**OPEN JOINT-STOCK COMPANY**
**INTERNATIONAL INVEST BANK**

**Financial statements**
**for the year ended 31 December 2008**

**With Independent Auditors' Report**

**CONTENTS**

## Independent Auditor's Report

**To Shareholders and Management**
**Open joint-stock company International Invest Bank**

We have audited the accompanying financial statements of Open joint-stock company International Invest Bank, Ukraine (the Bank) consisting of the balance sheet as at 31 December 2008, income statement, statement of changes in equity and statement of cash flows for the year then ended, a summary of significant accounting policies and other explanatory notes.

### Management's responsibility

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

### Auditor's responsibility

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

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

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

**Opinion**

In our opinion, the financial statements present fairly, in all material aspects, the financial position of the Bank as at 31 December 2008, and its financial results and cash flows for the year then ended in accordance with IFRS.

**Emphasis of matter**

Without further qualifying our opinion we would like to draw your attention to the disclosures made in Note 2 to these financial statements concerning the Bank's ability to continue as a going concern. The conditions of the global financial and economic crisis, mentioned in this note, indicate the uncertainty, which might affect the Bank's ability to continue its operating activities in the future. These financial statements do not include any adjustments that would result if the Bank was unable to continue as a going concern.

Kyiv, 28 April 2009

LLC Audit Firm BDO Balance-Audit

**Statement of responsibility for preparation and approval of financial statements for the year ended 31 December 2008**

The following statement, which should be read in conjunction with the independent auditors' responsibilities stated in the independent auditors' report, is made with a purpose of distinguishing the respective responsibilities of management and those of the independent auditors in relation to the financial statements of Open Joint-Stock Company International Invest Bank.

Management is responsible for the preparation of the financial statements that present fairly, in all material aspects the financial position of the Bank as at 31 December 2008 and results of activities and cash flows for the year ended 31 December 2008, in accordance with International Financial Reporting Standards ("IFRS").

In preparing the financial statements, management is responsible for:

- Selecting suitable accounting principles and applying them consistently;
- Making reasonable estimates and calculations;
- Compliance with relevant IFRS and disclosure of all material departures in the Notes to financial statements;
- Preparing the financial statements on a going concern basis, unless it is inappropriate to presume that the Bank will continue in business in the foreseeable future.

The Bank Management is responsible for:

- Designing, implementing and maintaining an effective and sound system of the Bank internal controls;
- Maintaining proper accounting records that disclose, with reasonable accuracy at any time, the financial position of the Bank, and which enable them to ensure that the financial statements of the Bank comply with IFRS;
- Guaranteeing compliance of financial accounting with the legislative regulations and accounting standards in force in Ukraine;
- Taking such steps that are reasonably available to safeguard the assets of the Bank; and
- Preventing and detecting fraud and other irregularities.

These financial statements for the year ended 31 December 2008 were approved and signed on behalf of the Bank by:

Chairman of the Board ___________________ /Ludvyk K.A./

Chief Accountant ___________________ /Kolisnyk R.A./

28 April 2009

***('000 UAH)***

## Balance sheet as at 31 December 2008

| | Notes | 2008 |
|---|---|---|
| **Assets** | | |
| Cash and cash equivalents | 5 | **5,416** |
| Due from other banks | 6 | **21,947** |
| Loans and advances to customers | 7 | **54,495** |
| Securities available for sale | 8 | **17,358** |
| Property, equipment and intangible assets | 9 | **4,943** |
| Deferred tax assets | 10 | **1,097** |
| Other assets | 11 | **260** |
| **Total assets** | | **105,516** |
| **Liabilities** | | |
| Due to other banks | 12 | **17,745** |
| Due to clients | 13 | **14,857** |
| Other liabilities | 14 | **764** |
| **Total liabilities** | | **33,366** |
| **Equity** | | |
| Share capital | 15 | **75,750** |
| Revaluation reserve | | **(1,236)** |
| Accumulated loss | | **(2,364)** |
| **Total equity** | | **72,150** |
| **Total liabilities and equity** | | **105,516** |

Chairman of the Board ___________________ / Ludvyk K.A./

Chief Accountant ___________________ / Kolisnyk R.A./

***('000 UAH)***

**Income statement for the year ended 31 December 2008**

| | Notes | 2008 |
|---|---|---|
| Interest income | 16 | **9,373** |
| Interest expense | 16 | **(680)** |
| **Net interest income** | | **8,693** |
| Net commission income | 17 | **311** |
| Net income from trading in securities and foreign currencies | 18 | **3,252** |
| Other operating income | | **102** |
| **Net operating income** | | **12,358** |
| Personnel costs | 19 | **(8,036)** |
| Depreciation and amortization | 9 | **(695)** |
| Other operating and administrative expenses | 20 | **(5,512)** |
| Provision for impairment of loans and other losses | 21 | **(1,164)** |
| **Losses before tax** | | **(3,049)** |
| Income from Income tax | 22 | **685** |
| **Net losses** | | **(2,364)** |
| **Basic and diluted losses per share (UAH per share)** | 23 | **(37.94)** |

Chairman of the Board __________________ / Ludvyk K.A./

Chief Accountant __________________ / Kolisnyk R.A./

***(‘000 UAH)***

## Statement on changes in equity for the year ended December 31, 2008

| | Share capital | Revaluation reserve | Accumulated loss | Total equity |
|---|---|---|---|---|
| **Balance as at December 31, 2007** | **-** | **-** | **-** | **-** |
| Net current losses | - | - | (2,364) | **(2,364)** |
| Revaluation of securities | - | (1,648) | - | **(1,648)** |
| Deferred tax effect on revaluation of securities | - | 412 | - | **412** |
| Share issues | 75,750 | - | - | **75,750** |
| **Balance as at December 31, 2008** | **75,750** | **(1,236)** | **(2,364)** | **72,150** |

Chairman of the Board ___________________ / Ludvyk K.A./

Chief Accountant ___________________ / Kolisnyk R.A./

***(‘000 UAH)***

## Cash flow statement for the year ended December 31, 2008

| | **2008** |
|---|---|
| **Cash flow from operating activity** | |
| Interest received | **8,819** |
| Interest paid | **(603)** |
| Net income received from trading in foreign currencies and securities | **3,252** |
| Net commission income received | **311** |
| Other operating income received | **102** |
| Personnel costs paid | **(8,036)** |
| Other operating and administrative expenses paid | **(5,512)** |
| **Operating cash flow before changes in operating assets and liabilities** | **(1,667)** |
| (Increase)/decrease in operating assets: | |
| Due from other banks | **(22,793)** |
| Loans and advances to customers | **(54,350)** |
| Securities available for sale | **(18,731)** |
| Other assets | **(278)** |
| Increase/(decrease) in operating liabilities: | |
| Due to other banks | **17,740** |
| Due to clients | **14,785** |
| Other liabilities | **598** |
| **Net cash flow in process of operating activities before taxation** | **(64,696)** |
| Income tax paid | **-** |
| **Net cash flow used in operating activities** | **(64,696)** |
| **Cash flow from investment activities** | |
| Acquisition of fixed assets | **(5,638)** |
| **Net cash flow used in investment activities** | **(5,638)** |
| **Cash flow from financial activities** | |
| Inflow from issue of share capital | **75,750** |
| **Net cash inflow from financial activities** | **75,750** |
| **Net change in cash and cash equivalents** | **5,416** |
| **Cash and cash equivalents at the beginning of year** | **-** |
| **Cash and cash equivalents at the end of year** | **5,416** |

Chairman of the Board __________________ / Ludvyk K.A./

Chief Accountant __________________ / Kolisnyk R.A./

## Notes to the financial statements

### 1. General information about the Bank

Open Joint Stock Company "International Invest Bank" (hereinafter referred to as - OJSC "International Invest Bank" or the Bank) is a newly incorporated universal Bank (date of state registration – 06 March 2008, date of registration in State Registry of Banks – 11 March 2008).

