

UKRSIBBANK

**International Financial Reporting Standards
Consolidated Financial Statements and
Independent Auditor's Report**

31 December 2008

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders and Board of Directors of UkrSibbank:

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

- 3 Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.
- 4 An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
- 5 We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

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

L.L.C. PricewaterhouseCoopers (Audit)

29 May 2009
Kyiv, Ukraine

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



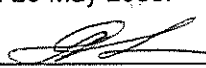
UKRSIBBANK
Consolidated Balance Sheet

<i>In thousands of Ukrainian hryvnias</i>	Note	31 December 2008	31 December 2007
ASSETS			
Cash and cash equivalents and mandatory reserves	7	3,123,107	2,626,644
Trading securities	8	69,711	207,692
Due from other banks	9	271,450	1,042,023
Loans and advances to customers	10	46,923,098	30,430,963
Investment securities available-for-sale	11	897,114	691,854
Investments accounted for using the equity method	12	81,166	120,577
Current income tax prepayment		3,202	10,324
Deferred income tax asset	26	436,905	7,448
Intangible assets	13	141,048	94,761
Premises, leasehold improvements and equipment	13	1,491,223	1,259,934
Other financial and non-financial assets	14	487,538	175,238
TOTAL ASSETS		53,925,562	36,667,458
LIABILITIES			
Due to other banks	15	22,184,515	12,826,568
Customer accounts	16	15,019,453	11,627,923
Domestic debt securities in issue	17	51,063	859,471
Eurobonds issued	18	7,413,876	4,213,353
Syndicated loans and other borrowed funds	19	2,949,525	1,819,422
Current income tax liability		26,072	58
Deferred income tax liability	26	1,178	84,332
Provisions for liabilities and charges and other liabilities	20	286,427	635,816
Subordinated debt	21	2,281,446	1,382,506
TOTAL LIABILITIES		50,213,555	33,449,449
EQUITY			
Share capital	22	4,005,000	3,518,684
Share premium		5,620	5,620
Revaluation reserve for investment securities available-for-sale		(19,710)	(305)
Accumulated deficit		(285,550)	(315,696)
Net assets attributable to the Company's equity holders		3,705,360	3,208,303
Minority interest		6,647	9,706
TOTAL EQUITY		3,712,007	3,218,009
TOTAL LIABILITIES AND EQUITY		53,925,562	36,667,458

Approved for issue and signed on behalf of the Board of Directors on 29 May 2009.



 Sergiy Naumov
 Chairman of the Board



 Ganna Samarina
 Head of Finance

UKRSIBBANK
Consolidated Income Statement

<i>In thousands of Ukrainian hryvnias</i>	Note	2008	2007
Interest income	23	5,020,333	3,091,584
Interest expense	23	(2,873,212)	(1,745,124)
Net interest income		2,147,121	1,346,460
Provision for loan impairment	10	(2,742,846)	(299,112)
Net interest (expense)/income after provision for loan impairment		(595,725)	1,047,348
Fee and commission income	24	529,962	425,302
Fee and commission expense	24	(39,903)	(38,862)
(Losses less gains)/gains less losses from trading securities		(684)	19,378
Gains less losses from trading in foreign currencies		336,062	160,769
Foreign exchange translation gains less losses/(losses less gains)		236,262	(43,659)
Impairment of investment securities available-for-sale	11	(20,096)	-
Gains less losses from disposals of investment securities available-for-sale	11	11,941	10,433
Net premiums earned		-	165,964
Net claims incurred		-	(102,814)
Gains less losses from derivative financial instruments	32	244,508	14,272
(Provision)/recovery of provision for credit related commitments	31	(3,756)	8,681
Other operating income		26,639	23,828
Administrative and other operating expenses	25	(1,837,969)	(1,279,215)
Gains less losses from disposal of subsidiaries		-	87,004
Share of the loss of joint ventures accounted for using the equity method	12	(93,762)	(4,183)
(Loss)/profit before tax		(1,206,521)	494,246
Income tax credit/(expense)	26	291,258	(138,277)
(Loss)/profit for the year		(915,263)	355,969
(Loss)/profit is attributable to			
Equity holders of the Company		(913,538)	352,404
Minority interest		(1,725)	3,565
(Loss)/profit for the year		(915,263)	355,969
Earnings per share for profit attributable to the equity holders of the Company, basic and diluted (expressed in UAH per share)	27	(0.0125)	0.0078

UKRSIBBANK
Consolidated Statement of Changes in Equity

	Note	Attributable to equity holders of the Company					Accumulated deficit	Total	Minority interest	Total equity
		Share capital	Share premium	Additional capital	Revaluation reserve for investment securities available-for-sale	Currency translation reserve				
<i>In thousands of Ukrainian hryvnias</i>										
Balance at 31 December 2006		2,693,684	5,377	6,974	1,061	518	(711,259)	1,996,355	-	1,996,355
Available-for-sale investments:										
- Fair value gains less losses	11	-	-	-	8,612	-	-	8,612	-	8,612
- Derecognition of investment securities available-for-sale	11	-	-	-	(10,433)	-	-	(10,433)	-	(10,433)
Currency translation differences		-	-	-	-	355	-	355	-	355
Income tax recorded in equity	26	-	-	-	455	-	-	455	-	455
Net (loss)/income recognised directly in equity		-	-	-	(1,366)	355	-	(1,011)	-	(1,011)
Profit for the year		-	-	-	-	-	352,404	352,404	3,565	355,969
Total recognised income for 2007		-	-	-	(1,366)	355	352,404	351,393	3,565	354,958
Share issue	22	825,000	243	-	-	-	-	825,243	-	825,243
Additional capital from shareholders	35	-	-	36,185	-	-	-	36,185	-	36,185
Transfer of additional capital	22	-	-	(43,159)	-	-	43,159	-	-	-
Disposal of subsidiaries		-	-	-	-	(873)	-	(873)	-	(873)
Change in share of ownership in subsidiaries		-	-	-	-	-	-	-	6,141	6,141
Balance at 31 December 2007		3,518,684	5,620	-	(305)	-	(315,696)	3,208,303	9,706	3,218,009
Available-for-sale investments:										
- Fair value losses less gains	11	-	-	-	(13,934)	-	-	(13,934)	-	(13,934)
- Derecognition of investment securities available-for-sale	11	-	-	-	(11,941)	-	-	(11,941)	-	(11,941)
Income tax recorded in equity	26	-	-	-	6,470	-	-	6,470	-	6,470
Net loss recognised directly in equity		-	-	-	(19,405)	-	-	(19,405)	-	(19,405)
Loss for the year		-	-	-	-	-	(913,538)	(913,538)	(1,725)	(915,263)
Total recognised loss for 2008		-	-	-	(19,405)	-	(913,538)	(932,943)	(1,725)	(934,668)
Share issue	22	1,430,000	-	-	-	-	-	1,430,000	-	1,430,000
Transfer of monetary loss	22	(943,684)	-	-	-	-	943,684	-	-	-
Change in share of ownership in subsidiaries		-	-	-	-	-	-	-	(1,334)	(1,334)
Balance at 31 December 2008		4,005,000	5,620	-	(19,710)	-	(285,550)	3,705,360	6,647	3,712,007

UKRSIBBANK
Consolidated Statement of Cash Flows

<i>In thousands of Ukrainian hryvnias</i>	Note	2008	2007
Cash flows from operating activities			
Interest received on loans and placements		4,539,081	2,947,886
Interest received on securities		120,062	70,768
Interest paid		(2,490,635)	(1,568,094)
Income received/(loss paid) from trading in trading securities		(545)	11,266
Income received from trading in foreign currencies		336,062	160,769
Fees and commissions received		536,597	425,302
Fees and commissions paid		(41,116)	(38,862)
Insurance premiums received, net of reinsurance		-	200,948
Insurance claims paid, net of reinsurance		-	(87,884)
Other operating income received		9,182	24,529
Staff costs paid		(976,567)	(651,449)
Administrative and other operating expenses paid		(631,281)	(386,982)
Income tax paid		(181,749)	(138,982)
Cash flows from operating activities before changes in operating assets and liabilities		1,219,091	969,215
Changes in operating assets and liabilities			
Net increase in mandatory reserve balances		(350,824)	(757,924)
Net decrease in trading securities		36,827	300,434
Net decrease/(increase) in due from other banks		845,358	(794,072)
Net increase in loans and advances to customers		(3,479,846)	(12,674,397)
Net increase in other assets		(13,958)	(142,698)
Net increase in due to other banks		691,047	6,162,661
Net increase in customer accounts		538,572	5,008,136
Net decrease in due to the NBU		-	(198,000)
Net decrease in domestic debt securities in issue		-	(39)
Net (decrease)/increase in other liabilities		(253,436)	34,980
Net cash used in operating activities		(767,169)	(2,091,704)
Cash flows from investing activities			
Acquisition of investment securities available-for-sale	11	(4,219,295)	(3,247,492)
Proceeds from disposal of investment securities available-for-sale	11	4,095,972	2,735,465
Acquisition of interest in a jointly controlled entity	12	-	(124,760)
Additional investment in a jointly controlled entity	12	(54,351)	-
Acquisition of premises, leasehold improvements, equipment and intangible assets		(423,675)	(271,993)
Proceeds from disposal of premises and equipment		11,100	4,524
Cash outflow on acquisition of subsidiary	37	-	(129)
Cash outflow on disposal of subsidiary	37	-	(69,662)
Proceeds from disposal of subsidiaries	37	-	79,338
Cash paid on acquisition of minority		(1,333)	-
Net cash used in investing activities		(591,582)	(894,709)
Cash flows from financing activities			
Issue of long-term domestic debt securities		-	301,676
Redemption of long-term domestic debt securities		(796,152)	(801,611)
Redemption of Eurobonds		(605,262)	(505,000)
Issue of Eurobonds		1,210,700	1,003,510
Proceeds from other borrowed funds		277,648	1,804,789
Repayment of other borrowed funds		(147,600)	(426,834)
Issue of subordinated debt		101,000	631,027
Issue of ordinary shares	22	1,127,500	825,243
Net increase in unregistered share capital	20	-	302,500
Additional capital received	35	-	36,185
Net cash from financing activities		1,167,834	3,171,485
Effect of exchange rate changes on cash and cash equivalents		336,556	44,489
Net increase in cash and cash equivalents		145,639	229,561
Cash and cash equivalents at the beginning of the year		1,685,659	1,456,098
Cash and cash equivalents at the end of the year	7	1,831,298	1,685,659

1 Introduction

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2008 for Joint-Stock Innovation Bank UKRSIBBANK (“UkrSibbank” or the “Company”) and its subsidiaries and special purpose entities (together referred to as the “Bank”).

UkrSibbank was incorporated and is domiciled in Ukraine. UkrSibbank is a joint stock company limited by shares and was set up in accordance with Ukrainian regulations.

In December 2005 BNP Paribas SA signed a share purchase agreement for the purchase of 51% of the outstanding shares of UkrSibbank. In January 2006 the Antimonopoly Committee of Ukraine provided permission to BNP Paribas SA for acquisition of 51% of the share capital of the Company. In February and March 2006, shareholders of the Company (3 legal entities and 2 individuals) sold part of their shares to BNP Paribas S.A. In April 2006 the National Bank of Ukraine provided preliminary permission to BNP Paribas SA for acquisition of 51% of the share capital of the Company. In April 2006 51% of the outstanding shares of UkrSibbank were transferred to BNP Paribas SA which became the parent company of UkrSibbank.

Principal activity. UkrSibbank operates under a banking license issued by the National Bank of Ukraine (the “NBU”). UkrSibbank’s principal business activity is commercial and retail banking operations within Ukraine. UkrSibbank was formed in 1990 as Commercial Innovation Bank Kharkovincomebank and registered by Gosbank of USSR. In 1991 UkrSibbank was reorganised as an open-type joint-stock company and registered by the NBU. In 1992 it was renamed as UKRSIBBANK. The Bank participates in the state deposit insurance scheme (registration #86 dated 02 September 1999), which operates according to the Law #2740-III “On Individuals Deposits Guarantee Fund” dated 20 September 2001. Individuals Deposits Guarantee Fund guarantees repayment of individual deposits up to UAH 150 thousand (2007: UAH 50 thousand) per individual in case bank liquidation procedure is started.

As at 31 December 2008 UkrSibbank has 957 outlets in Ukraine (2007: 1,004 outlets). Additionally, UkrSibbank has representative offices in Kyiv and Kharkiv (Ukraine). As at 31 December 2006 UkrSibbank had a subsidiary bank in Russia, which was disposed of on 19 July 2007. In addition, in November 2007 the Bank disposed its insurance subsidiary, Insurance Company “Ukrainian Insurance Alliance”. Please refer to Note 37. A list of consolidated subsidiaries and special purpose entities is disclosed in Note 36.

Registered address and place of business. UkrSibbank’s registered office is located at the following address:

60 Moskovsky Ave.
61005, Kharkiv
Ukraine.

UkrSibbank’s principal place of business is located at the following address:

2/12 Andreyevskaya Str.
Kyiv
Ukraine.

Presentation currency. These consolidated financial statements are presented in Ukrainian hryvnias (“UAH”).

2 Operating Environment of the Bank

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

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

As a result of the global financial crisis, the Ukrainian economy experienced reduced level of capital inflow and decrease in demand for exports. Additionally, the country ratings by international rating agencies were downgraded in October 2008 and February 2009 (See Note 38). These factors, together with increasing domestic uncertainty, led to volatility in the currency exchange market and resulted in significant downward pressure on the Ukrainian hryvnia relative to major foreign currencies. Since October 2008 the NBU has been entering the market to support the national currency. The official UAH to US Dollar (USD) exchange rate of the National Bank of Ukraine devalued by 37% from UAH 4.861 at 30 September 2008 to UAH 7.70 at 31 December 2008 and UAH 7.619 at the date of issuance of these consolidated financial statements.

2 Operating Environment of the Bank (Continued)

In the light of the current economic turmoil, the International Monetary Fund (the IMF) has agreed to issue an SDR 11 billion stabilizing loan to Ukraine if the country complies with certain requirements. The first tranche of SDR 3 billion has been received in November 2008 and the next tranche of SDR 1.25 billion was due in February 2009. However completion of the first review of Ukraine's economic performance under the Stand-By Arrangement was significantly delayed and the release of the second tranche of SDR 1.9 billion was approved only in May 2009 after the Executive Board of the IMF granted waivers of non-observance of certain performance criteria. The major condition for qualifying for the loan is the development and ratification of a government anti-crisis package to stabilize the economy, including determining the shortfall in capital and liquidity existing in the banking sector and taking the necessary steps to address the shortfalls. The loan is expected to have a positive effect on the Ukrainian economy, however the receipt of the next tranche is subject to the IMF's conclusion on progress made by Ukraine in addressing structural issues.

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

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

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

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

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

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

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

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

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

3 Basis of Preparation and Significant Accounting Policies

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

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

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

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

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

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

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

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

Interest in joint venture. A joint venture is created through an agreement establishing joint control over the financial and operating policies of the joint venture together with other investors. A jointly controlled entity is a joint venture that involves the establishment of a separate legal entity in which each venturer has an interest. The Bank recognises its interests in jointly controlled entities using the equity method. The joint venture is initially recorded at cost and the Bank’s share of post-acquisition profit or loss of the joint venture is recognised in the Bank’s income statement. The Bank eliminates its share of unrealised profits or losses from intercompany transactions with joint ventures.

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

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

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

3 Basis of Preparation and Significant Accounting Policies (Continued)

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition and includes *transaction costs*. Measurement at cost is only applicable to investments in equity instruments that do not have a quoted market price and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments. Refer to Note 11.

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

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

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

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

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

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

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

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

Trading securities. Trading securities are financial assets which are either acquired for generating a profit from short-term fluctuations in price or trader’s margin, or are securities included in a portfolio in which a pattern of short-term trading exists. The Bank classifies securities into trading securities if it has an intention to sell them within a short period after purchase, i.e. within 3 months. The Bank may choose to reclassify a non-derivative trading financial asset out of the fair value through profit or loss category if the asset is no longer held for the purpose of selling it in the near term. Such financial assets other than loans and receivables are permitted to be reclassified out of fair value through profit or loss category only in rare circumstances arising from a single event that is unusual and highly unlikely to reoccur in the near term. Financial assets that would meet the definition of loans and receivables may be reclassified if the Bank has the intention and ability to hold these financial assets for the foreseeable future or until maturity.

3 Basis of Preparation and Significant Accounting Policies (Continued)

Trading securities are carried at fair value. Interest earned on trading securities calculated using the effective interest method is presented in the consolidated income statement as interest income. All other elements of the changes in the fair value and gains or losses on derecognition are recorded in profit or loss as gains less losses from trading securities in the period in which they arise.

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

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

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

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

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

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

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

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

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

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

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

3 Basis of Preparation and Significant Accounting Policies (Continued)

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

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

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

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

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

Securities lent to counterparties for a fixed fee are retained in the consolidated financial statements in their original balance sheet category unless the counterparty has the right by contract or custom to sell or repledge the securities, in which case they are reclassified and presented separately. Securities borrowed are not recorded in the consolidated financial statements, unless these are sold to third parties, in which case the purchase and sale are recorded in profit or loss within gains less losses arising from trading securities. The obligation to return the securities is recorded at fair value in other liabilities.

Promissory notes purchased. Promissory notes purchased are included in trading securities, investment securities available-for-sale or in loans and advances to customers, depending on their substance and are recorded, subsequently remeasured and accounted for in accordance with the accounting policies for these categories of assets.

Goodwill. Goodwill represents the excess of the cost of an acquisition over the fair value of the acquirer's share of the identifiable assets, liabilities and contingent liabilities of the acquired subsidiary or associate at the date of exchange. Goodwill on acquisitions of associates is included in the investment in associates. Goodwill is carried at cost less accumulated impairment losses, if any.

The Bank tests goodwill for impairment at least annually and whenever there are indications that goodwill may be impaired. Goodwill is allocated to the cash-generating units, or group of cash-generating units, that are expected to benefit from the synergies of the business combination. Such units or group of units represent the lowest level at which the Bank monitors goodwill and are not larger than a segment. Gains or losses on disposal of an operation within a cash generating unit to which goodwill has been allocated include the carrying amount of goodwill associated with the operation disposed of, generally measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit which is retained.

Premises, leasehold improvements and equipment. Premises, leasehold improvements and equipment are stated at cost, less accumulated depreciation and provision for impairment, where required. Cost of premises, leasehold improvements and equipment of acquired subsidiaries is the estimated fair value at the date of acquisition.

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

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

3 Basis of Preparation and Significant Accounting Policies (Continued)

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

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

Depreciation. Depreciation of premises, leasehold improvements and equipment is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives as follows:

Premises	30 years
Office and computer equipment	5-15 years
Motor vehicles	5 years
Leasehold improvements	Over the term of the underlying lease

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

Intangible assets. All of the Bank's intangible assets have definite useful life and primarily include capitalised computer software.

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Development costs that are directly associated with identifiable and unique software controlled by the Bank are recorded as intangible assets if inflow of incremental economic benefits exceeding costs is probable. Capitalised costs include staff costs of the software development team and an appropriate portion of relevant overheads. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred. Capitalised computer software is amortised on a straight line basis over expected useful lives of 3-7 years.

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

Leases embedded in other agreements are separated if (a) fulfilment of the arrangement is dependent on the use of a specific asset or assets and (b) the arrangement conveys a right to use the asset.

Finance leases. Where the Bank is a lessor in a lease which transfers substantially all the risks and rewards incidental to ownership to the lessee, the assets leased out are presented as a finance lease receivable and carried at the present value of the future lease payments. Finance lease receivables are initially recognised at commencement (when the lease term begins) using a discount rate determined at inception (the earlier of the date of the lease agreement and the date of commitment by the parties to the principal provisions of the lease).

The difference between the gross receivable and the present value represents unearned finance income. This income is recognised over the term of the lease using the net investment method (before tax), which reflects a constant periodic rate of return. Incremental costs directly attributable to negotiating and arranging the lease are included in the initial measurement of the finance lease receivable and reduce the amount of income recognised over the lease term. Finance income from leases is recorded within interest income in the consolidated income statement.

Impairment losses are recognised in profit or loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of finance lease receivables. The Bank uses the same principal criteria to determine whether there is objective evidence that an impairment loss has occurred as for loans carried at amortised cost. Impairment losses are recognised through an allowance account to write down the receivables' net carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the interest rates implicit in the finance leases. The estimated future cash flows reflect the cash flows that may result from obtaining and selling the assets subject to the lease.

Where the Bank is a lessee in a lease which transferred substantially all the risks and rewards incidental to ownership to the Bank, the assets leased are capitalised in premises, leasehold improvements and equipment at the commencement of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance lease balance outstanding. The corresponding rental obligations, net of future finance charges, are included in other liabilities. The interest cost is charged to the income statement over the lease period using the effective interest method. The assets acquired under finance leases are depreciated over their useful life or the shorter lease term if the Bank is not reasonably certain that it will obtain ownership by the end of the lease term.

3 Basis of Preparation and Significant Accounting Policies (Continued)

Due to other banks. Amounts due to other banks are recorded when money or other assets are advanced to the Bank by counterparty banks. The non-derivative liability is carried at amortised cost. If the Bank purchases its own debt, it is removed from the consolidated balance sheet and the difference between the carrying amount of the liability and the consideration paid is included in gains or losses arising from retirement of debt.

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

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

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

Syndicated loans. Syndicated loans include loans received from groups of lenders. Syndicated loans are carried at amortised cost.

Other borrowed funds. Other borrowed funds include trade financing received from non-banking financial institutions and Government institutions. Other borrowed funds are carried at amortised cost.

Subordinated debt. Subordinated debt represents long-term borrowing agreements that, in case of the Bank's default, would be secondary to the Bank's primary debt obligations. Subordinated debt is carried at amortised cost.

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

All derivative instruments are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of derivative instruments are included in profit or loss as gains less losses arising from derivative financial instruments. The Bank does not apply hedge accounting.

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

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

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

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

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

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

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

3 Basis of Preparation and Significant Accounting Policies (Continued)

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

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

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

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

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

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

Insurance income. Upon inception of a contract, premiums are recorded as written and a corresponding provision for unearned premiums is recorded. This provision is released to income as premiums are earned on a pro-rata basis over the term of the related policy coverage. As disclosed in Note 37, the Bank disposed its insurance subsidiary in 2007. Following the disposal of its subsidiary, the Bank has no direct insurance activities.

Claims paid. Claims and claims handling expenses are charged to the consolidated income statement when funds are transferred to the claimants. In addition, provisions are created through profit or loss for outstanding claims and claims incurred but not reported.

Foreign currency translation. The functional currency of each of the Bank's consolidated entities is the currency of the primary economic environment in which the entity operates. The Company's functional currency and the Bank's presentation currency is the national currency of Ukraine, Ukrainian hryvnias ("UAH").

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

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

- (i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- (ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions);
- (iii) components of equity are translated at the historic rate; and
- (iv) all resulting exchange differences are recognised as a separate component of equity.

When a subsidiary is disposed of through sale, liquidation, repayment of share capital or abandonment of all, or part of, that entity, the exchange differences deferred in equity are reclassified to profit or loss.

3 Basis of Preparation and Significant Accounting Policies (Continued)

The principal rates of exchange used for translating foreign currency balances were:

	31 December 2008, UAH	31 December 2007, UAH
1 US dollar (USD)	7.700000	5.050000
1 Euro (EUR)	10.855460	7.419460
1 Russian Rouble (RUB)	0.262080	0.205790

Exchange restrictions and controls exist relating to converting Ukrainian hryvnia into other currencies. At present, Ukrainian hryvnia is not a freely convertible currency outside Ukraine.

