

**Piraeus Bank ICB**

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

**31 December 2010**

## **CONTENTS**

### INDEPENDENT AUDITOR'S REPORT

### FINANCIAL STATEMENTS

Statement of Financial Position.....	1
Statement of Comprehensive Income .....	2
Statement of Changes in Equity.....	3
Statement of Cash Flows .....	4

### Notes to the Financial Statements

1	Introduction .....	5
2	Operating Environment of the Bank.....	6
3	Summary of Significant Accounting Policies .....	7
4	Critical Accounting Estimates, and Judgements in Applying Accounting Policies .....	14
5	Adoption of New or Revised Standards and Interpretations .....	16
6	New Accounting Pronouncements.....	19
7	Cash and Cash Equivalents and Mandatory Reserves.....	22
8	Loans and Advances to Customers .....	24
9	Investment Securities Available for Sale.....	31
10	Investment Properties.....	32
11	Premises, Equipment and Intangible Assets .....	33
12	Other Financial Assets.....	34
13	Other Assets .....	35
14	Due to Other Banks .....	36
15	Customer Accounts .....	36
16	Other Financial Liabilities.....	37
17	Other Liabilities .....	37
18	Subordinated Debt.....	37
19	Share Capital.....	38
20	Other Comprehensive Income Recognised in Each Component of Equity.....	39
21	Interest Income and Expense .....	40
22	Fee and Commission Income and Expense .....	40
23	Administrative and Other Operating Expenses .....	41
24	Income Taxes .....	41
25	Financial Risk Management .....	43
26	Management of Capital.....	55
27	Contingencies and Commitments .....	55
28	Derivative Financial Instruments.....	57
29	Fair Value of Financial Instruments .....	58
30	Presentation of Financial Instruments by Measurement Category .....	61
31	Related Party Transactions .....	63
32	Events After the End of the Reporting Period .....	65



## **INDEPENDENT AUDITOR'S REPORT**

To the Shareholders and Management Board of Public Joint Stock Company Piraeus Bank ICB:

- 1 We have audited the accompanying financial statements of Public Joint Stock Company Piraeus Bank ICB (the "Bank") which comprise the statement of financial position as of 31 December 2010 and the statements of comprehensive income, changes in equity and 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 financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

- 3 Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with 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 financial statements present fairly, in all material respects, the financial position of the Bank as of 31 December 2010, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

"\_\_" July 2011  
Kyiv, Ukraine

**Piraeus Bank ICB**  
**Statement of Financial Position as at 31 December 2010**

<i>In thousands of Ukrainian hryvnias</i>	Note	31 December 2010	31 December 2009
<b>ASSETS</b>			
Cash and cash equivalents and mandatory reserves	7	647,196	528,266
Loans and advances to customers	8	1,879,179	2,164,783
Investment securities available for sale	9	363,812	5,403
Investment properties	10	23,669	23,582
Current income tax prepayment		6,319	6,455
Deferred income tax asset	24	113,460	63,021
Intangible assets	11	7,238	5,880
Premises and equipment	11	202,810	205,719
Other financial assets	12	1,257	877
Other assets	13	34,014	70,528
<b>TOTAL ASSETS</b>		<b>3,278,954</b>	<b>3,074,514</b>
<b>LIABILITIES</b>			
Due to other banks	14	1,313,461	1,585,246
Customer accounts	15	1,312,114	720,220
Other financial liabilities	16	2,017	3,978
Other liabilities	17	5,803	4,973
Subordinated debt	18	401,594	399,609
<b>TOTAL LIABILITIES</b>		<b>3,034,989</b>	<b>2,714,026</b>
<b>EQUITY</b>			
Share capital	19	751,215	519,123
Paid in, but unregistered share capital	19	100,700	-
Additional capital		139,505	102,979
Revaluation reserve for available-for-sale securities		4,406	(277)
Revaluation reserve for premises and construction in progress		25,617	27,648
Accumulated deficit		(777,478)	(288,985)
<b>TOTAL EQUITY</b>		<b>243,965</b>	<b>360,488</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>3,278,954</b>	<b>3,074,514</b>

Approved for issue and signed on behalf of the Management Board on \_\_\_\_\_ 2011.

\_\_\_\_\_  
Vyacheslav Koval  
Acting Chairman of the Board

\_\_\_\_\_  
Tatyana Vasilyeva  
Chief Accountant

**Piraeus Bank ICB**  
**Statement of Comprehensive Income for the Year Ended 31 December 2010**

<i>In thousands of Ukrainian hryvnias</i>	<b>Note</b>	<b>2010</b>	<b>2009</b>
Interest income	21	283,074	331,725
Interest expense	21	(215,123)	(144,703)
<b>Net interest income</b>		<b>67,951</b>	<b>187,022</b>
Provision for loan impairment		(403,518)	(290,594)
<b>Net interest margin after provision for loan impairment</b>		<b>(335,567)</b>	<b>(103,572)</b>
Fee and commission income	22	20,040	20,386
Fee and commission expense	22	(4,671)	(3,496)
Losses less gains from financial derivatives	28	(591)	(15,220)
Gains less losses from trading in foreign currencies		4,694	7,346
Foreign exchange translation losses net of gains		(15,140)	(2,345)
Impairment of investment securities available for sale		-	(7)
Losses less gains from disposals of investment securities available for sale	9	(63)	(33)
Losses less gains on revaluation of investment properties	10	(493)	(368)
Other operating income		15,323	1,747
Administrative and other operating expenses	23	(214,875)	(208,566)
<b>Loss before tax</b>		<b>(531,343)</b>	<b>(304,128)</b>
Income tax credit	24	42,219	72,086
<b>LOSS FOR THE YEAR</b>		<b>(489,124)</b>	<b>(232,042)</b>
<b>Other comprehensive income:</b>			
Available-for-sale investments:			
- Gains less losses arising during the year		5,552	1,030
- Reclassification adjustments for losses less gains included in profit or loss		63	33
Revaluation of premises	11	(2,754)	(7,139)
Income tax recorded directly in other comprehensive income	24	(716)	1,519
Tax effect of change in income tax rate	24	1,138	-
<b>Other comprehensive income /( loss) for the year</b>		<b>3,283</b>	<b>(4,557)</b>
<b>TOTAL COMPREHENSIVE LOSS FOR THE YEAR</b>		<b>(485,841)</b>	<b>(236,599)</b>

**Piraeus Bank ICB**  
**Statement of Changes in Equity for the Year Ended 31 December 2010**

	Note	Share capital	Unregistered share capital	Additional capital	Revaluation reserve for available-for-sale securities	Revaluation reserve for premises and construction in progress	Accumulated deficit	Total equity
<i>In thousands of Ukrainian hryvnias</i>								
<b>Balance at 31 December 2008</b>		<b>409,123</b>	<b>-</b>	<b>64,479</b>	<b>(1,074)</b>	<b>33,573</b>	<b>(57,514)</b>	<b>448,587</b>
Loss for the year		-	-	-	-	-	(232,042)	(232,042)
Other comprehensive income/(loss) for the year	20	-	-	-	797	(5,354)	-	(4,557)
Total comprehensive income/(loss) for 2009		-	-	-	797	(5,354)	(232,042)	(236,599)
Gain on initial recognition of financing obtained from the parent company at rates below market	14	-	-	51,333	-	-	-	51,333
Income tax recorded in equity	24	-	-	(12,833)	-	-	-	(12,833)
Share issue	19	110,000	-	-	-	-	-	110,000
Transfer of revaluation surplus on premises to retained earnings		-	-	-	-	(571)	571	-
<b>Balance at 31 December 2009</b>		<b>519,123</b>	<b>-</b>	<b>102,979</b>	<b>(277)</b>	<b>27,648</b>	<b>(288,985)</b>	<b>360,488</b>
Loss for the year		-	-	-	-	-	(489,124)	(489,124)
Other comprehensive income/(loss) for the year	20	-	-	-	4,683	(1,400)	-	3,283
Total comprehensive income/(loss) for 2010		-	-	-	4,683	(1,400)	(489,124)	(485,841)
Gain on initial recognition of financing obtained from the parent company at rates below market	14	-	-	28,772	-	-	-	28,772
Income tax recorded in equity	24	-	-	(7,193)	-	-	-	(7,193)
Tax effect of change in income tax rate	24	-	-	14,947	-	-	-	14,947
Share issue	19	232,092	-	-	-	-	-	232,092
Paid-in, but unregistered share capital		-	100,700	-	-	-	-	100,700
Transfer of revaluation surplus on premises to retained earnings		-	-	-	-	(631)	631	-
<b>Balance at 31 December 2010</b>		<b>751,215</b>	<b>100,700</b>	<b>139,505</b>	<b>4,406</b>	<b>25,617</b>	<b>(777,478)</b>	<b>243,965</b>

**Piraeus Bank ICB**  
**Statement of Cash Flows for the Year Ended 31 December 2010**

<i>In thousands of Ukrainian hryvnias</i>	<b>Note</b>	<b>2010</b>	<b>2009</b>
<b>Cash flows from operating activities</b>			
Interest received		151,350	159,009
Interest paid		(132,246)	(106,286)
Fees and commissions received		20,042	20,291
Fees and commissions paid		(4,671)	(3,496)
Expense paid in respect of financial derivatives		(1,400)	(14,876)
Income received from trading in foreign currencies		4,694	7,346
Other operating income received		15,466	1,790
Staff costs paid		(87,129)	(80,496)
Administrative and other operating expenses paid		(93,900)	(75,568)
Income tax refunded/ (paid)		92	(7,853)
<b>Cash flows used in operating activities before changes in operating assets and liabilities</b>		<b>(127,702)</b>	<b>(100,139)</b>
Net decrease in mandatory reserve balances		32,579	1,694
Net decrease in due from other banks		-	11,739
Net increase) in loans and advances to customers		(6,295)	(147,952)
Net increase in other financial assets		(7,907)	(483)
Net decrease in other assets		36,667	63
Net decrease in due to other banks		(309,817)	(62,315)
Net increase in customer accounts		585,951	217,827
Net increase in other financial liabilities		354	1,357
<b>Net cash from/(used in) operating activities</b>		<b>203,830</b>	<b>(78,209)</b>
<b>Cash flows from investing activities</b>			
Acquisition of investment securities available for sale	9	(6,286,106)	(607,198)
Proceeds from disposal and redemption of investment securities available for sale	9	5,933,539	608,684
Acquisition of premises and equipment		(25,116)	(49,747)
Proceeds from disposal of premises and equipment		619	1,440
Acquisition of intangible assets	11	(2,639)	(2,777)
<b>Net cash used in investing activities</b>		<b>(379,703)</b>	<b>(49,598)</b>
<b>Cash flows from financing activities</b>			
Proceeds from subordinated debt	18	-	398,499
Repayment of due to the NBU		-	(2,398)
Issue of ordinary shares	19	232,092	110,000
Contributions into unregistered share capital	19	100,700	
<b>Net cash from financing activities</b>		<b>332,792</b>	<b>506,101</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b>		<b>(5,410)</b>	<b>10,723</b>
<b>Net increase in cash and cash equivalents</b>		<b>151,509</b>	<b>389,017</b>
Cash and cash equivalents at the beginning of the year		480,058	91,041
<b>Cash and cash equivalents at the end of the year</b>		<b>631,567</b>	<b>480,058</b>

The notes set out on pages 5 to 64 form an integral part of these financial statements.

## **1 Introduction**

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) for the year ended 31 December 2010 for Public Joint Stock Company "Piraeus Bank ICB" (the "Bank").

The Bank was incorporated and is domiciled in Ukraine. The Bank is a public joint stock company limited by shares and was set up in accordance with Ukrainian regulations. The Bank was founded as an open joint stock company under the laws of Ukraine and registered by the National Bank of Ukraine (the "NBU") in January 1994 under its previous name Bank Levada. In March 1999 the Bank changed its name to OJSC International Commerce Bank. In September 2007 Piraeus Bank S.A., Athens completed the process of acquisition of 99,6% of International Commerce Bank's share capital. In March 2008 the Bank's name was changed to OJSC "Piraeus Bank ICB". In March 2010 the Bank was re-registered as a public joint stock company in accordance with the requirements of the Law of Ukraine "On Joint Stock Companies" and changed its name to Public Joint Stock Company "Piraeus Bank ICB". As of 31 December 2010 and 2009 the Bank's immediate and ultimate parent company was Piraeus Bank S.A., Athens. Piraeus Bank S.A. is a public company, no shareholder (either individual or corporate) owns directly or indirectly more than 5% of its ordinary shares and there are no ordinary shares that provide their holders with any special control rights.

**Principal activity.** The Bank's principal business activity is commercial and retail banking operations within Ukraine. The Bank has operated under a full banking licence issued by the NBU since February 1994. The Bank participates in the state deposit insurance scheme (registration No. 025), which operates according to the Law №2740-III "On Individuals Deposits Guarantee Fund" dated 20 September 2001 (as amended). Individuals Deposits Guarantee Fund guarantees repayment of individual deposits up to UAH 150 thousand (2009: UAH 150 thousand) per individual in case bank liquidation procedure is started.

The Bank has 53 outlets (2009: 53 outlets) within Ukraine.

**Registered address and place of business.** The Bank's registered address is:

4, Contractova Square  
Kyiv, 04070  
Ukraine

The Bank's main place of business is:

8 Illinska Str, block 7,  
Kyiv, 04070,  
Ukraine.

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

## **2 Operating Environment of the Bank**

Ukraine displays certain characteristics of an emerging market, including but not limited to, the existence of a currency that is not freely convertible outside of Ukraine, restrictive currency controls, relatively high inflation and high interest rates.

The recent global financial crisis has had a severe effect on the Ukrainian economy and the financial situation in the Ukrainian financial and corporate sectors significantly deteriorated since mid-2008. In 2010, the Ukrainian economy experienced a moderate recovery of economic growth. The recovery was accompanied by lower refinancing rates, stabilisation of the exchange rate of the Ukrainian hryvnia against major foreign currencies, and increased money market liquidity levels.

The tax, currency and customs legislation within Ukraine is subject to varying interpretations and frequent changes (Note 24). The need for further developments in the bankruptcy laws, formalised procedures for the registration and enforcement of collateral, and other legal and fiscal impediments continue to contribute to the challenges faced by banks operating in Ukraine.

On 2 December 2010, the Ukrainian Parliament adopted the new Tax Code. The Tax Code became effective from 1 January 2011, with the Corporate Profits Tax section coming into effect from 1 April 2011. Among the main changes, the Tax Code provides for the significant reduction of the corporate tax rate: 23% for 1 April -31 December 2011, 21% for 2012, 19% for 2013, and 16% from 2014 onwards.

The Tax Code also introduced new approaches to the determination of revenue and costs, new tax depreciation rules for fixed assets and intangibles, new approach to recognition of foreign exchange differences, which now became more close to the financial accounting rules.

The new tax rules have not yet been tested in practice nor confirmed by interpretation given in courts or by the tax authorities. Therefore, at the moment their interpretation and practical application remains unclear.

The future economic direction of Ukraine is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory and political developments.

Borrowers of the Bank were adversely affected by the financial and economic environment, which in turn impacted 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 a significant impact on borrowers' ability to service the loans. Deteriorating economic conditions for borrowers were reflected in revised estimates of expected future cash flows in impairment assessments.

The amount of provision for impaired loans is based on management's appraisals of these assets at the end of the reporting period 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 volatile global financial markets, resulting in a low level of liquidity for certain types of assets. In some cases the Bank has also experienced unforeseeable delays in recovering collateral. As a result, the actual realisable value on future foreclosure may differ from the value ascribed in estimating allowances for impairment at the end of the reporting period.

Management determined loan impairment provisions by considering the economic situation and outlook at the end of the reporting period and applied the 'incurred loss' model required by the applicable accounting standards. These standards require recognition of impairment losses that arose from past events and prohibit recognition of impairment losses that could arise from future events, no matter how likely those future events are. Refer to Note 4.

Management is unable to predict all developments which could have an impact on the banking sector and wider economy and consequently what effect, if any, they could have on the future financial position of the Bank. Management believes it is taking all the necessary measures to support the sustainability and development of the Bank's business.

### **3 Summary of Significant Accounting Policies**

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

**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.

In other than active markets, the most recent arms length transactions are the basis of current fair values. Recent transaction prices are appropriately adjusted if they do not reflect current fair values, for example because the transaction was a distress sale. Fair value is not the amount that an entity would receive or pay in a forced transaction, involuntary liquidation or distress sale.

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

*Cost* is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition and includes transaction costs. Measurement at cost is only applicable to investments in equity instruments that do not have a quoted market price and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments. Refer to Note 9.

*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 items in the statement of financial position.

### **3 Summary of Significant Accounting Policies (Continued)**

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

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

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

**Derecognition of financial assets.** The 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, beyond overnight placements, are included in due from other banks. Amounts, which relate to funds that are of a restricted nature, are excluded from cash and cash equivalents. Cash and cash equivalents include cash on hand, unrestricted demand and overnight deposits with central and other banks. Cash and cash equivalents are carried at amortised cost.

