses under the guarantee. Provisions for losses under financial guarantees and other credit related commitments are recognised when losses are considered probable and can be measured reliably.

Financial guarantee liabilities and provisions for other credit related commitment are included in other liabilities.

(d) Property, equipment and intangible assets

Property, equipment and intangible assets are carried at cost less accumulated depreciation and amortization and impairment losses. Depreciation and amortization is computed by the straight-line method over the estimated useful lives of the assets. Depreciation and amortization commences from the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. The estimated useful lives are as follows:

Furniture and equipment	3-5 years
Motor vehicles	5 years
Intangible assets	3-5 years

Expenditures for leasehold improvements are recognised as assets and charged to profit or loss on a straight-line basis over the shorter of their economic life or the period of the applicable lease.

(e) Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in normal course of business, or for the use in production or supply of goods or services or for administrative purposes. Investment property is measured at fair value with any change recognised in profit or loss.

When the use of a property changes such that it is reclassified as property and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

(f) Leases

Payments for operating leases, where the Bank does not assume substantially all the risks and rewards of ownership, are classified as expenses when incurred.

(g) Income and expense recognition

Interest and similar income and interest expense and similar charges are recognised in profit or loss on an accrual basis, taking into account the effective yield/rate of the asset/liability or an applicable floating rate. Interest and similar income and expense include the amortization of any discount or premium or other differences between the initial carrying amount of an interest bearing instrument and its amount at maturity calculated on an effective interest rate basis.

Commission income and expense is recognised on accrual basis. Other fees, commission and other income are recognised when the corresponding service is provided/received.

Fees received in connection with loan origination/restructuring are netted against the direct costs incurred to grant/restructure the loan, and are amortised over the life of the loan as an adjustment to interest income.

Expenses incurred in connection with loan facilitation are amortised over the life of the loan as an adjustment to interest income.

(h) Taxation

Income tax on the profit or loss comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the statement of financial position date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the statement of financial position liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the statement of financial position date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the unused tax losses and credits can be utilised.

Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(i) Employee benefits

Pensions are provided by the State. Mandatory contributions are made by the Bank and employees based on the earnings of the employees. The cost for these contributions is recognized in profit or loss when contributions are due and is included in salaries and employee benefits.

(j) Cash and cash equivalents

Cash and cash equivalents include cash, balances with the National Bank of Ukraine and balances due from banks with contractual maturity within three months. As at 31 December 2009, the mandatory reserve with the NBU is not considered to be cash equivalent due to restriction on its withdrawability.

(k) Offsetting

Financial assets and liabilities are offset and the net amount reported in the 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 realize the asset and settle the liability simultaneously.

(l) Segment reporting

An operating segment is a component of a Bank that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same Bank); whose operating results are regularly reviewed by the chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

The Bank represents one reportable segment that has central management and follows common lending policy and marketing strategy.

(m) Adoption of new accounting standards

Starting from 1 January 2009 the Bank adopted the revised version of IAS 1 Presentation of Financial Statements (effective for annual periods beginning on or after 1 January 2009). As a result profit or loss is replaced by a statement of comprehensive income that also includes all non-owner changes in equity such as the revaluation of available-for-sale assets and revaluation of land and buildings. The balance sheet is renamed to the statement of financial position and the cash flow statement is renamed to the statement of cash flows. According to the revised IAS 1, a statement of financial position at the beginning of the earliest comparative period is presented whenever the entity restates comparatives due to reclassifications, changes in accounting policies, or corrections of errors.

Starting from 1 January 2009 the Bank adopted IFRS 8 Operating Segments (effective for annual periods beginning on or after 1 January 2009) which introduces the management approach to segment reporting and requires the disclosure of segment information based on the internal reports regularly reviewed by the chief operating decision maker in order to assess each segment's performance and to allocate resources to them. Comparative figures are restated in order to comply with the requirements of the new accounting standard.

Various improvements to IFRSs have been dealt with on a standard-by-standard basis.

(n) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective and have not been applied in preparing these financial statements. Of these pronouncements, the following will potentially have an impact on the financial statements:

- IFRS 9 *Financial Instruments* will be effective for annual periods beginning on or after 1 January 2013. The new standard is to be issued in several phases and is intended to replace International Financial Reporting Standard IAS 39 *Financial Instruments: Recognition and Measurement* once the project is completed by the end of 2010. The first phase of IFRS 9 was issued in November 2009 and relates to the recognition and measurement of financial assets.
- Amendment to IAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items* clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation should be applied in particular situations.
- IFRIC 17 *Distributions of Non-cash Assets to Owners* addresses the accounting for non-cash dividend distributions to owners. The interpretation clarifies when and how a non-cash dividend should be recognised and how the difference between the dividend paid and the carrying amount of the net assets distributed should be recognised. IFRIC 17 became effective for annual periods beginning on or after 1 July 2009.

Management is currently studying what effect these new standards and amendments may have on the financial position and result of operations.

(o) Restatement of comparative information

Comparative information is reclassified to conform to changes in presentation in the current year.

During the year the Bank changed the classification of the obligatory reserve held with the National Bank of Ukraine as at 31 December 2008 amounting to UAH 58,582 thousand (2007: UAH 35,000 thousand). The Bank decided to classify this amount within "Balances with the National Bank of Ukraine" as this balance is available for withdrawal. As at 31 December 2008 this balance was classified as other assets.

Current accounts and deposits, previously classified as deposits from customers, as at 31 December 2009 are presented separately.

Securities held-to-maturity and Securities available-for-sale, previously classified as Investment securities, as at 31 December 2009 are presented separately.

The effects of these reclassifications are as follows:

(in thousands of UAH)	31-Dec-08	31-Dec-07
Increase in		
Cash	12,677	1,587
Balances with the National Bank of Ukraine	79,605	42,181
Due from banks	186,140	723,397
Securities available-for-sale	161,534	247,602
Securities held-to-maturity	125,651	0

	31-Dec-08	31-Dec-07
(in thousands of UAH)		
Current accounts	45,000	32,128
Deposits	191,850	40,544
Decrease in		
Cash and cash equivalents	219,840	732,165
Other assets	58,582	35,000
Investment securities	287,185	247,602
Deposits from customers	236,850	72,672

4 Segment reporting

The Bank represents one reportable segment that has central management and follows common lending policy and marketing strategy.

There are no customers from which revenues exceed 10% of total external revenue.

Substantially all revenues from external customers relate to residents of Ukraine. Substantially all of assets are located in Ukraine.

5 Balances with the National Bank of Ukraine

Balances with the National Bank of Ukraine as at 31 December are as follows:

	2009	2008	2007
(in thousands of UAH)			
Balances available for withdrawal	**37,164**	79,605	42,181
Mandatory reserve with the NBU (restricted for withdrawal)	**21,759**	-	-
Total	**58,923**	79,605	42,181

The Bank is required by the NBU to maintain an obligatory reserve balance calculated as an average of certain customer funds over a period of one month. As at 31 December 2009, the obligatory reserve amounts to UAH 21,759 thousand (31 December 2008: UAH 58,582 thousand; 31 December 2007: UAH 35,000 thousand). The Bank meets the NBU reserve requirements as at 31 December 2009, 31 December 2008 31 December 2007. This amount could be available for withdrawal as long as an average monthly balance maintained by the Bank meets obligatory reserve requirement.

On 1 December 2008 the NBU adopted Resolution 406 which imposed a new requirement regarding mandatory reserve that should be kept on the correspondent accounts of the NBU. This Resolution became effective on 1 January 2009. The reserve is calculated based on the amount of loans in foreign currency granted during 2009 to the borrowers which do not have income in foreign currency.

