OJSC West Finance and Credit Bank

Financial Statements
31 December 2009

These financial statements contain 48 pages

Contents

(in thousands of UAH)	*Note*	**31 December 2009**	31 December 2008
Assets			
Cash		**3,532**	5,884
Balances with the National Bank of Ukraine	*5*	**13,617**	2,562
Due from banks	*6*	**94,207**	25,773
Deposit certificates of the National Bank of Ukraine	*7*	**-**	23,079
Loans and advances	*8*	**151,820**	109,076
Property, equipment and intangible assets	*9*	**2,205**	3,637
Assets held-for-sale	*11*	**5,018**	7,314
Other assets	*10*	**1,489**	2,759
Total assets		**271,888**	180,084
Liabilities			
Current accounts	*12*	**22,950**	12,693
Deposits	*13*	**129,952**	51,825
Income tax payable		**2**	26
Deferred tax liability	*26*	**2,521**	2,318
Other liabilities	*14*	**613**	528
Subordinated debt	*15*	**31,930**	30,273
Total liabilities		**187,968**	97,663
Equity			
Share capital	*16*	**72,175**	72,175
Additional paid-in capital		**7,328**	7,328
Retained earnings		**4,417**	2,918
Total equity		**83,920**	82,421
Total liabilities and equity		**271,888**	180,084
Commitments and contingent liabilities	*17*		

The statement of financial position is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 7 to 48.

(in thousands of UAH)	*Note*	**2009**	2008
Interest income	*18*	**28,592**	18,575
Interest expense	*18*	**(14,319)**	(4,916)
Net interest income	*18*	**14,273**	13,659
Fee and commission income	*19*	**2,695**	1,335
Fee and commission expense	*19*	**(1,543)**	(219)
Net fee and commission income	*19*	**1,152**	1,116
Financial aid received	*20*	**11,984**	-
Gains less losses arising from foreign currency exchange	*21*	**3,934**	4,690
Other income	*22*	**128**	6,248
Operating income		**31,471**	25,713
Salaries and employee benefits	23	**(11,107)**	(7,444)
General administrative expenses	*24*	**(10,809)**	(6,985)
Depreciation and amortisation	*9*	**(1,352)**	(760)
Provision for impairment	*25*	**(6,102)**	(6,920)
Operating expenses		**(29,370)**	(22,109)
Profit before tax		**2,101**	3,604
Income tax expense	*26*	**(602)**	(958)
Net profit and total comprehensive income		**1,499**	2,646

The statement of comprehensive loss is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 7 to 48.

	Note	2009	2008
(in thousands of UAH)			
Operating activities			
Interest received		**29,196**	18,294
Interest paid		**(13,997)**	(3,445)
Fees and commissions received		**2,695**	1,335
Fees and commissions paid		**(1,543)**	(219)
Net receipts from dealing in foreign currencies		**3,959**	630
Other income and financial aid received		**12,112**	2,605
Operating expenses paid		**(21,916)**	(14,429)
		10,506	4,771
Changes in operating assets and liabilities			
(Increase) decrease in loans and advances due from banks with original maturity more than three months		**(1,332)**	31,349
Decrease (increase) in deposit certificates of the National Bank of Ukraine	*7*	**23,000**	(23,000)
Increase in loans and advances		**(43,979)**	(23,695)
Decrease (increase) in other assets		**1,272**	(992)
Decrease in due to banks		**-**	(22,700)
Increase in current accounts		**9,612**	2,767
Increase in deposits		**74,848**	36,511
Increase in other liabilities		**85**	516
Net cash from operating activities before tax		**74,012**	5,527
Income tax paid		**(423)**	(177)
Cash flows from operating activities		**73,589**	5,350
Investing activities			
Proceeds from sale of assets held-for-sale		**1,042**	-
Acquisition of property, equipment and intangible assets	*9*	**(391)**	(1,701)
Proceeds from disposals of property, equipment and intangible assets	*9*	**471**	-
Cash flows from (used in) investing activities		**1,122**	(1,701)

The statement of comprehensive loss is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 7 to 48.

Financing activities			
Issue of subordinated debt	*15*	-	24,000
Cash flows from financing activities		**-**	24,000
Cash and cash equivalents as at 1 January		**33,834**	4,572
Effect of exchange rates fluctuations on cash and cash equivalents		**32**	1,613
Net increase in cash and cash equivalents		**74,711**	27,649
Cash and cash equivalents as at 31 December		**108,577**	33,834

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

(in thousands of UAH)	*Note*	**2009**	2008
Cash		**3,532**	5,884
Balances with the National Bank of Ukraine which are available for withdrawal	*5*	**11,317**	2,562
Balances due from banks with original maturity less than three months	*6*	**93,728**	25,388
Total cash and cash equivalents		**108,577**	33,834

The statement of comprehensive income is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 7 to 48.

(in thousands of UAH)	**Share capital**	**Additional paid-in capital**	**Retained earnings**	**Total**
Balances as at 1 January 2008	72,175	2,902	272	75,349
Net profit	-	-	2,646	2,646
Total comprehensive income	-	-	2,646	2,646
Initial recognition of subordinated debt	-	5,901	-	5,901
Income tax effect of initial recognition of subordinated debt	-	(1,475)	-	(1,475)
Balances as at 31 December 2008	**72,175**	**7,328**	**2,918**	**82,421**
Net profit and total comprehensive income	**-**	**-**	**1,499**	**1,499**
Balances as at 31 December 2009	**72,175**	**7,328**	**4,417**	**83,920**

The statement of changes in equity is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 7 to 48.

1 Background

(a) Organization and operations

Closed Joint-Stock Company "West Finance and Credit Bank" (the Bank) was created according to Ukrainian legislation and registered by the National Bank of Ukraine (NBU) on 4 October 2006.

In January 2009, the Bank was reorganised into open joint-stock company.