**Mandatory cash balances with the NBU.** Mandatory cash balances with the NBU are carried at amortised cost and represent interest bearing and non-interest bearing mandatory reserve deposits 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 cash flow statement.

**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.

### **3 Summary of Significant Accounting Policies (Continued)**

**Impairment of financial assets carried at amortised cost.** Impairment losses are recognised in profit or loss for the year 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 in determining whether a financial asset is impaired are its overdue status and realisability of related collateral, if any.

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

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

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

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

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

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

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

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 profit or loss for the year.

**Credit related commitments.** The Bank enters into credit related commitments, including commitments to extend credit, letters of credit and financial guarantees. Financial guarantees represent irrevocable assurances to make payments in the event that a customer cannot meet its obligations to third parties and carry the same credit risk as loans. Financial guarantees and commitments to provide a loan are initially recognised at their fair value, which is normally evidenced by the amount of fees received.

### **3 Summary of Significant Accounting Policies (Continued)**

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 the end of each reporting period, 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 end of each reporting period.

**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 for the year. Dividends on available-for-sale equity instruments are recognised in profit or loss for the year 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 recognised in other comprehensive income until the investment is derecognised or impaired, at which time the cumulative gain or loss is reclassified from other comprehensive income to profit or loss for the year.

Impairment losses are recognised in profit or loss for the year 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 reclassified from other comprehensive income to profit or loss for the year. Impairment losses on equity instruments are not reversed and any subsequent gains are recognised in other comprehensive income. 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 profit or loss for the year.

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

Investment property is initially recognised at cost, including transaction costs, and subsequently remeasured at fair value updated to reflect market conditions at the end of the reporting period. Fair value of investment property is the price at which the property could be exchanged between knowledgeable, willing parties in an arm's length transaction. A "willing seller" is not a forced seller prepared to sell at any price. The best evidence of fair value is given by current prices in an active market for similar property in the same location and condition. In the absence of current prices in an active market, the Bank considers information from a variety of sources, including:

- (a) current prices in an active market for properties of different nature, condition or location, adjusted to reflect those differences;
- (b) recent prices of similar properties on less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices; and
- (c) discounted cash flow projections based on reliable estimates of future cash flows, supported by the terms of any existing lease and other contracts and (when possible) by external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

Market value of the Bank's investment property is determined based on reports of independent appraisers, who hold a recognised and relevant professional qualification and who have recent experience in valuation of property of similar location and category.

Investment property that is being developed or redeveloped for use as investment property is also measured at fair value.

### **3 Summary of Significant Accounting Policies (Continued)**

Earned rental income is recorded in profit or loss for the year within other operating income. Gains and losses resulting from changes in the fair value of investment property are recorded in profit or loss for the year and presented separately.

Subsequent expenditure is capitalised to the asset's carrying amount only when it is probable that future economic benefits associated with the expenditure will flow to the Bank and the cost can be measured reliably. All other repairs and maintenance costs are expensed when incurred.

**Premises and equipment.** Premises and equipment are stated at cost, restated to the equivalent purchasing power of the Ukrainian hryvnia at 31 December 2000 for assets acquired prior to 1 January 2001, or revalued amounts, as described below, less accumulated depreciation and provision for impairment, where required.

Premises are subject to revaluation with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Increases in the carrying amount arising on revaluation are credited to other comprehensive income and increase the revaluation surplus in equity. Decreases that offset previous increases of the same asset are recognised in other comprehensive income and decrease the previously recognised revaluation surplus in equity; all other decreases are charged to profit or loss for the year. The revaluation reserve for premises and equipment included in equity is transferred directly to accumulated deficit when the revaluation surplus is realised on the retirement or disposal of the asset, or as the asset is used by the Bank; in the latter case, the amount of the surplus realised is the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost. At the date of revaluation accumulated depreciation is eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

Management has updated the carrying value of land and buildings measured in accordance with the revaluation model as at the end of the reporting period using market based evidence and is satisfied that sufficient market based evidence of fair value is available to support the updated fair values.

Construction in progress is carried at revalued amounts, as described above. Construction in progress is not depreciated until the asset is available for use.

All other items of premises and equipment are stated at cost less accumulated depreciation and impairment losses, if any.

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

At the end of each reporting period 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 profit or loss for the year to the extent it exceeds the previous revaluation surplus in equity. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in profit or loss for the year (within other operating income or expenses).

**Depreciation.** Land and construction in progress are not depreciated. Depreciation on other items of premises and equipment is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives:

	<u>Useful lives in years</u>
Premises	50
Motor vehicles	7
Computers and office equipment	4 to 6
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 the end of each reporting period.

### **3 Summary of Significant Accounting Policies (Continued)**

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

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring them to use.

Development costs that are directly associated with identifiable and unique software controlled by the Bank are recorded as intangible assets if an inflow of incremental economic benefits exceeding costs is probable. Capitalised costs include staff costs of the software development team and an appropriate portion of relevant overheads. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred. Capitalised computer software is amortised on a straight line basis over expected useful lives of 4 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 are charged to profit or loss for the year on a straight-line basis over the period of the lease.

When assets are leased out under an operating lease, the lease payments receivable are recognised as rental income on a straight-line basis over the lease term.

**Repossessed collateral.** Repossessed collateral represents financial and non-financial assets acquired by the Bank in settlement of overdue loans. The assets are initially recognised at fair value when acquired and included in property and equipment, other financial assets or other assets depending on their nature and the Bank's intention in respect of recovery of these assets and are subsequently remeasured and accounted for in accordance with the accounting policies for these categories of assets.

**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, the liability is removed from the balance sheet and the difference between the carrying amount of the liability and the consideration paid is included in gains or losses arising from early retirement of debt.

**Customer accounts.** Customer accounts are non-derivative liabilities to individuals, state or corporate customers and 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 currency swaps, 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 for the year. The Bank does not apply hedge accounting.

**Income taxes.** Income taxes have been provided for in the financial statements in accordance with legislation enacted or substantively enacted by the end of the reporting period. The income tax charge or credit comprises current tax and deferred tax and is recognised in profit or loss for the year except if it is recognised in other comprehensive income or directly in equity because it relates to transactions that are also recognised, in the same or a different period, in other comprehensive income or directly in equity.

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

### **3 Summary of Significant Accounting Policies (Continued)**

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 balances are measured at tax rates enacted or substantively enacted at the end of the reporting period 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 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.

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

**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 has performed its obligations under the contract and are carried at amortised cost.

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

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

**Income and expense recognition.** Interest income and expense are recorded 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 the present value of expected cash inflows and interest income is thereafter recorded for the unwinding of the present value discount based on the asset's effective interest rate which was used to measure the impairment loss.

All other fees, commissions and other income and expense items are generally recorded on an accrual basis by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

### **3 Summary of Significant Accounting Policies (Continued)**

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

Monetary assets and liabilities are translated into the Bank's functional currency at the official exchange rate of the NBU at the end of the respective reporting period. Foreign exchange gains and losses resulting from the settlement of transactions and from the translation of monetary assets and liabilities into the Bank's functional currency at year-end official exchange rates of the NBU are recognised in profit or loss for the year. Translation at year-end rates does not apply to non-monetary items that are measured at historical cost. Non-monetary items measured at fair value in a foreign currency, including equity investments, are translated using the exchange rates at the date when the fair value was determined. Effects of exchange rate changes on non-monetary items measured at fair value in a foreign currency are recorded as part of the fair value gain or loss.

At 31 December 2010 the principal rates of exchange used for translating foreign currency balances were as follows:

	<b>31 December 2010, UAH</b>	<b>31 December 2009, UAH</b>
1 US Dollar (USD)	7.961700	7.985000
1 Euro (EUR)	10.573138	11.448893
1 Russian Ruble (RUB)	0.261240	0.264020

**Fiduciary assets.** Assets held by the Bank in its own name, but on the account of third parties, are not reported in the statement of financial position. 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 statement of financial position only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

**Staff costs and related contributions.** Wages, salaries, contributions to the Ukrainian state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits are accrued in the year in which the associated services are rendered by the employees of the Bank. The Bank has no legal or constructive obligation to make pension or similar benefit payments other than the payments to the statutory defined contribution scheme.

### **4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies**

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

**Impairment losses on loans and advances.** The Bank regularly reviews its loan portfolios to assess impairment. In determining whether an impairment loss should be recorded in profit or loss for the year, the Bank makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group.

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

Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. A 10% increase or decrease in actual loss experience compared to the loss estimates used would result in an increase or decrease in loan impairment losses of UAH 6,954 thousand (2009: UAH 5,357 thousand), respectively. Impairment losses for individually significant loans are based on estimates of discounted future cash flows of the individual loans, taking into account repayments and realisation of any assets held as collateral against the loans. A 10% increase or decrease in the actual loss experience compared to the estimated future discounted cash flows from individually significant loans, which could arise from differences in amounts and timing of the cash flows, would result in an increase in loan impairment losses of UAH 59,383 thousand or decrease in loan impairment losses of UAH 82,223 thousand (2009: increase or decrease of UAH 43,884 thousand), respectively.

**Tax legislation.** Ukrainian tax, currency and customs legislation is subject to varying interpretations. Refer to Note 27.

**Deferred income tax asset recognition.** The recognised deferred tax asset in the amount of UAH 113,460 thousand (31 December 2009: UAH 63,021 thousand) represents income taxes recoverable through future deductions from taxable profits and is recorded in the statement of financial position. 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 4-year business plan prepared by management and extrapolated results thereafter. The business plan and extrapolated results are based on management expectations that are believed to be reasonable under the circumstances. Key assumptions in the management expectations include continuing stabilisation of the economy of Ukraine together with the recovery of the whole banking sector's profitability in 2011 or early 2012, as well as gradual decline in interest rates (on loans and funding), considerable growth in loan portfolio and reduced loan loss provisions due to the expected improvement in the economy and further enhancement of cost-control. Taking into account planned future profits and the fact that current Ukrainian tax legislation does not place limits on the term of utilization of tax losses carried forward, management believes that it is appropriate to recognise the deferred tax asset.

**Initial recognition of related party transactions.** In the normal course of business the Bank enters into transactions with its related parties. IAS 39 requires initial recognition of financial instruments based on their fair values. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analysis. Terms and conditions of related party balances are disclosed in Note 31. As disclosed in Note 14, during 2010 a gain on initial recognition of financing obtained from the parent company at rates below market in the amount of UAH 28,772 thousand (2009: UAH 51,333 thousand) net of deferred tax effect of UAH 7,193 thousand (2009: UAH 12,833 thousand) has been recorded directly in equity as additional capital.

**Fair value of premises and construction in progress and investment property.** As stated in Note 3, premises and construction in progress and investment property of the Bank are subject to revaluation on a regular basis. Such revaluations are based on the results of work of independent valuers. The basis for their work is a sales comparison approach. When performing a revaluation, certain judgements and estimates are applied by the valuers in determination of the comparative premises to be used in a sales comparison approach. Changes in assumptions about these factors could affect reported fair values. The valuation was based on comparative sales of premises with the price per square meter varying from UAH 2,674 to UAH 62,870 (2009: from UAH 2,935 to UAH 78,671) for premises and from UAH 3,036 to UAH 65,043 (2009: from UAH 21,785 to UAH 65,684) for investment property, depending upon the location of premises. To the extent that the price per square meter differs by +/-5 percent, the fair value would be UAH 4,346 thousand higher or UAH 4,346 thousand lower (2009: UAH 4,596 thousand higher or UAH 4,596 thousand lower) for premises and UAH 1,184 thousand higher or UAH 1,184 thousand lower (2009: UAH 1,179 thousand higher or UAH 1,179 thousand lower) for investment property.

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

**Valuation of repossessed collateral.** The repossessed collateral held by the Bank represents real estate assets that were included in other assets based on the Bank's intention to recover these assets through their subsequent sale. As such, these assets were initially recognised at fair value when acquired and subsequently measured at the lower of cost and their net realisable value. The estimates of net realisable value are based on the results of work of independent valuers. The basis for their work is a sales comparison approach and certain judgements and estimates are applied by the valuers in determination of the comparative premises to be used in a sales comparison approach. Changes in assumptions about these factors could affect reported carrying values of the repossessed collateral. The estimated net realisable value was based on comparative sales of premises with the price per square meter varying from UAH 9,752 to UAH 16,409 (2009: from UAH 8,481 to UAH 20,862), depending upon the location of premises. To the extent that the price per square meter differs by +/-5 percent, the net realisable value of premises would be UAH 1,444 thousand higher or UAH 1,444 thousand lower (2009: UAH 3,401 thousand higher or UAH 3,401 thousand lower).

**Classification of amounts received from shareholders as equity.** As disclosed in Note 19, amounts received from the Bank's existing shareholders of UAH 100,700 thousand as payment for new shares issued, were classified as equity in the financial statements as at 31 December 2010. Major factors taken into account by management in making judgement on classification of these amounts as equity rather than liability, are as follows:

- the share sale/purchase contracts are for sale of fixed number of the Bank's shares in exchange for fixed amount of cash in the Bank's functional currency;
- the contingent settlement (return of cash received) is considered as event extremely rare, highly abnormal and very unlikely to occur;
- as at 31 December 2010 the new share issue was being registered with respective authorities and the registration process was completed on 12 January 2011; and
- return of contributed cash to any shareholder who would like to withdraw from the capital increase is subject to an approval by a general meeting of shareholders.

#### **5 Adoption of New or Revised Standards and Interpretations**

##### **(a) Standards effective for annual periods beginning on or after 1 January 2010**

The following new standards and interpretations became effective for the Bank from 1 January 2010:

**IFRIC 17, Distributions of Non-Cash Assets to Owners** (effective for annual periods beginning on or after 1 July 2009). The interpretation clarifies when and how distribution of non-cash assets as dividends to the owners should be recognised. An entity should measure a liability to distribute non-cash assets as a dividend to its owners at the fair value of the assets to be distributed. A gain or loss on disposal of the distributed non-cash assets should be recognised in profit or loss when the entity settles the dividend payable. IFRIC 17 did not have an impact on these financial statements.

**IFRIC 18, Transfers of Assets from Customers** (effective for annual periods beginning on or after 1 July 2009). The interpretation clarifies the accounting for transfers of assets from customers, namely, the circumstances in which the definition of an asset is met; the recognition of the asset and the measurement of its cost on initial recognition; the identification of the separately identifiable services (one or more services in exchange for the transferred asset); the recognition of revenue, and the accounting for transfers of cash from customers. IFRIC 18 did not have an impact on these 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 requires 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 previous standard required 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 has to be measured at its fair value. The revised IAS 27 did not have an impact on these financial statements.

## **5 Adoption of New or Revised Standards and Interpretations (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 allows entities to choose to measure non-controlling interests using the previous 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 has 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 for the year. Acquisition-related costs are accounted for separately from the business combination and therefore recognised as expenses rather than included in goodwill. An acquirer has to recognise a liability for any contingent purchase consideration at the acquisition date. Changes in the value of that liability after the acquisition date are 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 revised IFRS 3 did not have an impact on these financial statements.

**Group Cash-settled Share-based Payment Transactions - Amendments to IFRS 2, Share-based Payment (effective for annual periods beginning on or after 1 January 2010)**. The amendments provide a clear basis to determine the classification of share-based payment awards in both consolidated and separate financial statements. The amendments incorporate into the standard the guidance in IFRIC 8 and IFRIC 11, which are withdrawn. The amendments expand on the guidance given in IFRIC 11 to address plans that were previously not considered in the interpretation. The amendments also clarify the defined terms in the Appendix to the standard. The amendments did not have an impact on these financial statements.

**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). The amendment clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation should be applied in particular situations. The amendment did not have an impact on these financial statements.

**IFRS 1, First-time Adoption of International Financial Reporting Standards** (following an amendment in December 2008, effective for the first IFRS financial statements for a period beginning on or after 1 July 2009). The revised IFRS 1 retains the substance of its previous version but within a changed structure in order to make it easier for the reader to understand and to better accommodate future changes. The revised standard did not have an impact on these financial statements.

**Additional Exemptions for First-time Adopters - Amendments to IFRS 1, First-time Adoption of IFRS** (effective for annual periods beginning on or after 1 January 2010). The amendments exempt entities using the full cost method from retrospective application of IFRSs for oil and gas assets and also exempt entities with existing leasing contracts from reassessing the classification of those contracts in accordance with IFRIC 4, 'Determining Whether an Arrangement Contains a Lease' when the application of their national accounting requirements produced the same result. The amendments did not have an impact on these financial statements.

## **5 Adoption of New or Revised Standards and Interpretations (Continued)**

**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 for the year 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. In addition, the amendments clarifying classification as held for sale under IFRS 5 in case of a loss of control over a subsidiary published as part of the *Annual Improvements to International Financial Reporting Standards*, which were issued in May 2008, are effective for annual periods beginning on or after 1 July 2009. The amendments did not have a material impact on these financial statements.

