PJSC Credit Europe Bank

Financial Statements
31 December 2010

These financial statements contain 53 pages

Contents

(in thousands of UAH)	*Note*	**31 December 2010**	31 December 2009 (restated)	31 December 2008 (restated)
Assets				
Cash		**7,141**	7,152	12,677
Balances with the National Bank of Ukraine	*5*	**7,792**	58,923	79,605
Due from banks	*6*	**150,876**	140,328	1,122,166
Securities available-for-sale	*7*	**304,586**	296,768	161,534
Securities held-to-maturity	8	**-**	-	125,651
Loans and advances	*9*	**826,740**	802,597	1,039,314
Property, equipment and intangible assets	*10*	**13,996**	26,837	52,078
Investment property	*11*	**14,348**	1,813	-
Other assets	*12*	**3,815**	3,016	10,074
Total assets		**1,329,294**	1,337,434	2,603,099
Liabilities				
Due to banks	*13*	**637,666**	699,133	1,836,234
Current accounts	*14*	**63,190**	50,820	45,000
Deposits	*15*	**7,902**	49,622	191,850
Income tax payable		**-**	25	971
Deferred tax liability	*25*	**32,750**	9,217	737
Other liabilities	*16*	**3,319**	2,225	7,355
Total liabilities		**744,827**	811,042	2,082,147
Equity				
Share capital	*17*	**505,000**	505,000	505,000
Fair value reserve		**151**	(6,993)	(4,898)
Retained earnings		**79,316**	28,385	20,850
Total equity		**584,467**	526,392	520,952
Total liabilities and equity		**1,329,294**	1,337,434	2,603,099
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 53.

(in thousands of UAH)	*Note*	**2010**	2009 (restated)
Interest income	*19*	**173,690**	228,911
Interest expense	*20*	**(29,653)**	(71,524)
Net interest income		**144,037**	157,387
Fee and commission income	*21*	**25,070**	24,608
Fee and commission expense	*21*	**(1,602)**	(5,382)
Net fee and commission income	*21*	**23,468**	19,226
Net gains from dealing with foreign currencies		**(1,463)**	28,523
Net gains from sales of securities available-for-sale		**23,510**	6,190
Other operating income		**884**	-
Operating income		**190,436**	211,326
Salaries and employee benefits	*22*	**(40,572)**	(53,034)
General administrative expenses	*23*	**(29,162)**	(41,659)
Depreciation and amortisation	*10*	**(12,080)**	(28,926)
Provision for impairment	*24*	**(36,431)**	(67,488)
Operating expenses		**(118,245)**	(191,107)
Profit before tax		**72,191**	20,219
Income tax expense	*25*	**(21,260)**	(12,684)
Net profit		**50,931**	7,535
Other comprehensive income (loss)			
Net change in fair value of available-for-sale financial assets, net of income tax		**7,144**	(2,095)
Total comprehensive income		**58,075**	5,440

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 53.

(in thousands of UAH)	**2010**	2009 (restated)
Operating activities		
Interest received	**158,851**	229,319
Interest paid	**(30,180)**	(102,789)
Fees and commissions received	**25,070**	24,608
Fees and commissions paid	**(1,602)**	(5,382)
Net gains from dealing in foreign currencies	**1,228**	33,729
Operating expenses paid	**(67,027)**	(92,665)
Change in due from banks with original maturity more than 3 months	**-**	759,430
Change in loans and advances	**(79,476)**	216,278
Change in restricted balances with NBU	**21,759**	(21,759)
Change in other assets	**(632)**	3,869
Change in due to banks	**(62,939)**	(1,124,520)
Change in current accounts	**12,335**	5,742
Change in deposits	**(41,621)**	(141,928)
Change increase in other liabilities	**993**	(320)
Net cash used in operating activities before tax	**(63,241)**	(216,388)
Income tax paid	**(301)**	(2,819)
Cash flows used in operating activities	**(63,542)**	(219,207)
Investing activities		
Change in securities available-for-sale	**45,079**	(140,760)
Repayment of securities held-to-maturity	**-**	125,000
Acquisition of property, equipment and intangible assets	**(494)**	(6,324)
Proceeds from disposal of property, equipment and intangible assets	**673**	2,639
Cash flows from (used in) investing activities	**45,258**	(19,445)
Effect of exchange rates fluctuations on cash and cash equivalents	**(551)**	4,610
Net decrease in cash and cash equivalents	**(18,835)**	(234,042)
Cash and cash equivalents as at 1 January	**184,644**	418,686
Cash and cash equivalents as at 31 December	**165,809**	184,644

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 53.

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 2010**	31 December 2009 (restated)	31 December 2008 (restated)
Cash		**7,141**	7,152	12,677
Balances with the National Bank of Ukraine	*5*	**7,792**	37,164	79,605
Balances due from banks with original maturity less than three months	*6*	**150,876**	140,328	326,404
Total cash and cash equivalents		**165,809**	184,644	418,686

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 53.

(in thousands of UAH)	*Note*	**Share capital**	**Fair value reserve**	**Retained earnings**	**Total**
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 available-for-sale financial assets, net of income tax		-	(2,095)	-	(2,095)
Total other comprehensive loss		-	(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**
Net profit		**-**	**-**	**50,931**	**50,931**
Other comprehensive income:					
Net change in fair value of available-for-sale financial assets, net of income tax		**-**	**7,144**	**-**	**7,144**
Total other comprehensive income		**-**	**7,144**	**-**	**7,144**
Total comprehensive income		**-**	**7,144**	**50,931**	**58,075**
Balances as at 31 December 2010		**505,000**	**151**	**79,316**	**584,467**

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 53.

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 principal activities of the Bank are lending, deposit taking and customer accounts maintenance, issuing guarantees, cash and settlement operations and operations with securities and foreign exchange. The activities of the Bank are regulated by the National Bank of Ukraine.

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

The Bank has 5 branches as at 31 December 2010 (31 December 2009: 7).

(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. These 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.

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

These financial statements are prepared on the historical cost basis except for the following:

- derivative financial instruments are measured at fair value
- available-for-sale financial assets are measured at fair value
- investment property is measured 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.

Financial information presented in UAH is rounded to the nearest thousand.

(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.

Refer to notes 3(o)(i) and 3(o)(ii) for key judgements, apart from those involving estimation of impairment for loans and advances as described above, that management has made in the process of applying the Bank's accounting policies and that have the most significant effect on the amounts recognized in these financial statements.

