

Financial Statement
Public Joint Stock Company
“Investments and Savings Bank”
as of 31 December 2010

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INDEPENDENT AUDITOR'S REPORT

**To the Shareholders
Public Joint-Stock Company
“Investments and Savings Bank”**

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Report on financial statements

We, the independent Audit Firm Grant Thornton Ukraine – Ukrainian member firm of Grant Thornton International Ltd. (certificate of registration as subjects of auditing activity No. 2166 dated 26 January 2001), have audited the accompanying financial statements of the Public Joint-Stock Company “Investments and Savings Bank” (hereinafter the “Bank”), which comprise the Statement of Financial Position, as of 31 December 2010, Statement of Comprehensive Income, Statement of Cash Flows, Statement of Changes in Equity for the year then ended, and Notes to the annual financial statements.

Management’s responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and for such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due fraud or error.

Auditor’s responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position the Public Joint-Stock Company "Investments and Savings Bank" as of 31 December 2010, and of its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards.

Grant Thornton Ukraine

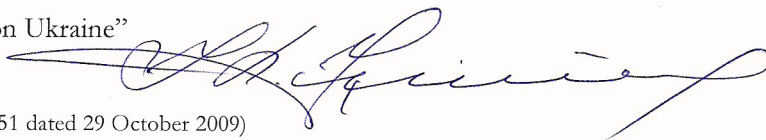
Audit Firm "Grant Thornton Ukraine"

I. L. Konstantinov

Audit Partner

(Banks Auditor Certificate No. 0051 dated 29 October 2009)

(NBU Certificate No. 0000050 dated 20 September 2007)

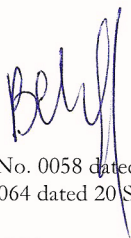


V. A. Khasnulin

Partner

(Banks Auditor Certificate No. 0058 dated 29 November 2009)

(NBU Certificate No. 0000064 dated 20 September 2007)

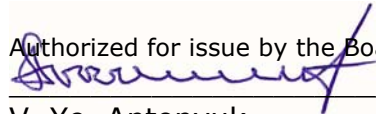


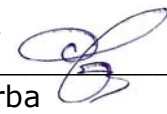
City of Kiev, 15 May 2011

Statement of Financial Position

	Note	31 December 2010 UAH'000	31 December 2009 UAH'000
Assets			
Cash, banking metals and accounts with the National Bank of Ukraine	7	236 484	140 371
Loans and funds to the banks less allowances for impairment losses	8	239 846	198 949
Loans to the clients less allowances for impairment losses	9	1 100 782	797 514
Fixed and intangible assets less accumulated amortization	10	23 739	26 326
Other financial assets	11	653	16 113
Other assets	12	837	587
Total assets		1 602 341	1 179 860
Liabilities			
Amounts due to other banks	13	427 435	499 027
Clients' money	14	885 816	433 800
Other borrowings	15	858	944
Deferred tax liabilities		7	465
Other financial liabilities	16	1 037	16 145
Other liabilities	17	55 463	45 463
Total liabilities		1 370 616	995 844
Equity			
Share capital	18	195 000	150 000
Retained earnings		36 725	34 016
Total equity		231 725	184 016
Total liabilities and equity		1 602 341	1 179 860

Authorized for issue by the Board and signed on their behalf on 5 April 2011



V. Ye. Antonyuk
Board's Deputy President



N. O. Verba
Chief Accountant

Statement of Comprehensive Income

	Note	Year ended 31 December 2010 UAH'000	Year ended 31 December 2009 UAH'000
Interest income	19	183 168	195 759
Interest expenses	20	(110 787)	(127 983)
Net interest income		72 381	67 776
Provisions for loan impairment losses		(16 832)	(20 587)
Net interest income less allowances for loans impairment		55 549	47 189
Profit less losses from foreign currency transactions		(1 278)	(10 373)
Commission earnings	21	15 819	62 926
Commission expenses	21	(2 609)	(31 005)
Other operating income		296	128
Operating income		67 777	68 865
Operating expenses	22	(64 234)	(63 929)
Operating profit		3 543	4 936
Profit / loss before taxes		3 543	4 936
Income tax	23	(834)	(1 640)
Net profit		2 709	3 296
Other comprehensive profits (losses)			
Revaluation of the bank's held-for-trading securities portfolio		-	-
Revaluation of property, plant and equipment		-	-
Other comprehensive profit / (loss)		-	-
Total comprehensive profit / (loss) for the year		2 709	3 296
Net profit (loss) per ordinary share, UAH	24	15,57	21,97

Authorized for issue by the Board and signed on their behalf on 5 April 2011


V. Ye. Antonyuk
Board's Deputy President


N. O. Verba
Chief Accountant

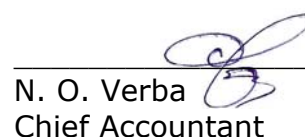
Statement of Changes in Equity

	Share capital	Revaluation reserves	Accumulated surplus (deficit)	Total equity
	UAH'000	UAH'000	UAH'000	UAH'000
Balance at 31 December 2008	150 000	0	30 720	180 720
Net profit	-	-	3 296	3 296
Balance at 31 December 2009	150 000	0	34 016	184 016
Net profit	-	-	2 709	2 709
Share issue	45 000	-	-	45 000
Balance at 31 December 2010	195 000	-	36 725	231 725

Authorized for issue by the Board and signed on their behalf on 5 April 2011



V. Ye. Antonyuk
Board's Deputy President

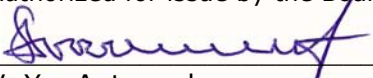



N. O. Verba
Chief Accountant

Statement of Cash Flows

Cash flows from operating activities	Note	Year ended 31	Year ended 31
		December 2010	December 2009
		UAH'000	UAH'000
Net profit for the year		2 709	3 296
Adjustments for:			
Accrued income		3 572	(8 645)
Accrued expenditure		4 891	846
Amortization charges		4 369	3 569
Provision for interest bearing assets		17 348	20 671
Tax accrued and deferred		(81)	516
Other flow of non-cash funds		(15 212)	-
Operating profit before changes in operating assets and liabilities		17 596	20 253
Increase/decrease in operating assets:			
Compulsory reserve with NBU		9 659	6 851
Loans and funds to the banks		(39 736)	12 868
Loans to the clients		(325 637)	(143 683)
Other assets		14 845	(14 252)
Increase/decrease in operating liabilities:			
Loans and funds received from other banks		(71 616)	138 576
Clients' accounts		442 666	(89 058)
Other liabilities		(4 739)	47 467
Net increase (decrease) in operating assets and liabilities		25 442	(41 231)
Net cash flow from operating activities		43 038	(20 978)
Investing activities			
Decrease (increase) in fixed and intangible assets		(1 497)	(4 990)
Net cash used in investing activities		(1 497)	(4 990)
Financing activities			
Other borrowings		(86)	944
Issue of ordinary shares		45 000	-
Net cash received (used) from financing activities		44 914	944
Net increase (decrease) in cash and cash equivalents		86 455	(25 024)
Cash and cash equivalents at beginning of year		129 752	154 776
Cash and cash equivalents at end of year	7	216 207	129 752

Authorized for issue by the Board and signed on their behalf on 5 April 2011


V. Ye. Antonyuk
Board's Deputy President


N. O. Verba
Chief Accountant

Notes to the Financial Statements

1 General information about the Bank

Public Joint-Stock Company "Investments and Savings Bank" (hereinafter the Bank) was registered with the National Bank of Ukraine on 9 August 2005 in the form of a limited liability company.

Legal address of the Bank is: 83D, Melnykova Street, Kyiv 04119, Ukraine.

The Bank is a part of the united banking system of Ukraine (a total of 176 banks is operating in Ukraine as of the end of 2010) that is regulated by the National Bank of Ukraine.

The Bank is independent financial institution that is not a member of any consolidated groups and is not a subsidiary of such companies. The Bank's supreme governance body is general meeting of stockholders of PJSC "Investments and Savings Bank".

The Bank is acting member of the Individuals Guarantee Fund.

The Bank makes banking transactions under the Banking license No.221 dated 12 November 2009 received from the National Bank of Ukraine and Permit No.221-2 dated 12 November 2009, in particular:

1. Transactions with currency valuables:
 - non-commercial transactions with currency valuables;
 - foreign currency cash transactions and check transactions (purchase, sale, exchange, collection) that are made in cash departments and currency exchange office of the banks;
 - foreign currency cash transactions (purchase, sale, exchange) that are made in currency exchange offices operating under the agency agreements concluded by the banks with the resident legal entities;
 - maintaining accounts of customers (residents and non-residents) in foreign currency and customer non-residents in monetary unit of Ukraine;
 - correspondent account maintenance of the banks (residents and non-residents) in foreign currency;
 - correspondent account maintenance of banks (non-residents) in monetary unit of Ukraine;
 - opening of correspondent accounts with the authorized banks of Ukraine in foreign currency and making transactions with them;
 - opening of correspondent accounts with the banks (non-residents) in foreign currency and making transactions with them;
 - foreign currency attraction and placement in the exchange market of Ukraine;
 - foreign currency attraction and placement in the international markets;
 - foreign exchange trading in the exchange market of Ukraine (except for currency exchange transactions);

- foreign exchange trading in the international markets;
 - other transactions with currency valuables in the exchange market of Ukraine.
2. Issue of own securities.
 3. Organization of securities purchase and sale on behalf of clients.
 4. Making transactions in the securities market in own name (including underwriting).
 5. Transactions on behalf of clients or in own name:
 - with money market instruments;
 - with instruments based on exchange rates and interest;
 - with financial futures and options.
 6. Depository activity and activity on maintaining the securities owners' registers.

Strategic goal of the Bank is setting of client-oriented new quality service standard; strengthening of the Bank image as reliable and stable Ukrainian bank; maintaining a trend of dynamic growth of basic financial ratios and ensuring high-level solvency and liquidity.

The Bank did not receive a specialized bank status.

As of 31 December 2010 the owners of significant interest in PJSC "Investments and Savings Bank" are solely the residents of Ukraine:

1. Sergiy M. Lagur to the total amount of UAH 32 300 thousand or 16.56% of total equity – direct interest;
2. Stepan P. Ivakhiv to the total amount of UAH 53 350 thousand or 27.36% of total equity – direct interest;
3. Igor M. Yeremeyev to the total amount of UAH 46 170 thousand or 23,68% of total equity – direct interest;
4. Mykola Ya. Romaniv to the total amount of UAH 31 350 thousand or 16.08% of total equity – direct interest, UAH 6 000 thousand or 3.08% – indirect interest;
5. JC IC "Evrorezerv" to the total amount of UAH 17 500 thousand or 8.97% of total equity – direct interest
6. Natalia V. Romaniv to the total amount of UAH 6 000 thousand or 3.08% of total equity – direct interest, UAH 31 350 thousand or 16.08% - indirect interest;
7. Andriy V. Popov to the total amount of UAH 8 330 thousand or 4.27% of total equity – direct interest, UAH 17 500 thousand or 8.97% – indirect interest.