### **(b) Amendments to standards adopted before their effective date**

The Bank adopted the amendment to IAS 1, *Presentation of Financial Statements*, which was issued in May 2010 as part of the Annual Improvements to International Financial Reporting Standards.

The amendment clarifies the requirements for the presentation and content of the statement of changes in equity. A reconciliation between the carrying amount at the beginning and the end of the period for each component of equity must be presented in the statement of changes in equity, but its content is simplified by allowing an analysis of other comprehensive income by item for each component of equity to be presented in the notes.

Unless otherwise stated above, the amendments and interpretations did not have any significant effect on the Bank's financial statements.

## **6 New Accounting Pronouncements**

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2011 or later and which the Bank has not early adopted.

**Classification of Rights Issues - Amendment to IAS 32** (issued 8 October 2009; effective for annual periods beginning on or after 1 February 2010). The amendment exempts certain rights issues of shares with proceeds denominated in foreign currencies from classification as financial derivatives. The amendments will not have any impact on the Bank's financial statements.

**Amendment to IAS 24, Related Party Disclosures** (issued in November 2009 and effective for annual periods beginning on or after 1 January 2011). IAS 24 was revised in 2009 by: (a) simplifying the definition of a related party, clarifying its intended meaning and eliminating inconsistencies; and by (b) providing a partial exemption from the disclosure requirements for government-related entities. The Bank does not expect the amendments to have any material effect on its financial statements.

**IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments** (effective for annual periods beginning on or after 1 July 2010). This IFRIC clarifies the accounting when an entity renegotiates the terms of its debt with the result that the liability is extinguished through the debtor issuing its own equity instruments to the creditor. A gain or loss is recognised in profit or loss based on the fair value of the equity instruments compared to the carrying amount of the debt. IFRIC 19 is not expected to have any impact on the Bank's financial statements.

**Prepayments of a Minimum Funding Requirement – Amendment to IFRIC 14** (effective for annual periods beginning on or after 1 January 2011). This amendment will have a limited impact as it applies only to companies that are required to make minimum funding contributions to a defined benefit pension plan. It removes an unintended consequence of IFRIC 14 related to voluntary pension prepayments when there is a minimum funding requirement. The amendments will not have any impact on the Bank's financial statements.

**Limited exemption from comparative IFRS 7 disclosures for first-time adopters - Amendment to IFRS 1** (effective for annual periods beginning on or after 1 July 2010). Existing IFRS preparers were granted relief from presenting comparative information for the new disclosures required by the March 2009 amendments to IFRS 7, *Financial Instruments: Disclosures*. This amendment to IFRS 1 provides first-time adopters with the same transition provisions as included in the amendment to IFRS 7. The Bank does not expect the amendments to have any effect on its financial statements.

**IFRS 9, Financial Instruments Part 1: Classification and Measurement.** IFRS 9 issued in November 2009 replaces those parts of IAS 39 relating to the classification and measurement of financial assets. IFRS 9 was further amended in October 2010 to address the classification and measurement of financial liabilities. Key features of the standard are as follows:

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.
- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent only payments of principal and interest (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.
- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated as at fair value through profit or loss in other comprehensive income.

## **6 New Accounting Pronouncements (Continued)**

While adoption of IFRS 9 is mandatory from 1 January 2013, earlier adoption is permitted. The Bank is considering the implications of the standard, the impact on the Bank and the timing of its adoption by the Bank.

**Disclosures—Transfers of Financial Assets – Amendments to IFRS 7** (issued in October 2010 and effective for annual periods beginning on or after 1 July 2011). The amendment requires additional disclosures in respect of risk exposures arising from transferred financial assets. The amendment includes a requirement to disclose by class of asset the nature, carrying amount and a description of the risks and rewards of financial assets that have been transferred to another party yet remain on the entity's statement of financial position. Disclosures are also required to enable a user to understand the amount of any associated liabilities, and the relationship between the financial assets and associated liabilities. Where financial assets have been derecognised but the entity is still exposed to certain risks and rewards associated with the transferred asset, additional disclosure is required to enable the effects of those risks to be understood. The Bank is currently assessing the impact of the amended standard on disclosures in its financial statements. The amendment is not expected to have any impact on the Bank's financial statements.

**Improvements to International Financial Reporting Standards** (issued in May 2010 and effective from 1 January 2011). The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: IFRS 1 was amended (i) to allow previous GAAP carrying value to be used as deemed cost of an item of property, plant and equipment or an intangible asset if that item was used in operations subject to rate regulation, (ii) to allow an event driven revaluation to be used as deemed cost of property, plant and equipment even if the revaluation occurs during a period covered by the first IFRS financial statements and (iii) to require a first-time adopter to explain changes in accounting policies or in the IFRS 1 exemptions between its first IFRS interim report and its first IFRS financial statements; IFRS 3 was amended (i) to require measurement at fair value (unless another measurement basis is required by other IFRS standards) of non-controlling interests that are not present ownership interest or do not entitle the holder to a proportionate share of net assets in the event of liquidation, (ii) to provide guidance on acquiree's share-based payment arrangements that were not replaced or were voluntarily replaced as a result of a business combination and (iii) to clarify that the contingent considerations from business combinations that occurred before the effective date of revised IFRS 3 (issued in January 2008) will be accounted for in accordance with the guidance in the previous version of IFRS 3; IFRS 7 was amended to clarify certain disclosure requirements, in particular (i) by adding an explicit emphasis on the interaction between qualitative and quantitative disclosures about the nature and extent of financial risks, (ii) by removing the requirement to disclose carrying amount of renegotiated financial assets that would otherwise be past due or impaired, (iii) by replacing the requirement to disclose fair value of collateral by a more general requirement to disclose its financial effect, and (iv) by clarifying that an entity should disclose the amount of foreclosed collateral held at the reporting date and not the amount obtained during the reporting period; IAS 1 was amended to clarify the requirements for the presentation and content of the statement of changes in equity: a reconciliation between the carrying amount at the beginning and the end of the period for each component of equity must be presented in the statement of changes in equity, but its content is simplified by allowing an analysis of other comprehensive income by item for each component of equity to be presented in the notes; IAS 27 was amended by clarifying the transition rules for amendments to IAS 21, 28 and 31 made by the revised IAS 27 (as amended in January 2008); IAS 34 was amended to add additional examples of significant events and transactions requiring disclosure in a condensed interim financial report, including transfers between the levels of fair value hierarchy, changes in classification of financial assets or changes in business or economic environment that affect the fair values of the entity's financial instruments; and IFRIC 13 was amended to clarify measurement of fair value of award credits. The Bank does not expect the amendments to have any material effect on its financial statements.

**Recovery of Underlying Assets – Amendments to IAS 12 (issued in December 2010 and effective for annual periods beginning on or after 1 January 2012)**. The amendment introduced a rebuttable presumption that an investment property carried at fair value is recovered entirely through sale. This presumption is rebutted if the investment property is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. SIC-21, *Income Taxes – Recovery of Revalued Non-Depreciable Assets*, which addresses similar issues involving non-depreciable assets measured using the revaluation model in IAS 16, *Property, Plant and Equipment*, was incorporated into IAS 12 after excluding from its scope investment properties measured at fair value.

## **6 New Accounting Pronouncements (Continued)**

The Bank does not expect the amendments to have any material effect on its financial statements.

### ***Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters – Amendments to IFRS 1 (issued in December 2010 and effective for annual periods beginning on or after 1 July 2011).***

The amendment regarding severe hyperinflation creates an additional exemption when an entity that has been subject to severe hyperinflation resumes presenting or presents for the first time, financial statements in accordance with IFRS. The exemption allows an entity to elect to measure certain assets and liabilities at fair value; and to use that fair value as the deemed cost in the opening IFRS statement of financial position.

The IASB has also amended IFRS 1 to eliminate references to fixed dates for one exception and one exemption, both dealing with financial assets and liabilities. The first change requires first-time adopters to apply the derecognition requirements of IFRS prospectively from the date of transition, rather than from 1 January 2004. The second amendment relates to financial assets or liabilities where the fair value is established through valuation techniques at initial recognition and allows the guidance to be applied prospectively from the date of transition to IFRS rather than from 25 October 2002 or 1 January 2004. This means that a first-time adopter may not need to determine the fair value of certain financial assets and liabilities at initial recognition for periods prior to the date of transition. IFRS 9 has also been amended to reflect these changes. The amendment is not expected to have any impact on the Bank's financial statements.

***IFRS 10, Consolidated financial statements (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013),*** replaces all of the guidance on control and consolidation in IAS 27 "Consolidated and separate financial statements" and SIC-12 "Consolidation - special purpose entities". IFRS 10 changes the definition of control so that the same criteria are applied to all entities to determine control. This definition is supported by extensive application guidance. The amendment is not expected to have any impact on the Bank's financial statements.

***IFRS 11, Joint arrangements, (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013),*** replaces IAS 31 "Interests in Joint Ventures" and SIC-13 "Jointly Controlled Entities—Non-Monetary Contributions by Ventures". Changes in the definitions have reduced the number of "types" of joint arrangements to two: joint operations and joint ventures. The existing policy choice of proportionate consolidation for jointly controlled entities has been eliminated. Equity accounting is mandatory for participants in joint ventures. The amendment is not expected to have any impact on the Bank's financial statements.

***IFRS 12, Disclosure of interest in other entities, (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013),*** applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity; it replaces the disclosure requirements currently found in IAS 28 "Investments in associates". IFRS 12 requires entities to disclose information that helps financial statement readers to evaluate the nature, risks and financial effects associated with the entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities. To meet these objectives, the new standard requires disclosures in a number of areas, including significant judgements and assumptions made in determining whether an entity controls, jointly controls or significantly influences its interests in other entities, extended disclosures on share of non-controlling interests in group activities and cash flows, summarised financial information of subsidiaries with material non-controlling interests, and detailed disclosures of interests in unconsolidated structured entities. The amendment is not expected to have any impact on the Bank's financial statements.

***IFRS 13, Fair value measurement, (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013),*** aims to improve consistency and reduce complexity by providing a precise definition of fair value, and a single source of fair value measurement and disclosure requirements for use across IFRSs. The Bank is currently assessing the impact of the amendment on its financial statements.

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

**7 Cash and Cash Equivalents and Mandatory Reserves**

<i>In thousands of Ukrainian hryvnias</i>	<b>2010</b>	<b>2009</b>
Cash on hand	54,990	51,911
Cash balances with the NBU (other than mandatory reserve deposits)	116,816	55,515
Mandatory cash balances with the NBU	15,629	48,208
Correspondent accounts and overnight placements with other banks		
- Ukraine	509	361
- other countries	459,252	372,271
<b>Total cash and cash equivalents and mandatory reserves</b>	<b>647,196</b>	<b>528,266</b>

As at 31 December 2010 the mandatory reserve balance is calculated on the basis of a simple average over a monthly period (31 December 2009: monthly period) and should be maintained at the level of 0 to 7 per cent (31 December 2009: 0 to 7 per cent) of certain obligations of the Bank. As such, the balance can vary from day-to-day. The Bank's mandatory reserve balance for December 2010 was UAH 55,629 thousand (December 2009: UAH 48,208 thousand). The Bank may satisfy its mandatory reserve requirement with treasury bills issued for the purpose of financing preparation of Ukraine to EURO 2012 football tournament (EURO 2012 bonds) and/or a deposit placed on a separate account with the NBU (2009: balance on account with the National Bank of Ukraine and a deposit placed on a separate account with the NBU). As at 31 December 2010 the Bank satisfied its mandatory reserve requirement with UAH 40,000 thousand par value Euro 2012 bonds (Note 9) and a deposit placed on a separate account with the NBU totalling UAH 15,629 thousand (2009: UAH 24,104 thousand balance on correspondent account with the NBU and UAH 24,104 thousand deposit placed on a separate account with the NBU).

As at 31 December 2010 in accordance with the NBU regulations the Bank was required to maintain the balance on accounts with the NBU at the level of 100% of the mandatory reserve balance for the preceding month less the mandatory reserve requirement satisfied with EURO 2012 bonds (31 December 2009: not less than 90% of the mandatory reserve balance for the preceding month). The Bank will not be subject to any sanctions if it fails to comply with the requirements less than 30 times within a 3 month period. As at 31 December 2010 it was also required to maintain the deposit on a separate account with the NBU at the level of 100% (31 December 2009: 50%) of the mandatory reserves balance for the preceding month less the mandatory reserve requirement satisfied with EURO 2012 bonds, as a part of the total required level of mandatory reserves. This deposit is subject to interest payments from the NBU at the rate of 30% of the discount rate set by the NBU (2.325% p.a. as at 31 December 2010 and 3.075% p.a. as at 31 December 2009), provided that the Bank is in compliance with the mandatory reserve requirements. Other mandatory reserve balances were non-interest bearing at 31 December 2009.

As the respective liquid assets are not available to finance the Bank's day-to-day operations, for the purposes of the statement of cash flows the mandatory reserve balance maintained on accounts with the NBU is excluded from cash and cash equivalents. As at 31 December 2010 cash and cash equivalents for the purposes of the statement of cash flows were UAH 631,567 thousand (31 December 2009: UAH 480,058 thousand).

As at 31 December 2010 balances with the Bank's parent company Piraeus Bank S.A., Athens and entities under common control represented UAH 450,613 thousand (31 December 2009: UAH 347,729 thousand) or 98% (31 December 2009: 93%) of total correspondent accounts and overnight placements with other banks.

**7 Cash and Cash Equivalents and Mandatory Reserves (Continued)**

The credit quality of cash and cash equivalents balances may be summarised based on the lowest out of the ratings assigned to the counterparties by the international rating agencies Fitch IBCA, Moody's and Standard and Poor's as follows at 31 December 2010:

<i>In thousands of Ukrainian hryvnias</i>	<b>Cash balances with the NBU, including mandatory reserves</b>	<b>Correspondent accounts and overnight placements with other banks</b>	<b>Total</b>
<i>Neither past due nor impaired</i>			
- National Bank of Ukraine	132,445	-	132,445
- A+ rated	-	11	11
- A rated	-	153	153
- A- rated	-	2,826	2,826
- BBB+ rated	-	597	597
- BB- rated	-	450,614	450,614
- B- rated	-	5,529	5,529
- CCC+ rated	-	31	31
<b>Total cash and cash equivalents and mandatory reserves, excluding cash on hand</b>	<b>132,445</b>	<b>459,761</b>	<b>592,206</b>

The credit quality of cash and cash equivalents balances may be summarised based on the lowest out of the ratings assigned to the counterparties by the international rating agencies Fitch IBCA, Moody's and Standard and Poor's as follows at 31 December 2009:

<i>In thousands of Ukrainian hryvnias</i>	<b>Cash balances with the NBU, including mandatory reserves</b>	<b>Correspondent accounts and overnight placements with other banks</b>	<b>Total</b>
<i>Neither past due nor impaired</i>			
- National Bank of Ukraine	103,723	-	103,723
- A+ rated	-	12	12
- A rated	-	11,817	11,817
- BBB+ rated	-	10,898	10,898
- BBB rated	-	347,729	347,729
- BBB- rated	-	1,815	1,815
- CCC rated	-	361	361
<b>Total cash and cash equivalents and mandatory reserves, excluding cash on hand</b>	<b>103,723</b>	<b>372,632</b>	<b>476,355</b>

Investing transactions that did not require the use of cash and cash equivalents and were excluded from the statement of cash flows included transfer of property from premises and equipment to investment property in the total amount of UAH 580 thousand (31 December 2009: acquisition of premises and investment property by repossession of collateral in the total amount of UAH 36,619 thousand).

Geographical, currency, maturity and interest rate analyses of cash and cash equivalents and mandatory reserves are disclosed in Note 25. Refer to Note 29 for the estimated fair value of each class of cash and cash equivalents and mandatory reserves. Information on related party balances is disclosed in Note 31.