Fiduciary assets. Assets held by the Bank in its own name, but on the account of third parties, are not reported on the consolidated balance sheet. The extent of such balances and transactions is indicated in Note 31. For the purposes of disclosure, fiduciary activities do not encompass safe custody functions. Commissions received from fiduciary activities are shown in fee and commission income.

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

Transfer of monetary loss. During years of hyperinflation the nominal share capital was increased to reflect the effect of hyperinflation and the consequent monetary loss was charged to the income statement. As a consequence the share capital is no longer carried at, nor does it reflect, the statutory (historic) cost. Management has decided to re-establish the share capital of the Bank at the statutory carrying value, as a result of which the accumulated monetary loss has been taken out of retained earnings and offset against the IFRS share capital. This does not involve a change in the net assets of the Bank. Refer to Note 22.

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

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

Earnings per share. The Bank calculates basic earnings per share amounts. Earnings per share are calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the period. Shares are usually included in the weighted average number of shares from the date when they become classified as equity in accordance with IAS 32. The Bank's shares are not traded in the market and the increase of the share capital is possible only by way of the rights issue at their nominal price. The Bank believes that the agreements with equity holders for issuance of new shares were fairly priced and were neither dilutive nor antidilutive.

Change in presentation of previously reported amounts. Where necessary, corresponding figures have been adjusted to conform with changes in the presentation of the current period. In particular, in 2008 the Bank reconsidered the presentation of foreign exchange translation differences arising on the balance sheet amounts of the loan impairment provision in respect of loans granted in foreign currency. Previously such translation differences were excluded from foreign exchange translation gains less losses and included in provision for loan impairment in the consolidated income statement. However, taking into account the fact that during 2008 there was significant devaluation of UAH against USD and other currencies, the Bank concluded that exclusion of foreign exchange translation differences arising on the balance sheet amounts of the loan impairment provision in respect of loans granted in foreign currency from the provision for loan impairment line item would reflect actual impairment losses and would improve the presentation of financial statements.

<i>In thousands on Ukrainian hryvnias</i>	Year ended 31 December 2007
Credit	
Provision for loan impairment	37,692
Debit	
Foreign exchange translation gains less losses	(37,692)

For the year 2008 the Bank has decided to present separately in the financial statements result from embedded derivatives in finance lease receivables. To match this current year presentation, the comparatives in the consolidated income statement have been amended by reclassifying the gain from derivative instruments out of foreign exchange translation gains less losses in the amount of UAH 9,469 thousand.

3 Basis of Preparation and Significant Accounting Policies (Continued)

	Year ended 31 December 2007
<i>In thousands on Ukrainian hryvnias</i>	
Increase in	
Gains less losses/(losses less gains) from derivative financial instruments	9,469
Decrease in	
Foreign exchange translation gains less losses	(9,469)

Credit quality disclosure on neither past due nor impaired loans was amended in order to disclose loans analysed by type of financing based on the initial term at the issue. Previously, neither past due nor impaired loans were disclosed by the remaining maturity. Refer to Note 10.

As originally presented:

	Car loans	Mortgage loans	Other term loans	Over-drafts	Net investment in finance leases	Reverse sale and repurchase agreements	Total
<i>In thousands of Ukrainian hryvnias</i>							
<i>Neither past due nor impaired</i>							
- short-term financing - up to 1 year	25,681	48,976	4,361,787	786,227	6,544	109,432	5,338,647
- medium term facilities - from 1 to 10 years	4,363,913	4,070,256	7,807,876	-	345,093	-	16,587,138
- investment loans - over 10 years	1,331	6,298,337	1,088,419	221	-	-	7,388,308
- Loans renegotiated in 2007	-	5,610	457,665	-	-	-	463,275
Total neither past due nor impaired	4,390,925	10,423,179	13,715,747	786,448	351,637	109,432	29,777,368

Reclassification:

<i>Neither past due nor impaired</i>							
- short-term financing - up to 1 year	(24,635)	(9,836)	(2,360,395)	(255,802)	(6,544)	(109,432)	(2,766,644)
- medium term facilities - from 1 to 10 years	23,749	(2,509,442)	1,359,561	255,802	6,544	109,432	(754,354)
- investment loans - over 10 years	886	2,519,278	1,000,834	-	-	-	3,520,998
Total neither past due nor impaired	-	-	-	-	-	-	-

As reclassified:

<i>Neither past due nor impaired</i>							
- short-term financing - up to 1 year	1,046	39,140	2,001,392	530,425	-	-	2,572,003
- medium term facilities - from 1 to 10 years	4,387,662	1,560,814	9,167,437	255,802	351,637	109,432	15,832,784
- investment loans - over 10 years	2,217	8,817,615	2,089,253	221	-	-	10,909,306
- Loans renegotiated in 2007	-	5,610	457,665	-	-	-	463,275
Total neither past due nor impaired	4,390,925	10,423,179	13,715,747	786,448	351,637	109,432	29,777,368

3 Basis of Preparation and Significant Accounting Policies (Continued)

In addition, the management of the Bank reviewed movements in other liabilities and concluded that UAH 302,500 thousand would be better reflected as financing cash flows and accordingly was reclassified in the cash flow statement from operating to financing cash flows as unregistered share capital increase.

4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies

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

Impairment losses on loans and advances. Risk Management of the Bank reviews all corporate, bank and sovereign loans in default at monthly intervals to determine the amount of any impairment loss to be recognised by recording a provision for impairment. The amount of the impairment loss is based on the present value of probable net recoveries, including from the realisation of collateral. In addition, a collective impairment is established for each class of loans on a historical loss basis. This is based on simulations of losses to maturity on portfolios of loans which are past due, but where the exposures have not been identified as individually impaired. A 10 % increase or decrease between actual loss experience and the loss estimates used will result in an increase or decrease in loan impairment losses of UAH 396,396 thousand (2007: UAH 74,754 thousand), respectively. Impairment provisions for individually significant loans are based on the estimate of discounted future cash flows of the individual loans taking into account repayments and realisation of any assets held as collateral against the loan. A 10 % increase or decrease in the actual future discounted cash flows from individually significant loans which could arise from a combination of differences in amounts and timing of the cash flows will result in a decrease or increase in loan loss provision of UAH 8,167 thousand (2007: UAH 8,848 thousand), respectively.

Tax legislation. Ukrainian tax, currency and customs legislation is subject to varying interpretations. Management's interpretation of such legislation as applied to the transactions and activity of the Bank may be challenged by the relevant authorities. Refer to Note 31.

Revenue recognition. In February 2006 the Bank introduced a new service which was offered to clients who apply for a loan. Clients were offered to open a current account, to which loan funds would be transferred. Such account could be used by the client for loan drawdown and for any other personal purpose. Every time funds were drawn down from such current account, the Bank charged a certain level of commission. Such service was not obligatory and was introduced for the convenience of the Bank's clients. Clients of the Bank had an alternative to receive loan funds in cash, thus avoiding payment of such commission. As such, the Bank believed that such type of commission was not part of the effective interest rate of the loan but represented a settlement fee and should be recognised as services are provided. Total amount of such commission for 2007 was approximately UAH 63 million. This treatment was applied by the Bank till the end of May 2007. In June 2007 the Bank also started to charge commissions on cash withdrawals and from this period commissions received are included in the calculation of the effective interest rate of loans.

The Bank receives agency fees from certain insurance companies (one of them is a joint venture consolidated by equity method) for insuring the collateral of the borrowers of the Bank. The borrowers of the Bank have the right to choose the insurance company from the list of those accredited with the Bank. Not all insurance companies, accredited with the Bank, paid such agency fees during 2008. The Bank believes that revenues associated with agency fees received from insurance companies should be recognized in full in the accounting periods in which the services are rendered, i.e. at commencement date of insurance policy. Total amount of such agency fees for 2008 amounted to UAH 58,365 thousand (2007: UAH 5,434 thousand). Refer to Note 24.

Liquidity position of the Bank. As disclosed in Note 2, the banking system in Ukraine is experiencing a severe liquidity crisis. The Bank has a negative liquidity gap in all periods up to 1 year and cumulatively of UAH 14.2 billion for up to one year. A substantial amount (or 38%) of deposits are demand deposits, which historically have formed a stable base of funding for the Bank. Since 1 January 2009 customer deposits decreased by UAH 1.5 billion as at 1 May 2009. Subsequent to the year end the Bank has drawn down UAH 0.62 billion from the NBU as part of the refinancing facility. As disclosed in Note 38, BNP Paribas has contributed new capital of UAH 1.275 billion, taking its ownership in the Bank to 62.83%. In addition, the Bank's Management believes that the Bank can if necessary obtain further funding from its parent BNP, in addition to the current usage of UAH 19.4 billion of available funds under an existing credit line of UAH 23.3 billion as of 31 December 2008. The Bank's Management has approved and started implementing a plan to address the impact of the current situation which includes staff reductions, cost reductions and increases in fees and interest rates for most activities. These combined factors lead management to conclude that the Bank will have sufficient funding in place to meet its liabilities as they fall due. At the same time the Management is considering further ways to improve the liquidity structuring of the Bank to meet its needs especially in this current period of higher volatility. The Bank is actively discussing the possibility of receiving subordinated debt from international financial institutions.

4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies (Continued)

Fair value of derivatives. The fair values of financial derivatives that are not quoted in active markets are determined by using valuation techniques. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. To the extent practical, models use only observable data, however areas such as credit risk (both own and counterparty), volatilities and correlations require Management to make estimates. Changes in assumptions about these factors could affect reported fair values.

As at 31 December 2008 the Bank had finance lease receivables totalling UAH 477,060 thousand (31 December 2007: UAH 357,852 thousand) issued in UAH with the condition of compensation to be received by the Bank in the event that the official exchange rate of UAH depreciates against USD, EUR or CHF, depending upon the type of the contract. The contract to receive compensation was accounted for by the Bank as financial derivative with the fair value of UAH 248,828 thousand as at 31 December 2008 (31 December 2007: UAH 9,469 thousand) estimated using a valuation technique. This valuation technique takes into account expected movements in exchange rates. Changing the assumptions about expected exchange rates may result in a different profit. If the expected UAH/USD, UAH/EUR or UAH/CHF exchange rate for the year 2009 would be higher/lower by 15%, the fair value of the derivative and the respective income statement amount would increase/decrease by UAH 84,965 thousand. If the discount rate used for fair valuation of the derivatives for the year 2009 would be higher/lower by 1%, the fair value of the derivative and the respective income statement amount would decrease/ increase by UAH 3,805 thousand. If the provision for impairment of underlying assets for the year 2009 would be higher/lower by 10%, the fair value of the derivative and the respective income statement amount would decrease/ increase by UAH 545 thousand. Refer to Note 32.

Deferred income tax asset recognition. The recognised deferred tax asset represents income taxes recoverable through future deductions from taxable profits and is recorded on the balance sheet. Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable. The future taxable profits and the amount of tax benefits that are probable in the future are based on a medium term business plan prepared by management and extrapolated results thereafter. The business plan is based on management expectations that are believed to be reasonable under the circumstances. Key assumptions in the business plan include expected stabilization and first signs of recovery in the economy of Ukraine in 2010, gradual decline in interest rates (on loans and funding), moderate growth in loan portfolio of the Bank, no increase in loan portfolio quality in 2010, reduced loan loss provisions due to the expected start of improvement in economy in 2011, and strong cost-control initiatives implemented.

5 Adoption of New or Revised Standards and Interpretations

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

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

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

Reclassification of Financial Assets – Amendments to IAS 39, Financial Instruments: Recognition and Measurement, and IFRS 7, Financial Instruments: Disclosures and a subsequent amendment, Reclassification of Financial Assets: Effective Date and Transition. The amendments allow entities the options a) to reclassify a financial asset out of the held to trading category if, in rare circumstances, the asset is no longer held for the purpose of selling or repurchasing it in the near term; and (b) to reclassify an available-for-sale asset or an asset held for trading to the loans and receivables category, if the entity has the intention and ability to hold the financial asset for the foreseeable future or until maturity (subject to the asset otherwise meeting the definition of loans and receivables). The amendments may be applied with retrospective effect from 1 July 2008 for any reclassifications made before 1 November 2008; the reclassifications allowed by the amendments may not be applied before 1 July 2008 and retrospective reclassifications are only allowed if made prior to 1 November 2008. Any reclassification of a financial asset made on or after 1 November 2008 takes effect only from the date when the reclassification is made. In accordance with these amendments the Bank reclassified securities from the category "trading securities" with the fair value of UAH 107,253 thousand to the "investment securities available-for-sale" retrospectively from 1 July 2008. Refer to Notes 8 and 11.

6 New Accounting Pronouncements

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

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

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

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

6 New Accounting Pronouncements (Continued)

IFRS 3, Business Combinations (revised January 2008; effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009). The revised IFRS 3 will allow entities to choose to measure non-controlling interests using the existing IFRS 3 method (proportionate share of the acquiree's identifiable net assets) or at fair value. The revised IFRS 3 is more detailed in providing guidance on the application of the purchase method to business combinations. The requirement to measure at fair value every asset and liability at each step in a step acquisition for the purposes of calculating a portion of goodwill has been removed. Instead, in a business combination achieved in stages, the acquirer will have to remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognise the resulting gain or loss, if any, in profit or loss. Acquisition-related costs will be accounted for separately from the business combination and therefore recognised as expenses rather than included in goodwill. An acquirer will have to recognise at the acquisition date a liability for any contingent purchase consideration. Changes in the value of that liability after the acquisition date will be recognised in accordance with other applicable IFRSs, as appropriate, rather than by adjusting goodwill. The revised IFRS 3 brings into its scope business combinations involving only mutual entities and business combinations achieved by contract alone. The Bank is currently assessing the impact of the amended standard on its consolidated financial statements.

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

Improvements to International Financial Reporting Standards (issued in April 2009; amendments to IFRS 2, IAS 38, IFRIC 9 and IFRIC 16 are effective for annual periods beginning on or after 1 July 2009; amendments to IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 36 and IAS 39 are effective for annual periods beginning on or after 1 January 2010). The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: clarification that contributions of businesses in common control transactions and formation of joint ventures are not within the scope of IFRS 2; clarification of disclosure requirements set by IFRS 5 and other standards for non-current assets (or disposal groups) classified as held for sale or discontinued operations; requiring to report a measure of total assets and liabilities for each reportable segment under IFRS 8 only if such amounts are regularly provided to the chief operating decision maker; amending IAS 1 to allow classification of certain liabilities settled by entity's own equity instruments as non-current; changing IAS 7 such that only expenditures that result in a recognised asset are eligible for classification as investing activities; allowing classification of certain long-term land leases as finance leases under IAS 17 even without transfer of ownership of the land at the end of the lease; providing additional guidance in IAS 18 for determining whether an entity acts as a principal or an agent; clarification in IAS 36 that a cash generating unit shall not be larger than an operating segment before aggregation; supplementing IAS 38 regarding measurement of fair value of intangible assets acquired in a business combination; amending IAS 39 (i) to include in its scope option contracts that could result in business combinations, (ii) to clarify the period of reclassifying gains or losses on cash flow hedging instruments from equity to profit or loss and (iii) to state that a prepayment option is closely related to the host contract if upon exercise the borrower reimburses economic loss of the lender; amending IFRIC 9 to state that embedded derivatives in contracts acquired in common control transactions and formation of joint ventures are not within its scope; and removing the restriction in IFRIC 16 that hedging instruments may not be held by the foreign operation that itself is being hedged. The Group does not expect the amendments to have any material effect on its financial statements.

IFRS 7 (Amendments) – Financial Instruments: Disclosures: Improving disclosures about financial instruments (issued in March 2009; effective for annual periods beginning on or after 1 January 2009). The amendments form part of the IASB's focused response to the financial crisis and addresses the G20 conclusions aimed at improved transparency and enhanced accounting guidance. The improvements also reflect discussions by the IASB's Expert Advisory Panel on measuring and disclosing fair values of financial instruments when markets are no longer active. The Bank is currently assessing the impact of the amended standard on its consolidated financial statements.

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

- IFRIC 13, *Customer Loyalty Programmes* (effective for annual periods beginning on or after 1 July 2008);

6 New Accounting Pronouncements (Continued)

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

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

7 Cash and Cash Equivalents and Mandatory Reserves

<i>In thousands of Ukrainian hryvnias</i>	2008	2007
Cash on hand	1,141,325	869,735
Cash balances with the National Bank of Ukraine	1,444,504	1,192,764
Correspondent accounts and overnight placements with other banks		
- Ukraine	15,920	5,455
- other countries	521,358	558,690
Total cash and cash equivalents and mandatory reserves	3,123,107	2,626,644

As at 31 December 2008 the mandatory reserve balance with the NBU is calculated on the basis of a simple average over a monthly period (31 December 2007: monthly period) and should be maintained at the level of 0 to 5 per cent (31 December 2007: 0.5 to 5 per cent). The Bank's mandatory reserve balance with the NBU for December 2008 was UAH 1,291,809 thousand (2007: UAH 940,985 thousand).

As at 31 December 2008 in accordance with the NBU regulations the Bank was required to maintain the balance on account with the NBU at the level not less than 90% of the mandatory reserves balance for the preceding month (31 December 2007: not less than 100% of the mandatory reserve balance for the preceding month).

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

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

	2008	2007
Total cash and cash equivalents and mandatory reserves	3,123,107	2,626,644
Less: mandatory reserves balances	(1,291,809)	(940,985)
Cash and cash equivalents for the purposes of cash flow statement	1,831,298	1,685,659

Analysis by credit quality of cash and cash equivalents and mandatory reserve balances at 31 December 2008 is as follows:

7 Cash and Cash Equivalents and Mandatory Reserves (Continued)

	Cash on hand	Cash balances with the National Bank of Ukraine	Correspondent accounts and overnight placements with other banks	Total
<i>In thousands of Ukrainian hryvnias</i>				
<i>Neither past due nor impaired</i>				
Cash on hand	1,141,325	-	-	1,141,325
Cash balances with the NBU	-	1,444,504	-	1,444,504
Top 20 Ukrainian banks	-	-	14,505	14,505
Large OECD banks	-	-	477,261	477,261
Non-OECD banks	-	-	44,097	44,097
Other Ukrainian banks	-	-	1,415	1,415
Total cash and cash equivalents and mandatory reserve balances	1,141,325	1,444,504	537,278	3,123,107

The Bank presents the above analysis by size and location of counterparties as larger entities and entities in OECD countries are generally considered to have higher credit quality.

Top 20 Ukrainian banks are the banks defined by the NBU as the largest banks in Ukraine in terms of total assets.

Analysis by credit quality of cash and cash equivalents and mandatory reserve balances at 31 December 2007 is as follows:

	Cash on hand	Cash balances with the National Bank of Ukraine	Correspondent accounts and overnight placements with other banks	Total
<i>In thousands of Ukrainian hryvnias</i>				
<i>Neither past due nor impaired</i>				
Cash on hand	869,735	-	-	869,735
Cash balances with the NBU	-	1,192,764	-	1,192,764
Top 20 Ukrainian banks	-	-	5,455	5,455
Large OECD banks	-	-	516,743	516,743
Non-OECD banks	-	-	41,947	41,947
Total cash and cash equivalents and mandatory reserve balances	869,735	1,192,764	564,145	2,626,644

Geographical, currency and interest rate analyses of cash and cash equivalents and mandatory reserves are disclosed in Note 29.

Information on balances with related parties is disclosed in Note 35.

8 Trading Securities

<i>In thousands of Ukrainian hryvnias</i>	2008	2007
Corporate bonds	52,851	65,932
Ukrainian government bonds	-	123,689
Bonds issued by local authorities	-	10,989
Bank bonds	12,719	-
Total debt securities	65,570	200,610
Quoted corporate shares	4,141	7,082
Total trading securities	69,711	207,692

Trading securities are carried at fair value which also reflects any credit risk related write-downs. As trading securities are carried at their fair values based on observable market data using bid prices from PFTS stock exchange, the Bank does not analyse or monitor impairment indicators.

Analysis by credit quality of debt trading securities outstanding at 31 December 2008 is as follows:

<i>In thousands of Ukrainian hryvnias</i>	Corporate bonds	Bank bonds	Total
<i>Neither past due nor impaired (at fair value)</i>			
- Large Ukrainian corporates	52,851	-	52,851
- Top 20 Ukrainian banks	-	12,719	12,719
Total debt trading securities	52,851	12,719	65,570

Top 20 Ukrainian banks are the banks defined by the NBU as the largest banks in Ukraine in terms of total assets.

Analysis by credit quality of debt trading securities outstanding at 31 December 2007 is as follows:

<i>In thousands of Ukrainian hryvnias</i>	Corporate bonds	Ukrainian government bonds	Bonds issued by local authorities	Total
<i>Neither past due nor impaired (at fair value)</i>				
- Government	-	123,689	-	123,689
- Bonds issued by local authorities	-	-	10,989	10,989
- Large Ukrainian corporates	65,932	-	-	65,932
Total debt trading securities	65,932	123,689	10,989	200,610

At 31 December 2008 included in trading securities are securities pledged under sale and repurchase agreements whose fair value is UAH 12,204 (2007: UAH 20,761 thousand). Refer to Note 31.

Geographical, currency, maturity and interest rate analyses of trading securities are disclosed in Note 29. The information on trading securities issued by related parties is disclosed in Note 35.

The Bank is licensed by the State Commission on Securities and Stock Markets for trading in securities.

8 Trading Securities (Continued)

As disclosed in Note 5, the Bank reclassified the following financial assets from held for trading category during 2008:

<i>In thousands of Ukrainian hryvnias</i>	Amount reclassified	Cash flows expected to be recovered	Effective interest rate
<i>Reclassified into available for sale</i>			
Ukrainian government bonds	107,241	126,930	12.67%
Municipal bonds	12	15	12.73%
Total	107,253	126,945	

The Bank has retrospectively (since 1 July 2008) reclassified trading securities with the fair value of UAH 107,253 thousand into investment securities available-for-sale in accordance with amendments to IAS 39, approved by the IASB in October 2008. The Bank's management analysed the movement of Ukrainian Stock Market (PFTS) index and bonds' quotations for the reporting period. Starting from 1 July 2008 the index was decreasing significantly. Management treated such a decrease as a "rare event" in accordance with the provisions of the new guidance on reclassifications of financial instruments (see Note 5). The reclassification was made in order to better reflect the Bank's up-to-date intention regarding its portfolio of securities.

At 31 December 2008, the carrying amounts and fair values of all financial assets that have been reclassified from trading securities and which were not yet sold or otherwise derecognised, were as follows:

<i>In thousands of Ukrainian hryvnias</i>	Carrying value	Fair value
<i>Available for sale</i>		
Ukrainian government bonds	80,981	80,981
Municipal bonds	12	12
Total	80,993	80,993

The fair value gain or loss on these financial assets recognised in profit or loss up to the date of reclassification, income or loss recognised after reclassification, and fair value gain or loss that would have been recognised if the assets had not been reclassified, were as follows:

<i>In thousands of Ukrainian hryvnias</i>	The fair value gain/(loss) recognised up to the date of reclassification		Income recognised after reclassification*	Gain/(loss) that would have been recognised if the assets had not been reclassified
	2008	2007		
Ukrainian government bonds	(6,913)	(2,712)	6,730	(6,140)
Municipal bonds	1	29	1	1
Total	(6,912)	(2,683)	6,731	(6,139)

* Income recognised after reclassification comprises interest income.