The Bank carries out its activity on the basis of the License № 242 issued on 18 April 2008 and on the basis of the Permission № 242-1dated 18 April 2008. The above mentioned license and permission authorize the Bank for carrying out banking operations, as prescribed by the Law about the Banks and banking activities.

OJSC "International Invest Bank" determined providing services to corporate clients in Ukraine (medium and large legal entities) as the main type of its activity, with further development of services/products range for private persons within the framework of providing services to owners and employees of corporate clients.

The Head Office of the Bank is registered and situated at the address: Ukraine, Kiev,34 Ivana Mazepy Str. The Bank doesn't have branch offices or off-balance sheet branches.

### 2. Background of activities

At the date of the financial statements approval the Bank operates under instable circumstances related to the world economical crisis. Improvement of economical situation in Ukraine will, to significant extent, depend upon effectiveness of fiscal and other measures undertaken by the government of Ukraine. At the same time there is no clear understanding which measures will be taken by the government of Ukraine in order to overcome the crisis. Therefore, it is not possible to fairly assess its effect on the Bank's liquidity and income, stability and structure of her transactions with the consumers. Given factors generate uncertainty, which might affect future operations of the Bank, the possibility to refund the value of its assets and ability to serve and pay off its debts as they mature. Given financial statements reflect current management estimation of possible effect of the economical conditions on operating activities and financial position of the Bank. Future conditions might differ from the management estimations. These financial statements do not include any adjustments that would result from such uncertainty. Such adjustments shall be communicated when become known and can be reliably assessed.

### 3. Basis of preparation

#### *Statement of compliance*

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

#### *Historical cost*

The financial statements are prepared on the historical cost basis except for financial assets available-for-sale, financial assets and financial liabilities at fair value through profit or loss, which are stated at fair value, and buildings, which are stated at revalued amount less accumulated depreciation and impairment losses.

***Reporting period***

Financial Statements are prepared as at 31 December 2008 and for the period from 06 March 2008 (the date of state registration of the Bank) to 31 December 2008 inclusively. The statement “for the year ended 31 December 2008” in this context means the period from 06 March 2008 (from the date of state registration of the Bank) to 31 December 2008.

These financial statements do not comprise comparative data, including comparative data in the balance sheet, Income statement, Equity statement, Cash flow statement and Notes to financial statement.

***Functional and presentation currency***

Most of the Bank’s transactions are performed in Ukrainian hryvnias (UAH). Ukrainian hryvnia is the national currency of Ukraine; it is used for all accounting records and reporting in compliance with the National Accounting Standards of Ukraine. For this reason, UAH was chosen as the functional and presentation currency. All amounts in the present financial statements are reported in UAH thousand (unless indicated otherwise).

***Accounting estimates and judgments used in preparing financial statements***

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

In particular, information about significant areas of estimation uncertainty is as follows:

*(i) Impairment of loans and advances.*

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

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

Note 7 include information on sensitivity of the carrying amount of loans and advances and amounts of recognized provisions to impairment. If the actual repayments were less than the management estimates, the Bank would be required to record additional impairment expense.

*(ii) Fair value of securities available-for-sale.*

The fair value of securities available-for-sale represents the price at which a transaction with that instrument would occur at the balance sheet date in the most advantageous active market to which the Bank has immediate access. In estimating the fair value for financial assets, management uses quoted bid prices from an active market. If a financial asset is not quoted in an active market, management uses discounted cash flow or other techniques. When using discounted cash flow techniques management applies discount rates applicable to similar instruments and to issuers with similar credit risk.

***('000 UAH)***

## 4. Summary of significant accounting policies

### *Foreign currency transactions*

Transactions in foreign currencies are translated to the functional currency of the Bank at exchange rates on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate on that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for the effective interest rate and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate on the date that the fair value was determined.

As at 31 December 2008 and 2007 the principal exchange rates at the year end determined by the NBU and applied to recalculation into Ukrainian Hryvnya for balances in foreign currencies were as follows:

| | **2008** | 2007 |
|---|---|---|
| US dollar | **7.700** | 5.050 |
| Euro | **10.856** | 7.419 |
| Russian rouble (per 10 roubles) | **2.621** | 2.058 |

### *Cash and cash equivalents*

Cash and cash equivalents include cash-in-hand, balances held by the Bank at the NBU and at current accounts with correspondent banks. All short-term inter-bank deposits are reported as cash with other banks. Funds with limitation of use for over three months at the moment of issue are excluded from cash and cash equivalents caption.

The Bank is obliged to keep an obligatory current balance with the NBU for liquidity management purposes and to ensure the fulfillment of its commitments to the clients. Cash in NBU accounts is carried at amortized cost. Cash balances held at correspondent accounts with other banks are reported at amortized cost less provisions for possible losses related to this type of asset.

### *Financial assets*

The Bank classifies its financial assets in the following categories:

(i) financial assets at fair value through profit or loss;

(ii) loans of clients and receivables;

(iii) financial assets held to maturity;

(iv) financial assets available for sale

The Bank determines the classification of its financial assets at initial recognition. Classification of financial assets at initial recognition depends on the purpose for which they were acquired and their characteristics.

In the course of application of the Bank's accounting policy with respect to definition of financial assets recognized in the financial statements, the management used judgments and estimates the most significant of which are presented below.

### *Initial recognition of financial instruments*

The Bank recognizes financial assets and liabilities on its balance sheet when it becomes a party to the contractual obligation with regard to the respective financial instrument. Regular way purchase and sale of the financial assets and liabilities are recognized using trade date accounting.

Financial assets and liabilities are initially recognized at cost, which is the fair value of the consideration given. Transaction costs that are directly attributable to the acquisition or issue of a financial asset or liability that is not classified as at fair value through profit or loss are added to the amount initially recognized.

### *Fair value measurement*

If quoted market prices are not available, the fair value of financial assets and liabilities recorded in the balance sheet is estimated using various techniques, including mathematical models. Where mathematical models are used, inputs are based on observable market data, where possible. Otherwise, the fair value should be determined using the management's best estimate based on liquidity considerations and data used for models such as correlation and volatility of long-term financial derivative instruments.

### *Derecognition of financial assets*

- Financial assets (or, where applicable, a part of financial assets or a part of a group of similar financial assets) is derecognized where:

- the rights to receive cash flows from the asset have expired;

- the Bank has transferred its rights to receive cash flows the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party; and

- the Bank has transferred substantially all the risks and rewards of the asset, or has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset. If the transferee has no practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the transfer, the entity has retained control.

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

### *Financial assets at fair value through profit or loss*

Financial assets recorded at fair value through profit or loss includes trading securities and other financial instruments at fair value through profit or loss.

Trading securities represent securities acquired principally for the purpose of generating profit from short-term fluctuations in price or trader's margin, or securities included in a portfolio where a pattern of short-term trading exists. The Bank classifies securities as trading securities when it intends to sell them within a short period of time after purchase. Trading securities are not reclassified out of this category even when the Bank's intentions subsequently change.

Trading securities are recorded at fair value. Interest earned on trading securities is reflected in the statement of income using the effective interest method as interest income. Dividend income is recorded within dividends received when the Bank's right to receive dividends is established and dividends are likely to be received. All other elements of the changes in the fair value and gains or losses on derecognizing are recorded in profit or loss as gains less losses arising from financial assets at fair value through profit or loss in the period in which they arise.

### *Loans to customers*

This category includes non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- those that the entity intends to sell immediately or in the near term, which shall be classified as held for trading and be carried at fair value through profit or loss;

- those that the entity upon initial recognition designates as available for sale;

- those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration, and which shall be classified as available for sale.