3 Significant accounting policies

The accounting policies set out below are applied consistently to all periods presented in these financial statements, and are applied consistently by the Bank, except as explained in note 3(o), which addresses changes in accounting policies.

(a) Foreign currency translation

Transactions in foreign currencies are translated to hryvnias at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to hryvnias at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period. Foreign currency differences arising on retranslation are recognised in profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate 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 2010**	31 December 2009
US dollar	**7.96**	7.99
EUR	**10.57**	11.45

As at the date of these financial statements, 23 February 2011, the exchange rate is UAH 7.93 to USD 1.00 and UAH 10.85 to EUR 1.00.

(b) Financial instruments

(i) Classification

Financial instruments at fair value through profit or loss are financial assets or liabilities that are:

- acquired or incurred principally for the purpose of selling or repurchasing in the near term
- part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking
- derivative financial instruments (except for derivative financial instruments that are designated and effective hedging instruments) or,
- upon initial recognition, designated as at fair value through profit or loss.

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

- the assets or liabilities are managed, evaluated and reported internally on a fair value basis
- the designation eliminates or significantly reduces an accounting mismatch which 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.

All trading derivatives in a net receivable position (positive fair value), as well as options purchased, are reported as assets. All trading derivatives in a net payable position (negative fair value), as well as options written, are reported as liabilities.

Management determines the appropriate classification of financial instruments in this category 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 assets 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 Bank has an intention and ability to hold it for the foreseeble 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.

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
- upon initial recognition designates as at fair value through profit or loss
- upon initial recognition designates as available-for-sale or,
- may not recover substantially all of its initial investment, other than because of credit deterioration.

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that management has the positive intention 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 financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified as loans and receivables, held-to-maturity investments or financial instruments at fair value through profit or loss.

(ii) 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.

(iii) 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.

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortized based on the effective interest rate of the instrument.

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.

(iv) Fair value measurement principles

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arms's length transaction on the measurement date.

When available, management measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

If a market for a financial instrument is not active, management establishes fair value using a valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, and discounted cash flow analyses. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Bank, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, i.e., the fair value of the consideration given or received, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e., without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at the transaction price and any difference between this price and the value initially obtained from a valuation model is subsequently recognised in profit or loss on an appropriate basis over the life of the instrument but not later than when the valuation is supported wholly by observable market data or the transaction is closed out.

(v) 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 as other comprehensive income 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.

(vi) Derecognition

The Bank derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Bank is recognised as a separate asset or liability in the statement of financial position. The Bank derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

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

(vii) Derivative financial instruments

Derivative financial instruments include swaps, forwards, futures, spot transactions and options in interest rates, foreign exchanges, precious metals and stock markets, and any combinations of these instruments.

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. All derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

Changes in the fair value of derivatives are recognised immediately in profit or loss.

Although the Bank trades in derivative instruments for risk hedging purposes, these instruments do not qualify for hedge accounting.

(viii) 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

(i) Calculation of recoverable amount

Financial assets carried at amortized cost

Financial assets carried at amortized cost consist principally of loans and other receivables (loans and receivables). 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.

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.

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.

(ii) 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.

(iii) 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.

Loan origination fees, loan servicing fees and other fees that are considered to be integral to the overall profitability of a loan, together with the related transaction costs, are deferred and amortized to interest income over the estimated life of the financial instrument using the effective interest method.

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 recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting 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 2010 and 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. Refer also notes 3(o)(i) and 3(o)(ii).

(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

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 position and performance. Management plans to adopt these pronouncements when they become effective.

- 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 32 *Financial Instruments: Presentation – Classification of Rights Issues* clarifies that rights, options or warrants to acquire a fixed number of an entity's own equity instruments for a fixed amount are classified as equity instruments even if the fixed amount is determined in foreign currency. A fixed amount can be determined in any currency provided that entity offers these instruments pro rata to all of the existing owners of the same class of its own non-derivative equity instruments. The amendment is applicable for annual periods beginning on or after 1 February 2010.

- Revised IAS 24 *Related Party Disclosures* (2009) introduces an exemption from the basic disclosure requirements in relation to related party disclosures and outstanding balances, including commitments, for government-related entities. Additionally, the standard has been revised to simplify some of the presentation guidance that was previously non-reciprocal. The revised standard is to be applied retrospectively for annual periods beginning on or after 1 January 2011.

- IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments* provides guidance on accounting for debt for equity swaps by the debtor. The interpretation clarifies that an entity's equity instruments qualify as "consideration paid" in accordance with paragraph

41 of IAS 39 *Financial Instruments: Recognition and Measurement.* Additionally, the interpretation clarifies how to account for the initial measurement of own equity instruments issued to extinguish a financial liability and how to account for the difference between the carrying amount of the financial liability extinguished and the initial measurement amount of the equity instruments issued. IFRIC 19 is applicable for annual periods beginning on or after 1 July 2010.

- *Improvements to IFRSs 2010* resulting from the International Accounting Standards Board's third annual improvements project are to be dealt with on a standard-by-standard basis. The effective date of each amendment is included in the IFRSs affected.

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

(o) Changes in accounting policies

(i) Change in accounting policy for foreign exchange derivatives

The Bank has loans due from and deposits due to the same banks that are denominated in different currencies for the same period with the same or similar amounts. Cash flows under these instruments are similar to cash flows under foreign exchange swaps as described in note 26.

The Bank had previously presented foreign exchange swap agreements with other banks in the financial statements as at 31 December 2009 and 2008 on a gross basis as balances due from banks and balances due to banks. After consideration of the specific requirements of IAS 39 *Financial Instruments: Recognition and Measurement*, current market practice and the nature of these foreign exchange swap agreements, the Bank decided to account for these transactions in accordance with the Bank's accounting policy in respect of derivatives. This change of accounting policy was applied retrospectively in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors.*

The effect of change in accounting policy is as follows:

(in thousands of UAH)	31 December 2009	31 December 2008
Decrease in due from banks	(23,900)	(66,550)
Decrease in due to banks	23,955	62,575
Increase in other liabilities	(55)	-
Increase in other assets	-	3,975

The respective correction also affected the statement of comprehensive income. Interest income on due from banks of UAH 1,178 thousand and interest expense on due to banks of UAH 1,178 thousand are presented net.