As at 31 December 2009 all mandatory reserve with the NBU is restricted for withdrawal.

6 Due from banks

Balances due from banks as at 31 December are as follows:

(in thousands of UAH)	**2009**	2008	2007
Current accounts	**468,444**	186,140	723,397
Loans and advances	**87,847**	1,002,576	307,725
	556,291	1,188,716	1,031,122
Provision for impairment (note 24)	**(36,332)**	-	(547)
Total	**519,959**	1,188,716	1,030,575

The geographical information on balances due from banks as at 31 December 2009 and 2008 is disclosed in note 26(c).

As at 31 December 2009, provision for impairment relates to balances due from domestic bank amounting UAH 63,880 thousand is overdue 83 days (31 December 2007: UAH 10,940 thousand, not overdue).

The following table represents an analysis of due from banks by rating agency designation based on Standard and Poor's ratings (S&P) or their equivalent as at 31 December:

(in thousands of UAH)	**2009**	2008	2007
Current accounts:			
AA- to AA+	**1,957**	-	-
BBB- to BBB+	**447,613**	165,118	723,397
CCC- to CCC+	**18,394**	-	-
Unrated	**480**	21,022	-
	468,444	186,140	723,397
Loans and advances:			
AA- to AA+	-	146,470	171,425
BBB- to BBB+		591,901	125,360
CCC- to CCC+	**87,847**		-
Unrated		264,205	10,393
	87,847	1,002,576	307,178
Total	**556,291**	1,188,716	1,030,575

As at 31 December 2009, the five largest balances due from banks amount to UAH 552,801 thousand or 99.4% of the gross exposure due from banks (31 December 2008: UAH 542,980 thousand or 45.7%; 31 December 2007: UAH 628,651 thousand or 61,0%;).

As at 31 December 2009, loans and advances due from one domestic bank amounting to UAH 23,900 thousand are secured by loans and deposits due to the same bank in different currency with the same maturity (31 December 2008: nil; 31 December 2007: nil) (note 13).

7 Securities available-for-sale

Securities available-for-sale as at 31 December are as follows:

(in thousands of Ukrainian hryvnias)	**2009**	2008	2007
Corporate bonds	**141,483**	169,298	247,602
Government bonds issued by Ministry of Finance of Ukraine	**170,339**	-	-
	311,822	169,298	247,602
Provision for impairment (note 24)	**(15,054)**	(7,764)	-
Total	**296,768**	161,534	247,602

Securities available-for-sale are carried at fair value. As at 31 December 2009, 2008 and 2007 there are no securities available-for-sale, which would otherwise be past due but terms of which have been renegotiated.

Fair value of securities available-for-sale was determined using discounted cash flows technique assuming the interest rate of similar financial instruments as at reporting date.

The following table represents an analysis of securities available-for-sale by rating agency designation based on Moody's ratings or their equivalent as at 31 December:

(in thousands of Ukrainian hryvnias)	**2009**	2008	2007
B2/Negative	**187,222**	30,856	35,396
Unrated	**139,654**	146,206	212,206
	311,822	169,298	247,602

8 Securities held-to-maturity

As at 31 December 2008, securities held-to-maturity represent government bonds issued by Ministry of Finance of Ukraine which matured in 2009.

9 Loans and advances

Loans and advances as at 31 December are as follows:

(in thousands of UAH)	**2009**	2008
Corporate	**620,389**	906,907
Retail		
Mortgage	**88,579**	71,257
Consumer	**63,327**	28,336
Auto	**50,800**	40,866
Credit cards and other loans	**35,017**	50,775
	237,723	191,234
	858,112	1,098,141
Provision for impairment (note 24)	**(55,515)**	(58,827)
Total loans, net	**802,597**	1,039,314

Loans and advances include loan principal and accrued interest as at 31 December 2009 and 31 December 2008.

Changes in collection estimates can affect the impairment losses recognised. For example, to the extent that the net present value of the estimated cash flows differs by plus/minus one percent, the loan impairment as at 31 December 2009 would be UAH 8,026 thousand lower/higher (31 December 2008: UAH 10,393 thousand).

As at 31 December 2009 loans and advances to the ten largest borrowers total UAH 547,485 thousand, and represent 63.8% of the total gross loans and advances (31 December 2008: UAH 614,434 thousand or 56.0%).

Loan impairment as at 31 December 2009 is as follows:

(in thousands of UAH)	**Gross loans**	**Impairment**	**Net loans**	**Impairment to gross loans**
Corporate loans				
Loans with specific impairment	**46,445**	**2,904**	**43,541**	**6.3%**
Loans without specifically identified impairment	**573,944**	**21,379**	**552,565**	**3.7%**
Total corporate loans	**620,389**	**24,283**	**596,106**	**3.9%**
Retail loans without specifically identified impairment:				
Mortgage	**88,579**	**10,434**	**78,145**	**11.8%**
Consumer	**63,327**	**8,788**	**54,539**	**13.9%**
Auto	**50,800**	**2,290**	**48,510**	**4.5%**
Credit cards and other loans	**35,017**	**9,720**	**25,297**	**27.8%**
Total retail loans without specifically identified impairment	**237,723**	**31,232**	**206,491**	**13.1%**
Total	**858,112**	**55,515**	**802,597**	**6.5%**

Loan impairment as at 31 December 2008 is as follows:

(in thousands of UAH)	**Gross loans**	**Impairment**	**Net loans**	**Impairment to gross loans**
Corporate loans				
Loans with specific impairment	32,940	23,163	9,777	70.3%
Loans without specifically identified impairment	873,967	-	873,967	0.0%
Total corporate loans	**906,907**	**23,163**	**883,744**	**2.6%**
Retail loans without specifically identified impairment:				
Mortgage	71,257	9,414	61,843	13.2%
Consumer	28,336	7,571	20,765	26.7%
Auto	40,866	3,806	37,060	9.3%
Credit cards and other loans	50,775	14,873	35,902	29.3%
Total retail loans without specifically identified impairment	**191,234**	**35,664**	**155,570**	**18.6%**
Total	**1,098,141**	**58,827**	**1,039,314**	**5.4%**

As at 31 December 2009 accrued interest income on impaired loans and advances amounted to UAH 1,570 thousand (31 December 2008: 1,772).

As at 31 December 2009 loans and advances that would otherwise be past due or impaired had their terms not been renegotiated total UAH 42,702 thousand (31 December 2008: UAH 31,801 thousand).

As at 31 December 2009 and 2008 there were no loans that are past due but not impaired.

In 2009 the Bank foreclosed residential premises that secured loans and advances. Foreclosed premises, with a fair value of UAH 1,813 thousand on the date of foreclosure, will be retained for capital appreciation, and accordingly, are recognized as investment property (note 11).

During 2009 the Bank wrote off retail loans amounting to UAH 5,176 thousand.