Management has no interest in the Bank shares.

No merger, takeover, demerger, separation of the Bank occurred in the reporting year.

2 Bank's operating environment

After adverse impact of the global financial crisis on the economy of Ukraine that had started as early as at the end of 2008 and lasted during the whole year 2009, the year 2010 has become a year of stabilization both in the economy and banking sector of Ukraine.

Thus, gross domestic product of Ukraine by the results of 2010 increased by 4.2%. Industrial output increased by 11.2%; at that, recovery was observed essentially in all industrial production types.

Due to restoration of favorable conjuncture on the world commodity markets, foreign economic activity of the entities of Ukraine was dynamically developed too: the volume of merchandise exports increased by 29.6% (to \$51.4 billion); the volume of merchandise imports increased by 33.7% (to \$60.7 billion), therefore, the amount of negative balance increased slightly and was \$9.3 billion (for the most part because of rise in price for energy carriers that hold the most specific weight in the import structure).

In 2010 the volume of agricultural produce remained approximately at the same level as in the past year – UAH 184.9 billion (decrease only by 1/0%) that was fostered by high prices for agricultural produce in the global markets (largely due to a scanty harvest in the most of other corn and technical crops grower countries) enabling to compensate negative result arising from a decrease in harvest volume in natural produce units.

Construction sector was most “unimpressive” in terms of performance indicators: as in the one before last year, negative performance indicators were observed as evidenced by decrease in construction volume by 5.4% in 2010.

Annual inflation rate (consumer prices) was within a one-digit number (9.1%).

Average monthly earnest of one employee for the past reporting year has been even increased (nominal by 20.0%, real by 10.2%) and equaled to UAH 2 239.

Relative stability in the exchange market of Ukraine should be noted among the positive trends: UAH exchange rate against USD has strengthened to some extent from UAH/USD 7.9850 to 7.9617, including due to continuing collaboration of Ukraine with the International Monetary Fund. Stable exchange rate, in its turn, favored the gradual renovation of purchasing power of the entities and population are involved in debts denominated in foreign currency.

In the whole, positive dynamics in the most of macroeconomic indicators in Ukraine evidences business activity improvement in the most economy sectors, that in its turn, enabled furthering of business recovery of the Ukrainian commercial banks, which volume of assets increased by 7.0% up to UAH 942.1 billion at past-year end.

In addition, stability in the exchange market and absence of big matters of bankruptcy (liquidation) of the Ukrainian banks in 2010 enabled to renew gradually confidence of the population of Ukraine in the Ukrainian banks, as evidenced by increase in volume of population funds on the bank accounts from UAH 210.0 billion to UAH 270.7 billion (or by 28.9%). Funds of entities for the past year also increased: from UAH 115.2 billion to UAH 144.0 billion (or by 25.0%). Increase in the resource base for the account of clients enabled the banks to expand lending to the real sector of the economy (increment of growth for the year by 7.0%) and to reduce gradually during the year amounts due to the National Bank of Ukraine for loans received earlier.

But irrespective of the positive trends in 2010, the banks continue still to carry on outstanding debt accounts the unpaid credit tranches; due to this, aggregate indebtedness under credit increased from UAH 69.9 billion to UAH 84.9 billion (or by 21.3%), including the fact that in the whole the banking system of Ukraine completed the past year at a loss of UAH 13.0 billion (in 2009 the losses made UAH 38.5 billion).

Loss-making activity of the banks forced their shareholders to compensate for capital loss (due to losses) on account of other sources, among them the share capital, which volume over 2010 increased from UAH 119.2 billion up to UAH 145.9 billion (i.e., much more significantly than the losses incurred). Due to this, for the past year as a whole, banks capitalization level improved materially: average value of H2 normative standard "regulatory capital adequacy" increased from 18.08% up to 20.83% (minimum required value is at the level of 10%).

To summarize, it should be noted that on the whole the banking system of Ukraine is gradually adopting to the challenges resulting from the negative events due to the global financial crisis of 2008-2009 (that in its time caused substantial worsening of economic environment both in the world and in Ukraine), as evidenced by a gradual decrease in losses from operations and positive dynamics in the most financial ratios (in particular, customer funds, increment of volumes of entities lending and capital volume).

Taking into account that most of loans issued by PJSC "Investments and Savings Bank" was denominated in UAH, the Bank actually refused from mass blank (unsecured) consumer lending, negative impact of the above economic factors on the financial ratios of the Bank was minimal (unlike the other Ukrainian banks). As a whole the Bank's performance for 2010 shows a positive dynamics practically of all financial ratios (increase in volume of assets, loan portfolio and deposits to retail persons; profitable operations; low level of overdue loans in loan portfolio; high capitalization level). This fact can be explained by that under instability in the banking market of Ukraine, certain competitive advantages (regarding the financial soundness and reliability) gained the banks that have no multi-branch regional banking and in which consumer lending is of low specific weight in the total loan portfolio that presently have a positive impact on operating effectiveness of a banking institution (due to insignificant administrative expenses for maintenance of branch network and moderate allocations to reserves as a result of low level of problem loans in the loan portfolio).

3 Basis for presentation

The financial statements of the Bank have been prepared in accordance with the International Financial Reporting Standards (IFRS). The Bank maintains accounting records in accordance with the rules and provisions which regulate the banking activities in Ukraine (the main regulator is the National Bank of Ukraine). The above financial statements were prepared on the basis of such accounting records and properly adjusted to ensure compliance with IFRS.

Measurement and presentation currency of the above financial statements is Hryvnya (UAH), the national currency of Ukraine.

The main differences between the Ukrainian and international accounting principles used for preparing the statements are:

- recognition and measurement of the financial instruments;
- measurement of tangible assets;
- measurement and recognition of impairment of assets;
- format of statements presentation.

The preparation of the financial statements requires management to make calculations, estimates and assumptions, which affect the amounts of assets and liabilities, disclosure of contingent assets and liabilities at the reporting date, as well as the amounts of income and expenses recorded in the financial statements during the reporting period. Yet those calculations are based on the information about current events and actions, available to the management, actual results can be different. The estimates on which the differences with the actual results are most probable are related mainly with setting-up of impairment allowances and determination of a fair value of financial instruments.

4 Underlying principles of the Bank's accounting policies

The financial statements have been prepared in compliance with the Bank's accounting policies and International Financial Reporting Standards.

The underlying principles of the Bank's accounting policies are the following:

completeness – all banking transaction should be recorded on accounts without any exceptions. The financial statements should include all information on actual and expected results of the Bank's transactions, which can influence decision-making based on it;

substance over form – the transactions are accounted for and disclosed in the reporting in accordance with their substance and economic reality and not merely their legal form;

self-sufficiency – assets and liabilities of the Bank should be separated from the assets and liabilities of other banks (entities) and from those of the Bank's owners, and therefore the owners' personal property and liabilities should not be reported in the Bank's financial statements;

prudence – use of accounting estimates such that assets and /or income are not overstated and liabilities or expenses are not understated;

going concern – the Bank's assets are measured under the assumption that it will continue in operation for the foreseeable future. If the Bank has the intention to curtail the scale of its operations, this fact should be disclosed in the financial statements;

accrual basis and matching costs with revenues – to determine the financial performance of the reporting period, the revenues of the reporting period should match with expenses incurred to earn the revenues. In doing this, revenues and expenses are recorded and reported when they occur and not as cash is received or paid. Income represents increases in economic benefits during the accounting period in the form of inflows or enhancements of assets or decreases of liabilities that result in increases in equity, other than those relating to contributions from shareholders. Expenses are decreases in economic benefits during the accounting

period in the form of outflows or depletions of assets or incurrence of liabilities that result in decreases in equity, other than those relating to distributions to shareholders. Equity is the residual interest in the assets of the Bank after deducting all its liabilities;

consistency – consistent (from year to year) application of the selected accounting policies. Changes in accounting treatments are possible only in cases specified by the international accounting standards and national provisions (standards) and require additional explanation and disclosure in the financial statements;

historical (actual) cost – priority is the measurement of assets and liabilities at their acquisition or incurrence cost. Assets and liabilities in foreign currency, other than non-monetary items are remeasured in case of change in the official exchange rate at the reporting date.

To maintain the accounting records and prepare the financial statements the assets and liabilities of the Bank are entered in the books and accounted for at:

their acquisition or incurrence cost - at historical or original cost: assets – at the amount of cash or cash equivalents paid or other consideration; liabilities – at the amount of funds raised in exchange for such liabilities or at the amount of cash or cash equivalents to be paid to settle the obligations in the ordinary course of business;

fair (market) value: assets - at the amount, for which such assets could be purchased (exchanged), liabilities – at the amount, for which such liability could be settled between knowledgeable, willing parties in an arm's length transaction; expression "between knowledgeable, willing parties in an arm's length transaction" means existence of knowledgeable, willing buyer and knowledgeable, willing seller in an arm's length transaction that act in their own interests; adjustment of assets value to the fair value is made by their remeasuring, testing for impairment and existing credit risks.

In addition to above methods, depending on the nature and content of tasks of various components of the Bank's accounting policies, other methods are used to measure separate groups of assets and liabilities, in particular:

- carrying amount is the value at which the Bank's asset, liability and equity are reported in the Bank's Balance Sheet. Carrying amount for a financial asset and financial liability comprises the principal amount, accrued interest and not amortized premium and discount, revalued amount, and amount of impairment recognized;

- amortized cost is the value at which financial asset, financial liability is measured and which comprises acquisition cost less principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction for impairment;

- contractual amount is the value of an asset, specified in the agreements entered into by the Bank and its counterparties;

- depreciated cost is the difference between the initial (or revalued) cost of an asset and the amount of accrued depreciation or set-up reserve;

- mortgage amount is the value of collateral determined by the agreement between the Bank and borrower (mortgagor) and fixed in the respective contract of pledge;
- residual value is the estimated amount of funds expected to be obtained from disposal of an asset;
- face value is the value stated in securities, banknotes, coins, etc.;
- revalued amount is the value of an asset after its revaluation;
- current (replacement) cost is the amount of cash or cash equivalents and other consideration that would have to be paid if the same or an equivalent asset was acquired (created) to date (at the balance sheet date);
- market value of an asset is the net value of its acquisition or net realizable value in the active market;
- present value is the present (discounted) value of the future net cash flows expected from the use of an asset; present (discounted) value of future payments that would be required to settle the obligations in the normal course of the Bank's business;
- net realizable value is the selling price in the ordinary course of business less the estimated costs necessary to make the sale.

Assets and liabilities of the Bank are evaluated so that the reserves set-up for them and the measures taken exclude the possibility of bringing the existing financial risks forward to the future reporting periods.