(ii) Change in accounting for current accounts with and deposit from the Parent bank

As at 31 December 2009, the Bank has deposit from and current account with Parent bank amounting to UAH 355,731 thousand (31 December 2008: nil). The Bank had previously presented those amounts in the financial statements as at 31 December 2009 on a gross basis as balances due from banks and balances due to banks. The Bank has intention and ability to settle those balances simultaneously. Also, legal right of set-off exists. After consideration of the specific requirements of *IAS 32 Financial Instrument: Presentation*, current market practice and the nature of those accounts, the Bank decided to revise its accounting policy in respect to presentation of deposits from and current account with the Parent bank and decided to present them on a net basis. This change of accounting policy was applied retrospectively in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors.*

The effect of this change is as follows:

(in thousands of UAH)	31 December 2009
Decrease in due from banks	(355,731)
Decrease in due to banks	355,731

(iii) Change in classification

As at 31 December 2010, certain comparative figures are reclassified to conform to current period presentation. The following significant reclassifications have been made:

Consumer loans to private individuals amounting to UAH 44,511 thousand as at 31 December 2009, were reclassified to mortgage loans. Remaining retail loans previously included in group of consumer loans and credit cards and other loans as at 31 December 2009 were reclassified to other loans.

The Bank has also changed classification of cash and cash equivalents as at 31 December 2009. Cash and cash equivalents previously reported on a gross basis are presented net of impairment of UAH 36,332 thousand as at 31 December 2009.

Comparative information for analysis of loans by industry sectors is reclassified to conform to current period presentation.

(iv) Effect of above changes on statement of cash flows

The respective changes described above also affected the statement of cash flows as follows.

- Net cash from operating activities previously reported as UAH 141,756 thousand was decreased by UAH 360,963 thousand and resulting is a restated amount of net cash used in operating activities of UAH 219,207 thousand for the year ended 31 December 2009.
- Net increase in cash and cash equivalents previously reported as UAH 126,921 thousand was decreased by UAH 360,963 thousand and resulting is a restated amount of cash and cash equivalents of UAH 234,042 thousand for the year ended 31 December 2009.
- Cash and cash equivalents previously reported as UAH 600,607 thousand as at 31 December 2009 were decreased by UAH 415,963 thousand and resulting is a restated amount of UAH 184,644 thousand as at 31 December 2009.

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:

(in thousands of UAH)	**2010**	2009
Balances available for withdrawal	**7,792**	37,164
Mandatory reserve with the NBU (restricted for withdrawal)	-	21,759
Total	**7,792**	58,923

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 2010, the obligatory reserve is nil (31 December 2008: UAH 21,759 thousand). The Bank meets the NBU reserve requirements as at 31 December 2010 and 2009. This amount could be available for withdrawal as long as an average monthly balance maintained by the Bank meets obligatory reserve requirement.

6 Due from banks

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

(in thousands of UAH)	**2010**	2009 (restated)	2008 (restated)
Current accounts	**108,831**	112,713	186,140
Loans and advances	**42,045**	63,947	936,026
	150,876	176,660	1,122,166
Provision for impairment (note 24)	-	(36,332)	-
Total	**150,876**	140,328	1,122,166

As at 31 December 2009, provision for impairment relates to balance due from one domestic bank amounting to UAH 63,880 thousand that was overdue by 83 days. During 2010, the Bank wrote-off a part of this balance amounting to UAH 36,411 thousand and the remaining amount of the debt was sold to third parties.

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)	**2010**	2009 (restated)	2008 (restated)
Current accounts:			
AA- to AA+	**104,706**	1,957	-
BBB- to BBB+	**3,989**	91,882	165,118
CCC- to CCC+	**2**	18,394	-
Unrated	**134**	480	21,022
	108,831	112,713	186,140
Loans and advances:			
AA- to AA+	**-**	-	146,470
BBB- to BBB+	**31,627**	-	591,901
CCC- to CCC+	**10,418**	63,947	-
Unrated	**-**	-	197,655
	42,045	63,947	936,026
Total	**150,876**	176,660	1,122,166

As at 31 December 2010, the two largest balances due from banks amount to UAH 140,266 thousand or 93.0% of the gross exposure due from banks (31 December 2009: UAH 147,648 thousand or 83.6%; 31 December 2008: UAH 286,501 thousand or 25.5%;).

7 Securities available-for-sale

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

(in thousands of UAH)	**2010**	2009
Corporate bonds	**205,052**	126,429
Government bonds issued by Ministry of Finance of Ukraine	**99,534**	170,339
Total	**304,586**	296,768

Securities available-for-sale are carried at fair value. As at 31 December 2010 and 2009 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 market quotations and discounted cash flows valuation 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 UAH)	**2010**	2009
B2/Negative	**142,084**	172,851
B3	**55,026**	-
Unrated	**107,476**	123,917
	304,586	296,768

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)	**2010**	2009
Corporate	**619,641**	620,389
Retail		
Mortgage	**128,250**	133,090
Auto	**102,712**	50,311
Other loans	**17,995**	54,322
	248,957	237,723
	868,598	858,112
Provision for impairment (note 24)	**(41,858)**	(55,515)
Total loans, net	**826,740**	802,597

Loans and advances include loan principal and accrued interest as at 31 December 2010 and 2009. Mortgage loans include loans obtained by individuals for acquisition of residential real estate and business real estate.

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 2010 would be UAH 8,267 thousand lower/higher (31 December 2009: UAH 8,026 thousand).

As at 31 December 2010, loans and advances to the ten largest borrowers total UAH 539,844 thousand, and represent 62.2% of the total gross loans and advances (31 December 2009: UAH 547,485 thousand or 63.8%).

Loan impairment as at 31 December 2010 is as follows:

(in thousands of UAH)	Gross loans	Impairment	Net loans	Impairment to gross loans
Corporate loans				
Impaired loans	**42,410**	**22,737**	**19,673**	**53.6%**
Loans without specifically identified impairment	**577,231**	**1,687**	**575,544**	**0.3%**
Total corporate loans	**619,641**	**24,424**	**595,217**	**3.9%**
Retail loans				
Mortgage	**128,250**	**12,133**	**116,117**	**9.5%**
Auto	**102,712**	**-**	**102,712**	**0.0%**
Other loans	**17,995**	**5,301**	**12,694**	**29.5%**
Total retail loans	**248,957**	**17,434**	**231,523**	**7.0%**
Total	**868,598**	**41,858**	**826,740**	**4.8%**

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				
Impaired loans	30,869	24,066	6,803	78.0%
Loans without specifically identified impairment	589,520	217	589,303	0.0%
Total corporate loans	620,389	24,283	596,106	3.9%
Retail loans				
Mortgage	133,090	9,790	123,300	7.4%
Auto	50,311	2,311	48,000	4.6%
Other loans	54,322	19,131	35,191	35.2%
Total retail loans	237,723	31,232	206,491	13.1%
Total	858,112	55,515	802,597	6.5%

As at 31 December 2010, accrued interest income on impaired loans and advances amounted to UAH 1,681 thousand (31 December 2009: UAH 1,570 thousand).