Loans to customers are initially recorded at cost, which is the fair value of the consideration given. Subsequently, they are carried at amortised cost using the effective interest rate method less provision for loan impairment. The amortised cost is based on fair value of the issued loan, calculated with respect to effective interest rate.

Loans to customers are recorded when cash is advanced to borrowers.

### *Loans in other banks*

The Bank accepts the accounting policy applicable to the loans issued to customers and the provision for loan impairment as applicable to funds of the Bank deposited in other banks.

### *Financial assets available for sale*

Financial assets available for sale are non-derivative financial assets that are classified as investment securities which management intends to hold for an indefinite period of time, that may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. The Bank's management determines the appropriate classification of financial assets at the time of purchase.

Financial assets available for sale are initially recognized at cost, which is the fair value of consideration given. Transaction cost that are directly attributable to the acquisition of a financial asset are added to the amount initially recognized. Financial assets, available for sale are subsequently remeasured to fair value, based on quoted bid prices. Certain financial assets available for sale for which there is no available independent quotation have been fair valued by the Bank's management on the basis of results of recent sales of similar financial assets to unrelated third parties, consideration of other relevant information such as discounted cash flows and data of investment objects and application of other valuation methodologies.

Unrealized gains and losses arising from changes in the fair value of financial assets available for sale are recognized in the consolidated statement of changes in equity. When financial assets available for sale are disposed of, the related accumulated unreleased gains and losses are included in the consolidated statement of income as gains less losses arising from financial assets at fair value through profit or loss and available for sale, Impairment of previously remeasured assets is reported on equity accounts within the revaluation reserve for financial assets available for sale which was set up earlier.

Interest earned on debt securities available for sale is determined using the effective interest rate method and reflected in the consolidated statement of income as interest income. Dividends received on equity investments available for sale are recorded within dividends received when the Bank's right to receive dividends is established and dividends are likely to be received.

***Promissory notes purchased***

Promissory notes purchased are included in financial assets at fair value through profit or loss, financial assets available for sale, due from other banks or loans to customers, depending on their economic substance and are subsequently remeasured and accounted for in accordance with the accounting policies for these categories of assets.

***Impairment of financial assets***

The Bank assesses on each reporting date whether there is any objective evidence that the value of a financial asset item or group of items has been impaired. Impairment losses are recognized in the consolidated statement of income as they are incurred as a as a result of one or more events that occurred after the initial recognition of the asset (a loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If an entity determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

*(1) Impairment of Due from other banks and Loans to customers*

For amounts Due from other banks and Loans to customers carried at amortised cost, the Bank first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant or collectively for financial assets that are not individually significant.

Objective evidence that due from other banks and loans to customers are impaired includes observable data that comes to the attention of the Bank about one or more of the following events:

- default in any payments due;

- significant financial difficulty of the borrower supported by financial information at the Bank's disposal;

- it becoming probable that the borrower will enter bankruptcy or other financial reorganization;

- worsening national or local economic environment affecting the borrower;

- breach of contract, such as a default or delinquency in interest or principal payments;

- the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider.

If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, *it* includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Bank's internal grading system that considers credit risk characteristics such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors. The characteristics chosen are relevant to the estimation of future cash flows for groups of such assets to the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

The main criterion used for determining objective evidence of loss from impairment of due from other banks and customer accounts representing collectively measured financial assets is availability of observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group. Such information may include adverse changes in the payment status of borrowers in the group (for example, an increased number of delayed payments or an increased number of credit card borrowers who have reached their credit limit and are paying the minimum monthly amount), national or local economic conditions that correlate with defaults on the assets in the group (for example, an increased in the unemployment rate in the geographical area of the borrowers, a decrease in property prices for mortgages in the relevant area, a decrease in oil prices for loan assets to oil producers, or adverse changes in industry conditions that affect the borrowers in the group).

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. The carrying amount of the asset is reduced through the use of the provision account and the amount of the loss is recognized in the consolidated statement of income.

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

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

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 recognized, the previously recognized impairment loss is reversed by adjusting the allowance account through profit or loss.

Uncollectible assets are written off against the related allowance for impairment after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined. The carrying value of impaired financial assets is not reduced directly.

*(2) Impairment of financial assets available for sale*

The Bank assesses at each balance sheet date whether there is objective evidence that an investment or a group of investments available for sale is impaired.

In case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. In case of impairment signs, cumulative loss (which is measured as a difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in the income statement) are transferred from equity to the income statement. Impairment losses on equity investments are not reversed through the income statement: increases in the fair value after impairment are recognized directly in equity.

In case of debt instrument classified as available for sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. Interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount future cash flows for the purpose of estimating the impairment loss. If next year fair value of a debt instrument increases, and this increase objectively relates to the events that took place after an impairment loss was recognized in the Income statement, such impairment loss is restored, with the reflection of income in the income statement.

***Financial liabilities***

Financial liabilities are classified as either financial liabilities at fair value through profit or loss, or financial liabilities carried at amortised cost.

Initially, a financial liability is measured by the Bank at its fair value, and, in the case of financial liability not at fair value through or loss, transaction costs that are directly attributable to the acquisition or issue of the financial liability.

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

***Financial liabilities at fait value through profit or loss***

Financial liabilities are classified as at fair value through profit or loss if they are incurred for the purpose of repurchasing or closing them in the near term. They normally contain trade financial liabilities or short positions in securities or obligations to return borrowed securities sold to third parties. Gains or losses on financial liabilities at fair value through profit or loss is recognized in the income statement.

***Financial liabilities measured at amortised cost***

Financial liabilities carried at amortised cost with applying the effective interest rate technique include due to other banks, customer accounts, debt securities issued. Any related expense is recognized as interest expense using the effective interest rate method.

*Due to other banks.* Due to other banks are recorded when money or other assets are advanced to the Bank by other banks.

*Customer accounts.* Customer accounts include non-derivative liabilities to individuals, state or corporate customers.

*Debt securities issued.* Debt securities issued include promissory notes, bonds and certificates of deposit issued by the Bank. If the Bank purchases its own debt securities issued, they are removed from the consolidated balance sheet and the difference between the carrying amount of the liability and the consideration paid is recognized as gains arising from early retirement of debt.

***Repurchase and reverse repurchase agreements and lending of securities***

Sale and repurchase agreements ("repo" agreements) are treated as secured financing transactions. Securities sold under sale and repurchase agreements are not derecognized, the securities are not reclassified. The corresponding liability is presented within amounts due to other banks or customer accounts.

Securities purchased under agreements to resell ("reverse repo" agreements) are recorded as due from other banks or loans to customers, as appropriate. The difference between the sale and repurchase price is treated as interest and accrued over the life of repo agreements using the effective interest rate method

Securities lent by the Bank are not recognized in the Bank's financial statement except when they are sold to third parties. In such cases, the financial result from sale and purchase of such securities is recognized in the income statement within gains less losses arising from financial assets at fair value through profit or loss. The obligation to return the securities is recorded as financial liabilities at fair value through profit or loss.

***Offsetting of financial instruments***

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

***Property, equipment and intangible assets***

Property, equipment and intangible assets, except for buildings reported at revaluated cost less accumulated depreciation and accumulated losses from impairment, are reported at acquisition cost less accumulated depreciation and accumulated losses from impairment.

Depreciation is accrued under the straight-line method on the assumption of an asset useful life. Rates of depreciation are determined based on useful life of an asset, during which its utilization by the Bank is provided. Capitalized expenses on leasehold are amortized during provided useful life, but not more than term of lease.

The estimated useful life of property, plant and equipment is as follows (shown in years):

| | |
|---|---|
| Buildings for own use | 15-40 |
| Vehicles | 5 |
| Equipment and computers | 4-5 |
| Furniture and office equipment | 5-10 |
| Other | 4-8 |
| Intangible assets | 4 |

Capital investments to fixed and intangible assets include construction in progress and costs in progress for improvement of fixed assets. Those are accounted at historical cost net of any accumulated losses from impairment. After the construction is completed, the assets are included into fixed assets and reported at carrying amount at the moment of transfer. No depreciation is accrued to capital investment objects.