The value of assets is changed due to the fluctuation of market prices, foreign exchange rates, depreciation and obsolescence, other objective factors. The Bank remeasures separate items to their fair (market) value under the procedure specified by the laws in force and the Bank's internal documents.

Measurement (revaluation) of assets and liabilities is reported in accounting with various methods according to the regulations of the National Bank of Ukraine on accounting, in particular:

- revaluation of the balance sheet items in foreign currency, except the non-monetary items, at the official exchange rate;
- setting-up special reserves in national currency (for assets in national currency);
- setting-up special reserves in foreign currency (for assets in foreign currency), which remeasuring at the official exchange rate ensures independence of evaluation of assets in foreign currency on the exchange rate fluctuations.

5 Measurement principles for individual assets and liabilities

Cash and cash equivalents. Cash and cash equivalents include the Bank's cash on hand, balances on the correspondent account with the National Bank of Ukraine and other banks. Statutory reserves of the Bank cannot be used for funding daily transactions of the Bank and are not treated as components of cash and cash equivalents for the purposes of preparation of the Statement of Cash Flows.

Available-for-sale investment securities. The Bank considers investment securities held by it as investments in the debt securities and shares which they

have intent to hold for an indefinite period of time and which can be sold to secure liquidity, cover changes in interest or exchange rates.

The Bank recognizes these assets in the Balance Sheet only when the Bank is a party to the contract to buy asset. Available-for-sale investment securities are initially recognized at cost which is the fair value of consideration for such assets and the amount of all expenses for such transactions. At initial recognition available-for-sale investment securities are measured at the fair value, except for financial instruments that do not have an active market and whose fair value cannot be reliably measured.

When market value is determined, all securities are measured based on averaged quoted value.

Loans and advances made and allowances for impairment of loans.

The loans issued are initially measured and reported at fair value taking into account the costs directly attributable to the transactions.

At the balance sheet date the loans are measured at amortized cost using the effective interest rate in amortizing the discount (premium) and charging interest. During 2009 the effective interest rate in the Bank was not used, if: 1) a loan was issued (received) for the term not exceeding one year; 2) loan period exceeded one year, and a level of variance of the effective interest rate on loans from the nominal interest rate was immaterial, i.e. not higher than 6 interest points; 3) the amount of discount (premium) by taking into account the commission amounts, included in the value of a financial instrument, was immaterial, i.e. less than 1 % of the nominal amount, then it is allocated to interest income (expense) on recognition of such financial instrument.

If the carrying amount of loans made (received) exceeds the recoverable amount, the Bank recognizes an impairment (depreciation). Impairment is reported by setting-up of special allowances out of the Bank's expenses.

Losses from impairment (depreciation) are recognized in the in the Statement of financial results when they are incurred.

An objective evidence of impairment (depreciation) of financial assets is an information related to the following loss events:

- significant financial difficulties arisen with the debtor;
- violation of contract terms by the debtor;
- probability of bankruptcy or other financial reorganization of the debtor;
- creation by the creditor, in connection with the economic or legal reasons resulting from the debtor's financial difficulties, of such conditions that would not be created under other circumstances (interest rate change, prolongation, etc.).

Allowance for depreciation is set up by allocating the respective amount to expenses.

Reserve for credit operations is set up by all types of loans issued by the Bank in UAH and foreign currencies, including: deposits placed with other banks; loans made to other banks, entities; overdraft; factoring transactions; off-balance sheet lending liabilities, on which the Bank should provide funds on demand of a

counterparty (i.e., on which the Bank bears a risk); actually issued guarantees and warrants as of the last business day of the reporting month.

Credit risk reserves fall into the reserves for standard debts and non-standard debts on credit operations. During 2009 the Bank created reserves for non-standard debts on credit operations, classified as "under control", "substandard", "doubtful". The Bank has no loans classified as "bad". Credit risk reserve is set up in the currency in which the debt is carried.

The Bank calculates the reserves for standard debts and non-standard debts (by taking into account the maturity dates on credit operations) during the month, in which a credit operation was made (or an agreement to make it was entered into). Setting-up of the reserves is made on a monthly basis in full, irrespective of the amount of gains on risk groups according to the amounts due on credit operations (including lending liabilities assumed) as of the first day of the month following the reporting one.

Credit risk reserve is used only to cover losses on borrowers' disbursed and outstanding debt for a principal uncollectible.

Investment property. The Bank assigns assets to the investment property, recognizing the following criteria:

- land held for a currently undetermined future use:
- a building (a part of building) due to the Bank or held under a finance leasing (lease) and leased out under one or more operating leases):
- a building that is vacant but is held to be leased out under one or more operating leases;
- property transferred to sublease under the operating lease.

The Bank does not recognize as investment property a property received under the operating lease.

If the Bank transfers a property obtained under operating lease to sublease and accounts for at fair value, such property is classified as investment property. In accounting the operating lease is carried as financial lease and all property items received under operating lease are carried as investment property at fair value.

When an investment property is initially recognized the Bank measures and carries it at original cost that includes the acquisition price for the property and all costs directly attributable to its acquisition.

After the initial recognition of investment property item the Bank measures it subsequently at original cost (at cost) by taking into account accumulated depreciation and impairment losses.

In the reporting year 2010 the Bank did not recognize an investment property under the criteria identified.

Property, plant and equipment and intangibles. Property, plant and equipment and intangibles are carried at original cost less the accumulated depreciation.

Uncompleted capital investments are carried at cost. After completion of all required works those assets are transferred to the corresponding fixed assets.

Expenses for repair and maintenance are allocated to the respective period expenses.

Depreciation is accrued to write-off the the cost of assets, except those that are not put in operation. Depreciation is calculated with a straight-line method during the useful lives of the assets that are as follows: office equipment, 2 to 5 years; motor vehicles, to 5 years, intangible assets, 5 years.

Leases. Lease is classified as a finance lease, if under the lease agreement substantially all risks and rewards incidental to ownership of a leased asset are transferred to the lessee. All other leases are classified as operating lease.

The assets that are held under finance lease are recognized as assets and included in the Bank's balance sheet at their value at the acquisition date. Respective amount due to the lessor is included in the balance sheet as finance lease liabilities and is reduced by reimbursing a part of the value of item under finance lease. Finance expenses (the amount of reward and other costs of the lessor) are directly allocated to the period expenses.

Expenses under operating lease agreements are recognized as expenses on a straight-line basis during the term of the respective lease agreement.

Long-term assets held for trading and assets of disposal group. The Bank classifies the non-current assets as held for trading, if the carrying amount of such assets will be recovered by trading transaction rather than the current use.

Non-current assets are classified by the Bank as held for trading, if at the date of decision making on their recognition as assets held for trading, the following conditions are met: the position of assets, in which they are, enables to sell immediately and their sale is highly probable during the year since the classification date.

Before the initial recognition of the assets as held for trading the Bank measures carrying amount of the assets in accordance with the Bank's internal documents applied to this category of assets:

(a) if the non-current assets are carried at original cost (at cost), then the Bank tests them for impairment;

(b) if the non-current assets are carried at revalued amount (at fair value), the Bank remeasures them under the procedure specified in the Bank's internal documents.

Depreciation is not charged to the non-current assets held for trading.

In the reporting year a non-current asset that is carried at original cost, in particular, a non-residential premises in the city of Lutsk (9/1, Vynnychenko Street) of UAH 1,812 thousand was classified by the Bank as held for trading and measured by using a test for impairment.

By the results of impairment test, the Bank makes decision on recognition of income and expenses from impairment/enhancement of the above asset at the date of derecognition of the asset held for trading under the Accounting policies of the Bank.

Amounts due to other banks and clients' money. The funds raised with other banks and customers are carried at original cost.

Share capital. Registered share capital of the Bank is reported at nominal value. Profits and losses arising during the sale of own shares are allocated to share premium (loss). Dividends on ordinary shares are reported as decrease in the shareholders' own funds in the period in which they were announced.

Derivatives. Derivatives, including currency exchange contracts are carried at fair value. All derivatives are accounted for as assets, if the fair value of these instruments is positive, and as liabilities, if their fair value is negative. The changes in the fair value of derivatives are allocated to income less expenses for foreign currency transactions or to income less the expenses for trading securities transactions depending on the contract type. The Bank does not account for risk hedging.

Taxation. Taxation of the financial result comprises the current income tax and changes in the amount of tax of the future periods (deferred tax). Current tax is accrued to the amount of taxable profit which is computed in accordance with the laws of Ukraine.

During the reporting period the income tax rate was 25%.

All other taxes, except income tax, are included in the Bank's operating expenses.

Recognition of income and expenses. Income and expenses are accounted for and reported in the financial statements under the accrual basis of accounting and matching of costs with revenues. The amounts of revenues and expenses are recorded and measured when the asset is sold or the service is rendered (received). All revenues and expenses attributable to the reporting period are recorded in the same reporting period and not as they are received or cash is paid. Income and expenses attributable to such transactions are accounted for in the same reporting period.

Income and expenses are recognized under the following conditions:

- recognition of actual debt on the bank's assets and liabilities;
- if the financial result of the transaction related to the rendering (receipt) of services can be measured reliably.

If the above conditions are not satisfied, the accrual basis and matching costs with revenues are used based on prudence principle, under which it is forbidden to overstate assets and revenues of the Bank and understate liabilities or expenses related to the rendering of such service.

If the revenue from the rendering of services cannot be measured reliably, it is determined and reported to the extent of incurred expenses to be recovered. If at the date of accrual it is not possible to assess income (expenses) for the last 2 - 3 days of the month (for example, commission for collection services, cash settlement services, etc.), such income (expenses are recognized in the following month.

Expenses that are not directly attributable to revenues of a certain period, are recognized in expenses of the period when they were incurred.

Income (expenses) from one-time services (for example, commission for currency exchange made, consultations provided (received), etc.) are recognized without recording in the accounts of accrued income (expenses), if the cash is received (paid) in the period when the services are actually received (paid).

Income (expenses) for continuing services (for example, commissions for information and settlement services in the system of electronic payments, for e-mail services, etc.) are recognized monthly during the term of an agreement for provision (receipt) of services and are carried under the accrual basis of accounting.

Income (expenses) for services rendered in stages are recognized after each stage is completed during the term of an agreement for provision (receipt) of services and are carried under the accrual basis of accounting. Income (expenses) are accrued from the date of execution of a document supporting the services rendered (received).

Income (expenses) on services with the required outcome are recognized based on rendering (receiving) of services or based on achieving outcome stipulated in the agreement.

Commission earnings and expenses are recognized by the Bank and carried under the accrual basis of accounting and matching principle.

Interest income and expenses are recognized using the effective interest rate and determined as a product of amortized cost of a financial asset by the effective interest rate.