The following table provides an analysis of the gross loan portfolio by types of collateral:

	31 December 2009			**31 December 2008**		
Type of collateral	**Corporate loans**	**Retail loans**	**Total**	Corporate loans	Retail loans	Total
(in thousands of UAH)						
Loans with specific impairment:						
Pledged assets	**31,045**	**-**	**31,045**	23,683	-	23,683
Unsecured	**2,784**	**-**	**2,784**	-	-	-
Guarantee	**12,616**	**-**	**12,616**	9,257	-	9,257
Total loans with specific impairment	**46,445**	**-**	**46,445**	32,940	-	32,940
Loans without specifically identified impairment:						
Pledged assets	**514,237**	**224,260**	**738,497**	741,243	133,081	874,324
Unsecured	**21,379**	**13,463**	**34,842**	-	58,153	58,153
Guarantee	**38,328**	**-**	**38,328**	132,724	-	132,724
Total loans without specifically identified impairment	**573,944**	**237,723**	**811,667**	873,967	191,234	1,065,201
Total loans:						
Pledged assets	**545,282**	**224,260**	**769,542**	764,926	133,081	898,007
Unsecured	**24,163**	**13,463**	**37,626**	-	58,153	58,153
Guarantee	**50,944**	**-**	**50,944**	141,981	-	141,981
Total	**620,389**	**237,723**	**858,112**	906,907	191,234	1,098,141

These tables summarize the amount of loans secured by collateral, rather than the fair value of the collateral itself.

Pledged assets primarily include real estate, production facilities and automobiles and cash deposit pledged by Credit Europe Bank N.V.

As at 31 December 2009, Credit Europe Bank N.V. pledged cash deposit as a collateral for loans and advances to domestic corporate customers amounting to UAH 355,731 thousand (31 December 2008: nil)

As at 31 December 2009, the estimated fair value of collateral pledged for loans with specific impairment identified is approximately UAH 30,328 thousand (31 December 2008: UAH 9,386 thousand).

The Bank's lending activities are conducted in Ukraine. The ability of the borrowers to repay their debt is dependent on a number of factors including the overall financial health of the individual borrowers and the continued development of the Ukrainian economy.

Corporate loans and advances by economic sector as at 31 December are as follows:

(in thousands of UAH)	**2009**	2008
Trade	**205,603**	304,700
Industry	**132,452**	156,824
Food and agriculture	**74,166**	87,813
Energy	**54,595**	64,641
Financial intermediaries	**46,599**	114,043
Construction	**36,542**	81,219
Tourism	**31,952**	40,218
Other	**38,480**	57,450
Total	**620,389**	906,907

10 Property, equipment and intangible assets

A summary of activity in property, equipment and intangible assets for the year ended 31 December 2009 is as follows:

(in thousands of UAH)	**Leasehold improvements**	**Furniture and equipment**	**Motor vehicles**	**Intangible assets**	**Total**
Cost					
1 January 2009	**29,845**	**22,126**	**4,193**	**5,449**	**61,613**
Additions	**1,625**	**3,124**	**-**	**1,575**	**6,324**
Disposals	**(15,788)**	**(1,106)**	**(2,830)**	**-**	**(19,724)**
31 December 2009	**15,682**	**24,144**	**1,363**	**7,024**	**48,213**
Accumulated depreciation and amortisation					
1 January 2009	**3,707**	**4,139**	**1,016**	**673**	**9,535**
Depreciation and amortisation	**16,482**	**9,391**	**1500**	**1,553**	**28,926**
Disposals	**(15,129)**	**(200)**	**(1,756)**	**-**	**(17,085)**
31 December 2009	**5,060**	**13,330**	**760**	**2,226**	**21,376**
Net book value as at 31 December 2009	**10,622**	**10,814**	**603**	**4,798**	**26,837**

A summary of activity in property, equipment and intangible assets for the year ended 31 December 2008 is as follows:

(in thousands of UAH)	Leasehold improvements	Furniture and equipment	Motor vehicles	Intangible assets	Total
Cost					
1 January 2008	8,871	8,160	3,077	1,615	21,723
Additions	20,974	13,966	1,116	3,834	39,890
31 December 2008	29,845	22,126	4,193	5,449	61,613
Accumulated depreciation and amortisation					
1 January 2008	-	1,068	322	133	1,523
Depreciation and amortisation	3,707	3,071	694	540	8,012
31 December 2008	3,707	4,139	1,016	673	9,535
Net book value as at 31 December 2008	26,138	17,987	3,177	4,776	52,078

11 Investment property

A summary of activity in investment property for the year ended 31 December is as follows:

(in thousands of UAH)	**2009**	2008
As at 1 January	-	-
Foreclosed property	**1,813**	-
As at 31 December	**1,813**	-

In December 2009 the Bank foreclosed residential premises. The Bank intends to keep the property for capital appreciation.

Property was recognised at fair value. The basis used for the appraisal was market value. The market approach is based upon an analysis of the results of comparable sales of similar premises. Key assumptions relate to the condition, quality and location of premises used as comparatives. Management believes that there were no changes in fair value of investment property since foreclosure to 31 December 2009.

As at 31 December 2009 1% increase (decrease) in market comparatives, would result in increase (decrease) of fair value of investment property by UAH 18 thousand (31 December 2008: nil).

12 Other assets

Other assets as at 31 December are as follows:

(in thousands of UAH)	**2009**	2008	2007
Prepayments for goods and services	**2,425**	5,614	4,879
Other	**591**	485	52
Total	**3,016**	6,099	4,931

As at 31 December 2009, 2008 and 2007 there were no past due but not impaired other assets.

13 Due to banks

Balances due to banks as at 31 December are as follows:

(in thousands of UAH)	**2009**	2008
Deposits:		
OECD countries	**1,039,109**	1,835,820
Domestic	**39,710**	62,989
Total	**1,078,819**	1,898,809

As at 31 December 2009, balances due to Parent amount to UAH 1,039,109 thousand or 96.3% of balances due to banks (31 December 2008: UAH 1,835,820 thousand or 96.7%)

As at 31 December 2009 balances due to parent amounting to UAH 355,731 thousand are pledged as a security for loans and advances granted to domestic corporate customers (31 December 2008: nil) (note 0).

As at 31 December 2009, loans and deposits due to one domestic bank amounting to UAH 23,955 thousand are secured by loans and advances due from the same bank in different currency with the same maturity (31 December 2008: nil) (note 6).

14 Current accounts

Current accounts as at 31 December are as follows:

(in thousands of UAH)	**2009**	2008	2007
Commercial	**45,631**	39,309	28,065
Retail	**5,189**	5,691	4,063
Total	**50,820**	45,000	32,128

As at 31 December 2009, current accounts of the ten largest customers total UAH 39,416 thousand, or 77.6% of the total current accounts (31 December 2008: UAH 29,918 thousand, or 66.5%, 31 December 2007: UAH 27,186 thousand, or 84.6%).

15 Deposits

Deposits as at 31 December are as follows:

(in thousands of UAH)	**2009**	2008	2007
Commercial	**35,798**	182,036	38,470
Retail	**13,824**	9,814	2,074
Total	**49,622**	191,850	40,544

As at 31 December 2009 deposits of the ten largest customers total UAH 44,337 thousand, or 89.3% of total deposits (31 December 2008: UAH 184,960 thousand, or 96.4%, 31 December 2007: UAH 37,560 thousand, or 92.6%).

16 Other liabilities

Other liabilities as at 31 December are as follows:

(in thousands of UAH)	**2009**	2008
Provision for unused vacations	**977**	2,077
Accounts payable	**430**	491
Deferred income	-	3,649
Other	**763**	1,138
Total	**2,170**	7,355

Accounts payable include mainly accrued expenses for credit card settlements and other payables.

Other liabilities include salary and related charges payable and other unfinished settlements.

17 Share capital

The share capital as at 31 December is as follows:

	2009		2008	
(in thousands of UAH)	**Number of shares**	**Amount**	Number of shares	Amount
Shares authorised, issued and fully paid in	**505,000,000**	**505,000**	505,000,000	505,000

The nominal value of ordinary shares is UAH 1 per share as at 31 December 2009 and 2008.