As at 31 December 2010, loans and advances that would otherwise be past due or impaired had their terms not been renegotiated total UAH 279,648 thousand (31 December 2009: UAH 42,702 thousand). Renegotiated loans and advances are loans that have been refinanced, rescheduled, rolled over or otherwise modified because of weakness in the borrower's financial position and/or the non-repayment of the debt according to contractual terms.

Restructuring activity is designed to manage customer relationships, maximize collection opportunities and, if possible, avoid foreclosure or repossession. Such activities include extended payment arrangements, approved external debt management plans, deferring foreclosure, modification, loan rewrites and/or deferral of payments pending a change in circumstances. Restructuring policies and practices are based on indicators or criteria which, in the judgment of management, indicate that repayment will probably continue. These policies are required to be kept under continuing review and their practical application varies according to the nature of the market, the product and the availability of empirical data. Renegotiated loans are included in the category of assets without individual signs of impairment in the tables above, unless the borrower fails to comply with the renegotiated terms.

Quality of retail loans and advances as at 31 December 2010 is as follows:

(in thousands of UAH)	**Gross loans**	**Impairment**	**Net loans**	**Impairment to gross loans**
Retail loans and advances				
not overdue	**212,590**	**941**	**211,649**	**0.4%**
overdue less than 30 days	**4,215**	**1,025**	**3,190**	**24.3%**
overdue 31-90 days	**2,530**	**447**	**2,083**	**17.7%**
overdue 91-180 days	**1,101**	**1,097**	**4**	**99.6%**
overdue 181-365 days	**4,847**	**2,427**	**2,420**	**50.1%**
overdue more than 365 days	**23,674**	**11,497**	**12,177**	**48.6%**
Total retail loans and advances	**248,957**	**17,434**	**231,523**	**7.0%**

Quality of retail loans and advances as at 31 December 2009 is as follows:

(in thousands of UAH)	**Gross loans**	**Impairment**	**Net loans**	**Impairment to gross loans**
Retail loans and advances				
not overdue	176,498	2,781	173,717	1.6%
overdue less than 30 days	7,197	1,032	6,165	14.3%
overdue 31-90 days	10,293	1,650	8,643	16.0%
overdue 91-180 days	7,268	4,510	2,758	62.1%
overdue 181-365 days	17,280	12,482	4,798	72.2%
overdue more than 365 days	19,187	8,777	10,410	45.7%
Total retail loans and advances	237,723	31,232	206,491	13.1%

Quality of corporate loans and advances as at 31 December 2010 is as follows:

(in thousands of UAH)	**Gross loans**	**Impairment**	**Net loans**	**Impairment to gross loans**
Corporate loans and advances				
not overdue	**575,465**	**1,675**	**573,790**	**0.3%**
overdue	**44,176**	**22,749**	**21,427**	**51.5%**
Total corporate loans and advances	**619,641**	**24,424**	**595,217**	**3.9%**

Quality of corporate loans and advances as at 31 December 2009 is as follows:

(in thousands of UAH)	**Gross loans**	**Impairment**	**Net loans**	**Impairment to gross loans**
Corporate loans and advances				
not overdue	611,414	21,327	590,087	3.5%
overdue	8,975	2,956	6,019	32.9%
Total corporate loans and advances	620,389	24,283	596,106	3.9%

As at 31 December 2010, past due but not impaired loans amount to UAH 5,188 thousand, (31 December 2009: nil).

During the year ended 31 December 2010 the Bank foreclosed residential and non-residential real estate with a fair value of UAH 12,994 thousand (2009: UAH 1,813 thousand). Real estate will be retained for capital appreciation, and accordingly, is recognized as investment property (note 11).

During 2010 the Bank wrote off retail loans amounting to UAH 13,771 thousand and corporate loans amounting to UAH 23,000 thousand (2009: retail loans amounting to UAH 5,176 thousand). Additionally, a portfolio of impaired retail loans with gross value of UAH 10,049 thousand was disposed by the Bank during the year ended 31 December 2010 (2009: nil).

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

	31 December 2010			31 December 2009		
Type of collateral	**Corporate loans**	**Retail loans**	**Total**	Corporate loans	Retail loans	Total
(in thousands of UAH)						
Impaired loans:						
Pledged assets	**37,614**	**-**	**37,614**	8,943	-	8,943
Unsecured	**4,796**	**-**	**4,796**	21,926	-	21,926
Total impaired loans	**42,410**	**-**	**42,410**	30,869	-	30,869
Loans without specifically identified impairment:						
Pledged assets	**432,476**	**232,173**	**664,649**	536,339	224,260	760,599
Unsecured	**81,061**	**16,784**	**97,845**	2,237	13,463	15,700
Guarantee	**63,694**	**-**	**63,694**	50,944	-	50,944
Total loans without specifically identified impairment	**577,231**	**248,957**	**826,188**	589,520	237,723	827,243
Total loans:						
Pledged assets	**470,090**	**232,173**	**702,263**	545,282	224,260	769,542
Unsecured	**85,857**	**16,784**	**102,641**	24,163	13,463	37,626
Guarantee	**63,694**	**-**	**63,694**	50,944	-	50,944
Total	**619,641**	**248,957**	**868,598**	620,389	237,723	858,112

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.