**8 Loans and Advances to Customers**

<i>In thousands of Ukrainian hryvnias</i>	<b>2010</b>	<b>2009</b>
Corporate loans	2,034,429	1,949,094
Loans to individuals – entrepreneurs	492,802	466,444
Residential mortgage loans	140,899	132,707
Loans to individuals - consumer loans	102,816	108,952
Less: Provision for loan impairment	(891,767)	(492,414)
<b>Total loans and advances to customers</b>	<b>1,879,179</b>	<b>2,164,783</b>

Movements in the provision for loan impairment during 2010 are as follows:

	<b>Corporate loans</b>	<b>Loans to individuals – entrepreneurs</b>	<b>Residential mortgage loans</b>	<b>Loans to individuals - consumer loans</b>	<b>Total</b>
<i>In thousands of Ukrainian hryvnias</i>					
<b>Provision for loan impairment at 1 January 2010</b>	<b>266,515</b>	<b>168,043</b>	<b>35,255</b>	<b>22,601</b>	<b>492,414</b>
Provision for impairment during the year	268,586	101,425	22,912	10,595	403,518
Amounts written off during the year as uncollectible	(2,823)	-	-	(66)	(2,889)
Currency translation difference	(1,090)	(144)	(11)	(31)	(1,276)
<b>Provision for loan impairment at 31 December 2010</b>	<b>531,188</b>	<b>269,324</b>	<b>58,156</b>	<b>33,099</b>	<b>891,767</b>

**8 Loans and Advances to Customers (Continued)**

Movements in the provision for loan impairment during 2009 are as follows:

<i>In thousands of Ukrainian hryvnias</i>	Corporate loans	Loans to individuals – entrepre- neurs	Residential mortgage loans	Loans to individuals - consumer loans	Total
<b>Provision for loan impairment at 1 January 2009</b>	<b>105,917</b>	<b>51,833</b>	<b>12,669</b>	<b>26,521</b>	<b>196,940</b>
Charge to/(recovery of) provision for impairment during the year	158,487	114,737	22,135	(4,765)	290,594
Amounts written off during the year as uncollectible	(386)	-	-	-	(386)
Currency translation difference	2,497	1,473	451	845	5,266
<b>Provision for loan impairment at 31 December 2009</b>	<b>266,515</b>	<b>168,043</b>	<b>35,255</b>	<b>22,601</b>	<b>492,414</b>

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

<i>In thousands of Ukrainian hryvnias</i>	2010		2009	
	Amount	%	Amount	%
Construction	826,066	30	821,588	31
Trade	651,614	24	637,752	24
Manufacturing	593,528	21	557,749	21
Individuals	243,715	9	241,659	9
Services	122,216	4	111,259	4
Agricultural	91,421	3	82,478	3
Transport	72,478	3	73,693	3
Other	169,908	6	131,018	5
<b>Total loans and advances to customers (before impairment)</b>	<b>2,770,946</b>	<b>100</b>	<b>2,657,197</b>	<b>100</b>

At 31 December 2010 total aggregate amount of loans to top 10 borrowers of the Bank was UAH 901,751 thousand (31 December 2009: UAH 852,789 thousand) or 33% of the gross loan portfolio (31 December 2009: 33%).

**8 Loans and Advances to Customers (Continued)**

Information about collateral at 31 December 2010 is as follows:

<i>In thousands of Ukrainian hryvnias</i>	<b>Corporate loans</b>	<b>Loans to individuals – entrepreneurs</b>	<b>Residential mortgage loans</b>	<b>Loans to individuals - consumer loans</b>	<b>Total</b>
Unsecured loans	315,994	215,944	51,009	22,998	605,945
Loans collateralised by:					
- residential real estate	252,126	34,732	65,114	45,997	397,969
- other real estate and construction in progress	1,356,993	222,075	24,253	21,268	1,624,589
- equipment and machinery	32,701	5,306	-	100	38,107
- inventory	33,797	485	-	407	34,689
- private cars	5,387	3,923	438	9,228	18,976
- cash deposits	10,183	2,839	-	2,628	15,650
- other assets	27,248	7,498	85	190	35,021
<b>Total loans and advances to customers</b>	<b>2,034,429</b>	<b>492,802</b>	<b>140,899</b>	<b>102,816</b>	<b>2,770,946</b>

Information about collateral at 31 December 2009 is as follows:

<i>In thousands of Ukrainian hryvnias</i>	<b>Corporate loans</b>	<b>Loans to individuals – entrepreneurs</b>	<b>Residential mortgage loans</b>	<b>Loans to individuals - consumer loans</b>	<b>Total</b>
Unsecured loans	195,589	150,414	30,007	24,207	400,217
Loans collateralised by:					
- residential real estate	349,846	209,042	80,742	61,454	701,084
- other real estate and construction in progress	1,221,389	93,079	21,117	15,100	1,350,685
- equipment and machinery	53,528	2,767	-	83	56,378
- inventory	71,053	525	-	354	71,932
- private cars	922	-	125	3,689	4,736
- cash deposits	15,811	-	716	3,538	20,065
- other assets	40,956	10,617	-	527	52,100
<b>Total loans and advances to customers</b>	<b>1,949,094</b>	<b>466,444</b>	<b>132,707</b>	<b>108,952</b>	<b>2,657,197</b>

Other assets mainly include receivables under trading contracts. Included in unsecured loans and advances to customers are mainly loans secured by corporate or personal guarantees. The disclosure above represents the lower of the carrying value of the loan or collateral taken; the remaining part is disclosed within the unsecured exposures. The carrying value of loans was allocated based on liquidity of the assets taken as collateral.

**8 Loans and Advances to Customers (Continued)**

Analysis by credit quality of loans outstanding at 31 December 2010 is as follows:

<i>In thousands of Ukrainian hryvnias</i>	<b>Corporate loans</b>	<b>Loans to individuals – entrepreneurs</b>	<b>Residential mortgage loans</b>	<b>Loans to individuals - consumer loans</b>	<b>Total</b>
<i>Neither past due nor impaired</i>					
Standard	-	30,174	30,537	20,295	81,006
Watch	215,881	7,580	12,742	8,636	244,839
Substandard	42,891	2,774	1,421	2,011	49,097
Loans renegotiated in 2010	521,404	46,028	3,561	5,892	576,885
<b>Total neither past due nor impaired</b>	<b>780,176</b>	<b>86,556</b>	<b>48,261</b>	<b>36,834</b>	<b>951,827</b>
<i>Past due but not impaired</i>					
- less than 90 days overdue	256,176	1,635	2,986	6,823	267,620
- 91 to 180 days overdue	71,004	-	-	30	71,034
- 181 to 360 days overdue	19	-	-	1,188	1,207
<b>Total past due but not impaired</b>	<b>327,199</b>	<b>1,635</b>	<b>2,986</b>	<b>8,041</b>	<b>339,861</b>
<i>Loans determined to be impaired (gross)</i>					
- less than 90 days overdue	-	586	-	-	586
- 91 to 180 days overdue	8,454	206	839	1,802	11,301
- 181 to 360 days overdue	54,686	18,669	12,314	3,446	89,115
- over 360 days overdue	863,914	385,150	76,499	52,693	1,378,256
<b>Total impaired loans (gross)</b>	<b>927,054</b>	<b>404,611</b>	<b>89,652</b>	<b>57,941</b>	<b>1,479,258</b>
<b>Gross carrying value of loans</b>	<b>2,034,429</b>	<b>492,802</b>	<b>140,899</b>	<b>102,816</b>	<b>2,770,946</b>
Less impairment provisions	(531,188)	(269,324)	(58,156)	(33,099)	(891,767)
<b>Total loans and advances to customers</b>	<b>1,503,241</b>	<b>223,478</b>	<b>82,743</b>	<b>69,717</b>	<b>1,879,179</b>

The Bank classifies neither past due nor impaired loans and advances to customers by credit quality in accordance with classification prescribed by the NBU regulations. According to the NBU regulations loans are split into the following credit risk categories:

- **Standard loans.** This category includes exposures with insignificant credit risk which is characterised by strong financial position of the borrower and good loan servicing;
- **Watch loans.** This category includes exposures with insignificant credit risk which however may increase as a result of unfavourable conditions; these are exposures to borrowers with good financial standing and good payment history or borrowers with strong financial position and payment history with delays not exceeding 90 days;
- **Sub-standard loans.** This category includes exposures with significant credit risk which is characterised by weak financial position of the borrower and good loan servicing or good financial position of the borrower and poor loan servicing.

**8 Loans and Advances to Customers (Continued)**

Analysis by credit quality of loans outstanding at 31 December 2009 is as follows:

<i>In thousands of Ukrainian hryvnias</i>	<b>Corporate loans</b>	<b>Loans to individuals – entrepreneurs</b>	<b>Residential mortgage loans</b>	<b>Loans to individuals - consumer loans</b>	<b>Total</b>
<i>Neither past due nor impaired</i>					
Standard	3,356	18,257	32,978	28,605	83,196
Watch	221,490	2,145	10,787	10,318	244,740
Substandard	14,626	1,383	2,237	5,664	23,910
Loans renegotiated in 2009	872,126	37,332	8,719	1,683	919,860
<b>Total neither past due nor impaired</b>	<b>1,111,598</b>	<b>59,117</b>	<b>54,721</b>	<b>46,270</b>	<b>1,271,706</b>
<i>Past due but not impaired</i>					
- less than 90 days overdue	53,456	24,112	-	2,383	79,951
- 91 to 180 days overdue	25,091	-	-	-	25,091
- 181 to 360 days overdue	206,681	11,902	-	-	218,583
<b>Total past due but not impaired</b>	<b>285,228</b>	<b>36,014</b>	<b>-</b>	<b>2,383</b>	<b>323,625</b>
<i>Loans determined to be impaired (gross)</i>					
- less than 90 days overdue	99,294	16,021	1,312	9,621	126,248
- 91 to 180 days overdue	24,041	634	5,571	8,583	38,829
- 181 to 360 days overdue	102,528	83,998	29,084	13,533	229,143
- over 360 days overdue	326,405	270,660	42,019	28,562	667,646
<b>Total impaired loans (gross)</b>	<b>552,268</b>	<b>371,313</b>	<b>77,986</b>	<b>60,299</b>	<b>1,061,866</b>
<b>Gross carrying value of loans</b>	<b>1,949,094</b>	<b>466,444</b>	<b>132,707</b>	<b>108,952</b>	<b>2,657,197</b>
<b>Less impairment provisions</b>	<b>(266,515)</b>	<b>(168,043)</b>	<b>(35,255)</b>	<b>(22,601)</b>	<b>(492,414)</b>
<b>Total loans and advances to customers</b>	<b>1,682,579</b>	<b>298,401</b>	<b>97,452</b>	<b>86,351</b>	<b>2,164,783</b>

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 end of the reporting period. 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.

**8 Loans and Advances to Customers (Continued)**

The primary factors that the Bank considers in determining whether a loan is impaired are 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.

The fair value of collateral in respect of loans past due but not impaired and in respect of loans individually determined to be impaired at 31 December 2010 was as follows:

<i>In thousands of Ukrainian hryvnias</i>	<b>Corporate loans</b>	<b>Loans to individuals – entrepreneurs</b>	<b>Residential mortgage loans</b>	<b>Loans to individuals - consumer loans</b>	<b>Total</b>
<i>Fair value of collateral - loans past due but not impaired</i>					
- residential real estate	3,459	1,119	2,623	8,647	15,848
- other real estate and construction in progress	322,825	10,191	-	1,659	334,675
- cash deposits	-	-	-	425	425
- equipment and machinery	12,938	-	-	-	12,938
- private cars	142	435	40	624	1,241
- other assets	322	-	-	-	322
<i>Fair value of collateral - individually impaired loans</i>					
- residential real estate	30,819	33,713	24,318	17,592	106,442
- other real estate and construction in progress	730,531	152,979	22,147	17,638	923,295
- cash deposits	-	150	-	876	1,026
- equipment and machinery	15,218	3,448	-	100	18,766
- private cars	9,378	4,532	438	2,810	17,158
- other assets	17,622	1,299	84	524	19,529
<b>Total</b>	<b>1,143,254</b>	<b>207,866</b>	<b>49,650</b>	<b>50,895</b>	<b>1,451,665</b>

**8 Loans and Advances to Customers (Continued)**

The fair value of collateral in respect of loans past due but not impaired and in respect of loans individually determined to be impaired at 31 December 2009 was as follows:

<i>In thousands of Ukrainian hryvnias</i>	<b>Corporate loans</b>	<b>Loans to individuals – entrepreneurs</b>	<b>Residential mortgage loans</b>	<b>Loans to individuals - consumer loans</b>	<b>Total</b>
<i>Fair value of collateral - loans past due but not impaired</i>					
- residential real estate	28,767	27,885	278	-	56,930
- other real estate and construction in progress	247,473	3,323	1,552	-	252,348
- cash deposits	10,820	-	-	-	10,820
- equipment and machinery	13,670	21	-	-	13,691
- private cars	-	-	20	-	20
- other assets	21,228	4,063	-	-	25,291
<i>Fair value of collateral - individually impaired loans</i>					
- residential real estate	50,386	202,107	42,646	39,498	334,637
- other real estate and construction in progress	378,799	44,963	9,191	16,804	449,757
- cash deposits	-	-	900	90	990
- equipment and machinery	26,058	2,558	83	-	28,699
- private cars	922	-	982	-	1,904
- other assets	91,649	7,127	42	-	98,818
<b>Total</b>	<b>869,772</b>	<b>292,047</b>	<b>55,694</b>	<b>56,392</b>	<b>1,273,905</b>

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 include collateralised 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 instalments that are past due.

Refer to Note 29 for the estimated fair value of each class of loans and advances to customers. Interest rate analysis of loans and advances to customers is disclosed in Note 25. Information on related party balances is disclosed in Note 31.

**9 Investment Securities Available for Sale**

<i>In thousands of Ukrainian hryvnias</i>	<b>2010</b>	<b>2009</b>
Deposit certificates issued by the NBU	185,227	-
Ukrainian government bonds	176,584	-
Municipal bonds	1,976	5,378
<b>Total debt securities</b>	<b>363,787</b>	<b>5,378</b>
Corporate shares	1,506	1,506
Less impairment provision	(1,481)	(1,481)
<b>Total investment securities available for sale</b>	<b>363,812</b>	<b>5,403</b>

Management could not reliably estimate fair value of the Bank's available-for-sale investments in shares of OJSC "Avtotransportnik 13066", JSC "Kyiv International Stock Exchange", OJSC "Ukrainian Securities Depository" and other issuers. The investments are carried at cost of UAH 1,506 thousand (2009: UAH 1,506 thousand) less impairment of UAH 1,481 thousand (2009: UAH 1,481 thousand). These investees' shares are not quoted and recent trade prices are not publicly accessible. The Bank has no intention to sell these investments.

Analysis by credit quality of debt securities outstanding at 31 December 2010 is as follows:

<i>In thousands of Ukrainian hryvnias</i>	<b>Ukrainian government bonds</b>	<b>Deposit certificates issued by the NBU</b>	<b>Municipal bonds</b>	<b>Total</b>
<i>Neither past due nor impaired</i> - uaAA- to uaAA+ rated	176,584	185,227	1,976	363,787
<b>Total neither past due nor impaired</b>	<b>176,584</b>	<b>185,227</b>	<b>1,976</b>	<b>363,787</b>
<b>Total debt securities available for sale</b>	<b>176,584</b>	<b>185,227</b>	<b>1,976</b>	<b>363,787</b>

**9 Investment Securities Available for Sale (Continued)**

Analysis by credit quality of debt securities outstanding at 31 December 2009 is as follows:

<i>In thousands of Ukrainian hryvnias</i>	<b>Municipal bonds</b>	<b>Total</b>
<i>Neither past due nor impaired</i>		
- uaAA- to uaAA+ rated	5,378	5,378
<b>Total neither past due nor impaired</b>	<b>5,378</b>	<b>5,378</b>
<b>Total debt securities available for sale</b>	<b>5,378</b>	<b>5,378</b>

Neither past due nor impaired assets were analysed based on the lowest out of the ratings assigned to the counterparties by the international rating agencies Fitch IBCA, Moody's and Standard and Poor's or by the Ukrainian rating agency "Credit-Rating". The primary factor that the Bank considers in determining whether a debt security is impaired is its overdue status. As a result, the Bank presents above an ageing analysis of debt securities that are individually determined to be impaired.

The debt securities are not collateralised.

At 31 December 2010 included in investment securities available for sale are UAH 40,000 thousand par value Ukrainian government bonds (EURO 2012 bonds) with fair value of UAH 46,451 thousand (2009: none) used to satisfy the Bank's mandatory reserve requirements. Refer to Note 7.

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

<i>In thousands of Ukrainian hryvnias</i>	<b>2010</b>	<b>2009</b>
<b>Carrying amount at 1 January</b>	<b>5,403</b>	<b>6,025</b>
Fair value gains less losses/(losses less gains)	5,552	1,030
Losses less gains from disposals	(63)	(33)
Purchases	6,286,106	607,198
Disposals of investment securities available-for-sale	(5,933,539)	(608,684)
Interest income accrued	10,284	1,907
Interest income received	(9,932)	(2,033)
Provision for impairment during the year	-	(7)
<b>Carrying amount at 31 December</b>	<b>363,812</b>	<b>5,403</b>

Geographical, currency, maturity and interest rate analyses of investment securities available for sale are disclosed in Note 25.

**10 Investment Properties**

<i>In thousands of Ukrainian hryvnias</i>	<b>2010</b>	<b>2009</b>
<b>Investment properties at fair value as at 1 January</b>	<b>23,582</b>	-
Transfer from owner-occupied property	580	23,950
Fair value losses	(493)	(368)
<b>Investment properties at fair value as at 31 December</b>	<b>23,669</b>	<b>23,582</b>

The investment properties are valued annually on 31 December at fair value, by an independent, professionally qualified valuer who has recent experience in valuing similar properties in Ukraine. The basis for their work as at 31 December 2010 and 31 December 2009 was a sales comparison approach.