All ordinary shares have equal voting, dividend and capital repayment rights. In 2009 and 2008 no dividends were declared.

In accordance with the Ukrainian legislation, the distributable reserves are limited to the balance of accumulated reserves as recorded in the statutory financial statements prepared in accordance with National Accounting Standards.

18 Commitments and contingent liabilities

(a) Guarantees

As at 31 December 2009 the Bank issued guarantees amounting to UAH 194,320 thousand (31 December 2008: UAH 135,845 thousand).

(b) Operating lease commitments

The Bank leases operational space in its normal course of business. Future non-cancellable lease payments as at 31 December are as follows:

(in thousands of UAH)	**2009**	2008
Within one year	**3,935**	31,276
From one to five years	**4,221**	48,799
	8,156	80,075

During the year ended 31 December 2009 the Bank closed six branches and cancelled corresponding leases.

(c) Insurance

The insurance industry in Ukraine is in a developing stage and many forms of insurance protection common in other countries are not yet generally available. The Bank does not have full coverage for its premises and equipment, business interruption, or third party liability in respect of damage arising from accidents on Bank property or relating to operations. Until the Bank obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the operations and financial position.

(d) Tax contingency

The Ukrainian tax system can be characterised by numerous taxes and frequently changing legislation. Tax regulations are often unclear, open to wide interpretation, and in some instances are conflicting. Instances of inconsistent opinions between local, regional and national tax authorities and between the National Bank of Ukraine and the Ministry of Finance are not unusual. Tax declarations are subject to review and investigation by a number of authorities that are enabled by law to impose significant penalties and interest charges. These facts create tax risks in Ukraine substantially more significant than typically found in countries with more developed tax systems.

Management believes it has complied with all existing tax legislation. However, there can be no assurance that the tax authorities will not have a different interpretation of the Bank's compliance with existing legislation and assess fines and penalties. No provision for potential tax assessments has been made in these financial statements.

(e) Litigation

The Bank is involved in various legal proceedings in the ordinary course of business. Management does not believe the result of any such actions will have a material effect on financial position or results of operations.

19 Interest income

Interest income for the year ended 31 December is as follows:

(in thousands of UAH)	**2009**	2008
Loans and advances	**129,314**	69,079
Securities available-for-sale	**56,041**	44,581
Due from banks	**44,734**	112,639
Total	**230,089**	226,299

Interest income on individually impaired loans and advances during the year ended 31 December 2009 amounts to UAH 5,387 thousand (2008: UAH 2,591 thousand).

20 Interest expense

Interest expense for the year ended 31 December is as follows:

(in thousands of UAH)	**2009**	2008
Due to banks	**64,525**	86,489
Deposits and current accounts	**8,177**	3,433
Total	**72,702**	89,922

21 Net fee and commission income

Net fee and commission income for the year ended 31 December is as follows:

(in thousands of UAH)	**2009**	2008
Fee and commission income:		
Operations in foreign exchange and bank metal market for customers	**3,293**	1,053
Issued guarantees and letters of credit	**9,222**	2,819
Credit fees	**5,731**	643
Fines and penalties	**3,638**	-
Settlements and cash services	**2,679**	4,500
Other fee and commission income	**45**	370
Total fee and commission income	**24,608**	9,385
Fee and commission expense:		
Settlements and cash services	**4,650**	2,884
Other fees and commission expense	**732**	2
Total fee and commission expense	**5,382**	2,886
Net fee and commission income	**19,226**	6,499

22 Salaries and employee benefits

Salaries and employee benefits for the year ended 31 December are as follows:

(in thousands of UAH)	**2009**	2008
Salaries and other benefits	**33,064**	36,265
Salary related charges	**8,041**	10,506
Severance payments	**11,929**	3,569
Total	**53,034**	50,340

In 2009 the Bank made staff reductions. During 2009 the headcount decreased by 148 employees. Upon redundancy, the Bank paid severance compensation of three-month salary to dismissed employees.

23 General administrative expenses

General administrative expenses for the year ended 31 December are as follows:

(in thousands of UAH)	**2009**	2008
Rent and maintenance expenses	**19,951**	23,588
Communication and information expenses	**7,106**	3,168
Legal and consultancy fees	**4,554**	2,717
Taxes, other than income tax, duties and charges	**2,791**	1,885
Security expenses	**1,536**	1,166
Travel expenses	**1,364**	1,637
Stationery and office supplies	**1,306**	1,796
Insurance expenses	**897**	692
Advertising and marketing	**287**	2,311
Other	**1,867**	3,290
Total	**41,659**	42,250

24 Provision for impairment

The following is a schedule of movements in provision for impairment for the year ended 31 December:

(in thousands of UAH)	**2009**	2008
Balance as at 1 January 2009	**66,591**	4,488
Provision for (recovery of) impairment:		
Loans and advances	**23,866**	55,266
Due from banks	**36,332**	(547)
Securities available-for-sale	**7,290**	7,764
Commitments and contingencies	**-**	(380)
Provision for impairment charged to the statement of comprehensive income	**67,488**	62,103
Write-off loans and advances	**(27,178)**	-
Balance as at 31 December 2009	**106,901**	66,591

The provision for impairment recognised in the balance sheet as at 31 December is as follows:

(in thousands of UAH)	**2009**	2008
Loans and advances	**55,515**	58,827
Due from banks	**36,332**	-
Securities available-for-sale	**15,054**	7,764
Total	**106,901**	66,591

25 Income tax expense

The statutory income tax rate is 25% for 2009 and 2008.

The components of income tax expense for the year ended 31 December are as follows:

(in thousands of UAH)	**2009**	2008
Current tax expense	**1,873**	4,823
Deferred tax expense (benefit)	**10,811**	(257)
Total tax expense	**12,684**	4,566

The difference between the total expected income tax benefit computed by applying the statutory income tax rate to profit before tax and the reported income tax expense is as follows:

	Year ended 31 December			
(in thousands of UAH)	**2009**	**2009**	2008	2008
Profit before tax	**20,219**	**100.0%**	19,795	100.0%
Computed expected income tax expense at statutory rate	**5,055**	**25.0%**	4,949	25.0%
Non-deductible expenses	**7,629**	**37.7%**	1,798	8%
Non-taxable income	**-**	**-**	(2,181)	(11%)
Effective income tax expense	**12,684**	**62.7%**	4,566	23.1%

(a) Movements in recognised temporary differences during the year

Deferred tax assets and liabilities as at 31 December 2009 are attributable to the items detailed as follows:

	1 January 2009	**Recognised through profit or loss**	**Recognised directly in equity**	**31 December 2009**
	asset (liability)	***Benefit (charge)***	***benefit (charge)***	***asset (liability)***
(in thousands of UAH)				
Securities available-for-sale	**690**	**1,014**	**2,331**	**4,035**
Loans and advances	**(3,683)**	**(13,724)**	**-**	**(17,407)**
Property, equipment and intangible assets	**389**	**3,523**	**-**	**3,912**
Other liabilities	**1867**	**(1,624)**	**-**	**243**
Total	**(737)**	**(10,811)**	**2,331**	**(9,217)**

Deferred tax assets and liabilities as at 31 December 2008 are attributable to the items detailed as follows:

	1 January 2008	**Recognised through profit or loss**	**31 December 2008**
	asset (liability)	***Benefit (charge)***	***asset (liability)***
(in thousands of UAH)			
Securities available-for-sale	(858)	1,548	690
Loans and advances	(262)	(2,642)	(2,904)
Property, equipment and intangible assets	-	389	389
Other liabilities	126	760	886
Other assets	-	202	202
Total	**(994)**	**257**	**(737)**

26 Financial risk management

Management of risk is fundamental to the business of banking and is an essential element of operations. The major risks faced by the Bank are those related to credit exposures, market risk (which includes risk of movements in foreign exchange rates and in interest rates) and liquidity risk.