The Bank provides banking services to individuals and companies operating in different industries, including machinery, trade and others. These services include taking deposits and granting loans, investing in securities, transferring payments in Ukraine and abroad, exchanging of currencies and other services.

The head office is located at 17 Kovpaka St., Kyiv, Ukraine. As at 31 December 2009 the Bank has 1 outlet located in Kyiv (2008: 3 outlets). The Bank has 62 employees as at 31 December 2009 (31 December 2008: 76).

(b) Ukrainian business environment

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

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

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

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

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

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

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

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

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

2 Basis of preparation

(a) Statement of compliance

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

(b) Basis of measurement

The financial statements are prepared on the historical cost basis except for derivative financial instruments stated at fair value.

(c) Functional and presentation currency

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

(d) Critical accounting estimates and judgments in applying accounting policies

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

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

(i) Critical judgements

The Bank's accounting policies allow offsetting of assets and liabilities (i.e. loans due from and deposits due to the same banks) only when there is legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. Although settlement of loans and deposits is typically done on the same day, loans due from and deposits due to the same banks are settled by receiving and paying separate amounts, thus exposing the Bank to credit risk for the full amount of the asset or liquidity risk for the full amount of the liability. These risk exposures may be significant even though relatively brief. Management believes that these transactions are in substance foreign currency exchange swaps and accounts for these transactions in accordance with the Bank's accounting policy in respect of derivatives. Accordingly, the net fair value of foreign currency exchange swaps is recognised as an asset when the fair value is positive and as a liability when the fair value is negative. The gross amount of amounts receivable/payable on settlement (having the legal form of loans due from and deposits due to the same banks) are offset and not recognised on the balance sheet. Refer to note 27 for the information about maximum exposure to credit risk arising from these derivative instruments (i.e. gross amount of receivable upon settlement of loans due from banks). Refer to note 28 for the information about exposure to liquidity risk (i.e. gross amount of payable upon settlement of deposits due to banks).

(ii) *Significant estimation uncertainty*

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

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

Note 8 contains a description of the sensitivity of the carrying amount of loans and advances to changes in estimates. Should actual repayments be less than management estimates, the Bank would be required to record additional impairment expense.

3 Significant accounting policies

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

(a) Foreign currency translation

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

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

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

As at the date of these financial statements, 10 June 2010, the NBU exchange rate is UAH 7.92 to USD 1.00 and UAH 9.51 to EUR 1.00.

(b) Financial instruments

Classification

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

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

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

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

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

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

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

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

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

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

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

Recognition

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

Measurement

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

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

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

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

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

Fair value measurement principles

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

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates using a discount rate representing a market rate at the end of the reporting period for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market related measures at the end of the reporting period. The fair value of derivatives that are not exchange-traded is estimated at the amount that the Bank would receive or pay to terminate the contract at the reporting date taking into account current market conditions and the current creditworthiness of the counterparties and own credit risk.

Gains and losses on subsequent measurement

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

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

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

Derecognition

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

The Bank also derecognizes certain assets when it writes off balances pertaining to the assets deemed to be uncollectible. All impairment losses in respect of loans and receivables are recognized in profit or loss and are only reversed if a subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

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

Derivative financial instruments

Derivative financial instruments include foreign exchange swaps, forward transactions and any combinations of these instruments.

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

Changes in the fair value of derivatives are recognised immediately in the statement of comprehensive income.

Derivatives may be embedded in another contractual arrangement (host contract). An embedded derivative is separated from the host contract and it is accounted for as a derivative if, and only if the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at fair value with changes in fair value recognised in the statement of comprehensive income.

Derivatives embedded in financial assets or financial liabilities at fair value through profit or loss are not separated.

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

Interest bearing borrowings

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

When borrowings are repurchased or settled before maturity, any difference between the amount repaid and the carrying amount is immediately recognised in the statement of comprehensive income.

(c) Impairment

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

Calculation of recoverable amount

Loans and advances

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

Management first assesses whether objective evidence of impairment exists individually for loans and advances that are individually significant, and individually or collectively for loans and advances that are not individually significant. If no objective evidence of impairment exists for an individually assessed loan, whether significant or not, it includes the loan in a group of loans with similar credit risk characteristics and collectively assesses them for impairment. Loans that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

For all loans that are considered individually significant, the Bank assesses on a case-by-case basis at each reporting date whether there is any objective evidence that the loan is impaired. For those loans, where objective evidence of impairment exists, impairment losses are determined considering the following factors:

- the viability of the customer's business model and its capability to trade successfully out of financial difficulties and generate sufficient cash flow to service its debt obligations;
- the amount and timing of expected receipts and recoveries;
- the realisable value of security (or other credit mitigants) and likelihood of successful repossession;
- the likely deduction of any costs involved in recovery of amounts outstanding.

The collective impairment is determined based on a statistical analysis of historical trends of default and amount of consequential loss, based on the delinquency of loans within a portfolio of homogeneous loans. Other historical data and current economic conditions are also evaluated when calculating the appropriate level of provision for impairment required to cover incurred loss.

If there is objective evidence that an impairment loss on a loan has been incurred, the amount of the loss is measured as the difference between the loan carrying amount and the present value of estimated future cash flows including amounts recoverable from guarantees and collateral (excluding future losses that have not been incurred) discounted at the loan's original effective interest rate. Contractual cash flows and historical loss experience adjusted on the basis of relevant observable data that reflect current economic conditions provide the basis for estimating expected cash flows.

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

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

Available for sale assets

The recoverable amount of financial assets at fair value through profit or loss and available-for-sale assets is their fair value.

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

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

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

Non financial assets

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

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

Reversal of impairment

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

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

Credit related commitments

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

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

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

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

(d) Property, equipment and intangible assets

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

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

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

(e) Assets held-for-sale

Assets or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. Immediately before classification as held-for-sale, the assets, or components of a disposal group, are remeasured in accordance with the Bank’s accounting policies. Thereafter generally the assets, or disposal group, are measured at the lower of their carrying amount and fair value less cost to sell. Impairment losses on initial classification as held-for-sale and subsequent gains or losses on remeasurement are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss.