**11 Premises, Equipment and Intangible Assets**

	Note	Premises	Leasehold improvements and other constructions	Motor vehicles	Office and computer equipment	Construction in progress	Total premises and equipment	Computer software licences	Total
<i>In thousands of Ukrainian hryvnias</i>									
Cost or valuation at 31 December 2008		63,560	16,107	6,613	28,201	66,571	181,052	5,411	186,463
Accumulated depreciation		-	(5,715)	(2,404)	(7,062)	-	(15,181)	(1,137)	(16,318)
<b>Carrying amount at 31 December 2008</b>		<b>63,560</b>	<b>10,392</b>	<b>4,209</b>	<b>21,139</b>	<b>66,571</b>	<b>165,871</b>	<b>4,274</b>	<b>170,145</b>
Additions		-	5,923	7	28,522	61,841	96,293	2,777	99,070
Transfers		44,755	16,088	-	-	(60,843)	-	-	-
Transfer to investment property	10	-	-	-	-	(23,950)	(23,950)	-	(23,950)
Disposals		-	(1,216)	(198)	(631)	-	(2,045)	-	(2,045)
Depreciation charge	23	(1,976)	(3,391)	(1,048)	(9,625)	-	(16,040)	(1,171)	(17,211)
Revaluation charged to equity		(7,139)	-	-	-	-	(7,139)	-	(7,139)
Revaluation charged to profit or loss	23	(7,271)	-	-	-	-	(7,271)	-	(7,271)
Cost or valuation at 31 December 2009		91,929	35,151	5,591	52,029	43,619	228,319	8,035	236,354
Accumulated depreciation		-	(7,355)	(2,621)	(12,624)	-	(22,600)	(2,155)	(24,755)
<b>Carrying amount at 31 December 2009</b>		<b>91,929</b>	<b>27,797</b>	<b>2,969</b>	<b>39,405</b>	<b>43,619</b>	<b>205,719</b>	<b>5,880</b>	<b>211,599</b>
Additions		-	7,791	4	12,869	4,026	24,690	2,639	27,329
Transfers		1,299	3,975	-	-	(5,274)	-	-	-
Transfer to investment property	10	(580)	-	-	-	-	(580)	-	(580)
Disposals		(306)	(13)	(36)	(351)	-	(706)	(15)	(721)
Depreciation charge	23	(2,308)	(7,229)	(835)	(12,820)	-	(23,192)	(1,266)	(24,458)
Revaluation charged to equity		(2,754)	-	-	-	-	(2,754)	-	(2,754)
Revaluation charged to profit or loss	23	(367)	-	-	-	-	(367)	-	(367)
<b>Carrying amount at 31 December 2010</b>		<b>86,913</b>	<b>32,321</b>	<b>2,102</b>	<b>39,103</b>	<b>42,371</b>	<b>202,810</b>	<b>7,238</b>	<b>210,048</b>
Cost or valuation at 31 December 2010		86,913	46,809	5,283	63,514	42,371	244,890	10,567	255,457
Accumulated depreciation		-	(14,488)	(3,181)	(24,411)	-	(42,080)	(3,329)	(45,409)
<b>Carrying amount at 31 December 2010</b>		<b>86,913</b>	<b>32,321</b>	<b>2,102</b>	<b>39,103</b>	<b>42,371</b>	<b>202,810</b>	<b>7,238</b>	<b>210,048</b>

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

## 11 Premises, Equipment and Intangible Assets (Continued)

Premises and construction in progress have been revalued to market value at 31 December 2010. The valuation was carried out by independent valuers who hold a recognised and relevant professional qualification and who have recent experience in valuation of assets of similar location and category. The basis used for the appraisal was market value.

Included in the above carrying amount is UAH 25,631 thousand (2009: UAH 29,593 thousand) representing revaluation surplus relating to premises and construction in progress of the Bank. At 31 December 2010 the carrying amount of premises and construction in progress would have been UAH 103,653 thousand (2009: UAH 105,955 thousand) had the assets been carried at cost less depreciation.

## 12 Other Financial Assets

<i>In thousands of Ukrainian hryvnias</i>	Note	2010	2009
Amounts in the course of settlements		8,509	482
Accrued income receivable		478	481
Credit and debit cards receivables		244	361
Derivative financial assets	28	125	62
Other		6	13
Less: Provision for impairment		(8,105)	(522)
<b>Total other financial assets</b>		<b>1,257</b>	<b>877</b>

As at 31 December 2010 amounts in the course of settlements include UAH 7,734 thousand balance paid by the Bank in accordance with the court decision which is appealed by the Bank. However the recoverability of this balance is estimated as low and therefore it is fully impaired.

Analysis by credit quality of other financial assets outstanding at 31 December 2010 is as follows:

<i>In thousands of Ukrainian hryvnias</i>	Amounts in the course of settlements	Accrued income receivable	Credit and debit card receivables	Derivative financial assets	Other	Total
<i>Neither past due nor impaired</i>						
- Collected or settled after the end of the reporting period	773	115	244	125	-	1,257
<b>Total neither past due nor impaired</b>	<b>773</b>	<b>115</b>	<b>244</b>	<b>125</b>	<b>-</b>	<b>1,257</b>
<i>Other financial assets individually determined to be impaired (gross)</i>						
- less than 30 days overdue	7,736	93	-	-	6	7,835
- 30 to 90 days overdue	-	60	-	-	-	60
- 90 to 180 days overdue	-	7	-	-	-	7
- 180 to 360 days overdue	-	82	-	-	-	82
- over 360 days overdue	-	121	-	-	-	121
<b>Total individually impaired (gross)</b>	<b>7,736</b>	<b>363</b>	<b>-</b>	<b>-</b>	<b>6</b>	<b>8,105</b>
<b>Less impairment provision</b>	<b>(7,736)</b>	<b>(363)</b>	<b>-</b>	<b>-</b>	<b>(6)</b>	<b>(8,105)</b>
<b>Total other financial assets</b>	<b>773</b>	<b>115</b>	<b>244</b>	<b>125</b>	<b>-</b>	<b>1,257</b>

## 12 Other Financial Assets (Continued)

Analysis by credit quality of other financial assets outstanding at 31 December 2009 is as follows:

<i>In thousands of Ukrainian hryvnias</i>	Accrued income receivable	Amounts in the course of settlements	Credit and debit card receivables	Derivative financial assets	Other	Total
<i>Neither past due nor impaired</i>						
- Collected or settled after the end of the reporting period	85	482	248	62	-	877
<b>Total neither past due nor impaired</b>	<b>85</b>	<b>482</b>	<b>248</b>	<b>62</b>	<b>-</b>	<b>877</b>
<i>Other financial assets individually determined to be impaired (gross)</i>						
- less than 30 days overdue	81	-	112	-	5	198
- 30 to 90 days overdue	154	-	-	-	1	155
- 90 to 180 days overdue	47	-	1	-	-	48
- 180 to 360 days overdue	97	-	-	-	-	97
- over 360 days overdue	17	-	-	-	7	24
<b>Total individually impaired (gross)</b>	<b>396</b>	<b>-</b>	<b>113</b>	<b>-</b>	<b>13</b>	<b>522</b>
<b>Less impairment provision</b>	<b>(396)</b>	<b>-</b>	<b>(113)</b>	<b>-</b>	<b>(13)</b>	<b>(522)</b>
<b>Total other financial assets</b>	<b>85</b>	<b>482</b>	<b>248</b>	<b>62</b>	<b>-</b>	<b>877</b>

The primary factor that the Bank considers in determining whether a receivable is impaired is its overdue status. As a result, the Bank presents above an ageing analysis of receivables that are individually determined to be impaired.

Geographical, currency, maturity and interest rate analyses of other financial assets are disclosed in Note 25. Refer to Note 29 for the disclosure of the fair value of each class of other financial assets.

## 13 Other Assets

<i>In thousands of Ukrainian hryvnias</i>	2010	2009
Reposessed collateral	28,879	68,020
Prepayments for services	4,309	2,244
Prepayments for construction in progress	536	109
Other	290	278
Less: Provision for impairment	-	(123)
<b>Total other assets</b>	<b>34,014</b>	<b>70,528</b>

Reposessed collateral represents real estate assets acquired by the Bank in settlement of overdue loans. The Bank expects to dispose of the assets in the foreseeable future. The assets do not meet the definition of non-current assets held for sale and are classified as inventories in accordance with IAS 2, *Inventories*. The assets were initially recognised at fair value when acquired and subsequently measured at the lower of cost and their net realisable value. The estimates of net realisable value were based on the results of work of independent valuers. The basis for their work was a sales comparison approach. During 2010 the reposessed collateral with net realisable value of UAH 36,679 thousand was sold to an entity under common control for UAH 49,776 thousand. As a result of this transaction, the Bank recorded a gain on sale of UAH 13,097 thousand recognized in other operating income (refer to Note 31).

**14 Due to Other Banks**

<i>In thousands of Ukrainian hryvnias</i>	<b>2010</b>	<b>2009</b>
Financing obtained from the parent company	1,297,536	1,585,246
Short-term placements of other banks	15,925	-
<b>Total due to other banks</b>	<b>1,313,461</b>	<b>1,585,246</b>

During 2010 a gain on initial recognition of balances due to other banks at rates below market in the amount of UAH 28,772 thousand (2009: UAH 51,333 thousand) net of deferred tax effect of UAH 7,193 thousand (2009: UAH 12,833 thousand) has been recorded directly in equity as additional capital.

Refer to Note 29 for the disclosure of the fair value of each class of amounts due to other banks. Interest rate analysis of due to other banks is disclosed in Note 25. Information on related party balances is disclosed in Note 31.

**15 Customer Accounts**

<i>In thousands of Ukrainian hryvnias</i>	<b>2010</b>	<b>2009</b>
<b>Legal entities</b>		
- Current/settlement accounts	225,898	145,324
- Term deposits	146,591	82,403
<b>Individuals</b>		
- Current/demand accounts	39,308	16,146
- Term deposits	646,028	366,225
- Savings accounts	254,289	110,122
<b>Total customer accounts</b>	<b>1,312,114</b>	<b>720,220</b>

Economic sector concentrations within customer accounts are as follows:

<i>In thousands of Ukrainian hryvnias</i>	<b>2010</b>		<b>2009</b>	
	<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>
Individuals	939,625	72	492,493	68
Commerce and trade	128,624	10	74,282	10
Financial services, insurance	78,183	6	42,576	6
Other services	58,274	4	26,810	4
State and public organizations	22,156	2	18,403	3
Manufacture	18,729	1	11,650	2
Construction and real estate	16,404	1	17,052	2
Other	50,119	4	36,954	5
<b>Total customer accounts</b>	<b>1,312,114</b>	<b>100</b>	<b>720,220</b>	<b>100</b>

Savings accounts are interest bearing accounts. Customers can deposit to and withdraw from such accounts at any time. Interest is accrued over daily outstanding balances on such accounts.

At 31 December 2010 the Bank had 46 customers (2009: 25 customers) with balances above UAH 3,000 thousand. The aggregate balance of these customers was UAH 381,577 thousand (2009: UAH 172,848 thousand) or 29% (2009: 24%) of total customer accounts.

At 31 December 2010 included in customer accounts are deposits of UAH 15,650 thousand (2009: UAH 11,681 thousand) held as collateral for loans to customers.

Refer to Note 29 for the disclosure of the fair value of each class of customer accounts. Interest rate analysis of customer accounts is disclosed in Note 25. Information on related party balances is disclosed in Note 31.

## 16 Other Financial Liabilities

Other financial liabilities comprise the following:

<i>In thousands of Ukrainian hryvnias</i>	<b>Note</b>	<b>2010</b>	<b>2009</b>
Debit or credit card payables		1,241	474
Funds in settlements		557	977
Other accrued liabilities		219	1,681
Derivative financial instruments	27	-	846
<b>Total other financial liabilities</b>		<b>2,017</b>	<b>3,978</b>

Refer to Note 29 for disclosure of the fair value of each class of other financial liabilities. Geographical, currency, maturity and interest rate analyses of other financial liabilities is disclosed in Note 25.

## 17 Other Liabilities

Other liabilities comprise the following:

<i>In thousands of Ukrainian hryvnias</i>	<b>2010</b>	<b>2009</b>
Accrued employee benefit costs	4,288	4,098
Payables to Individuals Deposits Guarantee Fund	943	391
Taxes payable other than on income	104	301
Deferred income	468	183
<b>Total other liabilities</b>	<b>5,803</b>	<b>4,973</b>

Accrued employee benefit costs include accrued bonuses and provisions for unused vacations.

## 18 Subordinated Debt

<i>In thousands of Ukrainian hryvnias</i>	<b>2010</b>	<b>2009</b>
Subordinated debt obtained from the parent company	401,594	399,609
<b>Total subordinated debt</b>	<b>401,594</b>	<b>399,609</b>

Subordinated debt represents a long term borrowing agreement, which, in case of the Bank's default, would be secondary to the Bank's other obligations, including deposits and other debt instruments. In accordance with the Law of Ukraine on Banks and Banking Activities and the NBU regulations, subordinated debt cannot be withdrawn from the Bank for at least five years from the date of receipt.

The debt ranks after all other creditors in case of liquidation.

Subordinated debt was attracted from Piraeus Bank S.A. in December 2009 in the amount of USD 50,000 thousand with an interest rate of 3MLIBOR+3% per annum and maturity in December 2019. In December 2010 an interest rate was changed to 3MLIBOR+1.5% per annum for the suspension period, while the Bank will continue to incur losses. This change in terms was not substantial and the Bank recalculated the initial effective interest rates without adjusting the carrying amount of subordinated debt.

Refer to Note 29 for the disclosure of the fair value of subordinated debt. Geographical, currency, maturity and interest rate analyses of subordinated debt is disclosed in Note 25. Information on related party balances is disclosed in Note 31.

**19 Share Capital**

<i>In thousands of Ukrainian hryvnias</i>	<b>Number of outstanding shares, thousands</b>	<b>Nominal amount</b>	<b>Inflation adjusted amount</b>
<b>Shares issued and fully paid as at 31 December 2008</b>	<b>40,000</b>	<b>400,000</b>	<b>409,123</b>
New shares issued, fully paid and registered	11,000	110,000	110,000
<b>Shares issued and fully paid as at 31 December 2009</b>	<b>51,000</b>	<b>510,000</b>	<b>519,123</b>
New shares issued, fully paid and registered	23,209	232,092	232,092
<b>Shares issued and fully paid as at 31 December 2010</b>	<b>74,209</b>	<b>742,092</b>	<b>751,215</b>

The nominal registered amount of the Bank's issued share capital prior to restatement of capital contributions made before 1 January 2001 to the purchasing power of the Ukrainian hryvnia at 31 December 2000 is UAH 742,092 thousand (2009: UAH 510,000 thousand).

The total authorised number of ordinary shares is 74,209 thousand (2009: 51,000 thousand shares) with a par value of UAH 10 per share (2009: UAH 10 per share). All issued ordinary shares are fully paid. Each ordinary share carries one vote.

On 3 February 2010 the shareholders of the Bank took a decision to issue 23,209 thousand shares totalling UAH 232,092 thousand. The placement of shares commenced and was completed in April 2010. All shares were fully paid in April 2010. The shareholders meeting of 29 April 2010 approved the results of the new share issue and decided to make the respective changes to the Bank's Charter. On 6 July 2010 the National Bank of Ukraine registered the respective changes in the Bank's Charter. The state registration of the issue was completed on 19 July 2010.

On 8 September 2010 the shareholders of the Bank took a decision to issue 10,070 thousand shares totalling UAH 100,700 thousand. The placement of shares commenced and was completed in November 2010. All shares were fully paid in November 2010. The shareholders meeting of 24 November 2010 approved the results of the new share issue and decided to make the respective changes to the Bank's Charter. On 30 December 2010 the National Bank of Ukraine registered the respective changes in the Bank's Charter. The state registration of the issue was completed on 12 January 2011. As at 31 December 2010 contributions received into unregistered share capital were included in equity. Please refer to Note 4.