(a) Risk management framework

The risk management policies aim to identify, analyze and manage the risks faced by the Bank, to set appropriate risk limits and controls and to continuously monitor risk levels and adherence to limits.

The risks are managed in an integrated manner and are evaluated in terms of the policy of the Bank, which is reviewed and approved by the Board on an annual basis. Risk limits are established for credit, market and liquidity risks and the level of exposure is then maintained within these limits.

The risk management functions are divided among the Supervisory Council, the Board, Assets and Liabilities Management Committee (ALCO), Risk Management Department, Credit Committee (for corporate and retail business).

The Supervisory Council has the highest degree of authority with respect to risk management, and is empowered through the charter to approve any transactions on behalf of the Bank, including those which are outside of the scope of the authority of the Board and other governing bodies.

The Board is generally responsible for the activities of the Bank, including those relating to risk management. The Board delegates its powers with respect to the overall asset, liability and risk management to ALCO.

The Risk Management Department, which is independent of other business lines, is responsible for Bank-wide risk management (including credit risks), and is supervised by the Chairman of the Board.

The Risk Management Department identifies and evaluates the risks, proposes risk limits on various banking operations and prepares recommendations regarding asset and liability management, as well as interest rate and currency risk management, for ALCO. The Risk Management Department reports to ALCO and, when necessary, to the Board and the Supervisory Council.

Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered.

ALCO establishes the principal statement of financial position parameters for use in asset and liability management and, with the assistance of the Risk Management Department, monitors compliance with them. ALCO manages currency, interest rate, securities portfolio, loan portfolio and liquidity risks.

The Credit Committees make and approve decisions on credit transactions within their respective authority as well as on other credit-related issues relating to corporate and retail customers. The Credit Committee is responsible for the loan monitoring process as far as the monitoring of compliance with limits established for customers.

Credit, market and liquidity risks are managed and controlled through a system of Credit Committees and ALCO. In order to facilitate efficient decision-making, management established a hierarchy of credit committees depending on the type and amount of the exposure.

Each year, the Risk Management Department determines and submits to the Board for approval an annual Credit Risk Policy, containing, inter alia, target credit risk exposures by particular industry sectors, products, currency and borrower risk classes. Management of the branches and Credit Committees monitor compliance with credit risk exposure limits established for corporate and retail customers, review such limits monthly and recommend limit modifications.

Credit limits for financial institutions are determined by the Risk Management Department and approved by ALCO and, by the Supervisory Council when exposure exceeds UAH 1,000 thousand. The Risk Management Department reviews on a monthly basis the existing limits for single financial institutions and groups of financial institutions in respect of each type of exposure and maximum maturity.

(b) Credit risk

Credit risk is the risk of a financial loss to the Bank if a customer or counterparty fails to meet its contractual obligations, and arises principally from loans and advances and investment securities. The maximum credit risk exposure is generally net carrying amounts of instruments of statement of financial position date. For risk management reporting purposes, the Bank considers and consolidates all elements of credit risk exposure (such as individual customer and counterparty default risk, country and industry risk).

Management uses the same procedures and methodologies, as defined in the policy for approving credit related commitments (undrawn loan commitments, letter of credit and guarantees) as it does for statement of financial position credit obligations (loans).

Management monitors concentration of credit risk. For the analysis of concentration of credit risk in respect of loans and advances refer to note 9.

The Bank has to comply with varying NBU regulations that limit exposure to companies, groups of companies and related parties. To manage credit risk, the Bank deals with counterparties of good credit standing and when appropriate obtains collateral.

The Bank manages its credit risk by establishing limits in relation to single borrowers and groups of borrowers, which are recommended by the relevant Credit Department and approved by the relevant Credit Committee as part of the loan portfolio risk management system, and by complying with exposure limits established by the NBU. The Bank also mitigates its credit risk by obtaining collateral and using other security arrangements.

Corporate Lending

In making its lending decisions, the Bank evaluates potential borrowers on the basis of their financial condition as reflected in their financial statements, their credit history with the Bank and other financial institutions and the amount of risk involved in lending to a particular borrower, using a rating scale. A lack of credit history with the Bank or lack of credit history in general is not an absolute bar to granting a loan, provided the Bank receives sufficient information to assess the borrower's business and financial condition. However, when the Bank lends to a borrower with no credit history, it sets conditions such as a requirement to transfer a certain part of the customer's banking operations to the Bank for a certain period and charging a higher interest rate, or requiring additional collateral or guarantees from such borrower.

In evaluating the risks associated with a particular borrower, the Bank takes into account the borrower's business and factors such as the quality of its management, its main business activities, its geographic location, suppliers, customers, other indebtedness, financial stability, turnover, likely return on the loan, the liquidity of the proposed collateral and whether it is sufficient in view of the credit risk. The Bank also considers the weighted average credit risk associated with the industry in which the borrower operates.

Retail Lending

Retail loans are subject to a standardised approval procedure.

Loans are subject to maximum limits depending on the applicant's income, stability of future earnings, liquidity and quality of collateral. The Credit Committee reviews a credit application and makes the relevant decision as to whether to grant the loan.

The approval is primarily based on financial condition and solvency of the borrower.

The determination of the financial condition of the borrower includes general data, financial indicators, purpose of the loan and personal qualities.

The Bank continuously monitors the performance of individual credit exposures and regularly reassesses the creditworthiness of its customers. The review is based on an analysis of overdue payments and other information obtained by the Bank. In light of this information the borrower's internal credit rating may be revised.

The maximum exposure to on balance sheet credit risk is generally reflected in the carrying amounts of financial assets on the statement of financial position. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant.

The maximum exposure to credit risk at the reporting date is as follows:

(in thousands of UAH)	**2009**	2008
Balances with NBU	**58,923**	79,605
Due from banks	**519,959**	1,188,716
Securities available-for-sale	**296,768**	161,534
Securities held-to-maturity	**-**	125,651
Loans and advances	**802,597**	1,039,314
Other assets	**3,016**	6,099
Total balance sheet exposure	**1,681,263**	2,600,919
Off-balance sheet exposure	**194,320**	135,845
Total exposure	**1,875,583**	2,736,764

For the analysis of concentration of credit risk in respect of loans and advances to customers refer to note 9.

(c) Market risk

Market risk is the risk that changes in the market prices, such as interest rate, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's/issuer's credit standing) will affect income or the value of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

Overall authority for market risk is vested in ALCO. The Risk Management Department is responsible for the development of detailed risk management policies (subject to review and approval by ALCO) and for the day-to-day review of their implementation.