Cost of repair of fixed assets is reported through income statement in period when incurred, except for those cases when such costs are subject to capitalization.

***Taxation***

Amount of current income tax is determined in compliance with the tax legislation of Ukraine. Income tax expenses include current tax amount and changes in amounts of deferred taxes.

Income tax related expenses are reported in the income statement, except for the amounts reported directly in the equity.

Deferred tax is calculated under the balance sheet method regarding to the timing differences that arise between the taxation basis of assets and liabilities and their value for the purpose financial statements. Deferred tax assets are recognized only when it is probable that sufficient taxable profits will be available against which the deferred tax assets can be utilized.

Deferred tax assets and liabilities are calculated applying the tax rate effective in the period, in which an asset would be realized or the liabilities would be settled, based on legislative regulations in force at the reporting date.

Other taxes applicable in Ukraine and paid by the Bank in the course of its operation according to the current legislation are reported in the item “Other operating and administrative expenses” of the income statement.

***Pension and other commitments***

The Bank contributes to the state pension system of Ukraine. Current accruals and payment of such contributions on behalf of employees are calculated based on total salary. Contribution expenses are expensed in the income statement in the period that a respective salary is accrued for an employee.

The Bank does not operate any other form of pension schemes. Furthermore, the Bank does not have any additional employee benefit programs, or other compensation programs, that require additional expenses or accrual in the financial statements.

***Share capital***

Contributions to share capital are reported at their fair value at the transaction date. Treasury stock is accounted at cost. Income and losses from sale of own shares are reported through retained earnings.

Dividends to shares are recognized in share capital as deductions in period when announced. Information on dividends, which are announced after the balance-sheet date, is disclosed in the notes to the financial statements.

***Contingent assets and liabilities***

Contingent assets are not recognized in the consolidated balance sheet but disclosed when an inflow of economic benefits is probable.

Contingent liabilities are not recognized in the consolidated balance sheet but are disclosed unless the possibility of any outflow in settlement is remote.

***Credit related commitments***

During the ordinary activities the Bank issues guarantees in the form of letters of credit, guarantees and accepts. Guarantee agreements are initially recognized in the financial statements at their fair value of commissions obtained. Subsequently, at each balance sheet date, the commitments are reviewed and revised to obtain the current best estimate. The current best estimate of expenditure required to settle the existing commitment will be the amount that the Bank would either pay to settle the commitment at the reporting date or for which transfer it to a third party at this date.

***Provisions***

Provisions 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.

***Interest income and expense***

Interest income and expense are recognized in the income statement using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. The effective interest rate is established on initial recognition of the financial asset or liability and is not revised subsequently.

Interest income includes coupons earned on fixed-income financial assets and accrued discount and premium on promissory notes and other discounted instruments. When loans become doubtful of collection, they are written down to their recoverable amounts and interest income is thereafter recognized based on the rate of interest that was used to discount the future cash flows for the purpose of measuring the recoverable amount.

Commissions and fees arising from negotiating a transaction for a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses, are recorded on completion of the transaction in the consolidated statement of income. Investment portfolio and other management and advisory service fees are recognized based on the applicable service contracts.

***Earnings per share***

The Bank presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which may include the issuance of new shares.

***('000 UAH)***

***IFRS and IFRIC interpretations not yet effective***

The Bank has not applied the following IFRSs and Interpretations of the International Financial Reporting Interpretations Committee (IFRIC) that have been issued but are not yet effective:

IAS 1 (Revised) *«Presentation of Financial Statements»*. The revised Standard was issued in September 2007 and becomes effective for financial years beginning on or after 1 January 2009;

Amendments to IAS 23 *"Borrowing costs"*; effective 1st January 2009;

IFRS 2 *«Share based payments»* revised in 2008 (become effective for annual reporting periods beginning from January 1, 2009 or after that date).

IFRS 3R "*Business Combinations"* and IAS 27R "*Consolidated and Separate Financial Statements"*. The revised standards were issued in January 2008 and become effective for financial years beginning on or after 1 July 2009;

IFRS 8 *"Operating segments"*; effective 1st January 2009;

Interpretation 13 *"Customer Loyalty Programmes"*; effective 1st July 2008;

IFRIC 15 *"Agreement for the Construction of Real Estate*". IFRIC 15 was issued in July 2008 and becomes effective for financial years beginning on or after 1 January 2009.

IFRIC 16 *"Hedges of a Net Investment in a Foreign Operation"*. IFRIC 16 was issued in July 2008 and becomes effective for financial years beginning on or after 1 October 2008;

Interpretation IFRIC 17 *«Distributions of non-cash assets to owners»* (becomes effective for annual reporting periods beginning from July 1, 2009 or after that date).

Interpretation IFRIC 18 *«Transfers of Assets from Customers »*, issued in January 2009 (becomes effective for annual reporting periods beginning from July 1, 2009 or after that date).

Improvements in IFRS – in May 2008 the IASB has issued the first set of amendments to its standards, mainly, in order to cancel the lack of correspondence and to clarify the wording (becomes effective for annual reporting periods beginning from January 1, 2009 or after that date).

In the opinion of the Bank's management, application of the above regulations will not have a material impact upon the Bank's financial statements once adopted or during the early years of adoption.

## 5. Cash and cash equivalents

As at 31 December 2008 cash and cash equivalents can be presented as follows:

| | **31/12/2008** |
|---|---|
| Balances at current accounts in other banks | **2,460** |
| Cash with NBU accounts | **353** |
| Cash in hand | **2,603** |
| | **5,416** |

Balances at correspondent account with the National Bank depend, among the other, upon the amount of obligatory reserve calculated based on the reserve norms, fixed by the National Bank of Ukraine for commercial banks on accounts of legal entities and individuals in the national and foreign currency.

***(‘000 UAH)***

The Bank was obliged to maintain and maintained the minimal obligatory reserve calculated as an average weighted balance of attracted funds corrected with established ratios on the basis of daily data within a reporting month.

As at December 31, 2008 the obligatory reserve held by the Bank in NBU amounted to 210 thousand UAH.

## 6. Due from other banks

As at 31 December 2008 due from other banks comprised as follows:

| | 31/12/2008 |
|---|---|
| **Interbank credits and deposits** | |
| Interbank credits | **22,793** |
| Accrued income | **12** |
| | **22,805** |
| Provision for impairment | **(858)** |
| **Total due from other banks** | **21,947** |

In 2008 the Bank allocated and attracted short-term funds and deposits form Ukrainian banks in different currencies. As at December 31, 2008 the Bank allocated funds in US dollars equivalent of 15,743 thousand UAH as credits that were secured by euro credits in amount of 15,740 thousand UAH from the same bank.

## 7. Loans and advances to customers

As at 31 December 2008 loans and advances to customers were as follows:

| | 31/12/2008 |
|---|---|
| Corporate loans | **37,406** |
| Less the provision for impairment of loans to legal entities | **(111)** |
| **Total loans to legal entities** | **37,295** |
| | |
| Consumer loans | **8,860** |
| Mortgage loans | **8,351** |
| Less the provision for impairment of loans to individuals | **(11)** |
| **Total loans to individuals** | **17,200** |
| | |
| **Total loans to customers** | **54,495** |

As at 31 December 2008 the Bank had a concentration of loans due from 3 borrowers with the total amount over 10 % of the Bank’s regulatory capital. The aggregate amount of these loans was 34,269 thousand UAH.