## 20 Other Comprehensive Income Recognised in Each Component of Equity

An analysis of other comprehensive income by item for each component of equity is as follows:

In thousands of Ukrainian hryvnias	Note	Share capital	Unregistered share capital	Additional capital	Revaluation reserve for available-for-sale securities	Revaluation reserve for premises and construction in progress	Accumulated deficit	Total equity
<b>Year ended 31 December 2009</b>								
Available-for-sale investments:		-	-	-	-	-	-	-
- Gains less losses arising during the year		-	-	-	1,030	-	-	1,030
- Reclassification adjustments for losses less gains included in profit or loss		-	-	-	33	-	-	33
Revaluation of premises		-	-	-	-	(7,139)	-	(7,139)
Income tax recorded directly in other comprehensive income		-	-	-	(266)	1,785	-	1,519
<b>Total other comprehensive income/ (loss)</b>		-	-	-	<b>797</b>	<b>(5,354)</b>	-	<b>(4,557)</b>
<b>Year ended 31 December 2010</b>								
Available-for-sale investments:		-	-	-	-	-	-	-
- Gains less losses arising during the year		-	-	-	5,552	-	-	5,552
- Reclassification adjustments for losses less gains included in profit or loss		-	-	-	63	-	-	63
Revaluation of premises		-	-	-	-	(2,754)	-	(2,754)
Income tax recorded directly in other comprehensive income		-	-	-	(1,404)	688	-	(716)
Tax effect of change in income tax rate		-	-	-	472	666	-	1,138
<b>Total other comprehensive income/ (loss)</b>		-	-	-	<b>4,683</b>	<b>(1,400)</b>	-	<b>3,283</b>

**21 Interest Income and Expense**

<i>In thousands of Ukrainian hryvnias</i>	<b>2010</b>	<b>2009</b>
<b>Interest income</b>		
Loans and advances to customers	270,033	328,225
Debt investment securities available for sale	10,284	1,907
Correspondent accounts with other banks	1,275	91
Correspondent accounts with the NBU	999	189
Due from other banks	443	594
Overnight placements with other banks	40	717
Other	-	2
<b>Total interest income</b>	<b>283,074</b>	<b>331,725</b>
<b>Interest expense</b>		
Term deposits of individuals	75,151	37,971
Term placements of other banks	75,125	75,889
Term deposits of legal entities	21,132	15,416
Current/savings accounts of individuals	17,911	6,764
Subordinated debt	13,269	358
Current/settlement accounts of legal entities	12,357	7,481
Overnight placements of other banks	114	687
Due to the National Bank of Ukraine	-	60
Other	64	77
<b>Total interest expense</b>	<b>215,123</b>	<b>144,703</b>
<b>Net interest income</b>	<b>67,951</b>	<b>187,022</b>

Interest income and expense arising from transactions with related parties are disclosed in Note 31.

**22 Fee and Commission Income and Expense**

<i>In thousands of Ukrainian hryvnias</i>	<b>2010</b>	<b>2009</b>
<b>Fee and commission income</b>		
- Cash and settlement transactions	16,077	11,736
- Foreign exchange operations	3,585	4,559
- Guarantees issued	61	246
- Credit servicing fees that are not part of effective interest rate	55	660
- Transactions with securities	8	6
- Other	254	3,179
<b>Total fee and commission income</b>	<b>20,040</b>	<b>20,386</b>
<b>Fee and commission expense</b>		
- Cash and settlement transactions	4,249	2,709
- Foreign exchange operations	22	753
- Other	400	34
<b>Total fee and commission expense</b>	<b>4,671</b>	<b>3,496</b>
<b>Net fee and commission income</b>	<b>15,369</b>	<b>16,890</b>

**23 Administrative and Other Operating Expenses**

<i>In thousands of Ukrainian hryvnias</i>	<b>Note</b>	<b>2010</b>	<b>2009</b>
Staff costs		87,320	79,914
Operating lease expense for premises and equipment		26,470	28,387
Depreciation of premises and equipment	11	23,192	16,040
Professional services		12,185	6,745
Advertising and marketing services		9,764	9,461
Other costs for premises and equipment		9,445	5,359
Mail and telecommunications		5,971	6,781
Taxes other than on income		4,550	3,327
Impairment of repossessed collateral		4,207	23,332
Stationary & consumables		3,641	3,156
Utilities		3,365	2,952
Business trip expenses		2,415	2,672
Security services		2,132	2,213
Amortisation of software and other intangible assets	11	1,266	1,171
Negative revaluation of premises and equipment recognised in profit or loss	11	367	7,271
Other		18,585	9,785
<b>Total administrative and other operating expenses</b>		<b>214,875</b>	<b>208,566</b>

Included in staff costs are social security contributions of UAH 1,752 thousand (2009: UAH 1,621 thousand) and pension contributions of UAH 16,199 thousand (2009: UAH 14,945 thousand). Pension contributions are made into State pension fund which is a defined contribution plan. No discretionary pensions and other post-employment benefits are provided by the Bank.

Information on administrative and other operating expenses from transactions with related parties is disclosed in Note 31.

**24 Income Taxes**

**(a) Components of income tax benefit**

Income tax credit recorded in the income statement comprises the following:

<i>In thousands of Ukrainian hryvnias</i>	<b>2010</b>	<b>2009</b>
Current tax	44	407
Deferred tax	(42,263)	(72,493)
<b>Income tax credit for the year</b>	<b>(42,219)</b>	<b>(72,086)</b>

**(b) Reconciliation between the tax expense and profit or loss multiplied by applicable tax rate**

The income tax rate applicable to the majority of the Bank's income is 25% (2009: 25%).

A reconciliation between the expected and the actual taxation charge is provided below.

<i>In thousands of Ukrainian hryvnias</i>	<b>2010</b>	<b>2009</b>
<b>Loss before tax</b>	<b>(531,343)</b>	<b>(304,128)</b>
Theoretical tax credit at statutory rate (2010: 25%; 2009: 25%)	(132,836)	(76,032)
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Tax effect of change in income tax rate	83,585	-
- Non-deductible expenses	7,032	3,946
<b>Income tax credit for the year</b>	<b>(42,219)</b>	<b>(72,086)</b>

**24 Income Taxes (Continued)**

On 2 December 2010, the Ukrainian Parliament adopted the new Tax Code. The Tax Code became effective from 1 January 2011, with the Corporate Profits Tax section coming into effect from 1 April 2011. Among the main changes, the Tax Code provides for the significant reduction of the corporate tax rate: 23% for 1 April - 31 December 2011, 21% for 2012, 19% for 2013, and 16% from 2014 onwards. The impact of the change in tax rate presented above represents the effect of applying the reduced tax rates to deferred tax balances at 31 December 2010.

**(c) Deferred taxes analysed by type of temporary difference**

Differences between IFRS and statutory taxation regulations in Ukraine 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.

	31 December 2009	Credited/ (charged) to profit or loss	Credited/ (charged) to other comprehensive income	Credited directly to equity	31 December 2010
<i>In thousands of Ukrainian hryvnias</i>					
<b>Tax effect of deductible/(taxable) temporary differences</b>					
Premises and equipment	(4,081)	(5,330)	1,354	-	(8,057)
Financing obtained from the parent company	(27,454)	10,608	-	7,754	(9,092)
Loan impairment provision	53,709	7,763	-	-	61,472
Fair valuation of investment securities available for sale	73	(317)	(932)	-	(1,176)
Measurement of financial instruments at amortised cost	(43,233)	19,653	-	-	(23,580)
Accruals	2,667	(1,127)	-	-	1,540
Other	161	1,136	-	-	1,297
Tax losses carried forward	81,179	9,877	-	-	91,056
<b>Net deferred tax asset/(liability)</b>	<b>63,021</b>	<b>42,263</b>	<b>422</b>	<b>7,754</b>	<b>113,460</b>
Gross deferred tax asset	137,789	17,576	-	-	155,365
Gross deferred tax liability	(74,768)	24,687	422	7,754	(41,905)
<b>Net deferred tax asset/(liability)</b>	<b>63,021</b>	<b>42,263</b>	<b>422</b>	<b>7,754</b>	<b>113,460</b>

**24 Income Taxes (Continued)**

	31 December 2008	Credited/ (charged) to profit or loss	Credited/ (charged) to other comprehensive income	Charged directly to equity	31 December 2009
<i>In thousands of Ukrainian hryvnias</i>					
<b>Tax effect of deductible/(taxable) temporary differences</b>					
Premises and equipment	(12,593)	6,727	1,785	-	(4,081)
Financing obtained from the parent company	(28,287)	13,666	-	(12,833)	(27,454)
Loan impairment provision	37,691	16,018	-	-	53,709
Fair valuation of investment securities available for sale	284	55	(266)	-	73
Measurement of financial instruments at amortised cost	3,021	(46,254)	-	-	(43,233)
Accruals	1,597	1,070	-	-	2,667
Other	129	32	-	-	161
Tax losses carried forward	-	81,179	-	-	81,179
<b>Net deferred tax asset/(liability)</b>	<b>1,842</b>	<b>72,493</b>	<b>1,519</b>	<b>(12,833)</b>	<b>63,021</b>
Gross deferred tax asset	42,722	95,333	(266)	-	137,789
Gross deferred tax liability	(40,880)	(22,840)	1,785	(12,833)	(74,768)
<b>Net deferred tax asset/(liability)</b>	<b>1,842</b>	<b>72,493</b>	<b>(1,519)</b>	<b>(12,833)</b>	<b>63,021</b>

**(d) Current and deferred tax effects relating to each component of other comprehensive income**

Current and deferred tax effects relating to each component of other comprehensive income are as follows:

	2010			2009		
	Before-tax amount	Income tax (expense) / benefit	Net-of-tax amount	Before-tax amount	Income tax (expense) / benefit	Net-of-tax amount
<i>In thousands of Russian Roubles</i>						
Available-for-sale investments:						
- Gains less losses arising during the year	5,552	(916)	4,636	1,030	(258)	772
- Reclassification adjustments for losses less gains included in profit or loss	63	(16)	47	33	(8)	25
Revaluation of premises	(2,754)	1,354	(1,400)	(7,139)	1,785	(5,354)
<b>Other comprehensive income</b>	<b>2,861</b>	<b>422</b>	<b>3,283</b>	<b>(6,076)</b>	<b>1,519</b>	<b>(4,557)</b>

In addition, the deferred tax expense of UAH 7,193 thousand (2009: UAH 12,833 thousand) has been recorded directly in equity in respect of the gain on initial recognition of financing received from the parent company at rates below market. Additionally, a deferred tax credit of UAH 14,947 thousand has been recorded directly in equity in respect of the impact of a change in income tax rate on an additional capital. Refer to Note 14.

## **25 Financial Risk Management**

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

As disclosed in Note 1 in September 2007 the Bank became a subsidiary of Piraeus Bank S.A. and after the change in shareholders the Bank launched a process of updating its risk management policies and procedures to align them with policies and procedures established by Piraeus Bank Group.

The Bank's risk management policies and systems are continuously modified and enhanced to reflect changes in the Bank's organizational structure, markets and products.

**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.

The Bank's maximum exposure to credit risk is reflected in the carrying amounts of financial assets on the balance sheet. For guarantees and commitments to extend credit, the maximum exposure to credit risk is the amount of the commitment. Refer to Note 26. The credit risk is mitigated by collateral and other credit enhancements as disclosed in Note 8.

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to industry segments. Credit risk limits are approved by Management Board. Decisions on taking risk exposures within the limits set by Management Board are made by credit committees.

The Bank established a number of credit committees which are responsible for approving credit limits for individual borrowers and for monitoring loans:

- The Corporate Credit Committee reviews and approves credit applications of corporate clients and approves credit limits for banks – counterparties. It also considers credit risks in taking investment decisions;
- The Retail Lending Credit Committee is responsible for review and approval of retail loan applications;
- The Corporate Executive Credit Committee is responsible for taking decisions on recovery of impaired loans granted to corporate borrowers, as well as monitoring, analysis and taking decisions in respect of "watch list" corporate borrowers; and
- The Retail Executive Committee takes decisions on recovery of impaired retail loans, as well as monitors, analyses and takes decisions in respect of "watch list" retail exposures.

## **25 Financial Risk Management (Continued)**

Loan applications originated by credit officers of branches, are considered by Corporate Lending Department (applications below USD 5 million), Corporate Banking Department (applications exceeding USD 5 million) and Retail Credit Division, with further presentation to the relevant credit committee for approval of credit limit. Exposure to credit risk is also managed, in part, by obtaining collateral and corporate and personal guarantees.

In order to monitor credit risk exposures, Retail Credit Division, Corporate Credit Department and Corporate Banking Department are regularly analyzing borrowers' financial performance and quality of debt service. Risk Department carries out controlling function on the portfolio level, namely: through analysis of size, structure, quality and trends. Management Board and Supervisory Board execute a strategic control over the Bank's compliance with credit risk management policies through quarterly analysis of reports on loan portfolio's credit quality prepared in accordance with Piraeus Group reporting standards.

Any significant exposures against customers with deteriorating creditworthiness are reported to and reviewed by Management Board and Supervisory Board.

The Bank's management reviews ageing analysis of outstanding loans and follows up on past due balances. This analysis is performed on a regular basis by the Corporate and Retail Credit Committees that meets for this purpose on as-needed basis but at least monthly. The follow-up procedures include contacts with borrowers, development of restructuring plans, legal actions and foreclosure of collateral. Management therefore considers it appropriate to provide ageing and other information about credit risk as disclosed in Notes 8, 9 and 12.

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

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

The management of market risks includes: a) assessment of possible losses arising from financial instruments' price movements with open positions; b) comparing estimated losses with set limits and c) changing positions to keep losses within set limits. At the tactical level, market risks are managed by the Bank's Assets and Liabilities Management Committee (ALCO) which meets on a monthly basis. Risk Management Department monitors open positions for currency, interest and other market risks and their trends. The results of market risk monitoring performed are reported by Risk Management Department to ALCO.

**25 Financial Risk Management (Continued)**

**Currency risk.** In respect of currency risk, management considers the level of exposure by currency and in total for overnight positions, which are monitored daily and compared with the limits of long/short open currency positions set by the NBU.

The table below summarises the Bank's exposure to foreign currency exchange rate risk at the end of the reporting period:

<i>In thousands of Ukrainian hryvnias</i>	At 31 December 2010				At 31 December 2009			
	Mone- tary financial assets	Mone- tary financial liabilities	Deri- vatives	Net balance sheet position	Mone- tary financial assets	Mone- tary financial liabilities	Deri- vatives	Net balance sheet position
Ukrainian hryvnias	1,053,729	759,538	102,840	397,031	675,993	414,032	(55,645)	206,316
US Dollars	1,583,554	2,004,936	(102,715)	(524,097)	1,785,733	2,036,043	31,940	(218,370)
Euros	247,659	260,235	-	(12,576)	235,336	256,485	22,921	1,772
Other	6,352	4,477	-	1,875	2,180	1,647	-	533
<b>Total</b>	<b>2,891,294</b>	<b>3,029,186</b>	<b>125</b>	<b>(137,767)</b>	<b>2,699,242</b>	<b>2,708,207</b>	<b>(784)</b>	<b>(9,749)</b>

Other currencies mainly include Russian Roubles.

Derivatives presented above are monetary financial assets or monetary financial liabilities, but are presented separately in order to show the Bank's gross exposure. Amounts disclosed in respect of derivatives represent the fair value, at the end of the reporting period, 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 27. The net total represents the fair value of the currency derivatives. The above analysis includes only monetary assets and liabilities. Investments in equities and non-monetary assets are not considered to give rise to any material currency risk.

The following table presents sensitivities of profit 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 2010 Impact on profit or loss and on equity	At 31 December 2009 Impact on profit or loss and on equity
US Dollars strengthening by 5% (2009: strengthening by 5%)	(26,205)	(10,919)
US Dollars weakening by 5% (2009: weakening by 5%)	26,205	10,919
Euro strengthening by 5% (2009: strengthening by 5%)	629	89
Euro weakening by 5% (2009: weakening by 5%)	(629)	(89)
Other strengthening by 5% (2009: strengthening by 5%)	94	27
Other weakening by 5% (2009: weakening by 5%)	(94)	(27)

**Interest rate risk.** The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. The interest risk management is intended to ensure an optimal structure (including repricing terms) of interest rate sensitive assets and liabilities. This structure is managed by pricing decisions in respect of interest bearing assets and liabilities depending on their type, currency and term. ALCO monitors on a monthly basis and sets limits on the level of mismatch of interest rate repricing that may be undertaken.

**25 Financial Risk Management (Continued)**

The table below summarises the Bank's exposure to interest rate risks. The table presents the aggregated amounts of the Bank's financial assets and liabilities at carrying amounts, categorised by the earlier of contractual interest repricing or maturity dates.

<i>In thousands of Ukrainian hryvnias</i>	<b>Demand and less than 1 month</b>	<b>From 1 to 3 months</b>	<b>From 3 to 12 months</b>	<b>From 1 to 5 years</b>	<b>More than 5 years</b>	<b>Non- mone- tary</b>	<b>Total</b>
<b>31 December 2010</b>							
Total financial assets	960,948	459,511	167,115	1,171,632	132,213	25	2,891,444
Total financial liabilities	1,576,576	1,100,502	351,167	120	821	-	3,029,186
<b>Net interest sensitivity gap at 31 December 2010</b>							
	<b>(615,628)</b>	<b>(640,991)</b>	<b>(184,052)</b>	<b>1,171,512</b>	<b>131,392</b>	<b>25</b>	<b>(137,742)</b>
<b>31 December 2009</b>							
Total financial assets	565,268	329,007	94,786	1,369,405	340,838	25	2,699,329
Total financial liabilities	1,321,843	1,227,596	158,283	1,331	-	-	2,709,053
<b>Net interest sensitivity gap at 31 December 2009</b>							
	<b>(756,575)</b>	<b>(898,589)</b>	<b>(63,497)</b>	<b>1,368,074</b>	<b>340,838</b>	<b>25</b>	<b>(9,724)</b>

As at 31 December 2010 most of the Bank's financial assets and liabilities have fixed interest rates. Interest is accrued at floating rates on the following financial liabilities:

- on the financing obtained from the parent company in USD totalling UAH 1,198,719 thousand (2009: UAH 1,294,632 thousand) the interest rate is 1MLIBOR or 3MLibor + 3 or 4%;
- on the financing obtained from the parent company in EUR totalling UAH 98,817 thousand (2009: UAH 170,460 thousand) the interest rate is 1MEuribor+3%; and
- on the subordinated debt the interest rate is 3MLibor+1,5% (2009: 3MLibor+3%).