9 Due from Other Banks

<i>In thousands of Ukrainian hryvnias</i>	2008	2007
Short-term placements with other banks	269,910	882,058
Reverse sale and repurchase agreements with other banks	-	158,955
Guarantee deposits with other banks	1,540	1,010
Total due from other banks	271,450	1,042,023

Guarantee deposits include balances placed with other banks on behalf of the Bank's customers as cover for letters of credit totalling UAH 1,540 thousand (2007: UAH 1,010 thousand). The Bank does not have the right to use these funds for the purposes of funding its own activities.

At 31 December 2007 amounts due from other banks of UAH 158,955 thousand were effectively collateralised by securities purchased under reverse sale and repurchase agreements at a fair value of UAH 159,221 thousand.

As a result of unfavourable market conditions, the volume of the Bank's interbank portfolio has decreased significantly. The primary factors influencing the given dynamics are overall illiquid market conditions between local banks and a tightening of the NBU's monetary policy. Please also refer to Note 2.

Analysis by credit quality of amounts due from other banks outstanding at 31 December 2008 is as follows:

<i>In thousands of Ukrainian hryvnias</i>	Term placements with other banks	Guarantee deposits with other banks	Total
<i>Neither past due nor impaired</i>			
- Top 20 Ukrainian banks	174,732	-	174,732
- Other Ukrainian banks	95,178	-	95,178
- OECD Banks	-	1,540	1,540
Total due from other banks	269,910	1,540	271,450

The Bank presents the above analysis by size and location of counterparties as larger entities and entities in OECD countries are generally considered to have higher credit quality.

Top 20 Ukrainian banks are the banks defined by the NBU as the largest banks in Ukraine in terms of total assets.

Included in the due from Top 20 Ukrainian Banks is an amount of UAH 154,000 thousand due from a Ukrainian bank in which after the balance sheet date the National Bank of Ukraine implemented temporary administration. The Bank considers the given exposure to be sufficiently collateralised by property (office premises), and believes that no provisioning is required.

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

<i>In thousands of Ukrainian hryvnias</i>	Term placements with other banks	Reverse sale and repurchase agreements with other banks	Guarantee deposits with other banks	Total
<i>Neither past due nor impaired</i>				
- Top 20 Ukrainian banks	359,589	126,096	-	485,685
- Other Ukrainian banks	211,266	32,859	-	244,125
- OECD Banks	296,786	-	1,010	297,796
- Non-OECD Banks	14,417	-	-	14,417
Total due from other banks	882,058	158,955	1,010	1,042,023

The total aggregate balances of top 5 counterparties amounts to UAH 259,544 thousand (2007: UAH 493,359 thousand) or 96% of the total amount due from other banks (2007: 47%).

Refer to Note 33 for the estimated fair value of each class of amounts due from other banks. Geographical, currency, maturity and Interest rate analysis of due from other banks is disclosed in Note 29. The information on related party balances is disclosed in Note 35.

10 Loans and Advances to Customers

<i>In thousands of Ukrainian hryvnias</i>	2008	2007
Car loans	7,395,628	4,768,487
Mortgage loans	20,575,905	11,101,932
Other term loans	21,890,347	14,093,350
Overdrafts	614,570	835,922
Finance lease receivables	477,060	357,852
Reverse sale and repurchase agreements	15,224	109,432
Less: Provision for loan impairment	(4,045,636)	(836,012)
Total loans and advances to customers	46,923,098	30,430,963

Other term loans include term loans provided to corporates, small and medium enterprises and individuals.

The borrowers have the contractual right to early repay the loans. Based on the types of the loan products, the Bank may charge penalties for such early repayments.

At 31 December 2008 loans and advances to customers of UAH 15,224 thousand (2007: UAH 109,432 thousand) are effectively collateralised by securities purchased under reverse sale and repurchase agreements at a fair value of UAH 14,560 thousand (2007: UAH 109,392 thousand).

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

	Car loans	Mortgage loans	Other term loans	Over-drafts	Finance lease receivables	Total
<i>In thousands of Ukrainian hryvnias</i>						
Provision for loan impairment at 1 January 2008	171,508	225,585	393,807	43,031	2,081	836,012
Provision for impairment during the year	342,686	970,441	1,363,203	52,146	14,370	2,742,846
Currency translation difference	96,848	209,675	169,668	2,302	-	478,493
Amounts written off during the year as uncollectible	(1,045)	(1,047)	(9,623)	-	-	(11,715)
Provision for loan impairment at 31 December 2008	609,997	1,404,654	1,917,055	97,479	16,451	4,045,636

10 Loans and Advances to Customers (Continued)

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

	Car loans	Mortgage loans	Other term loans	Over-drafts	Finance lease receivables	Total
<i>In thousands of Ukrainian hryvnias</i>						
Provision for loan impairment at 1 January 2007	67,429	92,680	339,337	15,675	870	515,991
Provision for impairment during the year	102,029	129,155	39,438	27,279	1,211	299,112
Currency translation difference	2,267	3,750	31,598	77	-	37,692
Amounts written off during the year as uncollectible	(217)	-	(4,813)	-	-	(5,030)
Disposal of subsidiaries	-	-	(11,753)	-	-	(11,753)
Provision for loan impairment at 31 December 2007	171,508	225,585	393,807	43,031	2,081	836,012

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

<i>In thousands of Ukrainian hryvnias</i>	2008		2007	
	Amount	%	Amount	%
Individuals	30,682,233	60	17,964,419	58
Commerce and finance	7,074,835	14	5,710,709	18
Agriculture and food	4,069,342	8	2,200,074	7
Motor vehicles trading	1,527,467	3	595,453	2
Oil and gas	1,346,727	3	369,768	1
Property construction	1,314,065	3	752,168	2
Metallurgy and mining	1,169,201	2	598,472	2
Manufacture and machinery building	1,137,718	2	1,257,881	4
Air and other transport services	975,857	2	825,931	3
Chemical industry	643,788	1	579,857	2
Other	1,027,501	2	412,243	1
Total loans and advances to customers (before impairment)	50,968,734	100	31,266,975	100

At 31 December 2008 total aggregate amount of loans to top 10 borrowers of the Bank was UAH 4,156,989 thousand (31 December 2007: UAH 2,248,073 thousand) or 8 % of the gross loan portfolio (31 December 2007: 7 %).

10 Loans and Advances to Customers (Continued)

Information about collateral at 31 December 2008 is as follows:

	Car loans	Mortgage loans	Other term loans	Overdrafts	Finance lease receivables	Reverse sale and repurchase agreements	Total
<i>In thousands of Ukrainian hryvnias</i>							
Unsecured loans	-	-	157,653	553,434	-	-	711,087
Loans collateralised by:							
- real estate	-	20,453,132	6,069,727	4,755	2,165	-	26,529,779
- motor vehicles	7,394,438	-	264,255	-	187,873	-	7,846,566
- securities	-	-	936,297	-	-	15,224	951,521
- cash deposits (Note 16)	1,190	122,773	2,756,497	372	-	-	2,880,832
- equipment	-	-	1,868,127	-	286,680	-	2,154,807
- tradable goods	-	-	1,412,356	4,499	-	-	1,416,855
- guarantees	-	-	6,134,382	45,333	-	-	6,179,715
- other assets	-	-	2,291,053	6,177	342	-	2,297,572
Total loans and advances to customers (before impairment)	7,395,628	20,575,905	21,890,347	614,570	477,060	15,224	50,968,734

Information about collateral at 31 December 2007 is as follows:

	Car loans	Mortgage loans	Other term loans	Overdrafts	Finance lease receivables	Reverse sale and repurchase agreements	Total
<i>In thousands of Ukrainian hryvnias</i>							
Unsecured loans	-	-	-	834,600	-	-	834,600
Loans collateralised by:							
- real estate	-	11,096,979	4,400,188	-	1,809	-	15,498,976
- motor vehicles	4,767,685	-	-	-	203,013	-	4,970,698
- securities	-	-	59,020	-	-	109,432	168,452
- cash deposits (Note 16)	802	4,953	902,921	1,322	-	-	909,998
- equipment	-	-	-	-	152,097	-	152,097
- tradable goods	-	-	2,005,859	-	-	-	2,005,859
- guarantees	-	-	2,953,583	-	-	-	2,953,583
- other assets	-	-	3,771,779	-	933	-	3,772,712
Total loans and advances to customers (before impairment)	4,768,487	11,101,932	14,093,350	835,922	357,852	109,432	31,266,975

Other assets include freehold rights, land, inventory and accounts receivable.

10 Loans and Advances to Customers (Continued)

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

	Car loans	Mortgage loans	Other term loans	Overdrafts	Finance lease receivables	Reverse sale and repurchase agreements	Total
<i>In thousands of Ukrainian hryvnias</i>							
<i>Neither past due nor impaired</i>							
- short-term financing - up to 1 year	977	59,313	2,670,141	482,677	2,787	15,224	3,231,119
- medium term facilities - from 1 to 10 years	6,326,779	2,760,221	14,269,520	-	237,808	-	23,594,328
- investment loans - over 10 years	1,501	14,135,286	2,478,135	519	-	-	16,615,441
- Loans renegotiated in 2008	22,854	18,040	1,056,130	-	-	-	1,097,024
Total neither past due nor impaired	6,352,111	16,972,860	20,473,926	483,196	240,595	15,224	44,537,912
<i>Past due but not impaired</i>							
- 1 to 10 days overdue	176,942	729,708	420,919	23,557	24,484	-	1,375,610
- 11 to 30 days overdue	202,714	832,733	328,652	15,448	43,707	-	1,423,254
- 31 to 60 days overdue	167,880	660,303	245,490	23,534	131,580	-	1,228,787
Total past due but not impaired	547,536	2,222,744	995,061	62,539	199,771	-	4,027,651
<i>Loans individually determined to be impaired (gross)</i>							
- less than 30 days overdue	16,972	37,720	9,477	41	1,418	-	65,628
- 31 to 90 days overdue	94,252	383,238	134,038	9,631	2,071	-	623,230
- 91 to 180 days overdue	107,831	411,594	112,688	10,473	17,579	-	660,165
- 181 to 360 days overdue	122,846	311,977	80,267	11,913	9,156	-	536,159
- over 360 days overdue	154,080	235,772	84,890	36,777	6,470	-	517,989
Total individually impaired loans (gross)	495,981	1,380,301	421,360	68,835	36,694	-	2,403,171
Gross carrying value of loans and advances to customers	7,395,628	20,575,905	21,890,347	614,570	477,060	15,224	50,968,734
Less impairment provisions	(609,997)	(1,404,654)	(1,917,055)	(97,479)	(16,451)	-	(4,045,636)
Total loans and advances to customers	6,785,631	19,171,251	19,973,292	517,091	460,609	15,224	46,923,098

The Bank applied the portfolio provisioning methodology prescribed by IAS 39, Financial Instruments: Recognition and Measurement, and created portfolio provisions for impairment losses that were incurred but have not been specifically identified with any individual loan by the balance sheet date. The Bank's policy is to classify each loan as 'neither past due nor impaired' until specific objective evidence of impairment of the loan is identified. The impairment provisions may exceed the total gross amount of individually impaired loans as a result of this policy and the portfolio impairment methodology.

10 Loans and Advances to Customers (Continued)

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

	Car loans	Mortgage loans	Other term loans	Overdrafts	Finance lease receivables	Reverse sale and repurchase agreements	Total
<i>In thousands of Ukrainian hryvnias</i>							
<i>Neither past due nor impaired</i>							
- short-term financing - up to 1 year	1,046	39,140	2,001,392	530,425	-	-	2,572,003
- medium term facilities - from 1 to 10 years	4,387,662	1,560,814	9,167,437	255,802	351,637	109,432	15,832,784
- investment loans - over 10 years	2,217	8,817,615	2,089,253	221	-	-	10,909,306
- Loans renegotiated in 2007	-	5,610	457,665	-	-	-	463,275
Total neither past due nor impaired (reclassified, Note 3)	4,390,925	10,423,179	13,715,747	786,448	351,637	109,432	29,777,368
<i>Past due but not impaired</i>							
- 1 to 10 days overdue	70,255	149,179	104,150	45,907	-	-	369,491
- 11 to 30 days overdue	79,314	164,340	75,557	-	-	-	319,211
- 31 to 90 days overdue	52,208	87,558	44,695	-	-	-	184,461
Total past due but not impaired	201,777	401,077	224,402	45,907	-	-	873,163
<i>Loans individually determined to be impaired (gross)</i>							
- less than 30 days overdue	11,621	19,953	17,107	-	-	-	48,681
- 31 to 90 days overdue	30,730	58,788	23,332	1,069	-	-	113,919
- 91 to 180 days overdue	59,798	90,144	32,618	716	5,730	-	189,006
- 181 to 360 days overdue	39,334	70,312	39,228	288	485	-	149,647
- over 360 days overdue	34,302	38,479	40,916	1,494	-	-	115,191
Total individually impaired loans (gross)	175,785	277,676	153,201	3,567	6,215	-	616,444
Gross carrying value of loans and advances to customers	4,768,487	11,101,932	14,093,350	835,922	357,852	109,432	31,266,975
Less impairment provisions	(171,508)	(225,585)	(393,807)	(43,031)	(2,081)	-	(836,012)
Total loans and advances to customers	4,596,979	10,876,347	13,699,543	792,891	355,771	109,432	30,430,963

The primary factors that the Bank considers whether a loan is impaired is its overdue status and realisability of related collateral, if any. As a result, the Bank presents above an ageing analysis of loans that are individually determined to be impaired. Although included in past due but not impaired for the purposes of this table, the Bank considers that loans and advances to customers with overdue period up to 10 days do not show sufficient evidence of the borrower being in financial difficulty.

Neither past due nor impaired, but renegotiated loans represent the carrying amount of loans that would otherwise be past due or impaired whose terms have been renegotiated. Past due but not impaired loans primarily represent collateralized loans where the fair value of collateral covers the overdue interest and principal repayments. The amount reported as past due but not impaired is the whole balance of such loans, not only the individual installments that are past due.

10 Loans and Advances to Customers (Continued)

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

	Car loans	Mortgage loans	Other term loans	Over-drafts	Finance lease receivables	Reverse sale and repurchase agreements	Total
<i>In thousands of Ukrainian hryvnias</i>							
<i>Fair value of collateral - loans past due but not impaired</i>							
- real estate	-	1,386,904	209,901	274	-	-	1,597,079
- motor vehicles	336,175	-	-	-	-	-	336,175
- securities	-	-	6,425	-	-	-	6,425
- cash deposits	70	16,217	15,693	120	-	-	32,100
- equipment	-	-	7,959	-	-	-	7,959
- tradable goods	-	-	28,104	3,906	-	-	32,010
- guarantees	-	-	180,569	4,553	-	-	185,122
- other assets	-	-	55,880	-	-	-	55,880
<i>Fair value of collateral - individually impaired loans</i>							
- real estate	-	999,386	117,974	3	-	-	1,117,363
- motor vehicles	269,696	-	-	-	5,052	-	274,748
- cash deposits	-	1,320	3,302	-	-	-	4,622
- equipment	-	-	12,872	-	19,127	-	31,999
- tradable goods	-	-	1,937	69	-	-	2,006
- guarantees	-	-	140,895	2,308	-	-	143,203
- other assets	-	-	6,425	25	-	-	6,450
Total	605,941	2,403,827	787,936	11,258	24,179	-	3,833,141

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

	Car loans	Mortgage loans	Other term loans	Over-drafts	Finance lease receivables	Reverse sale and repurchase agreements	Total
<i>In thousands of Ukrainian hryvnias</i>							
<i>Fair value of collateral - loans past due but not impaired</i>							
- real estate	-	357,981	88,121	-	-	-	446,102
- motor vehicles	195,050	-	-	-	-	-	195,050
- cash deposits	-	-	1,725	-	-	-	1,725
- tradable goods	-	-	2,471	-	-	-	2,471
- guarantees	-	-	47,094	-	-	-	47,094
- other assets	-	-	38,778	-	-	-	38,778
<i>Fair value of collateral - individually impaired loans</i>							
- real estate	-	233,251	42,497	-	-	-	275,748
- motor vehicles	140,744	-	-	-	4,494	-	145,238
- cash deposits	-	-	1,789	-	-	-	1,789
- equipment	-	-	-	-	722	-	722
- tradable goods	-	-	5,619	-	-	-	5,619
- guarantees	-	-	29,157	-	-	-	29,157
- other assets	-	-	14,351	-	-	-	14,351
Total	335,794	591,232	271,602	-	5,216	-	1,203,844

10 Loans and Advances to Customers (Continued)

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

During 2008, the Bank obtained cash of UAH 66,584 thousand (2007: UAH 25,038 thousand) by taking possession of collateral.

The loans and advances to customers include finance lease receivables, which are analysed as follows:

	2008	2007
Gross finance lease receivables:		
- Not later than 1 year	218,036	138,531
- Later than 1 year and not later than 5 years	361,917	268,808
- Later than 5 years	8,995	30,907
Less: unearned finance income	(111,888)	(80,394)
Net finance lease receivables	477,060	357,852

Net investment in finance leases are analysed as follows:

	2008	2007
Net finance lease receivables:		
- Not later than 1 year	195,703	126,900
- Later than 1 year and not later than 5 years	276,981	216,866
- Later than 5 years	4,376	14,086
Net finance lease receivables	477,060	357,852

Refer to Note 33 for the estimated fair value of each class of loans and advances to customers. Geographical, currency, maturity and interest rate analysis of loans and advances to customers is disclosed in Note 29. The information on related party balances is disclosed in Note 35.

11 Investment Securities Available-for-Sale

<i>In thousands of Ukrainian hryvnias</i>	2008	2007
Corporate bonds	664,558	323,851
Bank bonds	119,573	200,075
Ukrainian government bonds	102,653	133,517
Municipal bonds	2,959	28,068
Total debt securities	889,743	685,511
Corporate shares – quoted	1,675	-
Corporate shares – unquoted	5,696	6,343
Total investment securities available-for-sale	897,114	691,854

External independent market quotations were not available for certain investment securities available-for-sale. The fair value of these assets was determined by Management on the basis of results of recent sales of equity interests in the investees between unrelated third parties, consideration of other relevant information such as discounted cash flows and financial data of the investees. Those equity securities for which fair value cannot be reliably determined, are carried at cost less impairment. Carrying value of equity securities carried at cost less impairment as at 31 December 2008 amounted to UAH 696 thousand (31 December 2007: UAH 2,000 thousand). The Bank does not intend to dispose of these investments.

As disclosed in Note 8, the Bank has retrospectively (since 1 July 2008) reclassified trading securities with the fair value of UAH 107,253 thousand into investment securities available-for-sale in accordance with amendments to IAS 39, approved by the IASB in October 2008. The Bank's management analysed the movement of Ukrainian Stock Market (PFTS) index and bonds' quotations for the reporting period. Starting from 1 July 2008 the index was decreasing significantly. Management treated such a decrease as a "rare event" in accordance with the provisions of the new guidance on reclassifications of financial instruments (see Note 5). The reclassification was made in order to better reflect the Bank's up-to-date intention regarding its portfolio of securities. Had these securities not been reclassified by the Bank, gains less losses from trading securities would be have been lower by UAH 6,139 thousand, and revaluation reserve for investment securities available-for-sale would have been higher by the same amount.

As at 31 December 2008 securities available-for-sale with the fair value UAH 13,888 thousand are pledged as collateral under sale and repurchase agreements (2007: UAH 156,781 thousand). Refer to Note 31.

11 Investment Securities Available-for-Sale (Continued)

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

<i>In thousands of Ukrainian hryvnias</i>	Ukrainian govern- ment bonds	Municipal bonds	Corporate bonds	Bank bonds	Total
<i>Neither past due nor impaired</i>					
- Ukrainian Government	102,653	-	-	-	102,653
- Ukrainian municipalities	-	2,959	-	-	2,959
- Large Ukrainian legal entities	-	-	638,174	-	638,174
- Top 20 Ukrainian banks	-	-	-	110,282	110,282
- Other Ukrainian banks	-	-	-	9,291	9,291
Total neither past due nor impaired	102,653	2,959	638,174	119,573	863,359
<i>Debt securities individually determined to be impaired</i>					
- less than 30 days overdue	-	-	26,384	-	26,384
Total individually impaired debt securities	-	-	26,384	-	26,384
Total debt securities available for sale	102,653	2,959	664,558	119,573	889,743

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

<i>In thousands of Ukrainian hryvnias</i>	Ukrainian govern- ment bonds	Municipal bonds	Corporate bonds	Bank bonds	Total
<i>Current and not impaired</i>					
- Ukrainian Government	133,517	-	-	-	133,517
- Ukrainian municipalities	-	28,068	-	-	28,068
- Large Ukrainian legal entities	-	-	323,851	-	323,851
- Top 20 Ukrainian banks	-	-	-	113,019	113,019
- Other Ukrainian banks	-	-	-	87,056	87,056
Total debt securities available-for-sale	133,517	28,068	323,851	200,075	685,511

11 Investment Securities Available-for-Sale (Continued)

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

<i>In thousands of Ukrainian hryvnias</i>	2008	2007
Carrying amount at 1 January	691,854	165,881
Purchases of investment securities available-for-sale	4,219,295	3,247,492
Interest income accrued on investment securities available-for-sale	8,714	6,727
Fair value (losses less gains)/gains less losses recognised directly in equity	(13,934)	8,612
Amounts removed from equity and recognised in income statement	(11,941)	(10,433)
Impairment of investment securities available-for-sale	(20,096)	-
Transfer from trading securities (Note 8)	107,253	-
Disposals of subsidiaries	-	(1,393)
Gains less losses from disposal of investment securities available-for-sale	11,941	10,433
Disposals of investment securities available-for-sale	(4,095,972)	(2,735,465)
Carrying amount at 31 December	897,114	691,854

Geographical, currency, maturity and interest rate analysis of investment securities available-for-sale is disclosed in Note 29. The information on related party debt investment securities available-for-sale is disclosed in Note 35.

12 Investments Accounted for Using the Equity Method

The table below summarises the movements in the carrying amount of the Bank's investments in joint ventures.

<i>In thousands of Ukrainian hryvnias</i>	2008	2007
Carrying amount at 1 January	120,577	-
Additional investment in joint venture	54,351	-
Fair value of net assets of joint venture acquired	-	26,124
Goodwill arising on acquisition of joint venture	-	98,636
Share of loss of joint venture	(48,639)	(4,183)
Recognition of previously unrecognised losses	(5,680)	-
Impairment of investment in joint venture	(39,443)	-
Carrying amount at 31 December	81,166	120,577

During 2008 the Bank recorded an impairment loss in respect of the investments in joint ventures in the amount of UAH 39,443 thousand. This loss is based on the Bank's forecast of the profitability of the joint ventures and expectations of future cashflows.