As at 31 December 2010, the estimated fair value of collateral pledged for loans with specific impairment identified is approximately UAH 19,072 thousand (31 December 2009: UAH 5,972 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)	**2010**	2009
Automotive	**194,045**	227,230
Basic materials	**111,704**	111,906
Agriculture and fishing	**76,656**	72,540
Financial intermediaries	**49,642**	41,458
Construction	**44,364**	36,519
Food, beverage and tobacco	**41,978**	1,129
Tourism	**39,519**	31,951
Consumer products non-food	**24,603**	2,537
Oil and gas	**-**	54,583
Other	**37,130**	40,536
Total	**619,641**	620,389

10 Property, equipment and intangible assets

A summary of activity in property, equipment and intangible assets for the year ended 31 December 2010 is as follows:

(in thousands of UAH)	**Leasehold improvements**	**Furniture and equipment**	**Motor vehicles**	**Intangible assets**	**Total**
Cost					
1 January 2010	**15,682**	**24,144**	**1,363**	**7,024**	**48,213**
Additions	**36**	**126**	**281**	**51**	**494**
Disposals	**(1,165)**	**(676)**	**(527)**	**-**	**(2,368)**
31 December 2010	**14,553**	**23,594**	**1,117**	**7,075**	**46,339**
Accumulated depreciation and amortisation					
1 January 2010	**5,060**	**13,330**	**760**	**2,226**	**21,376**
Depreciation and amortisation	**4,753**	**5,300**	**317**	**1,710**	**12,080**
Disposals	**(555)**	**(352)**	**(206)**	**-**	**(1,113)**
31 December 2010	**9,258**	**18,278**	**871**	**3,936**	**32,343**
Net book value as at 31 December 2010	**5,295**	**5,316**	**246**	**3,139**	**13,996**

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	1,500	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

11 Investment property

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

(in thousands of UAH)	**2010**	2009
As at 1 January	**1,813**	-
Foreclosed property	**12,994**	1,813
Change in fair value	**(459)**	-
As at 31 December	**14,348**	1,813

During the year ended 31 December 2010 and 2009, the Bank foreclosed residential and non residential real estate. The Bank intends to keep the property for capital appreciation.

Property was recognised at fair value. The basis used for the appraisal was the market approach. 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.

Close to the reporting date an analysis of changes in fair value of investment property was performed based on analysis of changes in market value for similar real estate, taking into account location, condition and overall quality of premises.

12 Other assets

Other assets as at 31 December are as follows:

(in thousands of UAH)	**2010**	2009 (restated)	2008 (restated)
Prepayments for goods and services	**3,114**	2,425	5,614
Income tax receivable	**167**	-	-
Derivative financial asset (note 26)	**-**	-	3,975
Other	**534**	591	485
Total	**3,815**	3,016	10,074

13 Due to banks

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

(in thousands of UAH)	**2010**	2009 (restated)	2008 (restated)
Deposits and balances due to banks:			
OECD countries	**637,666**	683,378	1,835,820
Domestic	**-**	15,755	414
Total	**637,666**	699,133	1,836,234

As at 31 December 2010, balances due to Parent amount to UAH 637,657 thousand or 100.0% of balances due to banks (31 December 2009: UAH 683,378 thousand or 97.7%; 31 December 2008: UAH 1,835,820 thousand or 100.0%).

14 Current accounts

Current accounts as at 31 December are as follows:

(in thousands of UAH)	**2010**	2009
Commercial	**55,810**	45,631
Retail	**7,380**	5,189
Total	**63,190**	50,820

As at 31 December 2010, current accounts of the ten largest customers total UAH 50,602 thousand, or 80.1% of the total current accounts (31 December 2009: UAH 39,416 thousand, or 77.6%).

15 Deposits

Deposits as at 31 December are as follows:

(in thousands of UAH)	**2010**	2009
Commercial	**2,100**	35,798
Retail	**5,802**	13,824
Total	**7,902**	49,622

As at 31 December 2010, deposits of the ten largest customers total UAH 6,471 thousand, or 81.9% of total deposits (31 December 2009: UAH 44,337 thousand, or 89.3%).

16 Other liabilities

Other liabilities as at 31 December are as follows:

(in thousands of UAH)	**2010**	2009 (restated)	2008 (restated)
Provision for unused vacations	**1,078**	977	2,077
Accounts payable	**1,654**	430	491
Deferred income	**1**	-	3,649
Derivative financial liability (note 26)	**67**	55	-
Other	**519**	763	1,138
Total	**3,319**	2,225	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:

	2010		2009	
(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 2010 and 2009.

All ordinary shares have equal voting, dividend and capital repayment rights. In 2010 and 2009 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 guarantees issued by the Bank are as follows:

(in thousands of UAH)	**2010**	2009
Guarantees granted to banks	**140,518**	183,270
Guarantees granted to customers	**1,738**	11,050
	142,256	194,320

The amounts reflected in the table above assume that amounts are fully advanced and represent the maximum accounting loss that would be recognised at the reporting date if counterparties failed completely to perform as contracted.

As at 31 December 2010, guarantees granted to banks amounting to UAH 108,906 thousand or 77.5% of total amount of guarantees granted to banks, are granted to one counterparty (31 December 2009: UAH 108,906 thousand and 59.4%, respectively).

(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)	**2010**	2009
Within one year	**1,742**	3,935
From one to five years	**-**	4,221
	1,742	8,156

(c) Loan commitments

The Bank has outstanding commitments to extend loans. These commitments take the form of approved loans and credit card limits and overdraft facilities. The total outstanding contractual commitments do not necessarily represent future cash requirements, as these commitments may expire or terminate without being funded.

(d) 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.

(e) 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.

Starting from 1 January 2011 new Tax Code of Ukraine was adopted that implies certain changes in tax accounting. In particular Tax code stipulates the decrease in corporate income tax rates from 25% to 23 % since 1 April 2011, 21% since 1 January 2012, 19% since 1 January 2013 and 16% since 1 January 2014.

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.

(f) 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)	**2010**	2009
Loans and advances	**104,345**	129,314
Securities available-for-sale	**66,667**	56,041
Due from banks	**2,678**	43,556
Total	**173,690**	228,911

Interest income on individually impaired loans and advances during the year ended 31 December 2010 amounts to UAH 1,681 thousand (2009: UAH 5,387 thousand).