***('000 UAH)***

Loans and advances are provided to the clients operating in Ukraine in the following branches of economy:

| | 31/12/2008 |
|---|---|
| Process industry | **28,995** |
| Individuals | **17,211** |
| Other | **8,411** |
| Provision for impairment | **(122)** |
| | **54,495** |

The credit quality analysis as at 31 December 2008 is shown below:

| | Current and unimpaired | Impaired | Total |
|---|---|---|---|
| Corporate loans | 37,406 | - | **37,406** |
| Total loans to legal entities | 37,406 | - | **37,406** |
| Provision for impairment of loans to legal entities | | | **(111)** |
| **Total loans to legal entities** | | | **37,295** |
| Consumer loans | 8,860 | - | **8,860** |
| Mortgage loans | 8,351 | - | **8,351** |
| Total loans to individuals | **17,211** | **-** | **17,211** |
| Provisions for impairment of loans to individuals | | | **(11)** |
| **Total loans to individuals** | | | **17,200** |
| **Total loans to customers** | | | **54,495** |

***('000 UAH)***

The analysis of impaired loans to customers as at December 2008 is shown below:

| | | Overdue | | | |
|---|---|---|---|---|---|
| | **Current** | **Less than 1 month** | **From 1 to 6 months** | **More than 6 months** | **Total** |
| Corporate loans | 37,406 | - | - | - | **37,406** |
| Total loans to legal entities | 37,406 | - | - | - | **37,406** |
| Provision for impairment of loans to legal entities | | | | | **(111)** |
| **Total loans to legal entities** | | | | | **37,295** |
| Consumer loans | 8,860 | **-** | **-** | **-** | **8,860** |
| Mortgage loans | 8,351 | **-** | **-** | **-** | **8,351** |
| Total loans to individuals | **17,211** | **-** | **-** | **-** | **17,211** |
| Provisions for impairment of loans to individuals | | | | | **(11)** |
| **Total loans to individuals** | | | | | **17,200** |
| **Total loans to customers** | | | | | **54,495** |

**8. Securities available for sale**

As at 31 December 2008 securities available for sale were as follows:

| | **31/12/2008** |
|---|---|
| Ukrainian corporate bonds | **17,084** |
| Accrued income | **274** |
| | **17,358** |

As at 31 December 2008, the most significant securities for sale were the bonds of OJSC "Kredobank" totaling 4,089 thousand UAH and bonds of CJSC "RAIS" totaling 4,772 thousand UAH. During the year the Bank carried out operations with trade securities and state securities.

For most instruments, the volumes of transactions on the domestic stock market in Ukraine are insignificant. Therefore, the presented value may differ from the value that could be received as a result of the transactions performed in more developed markets.

***('000 UAH)***

## 9. Property, equipment and intangible assets

| | Vehicles | Computers and equipment | Furniture, fixtures and fittings | Other | Intangible assets | Capital investments | Total |
|---|---|---|---|---|---|---|---|
| **Cost (revaluation)** | | | | | | | |
| **31 December 2007** | - | - | - | - | - | - | - |
| Additions | 220 | 2,298 | 2,148 | 256 | 716 | 398 | **6,036** |
| Disposals | - | - | - | - | - | (398) | **(398)** |
| **31 December 2008** | **220** | **2,298** | **2,148** | **256** | **716** | **-** | **5,638** |
| **Accumulated depreciation** | | | | | | | |
| **31 December 2007** | - | - | - | - | - | - | - |
| Depreciation charge | (29) | (286) | (144) | (120) | (116) | - | **(695)** |
| **31 December 2008** | **(29)** | **(286)** | **(144)** | **(120)** | **(116)** | **-** | **(695)** |
| **Net book value** | | | | | | | |
| **31 December 2007** | - | - | - | - | - | - | - |
| **31 December 2008** | **191** | **2,012** | **2,004** | **136** | **600** | **-** | **4,943** |

## 10. Deferred tax assets

Information on components of deferred tax assets and liabilities can be presented as follows:

| | 31/12/2008 |
|---|---|
| **Deferred tax assets** | |
| Provision for impairment of loans and other assets | **272** |
| Securities available for sale | **340** |
| Other assets | **48** |
| Other liabilities | **152** |
| Income tax loss carried forward | **442** |
| | **1,254** |
| **Deferred tax liabilities** | |
| Property, equipment and intangible assets | **(157)** |
| | **(157)** |
| **Net deferred tax assets** | **1,097** |

Changes in amount of net deferred tax assets for the reporting periods can be presented as follows:

| | 31/12/2008 |
|---|---|
| **Balance at the beginning of period** | **-** |
| Changes in temporary differences that are reported through income statement | **685** |
| Changes in temporary differences that are reported directly in equity | **412** |
| **Balance at the period end** | **1,097** |

***('000 UAH)***

The Bank recognizes deferred tax assets by those temporary differences, which as expected will be used in short-term periods and the management expects to receive taxable income in future, against which the recognized deferred tax assets can be realized.

**11. Other assets**

As at 31 December 2008 other assets of the Bank comprised:

| | **31/12/2008** |
|---|---|
| Settlements for services | **132** |
| Deferred expenses | **87** |
| Materials | **19** |
| Prepayments for fixed assets and other assets | **1** |
| Other assets | **40** |
| | **279** |
| Provision for impairment | **(19)** |
| | **260** |

**12. Due to other banks**

As at 31 December 2008 due to other banks comprises:

| | **31/12/2008** |
|---|---|
| Current accounts | **2,001** |
| Interbank loans and deposits of Ukrainian banks | **15,744** |
| | **17,745** |

Amount of due to other banks includes accrued interest expenses, totaling 5 thousand UAH.

**13. Due to clients**

As at 31 December 2008 due to clients can be presented as follows:

| | **31/12/2008** |
|---|---|
| **Current accounts:** | |
| Current accounts, legal entities | **105** |
| Current accounts, individuals | **3,649** |
| | **3,754** |
| **Deposits with fixed period** | |
| Deposits with fixed period, legal entities | **5,914** |
| Deposits with fixed period, individuals | **5,189** |
| | **11,103** |
| | **14,857** |

Customer accounts included accrued income on current accounts of and term deposits from legal entities in amount of 15 thousand UAH and individuals in amount of 57 thousand UAH.

Customer accounts pledged as collateral for loans, guarantees, sureties for promissory notes and letters of credit as at 31 December 2008 amounted to UAH 1,630 thousand.

***('000 UAH)***

According to the Ukrainian Civil Code, the Bank is obliged to repay deposits to individual depositors at short notice. If a fixed-term deposit is withdrawn by the depositor ahead of term, interest is payable at the rate applied to demand deposits unless otherwise specified by the contract. In October 2008 the resolution of NBU administration has temporary restricted the pre-scheduled termination of agreements upon the customers demand.

## 14. Other liabilities

As at 31 December 2008 other liabilities of the Bank comprised:

| | **31/12/2008** |
|---|---|
| Provision for vacations | **391** |
| Provision for possible risks and losses | **165** |
| Deferred revenues | **10** |
| Settlements with Deposit Guarantee Fund | **3** |
| Settlements on business related transactions | **2** |
| Other liabilities | **193** |
| | **764** |

## 15. Share capital

Authorized and paid share capital of the Bank as at the reporting date comprises 75,750 thousand UAH. It is divided into ordinary nominal shares in the amount of 75,750 pieces at par value 1 thousand UAH each.

Share capital of the Bank was paid to the shareholders in UAH. All shares have equal voting rights. Owners of shares have rights to receive dividends and distribute capital.

As at 31 December 2008 the Bank did not have own bought out shares.

Changes intervened in the Bank's share capital during reporting periods are the following:

| | **Amount of shares** | **Carrying amount** |
|---|---|---|
| **1 January 2008** | **-** | **-** |
| Issue of new shares | 75,750 | 75,750 |
| **31 December 2008** | **75,750** | **75,750** |

As at 31 December 2008 the major Bank's shareholder (direct and indirect participation) is OJSC "Closed non-diversified corporate investment fund "Prime assets capital", holding 60 % of shares.