Effective interest rate is not used by the Bank, if the following criteria are applied:

- use life of a financial instrument is not more than one year;
- use life of a financial instrument exceeds one year and the level of variance of effective interest rate on financial instruments from the nominal interest rate is immaterial, i.e., is not more than 6 interest points;
- if the amount of discount (premium), taking into account the commissions included in the value of a financial instrument, is immaterial, i.e. less than 1 % of the nominal amount, it is allocated to interest income (expense), when such financial instrument is measured.

Accrued revenues and expenses are recognized in accounting no less than once a month by each transaction (agreement) individually in accordance the Bank's accounting policies.

Foreign currency restatement. Foreign currency transactions are recorded at the official rate that existed at the transaction date. Exchange differences resulting from settlements on foreign currency transactions are included in the Income Statement at the rate then current.

Monetary assets and liabilities denominated in foreign currency are translated in Ukrainian Hryvnya at the official exchange rate of the National Bank of Ukraine at the balance sheet date.

As of 31 December the basic exchange rates used to translate balances in foreign currency, were as follows:

	31 December 2010 UAH	31 December 2009 UAH
USD 1	7.96	7.98
Euro 1	10.57	11.45
RUR 1	0.26124	0.26402

Reserves. Setting-up reserves means mobilization of the internal funds of the Bank to be used, if necessary, to cover risk assets.

Reserves to cover possible losses on the Bank's credit operations are set up monthly based on the analysis of the Bank's loan portfolio.

Reserves are set in the currency of the related asset.

Reserves are recognized when the Bank has liability arising from the past events, it is possible that to settle such liability an outflow of resources will be required, from which economic benefits are expected, and the amount of such liability can be estimated reliably.

Staff costs and related charges. Contributions of the Bank to the State Pension Fund and Social Insurance Fund for their employees are allocated to the expenses, when they are incurred and included in staff costs.

Off-balance sheet transactions. Off-balance sheet transactions include different types of guarantees and warrants, which were issued or received by the Bank, demands and liabilities for the financial instruments. These items are carried in the off-balance sheet accounts and recorded at nominal value.

6 Transition to new or revised standards

During the reporting year the Bank considered and used new and amended International Financial Accounting Standards and Interpretations approved by the International Accounting Standards Board and International Financial Reporting Interpretations Committee that are related to its operations and became effective and binding upon 1 January 2010, in particular:

IFRIC 17 Distributions of Non-cash Assets to Owners provides guidance on how an entity should account for distributions of non-cash assets as dividends to its owners. The entity should account for liabilities on payment of non-cash assets as dividends to the owners at their fair value before distribution. the gain or loss on the assets to be distributed should be recognized in profit or loss when the dividend payable is settled;

IFRIC 18 Transfer of Assets from Customers that provides guidance on how to account for transfers of cash from customers, in particular, the circumstances in which: an asset is determined; an asset is recognized and its value is measured at initial recognition; identification of separately identifiable services is carried out (one or more services that are provided in exchange for the transferred asset); revenue is recognized and transfers of cash from the customers are accounted for;

IAS 27 Consolidated and separate financial statements (revised) requires an entity should attribute total comprehensive income to the owners of the parent and to the non-controlling interests (former minority's interests) even if this results in

the non-controlling interests having a deficit balance. The previous version required excess losses to be allocated to the owners of the parent in most cases. The revised Standard specifies also that the changes in a parent's ownership interest in a subsidiary that do not result in a loss of control must be accounted for as equity transactions. In addition, the Standard describes how an entity should measure any gain or loss arising on the loss of control of a subsidiary. A any investment the parent has in the former subsidiary after control is lost should be measured at fair value at the date that control is lost;

IFRS 3 «Business Combinations» (revised) permits the entities to choose whether to measure any non-controlling interest in the acquiree on the basis of its proportionate interest in the acquiree's identifiable net assets that was applied earlier or at fair value. Revised version of IFRS 3 provides more detailed guidance for application of the acquisition method to business combinations. Requirement that all assets and liabilities be measured at fair value at each stage of a step acquisition to determine the amount of any goodwill was eliminated. Now, in a business combination achieved in stages, the acquirer remeasures its previously held equity interest in the acquiree at its acquisition-date fair value and recognizes the resulting gain or loss, if any, in profit or loss for the year. Acquisition-related costs are to be accounted for separately from the business combination, and recognized as expenses, but shall not be included in the goodwill. The acquirer shall should measure liabilities for payments of contingent consideration for the acquisition at the acquisition date. Changes in the value of such liabilities after the acquisition date are properly recognized in accordance with other applicable IFRSs, but not with a corresponding adjustment to goodwill. Scope of the revised IFRS 3 is limited only by business combinations with participation of more than one entity and business combinations made by entering into an agreement;

Amendments to IFRS 2 Share-based payment - Group Cash-settled Share-based Payment Transactions (is effective for annual periods beginning on or after 1 January 2010). The amendments provide a clear basis for classification of share-based payments in the consolidated and separate financial statements. Amendments introduce to the Standard guidance stated in eliminated interpretations of **IFRIC 8** and **IFRIC 11**. The amendments expand the guidance in **IFRIC 11** and cover plans that were not considered in this Interpretation. The amendments explain also the definition of terms presented in the Appendix to this Standard;

Amendments to IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items. The amendment clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation should be applied in particular situations;

IFRS 1 First-time Adoption of International Financial Accounting Standards (with consideration of amendment issued in December 2008, is applied to first IFRS financial statements for the period beginning on or after 1 July 2009). Revised IFRS 1 retains the content of the previous version, but its structure is other furthering understanding by the users and ensuring better possibility to make future amendments;

Amendments to IFRS 1 First-time Adoption of International Financial Accounting Standards - Additional Exemptions for the First-time Adopters

– (is applied to the annual periods beginning on or after 1 January 2010). The amendments exempt the entities using full cost accounting from retrospective application of IFRS for oil and gas assets and the entities having current lease arrangements are exempted from reassessment of classification of such arrangements in accordance with **IFRIC 4 *Determining whether an Arrangement contains a Lease***, if the application of the national standards achieves the same result.

Improved IFRS (issued in April 2009; amendments to IFRS 2, IAS 38, IFRIC 9 and IFRIC 16 are effective for annual periods beginning on or after 1 July 2009; amendments to IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 36 and IAS 39 are effective for annual periods beginning on or after 1 January 2010) are related mainly to the following:

- Clarification that contributions of the entities to the transactions under common control and creation of joint ventures are outside the scope of **IFRS 2**;
- clarification of disclosure requirements set out by **IFRS 5** and other standards for long-term assets (or disposal groups) designated to held for trading or discontinued operations;
- requirement to disclose the total amount of assets and liabilities by each reporting segment in accordance with **IFRS 8**, only if such amounts are regularly provided to the chief operating decision maker;
- making amendments to **IAS 1** that permit to allocate certain liabilities, settlements on which are made with the entity's own equity instruments to long-term category;
- making amendments to **IAS 7** with the result that only the expenses resulting in creation of recognized asset can be allocated to investing activities;
- permit to allocate certain long-term land lease transactions to the finance lease in accordance with **IAS 17** even without transfer of title after the completion of the lease term;
- including additional guidance to **IAS 18** to determine whether an entity is acting as a principal or an agent;
- clarification of **IAS 36** that cash-generating unit should not exceed operating segment before the combination; making amendment to IAS 38 on measurement of the fair value of intangible assets acquired in the process of business combination;
- making amendment to **IAS 39** regarding: (1) extending the scope to the option contracts that may result in business combinations, (2) explanation of the period of reclassifying gains or losses on hedging instruments for cash flows from equity to profit or loss for the year; (3) statement that the right of early repayment is closely related to the underlying contract, if during its execution the lender reimburses the creditor's economic loss;
- making amendment to **IFRIC 9** under which the embedded derivatives contained in the contracts that are acquired within the transactions under common control and creation of joint ventures are outside the scope of this Interpretation;
- elimination restrictions contained in **IFRIC 16** regarding that the hedging instruments should be held by a foreign operation that was designated as hedged item.

In the following reporting periods the Bank intends to apply International Financial Accounting Standards (new, amended, improved) that will be effective for annual periods beginning on or after 1 January 2011:

amendments to IAS 32 Classification of rights Issues (issued 8 October 2009; is applied to the annual periods beginning on or after 1 February 2010). These amendments exempt certain proposal on issue of new shares denominated in foreign currency from being classified as derivatives;

amendments to IAS 24 Related Parties Disclosure (issued in November 2009 and is effective for annual periods beginning on or after 1 January 2011). IAS 24 was revised in 2009 in consequence of which: definition of a related party was simplified and its meaning was clarified; inconsistencies were eliminated and partial exemption was provided for government related entities with regard to information disclosure;

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments (is effective for annual periods beginning on or after 1 July 2010). This IFRIC explains accounting treatments in situations when an entity reviews the terms of liabilities, in consequence of which a debtor issues equity instruments to a creditor to extinguish liabilities. Gain or loss are recognized in profit or loss and represent a difference between the fair value of share instruments and debt carrying amount;

amendments to IFRIC 14 Prepayments of a Minimum Funding Requirements – (are applied to annual periods beginning on or after 1 January 2011). These amendments are of limited scope, as they are applied only to the entities that should make minimum funding payments for their defined benefit plans. The amendment eliminates unintended consequence of IFRIC 14 regarding the prepayments of voluntary pension plans in cases when minimum funding requirements exist;

amendments to IFRS 1 Limited Exemption from Comparative IFRS 7 Disclosures for the First-time Adopters (are applied to annual periods beginning on or after 1 July 2010). Entities that have been already prepared IFRS financial statements are exempted from presenting comparative information within disclosures required in accordance with amendments to IFRS 7 *Financial Instruments: Disclosure that were issued in March 2009*. These amendments to IFRS 1 enable the first-time adopters of IFRS to apply the same transitional provisions that are included in amendments to IFRS 7;

amendments to IFRS 7 Disclosures – Transfer of Financial Assets (issued in October 2010 and is effective for annual periods beginning on or after 1 January 2011). These amendments require additional disclosure of risks that arise when the financial assets are transferred. The amendments include disclosure requirements by classes of financial assets that are transferred to the counterparty, but are carried in the entity's balance sheet, in particular: nature, value, description of risks and rewards related to an asset. It is also required to disclose information that enables the user to understand the amount of financial liability related to asset and interrelation between the financial asset and related financial liability. If an asset was derecognized, but the entity is still exposed to certain risks and may obtain certain benefits related to the asset transferred, additional disclosure is required to enable the user to understand the extent of such risk;

IFRS 9 Financial instruments Phase 1: Classification and Measurement (issued in November 2009 replaces sections of IAS 39 related to classification and

measurement of financial assets. Then IFRS 9 was amended in October 2010). Revised IFRS 9 covers classification and measurement of financial liabilities. The main difference of the Standard are as follows:

- financial assets should be classified by two measurement categories: measured subsequently at fair value and measured subsequently at amortized cost. Classification decision should be approved at initial recognition. Classification depends on business model of financial instruments model of the entity and on specific features of the contractual cash flows on the instrument;
- instrument is subsequently measured at amortized cost only if it is a debt instrument, and (1) business model of the entity is oriented to hold this particular asset to receive contractual cash flows and at the same time (2) contractual cash flows on this asset are only principal and interest payments (i.e., financial instrument has "basic loan features"). All other debt instruments should be measured at fair value through profit and loss;
- all equity instruments should be measured subsequently at fair value. Equity instruments held for trading will be measured and recognized at fair value through profit and loss. As for other equity investments at initial recognition a final decision may be taken to recognize unrealized and realized gain or loss in other comprehensive income and not in profits or losses. Income and expenses on remeasurement are not transferred to accounts of profits or losses. Such decision may be taken individually for each financial instrument. Dividends should be recognized in profits and losses, because they are characterized by investment returns;
- most requirements in IAS 39 regarding classification and measurement of financial liabilities were transferred to IFRS 9 without changes. The principal difference is requirement to an equity to disclose the effects of changes in own credit risk of financial liabilities designated to a category that is recognized at fair value through profits and losses in other comprehensive income;
- application of IFRS 9 is mandatory since 1 January 2013, early application is permitted.