Geographical information on assets, liabilities and equity as at 31 December 2009 is as follows:

	Ukraine	OECD	CIS and other non-OECD countries	Total
Assets				
Cash	7,152	-	-	**7,152**
Balances with the National Bank of Ukraine	58,923	-	-	**58,923**
Due from banks	70,454	449,494	11	**519,959**
Securities available-for-sale	296,768	-	-	**296,768**
Loans and advances	802,597	-	-	**802,597**
Property, equipment and intangible assets	26,837	-	-	**26,837**
Investment property	1,813	-	-	**1,813**
Other assets	3,016	-	-	**3,016**
Total assets	**1,267,560**	**449,494**	**11**	**1,717,065**
Liabilities				
Due to banks	39,710	1,039,109	-	**1,078,819**
Current accounts	50,820	-	-	**50,820**
Deposits	49,031	591	-	**49,622**
Income taxes payable	25	-	-	**25**
Deferred tax liability	9,217	-	-	**9,217**
Other liabilities	2,170	-	-	**2,170**
Total liabilities	**150,973**	**1,039,700**	-	**1,190,673**
Equity				
Share capital	505,000	-	-	**505,000**
Fair value reserve	(6,993)	-	-	**(6,993)**
Retained earnings	28,385	-	-	**28,385**
Total equity	**526,392**	-	-	**526,392**
Total liabilities and equity	**677,365**	**1,039,700**	-	**1,717,065**

Geographical information on assets, liabilities and equity as at 31 December 2008 is as follows:

	Ukraine	OECD	CIS and other non-OECD countries	Total
Assets				
Cash	12,677	-	-	12,677
Balances with the National Bank of Ukraine	79,605	-	-	79,605
Due from banks	855,249	177,883	155,584	1,188,716
Securities available-for-sale	161,534	-	-	161,534
Securities held-to-maturity	125,651	-	-	125,651
Loans and advances	995,588	43,726	-	1,039,314
Property, equipment and intangible assets	52,078	-	-	52,078
Other assets	6,099	-	-	6,099
Total assets	2,288,481	221,609	155,584	2,665,674
Liabilities				
Due to banks	62,989	1,835,820	-	1,898,809
Current accounts	45,000	-	-	45,000
Deposits	190,002	1,848	-	191,850
Income taxes payable	971	-	-	971
Deferred tax liability	737	-	-	737
Other liabilities	7,355	-	-	7,355
Total liabilities	307,054	1,837,668	-	2,144,722
Equity				
Share capital	505,000	-	-	505,000
Fair value reserve	(4,898)	-	-	(4,898)
Retained earnings	20,850	-	-	20,850
Total equity	520,952	-	-	520,952
Total liabilities and equity	828,006	1,837,668	-	2,665,674

(d) Foreign currency risk

Currency risk is the risk that movements in foreign exchange rates will affect income or the value of its portfolios of financial instruments.

The Bank has assets and liabilities denominated in several foreign currencies. Foreign currency risk arises when the actual or forecasted assets in a foreign currency are either greater or less than the liabilities in that currency. Management establishes limits and constantly monitors foreign currency positions in accordance with the regulations of the NBU and internally developed methodology. The policy with regard to open foreign currency position is restricted to certain thresholds under Ukrainian law and strictly monitored by the NBU on a daily basis.

Foreign currency positions as at 31 December 2009 are as follows:

(in thousands of UAH)	**USD**	**EUR**	**Other**
Assets			
Cash	**3,047**	**1,007**	-
Due from banks	**518,508**	**1,013**	**23**
Loans and advances	**649,394**	**10,229**	-
Total assets	**1,170,949**	**12,249**	**23**
Liabilities			
Due to banks	**(1,062,644)**	**(9,159)**	-
Current accounts	**(5,717)**	**(2,227)**	-
Deposits	**(41,164)**	**(1,278)**	-
Total liabilities	**(1,109,525)**	**(12,664)**	-
Net long (short) position	**61,424**	**(415)**	**23**

Other currencies are mainly represented by Russian roubles.

Foreign currency positions as at 31 December 2008 are as follows:

(in thousands of UAH)	USD	EUR	Other
Assets			
Cash	6,145	4,131	43
Due from banks	1,128,526	1,200	-
Loans and advances	931,495	23,277	
Total assets	2,066,166	28,608	43
Liabilities			
Due to banks	(1,869,573)	(21,255)	-
Deposits	(80,258)	(7,676)	-
Current accounts	(22,019)	-	
Other liabilities	(1,735)	(103)	-
Total liabilities	(1,973,585)	(29,034)	-
Net long (short) position	92,581	(426)	43

Other currencies are mainly represented by Russian roubles.

As at 31 December 2009 a 10 percent weakening of the Ukrainian hryvnia against the following currencies would have increased (decreased) net profit for the year ended 31

December and total equity as at 31 December by the amount shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

(in thousands of UAH)	**2009**	2008
USD	**4,607**	6,944
EUR	**(31)**	(32)
Other	**2**	3

As at 31 December 2009 a 10 percent strengthening of the Ukrainian hryvnia against the above currencies would have had an equal but opposite effect on the net profit and total equity to the amount shown above, on the basis that all other variables remain constant.

(e) Interest Rate Risk

Interest rate risk is the risk that movements in interest rates will affect income or the value of financial instruments.

Interest rate risk is measured by the extent to which changes in market interest rates impact on margins and net interest income. To the extent the term structure of interest bearing assets differs from that of liabilities, net interest income will increase or decrease as a result of movements in interest rates. To manage interest rate risk, management continually assesses market interest rates for different types of interest bearing assets and liabilities.

Interest margins on assets and liabilities having different maturities may increase as a result of changes in market interest rates. In practice, management resets interest rates on both assets and liabilities based on current market conditions and mutual agreement, which is documented in an addendum to the original agreement, which sets forth the new interest rate.

The ALCO and the Credit Committees are responsible for interest rate risk management. ALCO establishes the principal policies and approaches to interest rate risk management, including maximum credit loan and minimum borrowing rates in respect of products, customer groups and tenors. The Credit Committees are responsible for ensuring compliance with guidelines set by ALCO. At the same time the Corporate Business Centre and Retail Business Centre, with the approval of the Risk Management Department, recommend altering certain interest rates to ALCO subject to changes in market conditions or for internal reasons. Interest rate risk management is conducted using the ''GAP'' analysis method, whereby the difference or gap between rate sensitive assets and rate sensitive liabilities is determined and analysed.

The average effective interest rates of major interest bearing assets and liabilities as at 31 December are as follows:

		2009			2008	
	UAH	**USD**	**EUR**	UAH	USD	EUR
Due from banks	**7.0%**	**0.6%**	**-**	26.0%	10.7%	-
Securities available-for-sale	**18.5%**	**-**	**-**	17.1%	-	-
Securities held-to-maturity	**-**	**-**	**-**	23.4%	-	-
Loans and advances	**21.3%**	**11.7%**	**9.1%**	19.2%	16.3%	12.6%
Due to banks	**-**	**4.5%**	**4.0%**	6.0%	5.7%	6.8%
Deposits	**15.3%**	**4.3%**	**5.2%**	14.5%	7.9%	6.8%

The Bank does not have any floating rate instruments. The Bank does not account for any fixed rate financial assets and liabilities at fair value through profit or loss. Therefore, a change in interest rates at the reporting date would not affect profit or loss.

The analysis of the sensitivity of market interest rate on securities available-for-sale reprising risk for the year ended 31 December 2009 on equity based on a simplified scenario of 1 percent fall or rise (assuming no asymmetrical movement in yield curves and a constant statement of financial position) is as follows:

(in thousands of UAH)	**2009**	2008
100 bp parallel increase	2,226	1,212
100 bp parallel decrease	(2,226)	(1,212)

(f) Liquidity Risk

Liquidity risk arises in the general funding of activities and in the management of positions. It includes both the risk of being unable to fund assets at appropriate maturities and rates and the risk of being unable to liquidate an asset at a reasonable price and in an appropriate time frame.

Management's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation.

The Bank seeks to actively support a diversified and stable funding base comprising debt securities in issue, long-term and short-term loans from other banks, core corporate and retail customer deposits, accompanied by diversified portfolios of highly liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

To maintain its short-term liquidity, the Bank takes short-term deposits, enters into repurchase transactions and buys and sells foreign currency, securities and precious metals. To maintain its long-term liquidity, the Bank takes medium and long-term deposits, sells assets such as securities, regulates its interest rate policy and strives to reduce expenses.