***('000 UAH)***

## 16. Net interest income

For the year ended 31 December 2008 information about the net interest income is presented as follows:

| | 2008 |
|---|---|
| **Interest income** | |
| Loans and advances to legal entities | **2,031** |
| Loans and advances to individuals | **540** |
| Loans and advances to banks | **4,785** |
| Securities | **2,017** |
| **Total interest income** | **9,373** |
| **Interest expenses** | |
| Due to legal entities | **(333)** |
| Due to individuals | **(196)** |
| Due to other banks | **(151)** |
| **Total interest expenses** | **(680)** |
| **Net interest income** | **8,693** |

## 17. Net commission income

For the year ended 31 December 2008 net commission income of the Bank was presented as follows:

| | 2008 |
|---|---|
| **Commission income** | |
| Cash and payments servicing | **102** |
| Loan servicing | **1** |
| Foreign currency transactions | **241** |
| Other transactions with clients | **15** |
| **Total commission income** | **359** |
| **Commission expenses** | **(48)** |
| **Net commission income** | **311** |

## 18. Net income from trading in securities and foreign currencies

Net income from operations with foreign currency and securities are provided as follows:

| | 2008 |
|---|---|
| Net income from revaluation of foreign currency | **2,978** |
| Net income from operations with foreign currency | **437** |
| Net income from operations with securities at fair value through profit or loss | **137** |
| Other trade income/(loss) | **(300)** |
| | **3,252** |

***('000 UAH)***

## 19. Personnel costs

Personnel costs for the year ended 31 December 2008 are:

| | 2008 |
|---|---|
| Salary | **6,674** |
| Social security and other salary accruals | **1,229** |
| Other personnel costs | **133** |
| | **8,036** |

## 20. Other operating and administrative expenses

Other operating and administrative expenses for the year ended 31 December 2008 can be presented as follows:

| | 2008 |
|---|---|
| Lease and maintenance of premises | **2,733** |
| Deposit insurance fund | **764** |
| Communication | **600** |
| Repairs | **543** |
| Office expenses | **262** |
| Security | **200** |
| Taxes other than the income tax | **110** |
| Travel expenses | **84** |
| Consulting and other professional services | **38** |
| Marketing and advertising | **10** |
| Computer processing of data | **12** |
| Other | **156** |
| | **5,512** |

## 21. Provision for impairment of loans and other losses

Changes in provisions for covering losses related to interest-bearing assets and other losses during 2008 are the following:

| | Due from other banks (Note 6) | Loans and advances to clients (Note 7) | Other assets and other liabilities (Notes 11, 14) | Total |
|---|---|---|---|---|
| Balance at the beginning of the year | **-** | **-** | **-** | **-** |
| Charge/(reversal) of provision | **858** | **122** | **184** | **1,164** |
| Write off at the expenses of provision | **-** | **-** | **-** | **-** |
| Balance at the year-end | **858** | **122** | **184** | **1,164** |

## 22. Income from income tax

Income from income tax for the year ended 31 December 2008 included:

| | 2008 |
|---|---|
| Current tax | - |
| Changes in deferred taxes | 685 |
| | 685 |

The following is the reconciliation between the estimated income related to income tax, calculated on the basis of the effective tax rate applied to the accounting losses before tax, and the actual income from income tax:

| | 2008 |
|---|---|
| **Losses before tax** | (3,049) |
| Statutory tax rate | 25% |
| Conditional amount of taxable losses at the effective tax rate | 762 |
| Effect of non-taxable differences | (77) |
| **Income from Income tax** | 685 |

## 23. Losses per share

Losses per share for the years ended 31 December 2008 included:

| | 2008 |
|---|---|
| Net losses for the current year (thousand UAH) | 2,364 |
| Weighted average number of outstanding ordinary shares (thousand) | 62.30 |
| **Basic and diluted losses per share (UAH per share)** | 37.94 |

The Bank has no shares with a diluting effect. Therefore, the diluted losses per share equal the basis losses per share.

## 24. Contingent liabilities

### *Legal actions*

As at the reporting date the Bank is not the party in any litigation either as a plaintiff or as a litigant. Therefore, the Bank doesn't have any contingencies.

### *Taxation*

Ukraine currently has a number of laws related to various taxes and levies imposed by both state and local authorities. Applicable taxes include value added taxes, income tax, number of turnover based taxes, payrolls (social) taxes - together with others. Laws relating to these taxes are subject to frequent changes, and regulations are often unclear or non-existent and few precedents have been established. Often, differing opinions regarding legal interpretation exist both among and within government ministries and organizations (like the State Tax Administration and its various inspectorates), thus creating uncertainties and areas of conflict. Tax declarations, together with other legal compliance areas (as examples, customs and currency control matters) are subject to review and investigation by a number of authorities, who are enabled by law to impose extremely severe fines and penalties. These facts create a tax risk in Ukraine substantially more significant than typically found in countries with a more developed tax system.

***('000 UAH)***

Generally, tax returns are subject to review during three years upon completion of deadline for their submission. The fact that the yearly review had been performed does not close that year and does not mean that the tax return for this year may not be reviewed in future by higher tax inspections.

The management believes that the Bank's operations fully comply with the effective legislation, which regulates its activities, as well as that the Bank accrued and paid all related taxes. When there is an uncertainty with respect to the payable taxes, accrual is carried out on the assumption of the Bank's management evaluation based on analysis of available information.

***Credit liabilities***

Potential liabilities of the Bank resulted from its activity as at 31 December 2008 are the following:

| | 31/12/2008 |
|---|---|
| Credit liabilities | **33,251** |
| Guarantees | **-** |
| Avals | **-** |
| | **33,251** |

***Operating lease liabilities***

When the Bank is a lessee, future minimum lease payments related to uncancelled operating lease as at 31 December 2008 are the following:

| | 31/12/2008 |
|---|---|
| Up to 1 year | **3,178** |
| From 1 to 5 years | **11,287** |
| Over 5 years | **-** |
| | **14,465** |

## 25. Related party transactions

For the purposes of these financial statements, parties are considered to be related if one party has the ability to control the other party, is under common control, 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.

As at 31 December 2008 indebtedness on related party transactions included:

| | 31/12/2008 | |
|---|---|---|
| | **Related party transactions** | **Total amount** |
| Loans and advances to customers | **3,014** | **54,495** |
| Securities available for sale | **2,722** | **17,358** |
| Due to clients | **5,326** | **14,857** |
| Other liabilities | **237** | **764** |

Interest rates at which the Bank performs related party transactions do not substantially differ from the conditions established for other contractors.

***('000 UAH)***

During 2008 the Bank's related party transactions included:

| | 2008 | |
|---|---|---|
| | **Related party transactions** | **Total amount** |
| Interest income | **1,346** | **9,373** |
| Interest expenses | **(132)** | **(680)** |
| Commission income | **14** | **359** |
| Provision for possible risks and losses | **96** | **165** |

Remuneration of the key management personnel of the Bank for the year 2008 comprised 1,930 thousand UAH.

## 26. Capital management and adequacy

The Bank's policy is aimed at maintaining sustainability of capital in order to preserve trust of investors, creditors and market players and for the purposes of funding its future development.

According to Regulatory Acts of NBU, Ukrainian banks, within first 12 months of their activity, have to maintain capital adequacy ratio on the level not less than 15% of weighted risk assets.

The Bank's capital adequacy ratio calculated in accordance with the national standards was 64 % as at 31 December 2008. During 2008 the Bank complied with the capital adequacy normative established by NBU.

Capital adequacy ratio calculated according to methodology adopted in international practice, in compliance with Basel Accord requirements amounted to 87% as at 31 December 2008. This exceeds a minimum rate of 8 % recommended by Basel Accord.