Improved International Financial Accounting Standards (by making amendments are effective on 1 January 2011) provide for:

- ***IFRS 1*** - clarification of principal accounting provisions that were effective with regard to: carrying amount is used as estimated amount of an item of property, plant and equipment or intangible assets, if such item was used on transactions subject to adjustment of rates; (ii) revaluation of property, plant and equipment caused by a certain event can be used as estimated amount of property, plant and equipment, even though this revaluation was made during the period included in the first IFRS financial statements; (iii) the first-time adopters should explain the changes in the accounting policies or exceptions from the requirements of IFRS 1 introduced by the first interim IFRS financial statements and the first IFRS financial statements;
- ***IFRS 3*** - in accordance with revised IFRS it is required (i) to measure at fair value (unless other IFRS require measurement on an alternative basis) a non-controlling interest that is not current or does not give a holder the right to proportionate share in the net assets in the event of liquidation; (ii) provide guidance on the terms of share-based payments in the acquiree that were not changed or were voluntarily changed as a result of business combination; and (iii) indicate that contingent consideration during a business combination that occurred before the effective date of revised IFRS 3 (issued in January 2008) will be recognized in accordance with the requirements of former IFRS 3;

- **IFRS 7** – revised IFRS clarifies some requirements with regard to disclosure of information, in particular: (i) special attention is given to the interrelation of disclosure of qualitative and quantitative information about nature and level financial risks; (ii) eliminates requirement to disclose a carrying amount of financial assets which terms were reviewed that otherwise would be past due or impaired; (iii) requirement to disclose the fair value of collateral is replaced with more common requirement to disclose its financial impact; (iv) explains that the entity should disclose the amount of collateral pledged as security that is charged at the reporting date, rather than the amount of received during reporting period;
- revised **IAS 27** specifies transitional provisions regarding the amendments to IAS 21, 28 and 31 caused by revision of IAS 27 (with consideration of amendments made in January 2008);
- revised **IAS 34** contains additional examples of significant events and transactions to be disclosed in summary interim financial statements, including transfers between tiers of fair value measurement hierarchy, changes in classification of financial assets or changes in conditions of operations and economic situation that affect the fair value of the entity's financial instruments;
- revised Interpretation **IFRIC 13** specifies a method for measuring the fair value of award credits.

The management did not carry out an estimation of the impact of implementing new or revised Standards and Interpretations to the financial position and performance for FY 2010 and 2009.

7 Cash, banking metals and accounts with the National Bank of Ukraine

	31 December 2010 UAH'000	31 December 2009 UAH'000
Cash on hand	46 007	16 002
Balances on accounts with the National Bank of Ukraine	67 114	30 921
Correspondent accounts and 'overnight' deposits with other banks	123 386	93 451
Reserve for funds in correspondent accounts and 'overnight' deposits with other banks	(23)	(3)
Total funds, banking metals and balances with the National Bank of Ukraine	236 484	140 371

Analysis of cash and cash equivalents by geographic region, currency and interest rate is presented in Note 26.

Cash and cash equivalents presented in the Statement of Cash Flows include the following amounts:

	31 December 2010	31 December 2009
	UAH'000	UAH'000
Cash, balances on accounts with the National Bank of Ukraine and other banks	236 484	140 371
Compulsory minimum reserve	(20 277)	(10 619)
Total cash and cash equivalents	216 207	129 752

8 Loans and funds to the banks less allowances for impairment losses

	31 December 2010	31 December 2009
	UAH'000	UAH'000
Loans and cash to the banks	241 824	202 089
Interest income accrued on loans to the banks	6	-
Reserve for impairment of amounts due from other banks	(1 984)	(3 140)
Total loans and cash to the banks, net	239 846	198 949

The amount of reserve for impairment of amounts due from other banks was changed as follows:

	31 December 2010	31 December 2009
	UAH'000	UAH'000
Reserve for impairment of amounts due from other banks на 1 January	3 140	175
Reserve / (decrease in reserve) for impairment of amounts due from other banks during the year	(1 156)	2 965
Reserve for impairment of amounts due from other banks at 31 December	1 984	3 140

Analysis of loans and funds to the banks by geographic segment, currency, maturity date and interest rate is presented in Note 26

9 Loans to the clients less allowances for impairment losses

Loans to the clients as of 31 December are presented as follows:

	31 December 2010	31 December 2009
	UAH'000	UAH'000
Loans to legal entities	1 120 137	811 792
Loans to individual entrepreneurs	3 889	1 091
Mortgage loans to individuals	858	1 919
Consumer loans to individuals	28 622	20 295
Reserve for loan impairment	(52 724)	(37 583)
Total loans less reserves	1 100 782	797 514

The amount of reserve for loan impairment losses in 2010 was changed as follows:

Movements in reserves	Loans to legal entities	Loans to individual entrepreneurs	Consumer loans to individuals	Total
	UAH'000	UAH'000	UAH'000	UAH'000
Balance as of 1 January	35 101	166	2 316	37 583
Increase/ decrease in reserve for impairment during the year	15 677	(78)	(458)	15 141
Balance as of 31 December	50 778	88	1 858	52 724

Bad debt was written-off our of reserve in 2010 to the amount of UAH 1,009 thousand.

The amount of reserve for loan impairment losses in 2009 was changed as follows:

Movements in reserves	Loans to legal entities	Loans to individual entrepreneurs	Consumer loans to individuals	Total
	UAH'000	UAH'000	UAH'000	UAH'000
Balance as of 1 January	18 817	24	1 052	19 893
Increase/ decrease in reserve for impairment during the year	16 284	142	1 264	17 690
Balance as of 31 December	35 101	166	2 316	37 583

Bad debt was not written-off our of reserve in 2009.

The table below shows the data on balances of amounts due on loans to the residents broken down by the types of economic activities:

Type of economic activities	31 December 2010		31 December 2009	
	UAH'000	%	UAH'000	%
Production	96 780	8,39	109 723	13,14
Real estate	127 966	11,09	48 667	5,83
Trade	681 489	59,08	467 765	56,01
Agriculture	55 633	4,82	44 116	5,28
Loans issued to individuals	29 480	2,56	22 214	2,66
Other	162 158	14,06	142 612	17,08
Total	1 153 506	100	835 097	100

Information about loan security as of 31 December 2010:

	Loans to legal entities	Loans to individual entrepreneurs	Mortgage loans to individuals	Consumer loans to individuals	Total
	UAH'000	UAH'000	UAH'000	UAH'000	UAH'000
Unsecured loans	74 998	-	-	145	75 143
Residential real estate	1 650	-	858	796	3 304
Other real estate	468 469	3 800	-	11 838	484 107
Cash deposits	334 602	-	-	15 071	349 673
Other property	240 418	88	-	773	241 279
Total loans and amounts due from customers	1 120 137	3 888	858	28 623	1 153 506

Information about loan security as of 31 December 2009:

	Loans to legal entities	Loans to individual entrepreneurs	Mortgage loans to individuals	Consumer loans to individuals	Total
	UAH'000	UAH'000	UAH'000	UAH'000	UAH'000
Unsecured loans	23 925	-	-	738	24 663
Residential real estate	807	89	1 919	1 187	4 002
Other real estate	471 902	299	-	8 134	480 335
Cash deposits	212 975	-	-	8 702	221 677
Other property	102 183	703	-	1 534	104 420
Total loans and amounts due from customers	811 792	1 091	1 919	20 295	835 097

Analysis of loan credit quality for 2010:

	Loans to legal entities	Loans to the individual entrepreneurs	Mortgage loans to individuals	Consumer loans to individuals	Total
	UAH'000	UAH'000	UAH'000	UAH'000	UAH'000
Total loans outstanding and not impaired	189 948	3 800	858	23 951	218 557
Loans which terms were revised	190 597	-	-	3 633	194 230
Past-due, but not impaired	-	-	-	197	197
Impaired loans identified individually	-	89	-	719	808
Other loans	739 592	-	-	122	739 714
Reserve for loan impairment	(50 778)	(89)	-	(1 857)	(52 724)
Total loans	1 069 359	3 800	858	26 765	1 100 782

Analysis of loan credit quality for 2009:

	Loans to legal entities	Loans to the individual entrepreneurs	Mortgage loans to individuals	Consumer loans to individuals	Total
	UAH'000	UAH'000	UAH'000	UAH'000	UAH'000
Total loans outstanding and not impaired	357 010	925	1 919	8 702	368 556
Past-due, but not impaired	-	-	-	644	644
Impaired loans identified individually	286	167	-	1 598	2 051
Other loans	454 495	-	-	9 351	463 846
Reserve for loan impairment	(35 101)	(166)	-	(2 316)	(37 583)
Total loans	776 690	926	1 919	17 979	797 514

Fair value of security on past-due, but not impaired loans and individual impaired loans identified individually for 2010:

	Loans to legal entities	Loans to individual entrepreneurs	Consumer loans to individuals	Total
	UAH'000	UAH'000	UAH'000	UAH'000
Fair value of security on past-due, but not impaired loans:			2 011	2 011
Residential real estate			1 334	1 334
Other real estate				
Other property			677	677
Fair value of security on impaired loans identified individually		197	2 643	2 840
Residential real estate			2 469	2 469
Other property		197	174	371

Fair value of security on past-due, but not impaired loans and individual impaired loans identified individually for 2009:

	Loans to legal entities	Loans to individual entrepreneurs	Consumer loans to individuals	Total
	UAH'000	UAH'000	UAH'000	UAH'000
Fair value of security on past-due, but not impaired loans:				
Residential real estate	427	298	3 161	3 886
Other real estate	-	101	1 871	1 972
Other property	-	-	66	66
Other property	427	197	1 224	1 848
Fair value of security on impaired loans identified individually				
Residential real estate	-	-	3 073	3 073
Residential real estate	-	-	3 073	3 073

for the real estate – market value of items under the reports of the company subjects of valuation activity; for cash deposits – carrying amount of deposits (for foreign currency deposits by multiplying the amount of foreign currency deposit by the official rate of the NBU); for other property – either market value of items under the reports of the company subjects of valuation activity (for example, for the whole property complexes, movable property items that were in use, etc.), or the value of items under the invoices and other payment documents (for movable property items that were acquired in the stores), or the value of any property (property rights) fixed in the respective documents/agreements.