The contractual remaining maturities of assets and liabilities, excluding interest payments, as at 31 December 2009 are as follows:

Description	**Maturity periods**						**Total**
	Within one month	From one to three months	From three months to one year	From one to five years	More than five years	No maturity	
(in thousands of UAH)							
Cash	**7,152**	-	-	-	-		**7,152**
Balances with the NBU	**58,923**	-	-	-	-	-	**58,923**
Due from banks	**519,959**	-	-	-	-	-	**519,959**
Securities available-for-sale	**61,143**	**9,625**	**171,595**	**54,405**	-	-	**296,768**
Loans and advances	**141,141**	**75,438**	**215,840**	**251,219**	**118,959**	-	**802,597**
Property, equipment and intangible assets	-	-	-	-	-	**26,837**	**26,837**
Investment property	-	-	-	-	-	**1,813**	**1,813**
Other assets	**3,016**	-	-	-	-	-	**3,016**
Total assets	**791,334**	**85,063**	**387,435**	**305,624**	**118,959**	**28,650**	**1,717,065**
Liabilities							
Due to banks	**681,466**	**9,144**	**220,404**	**167,805**	-	-	**1,078,819**
Current accounts	**50,820**	-	-	-	-	-	**50,820**
Deposits	**35,897**	**9,548**	**4,177**	-	-	-	**49,622**
Income tax payable	-	**25**	-	-	-	-	**25**
Deferred tax liability (asset)	**1,987**	**1,505**	**2,348**	**4,709**	**2,580**	**(3,912)**	**9,217**
Other liabilities	**2,170**	-	-	-	-	-	**2,170**
Total liabilities	**772,340**	**20,222**	**226,929**	**172,514**	**2,580**	**(3,912)**	**1,190,673**
Liquidity surplus for the period	**18,994**	**64,841**	**160,506**	**133,110**	**116,379**	**32,562**	**526,392**
Cumulative liquidity surplus	**18,994**	**83,835**	**244,341**	**377,451**	**493,830**	**526,392**	-

The contractual remaining maturities of assets and liabilities, excluding interest payments, as at 31 December 2008 are as follows:

Description			**Maturity periods**				**Total**
	Within one month	From one to three months	From three months to one year	From one to five years	More than five years	No maturity	
(in thousands of UAH)							
Cash	12,677	-	-	-	-	-	12,677
Balances with the NBU	79,605	-	-	-	-	-	79,605
Due from banks	381,404	-	807,312	-	-	-	1,188,716
Securities available-for-sale	2,692	10,343	10,382	138,117	-	-	161,534
Securities held-to-maturity	87,522	30,053	8,076	-	-	-	125,651
Loans and advances	198,972	75,226	360,926	269,198	134,992	-	1,039,314
Property, equipment and intangible assets	-	-	-	-	-	52,078	52,078
Other assets	6,099	-	-	-	-	-	6,099
Total assets	768,971	115,622	1,186,696	407,315	134,992	52,078	2,665,674
Liabilities							
Due to banks	77,707	350,598	1,120,771	226,079	123,654	-	1,898,809
Current accounts	45,000	-	-	-	-	-	45,000
Deposits	92,089	94,076	485	5,200	-	-	191,850
Income tax payable	-	971	-	-	-	-	971
Deferred tax liability (asset)	(1,768)	170	1,235	622	478	-	737
Other liabilities	7,355	-	-	-	-	-	7,355
Total liabilities	220,383	445,815	1,122,491	231,901	124,132	-	2,144,722
Liquidity surplus (gap) for the period	548,588	(330,193)	64,205	175,414	10,860	52,078	520,952
Cumulative liquidity surplus	548,588	218,395	282,600	458,014	468,874	520,952	-

Current accounts are due on demand and have been reflected as such in these schedules. However, management estimates that demand on a majority of the accounts will occur at significantly later dates.

As at 31 December 2009, under Ukrainian law individual depositors can withdraw their funds prior to the stated maturity date upon two-day notification. Management believes that a majority of individual deposits will not be withdrawn prior to the stated maturity date.

Starting from September 2008 certain limitations on early withdrawal of deposits were imposed by the National Bank of Ukraine. These limitations were waived on 12 May 2009. For details refer to note 1(b).

The contractual maturity analysis of undiscounted cash flows (including interest payments) for financial liabilities as at 31 December 2009 is as follows:

(in thousands of UAH)	**Within one month**	**From one to three months**	**From three months to one year**	**From one to five years**	**More than five years**	**Total**
Due to banks	**684,219**	**12,074**	**231,503**	**175,316**	-	**1,103,112**
Current accounts	**50,820**	-	-	-	-	**50,820**
Deposits	**36,053**	**9,636**	**4,454**	-	-	**50,143**
	771,092	**21,710**	**235,957**	**175,316**	-	**1,204,075**

The contractual maturity analysis of undiscounted cash flows (including interest payments) for financial liabilities as at 31 December 2008 is as follows:

(in thousands of UAH)	Within one month	From one to three months	From three months to one year	From one to five years	More than five years	Total
Due to banks	86,017	365,168	1,193,187	239,063	152,411	2,035,846
Current accounts	45,000	-	-	-	-	45,000
Deposits	93,385	95,013	543	5,755	-	194,696
	224,402	460,181	1,193,730	244,818	152,411	2,275,542

(g) Capital management

Regulatory capital

The NBU sets and monitors capital requirements for the Bank as a whole. The Bank and individual banking operations are directly supervised by their local regulators.

Under the current capital requirements set by the NBU banks have to maintain a ratio of capital to risk weighted assets (statutory capital ratio) above the prescribed minimum level. If it does not maintain or sufficiently increase its capital base in line with the increase in its risk weighted assets, it may be non-compliant with the NBU capital adequacy regulations, which could lead to the imposition of sanctions by the NBU. This could have a material adverse effect on results of operations and financial condition. As at 31 December 2009, the minimum level required by the NBU is 10.0% (31 December 2008: 10.0%).

The following table shows the composition of the capital position calculated in accordance with the requirements of the Basel Accord, as at 31 December:

(in thousands of UAH)	**2009**	2008
Tier I capital		
Share capital	**505,000**	505,000
Retained earnings	**28,385**	20,850
Total Tier I capital	**533,385**	525,850
Tier II capital		
Fair value reserve	**(6,993)**	(4,898)
Total capital	**526,392**	520,952
Total risk-weighted assets	**1,090,769**	1,815,260
Capital ratios		
Total Tier I capital expressed as a percentage of total risk-weighted assets	**48.9%**	29.0%
Total Tier II capital expressed as a percentage of total risk-weighted assets	**48.3%**	28.7%

27 Balances with related parties

The Bank grants loans and advances, attracts deposits and performs other transactions with related parties in the ordinary course of business. Parties are considered to be related if one party has the ability to control the other party or exercises significant influence over the other party when making financial and operational decisions. Terms of transactions with related parties are established at the time of the transaction. Related parties comprise entities under common control, members of the supervisory board, key management personal and their immediate family members, companies that are controlled or significantly influenced by shareholders, by key management personal or by their close family members.

As at 31 December 2009 and 2008 the Bank's parent is Credit Europe Bank N.V. Credit Europe Bank N.V. prepared publicly available consolidated financial statements as at and for the year ended 31 December 2009.