At 31 December 2010, if interest rates on financial instruments denominated in UAH at that date had been 200 basis points higher/lower (2009: 300 basis points higher/lower) with all other variables held constant, loss for the year would not be affected. Other components of equity would have been UAH 2,838 thousand (2009: UAH 250 thousand) lower/higher, mainly as a result of a decrease/increase in the fair value of fixed rate financial assets classified as available for sale.

At 31 December 2010, if interest rates on financial instruments denominated in USD at that date had been 25 basis points higher/lower (2009: 25 basis points higher/lower) with all other variables held constant, profit for the year would have been UAH 4,001 thousand (2009: UAH 4,236 thousand) lower/higher, mainly as a result of higher/lower interest expenses on variable interest liabilities.

At 31 December 2010, if on average interest rates on financial instruments denominated in EUR at that date had been 25 basis points higher/lower (2009: 25 basis points higher/lower) with all other variables held constant, profit for the year would have been UAH 247 thousand (2009: UAH 426 thousand) lower/higher, mainly as a result of higher/lower interest expenses on variable interest liabilities.

**25 Financial Risk Management (Continued)**

The Bank monitors interest rates for its financial instruments. The table below summarises interest rates based on effective rates of financial instruments outstanding at the end of the reporting period:

<i>In % p.a.</i>	2010			2009		
	UAH	USD	Euro	UAH	USD	Euro
<b>Assets</b>						
Correspondent accounts and overnight placements with other banks	0.2	0	0	-	1.4	1.3
Correspondent account with the NBU	2.3	-	-	0.8	-	-
Loans and advances to customers	17.4	9.8	10.8	18.9	12.0	12.4
Debt investment securities available for sale	7.4	-	-	12.0	-	-
<b>Liabilities</b>						
Due to other banks	-	3.7	3.8	-	3.7	3.5
Customer accounts						
- current/settlement accounts of legal entities	6.1	3.5	0.5	8.7	7.7	3.5
- current/ demand accounts of individuals	4.7	3.6	2.9	4.2	2.3	0.5
- term deposits of legal entities	15.2	9.1	-	19.0	9.2	-
- term deposits of individuals	16.2	8.6	7.3	21.1	11.4	9.8
- saving accounts of individuals	10.1	5.5	3.5	12.8	8.0	7.7
Subordinated debt	-	3.0	-	-	3.3	-

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

**Geographical risk concentrations.** The geographical concentration of the Bank’s financial assets and liabilities at 31 December 2010 is set out below:

<i>In thousands of Ukrainian hryvnias</i>	Ukraine	OECD	Non-OECD	Total
<b>Assets</b>				
Cash and cash equivalents and mandatory reserves	187,944	3,121	456,131	647,196
Loans and advances to customers	1,879,179	-	-	1,879,179
Investment securities available for sale	363,812	-	-	363,812
Other financial assets	1,257	-	-	1,257
<b>Total financial assets</b>	<b>2,432,192</b>	<b>3,121</b>	<b>456,131</b>	<b>2,891,444</b>
<b>Liabilities</b>				
Due to other banks	15,925	1,297,536	-	1,313,461
Customer accounts	1,269,233	41,333	1,548	1,312,114
Other financial liabilities	2,017	-	-	2,017
Subordinated debt	-	401,594	-	401,594
<b>Total financial liabilities</b>	<b>1,287,175</b>	<b>1,740,463</b>	<b>1,548</b>	<b>3,029,186</b>
<b>Net position in on-balance sheet financial instruments</b>	<b>1,145,017</b>	<b>(1,737,342)</b>	<b>454,583</b>	<b>(137,742)</b>
<b>Credit related commitments (Note 27)</b>	<b>12,167</b>	<b>-</b>	<b>-</b>	<b>12,167</b>

**25 Financial Risk Management (Continued)**

Assets, liabilities and credit related commitments have been classified based on the country in which the counterparty is located. Cash on hand and premises and equipment have been allocated based on the country in which they are physically held.

The geographical concentration of the Bank's financial assets and liabilities at 31 December 2009 is set out below:

<i>In thousands of Ukrainian hryvnias</i>	<b>Ukraine</b>	<b>OECD</b>	<b>Non-OECD</b>	<b>Total</b>
<b>Assets</b>				
Cash and cash equivalents and mandatory reserves	155,995	370,455	1,816	528,266
Loans and advances to customers	2,164,783	-	-	2,164,783
Investment securities available for sale	5,403	-	-	5,403
Other financial assets	877	-	-	877
<b>Total financial assets</b>	<b>2,327,058</b>	<b>370,455</b>	<b>1,816</b>	<b>2,699,329</b>
<b>Liabilities</b>				
Due to other banks	-	1,585,246	-	1,585,246
Customer accounts	703,248	14,043	2,929	720,220
Other financial liabilities	3,978	-	-	3,978
Subordinated debt	-	399,609	-	399,609
<b>Total financial liabilities</b>	<b>707,226</b>	<b>1,998,898</b>	<b>2,929</b>	<b>2,309,444</b>
<b>Net position in on-balance sheet financial instruments</b>	<b>1,619,832</b>	<b>(1,628,443)</b>	<b>(1,113)</b>	<b>389,885</b>
<b>Credit related commitments (Note 27)</b>	<b>2,553</b>	<b>-</b>	<b>-</b>	<b>2,553</b>

## **25 Financial Risk Management (Continued)**

**Liquidity risk.** Liquidity risk is 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 drawdowns, guarantees and from 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.

Liquidity risk is managed in the Bank at three levels. The first level includes the preparation of strategic plans. The main principles of the strategic liquidity management are defined during the business plan preparation in the form of defining volumes and structure of the Bank's assets and liabilities. At the second level the tactical goals and ways of their realisation are set. The tactical liquidity management is performed by the Bank's ALCO and includes a regular analysis of the respective reports and preparation of guidelines for the Bank's business units which directly influence the volume and structure of the Bank's transactions. The third level liquidity management implies matching of current cash inflows and outflows and is performed daily by the Bank's Treasury Department.

The Bank seeks to maintain a stable funding base primarily consisting of amounts due to other banks, corporate and retail customer deposits. The Bank invests 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 requirements 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 113% at 31 December 2010 (2009: 158%) with the minimum required limit of 20% (2009: 20%).
- Current liquidity ratio (N5), which is calculated as the ratio of liquid assets to liabilities maturing within 31 calendar days. The ratio was 126% at 31 December 2010 (2009: 108%) with the minimum required limit of 40% (2009: 40%).
- Short-term liquidity ratio (N6), which is calculated as the ratio of liquid assets to liabilities with original maturity of up to one year. The ratio was 102% at 31 December 2010 (2009: 54%) with the minimum required limit of 60% (2009: 20%).

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

The daily liquidity position is monitored by the Treasury Department.

The table below shows liabilities at 31 December 2010 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 gross settled currency swaps, gross loan commitments and financial guarantees. Such undiscounted cash flows differ from the amount included in the statement of financial position because the amount in the statement of financial position is based on discounted cash flows.

The table below shows maturity analysis of non-derivative financial assets at their carrying amounts and based on their contractual maturities except for assets that are readily saleable in case it would be necessary to meet cash outflows on financial liabilities. Such financial assets are included in the maturity analysis based on their expected date of disposal. Impaired loans are included at their carrying amounts net of impairment provisions and based on the expected timing of cash inflows. Derivatives are presented based on their contractual maturities.

**25 Financial Risk Management (Continued)**

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

The maturity analysis of financial instruments at 31 December 2010 is as follows:

<i>In thousands of Ukrainian hryvnias</i>	<b>Demand and less than 1 month</b>	<b>From 1 to 3 months</b>	<b>From 3 to 12 months</b>	<b>From 12 months to 5 years</b>	<b>Over 5 years</b>	<b>No stated maturity</b>	<b>Total</b>
<b>Assets</b>							
Cash and cash equivalents and mandatory reserves	647,196	-	-	-	-	-	647,196
Loans and advances to customers	319	273,945	177,183	1,295,519	132,213	-	1,879,179
Investment securities available for sale	272,196	29,671	14,199	47,721	-	25	363,812
Gross settled derivatives							-
- inflow	102,840	-	-	-	-	-	102,840
- outflow	(102,715)	-	-	-	-	-	(102,715)
Other financial assets	1,132	-	-	-	-	-	1,132
<b>Total financial assets</b>	<b>920,968</b>	<b>303,616</b>	<b>191,382</b>	<b>1,343,240</b>	<b>132,213</b>	<b>25</b>	<b>2,891,444</b>
<b>Liabilities</b>							
Due to other banks	16,981	313,254	134,021	909,015	15,764	-	1,389,035
Customer accounts	725,647	250,050	365,717	153	-	-	1,341,567
Other financial liabilities	2,017	-	-	-	-	-	2,017
Subordinated debt	-	-	-	57,274	450,896	-	508,170
Promissory notes endorsements	11,990	-	-	-	-	-	11,990
Guarantees issued	177	-	-	-	-	-	177
<b>Total financial liabilities</b>	<b>756,812</b>	<b>563,304</b>	<b>499,738</b>	<b>966,442</b>	<b>466,660</b>	<b>-</b>	<b>3,252,956</b>
<b>Net liquidity gap</b>	<b>164,156</b>	<b>(259,688)</b>	<b>(308,356)</b>	<b>376,798</b>	<b>(334,447)</b>	<b>25</b>	<b>(361,512)</b>

**25 Financial Risk Management (Continued)**

The maturity analysis of financial instruments at 31 December 2009 is as follows:

<i>In thousands of Ukrainian hryvnias</i>	<b>Demand and less than 1 month</b>	<b>From 1 to 3 months</b>	<b>From 3 to 12 months</b>	<b>From 12 months to 5 years</b>	<b>Over 5 years</b>	<b>No stated maturity</b>	<b>Total</b>
<b>Assets</b>							
Cash and cash equivalents and mandatory reserves	502,893	25,373	-	-	-	-	528,266
Loans and advances to customers	61,483	303,593	94,214	1,364,655	340,838	-	2,164,783
Investment securities available for sale	15	41	572	4,750	-	25	5,403
Gross settled derivatives							
- inflow	31,940	-	-	-	-	-	31,940
- outflow	(31,878)	-	-	-	-	-	(31,878)
Other financial assets	815	-	-	-	-	-	815
<b>Total financial assets</b>	<b>565,268</b>	<b>329,007</b>	<b>94,786</b>	<b>1,369,405</b>	<b>340,838</b>	<b>25</b>	<b>2,699,329</b>
<b>Liabilities</b>							
Due to other banks	86,443	148,609	87,316	1,178,236	113,548	-	1,614,152
Customer accounts	404,066	207,121	125,811	1,413	-	-	738,411
Gross settled derivatives							
- inflow	(22,938)	-	-	-	-	-	(22,938)
- outflow	24,007	-	-	-	-	-	24,007
Other financial liabilities	3,132	-	-	-	-	-	3,132
Subordinated debt	3,245	9,735	51,922	464,224	-	-	529,126
Promissory notes endorsements	1,020	-	-	-	-	-	1,020
Guarantees issued	1,533	-	-	-	-	-	1,533
<b>Total financial liabilities</b>	<b>500,508</b>	<b>365,465</b>	<b>265,049</b>	<b>1,643,873</b>	<b>113,548</b>	<b>-</b>	<b>2,888,443</b>
<b>Net liquidity gap</b>	<b>64,760</b>	<b>(36,458)</b>	<b>(170,263)</b>	<b>(274,468)</b>	<b>227,290</b>	<b>25</b>	<b>(189,114)</b>

Payments in respect of gross settled derivatives will be accompanied by related cash inflows which are disclosed at their present values in Note 28. 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.

**25 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:

<i>In thousands of Ukrainian hryvnias</i>	<b>Demand and less than 1 month</b>	<b>From 1 to 3 months</b>	<b>From 3 to 12 months</b>	<b>From 12 months to 5 years</b>	<b>Over 5 years</b>	<b>No stated maturity</b>	<b>Total</b>
<b>At 31 December 2010</b>							
Financial assets	920,968	303,616	191,382	1,343,240	132,213	25	2,891,444
Financial liabilities	739,843	549,516	478,054	849,955	411,818	-	3,029,186
<b>Net liquidity gap based on expected maturities</b>	<b>181,125</b>	<b>(245,900)</b>	<b>(286,672)</b>	<b>493,285</b>	<b>(279,605)</b>	<b>25</b>	<b>(137,742)</b>
<b>Cumulative liquidity gap</b>	<b>181,125</b>	<b>(64,775)</b>	<b>(351,447)</b>	<b>141,838</b>	<b>(137,767)</b>	<b>(137,742)</b>	<b>-</b>
<b>At 31 December 2009</b>							
Financial assets	565,268	329,007	94,786	1,369,405	340,838	25	2,699,329
Financial liabilities	488,857	347,661	198,205	1,162,269	512,061	-	2,709,053
<b>Net liquidity gap based on expected maturities</b>	<b>76,411</b>	<b>(18,654)</b>	<b>(103,419)</b>	<b>207,136</b>	<b>(171,223)</b>	<b>25</b>	<b>(9,724)</b>
<b>Cumulative liquidity gap</b>	<b>76,411</b>	<b>57,757</b>	<b>(45,662)</b>	<b>161,474</b>	<b>(9,749)</b>	<b>(9,724)</b>	<b>-</b>

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.

Liquidity requirements to support calls under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Bank does not generally expect the third party to draw funds under the agreement. The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded. Refer to Note 27.

As at 31 December 2010 the Bank has a cumulative maturity mismatch of the assets and liabilities maturing within 12 months. This liquidity mismatch arises due to the fact that a significant source of finance for the Bank as at 31 December 2010 were customer accounts being on demand and maturing in up to 12 months. 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 customer accounts provide a long-term and stable source of funding for the Bank. The Bank expects that the parent company will continue to provide support to the Bank so as to ensure that it will always have adequate funds to meet its liabilities when they fall due and to be in compliance with the local solvency and capital adequacy requirements set out for the banks in Ukraine. In addition, as disclosed in Note 32, the additional capital increase in the amount of UAH 785,000 thousand was approved by the Bank's shareholders at the annual General Shareholders Meeting in March 2011 and fully paid in May-June 2011.



## **26 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, and (ii) to safeguard the Bank's ability to continue as a going concern. The Bank considers total capital under management to be equity as shown in the balance sheet. The amount of capital that the Bank managed as of 31 December 2010 was UAH 243,965 thousand (2009: UAH 360,488 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 Chairman of the Board and Chief Accountant. Other objectives of capital management are evaluated annually.

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

<i>In thousands of Ukrainian hryvnias</i>	<b>2010</b>	<b>2009</b>
Primary capital	282,094	343,225
Additional capital	282,094	343,225
Deductions	(4)	(6)
<b>Total regulatory capital</b>	<b>564,184</b>	<b>686,444</b>

The Bank has complied with all externally imposed capital requirements as at 31 December 2010 and 31 December 2009.

## **27 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 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 and sophisticated approach in their interpretation of the legislation and tax examinations. Combined with a possible increase in tax collection efforts to respond to budget pressures, the above may lead to an increase in the level and frequency of scrutiny by the tax authorities and it is possible that transactions and activities that had not been challenged in the past may be challenged. As a result, significant additional taxes, penalties and interest may be assessed.

As disclosed in Note 2, on 2 December 2010, the Ukrainian Parliament adopted the new Tax Code, which provides for the reduction in tax rates and introduces new approaches to the determination of revenue and costs, new tax depreciation rules for fixed assets and intangibles, new approach to recognition of foreign exchange differences, which now became more close to the financial accounting rules. However, the new tax rules have not yet been tested in practice nor confirmed by interpretation given in courts or by the tax authorities. Therefore, at the moment their interpretation and practical application remains unclear.

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.

**27 Contingencies and Commitments (Continued)**

**Capital expenditure commitments.** At 31 December 2010 the Bank has contractual capital expenditure commitments in respect of premises and equipment totalling UAH 546 thousand (2009: UAH 736 thousand) and in respect of software and other intangible assets of UAH 216 thousand (2009: UAH 121 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>	<b>2010</b>	<b>2009</b>
Not later than 1 year	7,176	14,312
Later than 1 year and not later than 5 years	288	15,756
<b>Total operating lease commitments</b>	<b>7,464</b>	<b>30,068</b>

**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, if the unused amounts were to be drawn down. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The 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 credit related commitments are as follows:

<i>In thousands of Ukrainian hryvnias</i>	<b>2010</b>	<b>2009</b>
Promissory notes endorsements	11,990	1,020
Guarantees issued	177	1,533
<b>Total credit related commitments</b>	<b>12,167</b>	<b>2,553</b>

The total outstanding contractual amount of credit related commitments does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded. The fair value of credit related commitments was UAH 486 thousand at 31 December 2010 (2009: UAH 102 thousand).