(f) Leases

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

(g) Income and expense recognition

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

Commission income and expense are recognized on an accrual basis.

Fees received in connection with loan originations are netted against the direct costs incurred to grant the loan, and are amortized over the life of the loan as an adjustment to interest income.

(h) Segment reporting

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

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

(i) Taxation

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

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

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

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the unused tax losses and credits can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(j) Employee benefits

The Bank pays into social insurance funds an amount based on each employee’s wage, in accordance with Ukrainian legislation. These amounts are expensed when the related compensation expense is incurred.

(k) Statement of cash flows

Cash and cash equivalents include cash, balances with the National Bank of Ukraine and current accounts due from banks with the original maturities of less than three months. As at 31 December 2009, the mandatory reserve with the NBU is not considered to be cash equivalent due to restrictions on its withdrawability.

(l) Additional paid-in capital

Additional paid-in capital includes contribution to the equity other than increase of share capital. The result from transactions with the Parent Company acting in capacity as shareholder of the Bank is recorded directly in equity.

(m) Offsetting

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

(n) Adoption of new accounting standards

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

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

(o) New standards and interpretations not yet adopted

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

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

- IFRS 9 *Financial Instruments* will be effective for annual periods beginning on or after 1 January 2013. The new standard is to be issued in several phases and is intended to replace International Financial Reporting Standard IAS 39 *Financial Instruments: Recognition and Measurement* once the project is completed by the end of 2010. The first phase of IFRS 9 was issued in November 2009 and relates to the recognition and measurement of financial assets.

- Amendment to IAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items* (effective for annual periods beginning on or after 1 January 2010) 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.

Management plans to adopt these pronouncements when they become effective. Management is currently studying what effect these new standards and amendments may have on the financial position and result of operations.

5 Balances with the National Bank of Ukraine

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

(in thousands of UAH)	**2009**	2008
Balances available for withdrawal	**11,317**	2,562
Restricted balances	**2,300**	-
Total	**13,617**	2,562

The Bank is required by the NBU to maintain an obligatory reserve balance calculated as an average of certain customer funds over a period of one month. The average obligatory reserve amounts to UAH 2,070 thousand for the one month period ended 31 December 2009 (one month period ended 31 December 2008: UAH 1,722 thousand). The Bank meets the NBU reserve requirements as at 31 December 2009 and 2008. This amount could be available for withdrawal as long as an average monthly balance maintained by the Bank meets obligatory reserve requirement.

On 1 December 2008 the NBU adopted Resolution 406 which imposed a new requirement regarding mandatory reserve that should be kept on the correspondent accounts of the NBU. This Resolution became effective on 1 January 2009. The reserve is calculated based on the amount of loans in foreign currency granted during 2009 to the borrowers which do not have income in foreign currency. The NBU restricts withdrawal of amounts equivalent to certain foreign currency denominated loans as well as amounts equivalent to 40% of the obligatory reserves calculated based on the NBU methodology.

As at 31 December 2009 mandatory reserve with the NBU amounting to UAH 2,300 thousand is restricted for withdrawal.

6 Due from banks

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

(in thousands of UAH)	**2009**	2008
Current accounts:		
Domestic	**80,933**	25,349
OECD countries	**12,795**	39
	93,728	25,388
Loans and advances:		
Domestic	**479**	385
Total	**94,207**	25,773

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

(in thousands of UAH)	**2009**	2008
Current accounts:		
B- to B+	**93,712**	25,386
Unrated	**16**	2
	93,728	25,388
Loans and advances:		
B- to B+	**479**	385
Total	**94,207**	25,773

As at 31 December 2009, balances due from banks amounting to UAH 89,113 thousand, or 94.6% of the gross exposure of due from banks, are placed with two banks (2008: UAH 25,422 thousand, or 98.6%).

As at 31 December 2009 and 2008, balances due from banks are not impaired or past due.

7 Deposit certificates of the National Bank of Ukraine

As at 31 December 2008, deposit certificates of the National Bank of Ukraine bore interest rates ranging from 18-25%. The deposit certificates were redeemed during 2009.

8 Loans and advances

Loans and advances as at 31 December are as follows:

(in thousands of UAH)	**2009**	2008
Commercial	**154,993**	102,236
Retail	**11,308**	16,466
Total loans, gross	**166,301**	118,702
Provision for impairment (note 25)	**(14,481)**	(9,626)
Total	**151,820**	109,076

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

Changes in collection estimates can affect the impairment losses recognised. For example, to the extent that the net present value of the estimated cash flows differs by plus/minus one percent, the loan impairment as at 31 December 2009 would be UAH 1,518 thousand lower/higher (31 December 2008: UAH 1,091 thousand).

As at 31 December 2009, loans and advances to the ten largest borrowers (or groups of borrowers) totals UAH 137,164 thousand, and represent 82.5% of the total gross loans and advances (31 December 2008: UAH 82,938 thousand or 69.9%).