At 31 December 2008, the Bank's interests in its principal joint ventures and their summarised financial information, including total assets, liabilities, revenues and loss for the period after acquisition, were as follows:

Name	Total assets (in UAH thousand)	Total liabilities (in UAH thousand)	Revenue (in UAH thousand)	Loss (in UAH thousand)	% of interest held	Country of incorporation
IC AXA Insurance	263,443	(243,856)	257,210	(68,330)	49.63%	Ukraine
IC AXA Ukraine	298,842	(274,365)	297,027	(29,580)	50.00%	Ukraine
Total	562,285	(518,221)	554,237	(97,910)		

At 31 December 2007, the Bank's interests in its principal joint ventures and their summarised financial information, including total assets, liabilities, revenues and profit or loss for the period after acquisition, were as follows:

Name	Total assets (in UAH thousand)	Total liabilities (in UAH thousand)	Revenue (in UAH thousand)	Loss (in UAH thousand)	% of interest held	Country of incorporation
IC Vesco	202,773	(158,349)	12,133	(8,469)	49,39%	Ukraine
IC UIA	201,799	(213,158)	23,184	(2,216)	49,998%	Ukraine
Total	404,572	(371,507)	35,317	(10,685)		

The Bank and AXA have equal voting rights in the joint venture, but the actual management of activity of the joint venture is carried out by AXA. The Bank and AXA have equal representation in the supervisory boards of each of the individual companies. According to the joint venture contract with AXA, the Bank does not incur any obligation for the excess of losses over net assets of the jointly controlled entity. In 2007, the Bank has not reflected in its consolidated financial statements the share in losses of IC AXA Ukraine (previously "Ukrainian Insurance Alliance") in the amount of UAH 4,572 thousand at the moment of joint venture creation and the share in losses of UIA which arose after creation of the joint venture with AXA in the amount of UAH 1,108 Thousand. The total amount of unrecognized losses was UAH 5,680 thousand. In 2008, the Bank's share in loss of UIA was increased by the amount of previously unrecognized losses.

12 Investment Accounted for Using the Equity Method (Continued)

Assets and liabilities of the joint ventures as at 31 December 2008 and 31 December 2007 are as follows:

<i>In thousands of Ukrainian hryvnias</i>	2008	2007
ASSETS		
Non-current assets		
Premises, leasehold improvements and equipment	19,528	9,664
Intangible assets	-	583
Deferred tax asset	24,433	26,875
Investment securities available-for-sale	70,911	41,959
Reinsurer's portion in provisions	9	17
Term deposits in banks	800	1,154
	115,681	80,252
Current assets		
Trading securities	31,708	6,678
Other assets	15,440	10,914
Reinsurer's portion in provisions	6,304	22,766
Reverse sale and repurchase agreements	37,518	-
Term deposits in banks	235,711	243,459
Cash and cash equivalents	119,923	40,503
	446,604	324,320
Total assets	562,285	404,572
LIABILITIES		
Non-current liabilities		
Insurance provisions	(2,532)	(6,024)
	(2,532)	(6,024)
Current liabilities		
Insurance provisions	(451,110)	(332,023)
Other liabilities	(60,414)	(30,601)
Current income tax liability	(4,165)	(2,859)
	(515,689)	(365,483)
Total liabilities	(518,221)	(371,507)

12 Investment Accounted for Using the Equity Method (Continued)

Income and expenses related to the Bank's interests in joint ventures are as follows:

<i>In thousands of Ukrainian hryvnias</i>	2008	Since the period of acquisition to 31 December 2007
Net premiums earned	485,842	31,727
Net claims incurred	(258,664)	(23,703)
Other operating income	2,850	9
Losses less gains from trading securities	(5,966)	(30)
Gains less losses from trading in foreign currencies	2,300	67
Losses less gains arising from investment securities available-for-sale	-	(273)
Interest income	65,545	3,581
Impairment provision	(22,211)	(1,013)
Administrative expenses	(94,518)	(3,728)
Fee and commission expense	(129,669)	(10,884)
Depreciation	(7,447)	(415)
Staff costs	(99,316)	(4,283)
Current income tax charge	(34,192)	(3,199)
Deferred taxes	(2,464)	1,459
Loss for the period	(97,910)	(10,685)

13 Premises, Leasehold improvements, Equipment and Intangible Assets

	Note	Premises	Leasehold improvements	Office and computer equipment	Vehicles	Construction in progress	Total	Intangible assets	Total
<i>In thousands of Ukrainian hryvnias</i>									
Cost at 1 January 2007		652,296	47,034	321,391	33,195	247,562	1,301,478	71,892	1,373,370
Accumulated depreciation		(27,912)	(15,333)	(119,843)	(15,725)	-	(178,813)	(17,376)	(196,189)
Carrying amount at 1 January 2007		624,384	31,701	201,548	17,470	247,562	1,122,665	54,516	1,177,181
Additions		-	-	97,834	15,589	125,315	238,738	52,264	291,002
Transfers		215,164	15,395	-	-	(230,559)	-	-	-
Disposals		(4,468)	(643)	(2,768)	(834)	-	(8,713)	-	(8,713)
Depreciation and amortisation charge	25	(24,776)	(6,878)	(52,781)	(4,745)	-	(89,180)	(11,879)	(101,059)
Disposals of subsidiaries		-	-	(2,390)	(1,186)	-	(3,576)	(140)	(3,716)
Carrying amount at 31 December 2007		810,304	39,575	241,443	26,294	142,318	1,259,934	94,761	1,354,695
Cost at 31 December 2007		861,232	60,957	404,036	44,851	142,318	1,513,394	123,503	1,636,897
Accumulated depreciation		(50,928)	(21,382)	(162,593)	(18,557)	-	(253,460)	(28,742)	(282,202)
Carrying amount at 31 December 2007		810,304	39,575	241,443	26,294	142,318	1,259,934	94,761	1,354,695
Additions		7	-	158,271	15,832	176,559	350,669	73,006	423,675
Transfers		58,864	12,339	-	-	(71,203)	-	-	-
Disposals		(1,116)	(1,831)	(1,917)	(871)	-	(5,735)	-	(5,735)
Depreciation and amortisation charge	25	(29,887)	(7,905)	(66,338)	(9,515)	-	(113,645)	(26,719)	(140,364)
Carrying amount at 31 December 2008		838,172	42,178	331,459	31,740	247,674	1,491,223	141,048	1,632,271
Cost at 31 December 2008		917,423	70,395	546,946	57,755	247,674	1,840,193	195,916	2,036,109
Accumulated depreciation		(79,251)	(28,217)	(215,487)	(26,015)	-	(348,970)	(54,868)	(403,838)
Carrying amount at 31 December 2008		838,172	42,178	331,459	31,740	247,674	1,491,223	141,048	1,632,271

At 31 December 2008 premises, leasehold improvements and equipment include assets totalling UAH 75,958 thousand at cost, which are fully depreciated (2007: UAH 71,186 thousand). These assets are still used by the Bank.

Construction in progress consists mainly of construction and refurbishment of the new premises for branches.

Included in office and computer equipment are assets held under finance leases at carrying amount of UAH 6,473 thousand (2007: UAH 8,445 thousand). Refer to Note 20.

14 Other Financial and Non-financial Assets

<i>In thousands of Ukrainian hryvnias</i>	Note	2008	2007
<i>Other financial assets</i>			
Amounts in the course of settlements		111,446	92,157
Derivative financial instruments	32	266,371	974
Receivables on settlements for securities		979	5,317
Accrued income receivable		16,140	12,399
Less: Provision for impairment		(6)	(2,156)
Total other financial assets		394,930	108,691
<i>Other non-financial assets</i>			
Prepayments for premises and equipment		54,732	31,588
Prepaid expenses		21,981	14,432
Inventory		7,975	6,786
Other prepayments, sundry debtors and accruals		16,571	20,420
Less: Provision for impairment of sundry debtors		(8,651)	(6,679)
Total other non-financial assets		92,608	66,547
Total other financial and non-financial assets		487,538	175,238

Derivative financial instruments include financial derivatives with the fair value of UAH 248,828 thousand as at 31 December 2008, that were separated from the UAH denominated finance lease contracts which require the lessee to compensate the Group in the case of UAH depreciation against USD, CHF and EUR. Refer to Notes 4 and 32.

Movements in the provision for impairment are as follows:

<i>In thousands of Ukrainian hryvnias</i>	Note	2008		2007	
		<i>non-financial</i>	<i>financial</i>	<i>non-financial</i>	<i>financial</i>
Provision for impairment at 1 January		6,679	2,156	5,258	1,263
Provision /(recovery of provision) for impairment during the year	25	4,694	(2,150)	9,012	893
Amounts written off during the year as uncollectible		(2,722)	-	(135)	-
Disposal of subsidiaries		-	-	(7,456)	-
Provision for impairment at 31 December		8,651	6	6,679	2,156

Geographical, currency and maturity analyses of other assets are disclosed in Note 29. The information on related party balances is disclosed in Note 35.

15 Due to Other Banks

<i>In thousands of Ukrainian hryvnias</i>	2008	2007
Loans received from other banks	21,790,203	12,627,001
Amounts payable under repurchase agreements	-	127,433
Correspondent accounts and overnight placements of other banks	391,439	70,245
Guarantee deposits of other banks	2,873	1,889
Total due to other banks	22,184,515	12,826,568

As at 31 December 2007 securities sold under sale and repurchase agreements were bonds issued by central and local government with a fair value of UAH 106,360 thousand and corporate bonds with a fair value of UAH 20,761 thousand. As at 31 December 2007 bonds issued by local government were recorded in the consolidated balance sheet within investment securities available-for-sale in the amount of UAH 106,360 thousand. Corporate bonds were recorded in the consolidated balance sheet within trading securities in the amount of UAH 20,761 thousand. Refer to Note,31.

As at 31 December 2008 loans received from other banks totalling UAH 76,238 thousand (2007: UAH 754,476 thousand) represent long-term loans received from foreign banks for the purposes of financing purchase of import equipment by the Bank's customers.

Included in loans received from other banks as at 31 December 2008 are loans received from parent company BNP Paribas, Paris and its related entities in the amount of UAH 19,481,473 thousand (2007: UAH 10,987,880 thousand).

Refer to Note 33 for the disclosure of the fair value of each class of amounts due to other banks. Geographical, currency, maturity and interest rate analyses of due to other banks are disclosed in Note 29. Information on related party balances is disclosed in Note 35.

16 Customer Accounts

<i>In thousands of Ukrainian hryvnias</i>	2008	2007
Legal entities		
- Current/settlement accounts	2,775,959	2,612,101
- Term deposits	4,157,450	2,597,775
Individuals		
- Current/demand accounts	2,880,860	1,520,506
- Term deposits	5,205,184	4,897,541
Total customer accounts	15,019,453	11,627,923

As at 31 December 2008 included in term deposits of legal entities are liabilities of UAH 25,887 thousand (2007: UAH 50,157 thousand) from sale and repurchase agreements. As at 31 December 2008 securities sold under sale and repurchase agreements were bonds issued by Ukrainian Government, top 20 Ukrainian banks and large Ukrainian legal entities with a fair value of UAH 26,092 thousand (UAH 12,204 thousand trading securities and UAH 13,888 thousand investment securities available-for-sale) (2007: UAH 50,421 thousand). Refer to Note 31.

Economic sector concentrations within customer accounts are as follows:

<i>In thousands of Ukrainian hryvnias</i>	2008		2007	
	Amount	%	Amount	%
Individuals	8,086,044	54	6,418,047	55
Commerce and trade	2,713,632	18	2,102,901	18
Transport and communication	2,257,911	15	1,622,588	14
Manufacturing	1,432,243	10	894,704	8
Financial services	435,966	3	381,596	3
Cultural and educational services	57,244	0	106,257	1
Other	36,413	0	101,830	1
Total customer accounts	15,019,453	100	11,627,923	100

At 31 December 2008 the aggregate balance on accounts of top 10 customers of the Bank was UAH 3,103,271 thousand (2007: UAH 2,315,892 thousand) or 21% (2007: 20%) of total customer accounts.

16 Customer Accounts (Continued)

At 31 December 2008 included in customer accounts are balances totaling UAH 2,891,465 thousand (2007: UAH 1,028,688 thousand) placed by customers as collateral for loans to customers totaling UAH 2,880,832 thousand (2007: UAH 909,998 thousand) and commitments under guarantees, promissory note endorsements and letters of credit totalling UAH 10,633 thousand (2007: UAH 118,690 thousand). Refer to Notes 10 and 31.

Refer to Note 33 for the disclosure of the fair value of each class of customer accounts. Geographical, currency, maturity and interest rate analyses of customer accounts are disclosed in Note 29. The information on related party balances is disclosed in Note 35.

17 Domestic Debt Securities in Issue

<i>In thousands of Ukrainian hryvnias</i>	2008	2007
Domestic bonds:		
- E series	-	250,162
- F series	-	302,463
- G series	51,051	306,838
Total domestic bonds	51,051	859,463
Deposit certificates	10	6
Promissory notes	2	2
Total domestic debt securities in issue	51,063	859,471

Under the terms of bonds issue, the holders of the bonds have the right to present the bonds for early redemption at par. The E series bonds were repaid in March 2008 and F series bonds were repaid in December 2008. The G series bonds were partly repaid in September-October 2008.

Refer to Note 33 for the disclosure of the fair value of each class of debt securities in issue. Geographical, currency, maturity and interest rate analyses of domestic debt securities in issue are disclosed in Note 29.

18 Eurobonds Issued

<i>In thousands of Ukrainian hryvnias</i>	2008	2007
LPN with maturity in 2008 (HVB)	-	656,381
LPN with maturity in July 2010 (HSBC Bank PLC)	1,585,118	1,037,121
LPN with maturity in December 2011 (HSBC Bank PLC)	3,847,518	2,519,851
LPN with maturity in August 2011 (MTN Finance)	1,981,240	-
Total Eurobonds issued	7,413,876	4,213,353

In July 2008 the Bank issued Eurobonds in the form of loan participation notes with a par value of USD 250,000 thousand (UAH 1,210,700 thousand at the exchange rate at the time of issue). The bonds carry a fixed coupon rate of 9.25% per annum, effective interest rate of 9.3593% per annum and mature in August 2011. The Eurobonds are listed on the Luxembourg Stock Exchange.

In July 2008 the Bank repaid Eurobonds in the form of loan participation notes with a par value of USD 125,000 thousand (UAH 605,262 thousand at the exchange rate at the time of repayment).

Refer to Note 33 for disclosure of the fair value of Eurobonds issued. Geographical, currency, maturity and interest rate analyses of Eurobonds issued are disclosed in Note 29.

19 Syndicated Loans and Other Borrowed Funds

Lender	Currency	Date of contract	Date of maturity	Interest rate 2008, %	Interest rate 2007, %	Balance outstanding, UAH thousand	
						2008	2007
<i>Syndicated loans:</i>							
Bayerische Landesbank	USD	25 May 2007	15 May 2009	3.59	5.96	1,928,384	1,262,533
Bayerische Landesbank	USD	26 October 2007	16 October 2009	4.73	6.10	618,659	404,704
Bayerische Landesbank	USD	26 October 2007	15 October 2008	5.70	5.70	-	152,185
Total syndicated loans						2,547,043	1,819,422
European Bank for Reconstruction and Development ("EBRD")	USD	12 November 2008	04 April 2013	4.60	-	192,432	-
EBRD	USD	29 July 2008	04 April 2013	6.15	-	116,439	-
EBRD	USD	28 March 2008	04 April 2013	6.15	-	77,626	-
Intesa Soditic Trade Finance Limited	USD	28 February 2008	02 March 2009	4.50	-	15,985	-
Total syndicated loans and other borrowed funds						2,949,525	1,819,422

In March 2008 UkrSibbank received a loan from INTESA SODITIC TRADE FINANCE LIMITED of USD 2,000 thousand (equivalent of UAH 10,100 thousand at the exchange rate at the date of receipt) with floating interest rate 12 month LIBOR+1.725% per annum and maturity in March 2009.

In March 2008 UkrSibbank received a loan from EBRD of USD 10,000 thousand (equivalent of UAH 50,500 thousand at the exchange rate at the date of receipt) with floating interest rate 6 month LIBOR+2.1% per annum and maturity in April 2013.

In July 2008 UkrSibbank received a loan from EBRD of USD 15,000 thousand (equivalent of UAH 72,653 thousand at the exchange rate at the date of receipt) with floating interest rate 6 month LIBOR+2.1% per annum and maturity in April 2013.

In November 2008 UkrSibbank received a loan from EBRD of USD 25,000 thousand (equivalent of UAH 144,395 thousand at the exchange rate at the date of receipt) with floating interest rate 6 month LIBOR+2.1% per annum and maturity in April 2013.

In October 2008 the Bank repaid syndicated loan of Bayerische Landesbank (Tranche B) with a par value of USD 30,000 thousand (UAH 147,600 thousand at the exchange rate at the time of repayment).

Refer to Note 33 for disclosure of the fair value of each class of syndicated loans and other borrowed funds. Geographical, currency, maturity and interest rate analyses of syndicated loans and other borrowed funds are disclosed in Note 29. Information on related party balances is disclosed in Note 35.

20 Provisions for Liabilities and Charges and Other Liabilities

<i>In thousands of Ukrainian hryvnias</i>	Note	2008	2007
Accrued expenses on professional services		33,635	13,429
Payables for purchased premises and equipment		19,455	361
Funds in settlements		9,690	123,735
Present value of minimum finance lease payments		8,612	10,720
Settlements for securities transactions		7,134	25,716
Provision for losses on credit related commitments	31	5,572	1,816
Derivative financial instruments	32	4,416	273
Unregistered contribution to share capital		-	302,500
Total other financial liabilities		88,514	478,550
Accrued employee benefit costs		151,285	112,469
Payables to Individuals Deposits Guarantee Fund		9,127	4,905
Taxes payable other than income tax		7,431	6,925
Other		30,070	32,967
Total other non-financial liabilities		197,913	157,266
Total provisions for liabilities and charges and other liabilities		286,427	635,816

Minimum finance lease payments are analysed as follows:

<i>In thousands of Ukrainian hryvnias</i>	2008	2007
Gross minimum finance lease payments due:		
- Not later than 1 year	3,261	3,261
- Later than 1 year and not later than 5 years	7,013	10,273
Less: future finance charges	(1,662)	(2,814)
Present value of minimum finance lease payments	8,612	10,720

Present value of minimum finance lease payments is analysed by maturity as follows:

<i>In thousands of Ukrainian hryvnias</i>	2008	2007
Present value of minimum finance lease payments due:		
- Not later than 1 year	2,408	2,150
- Later than 1 year and not later than 5 years	6,204	8,570
Present value of minimum finance lease payments	8,612	10,720

Geographical, currency and maturity analyses of provisions for liabilities and charges and other liabilities are disclosed in Note 29. The information on related party balances is disclosed in Note 35.

21 Subordinated Debt

Issuer	Currency	Year of issue	Year of maturity	Interest rate, %	2008	2007
BNP Paribas	USD	2006	2016	8.75	375,338	246,120
BNP Paribas	USD	2007	2009	8.75	38,074	24,953
BNP Paribas	USD	2007	2009	8.75	70,070	45,951
BNP Paribas	USD	2007	2011	8.75	155,541	102,002
BNP Paribas	USD	2007	2011	8.75	157,424	103,228
BNP Paribas	USD	2007	2012	8.75	314,848	206,455
BNP Paribas	USD	2007	2013	8.62	511,463	335,382
BNP Paribas	CHF	2007	2013	6.68	265,608	163,574
BNP Paribas	USD	2007	2017	8.75	236,136	154,841
BNP Paribas	USD	2008	2014	7.40	156,944	-
Total subordinated debt					2,281,446	1,382,506

Refer to Note 33 for the disclosure of the fair value of subordinated debt. Geographical, currency, maturity and interest rate analyses of subordinated debt are disclosed in Note 29. The information on related party balances is disclosed in Note 35.

22 Share Capital

<i>In thousands of Ukrainian hryvnias</i>	Number of outstanding shares, thousands	Nominal amount	Inflation adjusted Amount
Shares issued and fully paid as at 31 December 2006	35,000,000	1,750,000	2,693,684
New shares issued, fully paid and registered	16,500,000	825,000	825,000
Shares issued and fully paid as at 31 December 2007	51,500,000	2,575,000	3,518,684
New shares issued, fully paid and registered	28,600,000	1,430,000	1,430,000
Transfer of monetary loss	-	-	(943,684)
Shares issued and fully paid as at 31 December 2008	80,100,000	4,005,000	4,005,000

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

All ordinary shares have a nominal value of UAH 0.05 per share (31 December 2007: UAH 0.05 per share), rank equally and each share carries one vote.

On 20 December 2006 the shareholders of the Company took a decision to issue 7.5 billion shares totalling UAH 375,000 thousand. The placement of shares commenced on 7 February 2007 and was completed on 16 February 2007. All shares were fully paid by the end of February 2007. The shareholders meeting of 23 February 2007 approved the results of the new share issue and decided to make the respective changes to the Company's Charter. On 28 March 2007 the National Bank of Ukraine registered the respective changes in the Company's Charter.

On 7 May 2007 the shareholders of the Company took a decision to issue 9 billion shares totalling UAH 450,000 thousand. The placement of shares commenced on 6 June 2007 and was completed on 19 June 2007. All shares were fully paid by the end of June 2007. In total UAH 450,243 thousand was paid by the Company's shareholders in respect of the new share issue. The shareholders meeting of 25 June 2007 approved the results of the new share issue and decided to make the respective changes to the Company's Charter. On 27 July 2007 the National Bank of Ukraine registered the respective changes in the Company's Charter.

On 19 September 2007 the shareholders of the Company took a decision to issue 10 billion shares totalling UAH 500,000 thousand. The placement of shares commenced on 21 December 2007 and was completed on 10 January 2008. All shares were fully paid by the end of January 2008. The shareholders meeting of 11 January 2008 approved the results of the new share issue and decided to make the respective changes to the Company's Charter. On 29 February 2008 the National Bank of Ukraine registered the respective changes in the Company's Charter.

On 14 March 2008 the shareholders of the Company took a decision to issue 18.6 billion shares totalling UAH 930,000 thousand. The placement of shares commenced on 28 April 2008 and was completed on 14 May 2008. All shares were fully paid by the end of May 2008. The shareholders meeting of 15 May 2008 approved the results of the new share issue and decided to make the respective changes to the Company's Charter. On 17 July 2008 the National Bank of Ukraine registered the respective changes in the Company's Charter.

Transfer of monetary loss. During years of hyperinflation the nominal share capital was increased to reflect the effect of hyperinflation and the consequent monetary loss was charged to the income statement. As a consequence the share capital is no longer carried at, nor does it reflect, the statutory (historic) cost. Management has decided to re-establish the share capital of the Bank at the statutory carrying value, as a result of which the accumulated monetary loss has been taken out of retained earnings and offset against the IFRS share capital. This does not involve a change in the net assets of the Bank.

Other reserves. In accordance with Ukrainian legislation, UkrSibbank distributes profits or transfers them to reserves (fund accounts) on the basis of financial statements prepared in accordance with Ukrainian Accounting Rules. The UkrSibbank's reserves under Ukrainian Accounting Rules at 31 December 2008 are UAH 444,388 thousand (31 December 2007: UAH 245,093 thousand).

22 Share Capital (Continued)

Transfer of additional capital. In 2007 the Bank decided to transfer the balance of previously accumulated additional capital to the accumulated deficit of the Bank in the amount of UAH 43,159 thousand, as transactions, to which this additional capital related, were completed.

Additional capital arose as a result of the following transactions:

- a) During 2003 the Bank attracted subordinated debts at rates below market. As a result in 2003 the Bank recorded the gain on initial recognition in the amount of UAH 6,974 thousand directly in equity as additional capital. These subordinated debts were repaid in 2005.
- b) During March and June 2007 BNP Paribas “Vostok” (formerly Commercial Bank “UkrSibbank” LLC (Russia)) received non-refundable financial aid from the parent company BNP Paribas SA. For the purposes of these consolidated financial statements, this amount totalling UAH 36,185 thousand was recorded as additional capital (Note 35). Subsequently, in July 2007 the Bank sold 100% of the shares in BNP Paribas “Vostok” to its parent, BNP Paribas S.A. Please refer to Note 37.