As at 31 December 2008 the Bank's capital adequacy normative calculated in accordance with the above rules comprised:

| | **31/12/2008** |
|---|---|
| Basic capital (first level) | **73,386** |
| Additional capital (second level) | **(1,236)** |
| Total capital | **72,150** |
| Risk weighted assets | **82,542** |
| Capital adequacy ratio | **87%** |

***('000 UAH)***

## 27. Classification and fair value of financial instruments

### *Classification of financial instruments*

Classification of financial instruments as at 31 December 2008 is presented as follows:

| | Loans and accounts receivable | Available for sale | Other assets and liabilities at amortized cost | Non-financial assets and liabilities | Total |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash and cash equivalents | - | - | 5,416 | - | 5,416 |
| Due from other banks | 21,947 | - | - | - | 21,947 |
| Loans and advances to customers | 54,495 | - | - | - | 54,495 |
| Securities available for sale | - | 17,358 | - | - | 17,358 |
| Property, equipment and intangibles assets | - | - | - | 4,943 | 4,943 |
| Deferred tax assets | - | - | - | 1,097 | 1,097 |
| Other assets | 39 | - | - | 221 | 260 |
| | 76,481 | 17,358 | 5,416 | 6,261 | 105,516 |
| **Liabilities** | | | | | |
| Due to other banks | - | - | 17,745 | - | 17,745 |
| Due to clients | - | - | 14,857 | - | 14,857 |
| Other liabilities | - | - | - | 764 | 764 |
| | - | - | 32,602 | 764 | 33,366 |

### *Fair value of financial instruments*

Fair value is the amount at which a financial instrument could be exchanged between knowledgeable, willing parties other than in a forced sale or liquidation, and is best evidenced by an active quoted market price.

The estimated fair values of financial instruments have been determined by the Bank using available market information, where it exists, and appropriate valuation methodologies. However, considerable judgment is required in interpreting market data to produce the estimated fair values. Ukraine continues to display certain characteristics of an emerging market, and economic conditions continue to limit the volume of activity in the financial markets. Market quotes may be outdated or reflect distress sale transactions and, therefore, not represent fair values of financial instruments. Management has used all available information in estimating the fair value of financial instruments.

As at the reporting date the Bank reports  securities held for sale at fair value in the Balance sheet.

Fair value of securities held for sale is determined as the last quoted price of securities on the official stock market, in particular, at bid price in the officially made available quoted prices of listed securities at the closing of the last trading day of the reporting period.

In case such quoted prices are unavailable as at the reporting date, the Bank determines fair value of listed securities according to its last quoted price, determined as the last price quoted during five last working days of the reporting month.

***('000 UAH)***

In case securities quotes are unavailable, the Bank applies the following methods for determination of the fair value:

- Analysis of discounted cash flows applying discounting rate equal to the current return rate of similar financial investments, which have major similar conditions and characteristics (settlement term, structure of cash flows, currency, credit rating of the Emitter, interest rate)
- Other methods, which can determine reliably fair value of securities (method of expert estimation, etc.).

Fair value of financial assets and liabilities reported at amortized cost below is determined by the Bank applying discounted cash flow method on the basis of market quoted prices of relevant financial instruments as discounting rates.

Fair value of financial assets and liabilities as at 31 December 2008 is shown below:

| | **31/12/2008** | |
|---|---|---|
| | **Book value** | **Fair value** |
| Due from other banks | **21,947** | **21,950** |
| Loans and advances to customers | **54,495** | **50,686** |
| Securities available for sale | **17,358** | **17,358** |
| Due to other banks | **17,745** | **17,736** |
| Due to clients | **14,857** | **14,616** |

## 28. Risk management

Management of risk is fundamental to the business of banking and is an essential element of operations. The primary objectives of the financial risk management function are to establish optimal ratio between profitability and risks of operations in order to provide for financial stability of the Bank, its reliability and solvency.

Risk management system developed on the basis of International norms and standards implements experience of developed financial markets and was adapted to Ukrainian market. In comprises all main elements: identification, analysis and assessment of risks, as well as support and managing of risk management process.

The Bank identifies the following categories of risks:

- Credit risk
- Liquidity risk
- Market risk
- Operating risk

The functions of the Bank's Risk Management Service comply with tasks of risk management system and include the following sections, which are subordinated to the Deputy Head of the Board, responsible for risk management:

- Financial risks division, which includes credit risks department and liquidity and market risks department;
- Operating risks department.

Credit Committee and Assets and Liabilities Management Committees (ALMC) were created by the Bank in compliance with acting legislation for the purpose of risk management as well.

***('000 UAH)***

### *Credit risk*

Credit risk is existing or potential risk of not receiving of cash or capital, which is a result of default of a party by its obligations pursue to a financial agreement with the Bank (its branch), or default by any other obligation.
The Bank uses the following principles during structuring of loans issued to customers.
Determination of settlement terms is carried out taking into account season specifics of the borrowers' business. As a rule, the Bank plans that the borrower shall execute certain activities, which shall be funded by own cash of the borrower, and claims that a certain part of cash transfers of the borrower should be transferred via accounts opened in the Bank.
The Bank concludes pledge agreements for crediting both corporate clients and private persons. Due to the fact that credit policy of the Bank presupposes that the credibility of the borrower prevails the quality of the pledge, the decision to provide the loan always is based not on the assessment of the quality of pledge, but on the risk assessment results. The Bank prefers the most liquid forms of pledge with the highest liquidation value.
The Bank applies the same credit principles and procedures for assessment and monitoring of credit risk both for balance sheet and off-balance sheet credit transactions. Besides, for the purposes of crediting related parties the Bank applies the same principles and procedures as for other borrowers.

Credit risks, attributable to inter-bank transactions are connected with absence of pledge taking into account short-term character of such transactions ( as a rule terms of such transactions constitute from several hours to one month, with average term of 1-2 weeks).

For other banks the Banks determines separate terms based on the assessment of their financial position and other available information ( information about shareholders of the borrower, quality of the management, market position, concentration of activity, etc.)

Limitation of the outstanding due amounts for each separate instrument and separate contractual party is an important instrument of credit risk control. Apart of the this, settlement default risk is subject to separate limitation.

The Bank monitors credit risk inherent to each borrower on a regular basis (on monthly or quarterly basis) in compliance with internal regulations, and on the monthly basis for the purposes of reserves determination for credit and active operations.

As a result of continuous monitoring of credit risks, the Bank does not expect any losses due to default by creditors of their obligations, which would have exceeded the amount of charged provision reported in these financial statements.

Maximum credit risk is summarized as follows:

| | **31/12/2008** |
|---|---|
| **Balance sheet** | |
| Cash and cash equivalents (except for cash in hand) | **2,813** |
| Due from other banks | **21,947** |
| Loans and advances to customers | **54,495** |
| Securities available for sale | **17,358** |
| Other assets | **260** |
| | **96,873** |
| **Off-balance sheet items** | |
| Credit liabilities | **33,251** |
| | **33,251** |

***('000 UAH)***

***Liquidity risk***

Liquidity risk arises from the gap in call terms for active transactions and repayment terms for passive transactions.

Asset Management Committee manages liquidity risk together with Treasury and Liquidity and Market Risk Department. The main task of liquidity risk management is ensuring the sustainable liquidity and solvency of the Bank in compliance with all corresponding regulatory requirements, achieving stipulated return level at the same time.

Implementation of limitations in respect of assets with low liquidity is an effective instrument of market liquidity control. Limitations are implemented for separate products and for special indicators (both legislatively stipulated and additionally applied by the Bank), which determine market liquidity risk. Altogether with this, Treasury carries out regular assessment of market liquidity and capacity for different instruments and currencies.