Loan impairment as at 31 December 2009 is as follows:

(in thousands of UAH)	**Gross loans**	**Impairment**	**Net loans**	**Impairment to gross loans**
Commercial loans				
Loans with specific impairment	**16,119**	**(10,610)**	**5,509**	**65.8%**
Loans without specifically identified impairment	**138,874**	**(1,587)**	**137,287**	**1.1%**
Total commercial loans	**154,993**	**(12,197)**	**142,796**	**7.9%**
Retail loans				
Loans with specific impairment	**2,361**	**(210)**	**2,151**	**8.9%**
Loans without specifically identified impairment	**8,947**	**(2,074)**	**6,873**	**23.2%**
Total retail loans	**11,308**	**(2,284)**	**9,024**	**20.2%**
Total	**166,301**	**(14,481)**	**151,820**	**8.7%**

Loan impairment as at 31 December 2008 is as follows:

(in thousands of UAH)	**Gross loans**	**Impairment**	**Net loans**	**Impairment to gross loans**
Commercial loans				
Loans with specific impairment	13,871	(8,962)	4,909	64.6%
Loans without specifically identified impairment	88,365	(345)	88,020	0.4%
Total commercial loans	102,236	(9,307)	92,929	9.1%
Retail loans				
Loans without specifically identified impairment	16,466	(319)	16,147	1.9%
Total retail loans	16,466	(319)	16,147	1.9%
Total	118,702	(9,626)	109,076	8.1%

As at 31 December 2009, accrued interest receivable on loans and advances with specific impairment amounted to nil (31 December 2008: UAH 238 thousand).

As at 31 December 2009 and 2008, there were no loans and advances, terms of which were renegotiated, that would otherwise be past due or impaired.

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

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

	31 December 2009			31 December 2008		
Type of collateral	**Commercial loans**	**Retail Loans**	**Total**	Commercial loans	Retail Loans	Total
(in thousands of UAH)						
Loans with specific impairment:						
Pledged assets	**8,086**	**2,361**	**10,447**	7,343	-	7,343
Unsecured	**8,033**	**-**	**8,033**	6,528	-	6,528
Total loans with specific impairment	**16,119**	**2,361**	**18,480**	13,871	-	13,871
Loans without specifically identified impairment:						
Pledged assets	**54,784**	**7,008**	**61,792**	50,337	14,997	65,334
Deposits with the Bank	**83,202**	**-**	**83,202**	37,011	789	37,800
Unsecured	**888**	**1,939**	**2,827**	1,017	680	1,697
Total loans without specifically identified impairment	**138,874**	**8,947**	**147,821**	88,365	16,466	104,831
Total loans:						
Pledged assets	**62,870**	**9,369**	**72,239**	57,680	14,997	72,677
Deposits with the Bank	**83,202**	**-**	**83,202**	37,011	789	37,800
Unsecured	**8,921**	**1,939**	**10,860**	7,545	680	8,225
Total	**154,993**	**11,308**	**166,301**	102,236	16,466	118,702

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

Pledged assets primarily include real estate, production facilities and automobiles.

During 2008, the Bank foreclosed collateral, which secured the loan, with a fair value of UAH 7,314 thousand. The foreclosed collateral is curtain fabric. The foreclosed collateral is classified as assets held for sale (note 11). As at 31 December 2009, the fair value of the foreclosed collateral amounts to UAH 5,018 thousand. The Bank has intention to sell the foreclosed collateral during 2010.

As at 31 December 2009, the fair value of collateral pledged for loans with specific impairment identified is approximately UAH 8,803 thousand (31 December 2008: UAH 7,452 thousand).

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

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

(in thousands of UAH)	**2009**	2008
Construction	**84,011**	42,465
Trade	**43,669**	22,003
Production	**14,711**	18,274
Agriculture	**8,220**	11,410
Financial Services	**3,421**	7,191
Transportation	**961**	893
Total	**154,993**	102,236

9 Property, equipment and intangible assets

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

(in thousands of UAH)	**Leasehold improvements**	**Furniture and equipment**	**Motor Vehicles**	**Intangible assets**	**Total**
Cost:					
As at 1 January 2009	**322**	**2,227**	**1,251**	**802**	**4,602**
Additions	**-**	**270**	**-**	**121**	**391**
Disposals	**(242)**	**(220)**	**(501)**	**-**	**(963)**
As at 31 December 2009	**80**	**2,277**	**750**	**923**	**4,030**
Accumulated depreciation and amortisation:					
As at 1 January 2008	**99**	**442**	**116**	**308**	**965**
Depreciation and amortisation	**183**	**609**	**214**	**346**	**1,352**
Disposals	**(224)**	**(205)**	**(63)**	**-**	**(492)**
As at 31 December 2009	**58**	**846**	**267**	**654**	**1,825**
Net book value as at 31 December 2009	**22**	**1,431**	**483**	**269**	**2,205**

During the year ended 31 December 2009 the Bank changed the expected useful lives of the motor vehicles. Motor vehicles, which management previously intended to dispose after fifteen years of use, are now expected to have useful lives of five years. The effect of these changes on depreciation expense in current and future periods is as follows:

(in thousands of UAH)	**2009**	**2010**
Increase in depreciation expense	**139**	**139**

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

(in thousands of UAH)	Leasehold improvements	Furniture and equipment	Motor vehicles	Intangible assets	Total
Cost:					
As at 1 January 2008	322	1,187	927	474	2,910
Additions	-	1,049	324	328	1,701
Disposals	-	(9)	-	-	(9)
As at 31 December 2008	322	2,227	1,251	802	4,602
Accumulated depreciation and amortisation:					
As at 1 January 2008	1	103	38	72	214
Depreciation and amortisation	98	348	78	236	760
Disposals	-	(9)	-	-	(9)
As at 31 December 2008	99	442	116	308	965
Net book value as at 31 December 2008	223	1,785	1,135	494	3,637

10 Other assets

Other assets as at 31 December are as follows:

(in thousands of UAH)	**2009**	2008
Prepayments	**682**	1,022
Prepaid taxes, other than income tax	**570**	952
Materials and supplies	**84**	103
Derivative financial instruments (note 27)	**4**	-
Other	**149**	689
	1,489	2,766
Provision for impairment (note 25)	**-**	(7)
Total	**1,489**	2,759

11 Assets held-for-sale

During 2008, the Bank foreclosed on collateral with a fair value of UAH 7,314 thousand. The Bank does not use the foreclosed collateral in the normal course of its business. As at 31 December 2009, the fair value of the foreclosed collateral considered to be UAH 5,018 thousand. The Bank has intention to sell the foreclosed collateral during 2010.