UKRSIBBANK**Notes to the Consolidated Financial Statements – 31 December 2008****23 Interest Income and Expense**

<i>In thousands of Ukrainian hryvnias</i>	2008	2007
Interest income		
Loans and advances to individuals	2,809,281	1,688,292
Loans and advances to corporate customers	1,934,138	1,253,929
Debt securities	128,776	61,304
Finance lease receivables	80,096	48,847
Due from other banks	68,042	39,212
Total interest income	5,020,333	3,091,584
Interest expense		
Due to other banks	1,061,630	603,057
Term deposits of individuals	560,234	348,297
Eurobonds issued	352,184	306,746
Term deposits of legal entities	346,672	150,474
Current/settlement accounts	212,328	68,430
Syndicated loans and other borrowed funds	148,393	17,359
Subordinated debt	128,788	86,931
Domestic debt securities in issue	47,614	160,922
Due to the National Bank of Ukraine	13,235	985
Finance leases	2,134	1,923
Total interest expense	2,873,212	1,745,124
Net interest income	2,147,121	1,346,460

Information on interest income and expense from transactions with related parties is disclosed in Note 35.

24 Fee and Commission Income and Expense

<i>In thousands of Ukrainian hryvnias</i>	2008	2007
Fee and commission income		
<i>Fee and commission income in respect of financial instruments not at fair value through profit or loss:</i>		
- Cash and settlement transactions	340,312	313,232
- Agency fees (Note 4)	58,365	5,434
- Trade finance operations	54,987	37,766
- Foreign exchange transactions	50,014	45,290
- Transactions with securities	17,065	14,923
- Fiduciary activities	1,663	1,737
- Other fee and commission income	7,556	6,920
Total fee and commission income	529,962	425,302
Fee and commission expense		
<i>Fee and commission expense in respect of financial instruments not at fair value through profit or loss</i>		
- Settlement transactions	29,356	18,139
- Other	10,547	20,723
Total fee and commission expense	39,903	38,862
Net fee and commission income	490,059	386,440

Information on fee and commission income from transactions with related parties is disclosed in Note 35.

25 Administrative and Other Operating Expenses

<i>In thousands of Ukrainian hryvnias</i>	Note	2008	2007
Staff costs		1,009,463	716,374
Depreciation and amortisation of premises, leasehold improvements, equipment and intangible assets	13	140,364	101,059
Rent		139,490	95,881
Maintenance of premises and equipment		120,435	84,335
Professional services		75,428	61,783
Mail and telecommunication		69,074	49,595
Advertising and marketing services		65,434	53,450
Individuals Deposits Guarantee Fund		34,377	19,014
Taxes other than on income		32,053	9,776
Security services		31,553	25,370
Business trip expenses		19,027	12,927
Insurance of property and equipment		7,117	5,306
Provision for impairment of sundry debtors	14	2,544	9,905
Charity		1,543	1,100
Other		90,067	33,340
Total administrative and other operating expenses		1,837,969	1,279,215

Included in staff costs are statutory social security and pension contributions of UAH 213,245 thousand (2007: UAH 136,504 thousand). Pension contributions are made into State pension fund which is a defined contribution plan and amounted to UAH 193,173 thousand in 2008 (2007: UAH 123,427 thousand).

Information on administrative and other operating expenses from transactions with related parties is disclosed in Note 35.

26 Income Taxes

Income tax expense comprises the following

<i>In thousands of Ukrainian hryvnias</i>	2008	2007
Current tax	214,883	119,863
Deferred tax	(506,141)	18,414
Income tax (credit)/expense for the year	(291,258)	138,277

The income tax rate applicable to the majority of the Company's income is 25% (2007: 25%). The income tax rate applicable to the subsidiaries' income is 25% (2007: 25%), except for income arising from investment funding activities which was taxed at 0% rate (2007: income arising from investment funding activities which was taxed at 0% rate and income of the Bank's subsidiary in Russia which was taxed at 24% and income arising from insurance activities which was taxed at 3%). A reconciliation between the expected and the actual taxation charge is provided below.

<i>In thousands of Ukrainian hryvnias</i>	2008	2007
(Loss)/profit before tax	(1,206,521)	494,246
Theoretical tax (credit)/charge at statutory rate (2008: 25%; 2007: 25%)	(301,630)	123,562
Non deductible expenses:		
- Expenses which relate to a subsidiary - insurance company	-	5,862
- Other non-deductible expenses	11,525	17,445
Income taxed at different rates	(1,153)	(8,592)
Income tax (credit)/expense for the year	(291,258)	138,277

26 Income Taxes (Continued)

During 2008 a deferred tax asset of UAH 6,470 thousand (2007: UAH 455 thousand) has been recorded directly in equity in respect of the fair valuation of investment securities available-for-sale.

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

<i>In thousands of Ukrainian hryvnias</i>	31 December 2007	Movement recognised directly in equity	Movements recognised in income statement	31 December 2008
Tax effect of deductible temporary differences				
Remeasurement of financial instruments at amortised cost	-	-	39,180	39,180
Trading securities, investment securities available-for-sale and investments accounted for using the equity method	-	6,470	535	7,005
Provision for loan impairment	-	-	339,537	339,537
Provision for credit related commitments	-	-	1,393	1,393
Other liabilities	37,170	-	9,430	46,600
Other assets	464	-	3,760	4,224
Accrued interest expense	2,182	-	(2,182)	-
Accrued interest income	-	-	37,108	37,108
Gross deferred tax asset	39,816	6,470	428,761	475,047
<i>Less offsetting with deferred tax liabilities</i>	(32,368)	-	(5,774)	(38,142)
Recognised deferred tax asset	7,448	6,470	422,987	436,905
Tax effect of taxable temporary differences				
Premises, leasehold improvements and equipment	(29,384)	-	(9,000)	(38,384)
Trading securities, investment securities available-for-sale and investments accounted for using the equity method	(5,576)	-	5,576	-
Remeasurement of financial instruments at amortised cost	(2,211)	-	2,211	-
Provision for loan impairment	(62,311)	-	62,311	-
Provision for credit related commitments	(12,836)	-	12,836	-
Accrued interest income	(4,382)	-	4,382	-
Accrued interest expense	-	-	(936)	(936)
Gross deferred tax liability	(116,700)	-	77,380	(39,320)
<i>Less offsetting with deferred tax assets</i>	32,368	-	5,774	38,142
Recognised deferred tax liability	(84,332)	-	83,154	(1,178)

26 Income Taxes (Continued)

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

	31 December 2006	Movement recognised directly in equity	Disposal of subsidiaries	Movements recognised in income statement	31 December 2007
<i>In thousands of Ukrainian hryvnias</i>					
Tax effect of deductible temporary differences					
Remeasurement of financial instruments at amortised cost	9,465	-	-	(9,465)	-
Other liabilities	27,238	-	(7,885)	17,817	37,170
Provision for credit related commitments	1,083	-	-	(1,083)	-
Other assets	-	-	-	464	464
Accrued interest expense	1,923	-	-	259	2,182
Gross deferred tax asset	39,709	-	(7,885)	7,992	39,816
<i>Less offsetting with deferred tax liabilities</i>	<i>(30,644)</i>	<i>-</i>	<i>7,885</i>	<i>(9,609)</i>	<i>(32,368)</i>
Recognised deferred tax asset	9,065	-	-	(1,617)	7,448
Tax effect of taxable temporary differences					
Premises, leasehold improvements and equipment	(21,158)	-	71	(8,297)	(29,384)
Trading securities, investment securities available-for-sale and investments accounted for using the equity method	(7,494)	455	(8,473)	9,936	(5,576)
Remeasurement of financial instruments at amortised cost	-	-	-	(2,211)	(2,211)
Provision for loan impairment	(44,605)	-	(331)	(17,375)	(62,311)
Provision for credit related commitments	-	-	-	(12,836)	(12,836)
Accrued interest income	(1,536)	-	109	(2,955)	(4,382)
Other assets	(7,218)	-	(114)	7,332	-
Gross deferred tax liability	(82,011)	455	(8,738)	(26,406)	(116,700)
<i>Less offsetting with deferred tax assets</i>	<i>30,644</i>	<i>-</i>	<i>(7,885)</i>	<i>9,609</i>	<i>32,368</i>
Recognised deferred tax liability	(51,367)	455	(16,623)	(16,797)	(84,332)

The Group has not recorded a deferred tax liability in respect of temporary differences of UAH 4,796 thousand (2007: UAH 9,785 thousand) associated with investments in subsidiaries as the Group is able to control the timing of the reversal of those temporary differences and does not intend to reverse them in the foreseeable future.

27 Earnings per Share

Basic earnings per share are calculated by dividing the profit or loss attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year. The Company has no dilutive potential ordinary shares; therefore, the diluted earnings per share equal the basic earnings per share.

<i>In thousands of Ukrainian hryvnias</i>	2008	2007
(Loss)/profit attributable to equity holders of the Company	(913,538)	352,404
Weighted average number of ordinary shares in issue (thousands)	72,966,120	45,356,164
Basic and diluted (loss)/earnings per share (expressed in UAH per share)	(0.0125)	0.0078

28 Segment Analysis

The Bank's primary format for reporting segment information is business segments.

Business Segments. The Bank is organised on a basis of five main business segments:

- Corporate banking – representing current accounts of large legal entities, deposits, overdrafts, card accounts, loan and other credit facilities, foreign currency and trading finance products. Main principle for allocation of clients to the corporate segment is the amount of their annual income (more than USD 8 million).
- Small and medium enterprises - small and medium enterprises and private entrepreneurs – includes the same types of products as for Corporate banking and accounts of private entrepreneurs including accounts for personal use.
- Retail banking – representing private customer current accounts, savings, deposits, credit and debit cards, consumer loans and mortgages.
- Private banking – includes individuals with the same types of products as retail banking that make an agreement with the bank on using special services.
- Investment banking – includes financial instruments trading, debt and equity capital markets, securities, foreign exchange and banknote trading and corporate finance.

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

28 Segment Analysis (Continued)

Segment information for the main reportable business segments of the Bank for the year ended 31 December 2008 is set out below:

<i>In thousands of Ukrainian hryvnias</i>	Corporate banking	Small and medium entities	Retail banking	Private banking	Investmen t banking	Other / Unallo- cated	Elimi- nations	Total
2008								
External revenues	1,806,844	1,827,479	45,855	1,563,278	232,641	100,837	-	5,576,934
Revenues from other segments	-	-	134,479	-	1,834,124	-	(1,968,603)	-
Total revenues	1,806,844	1,827,479	180,334	1,563,278	2,066,765	100,837	(1,968,603)	5,576,934
Total revenues comprise:								
- Interest income	1,647,500	1,637,490	173,505	1,412,826	2,031,040	86,575	(1,968,603)	5,020,333
- Fee and commission income	156,605	187,136	6,491	147,934	30,328	1,468	-	529,962
- Other operating income	2,739	2,853	338	2,518	5,397	12,794	-	26,639
Total revenues	1,806,844	1,827,479	180,334	1,563,278	2,066,765	100,837	(1,968,603)	5,576,934
Segment result	(299,163)	(720,852)	(26,049)	(765,573)	680,864	18,014	-	(1,112,759)
Share of after tax result of joint ventures	-	-	-	-	-	(93,762)	-	(93,762)
Loss before tax								(1,206,521)
Income tax expense								291,258
Loss								(915,263)
Total segment assets	15,502,298	17,727,746	604,249	16,896,088	1,873,033	882,041	-	53,485,455
Current and deferred tax assets								440,107
Total assets								53,925,562
Total segment liabilities	5,368,306	2,729,191	2,098,693	5,069,170	34,483,822	437,123	-	50,186,305
Current and deferred tax liabilities								27,250
Total liabilities								50,213,555
Other segment items								
Capital expenditure	(37,914)	(155,050)	(6,194)	(195,937)	(21,270)	(7,310)	-	(423,675)
Depreciation and amortisation expense	(12,290)	(50,261)	(2,008)	(63,515)	(6,895)	(5,395)	-	(140,364)
Provisions for loan impairment, Impairment of investment securities available-for-sale and losses on credit related commitments	(1,119,536)	(1,004,510)	(11,312)	(599,369)	(17,599)	(14,372)	-	(2,766,698)

28 Segment Analysis (Continued)

Segment information for the main reportable business segments of the Bank as at 31 December 2007 is set out below:

<i>In thousands of Ukrainian hryvnias</i>	Corporate banking	Small and medium entities	Retail banking	Private banking	Investmen t banking	Other / Unallo- cated	Elimi- nations	Total
2007								
External revenues	1,080,427	1,270,505	971,378	27,954	107,983	248,431	-	3,706,678
Revenues from other segments	-	-	-	80,230	1,373,951	-	(1,454,181)	-
Total revenues	1,080,427	1,270,505	971,378	108,184	1,481,934	248,431	(1,454,181)	3,706,678
Total revenues comprise:								
- Interest income	953,983	1,109,180	865,392	104,649	1,445,409	67,152	(1,454,181)	3,091,584
- Fee and commission income	125,844	158,568	104,464	3,211	30,228	2,987	-	425,302
- Insurance income	-	-	-	-	-	165,964	-	165,964
- Other operating income	600	2,757	1,522	324	6,297	12,328	-	23,828
Total revenues	1,080,427	1,270,505	971,378	108,184	1,481,934	248,431	(1,454,181)	3,706,678
Segment result	275,037	(43,126)	(132,566)	8,707	418,740	(28,363)	-	498,429
Share of after tax result of joint ventures	-	-	-	-	-	(4,183)	-	(4,183)
Profit before tax								494,246
Income tax expense								(138,277)
Profit								355,969
Total segment assets	10,594,616	12,138,561	10,359,228	326,159	2,452,003	779,119	-	36,649,686
Current and deferred tax assets								17,772
Total assets								36,667,458
Total segment liabilities	4,123,516	2,299,639	4,192,656	1,598,289	20,611,683	539,276	-	33,365,059
Current and deferred tax liabilities								84,390
Total liabilities								33,449,449
Other segment items								
Capital expenditure	(35,247)	(118,405)	(118,316)	(3,501)	(7,932)	(7,601)		(291,002)
Depreciation and amortisation expense	(11,906)	(42,934)	(38,235)	(894)	(1,723)	(5,367)		(101,059)
(Provisions)/recovery of provision for loan impairment and losses on credit related commitments	(42,254)	(135,270)	(115,289)	(3,500)	566	(3,365)		(299,112)

28 Segment Analysis (Continued)

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

<i>In thousands of Ukrainian hryvnias</i>	Ukraine	OECD	Non-OECD	Total
2008				
Segment assets	52,274,683	911,734	299,038	53,485,455
External revenues	5,576,934	-	-	5,576,934
Capital expenditure	(423,675)	-	-	(423,675)
Credit related commitments (Note 31)	3,169,207	-	-	3,169,207
2007				
Segment assets	35,731,721	815,243	102,722	36,649,686
External revenues	3,706,678	-	-	3,706,678
Capital expenditure	(291,002)	-	-	(291,002)
Credit related commitments (Note 31)	2,665,338	-	-	2,665,338

29 Financial Risk Management

Overview. The Bank carries out risk management in respect of financial, operational and legal risks. Financial risks include credit risk, foreign exchange risk, liquidity risk and interest rate risk. Operational and legal risk management involves ensuring that the Bank's internal procedures and policies are complied with so as to minimize exposure to such risks. The Bank's risk management systems are based on recommendations of the Basel Committee, although Ukrainian legislation does not yet impose obligatory compliance with such standards. The Bank's risk management policies and systems are continuously modified and enhanced to reflect changes in markets and products. The primary objective of the Bank's asset and liability management is to limit its exposure to liquidity and market risks while maximizing profitability. The Bank's policy is to maintain a structure of assets and liabilities that optimizes both long-term and short-term financial income while maintaining constant levels of income.

The basic principles of the Bank's risk management policy are to centralise risk management (i.e., risk analysis and calculation is centralized and appropriate limits are set for the Bank's business divisions); maintain a balance between the level of risk and profitability; and ensure risks are continually monitored. The Bank is continuing to conform its risk management policies and internal procedures to established BNP Paribas standards and is aiming to complete this exercise by the end of 2010.

Risk Management Bodies. Risk management policy, monitoring and control are conducted by a number of specialised divisions and units within the Risk Management Department ("RMD") under the supervision of the Chairman of the Board who reports on risk management to Group Risk Management at BNP Paribas' head office.

Asset and Liability Management Committee (ALMC). The ALMC consists of nine of the Bank's senior managers and is chaired by the Chairman of the Bank's Management Board. The ALMC meets at least once every month. The ALMC is responsible for the control and management of the Bank's asset and liability structure. It also sets internal limits for managing liquidity, interest and foreign exchange risks.

Credit Committees. The Bank's Credit Committees comprise the Head Office Credit Committee, Credit Committee First Level, Regional Department Credit Committee, Territorial Division Credit Committee and Outlet Credit Committee. The Head Office Credit Committee is chaired by the Chairman of the Management Board and also comprises the heads of the Corporate Banking, Legal, Security and Risks Departments. The Credit Committee First Level is chaired by the Deputy Chairman of the Board and has a similar structure to the Head Office Credit Committee. Each Regional Department Credit Committee has a similar structure to the Head Office Credit Committee. The authorities of Territorial Division Credit Committee and Outlet Department Credit Committees to grant loans (in terms of the amount and terms of loans which they are authorized to grant to corporate and retail customers) is set by the Head Office Credit Committee. The authority of Head Office Credit Committee is determined by the Management Board.

The Credit Committees are responsible for approving loans and for approving and controlling the Bank's lending strategy. Credit Committee approval is required to grant loans and make provisions. The Head Office Credit Committee meets twice per week, while the Regional Department Credit Committees meet on an ad-hoc basis. Regional Department Credit Committees report directly to the Head Office Credit Committee.

29 Financial Risk Management (Continued)

Debtors Committee. The Bank plans to establish the Debtors Committee at the beginning of 2009. The main purpose of the Committee is to settle the decision taking and action making system concerned with management of clients with overdue and problem assets in accordance with banking development plans. The implementation of such committee will help to increase the effectiveness of the Bank, to minimize the level of overdue debts, assets and risks arising from banking activities.

The Debtors Committee is a collegiate body of the Bank, which will be empowered to make decision or to recommend taking action on active operations with more than 60 days overdue. The Debtors Committee will have the authority to approve credit applications for limit restructuring, credit reviews, write-offs, setting aside provisions according to IFRS rules, release of provisions, review of the internal ratings for the corporate clients and clients of investment business department with more than 60 days overdue.

Composition of the Debtors Committee will be such that the business unit that initiated the transaction and is responsible for the generation of credit risk is deprived of the right to vote in the decision-making and has only an advisory vote.

Investment Committee (IC). The IC of the Bank is chaired by the Chairman of the Management Board. The IC consists of seven of the Bank's senior managers including heads of the Risk Management, Investment Banking, Legal and Security Departments. The IC meets on an ad-hoc basis.

The IC is responsible for making all decisions which relate to the Bank's investment operations, including the approving of acceptable objects for investment, the establishment of limits for investments in debt and equity securities, the establishment of underwriting limits and the approval of real estate investments. The IC is also responsible for the formulation of the investment policies of the Bank and for the analysis of the Bank's investment portfolio.

Asset Liability Management (ALM). The direct management of assets and liabilities is carried out by the ALM department and Treasury. The ALM carries out assessment and planning of the Bank's open positions on a daily basis (liquidity and currency risks) and monthly basis (interest rate risk), and also prepares suggestions on managerial actions in assets and liabilities management area for the Management of the Bank. Additionally, the ALM on a daily basis carries out planning and management of compliance with the economic norms established by the NBU (norms of regulative and statutory capital adequacy, liquidity norms, norms of open currency position). The ALM assists ALMC and other committees in discharging their functions. Treasury manages monetary liquidity position as well as short-term (up to 3 months) liquidity position of the Bank.

In the process of managing open positions, the ALM cooperates with Treasury and subdivisions of the Bank which are engaged in borrowing of medium and long-term funds (International Business and Investment business).

The managerial reports are prepared for the management of different level on the basis of results of open positions assessment carried out by the ALM,

Risk Management Department (RMD). The RMD assists the Credit Committees and the IC in discharging their functions. Its functions include evaluating and analysing financial risks, monitoring compliance with limits, and making recommendations with regard to balancing risk and profitability, based on overall levels of risk and risks associated with particular business areas and banking products.

The RMD evaluates financial risks using information on the quality of assets and liabilities (including interest rates, amounts and maturities) from the Bank's business divisions, information on exposure limits, procedures and methodologies from the ALMC and details of planned levels of assets and liabilities and investments from the Financial Analysis and Planning Department. It then provides the ALMC with the results of its risk analysis and monitoring and its recommendations on setting or changing limits, and informs the Bank's business divisions, back office and Financial Analysis and Planning Department of the normative risk levels.

The RMD submits to the Credit Committees credit risk quality ratings required for particular loan transactions and recommendations for setting and changing lending decision-making authority, and monitors the quality of all ongoing loan transactions.

Based on information concerning loan applications from the Corporate Banking Department and the Investment Business Department and information concerning customers' reliability, reputation and past payment record from the Legal Department, Security Department and back office, respectively, the RMD determines customers' creditworthiness and provides its conclusions to the Credit Committees, together with the results of its monitoring of loans, recommendations as to setting or changing limits and recommendations as to changing the Bank's internal procedures. It also determines the appropriate level of provisions.

The principal categories of risk to which the Bank is exposed through its operations, and the way the Bank manages these risks, are described below.

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

29 Financial Risk Management (Continued)

The Bank's maximum exposure to credit risk is primarily reflected in the carrying amounts of financial assets on the consolidated balance sheet. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant. For guarantees and commitments to extend credit, the maximum exposure to credit risk is the amount of the commitment. Refer to Note 31.

The Bank manages its credit risk by establishing internal policies aimed at maximizing risk-adjusted income by maintaining credit risk exposure within accepted limits, by setting, monitoring and reviewing credit ratings, by setting and authorising lending limits and by constantly monitoring the creditworthiness of its customers.

Development of "Credit Structure and Function" – as at the reporting date, the Bank was developing and aimed to implement new Credit Policy, in order to combine regulations according to the NBU, Basel and BNPP requirements. The Policy has been approved in March 2009. General Credit Policy is internal banking normative document regulating the basic principles and requirements for granting loans with the aim to minimize risks arising in the lending process and provide high quality loan portfolio for the Bank. The policy is designed on the basis of overall credit policy of BNP Paribas Group, the legislation of Ukraine, legal acts of National Bank of Ukraine, as well as considering the major international instruments that govern the principles of corporate governance and risk management in banks. General Credit Policy is the main document which regulates the credit activity of the Bank. Although the General Credit Policy validity is unlimited, its terms have to be reviewed at least once a year.

The RMD determines levels of overall risk by reference to customers and products. Specialised units within the RMD's Corporate Banking Risk Sub-Department and Retail Banking Risk Sub-Department regularly evaluate customers' creditworthiness and business activities.