20 Interest expense

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

(in thousands of UAH)	**2010**	2009
Due to banks	**28,113**	63,347
Deposits and current accounts	**1,540**	8,177
Total	**29,653**	71,524

21 Net fee and commission income

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

(in thousands of UAH)	**2010**	2009
Fee and commission income:		
Issued guarantees and letters of credit	**10,523**	9,222
Credit fees	**6,026**	5,731
Settlements and cash services	**4,220**	2,679
Operations in foreign exchange and bank metal market for customers	**2,307**	3,293
Fines and penalties	**1,991**	3,638
Other fee and commission income	**3**	45
Total fee and commission income	**25,070**	24,608
Fee and commission expense:		
Settlements and cash services	**538**	4,650
Other fees and commission expense	**1,064**	732
Total fee and commission expense	**1,602**	5,382
Net fee and commission income	**23,468**	19,226

22 Salaries and employee benefits

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

(in thousands of UAH)	**2010**	2009
Salaries and other benefits	**34,685**	33,064
Salary related charges	**5,887**	8,041
Severance payments	**-**	11,929
Total	**40,572**	53,034

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)	**2010**	2009
Rent and maintenance expenses	**13,760**	19,951
Legal and consultancy fees	**2,964**	4,554
Stationery and office supplies	**2,776**	1,306
Communication and information expenses	**2,267**	7,106
Travel expenses	**1,138**	1,364
Security expenses	**1,090**	1,536
Insurance expenses	**498**	897
Taxes, other than income tax, duties and charges	**468**	2,791
Change in fair value of investment property	**459**	-
Advertising and marketing	**215**	287
Other	**3,527**	1,867
Total	**29,162**	41,659

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)	**2010**	2009
Balance as at 1 January	**91,847**	58,827
Provision for impairment:		
Loans and advances	**36,431**	23,866
Due from banks	**-**	36,332
Securities available-for-sale	**-**	7,290
Commitments and contingencies	**-**	-
Provision for impairment charged to the statement of comprehensive income	**36,431**	67,488
Currency translation adjustment	**(3,189)**	-
Write-offs of due from banks	**(36,411)**	
Write-offs of securities available-for-sale	**-**	(7,290)
Write-off loans and advances	**(46,820)**	(27,178)
Balance as at 31 December	**41,858**	91,847

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

(in thousands of UAH)	**2010**	2009
Loans and advances	**41,858**	55,515
Due from banks	**-**	36,332
Total	**41,858**	91,847

25 Income tax expense

The statutory income tax rate is 25% for 2010 and 2009.

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

(in thousands of UAH)	**2010**	2009
Current tax expense	**109**	1,873
Deferred tax expense (benefit)	**21,151**	10,811
Total tax expense	**21,260**	12,684

The difference between the total expected income tax expense 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)	**2010**	**2010**	2009	2009
Profit before tax	**72,191**	**100.0%**	20,219	100.0%
Computed expected income tax expense at statutory rate	**18,048**	**25.0%**	5,055	25.0%
Non-deductible expenses	**7,002**	**9.7%**	7,629	37.7%
Reduction in income tax rate	**(3,790)**	**(5.2%)**	-	-
Effective income tax expense	**21,260**	**29.4%**	12,684	62.7%

(a) Movements in recognised temporary differences during the year

Deferred tax assets and liabilities as at 31 December 2010 are attributable to the items detailed as follows:

(in thousands of UAH)	**1 January 2010** *asset (liability)*	**Recognised through profit or loss** *benefit (charge)*	**Recognised directly in equity** *benefit (charge)*	**31 December 2010** *asset (liability)*
Due from banks	**-**	**(327)**	**-**	**(327)**
Securities available-for-sale	**4,035**	**(15,228)**	**(2,382)**	**(13,575)**
Loans and advances	**(17,407)**	**(3,269)**	**-**	**(20,676)**
Property, equipment and intangible assets	**3,912**	**(1, 971)**	**-**	**1,941**
Other assets	**-**	**(360)**	**-**	**(360)**
Other liabilities	**243**	**4**	**-**	**247**
Total	**(9,217)**	**(21,151)**	**(2,382)**	**(32,750)**

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

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

26 Derivative financial instruments at fair value through profit and loss

Derivative financial instruments relate mainly to foreign exchange swaps and forward exchange contracts.

The Bank has loans due from and deposits due to the same banks that are denominated in different currencies for the same period with the same or similar amounts. Cash flows under these instruments are similar to cash flows under foreign exchange swaps. The Bank's accounting policies allow offsetting of assets and liabilities (i.e. loans due from and deposits due to the same banks) only when there is legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. Although settlement of loans and deposits is typically done on the same day, loans due from and deposits due to the same banks are settled by receiving and paying separate amounts, thus exposing the Bank to credit risk for the full amount of the asset or liquidity risk for the full amount of the liability. These risk exposures may be significant even though relatively brief. Management believes that these transactions are in substance foreign exchange swaps and accounts for these transactions in accordance with the Bank's accounting policy in respect of derivatives (note 3(b)(vii)).

The table below sets out gross amounts of receivable and payable upon settlement of amounts due from and deposits due to banks. Because these contracts are short-term, the net amount of receivable or payable upon settlement also approximates the positive (net receivable) or negative (net payable) fair value of the foreign exchange contracts:

	2010	**2009**	**2008**
	Contracts with negative fair values	***Contracts with negative fair values***	***Contracts with positive fair values***
(in thousands of UAH)			
UAH receivable	**35,000**	**23,900**	**55,000**
USD payable	**(35,000)**	**(23,955)**	**(55,000)**
Net payable	**-**	**(55)**	**-**
UAH payable	**-**	**-**	**(7,575)**
USD receivable	**-**	**-**	**11,550**
Net receivable	**-**	**-**	**3,975**
Net fair value (liabilities) assets	**-**	**(55)**	**3,975**
Maximum exposure to credit risk (gross amount receivable)	**35,000**	**23,900**	**66,550**

The table below summarises the contractual amounts of forward exchange contracts outstanding at 31 December 2010 with details of the contractual exchange rates and remaining periods to maturity. Foreign currency amounts presented below are translated at rates ruling at the reporting date.

	31 December 2010			
	Payable	**Receivable**	**Fair value (liability)**	**Average contractual exchange rate**
(in thousands of UAH)				
Buy USD sell EUR				
Within one month	**(11,630)**	**11,563**	**(67)**	**1.3**

27 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.

(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 at the reporting date.

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.

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 credit risk at 31 December is as follows:

(in thousands of UAH)	**2010**	2009	2008
Balances with NBU	**7,792**	58,923	79,605
Due from banks	**150,876**	140,328	1,122,166
Securities available-for-sale	**304,586**	296,768	161,534
Loans and advances	**826,740**	802,597	1,039,314
Other assets, excluding prepayments	**701**	591	4,460
Total balance sheet exposure	**1,290,695**	1,299,207	2,407,079
Guarantees granted (note 18(a))	**142,256**	194,320	135,845
Gross amount receivable on derivatives (note 26)	**35,000**	23,900	66,550
Total exposure	**1,467,951**	1,517,427	2,609,474

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.