12 Current accounts

Current accounts as at 31 December are as follows:

(in thousands of UAH)	**2009**	2008
Commercial	18,197	7,289
Retail	4,753	5,404
Total	**22,950**	12,693

As at 31 December 2009, current accounts of the five largest customers (or group of customers) total UAH 10,836 thousand, or 47.2% of the total current accounts (31 December 2008: UAH 5,831 thousand, or 45.9%).

13 Deposits

Deposits as at 31 December are as follows:

(in thousands of UAH)	**2009**	2008
Commercial	110,954	27,887
Retail	18,998	23,938
Total	**129,952**	51,825

As at 31 December 2009 deposits of the five largest customers (or group of customers) total UAH 116,389 thousand, or 89.6% of total deposits (31 December 2008: UAH 41,355 thousand, or 79.8%).

14 Other liabilities

Other liabilities as at 31 December are as follows:

(in thousands of UAH)	**2009**	2008
Provision for unused vacations	**488**	176
Accounts payable for services	**79**	67
Taxes payable, other than income tax	**-**	46
Other	**46**	239
Total	**613**	528

15 Subordinated debt

In 2008 the Bank received from the shareholder (by way of an entity under common control), JSC "ALTINBAŞ HOLDİNG ANONİM ŞIRKETİ", a subordinated loan denominated in US dollars amounting to USD 5,000 thousand with a nominal fixed interest rate of 5.5%. The principal amount of this loan was initially repayable in August 2013. During 2009 the maturity of the loan was extended until August 2015.

This loan was recognised initially at fair value. The fair value of this loan was determined by management as the present value of the future payments for the loans discounted using a market rate of interest for similar loans of 12.0%. On initial recognition, the difference of UAH 5,901 thousand between the fair value of the loan of UAH 18,099 thousand and total proceeds received of UAH 24,000 thousand is recognized as additional paid-in capital in the statement of changes in equity. After initial recognition, the difference between the fair value and the nominal value is amortised in the statement of comprehensive income over the term of the loan using the effective interest method. As at 31 December 2009, the effective interest rate is 10.6% (31 December 2008: 12%).

Subordinated debt includes principal and accrued interest as at 31 December 2009 and 2008.

16 Share capital

The share capital as at 31 December 2009 and 2008 is as follows:

(in thousands of UAH) (except for number of shares)	**Number of shares**	**Amount**
Ordinary shares authorised, issued and fully paid	**72,175,000**	**72,175**

The nominal value of an ordinary share is UAH 1 per share as at 31 December 2009 and 2008. All ordinary shares have equal voting, dividend and capital repayment rights. No dividends were declared or paid in 2009 and 2008.

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

17 Commitments and contingent liabilities

(a) Guarantees

As at 31 December 2009 there are no guarantees granted by the Bank (31 December 2008: UAH 916 thousand).

(b) Commitments to extend credit

As at 31 December 2009 the Bank granted irrevocable commitments to extend credit amounting to UAH 1,279 thousand (31 December 2008: nil).

(c) Operating lease commitments

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

(in thousands of UAH)	**2009**	2008
Within one year	**385**	636
	385	636

During the year ended 31 December 2009 the Bank shut down two branches and cancelled corresponding leases. Other lease agreements were amended for early cancellation terms.

(d) Insurance

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

(e) Tax contingency

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

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

(f) Litigation

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

18 Net interest income

Net interest income for the year ended 31 December is as follows:

(in thousands of UAH)	**2009**	2008
Interest income		
Loans and advances	**23,481**	14,172
Due from banks	**3,164**	4,324
Deposit certificates of the National Bank of Ukraine	**1,947**	79
Total interest income	**28,592**	18,575
Interest expense		
Deposits	**9,675**	2,734
Subordinated debt	**3,307**	1,005
Current accounts	**1,257**	178
Due to banks	**80**	999
Total interest expense	**14,319**	4,916
Net interest income	**14,273**	13,659

Interest income on individually impaired loans and advances during the year ended 31 December 2009 amounts to UAH 2,135 thousand (2008: UAH 246 thousand).

19 Net fee and commission income

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

(in thousands of UAH)	**2009**	2008
Fee and commission income:		
Payments and cash withdrawals	**1,759**	784
Currency exchange	**915**	362
Other	**21**	189
Total fee and commission income	**2,695**	1,335
Fee and commission expense:		
Payments and cash withdrawals	**(1,518)**	(156)
Other	**(25)**	(63)
Total fee and commission expense	**(1,543)**	(219)
Net fee and commission income	**1,152**	1,116

20 Financial aid received

During 2009, the Bank received USD 1,500 thousand of non-refundable financial aid from Douglas Trading SA, which is not a related party.

21 Gains less losses arising from foreign currency exchange

Gains less losses arising from dealing in foreign currencies relate to the valuation of currency positions and the spreads earned on foreign currency exchange activities.

22 Other income

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

(in thousands of UAH)	**2009**	2008
Penalties and fines	**115**	3,643
Consulting services	**-**	2,567
Other	**13**	38
Total	**128**	6,248

23 Salaries and employee benefits

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

(in thousands of UAH)	**2009**	2008
Salaries and other benefits	8,786	5,733
Social security and other salary related charges	2,321	1,711
Total	**11,107**	7,444

24 General administrative expenses

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

(in thousands of UAH)	**2009**	2008
Rent	**4,825**	3,295
Communication	**1,767**	881
Professional services	**1,649**	928
Repairs and maintenance of property, equipment and intangible assets	**1,060**	581
Business trips	**212**	114
Security	**164**	171
Individual deposit guarantee fund	**140**	96
Other	**992**	919
Total	**10,809**	6,985