The Bank has developed and is currently implementing an internal credit rating system whereby each loan transaction is assigned four ratings respectively corresponding to (i) the structure of the transaction, (ii) the borrower's financial position, (iii) the borrower's credit history and (iv) the quality of the collateral. The Corporate Banking Risk Sub-Department or the Retail Banking Risk Sub-Department, as appropriate, assigns a final rating for the transaction, which is subject to approval by the Credit Committee. When assigning credit ratings to a particular loan transaction, the Corporate Banking Risk Sub-Department or the Retail Banking Risk Sub-Department takes into account the importance of the transaction to the Bank and the prevailing market terms for similar transactions offered by other banks. In making its credit decisions with regard to loans to banks, the Bank uses a rating scale based on the approach of international rating firms, allocating prospective borrowers to various credit rating groups, as adapted to the Ukrainian financial and economic situation. The Bank evaluates the borrower's financial statements, credit history, economic position and cash flows in order to determine the expected risk of default for such borrowers and also monitors the weighted average credit risk of borrowers on a portfolio basis and by industry sector.

All loan applications are subject to a detailed review procedure. Exposure to credit risk is also managed, in part, by obtaining collateral and corporate and personal guarantees.

Credit Risk Related to Retail and Corporate Lending

The Bank structures the levels of credit risk that it undertakes by placing separate limits on the amount of risk accepted in relation to each borrower and each group of borrowers within a particular industry or geographical region. Such risks are monitored and reviewed regularly. Lending limits for individual borrowers and any changes to those limits are set by the Credit Committee. Credit limits include limits on the amount and repayment schedule for each loan agreement and restrictions on the purpose of the loan and are updated on each loan approval.

When structuring loans to corporate customers, the Bank follows certain basic principles. It sets out repayment schedules and adapts them so as to take into account any seasonality in the borrower's business and, where applicable, also obtains guarantees from affiliates of the borrower, enters into collateral agreements to secure related loans, prescribes the borrower's own equity contribution at all levels of the project being financed and requires cash flows or turnover from the financed project or the borrower's counterparties to be transferred to the Bank.

In the case of loans to retail customers, the Bank typically takes collateral in the form a mortgage or pledge over property, depending on the type of loan.

The Bank imposes limits on the amounts which individual branches are authorized to lend without Head Office approval. Limits are set with respect to the amount of individual loans, the total amount of loans that can be granted by a branch and the maximum permitted maturity of loans. The procedure for setting such limits is contained in the Bank's internal regulations. On a regular basis, the Head Office Credit Committee approves credit limits for all branches. Branches themselves and certain Head Office departments (namely the Corporate Banking Department, Risk Management Department, Legal Department and Security Department) may apply for a review of the limits on a branch's lending authority.

As the Bank's lending policy is to give priority to the quality of the borrower over the quality of the collateral available, lending decisions are always based on risk assessment rather than on the quality of the collateral. When taking security, the Bank gives preference to the most liquid form of collateral with the highest re-sale value. It also takes into account regional variations in property prices when determining the value of collateral.

The Bank also follows a policy of diversifying its loan portfolio in order to reduce risk. For example, the Bank is increasing retail lending in order to reduce loan portfolio concentration.

29 Financial Risk Management (Continued)*Credit Risk Related to Inter-Bank Operations*

Credit risk of inter-bank operations mainly arises as a result of exposures being unsecured, albeit such exposures typically have relatively short-term maturities (which generally range from several hours up to two months). Inter-bank exposure comprises a relatively small proportion (between approximately one and five per cent.) of the Bank's total assets. The Bank sets separate limits for counterparty banks based on its evaluation of the bank's financial condition and on any available non-financial information (such as the bank's shareholders, customers, quality of management, market position, concentration of activity and growth rate). The Head Office Credit Committee is responsible for approving and changing the limits for each category of counterparty banks. If the RMD determines that the financial performance of a counterparty bank has deteriorated or is likely to deteriorate, the RMD suspends the credit limit and notifies the Bank's management accordingly.

Credit Risk Related to Investment Business

Applications for investments by the Bank in corporate securities are analysed and reviewed in the same manner as loan applications. The Bank monitors the financial performance of issuers and the market for their debt and equity securities. The Bank's Investment Business Department is responsible for the Bank's investment decisions and implementing transactions. All investment decisions are taken by an Investment Risk Committee.

Monitoring Credit Risk

The Bank monitors borrowers' performance of the terms of their loan agreements, primarily repayment of principal and interest. It also monitors borrowers' financial condition on the basis of information provided by the relevant borrower on a monthly and quarterly basis; whether the loan is being used for its prescribed purposes; whether a corporate borrower is meeting the targets set out in its business plan; collateral; and non-financial information, such as any available information on actual or pending legal proceedings involving the borrower and the borrower's reputation.

Constant monitoring of the Bank's loan portfolio enables the Bank to react to changes in the quality of particular loans and determine whether changes to their terms and conditions are necessary. The Credit Committee is notified of the results of such monitoring on a regular basis and in the event of any warning signals. Based on its analysis, the Bank either confirms the terms and conditions of outstanding loans or where necessary negotiates amendments with the borrower.

Off-Balance Sheet and Related Party Credit Risk

The Bank applies the same credit policies and procedures for evaluating and monitoring credit risk for off-balance sheet and contingent liabilities. Furthermore, the Bank applies the same approach to transactions with related parties as to arm's length transactions. If the level of risk does not fall within the parameters set by the Bank, it either declines the loan application or requires the transaction to be secured by cash.

Market risk. The Bank takes on exposure to market risks. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The Asset/Liability Committee sets limits on the value of risk that may be accepted. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

29 Financial Risk Management (Continued)

Currency risk. The Bank takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Asset / Liability Committee sets limits on the level of exposure by currency and in total for open currency positions.

Other currencies mainly include the Russian Roubles and Swiss Francs.

Derivatives in each column represent the fair value, at the balance sheet date, of the respective currency that the Bank agreed to buy (positive amount) or sell (negative amount) before netting of positions and payments with the counterparty. The amounts by currency are presented gross as stated in Note 32. The net total represents fair value of the currency derivatives.

<i>In thousands of Ukrainian hryvnias</i>	UAH	USD	Euro	Other currencies	Non-monetary items	Total
Assets						
Cash and cash equivalents and mandatory reserves	2,080,669	725,300	226,318	90,820	-	3,123,107
Trading securities	65,570	-	-	-	4,141	69,711
Due from other banks	115,910	155,540	-	-	-	271,450
Loans and advances to customers	7,906,748	34,771,263	1,584,543	2,660,544	-	46,923,098
Investment securities available-for-sale	889,743	-	-	-	7,371	897,114
Other financial assets	368,766	7,425	18,565	174	-	394,930
Total financial assets	11,427,406	35,659,528	1,829,426	2,751,538	11,512	51,679,410
Liabilities						
Due to other banks	268,995	18,962,853	375,145	2,577,522	-	22,184,515
Customer accounts	7,703,290	5,668,266	1,589,511	58,386	-	15,019,453
Domestic debt securities in issue	51,053	10	-	-	-	51,063
Eurobonds issued	-	7,413,876	-	-	-	7,413,876
Syndicated loans	-	2,949,525	-	-	-	2,949,525
Subordinated debt	-	2,015,838	-	265,608	-	2,281,446
Other financial liabilities	28,330	3,820	37,751	18,613	-	88,514
Total financial liabilities	8,051,668	37,014,188	2,002,407	2,920,129	-	49,988,392
Less fair value of currency derivatives	(686)	(260)	14,073	-	-	13,127
Net balance sheet position, excluding currency derivatives	3,376,424	(1,354,400)	(187,054)	(168,591)	11,512	1,677,891
Currency derivatives (Note 32)	40,389	(153,612)	126,350	-	-	13,127
Credit related commitments (Note 31)	659,444	1,600,718	731,025	178,020	-	3,169,207

29 Financial Risk Management (Continued)

At 31 December 2007, the Bank had the following positions in currencies:

<i>In thousands of Ukrainian hryvnias</i>	UAH	USD	Euro	Other currencies	Non-monetary items	Total
Assets						
Cash and cash equivalents and mandatory reserves	1,668,403	501,579	170,140	286,522	-	2,626,644
Trading securities	200,610	-	-	-	7,082	207,692
Due from other banks	529,985	200,720	296,900	14,418	-	1,042,023
Loans and advances to customers	7,844,489	19,322,833	979,329	2,284,312	-	30,430,963
Investment securities available-for-sale	685,511	-	-	-	6,343	691,854
Other financial assets	99,608	6,297	2,685	101	-	108,691
Total financial assets	11,028,606	20,031,429	1,449,054	2,585,353	13,425	35,107,867
Liabilities						
Due to other banks	358,702	9,600,746	428,663	2,438,457	-	12,826,568
Customer accounts	6,831,669	3,700,623	1,024,955	70,676	-	11,627,923
Domestic debt securities in issue	859,465	6	-	-	-	859,471
Eurobonds issued	-	4,213,353	-	-	-	4,213,353
Syndicated loans	-	1,819,422	-	-	-	1,819,422
Subordinated debt	-	1,218,932	-	163,574	-	1,382,506
Other financial liabilities	410,267	11,148	49,507	7,628	-	478,550
Total financial liabilities	8,460,103	20,564,230	1,503,125	2,680,335	-	33,207,793
Less fair value of currency derivatives	(94)	347	507	(59)	-	701
Net balance sheet position, excluding currency derivatives	2,568,597	(533,148)	(54,578)	(94,923)	13,425	1,899,373
Currency derivatives (Note 32)	(597,227)	586,863	26,912	(15,847)	-	701
Credit related commitments (Note 31)	1,015,644	1,010,224	453,470	186,000	-	2,665,338

29 Financial Risk Management (Continued)

The following table presents sensitivities of profit and loss and equity to reasonably possible changes in exchange rates at the balance sheet date, with all other variables held constant:

<i>In thousands of Ukrainian hryvnias</i>	At 31 December 2008	At 31 December 2007
	Impact on profit or loss and on equity	Impact on profit or loss and on equity
US Dollars strengthening by 17%	(230,292)	-
US Dollars weakening by 17%	230,292	
US Dollars strengthening by 2%	-	10,663
US Dollars weakening by 2%	-	(10,663)
Euro strengthening by 25%	(43,245)	-
Euro weakening by 25%	43,245	-
Euro strengthening by 5%	-	(2,729)
Euro weakening by 5%	-	2,729
Other strengthening by 2%	(3,373)	-
Other weakening by 2%	3,373	-
Other strengthening by 5%	-	(4,746)
Other weakening by 5%	-	4,746

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

Interest rate risk. The Bank is exposed to interest rate risk principally as a result of mismatches in the maturity of its interest-bearing assets and liabilities. The Bank may incur losses in the event of unfavorable movements in interest rates.

The ALMC sets limits on the level of mismatch of interest rate re-pricing that may be undertaken, which is monitored by the RMD. In the absence of any available hedging instruments, the Bank seeks to match its interest rate positions. The evaluation and analysis of interest rate risk size is performed as of the first day of each month and updated as necessary to reflect market changes, for example, a change in benchmark interest rates, market volatility or similar events. The results of such evaluation and analysis are discussed at regular ALMC meetings. In addition to applying standard calculations, the Bank uses stress-tests. These involve determining the level of loss that would apply in the event of unforeseen circumstances or contingencies arising. This approach enables the Bank to evaluate changes in net interest income for future periods and determine the priority areas for interest risk management. Standard stress-test for interest rate risk is change of interest rates by 1 percentage point. Such test is performed on a monthly basis.

The Bank assesses the level of interest rate risk based on gap analysis, which is the analysis of the imbalance between the amounts of financial assets and liabilities which mature or reprice over the same period. Limits are set at the level of loss of net interest income which Management considers acceptable in the event of adverse movements in interest rates, taking into account possible movements in interest rates for major types of interest-bearing assets and liabilities, such as corporate and retail loans, inter-bank loans, securities and corporate and retail deposits. Limits are subject to review depending on the volatility of interest rate movements. The ALM and RMD is responsible for making recommendations to review such limits, which are subject to approval by the ALMC.

The Bank continually monitors interest rate spread and net interest income and reports on these matters are provided to the Bank's senior management each week. The Bank also manages interest rate risk by setting minimum interest rates for loans and maximum interest rates for deposits. The Bank sets interest rates for major types of assets and liabilities by maturity and currency.

29 Financial Risk Management (Continued)

The Bank's Risk Management summarises the interest rate gap analysis of undiscounted financial assets and liabilities contractual maturities as at 31 December 2008 as follows:

<i>In thousands of Ukrainian hryvnias</i>	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 3 years	From 3 to 5 years	From 5 to 10 years	From 10 to 15 years
CHF	96,972	161,220	265,492	(681,165)	(996,897)	(441,411)	(295,518)	(53,676)
EUR	26,009	(81,932)	(342,088)	(550,378)	(439,528)	(145,986)	(25,740)	(6,441)
UAH	(437,172)	(585,387)	(461,171)	156,983	1,989,084	3,107,092	3,360,499	3,429,860
USD	(217,423)	942,411	(10,920)	(308,543)	(3,121,571)	(6,739,324)	(2,237,427)	(520,197)
Other	18,108	18,719	17,954	18,162	14,984	6,349	494	-

The Bank's Risk Management summarises the interest rate gap analysis of undiscounted financial assets and liabilities contractual maturities as at 31 December 2007 as follows:

<i>In thousands of Ukrainian hryvnias</i>	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 3 years	From 3 to 5 years	From 5 to 10 years	From 10 to 15 years
CHF	301,507	365,603	95,770	(57,846)	(496,507)	(428,606)	(218,023)	(47,839)
EUR	343,239	227,549	66,925	(141,162)	(173,863)	(79,764)	(22,709)	(5,276)
UAH	486,622	334,791	348,785	462,486	986,672	1,936,689	2,200,906	2,276,159
USD	6,603	393,902	(352,121)	(1,076,011)	(463,720)	(2,180,340)	(1,174,438)	(284,026)
Other	50,488	45,454	38,259	30,542	19,148	8,098	746	125

29 Financial Risk Management (Continued)

The table below presents the aggregated amounts of the Bank's financial assets and liabilities at carrying amounts, categorized by the earlier of contractual interest repricing or maturity dates as at 31 December 2008.

<i>In thousands of Ukrainian hryvnias</i>	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	More than 1 year	Non-interest bearing	Total
Assets						
Cash and cash equivalents and mandatory reserves	3,123,107	-	-	-	-	3,123,107
Trading securities	65,570	-	-	-	4,141	69,711
Due from other banks	82,450	25,000	164,000	-	-	271,450
Loans and advances to customers	1,050,427	1,874,939	5,509,782	38,487,950	-	46,923,098
Investment securities available-for-sale	11,301	85,706	198,645	594,091	7,371	897,114
Other financial assets	394,930	-	-	-	-	394,930
Total financial assets	4,727,785	1,985,645	5,872,427	39,082,041	11,512	51,679,410
Liabilities						
Due to other banks	1,444,466	1,578,659	6,466,868	12,694,522	-	22,184,515
Customer accounts	8,512,635	2,146,741	3,902,522	457,555	-	15,019,453
Domestic debt securities in issue	12	1,100	-	49,951	-	51,063
Eurobonds issued	49,847	75,677	8,288	7,280,064	-	7,413,876
Syndicated loans	-	16,407	2,933,118	-	-	2,949,525
Subordinated debt	-	47,646	103,950	2,129,850	-	2,281,446
Other financial liabilities	88,514	-	-	-	-	88,514
Total financial liabilities	10,095,474	3,866,230	13,414,746	22,611,942	-	49,988,392
Net sensitivity gap	(5,367,689)	(1,880,585)	(7,542,319)	16,470,099	11,512	1,691,018

29 Financial Risk Management (Continued)

The table below summarises the Bank's exposure to interest rate risks at 31 December 2007.

<i>In thousands of Ukrainian hryvnias</i>	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	More than 1 year	Non-interest bearing	Total
Assets						
Cash and cash equivalents and mandatory reserves	2,626,644	-	-	-	-	2,626,644
Trading securities	200,610	-	-	-	7,082	207,692
Due from other banks	830,766	211,257	-	-	-	1,042,023
Loans and advances to customers	1,396,042	732,245	3,660,509	24,642,167	-	30,430,963
Investment securities available-for-sale	207,216	-	52,985	425,310	6,343	691,854
Other financial assets	104,579	-	951	-	3,161	108,691
Total financial assets	5,365,857	943,502	3,714,445	25,067,477	16,586	35,107,867
Liabilities						
Due to other banks	983,014	390,689	4,124,808	7,328,057	-	12,826,568
Customer accounts	5,049,736	1,962,205	3,957,568	658,414	-	11,627,923
Domestic debt securities in issue	8	257,860	301,182	300,421	-	859,471
Eurobonds issued	59,435	5,436	629,638	3,518,844	-	4,213,353
Syndicated loans	-	-	1,819,422	-	-	1,819,422
Subordinated debt	-	28,906	-	1,353,600	-	1,382,506
Other financial liabilities	343,820	464	1,731	8,800	123,735	478,550
Total financial liabilities	6,436,013	2,645,560	10,834,349	13,168,136	123,735	33,207,793
Net sensitivity gap	(1,070,156)	(1,702,058)	(7,119,904)	11,899,341	(107,149)	1,900,074

All of the Bank's financial assets reprice within 5 years, except for loans to customers of UAH 28,531,994 thousand (2007: UAH 18,073,061 thousand), which have maturities over 5 years. All of the Bank's financial liabilities reprice within 5 years.

At 31 December 2008, if interest rates on financial instruments denominated in UAH at that date had been 1700 basis points higher/lower with all other variables held constant, profit for the year would not be affected. Other components of equity would have been UAH 117,316 thousand (2007: UAH 5,610 thousand on 100 basis points) lower/higher, mainly as a result of an increase in the fair value of fixed rate financial assets classified as available for sale.

At 31 December 2008, if on average interest rates on financial instruments denominated in USD at that date had been 100 basis points higher/lower with all other variables held constant, profit for the year would have been UAH 4,735 thousand (2007: UAH 7,584 thousand) higher/lower, mainly as a result of higher interest income on variable interest assets.

At 31 December 2008, if on average interest rates on financial instruments denominated in EUR at that date had been 250 basis points higher/lower with all other variables held constant, profit for the year would have been UAH 4,000 thousand (2007: UAH 452 thousand on 100 basis points) lower/higher, mainly as a result of higher interest expenses on variable interest liabilities.

29 Financial Risk Management (Continued)

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

<i>In % p.a.</i>	2008				2007			
	UAH	USD	Euro	Other	UAH	USD	Euro	Other
Assets								
Overnight deposits with other banks	-	5	-	-	14	-	-	-
Term placements with other banks	17	14	-	-	7	7	4	4
Guarantee deposits with other banks	-	4	-	-	-	4	-	-
Reverse sale and repurchase agreements with other banks	-	-	-	-	10	-	-	-
Loans and advances to corporate customers	20	14	14	11	15	11	11	9
Loans and advances to individuals	18	13	11	10	16	12	11	9
Finance leases	22	-	-	-	20	-	-	-
Trading securities - bonds	13	-	-	-	12	-	-	-
Investment securities available-for-sale	14	-	-	-	12	-	-	-
Liabilities								
Term placements of other banks	24	7	6	5	4	7	6	5
Amounts payable under repurchases agreements with other banks	-	-	-	-	11	-	-	-
Current account of individuals	10	10	4	0	6	4	2	-
Current account of legal entities	8	5	3	4	2	1	-	-
Term deposits of legal entities	21	9	12	7	4	1	-	6
Term deposits of individuals	16	11	8	-	14	9	7	-
Domestic bonds issued by the Bank	11	-	-	-	11	-	-	-
Syndicated loans and other borrowed funds	-	4	-	-	-	6	-	-
Eurobonds issued	-	8	-	-	-	9	-	-
Subordinated debt	-	9	-	7	-	9	-	7
Finance leases	22	-	-	-	12	-	-	-

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

29 Financial Risk Management (Continued)

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

<i>In thousands of Ukrainian hryvnias</i>	Ukraine	OECD	Non-OECD	Total
Assets				
Cash and cash equivalents and mandatory reserves	2,601,749	477,261	44,097	3,123,107
Trading securities	69,711	-	-	69,711
Due from other banks	269,910	1,540	-	271,450
Loans and advances to customers	46,235,224	432,933	254,941	46,923,098
Investment securities available-for-sale	897,114	-	-	897,114
Other financial assets	394,930	-	-	394,930
Total financial assets	50,468,638	911,734	299,038	51,679,410
Intangible assets				
Intangible assets	141,048	-	-	141,048
Premises, leasehold improvements and equipment	1,491,223	-	-	1,491,223
Current income tax prepayment	3,202	-	-	3,202
Deferred tax assets	436,905	-	-	436,905
Other non-financial assets	92,608	-	-	92,608
Investments accounted for using the equity method	81,166	-	-	81,166
Non-financial assets	2,246,152	-	-	2,246,152
Total assets	52,714,790	911,734	299,038	53,925,562
Liabilities				
Due to other banks	431,017	21,704,101	49,397	22,184,515
Customer accounts	14,879,145	32,729	107,579	15,019,453
Domestic debt securities in issue	51,063	-	-	51,063
Eurobonds issued	-	7,413,876	-	7,413,876
Syndicated loans	-	2,949,525	-	2,949,525
Subordinated debt	-	2,281,446	-	2,281,446
Other financial liabilities	88,514	-	-	88,514
Total financial liabilities	15,449,739	34,381,677	156,976	49,988,392
Non-financial liabilities				
Current income tax liability	26,072	-	-	26,072
Deferred income tax liability	1,178	-	-	1,178
Other non-financial liabilities	197,913	-	-	197,913
Non-financial liabilities	225,163	-	-	225,163
Total liabilities	15,674,902	34,381,677	156,976	50,213,555
Net balance sheet position	37,039,888	(33,469,943)	142,062	3,712,007
Credit related commitments (Note 31)	2,476,992	512,515	179,700	3,169,207

29 Financial Risk Management (Continued)

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

<i>In thousands of Ukrainian hryvnias</i>	Ukraine	OECD	Non-OECD	Total
Assets				
Cash and cash equivalents and mandatory reserves	2,067,954	516,743	41,947	2,626,644
Debt trading securities	207,692	-	-	207,692
Due from other banks	729,810	297,796	14,417	1,042,023
Loans and advances to customers	30,384,605	-	46,358	30,430,963
Investment securities available-for-sale	691,854	-	-	691,854
Other financial assets	107,987	704	-	108,691
Total financial assets	34,189,902	815,243	102,722	35,107,867
Non-financial assets				
Current income tax prepayment	10,324	-	-	10,324
Intangible assets	94,761	-	-	94,761
Premises, leasehold improvements and equipment	1,259,934	-	-	1,259,934
Deferred tax assets	7,448	-	-	7,448
Other non-financial assets	66,547	-	-	66,547
Investments accounted for using the equity method	120,577	-	-	120,577
Non-financial assets	1,559,591	-	-	1,559,591
Total assets	35,749,493	815,243	102,722	36,667,458
Liabilities				
Due to other banks	556,943	11,945,824	323,801	12,826,568
Customer accounts	11,562,706	32,923	32,294	11,627,923
Domestic debt securities in issue	859,471	-	-	859,471
Eurobonds issued	-	4,213,353	-	4,213,353
Syndicated loans	-	1,819,422	-	1,819,422
Subordinated debt	-	1,072,823	309,683	1,382,506
Other financial liabilities	210,121	268,429	-	478,550
Total financial liabilities	13,189,241	19,352,774	665,778	33,207,793
Non-financial liabilities				
Current income tax liability	58	-	-	58
Deferred income tax liability	84,332	-	-	84,332
Other non-financial liabilities	136,739	18,639	1,888	157,266
Non-financial liabilities	221,129	18,639	1,888	241,656
Total liabilities	13,410,370	19,371,413	667,666	33,449,449
Net balance sheet position	22,339,123	(18,556,170)	(564,944)	3,218,009
Credit related commitments (Note 31)	2,665,338	-	-	2,665,338

Assets, liabilities and credit related commitments have been based on the country in which the counterparty is located. Cash on hand and premises, leasehold improvements and equipment have been allocated based on the country in which they are physically held. OECD assets and liabilities mainly include balances with counterparties in USA, Germany, UK, Switzerland, Austria, Luxembourg and France. Non-OECD concentrations mainly represent balances with counterparties in the Russian Federation and Cyprus.