(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 is monitored by the NBU.

Foreign currency positions as at 31 December 2010 are as follows:

(in thousands of UAH)	**USD**	**EUR**	**Other**
Assets			
Cash	**2,694**	**806**	**-**
Due from banks	**149,449**	**1,290**	**17**
Loans and advances	**491,014**	**3,493**	**-**
Total assets	**643,157**	**5,589**	**17**
Liabilities			
Due to banks	**(636,651)**	**(1,015)**	**-**
Current accounts	**(7,466)**	**(1,218)**	**-**
Deposits	**(4,584)**	**(242)**	**-**
Other liabilities	**(177)**	**-**	**-**
Total liabilities	**(648,878)**	**(2,475)**	**-**
Net on balance sheet position	**(5,721)**	**3,114**	**17**
Derivatives: foreign exchange swaps (note 26)	**(35,000)**	**-**	**-**
Net long (short) position	**(40,721)**	**3,114**	**17**

Other currencies are mainly represented by Russian roubles.

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	138,822	1,013	23
Loans and advances	649,394	10,229	-
Total assets	791,263	12,249	23
Liabilities			
Due to banks	(682,958)	(9,159)	-
Current accounts	(5,717)	(2,227)	-
Deposits	(41,164)	(1,278)	-
Total liabilities	(729,839)	(12,664)	-
Net on balance sheet position	61,424	(415)	23
Derivatives: foreign exchange swaps (note 26)	(23,955)	-	-
Net long (short) position	37,469	(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	1,116,976	1,200	-
Loans and advances	931,495	23,277	-
Total assets	2,054,616	28,608	43
Liabilities			
Due to banks	(1,814,573)	(21,255)	-
Current accounts	(22,019)	-	-
Deposits	(80,258)	(7,676)	-
Other liabilities	(1,735)	(103)	-
Total liabilities	(1,918,585)	(29,034)	-
Net on balance sheet position	136,031	(426)	43
Derivatives: foreign exchange swaps (note 26)	(43,450)	-	-
Net long (short) position	92,581	(426)	43

As at 31 December 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)	**2010**	2009	2008
USD	**(3,054)**	2,810	6,944
EUR	**234**	(31)	(32)

As at 31 December 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:

	2010			2009		
	UAH	**USD**	**EUR**	UAH	USD	EUR
Due from banks	**-**	**0.8%**	**-**	-	0.7%	-
Securities available-for-sale	**16.2%**	**-**	**-**	18.5%	-	-
Loans and advances	**16.4%**	**11.5%**	**11.8%**	21.3%	11.7%	9.1%
Due to banks	**11.0%**	**5.4%**	**-**	-	4.36%	4.0%
Deposits	**8.5%**	**4.2%**	**4.5%**	15.3%	4.3%	5.2%

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.

Increase in market interest rates by one percentage point will decrease fair value of securities available-for-sale and equity by UAH 1,636 thousand as at 31 December 2010 (31 December 2009: UAH 2,226 thousand). One percentage point decrease would have had an equal but opposite effect.

(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 2010 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	**7,141**	**-**	**-**	**-**	**-**	**-**	**7,141**
Balances with the NBU	**7,792**	**-**	**-**	**-**	**-**	**-**	**7,792**
Due from banks	**150,876**	**-**	**-**	**-**	**-**	**-**	**150,876**
Securities available-for-sale	**80,378**	**101,148**	**22,205**	**100,855**	**-**	**-**	**304,586**
Loans and advances	**129,020**	**59,188**	**309,719**	**230,661**	**98,152**	**-**	**826,740**
Property, equipment and intangible assets	**-**	**-**	**-**	**-**	**-**	**13,996**	**13,996**
Investment property	**-**	**-**	**-**	**-**	**-**	**14,348**	**14,348**
Other assets	**3,815**	**-**	**-**	**-**	**-**	**-**	**3,815**
Total assets	**379,022**	**160,336**	**331,924**	**331,516**	**98,152**	**28,344**	**1,329,294**
Liabilities							
Due to banks	**75,366**	**31,051**	**531,249**	**-**	**-**	**-**	**637,666**
Current accounts	**63,190**	**-**	**-**	**-**	**-**	**-**	**63,190**
Deposits	**2,958**	**3,591**	**1,353**	**-**	**-**	**-**	**7,902**
Deferred tax liability	**-**	**8,920**	**7,575**	**16,255**	**-**	**-**	**32,750**
Other liabilities	**3,319**	**-**	**-**	**-**	**-**	**-**	**3,319**
Total liabilities	**144,833**	**43,562**	**540,177**	**16,255**	**-**	**-**	**744,827**
Liquidity surplus (gap) for the period	**234,189**	**116,774**	**(208,253)**	**315,261**	**98,152**	**28,344**	**584,467**
Cumulative liquidity surplus	**234,189**	**350,963**	**142,710**	**457,971**	**556,123**	**584,467**	

The contractual remaining maturities of assets and liabilities, excluding interest payments, as at 31 December 2009 (restated) 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	140,328	-	-	-	-	-	140,328
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	411,703	85,063	387,435	305,624	118,959	28,650	1,337,434
Liabilities							
Due to banks	444,970	-	254,163	-	-	-	699,133
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	2,225	-	-	-	-	-	2,225
Total liabilities	535,899	11,078	260,688	4,709	2,580	(3,912)	811,042
Liquidity (gap) surplus for the period	(124,196)	73,985	126,747	300,915	116,379	32,562	526,392
Cumulative liquidity (gap) surplus	(124,196)	(50,211)	76,536	377,451	493,830	526,392	

The contractual remaining maturities of assets and liabilities, excluding interest payments, as at 31 December 2008 (restated) 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	326,404	-	795,762	-	-	-	1,122,166
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	3,975	-	-	-	-	10,074
Total assets	713,971	119,597	1,175,146	407,315	134,992	52,078	2,603,099
Liabilities							
Due to banks	22,707	350,598	1,113,196	226,079	123,654	-	1,836,234
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	165,383	445,815	1,114,916	231,901	124,132	-	2,082,147
Liquidity surplus (gap) for the period	548,588	(326,218)	60,230	175,414	10,860	52,078	520,952
Cumulative liquidity surplus	548,588	222,370	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 2010, 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.