During the reporting year the Bank did not take securities as collateral to secure credit operations.

For the reporting 2010, there were no past-due, but not impaired loans and individually impaired loans identified individually in the Bank's loan portfolio.

Analysis of loans to the customers by geographic region, currency, maturity date and interest rate is presented in Note 26.

10 Property, plant and equipment and intangible assets less accumulated amortization

Item description	Land plots	Buildings, constructions and transmitting devices	Machinery and equipment	Motor vehicles	Instruments, devices, inventories (furniture)	Other property, plant and equipment	Other non-current tangible assets	Uncompleted capital investments in property, plant and equipment and intangibles	Intangible assets	Total
	UAH'000	UAH'000	UAH'000	UAH'000	UAH'000	UAH'000	UAH'000	UAH'000	UAH'000	UAH'000
Carrying amount as of 31 December 2008	13	15 484	2 282	923	880	695	1 698	2 325	661	24 961
Original cost as of 31 December 2008	13	15 820	3 447	1 289	1 198	843	2 261	2 325	873	28 069
Additions	-	1 880	831	-	203	22	108	1 936	82	5 062
Improvements	-	63	1 103	-	451	387	1 624	(3 840)	212	-
Disposals	-	-	(4)	-	-	-	-	-	(2)	(6)
Other	-	-	(5)	-	-	(2)	(5)	(53)	-	(65)
Accumulated depreciation as of 31 December 2008	-	(336)	(1 165)	(366)	(318)	(148)	(563)	-	(212)	(3 108)
Amortization charges for the period	-	(716)	(1 040)	(258)	(307)	(220)	(797)	-	(288)	(3 626)
Carrying amount as of 31 December 2009	13	16 711	3 167	665	1 227	882	2 628	368	665	26 326
Original cost as of 31 December 2009	13	17 763	5 372	1 289	1 852	1 250	3 988	368	1 165	33 060
Additions	-	-	716	-	138	33	201	2 218	143	3 449
Improvements	-	322	756	-	506	52	704	(2 397)	57	-
Disposals	-	(1 652)	(6)	-	(1)	-	-	-	(6)	(1 665)
Other	-	(228)	(15)	-	(1)	-	(8)	(8)	(28)	(288)
Original cost as of 31 December 2010	13	16 205	6 823	1 289	2 494	1 335	4 885	181	1 331	34 556
Accumulated depreciation as of 31 December 2009	-	(1 052)	(2 205)	(624)	(625)	(368)	(1 360)	-	(500)	(6 734)
Amortization charges for the period	-	(339)	(1 228)	(258)	(384)	(257)	(1 361)	-	(256)	(4 083)
Other	-	(228)	(15)	-	(1)	-	(8)	(8)	(28)	(288)
Accumulated depreciation as of 31 December	-	(1 391)	(3 433)	(882)	(1 009)	(625)	(2 721)	-	(756)	(10 817)

Item description	Land plots	Buildings, constructions and transmitting devices	Machinery and equipment	Motor vehicles	Instruments, devices, inventories (furniture)	Other property, plant and equipment	Other non-current tangible assets	Uncompleted capital investments in property, plant and equipment and intangibles	Intangible assets	Total
	UAH'000	UAH'000	UAH'000	UAH'000	UAH'000	UAH'000	UAH'000	UAH'000	UAH'000	UAH'000
2010										
Carrying amount as of 31 December 2010	13	14 814	3 390	407	1 485	710	2 164	181	575	23 739

Original cost of property, plant and equipment depreciated completely was UAH 1,469 thousand.

11 Other financial assets

Other financial assets as of 31 December are presented as follows:

	31 December 2010 UAH'000	31 December 2009 UAH'000
Accounts receivable on transactions with credit and debit cards	322	331
Settlements on conversion transactions	-	15 227
Other	331	555
Total other assets	653	16 113

Analysis of other financial assets by geographic region, currency and interest rate is presented in Note 26.

12 Other assets

Other assets as of 31 December are presented as follows:

	30 December 2010 UAH'000	31 December 2009 UAH'000
Prepayments for office supplies	468	125
Deferred expenses	220	348
Accounts receivable for transactions with the customers	50	-
Inventory balances	35	23
Accounts receivable for taxes	64	15
Other accounts receivable	-	76
Total other assets	837	587

Analysis of other assets by geographic region, currency and maturity date is presented in Note 26.

13 Amounts due to other banks

	31 December 2010 UAH'000	31 December 2009 UAH'000
Correspondent accounts of other banks	48 294	118 178
Loans from other banks	249 874	161 417
Deposits raised from other banks	15 267	39 432
Loans from the National Bank of Ukraine	114 000	180 000
Total amounts due to other banks	427 435	499 027

Analysis of amounts due to other banks by geographic region, currency and maturity date is presented in Note 26.

14 Clients' money

Clients' money as of 31 December are presented as follows:

	31 December 2010 UAH'000	31 December 2009 UAH'000
Corporate customers		
– Current accounts / demand accounts	62 574	21 896
– Term deposits	169 445	85 166
Individuals		
– Current accounts / demand accounts	44 935	24 346
– Term deposits	599 579	298 756
Interest expense accrued on clients' accounts	9 283	3 636
Total clients' money	885 816	433 800

Distribution of clients' money by industries is as follows:

Type of economic activities	31 December 2010		31 December 2009	
	UAH'000	%	UAH'000	%
Central and local government bodies			-	0
Public administration and NGOs	593	0,06	237	0,06
Production	2 935	0,33	2 944	0,68
Real estate	1 846	0,21	823	0,19
Trade	74 341	8,39	82 559	19,03
Agriculture	345	0,04	1 131	0,26
Individuals	651 707	73,58	326 650	75,30
Other	154 049	17,39	19 456	4,48
Total clients' money	885 816	100	433 800	100

Analysis of clients' money by geographic region, currency, maturity date and interest rate is presented in Note 26.

15 Other borrowings

Other borrowings are presented as follows:

	31 December 2010 UAH'000	31 December 2009 UAH'000
Loans from international and other financial institutions	858	944
Total other liabilities	858	944

16 Other financial liabilities

Other financial liabilities are presented as follows:

	31 December 2010 UAH'000	31 December 2009 UAH'000
Reserve for transactions with off-balance sheet accounts	612	95
Accounts payable for currency trading at the cost of the Bank	-	15 209
Accounts payable on other financial instruments	2	2
Other accounts payable	423	839
Total other liabilities	1 037	16 145

17 Other liabilities

Other liabilities are presented as follows:

	31 December 2010 UAH'000	31 December 2009 UAH'000
Contributions to the unregistered capital	55 000	45 000
Accounts payable for income tax	13	9
Reserve for transactions with off-balance sheet accounts	445	449
Accounts payable for contribution to Individual Deposit Guarantee Fund	5	5
Other accounts payable	55 463	45 463
Total other liabilities	55 463	45 463

18 Share capital

Share capital comprised the following components:

	Number of shares (interests) outstanding	Value of interests (UAH thousand)	Total
	(thousand shares)	UAH'000	UAH'000
Balance of interests at 1 January 2010	150	150 000	150 000
Contributions on shares (shares of stock, interests) of new issue	45	45 000	45 000
Balance at the end of 31 December 2009	195	195 000	195 000

In the year 2010 the Bank announced for issue 55,000 stock at par value of UAH 1,000.00. The Supervisory Board of PJSC "Investments and Savings Bank" by its decision dated 17 December 2010 approved placing of shares for UAH 55,000 thousand or 55,000 stocks. Of fact, 55,000 shares to the amount of UAH 55,000 thousand were paid at 31 December 2010. At the end of 2010 those funds were carried in account "Contributions on unregistered capital".

19 Interest income

Interest income received by the Bank during the years ended 31 December 2010 and 31 December 2009 can be presented as follows:

	Year ended 31 December 2010	Year ended 31 December 2009
	UAH'000	UAH'000
Interest income		
Interest on loans and funds to the clients, including:		
- interest income on loans to the legal entities	168 035	147 878
- interest income on loans to the individuals	2 668	3 401
Interest on loans and funds to the banks		
- interest income on funds upon demand with other banks;	482	1 024
- interest income on term funds with other banks	11 983	43 456
Total interest income	183 168	195 759

20 Interest expenses

Interest expenses incurred by the Bank during the years ended 31 December 2010 and 31 December 2009 can be presented as follows:

	Year ended 31 December 2010 UAH'000	Year ended 31 December 2009 UAH'000
Interest expenses		
Deposits of legal entities	17 999	19 351
Deposits of individuals	55 339	56 371
Current accounts of legal entities	1 426	448
Current accounts of individuals	2 321	602
Funds raised at the National Bank of Ukraine	22 170	26 953
Deposits of banks	1 222	1 208
Loans of banks	10 310	23 050
Total interest payments	110 787	127 983

Net interest income for the year ended 31 December 2010 was UAH 72,381 thousand.