25 Provision for impairment

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

(in thousands of UAH)	**2009**	2008
Balance as at 1 January	**9,633**	2,393
Provision for impairment (recoveries of provision for impairment) for:		
Commercial loans and advances	**2,890**	7,358
Retail loans and advances	**1,965**	(220)
Due from banks	**-**	(225)
Assets held-for-sale	**1,254**	-
Other assets	**(7)**	7
Net impairment losses	**6,102**	6,920
Foreign exchange differences	**-**	320
Balance as at 31 December	**15,735**	9,633

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

(in thousands of UAH)	**2009**	2008
Loans and advances (note 8)	**14,481**	9,626
Assets held-for-sale (note 11)	**1,254**	-
Other assets (note 10)	**-**	7
Balance as at 31 December	**15,735**	9,633

26 Income tax expense

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

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

(in thousands of UAH)	**2009**	2008
Current tax expense	**399**	176
Deferred tax expense	**203**	782
Total tax expense	**602**	958

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

	Year ended 31 December			
(in thousands of UAH)	**2009**	**2009**	2008	2008
Profit before tax	**2,101**	**100.0%**	3,604	100.0%
Computed expected income tax expense at statutory rate	**525**	**25.0%**	901	25.0%
Non-deductible expenses	**77**	**3.7%**	57	1.6%
Income tax expense for the year	**602**	**28.7%**	958	26.6%

(a) Movements in recognised temporary differences during the year

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

(in thousands of UAH)	**1 January 2009 Asset (liability)**	**Recognised in statement of comprehensive income Benefit (charge)**	**31 December 2009 Asset (liability)**
Property, equipment and intangible assets	**(161)**	**98**	**(63)**
Loans and advances	**181**	**(972)**	**(791)**
Amounts due from other banks	**(5)**	**5**	**-**
Other assets	**(129)**	**399**	**270**
Subordinated debt	**(2,254)**	**208**	**(2,046)**
Other liabilities	**50**	**59**	**109**
Total	**(2,318)**	**(203)**	**(2,521)**

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

(in thousands of UAH)	**1 January 2008** **Asset (liability)**	**Recognised in statement of comprehensive income** **Benefit (charge)**	**Recognised in equity** **Benefit (charge)**	**31 December 2008** **Asset (liability)**
Property, equipment and intangible assets	(68)	(93)	-	(161)
Loans and advances	15	166	-	181
Amounts due from other banks	-	(5)	-	(5)
Other assets	(11)	(118)	-	(129)
Subordinated debt	-	(779)	(1,475)	(2,254)
Other liabilities	3	47	-	50
Total	(61)	(782)	(1,475)	(2,318)

27 Derivative financial instruments

The Bank has a loan due from and a deposit due to the same bank that are denominated in different currencies for the same period with the similar amounts. Cash flows under this instrument are similar to cash flows under foreign exchange swaps. The Bank enters into these instruments for risk hedging purposes; however, these instruments do not qualify for hedge accounting. Refer to note 2 for a description of critical accounting judgement made by the management in application of the Bank's accounting policies for these instruments. The table below sets out gross amounts of receivable and payable upon settlement of loan due from and deposit due to bank. Because these contracts are short-term, the net amount of receivable or payable upon settlement also approximates the positive (net receivable) or negative (net payable) fair value of the foreign currency exchange contracts.

	2009	**2008**
(in thousands of UAH)	**Contracts with positive fair value**	**Contracts with positive fair value**
Gross amount upon settlement:		
UAH receivable	**24,758**	-
USD payable	**(24,754)**	-
Net fair value assets (net amount receivable) (note 10)	**4**	-
Maximum exposure to credit risk (gross amount)	**24,758**	-

28 Analysis by segment

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

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

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

29 Financial risk management

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

(a) Risk management framework

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

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

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

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

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

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

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

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

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

The Credit Committee makes and approves decisions on credit transactions within their respective authority as well as on other credit-related issues relating to corporate and retail customers.

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

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

(b) Credit risk

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

Management uses the same procedures and methodologies, as defined in the policy for approving credit related commitments (undrawn loan commitments, letter of credit and guarantees) as it does for balance sheet credit obligations (loans). The maximum exposure to off balance sheet credit risk is reflected in note 17.

Management monitors concentration of credit risk. For the analysis of concentration of credit risk in respect of loans and advances refer to note 8.

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

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

Corporate Lending

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

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

Retail Lending

Retail loans are subject to a standardised approval procedure.

The approval is primarily based on financial condition and solvency of the borrower. The timing and frequency of assessment of the financial state of the borrower depends on the servicing of the debt and term of the loan, however, it should be made not less than once a year.

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

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

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

The basic means of problem loan recovery include foreclosure on the pledged property and recovery of funds from the debtor or guarantor.

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

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

(in thousands of UAH)	**31 December 2009**	31 December 2008
Balances with the National Bank of Ukraine	**13,617**	2,562
Due from banks	**94,207**	25,773
Deposit certificates of the National Bank of Ukraine	**-**	23,079
Loans and advances	**151,820**	109,076
Total balance sheet exposure	**259,644**	160,490
Off-balance sheet exposure including derivative receivables	**26,037**	916
Total exposure	**285,681**	161,406

For the analysis of concentration of credit risk in respect of loans and advances to customers refer to note 8.