Liquidity Gap Report is an instrument applied by the Bank for liquidity risk monitoring. The report is prepared by Liquidity and Market Risk Department on a regular basis and contains information about planned and potential cash flows, grouped by different periods, instruments and currencies, and serves as a basis for calculation of current and cumulative liquidity gaps attributable to them.

To determine its liquidity risk the Bank discloses information about assets and liabilities grouped by terms from the reporting date till maturity date. The grouping and maturity analysis of the assets and liabilities enables the Bank to identify the sources of funding of its lending operations and assess its ability to maintain sufficient liquidity to meet its obligations to the investors and customers.

**The Bank's liquidity position as at 31 December 2008 is stated below**

| | **Up to 1 month** | **From 1 to 3 months** | **From 3 months to 1 year** | **Over 1 year** | **Total** |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash and cash equivalents | 5,416 | - | - | - | **5,416** |
| Due from other banks | 21,947 | - | - | - | **21,947** |
| Loans and advances to customers | 5,256 | 2,769 | 33,399 | 13,071 | **54,495** |
| Securities available for sale | 118 | 156 | 17,084 | - | **17,358** |
| Deferred tax assets | - | - | 1,097 | - | **1,097** |
| Property, equipment and intangibles assets | - | - | - | 4,943 | **4,943** |
| Other assets | 208 | 38 | 14 | - | **260** |
| | **32,945** | **2,963** | **51,594** | **18,014** | **105,516** |
| **Liabilities** | | | | | |
| Due to other banks | 17,745 | - | - | - | **17,745** |
| Due to clients | 12,893 | 1,174 | 765 | 25 | **14,857** |
| Other liabilities | 764 | - | - | - | **764** |
| | **31,402** | **1,174** | **765** | **25** | **33,366** |
| **Net position** | **1,543** | **1,789** | **50,829** | **17,989** | **72,150** |

***Market risk***

Market risks include:
- Interest rate risk
- Currency risk
- Other market risk.

Interest rate risk – is existent or potential risk of capital gap due to unfavorable interest rates fluctuations. This type of risk influences both profitability of the Bank (in short-term period) and its market value (in long-term period).

Treasury is responsible for compliance with limitation requirements established by ALMC. Liquidity and Market Risk Department monitors sustainable application of established limitations.

Currency risk - – is existent or potential risk of non-receiving of cash flows or capital due to unfavorable foreign currency exchange rate fluctuations and fluctuations of prices for bank metals.

The Spheres of activity of Treasury are limited to the certain range of products defined by the internal regulations of the Bank. In case of changes, new products should be approved by the ALMC, and, if it is required, by the Board.

Treasury is responsible for compliance with the limitation requirements stipulated by the National Bank of Ukraine and ALMC. Liquidity and Market Risk Management Department monitors sustainable application of the established limitations.

Other market risks result from unfavorable fluctuations of prices for trade securities of the Bank, and prices for derivatives and other instruments and products, apart from those fluctuations of foreign currencies exchange rates and interest rates fluctuations.

The main goal of market risk management is limitation of their influence to the capital, maintaining required level of capital abundance and compliance with all regulatory requirements in respect of market positions.

Apart from compliance with regulatory requirements in respect of market risks limitations, market risks are controlled through establishing and monitoring of limitations for market positions and for their cost under risk conditions. In some cases limitations are imposed on current expenses.

Current expenses limitations are limitations of possible losses of the Bank from the certain type of market operations during the established period of time.

For the purposes of market risk monitoring Liquidity and Market Risk Department prepares on the regular basis the following reports on:

- Interest gaps reports, and compares them with imposed limitations;
- Calculation of current interest result on market transactions and comparing them with received information with imposed limitations and budgets;
- Currency position reports and c comparing them with received information with imposed limitations;
- Calculation of risk price for foreign currency transactions and comparing them with received information with imposed limitations;
- Calculation of interim results of operations in foreign currency and comparing them with established limitations and budgets.

On the bases of received reports ALMC takes decisions regarding steps for minimization of corresponding market risks.

***('000 UAH)***

Operating risks fall into the following categories:

- Operating and technical risks – existent or potential risks of losses due to improper organization of internal processes of the Bank, gaps in the systems of corporate management, internal control system or IT-systems from the point of view of manageability, universality, reliability and sustainability.
- Legal risks - existent or potential risks of losses due incompliance with or to breaches of laws, regulations, agreements, adopted practice or ethical norms, and due to their dubious interpretation.
- Reputation risk - existent or potential risks of unfavorable perception of the Bank's image by the clients, contractors, shareholders (participants) or Regulatory State Institutions. It influences the Bank's ability to establish new contacts with potential clients, provide new services or maintain existing relations.
- Strategy risk - existent or potential risks of default by the Management to recognize and assess properly essential development and structure trends in bank sector, or in other related sectors, resulting in taking incorrect strategic decisions of irreversible character.

Operating risks are managed by Operating Risk Department, Legal Department, HR Department and IT Department.

***a) currency risk***

**As at 31 December 2008, the Bank had the following currency positions (without off-balance assets and liabilities):**

| | UAH | USD | EURO | Other | Total |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash and cash equivalents | 1,930 | 436 | 2,936 | 114 | **5,416** |
| Due from other banks | 3,173 | 18,774 | - | - | **21,947** |
| Loans and advances to customers | 45,751 | 8,744 | - | - | **54,495** |
| Securities available for sale | 17,358 | - | - | - | **17,358** |
| Deferred tax assets | 1,097 | - | - | - | **1,097** |
| Property, equipment and intangibles assets | 4,943 | - | - | - | **4,943** |
| Other assets | 260 | - | - | - | **260** |
| | **74,512** | **27,954** | **2,936** | **114** | **105,516** |
| **Liabilities** | | | | | |
| Due to other banks | 2,001 | - | 15,744 | - | **17,745** |
| Due to clients | 8,552 | 3,268 | 2,923 | 114 | **14,857** |
| Other liabilities | 762 | - | 2 | - | **764** |
| | **11,315** | **3,268** | **18,669** | **114** | **33,366** |
| **Net position** | **63,197** | **24,686** | **(15,733)** | **-** | **72,150** |

***('000 UAH)***

Strengthening of the following currencies by 10 % towards functional currency as at 31 December 2008 would have increased/(decreased) profit and loss and equity of the Bank by the amounts stated below should other variables remain unchangeable.

| | **31/12/2008** |
|---|---|
| Net profit/(loss) | |
| US dollars | **2,469** |
| Euro | **(1,573)** |

Weakness of these currencies towards the functional currency as at 31 December 2008 and 2007 would have had the same effect should all other variables remain unchangeable.

***b) interest risk***

The weighted average interest rates on interest-bearing assets and liabilities for 2008 are summarised below:

| | **31/12/2008** | | |
|---|---|---|---|
| | **USD** | **EURO** | **UAH** |
| Due from other banks | **6.20%** | **-** | **23.13%** |
| Loans and advances to customers | **11.93%** | **-** | **19.69%** |
| Securities available for sale | **-** | **-** | **20.08%** |
| Due to other banks | **-** | **4.00%** | **10.00%** |
| Due to clients | **5.71%** | **2.79%** | **17.18%** |

At the end of 2008 the re-financing rate of the NBU was 12.0 % per annum.

As at 31 December 2008 net loss for the reporting year would have been lower/higher by 111 thousand UAH as a result of increase/decrease of interest income from assets with floating interest rate. This could be possible on condition that interest rates were 100 percentage points higher/lower, other factors being equal

Sensitivity analysis was carried out for all financial instruments with floating interest rate, which are reported at amortized cost and are sensitive to market interest rate change. Change of market interest rate will not influence the fair value of securities available for sale with fixed interest rate.

The Bank does not enter into arrangements involving interest-bearing derivatives; as such arrangements are not common for Ukrainian environment.