21 Commission earnings and expenses

Components of commission earnings and expenses for the years ended 31 December 2010 and 31 December 2009 can be presented as follows:

	Year ended 31 December 2010 UAH'000	Year ended 31 December 2009 UAH'000
Commission earnings		
Commission earnings from cash-settlement services	9 218	57 061
Commission earnings on currency transactions	6 109	5 384
Commission earnings from lending services to the clients	3	5
Commission earnings on securities transactions	5	14
Other commission earnings	484	462
Total income on payments and commissions	15 819	62 926
Commission expenses		
Commission expenses for cash-settlement services	(2 573)	(30 988)
Commission expenses on securities transactions	(23)	(11)
Other commission expenses	(13)	(6)
Total commission expenses	(2 609)	(31 005)
Net commission income	13 210	31 921

22 Operating expenses

Components of operating expenses for the years ended 31 December 2010 and 31 December 2009 can be presented as follows:

	Year ended 31 December 2010	Year ended 31 December 2009
	UAH'000	UAH'000
Payroll expenses, other staff costs	20 903	19 121
Amortization	4 369	3 569
Operating leases	7 388	6 985
Communication services	1 324	838
Maintenance of own and leased PP&E	980	1 018
Guard	1 043	1 006
Office expenses	723	1 242
Professional services	3 781	18 421
Advertising and marketing expenses	138	103
Withdrawals to Individual Deposit Guarantee Fund	1 707	1 558
Municipal services	557	409
Taxes, except income tax	5 385	8 294
Other operating expenses	15 936	1 365
Total operating expenses	64 234	63 929

23 Income tax

Income tax expenses for the years ended 31 December 2010 and 31 December 2009 comprise the following components:

	2010 UAH'000	2009 UAH'000
Current income tax	1 292	1 307
Deferred income tax	(458)	333
Total	834	1 640

Revenues of the Bank are subject to income tax at a rate of 25%. Reconciliation of accounting profit (loss) with the amount of tax profit (loss) is presented below:

	2010	2009
	UAH'000	UAH'000
Profit before taxes	3 543	4 936
Amount of profit tax determined at the tax rate	886	1 234
Adjustments of accounting profit (loss):		
Expenses not included in gross expenses to compute tax profit, but recognized in the financial accounting	323	329
Expenses included in gross expenses to compute tax profit, but not recognized in the financial accounting	(629)	(413)
Revenues subject to income tax, but not recognized (not attributable to) in accounting profit (loss)	398	-
Revenues not subject to income tax, but recognized in financial accounting	(14)	(6)
Amortization charges under the data of financial accounting	1 021	907
Amortization for the taxation purposes	(693)	(744)
Amount of tax on profit (loss)	1 292	1 307

Tax implications relating to recognition of deferred tax assets and deferred tax liabilities for 2010:

List of deferred tax assets and deferred tax liabilities	Balance at 1 January 2010	Recognized in financial results	Recognized in equity	Balance at 31 December 2010
	UAH'000	UAH'000	UAH'000	UAH'000
Net tax asset (liability)	465	(458)	-	7
Recognized deferred tax asset	-	-	-	-
Deferred tax liability recognized	465	(458)	-	7

Tax implications relating to recognition of deferred tax assets and deferred tax liabilities for 2009:

List of deferred tax assets and deferred tax liabilities	Balance at 1 January 2009	Recognized in financial results	Recognized in equity	Balance at 31 December 2009
	UAH'000	UAH'000	UAH'000	UAH'000
Net tax asset (liability)	132	333	-	465
Recognized deferred tax asset	-	-	-	-
Deferred tax liability recognized	132	333	-	465

The Management of the Bank believes that information about tax liabilities is adequately presented in the tax returns, but the risk exists that the Tax Administration can treat some or other regulatory acts in other way, and this, in turn, can influence the financial statements of the Bank, increasing current income tax.

24 Earnings (loss) per ordinary share

Net and adjusted earnings (loss) per ordinary share is as follows:

	2010	2009
	UAH'000	UAH'000
Profit (loss) due to shareholder – owners of ordinary shares	2 709	3 296
Profit (loss) for the year	2 709	3 296
Average annual number of ordinary shares outstanding (thousand shares)	174	150
Net earnings/(loss) per ordinary share	15,57	21,97
Adjusted net earnings/(loss) per ordinary share (UAH)	15,57	21,97

Calculation of profit (loss) due to the shareholders – owners of ordinary shares:

	2010	2009
	UAH'000	UAH'000
Profit (loss) for the year	2 709	3 296
Number of ordinary shares outstanding (thousand shares)	195	150
Net profit/(loss) due to the shareholders owners of ordinary shares	2 709	3 296

25 Reporting segments

Information by principal segments of banking operations broken down by segment counterparty for 2010:

	Reporting segment description			Total
	Corporate business	Retail business	Interbank business	
	UAH'000	UAH'000	UAH'000	UAH'000
Gains from external counterparties	180 489	3 628	18 004	202 121
Total gains	180 489	3 628	18 004	202 121
Retained earnings	-	-	-	(4 116)
Total gains	180 489	3 628	18 004	198 005

Information by principal segments of banking operations broken down by segment counterparty for 2009:

	Reporting segment description			Total
	Corporate business	Retail business	Interbank business	
	UAH'000	UAH'000	UAH'000	
Gains from external counterparties	192 406	11 177	43 589	247 172
Gains from other segments	-	-	-	-
Total gains	192 406	11 177	43 589	247 172
Retained earnings	-	-	-	1 269
Total gains	192 406	11 177	43 589	248 441

Information about the nature of gains and expenses on the reporting segments for 2010:

	Reporting segment description			Total
	Corporate business	Retail business	Interbank business	
	UAH'000	UAH'000	UAH'000	
Interest income	168 035	2 668	12 465	183 168
Commission earnings	12 250	486	3 083	15 819
Other operating income	204	474	2 456	3 134
Total gains	180 489	3 628	18 004	202 121
Interest expenses	(19 425)	(57 661)	(33 702)	(110 788)
Commission expenses	(35)	(222)	(2 352)	(2 609)
Other operating expenses	-	-	(72)	(72)
Total expenses	(19 460)	(57 883)	(36 126)	(113 469)
Segment result	161 029	(54 255)	(18 122)	88 652
Retained earnings	-	-	-	(4 116)
Unallocated expenses	-	-	-	(80 993)
Profit (loss) before taxes	-	-	-	3 543
Income tax expenses	-	-	-	(834)
Profit/(loss)		-	-	2 709

Information about the nature of gains and expenses on the reporting segments for 2009:

	Reporting segment description			Total
	Corporate business	Retail business	Interbank business	
	UAH'000	UAH'000	UAH'000	UAH'000
Interest income	147 878	3 401	44 480	195 759
Commission earnings	44 450	254	18 222	62 926
Other operating income	78	7 523	(19 113)	(11 513)
Total gains	192 406	11 177	43 589	247 172
Interest expenses	(19 711)	(56 973)	(51 300)	(127 984)
Commission expenses	(17)	-	(30 988)	(31 005)
Other operating expenses	-	-	(131)	(131)
Total expenses	(19 728)	(56 973)	(82 419)	(159 120)
Segment result	172 678	(45 796)	(38 830)	88 053
Retained earnings	-	-	-	1 269
Unallocated expenses	-	-	-	(84 385)
Profit (loss) before taxes	-	-	-	4 936
Income tax expenses	-	-	-	(1 640)
Profit/(loss)	-	-	-	3 296

Assets and liabilities of the reporting segments for 2010:

	Reporting segment description			Other	Total
	Corporate business	Retail business	Interbank business		
	UAH'000	UAH'000	UAH'000	UAH'000	UAH'000
Other assets of segments	1 073 248	27 534	430 323		1 531 105
Total assets of segments	1 073 248	27 534	430 323		1 531 105
Other unallocated assets				71 236	71 236
Total assets	1 073 248	27 534	430 323	71 236	1 602 341
Other liabilities of segments	233 980	651 707	427 435	858	1 313 980
Total liabilities of segments	233 980	651 707	427 435	858	1 313 980
Other unallocated liabilities				1 636	1 636
Total liabilities	233 980	651 707	427 435	2 494	1 315 616
Other segment items				55 000	55 000

Assets and liabilities of the reporting segments for 2009:

	Reporting segment description			Other	Total
	Corporate business	Retail business	Interbank business		
	UAH'000	UAH'000	UAH'000	UAH'000	UAH'000
Other assets of segments	777 615	19 898	323 317	-	1 120 830
Total assets of segments	777 615	19 898	323 317	-	1 120 830
Other unallocated assets	-	-	-	59 030	59 030
Total assets	777 615	19 898	323 317	59 030	1 179 860
Other liabilities of segments	107 137	326 650	499 027	944	933 757
Total liabilities of segments	107 137	326 650	499 027	944	933 757
Other unallocated liabilities	-	-	-	17 088	17 088
Total liabilities	107 137	326 650	499 027	18 032	950 845

26 Financial risk management

The goal of financial risk management in the Bank is to ensure profitable operations by taking into account a moderate level of risks. Risk management system in the Bank is designed so that it involves all management levels: the Supervisory Board determines the Bank development strategy, including on risk management; the Bank's Board carries out operating management of the Bank's operations, including consideration of maintaining the moderate level of risks; Analysis and Risk Management Department ensures direct analysis, monitoring and control of the risks which effects on the Bank's indicators are the most perceptible.

In addition, collegial bodies (Loan Committee, Asset and Liability Management Committee, Tariff Committee, Tender Committee) have been established and are permanently functioning in the Bank, which task includes also operational decisions on tactical objectives of the risk management.

The level of the Bank's risk management system is in full accordance with the volumes and complexity of the transactions made. Since 2008 the Bank uses up-to-date analytical module "Asset and Liability Analyzer", enabling to receive automatically management reporting for managing the principal risk types and make promptly required decisions on minimizing the adverse affect of risks on the Bank's financial ratios.

Among the financial risks that are managed by the Bank on a systematic basis (daily) the traditional ones should be singled out: credit risk, market risk (interest rate, currency and price risks) and liquidity risk.

Credit risk

Credit risk is the risk that a borrower fails to repay the loan and interest thereon. Minimization of this risk is achieved through clear credit procedures for credit operations and deliberate techniques implemented by the Bank that are used in , borrower solvency analysis, as well as through lending primarily under the liquid security (real estate, property rights for cash deposits of banks and other Credit risk is the risk that a borrower fails to repay the loan and interest thereon.

Minimization of this risk is achieved through clear credit procedures for credit operations and deliberate techniques implemented by the Bank that are used in , borrower solvency analysis, as well as through lending primarily under the liquid security (real estate, property rights for cash deposits of banks and other).

In addition, the Bank has set limits to the powers of departments within which the Credit commissions of the departments may lend own customers. All non-limit credit operations shall be approved by the Credit Commission of the Head office.

Market risk

Market risk is the risk of unforeseen losses of the Bank arising from adverse changes in interest rates, foreign exchange rates, share prices, etc. Under the classification of the Basel Committee, the market risks comprise currency risk, interest rate risk and price risk. Market risk management under the above classification is performed centrally by the Analysis and Risk Management Department using advanced methods of measuring, assessment and control over their level. The reports on market risk are read over by the Asset and Liability Management Committee that subsequently makes decisions on adjustment of risk positions taking into account expected/forecast levels of exchange rates, interest rates, securities prices.

The Bank's operations are mostly affected by currency and interest rate risks, whereas price risk does not exist actually because the Bank did not actually make transactions with securities in 2009-2010.

Currency risk

Currency risk is the risk related to existing or potential effects of adverse fluctuations in the exchange rates and banking metal values on the Bank's proceeds. Minimization of this risk is achieved through the foreign exchange transactions made by the Bank solely within the currency position limits.

Among the methods used by the Bank in currency risk management, the following should be singled: VAR methodology; fixing of limits to maximum possible amounts of currency position; currency risks hedges; stress testing under various scenarios of development of financial markets.