(c) Market risk

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

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

(d) Foreign currency risk

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

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

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

(in thousands of UAH)	**USD**	**EUR**
Assets		
Cash	**1,868**	**557**
Due from banks	**74,810**	**2,087**
Loans and advances	**92,861**	**-**
Total assets	**169,539**	**2,644**
Liabilities		
Current accounts	**(5,180)**	**(1,652)**
Deposits	**(86,362)**	**(329)**
Subordinated debt	**(31,930)**	**-**
Total liabilities	**(123,472)**	**(1,981)**
Net long on balance sheet position	**46,067**	**663**
Notional amount of foreign currency swaps (note 27)	**(24,754)**	**-**
Net long currency position	**21,313**	**663**

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

	USD	**EUR**
(in thousands of UAH)		
Assets		
Cash	5,257	289
Due from banks	24,895	589
Loans and advances	68,215	16
Other assets	182	6
Total assets	98,549	900
Liabilities		
Current accounts	5,988	360
Deposits	44,152	710
Subordinated debt	30,273	-
Total liabilities	80,413	1,070
Net long (short) position	18,136	(170)

As at 31 December 2009 a 10 percent weakening of the Ukrainian hryvnia against the following currencies would have increased (decreased) net profit for the year ended 31 December and total equity as at 31 December by the amount shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

(in thousands of UAH)	**2009**	2008
USD	**1,598**	1,360
EUR	**50**	(13)

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

(e) Interest Rate Risk

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

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

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

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

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

	2009			2008		
	UAH	**USD**	**EUR**	**UAH**	**USD**	**EUR**
Due from banks	**7.7%**	**3.3%**	**-**	6.7%	3.4%	2.8%
Deposit certificates of the National Bank of Ukraine	**-**	**-**	**-**	23.0%	-	-
Loans and advances	**23.4%**	**11.6%**	**-**	19.4%	11.7%	10.0%
Current accounts	**2.5%**	**1.5%**	**1.0%**	1.6%	0.4%	0.0%
Deposits	**19.5%**	**9.2%**	**3.6%**	15.4%	8.4%	7.2%
Subordinated debt	**-**	**10.6%**	**-**	-	12.0%	-

For the majority of corporate loans the Bank has the right to change the interest rate when the market interest rate changes. Due to the fact that the majority of other financial instruments have fixed rates, the remaining contractual maturity dates also approximate the contractual interest and repricing dates for those instruments.

As at 31 December 2009, if interest rates at that date had been 100 basis points higher with all other variables held constant, post-tax profit for the year would have been UAH 1,518 thousand higher (2008: 1,091 thousand), arising mainly as a result of higher interest income on loans where the Bank has the right, and has exercised the right, to change the interest rate when the market interest rate changes. If interest rates had been 100 basis points lower, with all other variables held constant, post-tax profit for the year would not have changed significantly because the majority of the borrowers generally do not have the ability to lower interest rates when market interest rates decrease and the majority of other financial instruments have fixed rates.

(f) Liquidity Risk

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

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

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

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

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

Description	**Maturity periods**						**Total**
	Within one month	From one to three months	From three months to one year	From one to five years	More than five years	No maturity	
(in thousands of UAH)							
Cash	**3,532**	**-**	**-**	**-**	**-**	**-**	**3,532**
Balances with the National Bank of Ukraine	**13,617**	**-**	**-**	**-**	**-**	**-**	**13,617**
Due from banks	**93,728**	**-**	**-**	**479**	**-**	**-**	**94,207**
Loans and advances	**3,126**	**24,908**	**98,681**	**25,105**	**-**	**-**	**151,820**
Property, equipment and intangible assets	**-**	**-**	**-**	**-**	**-**	**2,205**	**2,205**
Assets held-for-sale	**-**	**-**	**5,018**	**-**	**-**	**-**	**5,018**
Other assets	**603**	**570**	**316**	**-**	**-**	**-**	**1,489**
Total assets	**114,606**	**25,478**	**104,015**	**25,584**	**-**	**2,205**	**271,888**
Liabilities							
Current accounts	**22,950**	**-**	**-**	**-**	**-**	**-**	**22,950**
Deposits	**32,572**	**33,673**	**30,770**	**30,987**	**1,950**		**129,952**
Current income tax liability	**-**	**2**	**-**	**-**	**-**	**-**	**2**
Deferred income tax liability	**28**	**72**	**312**	**2,046**	**63**	**-**	**2,521**
Other liabilities	**352**	**85**	**-**	**-**	**176**	**-**	**613**
Subordinated debt	**189**	**-**	**-**	**-**	**31,741**	**-**	**31,930**
Total liabilities	**56,091**	**33,832**	**31,082**	**33,033**	**33,930**	**-**	**187,968**
Liquidity surplus (gap) for the period	**58,515**	**(8,354)**	**72,933**	**(7,449)**	**(33,930)**	**2,205**	**83,920**
Cumulative liquidity surplus	**58,515**	**50,161**	**123,094**	**115,645**	**81,715**	**83,920**	

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

Description	**Maturity periods**						**Total**
	Within one month	From one to three months	From three months to one year	From one to five years	More than five years	No maturity	
(in thousands of UAH)							
Cash	5,884	-	-	-	-	-	5,884
Balances with the National Bank of Ukraine	2,562	-	-	-	-	-	2,562
Due from banks	25,773	-	-	-	-	-	25,773
Deposit certificates of the National Bank of Ukraine	23,079	-	-	-	-	-	23,079
Loans and advances	3,356	4,413	60,822	40,485	-	-	109,076
Property, equipment and intangible assets	-	-	-	-	-	3,637	3,637
Assets held-for-sale	-	-	7,314	-	-	-	7,314
Other assets	2,388	365	6	-	-	-	2,759
Total assets	63,042	4,778	68,142	40,485	-	3,637	180,084
Liabilities							
Current accounts	12,693	-	-	-	-	-	12,693
Deposits	5,660	3,117	35,920	5,753	1,375	-	51,825
Current income tax liability	26	-	-	-	-	-	26
Deferred income tax liability	78	-	-	2,079	161	-	2,318
Other liabilities	352	-	-	-	176	-	528
Subordinated debt	788	-	-	29,485	-	-	30,273
Total liabilities	19,597	3,117	35,920	37,317	1,712	-	97,663
Liquidity surplus (gap) for the period	43,445	1,661	32,222	3,168	(1,712)	3,637	82,421
Cumulative liquidity surplus	43,445	45,106	77,328	80,496	78,784	82,421	-

Current accounts are due on demand and have been reflected as such in schedules above. However management estimates that demand on a majority of the accounts will occur in subsequent periods.