The contractual maturity analysis of undiscounted cash flows (including interest payments) for financial liabilities as at 31 December 2010 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	**75,540**	**31,355**	**541,031**	**-**	**-**	**647,926**
Current accounts	**63,190**	**-**	**-**	**-**	**-**	**63,190**
Deposits	**3,313**	**3,700**	**1,395**	**-**	**-**	**8,408**
	142,043	**35,055**	**542,426**	**-**	**-**	**719,524**

The contractual maturity analysis of undiscounted cash flows (including interest payments) for financial liabilities as at 31 December 2009 (restated) 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	446,069	-	264,170	-	-	710,239
Current accounts	50,820	-	-	-	-	50,820
Deposits	36,053	9,636	4,454	-	-	50,143
	532,942	9,636	268,624	-	-	811,202

The contractual maturity analysis of undiscounted cash flows (including interest payments) for financial liabilities as at 31 December 2008 (restated) 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	30,979	357,540	1,193,187	239,063	152,411	1,973,180
Current accounts	45,000	-	-	-	-	45,000
Deposits	93,385	95,013	543	5,755	-	194,696
	169,364	452,553	1,193,730	244,818	152,411	2,212,876

(g) Capital management

(i) 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 2010, the minimum level required by the NBU is 10.0% (31 December 2009: 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)	**2010**	2009
Tier I capital		
Share capital	**505,000**	505,000
Retained earnings	**79,316**	28,385
Total Tier I capital	**584,316**	533,385
Tier II capital		
Fair value reserve	**151**	(6,993)
Total capital	**584,467**	526,392
Total risk-weighted assets	**1,248,748**	1,019,623
Capital ratios		
Total Tier I capital expressed as a percentage of total risk-weighted assets	**46.8%**	52.3%
Total Tier II capital expressed as a percentage of total risk-weighted assets	**46.8%**	51.6%

28 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 2010 and 2009 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 2010.

The ultimate controlling party of the Bank 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)	**2010**	2009
Transactions with the Parent		
Statement of financial position:		
Due from banks	**35,574**	91,734
Due to banks	**637,657**	683,378
Other liabilities	**67**	-
Statement of comprehensive income:		
Interest expense	**21,209**	53,642
Net fee and commission expense	**985**	1,677
Transactions with other entities under common control		
Statement of financial position:		
Due from banks	**23**	26
Loans and advances	**48,362**	-
Current accounts	**967**	2,209
Deposits	**2,001**	31,174
Statement of comprehensive income:		
Interest income	**2,492**	464
Interest expense	**414**	4,083
Net gains from dealing with foreign currencies	**-**	4,895
Transactions with the Key management personnel		
Statement of financial position:		
Loans and advances	**163**	163
Current accounts	**233**	19
Deposits	**133**	586
Statement of comprehensive income:		
Interest income	**-**	30
Interest expense	**18**	3
Salaries and employee benefits	**2,356**	2,356

The foreign currency positions and interest rates of balances with related parties as at 31 December 2010 are as follows:

(in thousands of UAH)	**UAH**	**Interest rate**	**USD**	**Interest rate**	**EUR**	**Interest rate**	**Other**	**Interest rate**
Balances with the Parent								
Due from banks	**-**	**-**	**34,303**	**-**	**1,271**	**-**	**-**	**-**
Due to banks	**1,006**	**11.0%**	**636,651**	**5.3%**	**-**	**-**	**-**	**-**
Balances with other entities under common control								
Due from banks	**-**	**-**	**12**	**-**	**-**	**-**	**11**	**-**
Loans and advances	**48,362**	**15.3%**	**-**	**-**	**-**	**-**	**-**	
Current accounts	**406**	**-**	**215**	**-**	**346**	**-**	**-**	**-**
Deposits	**2,001**	**6.3%**	**-**	**-**	**-**	**-**	**-**	**-**
Balances with the Key management personnel								
Loans and advances	**-**	**-**	**163**	**8.5%**	**-**	**-**	**-**	**-**
Current accounts	**101**	**-**	**121**	**-**	**11**	**-**	**-**	**-**
Deposits	**133**	**19.0%**	**-**	**-**	**-**	**-**	**-**	**-**

The foreign currency positions and interest rates of transactions 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	-	-	90,721	0.6%	1,013	-
Due to banks	-	-	674,219	4.5%	9,159	4.0%
Balances with other entities under common control						
Due from banks	-	-	26	-	-	-
Current accounts	142	-	1,692	-	375	-
Deposits	-	0.0%	31,174	3.6%	-	-
Balances with the Key management personnel						
Loans and advances	-	-	163	16.%	-	-
Current accounts	-	-	19	-	-	-
Deposits	-	-	586	4.0%	-	-

The contractual remaining maturities of balances with related parties as at 31 December 2010 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	**35,574**	**-**	**-**	**-**	**-**	**35,574**
Due to banks	**75,357**	**31,051**	**531,249**	**-**	**-**	**637,657**
Balances with other entities under common control						
Due from banks	**23**	**-**	**-**	**-**	**-**	**23**
Loans and advances	**-**	**-**	**48,362**	**-**	**-**	**48,362**
Current accounts	**967**	**-**	**-**	**-**	**-**	**967**
Deposits	**-**	**2,001**	**-**	**-**	**-**	**2,001**
Balances with the Key management personnel						
Loans and advances	**-**	**-**	**-**	**163**	**-**	**163**
Current accounts	**233**	**-**	**-**	**-**	**-**	**233**
Deposits	**-**	**-**	**-**	**133**	**-**	**133**

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	91,734	-	-	-	-	91,734
Due to banks	429,215	-	254,163	-	-	683,378
Balances with other 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

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.

29 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 2010 and 2009 are assumed to approximate their carrying value due to their short term nature and/or the market rates at period end.

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 2010	-	**304,586**	-	**304,586**
Securities available-for-sale				

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

As at 31 December 2010 and 2009, 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

23 February 2011

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Independent Auditors' Report

To the Board of Management of
PJSC Credit Europe Bank

We have audited the accompanying financial statements of PJSC Credit Europe Bank ("the Bank"), which comprise the statement of financial position as at 31 December 2010, the statement of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

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, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our 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, we consider 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 audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2010, and of 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

23 February 2011