29 Financial Risk Management (Continued)

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

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

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

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

- Instant liquidity ratio (N4), which is calculated as the ratio of highly-liquid assets to liabilities payable on demand. The ratio was 53.66% at 31 December 2008 (2007: 63.54%), with the required ratio being not less than 20%;
- Current liquidity ratio (N5), which is calculated as the ratio of liquid assets to liabilities maturing within 31 calendar days. The ratio was 52.37% at 31 December 2008 (2007: 81.33%), with the required ratio being not less than 40%;
- Short-term liquidity ratio (N6), which is calculated as the ratio of liquid assets to short-term liabilities with initial maturity up to one year. The ratio was 25.22% at 31 December 2008 (2007: 38.84%), with the required ratio being not less than 20%.

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

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

The table below shows liabilities at 31 December 2008 by their remaining contractual maturity. The amounts disclosed in the maturity table are the contractual undiscounted cash flows, including gross finance lease obligations (before deducting future finance charges), contractual amounts to be exchanged under a gross settled currency swaps, and gross loan commitments. Such undiscounted cash flows differ from the amount included in the balance sheet because the balance sheet amount is based on discounted cash flows. Net settled derivatives are included at the net amounts expected to be paid.

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

29 Financial Risk Management (Continued)

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

<i>In thousands of Ukrainian hryvnias</i>	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	Over 1 years	Total
Liabilities					
Due to other banks	1,343,575	946,635	7,993,130	14,347,512	24,630,852
Customer accounts	8,575,141	2,229,030	4,110,817	567,251	15,482,239
Domestic debt securities in issue	1,356	-	4,114	56,856	62,326
Eurobonds issued	56,787	92,494	444,194	8,381,450	8,974,925
Syndicated loans	-	16,101	2,622,117	458,397	3,096,615
Subordinated debt	-	81,480	162,961	2,913,459	3,157,900
Other financial liabilities	88,514	-	-	-	88,514
Gross settled derivatives (outflow only)	792,796	-	-	-	792,796
Commitments to extend credit (Note 31)	3,185,412	-	-	-	3,185,412
Total potential future payments for financial obligations	14,043,581	3,365,740	15,337,333	26,724,925	59,471,579

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

<i>In thousands of Ukrainian hryvnias</i>	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	Over 1 years	Total
Liabilities					
Due to other banks	2,086,659	457,226	5,686,934	14,446,480	22,677,299
Customer accounts	5,627,569	1,477,372	4,202,022	724,929	12,031,892
Domestic debt securities in issue	8,227	265,208	351,608	374,047	999,090
Eurobonds issued	66,120	-	893,057	4,271,038	5,230,215
Syndicated loans	-	-	262,960	1,725,058	1,988,018
Subordinated debt	-	28,989	57,342	1,961,327	2,047,658
Other financial liabilities	-	-	3,261	10,274	13,535
Gross settled derivatives (outflow only)	1,448,684	121,200	-	-	1,569,884
Commitments to extend credit (Note 31)	2,785,844	-	-	-	2,785,844
Total potential future payments for financial obligations	12,023,103	2,349,995	11,457,184	23,513,153	49,343,435

Payments in respect of gross settled currency swaps will be accompanied by related cash inflows which are disclosed at their present values in Note 32. Customer accounts are classified in the above analysis based on contractual maturities. However, in accordance with Ukrainian Civil Code, individuals have a right to withdraw their deposits prior to maturity if they forfeit their right to accrued interest.

29 Financial Risk Management (Continued)

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

	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	Over 12 months	No stated maturity	Total
<i>In thousands of Ukrainian hryvnias</i>						
Assets						
Cash and cash equivalents and mandatory reserves	3,123,107	-	-	-	-	3,123,107
Trading securities	65,570	-	-	-	4,141	69,711
Due from other banks	82,450	25,000	164,000	-	-	271,450
Loans and advances to customers	1,050,427	1,874,308	5,509,443	38,488,920	-	46,923,098
Investment securities available-for- sale	11,301	85,706	198,645	594,091	7,371	897,114
Other financial assets	394,930	-	-	-	-	394,930
Total financial assets	4,727,785	1,985,014	5,872,088	39,083,011	11,512	51,679,410
Liabilities						
Due to other banks	1,337,568	925,071	7,039,698	12,882,178	-	22,184,515
Customer accounts	8,512,635	2,146,741	3,902,522	457,555	-	15,019,453
Domestic debt securities in issue	12	1,100	-	49,951	-	51,063
Eurobonds issued	49,847	75,677	8,288	7,280,064	-	7,413,876
Syndicated loans	-	15,986	2,551,134	382,405	-	2,949,525
Subordinated debt	-	47,646	103,950	2,129,850	-	2,281,446
Other financial liabilities	88,514	-	-	-	-	88,514
Total financial liabilities	9,988,576	3,212,221	13,605,592	23,182,003	-	49,988,392
Net liquidity gap	(5,260,791)	(1,227,207)	(7,733,504)	15,901,008	11,512	1,691,018
Cumulative liquidity gap at 31 December 2008	(5,260,791)	(6,487,998)	(14,221,502)	1,679,506	1,691,018	-

29 Financial Risk Management (Continued)

The liquidity position of the Bank at 31 December 2007 is set out below.

<i>In thousands of Ukrainian hryvnias</i>	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	Over 12 months	No stated maturity	Total
Assets						
Cash and cash equivalents and mandatory reserves	2,626,644	-	-	-	-	2,626,644
Trading securities	200,610	-	-	-	7,082	207,692
Due from other banks	830,766	211,257	-	-	-	1,042,023
Loans and advances to customers	1,396,042	731,588	3,659,997	24,643,336	-	30,430,963
Investment securities available-for-sale	207,216	-	52,985	425,310	6,343	691,854
Other financial assets	107,740	-	951	-	-	108,691
Total financial assets	5,369,018	942,845	3,713,933	25,068,646	13,425	35,107,867
Liabilities						
Due to other banks	975,009	340,802	4,151,637	7,359,120	-	12,826,568
Customer accounts	5,049,736	1,962,205	3,957,568	658,414	-	11,627,923
Domestic debt securities in issue	8	257,860	301,182	300,421	-	859,471
Eurobonds issued	59,435	5,436	629,638	3,518,844	-	4,213,353
Syndicated loans	-	-	1,819,422	-	-	1,819,422
Subordinated debt	-	28,907	-	1,353,599	-	1,382,506
Other financial liabilities	151,626	316,393	1,731	8,800	-	478,550
Total financial liabilities	6,235,814	2,911,603	10,861,178	13,199,198	-	33,207,793
Net liquidity gap	(866,796)	(1,968,758)	(7,147,245)	11,869,448	13,425	1,900,074
Cumulative liquidity gap at 31 December 2007	(866,796)	(2,835,554)	(9,982,799)	1,886,649	1,900,074	-

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

Management believes that in spite of a substantial portion of customers accounts being on demand, diversification of these deposits by number and type of depositors, and the past experience of the Bank would indicate that these customers accounts provide a long-term and stable source of funding for the Bank.

The Bank's Risk Management summarises the liquidity gap analysis of undiscounted financial assets and liabilities contractual maturities 2008 as follows:

<i>In thousands of Ukrainian hryvnias</i>	Up to 1 month	From 1 to 2 months	From 2 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 3 years	From 3 to 5 years	From 5 to 10 years
CHF	70,060	113,039	155,576	274,639	(1,468,649)	(652,681)	(591,633)	(124,417)
EUR	(14,583)	(32,562)	(124,299)	(319,616)	(618,271)	(156,232)	(86,317)	(20,194)
UAH	(1,367,500)	(1,499,241)	(1,415,333)	(1,136,316)	(76,239)	2,217,686	2,602,663	2,806,711
USD	157,037	1,009,391	1,487,639	1,377,551	(236,102)	(9,030,655)	(4,341,737)	(348,362)
Other	16,865	14,667	20,452	14,736	17,283	9,923	2,822	(221)

29 Financial Risk Management (Continued)

The Bank's Risk Management summarises the liquidity gap analysis of undiscounted financial assets and liabilities contractual maturities 2007 as follows:

<i>In thousands of Ukrainian hryvnias</i>	Up to 1 month	From 1 to 2 months	From 2 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 3 years	From 3 to 5 years	From 5 to 10 years
CHF	298,183	335,029	390,048	124,593	15,273	(681,164)	(231,911)	(93,616)
EUR	289,412	230,519	132,776	55,294	(128,503)	(61,187)	(48,910)	(6,961)
UAH	305,059	218,065	124,413	592,942	1,217,054	1,515,975	1,885,795	2,078,235
USD	675,511	863,378	1,007,747	1,933,112	(237,728)	(1,517,342)	(2,114,919)	(97,108)
Other	18,822	18,033	18,033	17,892	19,365	6,207	3,257	1,657

30 Management of Capital

The Bank's objectives when managing capital are (i) to comply with the capital requirements set by the National Bank of Ukraine, (ii) to safeguard the Bank's ability to continue as a going concern and (iii) to maintain a sufficient capital base to achieve a capital adequacy ratio based on Basel Accord of at least 8%. The Group considers total capital under management to be total regulatory capital. The amount of capital that the Bank manages is UAH 5,847,094 thousand (2007: UAH 4,064,831 thousand). Compliance with capital adequacy ratios set by the National Bank of Ukraine is monitored monthly with reports outlining their calculation reviewed and signed by the Bank's Chairman of the Board and Head of Finance. Other objectives of capital management are evaluated annually.

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

<i>In thousands of Ukrainian hryvnias</i>	2008	2007
Primary capital	4,290,157	2,707,590
Additional capital	1,812,656	1,559,892
Deduction	(255,719)	(202,651)
Total regulatory capital	5,847,094	4,064,831

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

<i>In thousands of Ukrainian hryvnias</i>	2008	2007
Tier 1 capital		
Share capital	4,005,000	3,518,684
Share premium	5,620	5,620
Accumulated deficit	(285,550)	(315,696)
Minority interest	6,647	9,706
Total tier 1 capital	3,731,717	3,218,314
Tier 2 capital		
Revaluation reserve for investments available-for-sale	(19,710)	(305)
Subordinated debt	1,865,858	1,272,294
Total tier 2 capital	1,846,148	1,271,989
Total capital	5,577,865	4,490,303

The Bank has complied with the capital requirements imposed by the NBU and loan providers (loan covenants) as at 31 December 2008 and 2007.

31 Contingencies and Commitments

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

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

The Ukrainian tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged.

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

Capital expenditure commitments. At 31 December 2008 the Bank has contractual capital expenditure commitments in respect of premises and equipment totalling UAH 29,343 thousand (31 December 2007: UAH 13,262 thousand) and in respect of SAP consulting services and web-site development of UAH 1,629 thousand (2007: software developments of plastic cards services and other of UAH 6,055 thousand).

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

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

<i>In thousands of Ukrainian hryvnias</i>	2008	2007
Not later than 1 year	134,435	88,321
Later than 1 year and not later than 5 years	267,024	217,918
Later than 5 years	54,187	68,332
Total operating lease commitments	455,646	374,571

Compliance with covenants. The Bank is subject to certain covenants related primarily to its borrowings. Non-compliance with such covenants may result in negative consequences for the Bank including growth in the cost of borrowings and declaration of default. In particular, the Bank is required to maintain certain level of equity, a certain capital adequacy ratio, a maximum exposure to a single party to capital ratio and a level of aggregate indebtedness. Failure to comply with these requirements could lead to early withdrawal of funds by the creditors upon their discretion. As at 31 December 2008 the Bank was in compliance with the covenants specified above. Also refer to Note 30.

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

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards.

Promissory notes endorsements represent guarantees undertaken by the Bank in respect of promissory notes issued by the Bank's clients.

Commitments arising in respect of underwriting activity represent commitments of the Bank arising from the Bank's acting as underwriter for placement of corporate bonds.

31 Contingencies and Commitments (Continued)

The Bank monitors the term to maturity of credit related commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments. Outstanding irrevocable credit related commitments are as follows:

<i>In thousands of Ukrainian hryvnias</i>	Note	2008	2007
Commitments to extend credit		474,900	712,246
Commitments arising in respect of underwriting activity		-	50,000
Import letters of credit (cash covered)		2,349	86,306
Import letters of credit (uncovered)		1,214,692	901,222
Guarantees issued (cash covered)		2,330	26,860
Guarantees issued (uncovered)		1,442,241	882,158
Promissory notes endorsements (cash covered)		5,954	5,524
Promissory notes endorsements (uncovered)		42,946	121,528
Less: cash covered credit related commitments	16	(10,633)	(118,690)
Less: Provision for losses on credit related commitments	20	(5,572)	(1,816)
Total credit related commitments		3,169,207	2,665,338

The total outstanding contractual amount of commitments to extend credit, underwriting commitments, promissory notes endorsements, letters of credit, and guarantees does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded. Fair value of credit related commitments was UAH 5,572 thousand at 31 December 2008 (2007: UAH 1,816 thousand).

Credit related commitments are denominated in currencies as follows:

<i>In thousands of Ukrainian hryvnias</i>	2008	2007
Ukrainian hryvnias	659,444	1,015,644
US Dollars	1,600,718	1,010,224
Euro	731,025	453,470
Other currencies	178,020	186,000
Total	3,169,207	2,665,338

Movements in the provision for losses on credit related commitments are as follows:

<i>In thousands of Ukrainian hryvnias</i>	Note	2008	2007
Provision for losses on credit related commitments as at 1 January		1,816	10,497
Provision/(recovery of provision) for losses on credit related commitments during the year		3,756	(8,681)
Provision for losses on credit related commitments as at 31 December	20	5,572	1,816

31 Contingencies and Commitments (Continued)

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

<i>In thousands of Ukrainian hryvnias</i>	2008 Nominal value	2007 Nominal value
Shares in domestic companies held by the Bank on behalf of its customers	2,952,198	2,580,967
Domestic corporate bonds held by the Bank on behalf of its customers	679,419	308,309
Domestic municipal bonds held by the Bank on behalf of its customers	16,020	2,858
Domestic treasury bills held by the Bank on behalf of its customers	12,369	12,577
Notes of exchange held by the Bank on behalf of its customers	12,820	2,539
Investment certificates held by the Bank on behalf of its customers	163,910	108,031
Assets managed by the Bank	440,217	416,771

Assets pledged and restricted. The Bank has the following assets pledged as collateral:

<i>In thousands of Ukrainian hryvnias</i>	Notes	2008		2007	
		Asset pledged	Related liability/commitment	Asset pledged	Related liability/commitment
Trading securities	8, 15, 16	12,204	12,182	20,761	20,723
Investment securities available-for-sale	11, 15,16	13,888	13,705	156,781	156,867
Gross receivables under currency swaps		802,328	789,684	1,568,703	1,568,438
Total		828,420	815,571	1,746,245	1,746,028

In addition, mandatory reserve balances in the amount of UAH 1,291,809 thousand (2007: UAH 940,985 thousand) represent mandatory reserve assets which are not available to finance the Bank's day to day operations (Note 7).

As disclosed in Note 9, in March 2007 the Bank placed a guarantee deposit in Deutsche Bank with maturity in June 2009 totalling UAH 1,540 thousand (2007: UAH 1,010 thousand).

32 Derivative Financial Instruments

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

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

<i>In thousands of Ukrainian hryvnias</i>	2008		2007	
	Contracts with positive fair value	Contracts with negative fair value	Contracts with positive fair value	Contracts with negative fair value
Foreign exchange swaps: fair values, at the balance sheet date, of				
- USD receivable on settlement (+)	138,083	182,369	950,407	127,766
- USD payable on settlement (-)	(223,405)	(250,659)	(372,448)	(118,862)
- Euros receivable on settlement (+)	148,061	-	26,912	-
- Euros payable on settlement (-)	(21,711)	-	-	-
- UAH receivable on settlement (+)	89,949	247,461	346,092	118,790
- UAH payable on settlement (-)	(113,434)	(183,587)	(949,989)	(112,120)
- Other currencies receivable on settlement (+)	-	-	-	618
- Other currencies payable on settlement (-)	-	-	-	(16,465)
Net fair value of foreign exchange swaps	17,543	(4,416)	974	(273)

During the year ended 31 December 2008 the Bank recorded a loss of UAH 4,320 thousand (2007: a gain of UAH 4,803 thousand) resulting from transactions with foreign exchange swaps.

During the year ended 31 December 2008 the Bank recognised a gain of UAH 248,828 thousand (2007: a gain of UAH 9,469 thousand) in respect of change in fair value of a financial derivative that arises on adjustment to the effective interest rate of the lease under UAH denominated finance lease contracts with the condition of compensation in the case of UAH depreciation against USD, CHF and EUR. This embedded derivative is represented by a currency option with insignificant fair value at the beginning, maturing in up to 5 years. The strike price was UAH 5.05 per USD 1 (2007: UAH 5.05 per USD 1).

33 Fair Value of Financial Instruments

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

	Fair value by measurement method:			Total fair value	Carrying value
	Quoted price in an active market	Valuation technique with inputs observable in markets	Valuation technique with significant non-observable inputs		
<i>In thousands of Ukrainian hryvnias</i>					
FINANCIAL ASSETS CARRIED AT AMORTISED COST					
<i>Cash and cash equivalents</i>					
Cash on hand	-	1,141,325	-	1,141,325	1,141,325
Cash balances with the National Bank of Ukraine	-	1,444,504	-	1,444,504	1,444,504
Correspondent accounts and overnight placements with other banks					
- Ukraine	-	15,921	-	15,921	15,921
- other countries	-	521,357	-	521,357	521,357
<i>Due from other banks</i>					
Term placements with other banks	-	269,910	-	269,910	269,910
Guarantee deposits with other banks	-	1,540	-	1,540	1,540
<i>Loans and advances to customers</i>					
Car loans	-	-	6,459,798	6,459,798	6,785,631
Mortgage loans	-	-	17,517,894	17,517,894	19,171,251
Other term loans	-	-	17,884,250	17,884,250	19,973,292
Overdrafts	-	-	517,091	517,091	517,091
Net investment in finance leases	-	-	348,721	348,721	460,609
Reverse sale and repurchase agreements	15,224	-	-	15,224	15,224
<i>Other financial assets</i>	-	394,930	-	394,930	394,930
FINANCIAL ASSETS CARRIED AT FAIR VALUE					
<i>Trading securities</i>	69,711	-	-	69,711	69,711
<i>Investment securities available-for-sale</i>	827,972	69,142	-	897,114	897,114
TOTAL FINANCIAL ASSETS	912,907	3,858,629	42,727,754	47,499,290	51,679,410

33 Fair Value of Financial Instruments (Continued)

Fair values of financial liabilities as of 31 December 2008 are as follows:

	Fair value by measurement method:			Total fair value	Carrying value
	Quoted price in an active market	Valuation technique with inputs observable in markets	Valuation technique with significant non-observable inputs		
<i>In thousands of Ukrainian hryvnias</i>					
FINANCIAL LIABILITIES CARRIED AT AMORTISED COST					
Due to other banks					
-Correspondent accounts and overnight placements of other banks	-	391,439	-	391,439	391,439
-Guarantees deposits of other banks	-	2,873	-	2,873	2,873
Loans received from other banks	-	15,958,501	-	15,958,501	21,790,203
Customer accounts					
<i>Legal entities</i>					
- Current/settlement accounts	-	-	2,775,959	2,775,959	2,775,959
- Term deposits	-	-	4,134,260	4,134,260	4,157,450
<i>Individuals</i>					
- Current/demand accounts	-	-	2,880,860	2,880,860	2,880,860
- Term deposits	-	-	5,183,863	5,183,863	5,205,184
Debt securities in issue					
Domestic debt securities	43,601	-	-	43,601	51,063
Eurobonds issued	3,685,856	-	-	3,685,856	7,413,876
Syndicated loans and other borrowed funds					
Syndicated loan	-	2,230,754	-	2,230,754	2,547,044
Loan received from EBRD	-	143,736	-	143,736	386,496
Trade financing received from non-banking financial institution	-	15,256	-	15,256	15,985
Subordinated debt					
- Subordinated debt	-	1,022,765	-	1,022,765	2,281,446
Other financial liabilities	-	88,514	-	88,514	88,514
TOTAL FINANCIAL LIABILITIES	3,729,457	19,853,838	14,974,942	38,558,237	49,988,392

33 Fair Value of Financial Instruments (Continued)

Fair values of financial assets as at 31 December 2007 were as follows:

	Fair value by measurement method:			Total fair value	Carrying value
	Quoted price in an active market	Valuation technique with inputs observable in markets	Valuation technique with significant non-observable inputs		
<i>In thousands of Ukrainian hryvnias</i>					
FINANCIAL ASSETS CARRIED AT AMORTISED COST					
<i>Cash and cash equivalents</i>					
Cash on hand	-	869,735	-	869,735	869,735
Cash balances with the National Bank of Ukraine	-	1,192,764	-	1,192,764	1,192,764
Correspondent accounts and overnight placements with other banks					
- Ukraine	-	5,455	-	5,455	5,455
- other countries	-	558,690	-	558,690	558,690
<i>Due from other banks</i>					
Term placements with other banks	-	882,058	-	882,058	882,058
Reverse sale and repurchase agreements with other banks	-	158,955	-	158,955	158,955
Guarantee deposits with other banks	-	1,010	-	1,010	1,010
<i>Loans and advances to customers</i>					
Car loans	-	-	4,678,602	4,678,602	4,596,979
Mortgage loans	-	-	10,699,186	10,699,186	10,876,347
Other term loans	-	-	13,984,990	13,984,990	13,699,543
Overdrafts	-	-	792,891	792,891	792,891
Net investment in finance leases	-	-	357,852	357,852	355,771
Reverse sale and repurchase agreements	109,432	-	-	109,432	109,432
<i>Other financial assets</i>	-	108,691	-	108,691	108,691
FINANCIAL ASSETS CARRIED AT FAIR VALUE					
<i>Trading securities</i>	207,692	-	-	207,692	207,692
<i>Investment securities available-for-sale</i>	691,854	-	-	691,854	691,854
TOTAL FINANCIAL ASSETS	1,008,978	3,777,358	30,513,521	35,299,857	35,107,867

33 Fair Value of Financial Instruments (Continued)

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

	Fair value by measurement method:			Total fair value	Carrying value
	Quoted price in an active market	Valuation technique with inputs observable in markets	Valuation technique with significant non-observable inputs		
<i>In thousands of Ukrainian hryvnias</i>					
FINANCIAL LIABILITIES CARRIED AT AMORTISED COST					
Due to other banks					
-Correspondent accounts and overnight placements of other banks	-	70,245	-	70,245	70,245
-Guarantees deposits of other banks	-	1,889	-	1,889	1,889
-Amounts payable under repurchase agreements	-	127,120	-	127,120	127,433
Loans received from other banks	-	12,556,126	-	12,556,126	12,627,001
Customer accounts					
<i>Legal entities</i>					
- Current/settlement accounts	-	-	2,612,101	2,612,101	2,612,101
- Term deposits	-	-	2,610,761	2,610,761	2,597,775
<i>Individuals</i>					
- Current/demand accounts	-	-	1,520,506	1,520,506	1,520,506
- Term deposits	-	-	4,900,781	4,900,781	4,897,541
Debt securities in issue					
Domestic debt securities	851,417	-	-	851,417	859,471
Eurobonds issued	4,167,962	-	-	4,167,962	4,213,353
Syndicated loans and other borrowed funds					
Syndicated loan	-	1,819,422	-	1,819,422	1,819,422
Subordinated debt					
- Subordinated debt	-	1,438,264	-	1,438,264	1,382,506
Other financial liabilities	-	478,550	-	478,550	478,550
TOTAL FINANCIAL LIABILITIES	5,019,379	16,491,616	11,644,149	33,155,144	33,207,793

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by an active quoted market price. Where quoted market prices are not available, the Bank used valuation techniques. Certain valuation techniques required assumptions that were not supported by observable market data. Changing any such used assumptions to a reasonably possible alternative would not result in significantly different profit, total assets or total liabilities. The total net fair value loss estimated using valuation techniques that was recognised in profit or loss amounts to UAH 19,575 thousand (2007: UAH 0 thousand).