The ultimate controlling party is FIBA Holding A.S., Turkey, which is ultimately controlled by Mr. Hüsnü Özyegin.

Balances and transactions with the related parties as at 31 December and for the year then ended are as follows:

(in thousands of UAH)	**2009**	2008
Transactions with the Parent		
Statement of financial position:		
Due from banks	**447,465**	38,620
Due to banks	**(1,039,109)**	(1,835,820)
Statement of comprehensive income:		
Interest income	**-**	86
Interest expense	**(53,642)**	(70,651)
Net fee and commission expense	**(1,677)**	(2,245)
Transactions with the Entities under common control		
Statement of financial position:		
Due from banks	**26**	53
Current accounts	**(2,209)**	(638)
Deposits	**(31,174)**	(183,636)
Statement of comprehensive income:		
Interest income	**464**	460
Interest expense	**(4,083)**	(2,643)
Net gains from dealing with foreign currencies	**4,895**	-
Transactions with the Key management personnel		
Statement of financial position:		
Loans and advances	**163**	256
Current accounts	**(19)**	(5)
Deposits	**(586)**	-
Statement of comprehensive income:		
Interest income	**30**	2
Interest expense	**(3)**	-
Salaries and employee benefits	**(2,356)**	**(3,447)**

As at 31 December 2009 and 31 December 2008, loans and advances to related parties are secured by assets and property.

The foreign currency positions and interest rates of balances with related parties as at 31 December 2009 are as follows:

(in thousands of UAH)	**UAH**	**Interest rate**	**USD**	**Interest rate**	**EUR**	**Interest rate**
Balances with the Parent						
Due from banks	-	-	**446,452**	**0.6%**	**1,013**	-
Due to banks	-	-	**(1,029,950)**	**4.5%**	**(9,159)**	**4.0%**
Balances with the Entities under common control						
Due from banks	-	-	**26**	-	-	-
Current accounts	**(142)**	-	**(1,692)**	-	**(375)**	-
Deposits	-	**0.0%**	**(31,174)**	**3.6%**	-	**0.0%**
Balances with the Key management personnel						
Loans and advances	-	-	**163**	**16.0%**	-	-
Current accounts	-	-	**(19)**	-	-	-
Deposits	-	-	**(586)**	**4.0%**	-	-

The foreign currency positions and interest rates of transactions with related parties as at 31 December 2008 are as follows:

(in thousands of UAH)	UAH	Interest rate	USD	Interest rate	EUR	Interest rate
Balances with the Parent						
Due from banks	-	-	38,620	9.8%	-	-
Due to banks	-	-	(1,814,565)	4.5%	(21,255)	6.8%
Balances with the Entities under common control						
Due from banks	-	-	53	-	-	-
Current accounts	-	-	(283)	-	(355)	-
Deposits	(95,600)	15.6%	(88,036)	8.0%	-	-
Balances with the Key management personnel						
Loans and advances	-	0.0%	-	0.0%	256	7.3%
Current accounts	-	0.0%	(5)	0.0%	-	0.0%

The contractual remaining maturities of balances with related parties as at 31 December 2009 are as follows:

(in thousands of UAH)	Within one month	From one to three months	From three months to one year	From one to five years	More than five years	**Total**
Balances with the Parent						
Due from banks	**447,465**	-	-	-	-	**447,465**
Due to banks	**(641,756)**	**(9,144)**	**(220,404)**	**(167,805)**	-	**(1,039,109)**
Balances with the Entities under common control						
Due from banks	**26**	-	-	-	-	**26**
Current accounts	**(2,209)**	-	-	-	-	**(2,209)**
Deposits	**(31,174)**	-	-	-	-	**(31,174)**
Balances with the Key management personnel						
Loans and advances	-	-	**163**	-	-	**163**
Current accounts	**(19)**	-	-	-	-	**(19)**
Deposits	-	-	**(586)**	-	-	**(586)**

The contractual remaining maturities of balances with related parties as at 31 December 2008 are as follows:

(in thousands of UAH)	Within one month	From one to three months	From three months to one year	From one to five years	More than five years	Total
Balances with the Parent						
Due from banks	38,620	-	-	-	-	38,620
Due to banks	(14,718)	(350,598)	(1,120,771)	(226,079)	(123,654)	(1,835,820)
Balances with the Entities under common control						
Due from banks	53	-	-	-	-	53
Current accounts	(638)	-	-	-	-	(638)
Deposits	(90,046)	(93,590)	-	-	-	(183,636)
Balances with the Key management personnel						
Loans and advances	-	-	105	151	-	256
Current accounts	(5)	-	-	-	-	(5)

Remuneration of key management personnel is represented by short-term employee benefits that includes salary and bonuses payable in cash amounting to UAH 2,356 thousand, for the year ended 31 December 2009 (year ended 31 December 2008: UAH 3,447 thousand).

Key management personnel are those individuals that have the authority and responsibility for planning, directing and controlling the activities of the Bank directly or indirectly, and includes members of the Board of Management.

28 Estimation of fair value

The estimated fair values of financial assets and liabilities are determined using discounted cash flow and other appropriate valuation methodologies and may not be indicative of the fair value of those instruments at the date these financial statements are distributed. These estimates do not reflect any premium or discount that could result from offering for sale at one time the Bank's entire holdings of a particular financial instrument. Fair value estimates are based on judgments regarding future expected cash flows, current economic conditions, risk characteristics of various financial instruments and other factors.

Fair value estimates are based on existing financial instruments without attempting to estimate the value of anticipated future business and the value of assets and liabilities not considered financial instruments. In addition, tax ramifications related to the realization of the unrealized gains and losses can have an effect on fair value estimates and have not been considered.

The fair values of loans and advances and deposits as at 31 December 2009 are assumed to approximate their carrying value due to their short term nature and/or the market rates at period end.

The fair values of loans and advances and deposits as at 31 December 2008 are as follows:

	31 December 2008	
	Carrying value	Fair value
(in thousands of UAH)		
Loans and advances	1,039,314	995,864
Deposits	191,850	188,130

The fair value of all other financial assets and liabilities are assumed to approximate their carrying value due to their short term nature and/or the market rates at period end.

IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources, unobservable inputs reflect the Bank's market assumptions. These two types of inputs have resulted in the following fair value hierarchy:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges and exchanges traded derivatives like futures.

Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

This hierarchy requires the use of observable market data when available. The Bank considers relevant and observable market prices in its valuations where possible.

The estimates of fair value are intended to approximate the amount for which a financial instrument can be exchanged between knowledgeable, willing parties in an arm's length transaction. However given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realisable in an immediate sale of the assets or settlement of liabilities.

Assets and liabilities measured at fair value by hierarchy levels are as follows:

(in thousands of UAH)	**Level 1**	**Level 2**	**Level 3**	**Total**
31 December 2009				
Securities available-for-sale	-	296,768	-	296,768

(in thousands of UAH)	**Level 1**	**Level 2**	**Level 3**	**Total**
31 December 2008				
Securities available-for-sale	-	161,534	-	161,534

As at 31 December 2009 and 2008, the Bank does not have any financial instruments for which fair value is based on valuation techniques involving the use of non-market observable inputs.

Executive President
Yusuf Dagtekin

Chief Financial Officer
Onur Anliatamer

26 May 2010

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Independent Auditors' Report

To the Board
of Public Joint Stock Company "Credit Europe Bank"

We have audited the accompanying financial statements of Public Joint Stock Company "Credit Europe Bank" (the "Bank"), which comprise the statement of financial position as at 31 December 2009, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

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

JSC KPMG Audit

JSC KPMG Audit

26 May 2010