As at 31 December 2010 all commitments to extend credit are revocable and amount to UAH 221,560 thousand (31 December 2009: all revocable and amounted to UAH 218,138 thousand).

As at 31 December 2010 irrevocable commitments under promissory notes endorsements and guarantees issued by the Bank in the amount of UAH 90 thousand (2009: UAH 2,553 thousand) are secured by cash deposits in the amount of UAH 90 thousand (2009: UAH 2,446 thousand).

## 26 Contingencies and Commitments (Continued)

Credit related commitments are denominated in currencies as follows:

<i>In thousands of Ukrainian hryvnias</i>	2010	2009
Ukrainian hryvnias	177	1,151
Euro	11,990	1,402
<b>Total</b>	<b>12,167</b>	<b>2,553</b>

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

<i>In thousands of Ukrainian hryvnias</i>	Notes	2010		2009	
		Asset pledged	Related liability	Asset pledged	Related liability
Gross receivables under currency swaps	28	102,840	(102,715)	54,861	(55,645)
<b>Total</b>		<b>102,840</b>	<b>(102,715)</b>	<b>54,861</b>	<b>(55,645)</b>

In addition, mandatory reserve balances in the amount of UAH 15,629 thousand (2009: UAH 48,208 thousand) represent mandatory reserve assets which are not available to finance the Bank's day to day operations (Note 7) and UAH 46,451 thousand investment securities available for sale (2009: none) were used to satisfy the Bank's mandatory reserve requirements (Note 9).

## 28 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 end of the reporting period, 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 end of the respective reporting period. The contracts are short term in nature.

<i>In thousands of Ukrainian hryvnias</i>	Notes	2010		2009	
		Contracts with positive fair value	Contracts with negative fair value	Contracts with positive fair value	Contracts with negative fair value
<b>Foreign exchange swaps: fair values, at the balance sheet date, of</b>					
- USD receivable on settlement (+)		102,840	-	31,940	-
- Euros receivable on settlement (+)		-	-	-	22,921
- UAH payable on settlement (-)		(102,715)	-	(31,878)	(23,767)
<b>Net fair value of foreign exchange forwards and swaps</b>	<b>12, 16</b>	<b>125</b>	<b>-</b>	<b>62</b>	<b>(846)</b>

During the year ended 31 December 2010 the Bank recorded a loss of UAH 591 thousand (2009: a loss of UAH 15,220 thousand) resulting from transactions with foreign exchange swaps.

**29 Fair Value of Financial Instruments**

**(a) Fair values of financial instruments carried at amortised cost.**

Fair values of financial instruments carried at amortised cost are as follows:

<i>In thousands of Ukrainian hryvnias</i>	<b>2010</b>		<b>2009</b>	
	<b>Carrying amount</b>	<b>Fair value</b>	<b>Carrying amount</b>	<b>Fair value</b>
<b>FINANCIAL ASSETS</b>				
<b>Cash and cash equivalents</b>				
- Cash on hand	54,990	54,990	51,911	51,911
- Cash balances with the NBU (other than mandatory reserve deposits)	116,816	116,816	55,515	55,515
- Mandatory cash balances with the NBU	15,629	15,629	48,208	48,208
- Correspondent accounts and overnight placements with other banks	459,761	459,761	372,632	372,632
<b>Loans and advances to customers</b>				
- Corporate loans	1,503,241	1,514,881	1,682,579	1,665,392
- Loans to individuals – entrepreneurs	223,478	215,969	298,401	300,662
- Residential mortgage loans	82,743	75,923	97,452	85,080
- Loans to individuals - consumer loans	69,717	73,903	86,351	83,147
<b>Other financial assets</b>				
- Amounts in the course of settlements	773	773	482	482
- Accrued income receivable	115	115	85	85
- Credit and debit cards receivables	244	244	248	248
<b>TOTAL FINANCIAL ASSETS CARRIED AT AMORTISED COST</b>	<b>2,527,507</b>	<b>2,529,004</b>	<b>2,693,864</b>	<b>2,663,362</b>
<b>FINANCIAL LIABILITIES</b>				
<b>Due to other banks</b>				
- Financing obtained from the parent company	1,297,536	1,303,617	1,585,246	1,594,807
- Short-term placements of other banks	15,925	15,925	-	-
<b>Customer accounts</b>				
- Current/settlement accounts of legal entities	225,898	225,898	145,324	145,324
- Term deposits of legal entities	146,591	145,191	82,403	81,820
- Current/demand accounts of individuals	39,308	39,308	16,146	16,146
- Saving accounts of individuals	254,289	254,289	110,122	110,122
- Term deposits of individuals	646,028	648,548	366,225	366,150
<b>Other financial liabilities</b>				
- Debit or credit card payables	1,241	1,241	474	474
- Funds in settlements	557	557	977	977
- Other accrued liabilities	219	219	1,681	1,681
<b>Subordinated debt</b>	<b>401,594</b>	<b>401,594</b>	<b>399,609</b>	<b>399,609</b>
<b>TOTAL FINANCIAL LIABILITIES CARRIED AT AMORTISED COST</b>	<b>3,029,186</b>	<b>3,036,387</b>	<b>2,708,207</b>	<b>2,717,110</b>

**29 Fair Value of Financial Instruments (Continued)**

**(b) Analysis by fair value hierarchy of financial instruments carried at fair value.**

For financial instruments carried at fair value, the level in the fair value hierarchy into which the fair values are categorised are as follows:

	2010		2009	
	Quoted price in an active market (Level 1)	Valuation technique with inputs observable in markets (Level 2)	Quoted price in an active market (Level 1)	Valuation technique with inputs observable in markets (Level 2)
<b>FINANCIAL ASSETS</b>				
<b>Investment securities available for sale</b>				
	<b>178,560</b>	<b>185,227</b>	<b>5,378</b>	-
- Ukrainian government bonds	176,584	-	-	-
- Deposit certificates issued by the NBU	-	185,227	-	-
- Municipal bonds	1,976	-	5,378	-
- Corporate shares	-	-	-	-
<b>Other financial assets</b>	-	<b>125</b>	-	<b>62</b>
- Derivative financial assets	-	125	-	62
<hr/>				
<b>TOTAL FINANCIAL ASSETS CARRIED AT FAIR VALUE</b>	<b>178,560</b>	<b>185,352</b>	<b>5,378</b>	<b>62</b>
<hr/>				
<b>FINANCIAL LIABILITIES</b>				
<b>Other financial liabilities</b>				
	-	-	-	<b>846</b>
- Derivative financial instruments	-	-	-	846
<hr/>				
<b>TOTAL FINANCIAL LIABILITIES CARRIED AT FAIR VALUE</b>	-	-	-	<b>846</b>

Management applies judgement in categorising financial instruments using the fair value hierarchy. If a fair value measurement uses observable inputs that require significant adjustment, that measurement is a Level 3 measurement. Significance of a valuation input is assessed against the fair value measurement in its entirety.

Gains and losses on derivatives are included in profit or loss for the year.

**29 Fair Value of Financial Instruments (Continued)**

**(c) The methods and assumptions applied in determining fair values.**

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. 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:

	<b>2010</b>	<b>2009</b>
<b>Loans and advances to customers</b>		
- Corporate loans	9.7% to 18.5% p.a.	9.4% to 22.9% p.a.
- Loans to individuals – entrepreneurs	9.7% to 18.5% p.a.	9.4% to 22.9% p.a.
- Loans to individuals - consumer loans	9.8% to 24.4% p.a.	13.6% to 24.1% p.a.
- Residential mortgage loans	9.8% to 24.4% p.a.	13.6% to 24.1% p.a.
<b>Other financial assets</b>		
Derivative financial assets		
- gross amounts to be delivered to the Bank	0.1% to 0.5% p.a.	1% to 1.5% p.a.
- gross amounts to be delivered by the Bank	6% to 11.1% p.a.	19% p.a.
<b>Due to other banks</b>		
- Financing obtained from the parent company	3.3% to 3.8% p.a.	3.2% to 3.4% p.a.
- Short-term placements of other banks	1.5% p.a.	n/a
<b>Customer accounts</b>		
- Term deposits of legal entities	6.0% to 12.3% p.a.	8.3% to 15.6% p.a.
- Term deposits of individuals	4.0% to 15.8% p.a.	8.1% to 22.3% p.a.
<b>Other financial liabilities</b>		
Derivative financial liabilities		
- gross amounts to be delivered to the Bank	n/a	2% p.a.
- gross amounts to be delivered by the Bank	n/a	17.8% p.a.

Certain valuation techniques required assumptions that were not supported by observable market data. Changing any such used assumptions to a reasonably possible alternative would not result in significantly different profit, income, total assets or total liabilities. The total net fair value gain estimated using valuation techniques that was recognised in profit or loss amounts to UAH 125 thousand (2009: net fair value loss amounted to UAH 791 thousand).

**30 Presentation of Financial Instruments by Measurement Category**

For the purposes of measurement, IAS 39, *Financial Instruments: Recognition and Measurement*, classifies financial assets into the following categories: (a) loans and receivables; (b) available-for-sale financial assets; (c) financial assets held to maturity and (d) financial assets at fair value through profit or loss (“FVTPL”). Financial assets at fair value through profit or loss have two subcategories: (i) assets designated as such upon initial recognition, and (ii) those classified as held for trading. The following table provides a reconciliation of classes of financial assets with these measurement categories as of 31 December 2010:

<i>In thousands of Ukrainian hryvnias</i>	<b>Loans and receiv- ables</b>	<b>Available- for-sale assets</b>	<b>Trading assets</b>	<b>Total</b>
<b>ASSETS</b>				
<b>Cash and cash equivalents and mandatory reserves</b>				
- Cash on hand	54,990	-	-	54,990
- Cash balances with the NBU (other than mandatory reserve deposits)	116,816	-	-	116,816
- Mandatory cash balances with the NBU	15,629	-	-	15,629
- Correspondent accounts and overnight placements	459,761	-	-	459,761
<b>Loans and advances to customers</b>				
- Corporate loans	1,503,241	-	-	1,503,241
- Loans to individuals - entrepreneurs	223,478	-	-	223,478
- Residential mortgage loans	82,743	-	-	82,743
- Loans to individuals - consumer loans	69,717	-	-	69,717
<b>Investment securities available for sale</b>				
- Deposit certificates issued by the NBU	-	185,227	-	185,227
- Ukrainian government bonds	-	176,584	-	171,040
- Municipal bonds	-	1,976	-	7,520
- Corporate shares	-	25	-	25
<b>Other financial assets</b>				
- Amounts in the course of settlements	773	-	-	773
- Credit and debit card receivables	115	-	-	115
- Accrued income receivable	244	-	-	244
- Derivative financial assets	-	-	125	125
<b>TOTAL FINANCIAL ASSETS</b>	<b>2,527,507</b>	<b>363,812</b>	<b>125</b>	<b>2,891,444</b>

As of 31 December 2010 and 31 December 2009 all of the Bank’s financial liabilities except for derivatives were carried at amortised cost. Derivatives belong to the fair value through profit or loss measurement category.

**30 Presentation of Financial Instruments by Measurement Category (Continued)**

The following table provides a reconciliation of financial assets with the measurement categories at 31 December 2009:

<i>In thousands of Ukrainian hryvnias</i>	Loans and receiv- ables	Available- for-sale assets	Trading assets	Total
<b>ASSETS</b>				
<b>Cash and cash equivalents and mandatory reserves</b>				
- Cash on hand	51,911	-	-	51,911
- Cash balances with the NBU (other than mandatory reserve deposits)	55,515	-	-	55,515
- Mandatory cash balances with the NBU	48,208	-	-	48,208
- Correspondent accounts and overnight placements	372,632	-	-	372,632
<b>Loans and advances to customers</b>				
- Corporate loans	1,682,579	-	-	1,682,579
- Loans to individuals - entrepreneurs	298,401	-	-	298,401
- Residential mortgage loans	97,452	-	-	97,452
- Loans to individuals - consumer loans	86,351	-	-	86,351
<b>Investment securities available for sale</b>				
- Municipal bonds	-	5,378	-	5,378
- Corporate shares	-	25	-	25
<b>Other financial assets</b>				
- Amounts in the course of settlements	482	-	-	482
- Credit and debit card receivables	248	-	-	248
- Accrued income receivable	85	-	-	85
- Derivative financial assets	-	-	62	62
<b>TOTAL FINANCIAL ASSETS</b>	<b>2,693,864</b>	<b>5,403</b>	<b>62</b>	<b>2,699,329</b>

### 31 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 2010, the outstanding balances with related parties were as follows:

<i>In thousands of Ukrainian hryvnias</i>	<b>Parent company</b>	<b>Entities under common control</b>	<b>Key management personnel</b>
Correspondent accounts (contractual interest rate: 1.5%)	1,383	449,230	-
Gross amount of loans and advances to customers (contractual interest rate: 6-22%)	-	-	480
Impairment provisions for loans and advances to customers at 31 December	-	-	(70)
Due to other banks (contractual interest rate: 0.7 -1.2%)	1,297,536	-	-
Customer accounts (contractual interest rate: 0.5 -17.5%)	-	2,717	3,697
Other liabilities	-	-	276
Subordinated debt (contractual interest rate: 1.8%)	401,594	-	-

The income and expense items with related parties for 2010 were as follows:

<i>In thousands of Ukrainian hryvnias</i>	<b>Parent company</b>	<b>Entities under common control</b>	<b>Key management personnel</b>
Interest income	1,265	-	39
Interest expense	(88,352)	(51)	(333)
Provision for loan impairment	-	-	(43)
Losses from trading in foreign currencies	(307)	-	-
Administrative and other operating expenses	-	-	(8,710)

Aggregate amounts lent to and repaid by related parties during 2010 were:

<i>In thousands of Ukrainian hryvnias</i>	<b>Parent company</b>	<b>Entities under common control</b>	<b>Key management personnel</b>
Amounts lent to related parties during the period	-	-	-
Amounts repaid by related parties during the period	-	-	69

During 2010 a gain on initial recognition of financing received from the parent company at rates below market in the amount of UAH 28,772 thousand (2009: UAH 51,333 thousand) net of deferred tax effect of UAH 7,193 thousand (2009: UAH 12,833 thousand) has been recorded directly in equity as an additional capital.

### 31 Related Party Transactions (Continued)

In addition, in September 2010 the Bank sold repossessed collateral to an entity under common control for UAH 49,776 thousand. As a result of this transaction, the Bank recorded a gain on sale of UAH 13,097 thousand. This gain was included as other operating income in the statement of comprehensive income for the year.

At 31 December 2009, the outstanding balances with related parties were as follows:

<i>In thousands of Ukrainian hryvnias</i>	<b>Parent company</b>	<b>Key management personnel</b>
Correspondent accounts (contractual interest rate: 1.5%)	347,729	-
Gross amount of loans and advances to customers (contractual interest rate: 6 - 22%)	-	549
Impairment provisions for loans and advances to customers at 31 December	-	(27)
Due to other banks (contractual interest rate: 0.6 - 1.8%)	1,585,246	-
Customer accounts (contractual interest rate: 7 - 24%)	-	1,785
Other liabilities	-	251
Subordinated debt (contractual interest rate: 3.25%)	399,609	-

The income and expense items with related parties for 2009 were as follows:

<i>In thousands of Ukrainian hryvnias</i>	<b>Parent company</b>	<b>Key management personnel</b>
Interest income	69	48
Interest expense	(80,048)	(182)
Reversal of provision for loan impairment	-	151
Losses from trading in foreign currencies	(595)	-
Administrative and other operating expenses	-	(8,458)

Aggregate amounts lent to and repaid by related parties during 2009 were:

<i>In thousands of Ukrainian hryvnias</i>	<b>Parent company</b>	<b>Key management personnel</b>
Amounts lent to related parties during the period	-	616
Amounts repaid by related parties during the period	-	3,511

### 31 Related Party Transactions (Continued)

Key management compensation is presented below:

<i>In thousands of Ukrainian hryvnias</i>	2010		2009	
	Expense	Accrued liability	Expense	Accrued liability
<i>Short-term benefits:</i>				
- Salaries	7,113	276	5,593	251
- Short-term bonuses	3	-	1,736	-
- Social insurance and pension contributions	1,594	-	1,129	-
<b>Total</b>	<b>8,710</b>	<b>276</b>	<b>8,458</b>	<b>251</b>

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

### 32 Events After the End of the Reporting Period

**Increase in share capital.** In March 2011, the general shareholders meeting approved the increase of share capital of the Bank by UAH 785,000 thousand, which was fully paid in by Piraeus Bank S.A in May - June 2011. The shareholders meeting of 17 June 2011 approved the results of the new share issue and decided to make the respective changes to the Bank's Charter.