33 Fair Value of Financial Instruments (Continued)

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

<i>In thousands of Ukrainian hryvnias</i>	2008	2007
Due from other banks – Note 9		
Overnights and short-term placements with other banks	12% to 31% p.a.	2% to 15% p.a.
Reverse sale and repurchase agreements with other banks	-	10% p.a.
Guarantee deposits with other banks	4% p.a.	4% p.a.
Loans and advances to customers – Note 10		
Corporate loans	14% to 25% p.a.	9% to 17% p.a.
Mortgage loans	13% to 26% p.a.	9% to 17% p.a.
Other term loans	15% to 30% p.a.	12% to 18% p.a.
Due to other banks – Note 15		
Loans received from other banks	32% to 35% p.a.	5% to 8% p.a.
Customer accounts – Note 16		
Term deposits of legal entities	10% to 17% p.a.	7% to 12% p.a.
Term deposits of individuals	7% to 19% p.a.	5% to 13% p.a.
Debt securities in issue – Note 17		
	20% p.a.	12% p.a.
Syndicated loans and other borrowed funds – Note 19		
Syndicated loan	34% p.a.	9% to 10% p.a.
Loan received from EBRD	34% p.a.	-
Trade financing received from non-banking institution	34% p.a.	-
Subordinated Debt – Note 21		
	32% to 34% p.a.	5% to 8% p.a.

34 Reconciliation of Classes of Financial Instruments with Measurement Categories

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

<i>In thousands of Ukrainian hryvnias</i>	Loans and receivables	Available-for-sale assets	Trading assets	Total
ASSETS				
Cash and cash equivalents	3,123,107	-	-	3,123,107
Trading securities	-	-	69,711	69,711
Due from other banks				
Term placements with other banks	269,910	-	-	269,910
Guarantee deposits with other banks	1,540	-	-	1,540
Loans and advances to customers				
Car loans	6,785,631	-	-	6,785,631
Mortgage loans	19,171,251	-	-	19,171,251
Other term loans	19,973,292	-	-	19,973,292
Overdrafts	517,091	-	-	517,091
Net investment in finance leases	460,609	-	-	460,609
Reverse sale and repurchase agreements	15,224	-	-	15,224
Investment securities available-for-sale	-	897,114	-	897,114
Other financial assets:				
- Other financial assets	128,559	-	266,371	394,930
TOTAL FINANCIAL ASSETS	50,446,214	897,114	336,082	51,679,410
NON-FINANCIAL ASSETS				
	-	-	-	2,246,152
TOTAL ASSETS	-	-	-	53,925,562

34 Reconciliation of Classes of Financial Instruments with Measurement Categories (Continued)

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

<i>In thousands of Ukrainian hryvnias</i>	Loans and receivables	Available-for-sale assets	Trading assets	Total
ASSETS				
Cash and cash equivalents	2,626,644	-	-	2,626,644
Trading securities	-	-	207,692	207,692
Due from other banks				
Term placements with other banks	882,058	-	-	882,058
Reverse sale and repurchase agreements with other banks	158,955	-	-	158,955
Guarantee deposits with other banks	1,010	-	-	1,010
Loans and advances to customers				
Car loans	4,596,979	-	-	4,596,979
Mortgage loans	10,876,347	-	-	10,876,347
Other term loans	13,699,543	-	-	13,699,543
Overdrafts	792,891	-	-	792,891
Net investment in finance leases	355,771	-	-	355,771
Reverse sale and repurchase agreements	109,432	-	-	109,432
Investment securities available-for-sale	-	691,854	-	691,854
Other financial assets:				
- Other financial assets	107,717	-	974	108,691
TOTAL FINANCIAL ASSETS	34,207,347	691,854	208,666	35,107,867
NON-FINANCIAL ASSETS	-	-	-	1,559,591
TOTAL ASSETS	-	-	-	36,667,458

All of the Bank's financial liabilities except for derivatives are carried at amortised cost. Derivatives belong to the fair value through profit or loss measurement category as instruments held for trading.

35 Related Party Transactions

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

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

<i>In thousands of Ukrainian hryvnias</i>	Parent company	Share- holders	Key manage- ment personnel	Entities controlled by the Bank's shareholders and other related parties	Joint Ventures
Cash and cash equivalents	489	-	-	171,215	-
Loans and advances to customers					
Gross amount of loans and advances to customers in UAH (contractual interest rate: 14.8 – 33.6%)	-	-	320	514	-
Gross amount of loans and advances to customers in USD (contractual interest rate: 9.5 - 30%)	-	-	30,305	138,128	-
Gross amount of loans and advances to customers in EUR (contractual interest rate: 8.5 – 14%)	-	339	774	261,794	-
Gross amount of loans and advances to customers in CHF (contractual interest rate: 8%)	-	-	-	31,540	-
Impairment provisions for loans and advances to customers	-	-	(241)	(35,465)	-
Investments accounted for using the equity method	-	-	-	-	120,608
Other assets	-	-	74	4,703	7,945
Due to other banks					
Due to other banks in USD (contractual interest rate: 6-9%)	16,841,848	-	-	16,488	-
Due to other banks in EUR (contractual interest rate: 6-8%)	31,028	-	-	28,557	-
Due to other banks in CHF (contractual interest rate: 4-7%)	2,563,552	-	-	-	-
Due to other banks in GBP (contractual interest rate: 6%)	-	-	-	12	-
Due to other banks in UAH	-	-	-	22	-
Customer accounts					
Current accounts	-	(11,850)	(2,752)	(18,186)	(106,893)
Term deposits in UAH (contractual interest rate: 11-28%)	-	-	(1,353)	(1,067)	(51,256)
Term deposits in USD (contractual interest rate: 8-15%)	-	(89,478)	(967)	(14,317)	(618)
Term deposits in EUR (contractual interest rate: 7-9%)	-	-	(234)	(61)	-
Subordinated debt (contractual interest rate: 7-9%)	2,281,446	-	-	-	-
Other liabilities	275	-	13	16,735	2
Other borrowed funds	-	-	-	338,800	-
Minority interest	-	-	(43)	(801)	-

35 Related Party Transactions (Continued)

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

<i>In thousands of Ukrainian hryvnias</i>	Parent company	Shareholders	Key management personnel	Entities controlled by the Bank's shareholders and other related parties	Joint Ventures
Interest income on due from other banks	189	-	-	93	-
Interest income on loans and advances to customers	-	-	2,142	40,524	1
Interest expense on due to other banks	(884,371)	-	-	(2,311)	-
Interest expense on other borrowed funds	-	-	-	(13,593)	-
Interest expense on customer accounts	-	(13,092)	(632)	(5,332)	(6,121)
Interest expense on subordinated debt	(128,788)	-	-	-	-
Provision for loan impairment	-	-	(241)	(12,413)	-
(Losses less gains) / gains less losses from trading in foreign currencies	-	(192)	124	24,258	(32)
Fee and commission income	475	42	157	2,934	47,817
Other operating expenses	(30,527)	-	(444)	(3,445)	(3,214)
Other operating income	191	1,048	21	9	5,633

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

<i>In thousands of Ukrainian hryvnias</i>	Parent company	Shareholders	Key management personnel	Entities controlled by the Bank's shareholders and other related parties	Joint Ventures
Commitments to extend credit	-	-	2,205	97,430	-
Commitments to extend credit received from other banks	4,940,287	-	-	36,538	-

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

<i>In thousands of Ukrainian hryvnias</i>	Parent company	Shareholders	Key management personnel	Entities controlled by the Bank's shareholders and other related parties	Joint Ventures
Amounts lent to related parties during the period	-	753	9,486	548,740	-
Amounts repaid by related parties during the period	-	414	85	492,313	-

35 Related Party Transactions (Continued)

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

	Parent compa- ny	Share- holders	Key manage- ment personnel	Entities under common control and other related parties	Joint Ventures
<i>In thousands of Ukrainian hryvnias</i>					
Cash and cash equivalents	168	-	-	17,363	-
Loans and advances to customers					
Gross amount of loans and advances to customers in UAH (contractual interest rate: 16 – 17%)	-	-	-	56,453	-
Gross amount of loans and advances to customers in USD (contractual interest rate: 8 – 14%)	-	-	21,998	126,059	-
Gross amount of loans and advances to customers in EUR (contractual interest rate: 9 - 12%)	-	-	-	171,541	-
Gross amount of loans and advances to customers in CHF (contractual interest rate: 8%)	-	-	-	21,496	-
Impairment provisions for loans and advances to customers	-	-	-	(23,053)	-
Investment securities available-for-sale	-	-	-	1,377	-
Trading securities	-	-	-	4,831	-
Investments accounted for using the equity method	-	-	-	-	120,577
Other assets	-	-	5	337	14
Customer accounts					
Current accounts	-	6,604	1,538	52,514	7,263
Term deposits in UAH (contractual interest rate: 2 - 16%)	-	202,679	791	47,702	2,900
Term deposits in USD (contractual interest rate: 6 - 11%)	-	143,100	523	44,019	-
Term deposits in EUR (contractual interest rate: 5 - 7%)	-	1,541	216	-	-
Subordinated debt (contractual interest rate: 7-9%)	1,382,506	-	-	-	-
Other liabilities	-	-	-	3,896	2
Due to other banks					
Due to other banks in USD (contractual interest rate 6% - 9%)	8,590,838	-	-	224,466	-
Due to other banks in EUR (contractual interest rate 6% - 8%)	134,955	-	-	33,868	-
Due to other banks in CHF (contractual interest rate 4% - 7%)	2,003,753	-	-	-	-
Minority interest	-	-	-	2,820	-

35 Related Party Transactions (Continued)

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

	Parent company	Share- holders	Key manage- ment personnel	Entities under control of shareholders and other related parties	Joint Ventures
<i>In thousands of Ukrainian hryvnias</i>					
Interest income on loans and advances to customers	-	19	1,438	27,563	-
Interest expense on customer accounts		(8,438)	(88)	(34,862)	-
Interest expense on subordinated debt	(86,612)	-	-	-	-
Interest expense on due to other banks	(431,455)	-	-	(1,300)	-
Recovery of provision for loan impairment	-		143	28,546	-
Gains less losses from trading in foreign currencies	877	620	1	6,281	-
Gains less losses from trading securities	49	-	-	156	-
Fee and commission income	381	183	59	2,933	711
Other operating income	-	-	-	-	34
Other operating expenses	(184)	-	-	(817)	-

During 2007 certain parties, which were treated as related as at 31 December 2006, ceased to be related. As at 31 December 2006 the Bank raised a provision for impairment in respect of these loans in the amount of UAH 12,404 thousand.

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

	Parent company	Share- holders	Key manage- ment personnel	Entities under control of shareholders and other related parties	Joint Ventures
<i>In thousands of Ukrainian hryvnias</i>					
Commitments to extend credit	-	-	2,469	59,470	-
Commitments to extend credit received from other banks	4,382,997	-	-	18,375	-
Import letters of credit (cash covered)	-	-	-	38,026	-
Import letters of credit (uncovered)	-	-	-	24,253	-
Guarantees issued (uncovered)	-	-	-	64	-
Promissory notes endorsements (uncovered)	-	-	-	594	-

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

	Parent company	Share- holders	Key manage- ment personnel	Entities under control of shareholders and other related parties	Joint Ventures
<i>In thousands of Ukrainian hryvnias</i>					
Amounts lent to related parties during the period	-	12	21,849	1,391,805	-
Amounts repaid by related parties during the period	-	76	15,351	2,351,437	-

35 Related Party Transactions (Continued)

Other transactions. During March and June 2007 BNP Paribas “Vostok” (formerly Commercial Bank “UkrSibbank” LLC (Russia)) received non-refundable financial aid from the parent company BNP Paribas SA. For the purposes of these consolidated financial statements this amount totalling UAH 36,185 thousand was recorded as additional capital.

In addition, in July 2007 the Bank sold 100% of shares in its subsidiary BNP Paribas Vostok Ltd. (Moscow, Russia) to its parent, BNP Paribas. As a result of this transaction, the Bank recorded a loss on disposal of UAH 9,933 thousand.

As at 31 December 2008 and 31 December 2007, the parent company and ultimate controlling party of the Bank was BNP Paribas (France).

During 2008, the remuneration of members of the Board of Directors comprised salaries, discretionary bonuses and other short-term benefits totalling to UAH 16,241 thousand (2007: UAH 26,822 thousand).

36 Principal Subsidiaries and Special Purpose Entities

As at 31 December 2007 the Bank consolidated the following subsidiaries:

Name	Nature of business	Country of registration	Percentage of legal ownership	
			31 December 2008	31 December 2007
Limited Liability Company “Ukrainian Leasing Company”	Leasing	Ukraine	100.00%	100.00%
Closed Joint-Stock Company “Asset Management Company “UkrSib Asset Management”	Asset management	Ukraine	99.94%	99.94%
“Closed Non-diversified Investment Fund UkrSib Stabilnii Investicii”	Asset management	Ukraine	99.88%	99.93%
Closed Joint-Stock Company “UkrSib Real Estate”	Rent and sale estate	Ukraine	99.74%	99.74%
Open Joint-Stock Company “UkrSib Fond Nedvigemosty”	Asset management	Ukraine	52.58%	41.08%

Closed Joint-Stock Company “UkrSib Real Estate” and Open Joint-Stock Company “UkrSib Fond Nedvigemosty” were created in 2006 to manage investor’s assets in investment building projects. In the first half of 2007 the Bank reestablished control over the business of Open Joint-Stock Company “Closed Non-diversified Corporate Investment UkrSib Fond Nedvigemosty” and Open Joint-Stock Company “Fund UkrSib Real Estate”. The Bank currently controls operations of these entities. Closed Joint-Stock Company “Asset Management Company “UkrSib Asset Management” obtained ultimate control over the Open Joint-Stock Company “UkrSib Fond Nedvigemosty” controlling 52.58%. The individual share of other shareholders of the company does not exceed 20%. In accordance with the investment memorandum and asset management agreement “UkrSib Asset Management” has the power to determine the operational policy of “UkrSib Fond Nedvigemosty”. Business planning of the activity of “UkrSib Fond Nedvigemosty” is done within the framework of the Bank’s business plan and “UkrSib Asset Management” business plan. In substance, “UkrSib Asset Management” has the power to make decisions in order to benefit from the activity of the investee. Refer to Note 37 - “Business Combinations”.

In 2007, the Bank with AXA created a joint venture (in common controllable activity of the insurance companies Closed Joint-Stock Insurance Company “Ukrainian Insurance Alliance” and Closed Joint-Stock Insurance Company “Vesko”). Investments of the Bank in joint ventures are determined using the equity method. Please refer to Note 12.

As at 31 December 2008 the Bank’s Management also consolidated three special purpose entities (“SPE”) disclosed below.

Name	Nature of business	Country of registration	Percentage of ownership directly held by the Bank	
			31 December 2008	31 December 2007
Limited Liability Company “UkrSib-Finance”	Finance	Ukraine	9.90%	9.90%
Limited Liability Company “Universal Leasing Company”	Leasing	Ukraine	9.09%	9.09%
MTN Finance plc	Finance	Great Britain	-	-

36 Principal Subsidiaries and Special Purpose Entities (Continued)

Limited Liability Company “UkrSib-Finance” and Limited Liability Company “Universal Leasing Company”, were created in 2003 and 2002 to serve as an integral part of the Bank’s business. The Bank finances and controls the operations of these Companies.

MTN Finance plc was established for the purpose of setting up the Programme for the Issuance of Loan Participation Notes. The given SPV acted as an issuer and issued loan participation notes on a limited recourse basis for the sole purpose of financing loans to Ukrsibbank. Ukrainian MTN Finance Plc is incorporated in England and Wales as a public company with limited liability under the Companies Act 1985.

The Bank does not consolidate SPEs that it does not control. As it can sometimes be difficult to determine whether the Bank does control an SPE, Management makes judgements about its exposure to the risks and rewards, as well as about its ability to make operational decisions for the SPE in question. In many instances, elements are present that, considered in isolation, indicate control or lack of control over an SPE, but when considered together make it difficult to reach a clear conclusion. In cases where more arguments are in place towards existence of control, the SPE is consolidated.

Were the Bank not to consolidate the assets, liabilities and the results of these consolidated SPEs, the net effect on the balance sheet would be a decrease in net assets by UAH 12,065 thousand (2007: decrease in net assets by UAH 10,712 thousand) and decrease in results by UAH 1,353 thousand (2007: decrease in results by UAH 11,090 thousand).

37 Business Combinations

Acquisitions during 2007. Due to the reinstatement of control over Closed Joint-Stock Company “UkrSib Real Estate” in 2007 it was included by the Bank in its consolidated financial statements as at and for the year ended 31 December 2007. The Bank’s share during the period ended 31 December 2007 totaled 99.74% of registered capital.

Due to the re-establishment of control over the activity of Open Joint-Stock Company “UkrSib Fond Nedvigimosty” in 2007 it was included by the Bank in its consolidated financial statements as at and for the year ended 31 December 2007. The Bank’s share during the period ended 31 December 2007 totaled 41.08% of the registered share capital. In second part of 2007 Open Joint-Stock Company “UkrSib Fond Nedvigimosty” issued ordinary shares. This caused additional increase of minority interest in share capital of UAH 4,256 thousand. During the year 2008, Closed Joint-Stock Company “Asset Management Company “Ukrsib Asset Management” obtained ultimate control over the Open Joint-Stock Company “UkrSib Fond Nedvigimosty”, controlling 52.58% as at 31 December 2008.

The details of assets and liabilities acquired are as follows:

<i>In thousands of Ukrainian hryvnias</i>	IFRS carrying amount immediately before business combination	Fair value
Cash and cash equivalents	27	27
Trading securities	3,020	3,020
Other assets	6	6
Other liabilities	(9)	(9)
Fair value of net assets of subsidiary	3,044	3,044
Less: minority interest	-	(1,885)
Less: interest acquired previously	-	-
Fair value of acquired interest in net assets of subsidiary	-	1,159
Excess of fair value of acquired interest in Bank’s share in net assets of subsidiary over the cost of investment	-	(14)
Total purchase consideration	-	1,145
Less: carrying amount of investment in the acquiree prior to the acquisition	-	(989)
Less: cash and cash equivalents in subsidiary acquired	-	(27)
Net outflow of cash and cash equivalents on acquisition	-	129

Disposals during 2007. In July 2007, a contract was signed with BNP Paribas for disposal of BNP Paribas Vostok Ltd. (NFT), the Bank’s Russian subsidiary. All shares (100 %) were sold in November 2007. Also management of the Bank signed a contract with AXA for the sale of 50 % plus 1 share in IC Ukrainian Insurance Alliance (UIA). Assets and liabilities disposed of are presented below:

<i>In thousands of Ukrainian hryvnias</i>	IFRS carrying amount immediately before sale-UIA	IFRS carrying amount immediately before sale -NFT	Total - IFRS carrying amount immediately before sale
Cash and cash equivalents	8,987	69,687	78,674
Securities	48,420	11,953	60,373
Loans	-	293,338	293,338
Other assets	9,422	54,520	63,942
Deferred tax assets	8,362	8,261	16,623
Reinsurer's share of provision	7,019	-	7,019
Due from other banks	110,660	-	110,660
Due to other banks	-	(330,038)	(330,038)
Customer accounts	-	(63,852)	(63,852)
Other liabilities	(22,276)	(33,911)	(56,187)
Insurance provisions	(179,738)	-	(179,738)
Goodwill	532	-	532
Net assets of subsidiary disposed	(8,612)	9,958	1,346
Profit/(loss) on disposal	96,937	(9,933)	87,004
Proceeds from sale discharged by cash	88,325	25	88,350
Total consideration received	88,325	25	88,350
consideration received in cash	88,325	25	88,350
Less: cash and cash equivalents in subsidiary disposed	(8,987)	(69,687)	(78,674)
Net cash inflow/(outflow) on sale	79,338	(69,662)	9,676

38 Subsequent Events

In February 2009, the general shareholders meeting approved the increase of equity of UkrSibbank by UAH 1,275,000 thousand, which was fully paid in by BNP Paribas. At the time of issue of these consolidated financial statements the share issue was not registered by the National Bank of Ukraine. As a result of this transaction BNP Paribas would increase its stake in the Bank to 62.83%.

On 19 January 2009 the Bank repaid domestic debt securities with the par value of UAH 50,000 thousand.

In February, the Fitch rating agency downgraded the Individual Rating for 5 Ukrainian banks with foreign capital including UkrSibbank. At the same time, the Moody's agency also lowered ratings of Ukraine and, consequently, of Ukrainian banks. According to the Fitch and the Moody's analysts, this downtrend was caused by UAH exchange rate fall, political uncertainty, and slump that intensified the liquidity risks and quality of assets putting high pressure on the capital. However, all ratings of the Bank are at the maximum possible level for the Ukrainian bank.

In March 2009 the Bank obtained re-financing from the NBU in the amount of UAH 620 000 thousand with the interest rate of 16.5 per cent p.a. maturing in March 2010.

In May 2009 the Bank repaid Syndicated loan with a par value of USD 250,000 thousand (UAH 1,905,875 thousand at the exchange rate at the time of repayment).

In April 2009 the Bank repaid two issues of Subordinated debt with a par value of USD 4,500 and 9,000 thousand (UAH 34,650 thousand and 69,300 thousand at the exchange rate at the time of repayment).

For the 3 month ended 31 March 2009, the aggregate balance on accounts of top 10 customers of the Bank decreased by UAH 716,390 thousand and amounted to UAH 2,386,881 thousand as at 31 March 2009. Decrease was attributed mainly to one customer, which made certain cash transfers as required for its business needs.

On 21 May 2009 Parliament of Ukraine approved the Law on protection of property rights of citizens during the period of Ukraine's overcoming the financial crisis. In accordance with the new Law, the Parliament imposed the moratorium on foreclosure of residential property of borrowers, which is used by them as the primary place of residence. The new Law will come into force only if after signed by the President of Ukraine.