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

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

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

Description	**Maturity periods**					**Total**
(in thousands of UAH)	Within one month	From one to three months	From three months to one year	From one to five years	More than five years	
Current accounts	**22,950**	**-**	**-**	**-**	**-**	**22,950**
Deposits	**32,871**	**34,599**	**34,155**	**41,213**	**3,023**	**145,861**
Subordinated debt	**189**	**439**	**1,756**	**8,781**	**32,808**	**43,973**
Notional amount of derivative liabilities	**24,754**	**-**	**-**	**-**	**-**	**24,754**
Total	**80,764**	**35,038**	**35,911**	**49,994**	**35,831**	**237,538**

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

Description	**Maturity periods**					**Total**
(in thousands of UAH)	Within one month	From one to three months	From three months to one year	From one to five years	More than five years	
Current accounts	12,693	-	-	-	-	12,693
Deposits	6,054	3,796	38,376	7,705	1,587	57,518
Subordinated debt	788	529	1,558	46,376	-	49,251
Total	19,535	4,325	39,934	54,081	1,587	119,462

(g) Capital management

Regulatory capital

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

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

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

(in thousands of UAH)	**2009**	2008
Tier 1 capital		
Share capital	**72,175**	72,175
Retained earnings and additional paid-in capital	**11,745**	10,246
Total Tier 1 capital	**83,920**	82,421
Allowable subordinated debt	**25,544**	24,218
Total capital	**109,464**	106,639
Total risk-weighted assets	**199,015**	109,193
Capital ratios		
Total Tier I expressed as a percentage of total risk-weighted assets	**42.2%**	75.5%
Total capital expressed as a percentage of risk-weighted assets	**55.0%**	97.7%

30 Balances with related parties

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

As at 31 December 2009 and 2008, the ultimate controlling party of the Bank is JSC "ALTINBAŞ HOLDING ANONIM ŞIRKETI", which is ultimately controlled by members of Altinbaş family.

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

(in thousands of UAH)	**2009**	**2008**
Shareholders and other entities under common control		
Statement of financial position:		
Current accounts	**-**	8
Deposits	**-**	221
Subordinated debt	**31,930**	30,273
Statement of comprehensive income:		
Interest expense and similar charges	**3,307**	1,024
Key management personnel		
Statement of financial position:		
Current accounts	**260**	32
Deposits	**1,139**	90
Statement of comprehensive income:		
Interest expense and similar charges	**84**	1
Salary expenses	**2,074**	1,626

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

	UAH	**Interest rate**	**USD**	**Interest rate**	**EUR**	**Interest rate**
Balances with shareholders and other entities under common control						
Subordinated debt	**-**	**-**	**31,930**	**10.6%**	**-**	**-**
Balances with key management personnel						
Current accounts	**35**	**4.1%**	**223**	**3.6%**	**2**	**1.0%**
Deposits	**207**	**22.0%**	**932**	**9.8%**	**-**	**-**

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

	UAH	Interest rate	USD	Interest rate	EUR	Interest rate
Balances with shareholders and other entities under common control						
Current accounts	-	-	8	1.0%	-	-
Deposits	221	10.0%	-	-	-	-
Subordinated debt	-	-	30,273	12.0%	-	-
Balances with key management personnel						
Current accounts	15	4.1%	16	1.0%	1	1.0%
Deposits	1	12.5%	89	8.0%	-	-

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

(in thousands of UAH)	Within one month	From one to three months	From three months to one year	From one to five years	More than five years	Total
Balances with shareholders and other entities under common control						
Subordinated debt	**189**	**-**	**-**	**-**	**31,741**	**31,930**
Balances with key management personnel						
Current accounts	**260**	**-**	**-**	**-**	**-**	**260**
Deposits	**131**	**882**	**126**	**-**	**-**	**1,139**

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

(in thousands of UAH)	Within one month	From one to three months	From three months to one year	From one to five years	More than five years	Total
Balances with shareholders and other entities under common control						
Current accounts	8	-	-	-	-	8
Deposits	26	181	14	-	-	221
Subordinated debt	-	-	-	30,273	-	30,273
Balances with key management personnel						
Current accounts	32	-	-	-	-	32
Deposits	-	90	-	-	-	90

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

31 Estimation of fair value

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

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

The fair values of financial assets and liabilities, together with the carrying amounts shown in the statement of financial position, are as follows:

	31 December 2009		31 December 2008	
(in thousands of UAH)	**Carrying value**	**Fair value**	Carrying value	Fair Value
Long-term deposits	**32,937**	**32,937**	7,128	7,086
Subordinated debt	**31,930**	**30,830**	30,273	24,002

The fair values of all other financial assets and liabilities are estimated to approximate their carrying values due to their short-term nature and market interest rates at period end.

10 June 2010

Mr. Adnan Anacali
Head of the Board

Mr. Igor Kuzmenko
Chief Accountant

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Independent Auditors' Report

To the Board of Directors
Open Joint-Stock Company West Finance and Credit Bank

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Basis for Qualified Opinion

In Note 20, management asserted that financial aid received amounting to UAH 11,984 thousand is not a transaction with a related party. We were unable to satisfy ourselves that financial aid received amounting to UAH 11,984 thousand is not a transaction with a related party and that this transaction is not a transaction with the Bank's owners acting in their capacity as Bank's owners. Accordingly, we were unable to determine whether disclosures of related party transactions as shown in the note 30 of the accompanying financial statements are accurate and complete and whether any adjustments might be necessary to financial aid received, taxation, net profit and retained earnings as at and for the year ended 31 December 2009.

Qualified Opinion

In our opinion, except for the effects of such adjustments, if any, that might have been determined to be necessary had it been practicable to obtain sufficient appropriate audit evidence as described in the Basis for Qualified Opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2009, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

JSC KPMG Audit

JSC KPMG Audit
10 June 2010