The table below presents the analysis of currency risk:

	31 December 2010				31 December 2009			
	monetary assets	monetary liabilities	derivatives	net position	monetary assets	monetary liabilities	derivatives	net position
USD	571 834	543 363	-	28 471	315 362	317 528	-	(2 166)
Euro	92 045	98 682	-	(6 637)	56 913	46 785	-	10 128
Pound sterling	1 247	0	-	1 247	34	-	-	34
Other	1 284	309	-	975	167	53	-	114
Total	666 410	642 354	-	24 056	372 476	364 366	-	8 110

The change in the financial result and equity arising from possible changes in the exchange rate identified at the reporting date, provided that all other variables remain fixed:

	31 December 2010		31 December 2009	
	effects on profit/(loss)	effects on equity	effects on profit/(loss)	effects on equity
	UAH'000	UAH'000	UAH'000	UAH'000
Strengthening of USD by 5%	1 424	1 424	(108)	(108)
Weakening of USD by 5%	(1 424)	(1 424)	108	108
Strengthening of Euro by 5%	(332)	(332)	506	506
Weakening of Euro by 5%	332	332	(506)	(506)
Strengthening of Pound sterling by 5%	62	62	2	2
Weakening of Pound sterling by 5%	(62)	(62)	(2)	(2)
Strengthening of other currencies	49	49	6	6
Weakening of other currencies	(49)	(49)	(6)	(6)

The change in the financial result and equity arising from possible changes in the exchange rate fixed as weighted average exchange rate, provided that all other variables remain fixed:

	31 December 2010		31 December 2009	
	effects on profit/(loss)	effects on equity	effects on profit/(loss)	effects on equity
	UAH'000	UAH'000	UAH'000	UAH'000
Strengthening of USD by 5%	1 419	1 419	(106)	(106)
Weakening of USD by 5%	(1 419)	(1 419)	106	106
Strengthening of Euro by 5%	(330)	(330)	482	482
Weakening of Euro by 5%	330	330	(482)	(482)
Strengthening of Pound sterling by 5%	62	62	2	2
Weakening of Pound sterling by 5%	(62)	(62)	(2)	(2)
Strengthening of other currencies	49	49	5	5
Weakening of other currencies	(49)	(49)	(5)	(5)

Interest rate risk

Interest rate risk is the risk related to existing or potential effects of adverse fluctuations in the interest rates on the Bank's proceeds. Minimization of this risk is achieved through balancing the assets and liabilities that are sensitive to changes in the interest rate.

Among the methods used by the Bank in interest rate risk management, the following should be singled: GAP analysis and fixing of the limits to maximum possible gaps between the assets and liabilities that are sensitive to changes in the interest rate; managing of the structure of assets and liabilities using indicators of spread, net interest margin, profitability/value of individual items of interest-bearing assets/liabilities (by currency); implementing a deliberate price policy to maximize net interest income; stress testing under various scenarios of development of financial markets.

Monitoring of interest rates on financial instruments is as follows:

	2010			2009		
	UAH	USD	Euro	UAH	USD	Euro
Assets	%	%	%	%	%	%
Cash and cash equivalents	2,30	0,25	1,27	5,53	0,25	-
Funds with other banks	22,39	1,19		19,46	8,55	4,60
Loans and amounts due from the customers	18,57	14,89	7,00	18,75	16,06	7,00
Other assets		3,39		-	3,50	-
Liabilities						
Funds of the banks	12,82	3,17		11,00	1,66	0,65
Clients' money:	13,59	11,17	8,49	16,16	13,71	10,24
Current accounts	3,64	1,18	1,02	2,18	1,00	1,00
Term funds	17,94	11,46	9,53	18,82	14,47	12,28
Other borrowings	13,50			13,50		

Interest on the respective items of assets and liabilities is accrued at a fixed interest rate.

Analysis of concentration of financial assets and liabilities by geographical area for 2010:

	Ukraine	OECD	Other countries	Total
	UAH'000	UAH'000	UAH'000	UAH'000
Assets				
Cash and cash equivalents	233 998	1 312	1 174	236 484
Funds with other banks	239 846	-	-	239 846
Loans and amounts due from the customers	1 100 782	-	-	1 100 782
Other financial assets	653	-	-	653
Total financial assets	1 575 279			1 577 765
Non-financial assets	24 576	-	-	24 576
Total assets	1 599 855	1 312	1 174	1 602 341
Liabilities				
Funds of the banks	472 435	-	-	472 435
Clients' money	882 207	2 754	855	885 816
Other borrowings	858	-	-	858
Other financial liabilities	1 037	-	-	1 037
Total financial liabilities	1 356 537			1 360 146
Non-financial liabilities	10 470			10 470
Total liabilities	1 367 007	2 754	855	1 370 616
Net balancing position	232 848	(1 442)	319	231 725
Liabilities of loan nature	19 993	-	-	19 993

Analysis of concentration of financial assets and liabilities by geographical area for 2009:

	Ukraine	OECD	Other countries	Total
	UAH'000	UAH'000	UAH'000	UAH'000
Assets				
Cash and cash equivalents	140 103	121	147	140 371
Funds with other banks	198 949	-	-	198 949
Loans and amounts due from the customers	797 514	-	-	797 514
Other financial assets	17 270	-	-	17 270
Total financial assets	1 153 836	121	147	1 154 104
Non-financial assets	25 756	-	-	25 756
Total assets	1 179 592	121	147	1 179 860
Liabilities				
Funds of the banks	499 027	-	-	499 027
Clients' money	428 950	2 896	1 954	433 800
Other borrowings	944	-	-	944
Other financial liabilities	16 063	-	-	16 063
Total financial liabilities	944 984	2 896	1 954	949 834
Non-financial liabilities	46 010	-	-	46 010
Total liabilities	990 994	2 896	1 954	995 844
Net balancing position	188 598	(2 775)	(1 807)	184 016
Liabilities of loan nature	25 201	-	-	25 201

Liquidity risk

Liquidity risk is the risk that the Bank will not be able to discharge its liabilities to the clients and counterparties on a timely basis and in full. Minimization of this risk is achieved through balancing by the Bank of own structure of assets and liabilities by repayment/maturity dates (including basic currencies in which the Bank makes the transactions)).

Among the methods used by the Bank in liquidity risk management, the following should be singled: GAP analysis and fixing of the limits to maximum possible gaps of liquidity; using of payment schedule; adherence to the liquidity ratios (including mandatory economic norms of the NBU and mandatory reserve norms); diversification of assets and liabilities; maintaining an emergency plan in active state; stress testing of the Bank's liquidity positions under various scenarios of development of financial markets.

Analysis of financial assets and liabilities by maturity dates based on the expected maturity dates for 2010:

	On demand and less than 1 month	1 to 3 months	3 to 12 months	12 months to 5 years	More than 5 years	Total
	UAH'000	UAH'000	UAH'000	UAH'000	UAH'000	UAH'000
Assets						
Cash and cash equivalents	236 484	-	-	-	-	236 484
Funds with other banks	175 290	64 556	-	-	-	239 846
Loans and amounts due from the customers	483 201	132 575	319 483	199 018	18 800	1 153 077
Other financial assets	2 359	46	64	327	-	2 796
Total financial assets	897 334	197 177	319 547	199 345	18 800	1 632 203
Liabilities						
Funds with other banks	301 490	125 945	-	-	-	427 435
Clients' money	182 495	111 593	586 709	5 019	-	885 816
Other borrowings	-	-	-	-	858	858
Other financial liabilities	638	380	55 001	-	-	56 019
Total financial liabilities	484 623	237 918	641 710	5 019	858	1 370 128
Net liquidity gap at 31 December	412 711	(40 741)	(322 163)	194 326	17 942	262 075
Aggregated liquidity gap at 31 December	412 711	371 970	49 807	244 133	262 075	

Analysis of financial assets and liabilities by maturity dates based on the expected maturity dates for 2009:

	On demand and less than 1 month	1 to 3 months	3 to 12 months	12 months to 5 years	More than 5 years	Total
	UAH'000	UAH'000	UAH'000	UAH'000	UAH'000	UAH'000
Assets						
Cash and cash equivalents	140 371	-	-	-	-	140 371
Funds with other banks	198 949	-	-	-	-	198 949
Loans and amounts due from the customers	166 857	107 333	519 711	39 170	828	833 899
Other financial assets	18 514	-	37	545	-	19 096
Total financial assets	524 691	107 333	519 748	39 715	828	1 192 315
Liabilities						
Funds with other banks	319 027	160 000	20 000	-	-	499 027
Clients' money	122 134	12 014	287 556	12 051	32	433 787
Other borrowings	-	-	-	-	944	944
Other financial liabilities	16 617	2	45 002	-	-	61 621
Total financial liabilities	457 778	172 016	352 558	12 051	976	995 379
Net liquidity gap at 31 December	66 913	(64 683)	167 190	27 664	(148)	196 936
Aggregated liquidity gap at 31 December	66 913	2 230	169 420	197 084	196 936	632 583

27 Capital management

Capital management in the Bank is primarily aimed at protection from possible risks inherent to its operations. The Bank's capital adequacy is controlled by meeting

both the mandatory economic norms of the NBU (capital targets), and the recommended indicators set in the Basel Capital Accord.

The main purpose of the Bank's capital management is to ensure balanced increase in assets and regulatory capital. In particular, much attention is paid in the Bank's policy on asset-liability transactions to improving the asset structure weighted by risk ratios (prohibition of too high specific weight of assets that should be weighted by risk ratio of 100%). Also, to enhance the capitalization level (if required) the Bank may refuse to pay dividends to the participants and/or ensure increasing of the volume of regulatory capital both out of contributions to the share capital, and out of raising of subordinated debt. In addition, the Bank works constantly on minimizing withdrawals from the regulatory capital: the work is actively carried out on repayment of deferred accrued revenues, positive gaps of liquidity for a term exceeding one year are not permitted, etc.

During the reporting year 2010 the amount of paid registered capital was increased by UAH 45.0 million through the contributions to the respective amount that were made in compliance with the state registration of amendments and addenda to the Bank's Statute. In addition, in the reporting year 2010 the Bank announced new issue of shares, which resulted in placing of shares to the total amount of UAH 55.0 million (corresponding funds were contributed in full by the Bank's shareholders and are carried on account "Contributions for unregistered capital"). As of end of 2010, the regulatory capital structure is set primarily out of share capital and contributions for unregistered capital (at the end of 2009 and 2010, more than 80% of the balance sheet capital). During 2009-2010 the Bank complied with all requirements to capital, ensured compliance with the Ukrainian Laws on allocation of own profits to the reserve fund.

Under the NBU's requirements, the banks should maintain capital adequacy ratio at the level of 10% of the amount of risk-weighted assets. The table below presents a rate of the Bank's capital rate computed as of 2010 and 2009.

The structure of regulatory capital is as follows:

Item description	2010	2009
	UAH'000	UAH'000
Regulatory capital of the Bank (RC)		
Actually paid-in registered share capital	195 000	150 000
Contributions to unregistered capital	55 000	45 000
Disclosed reserves set or increased out of retained earnings:	34 016	30 720
Total reserves and reserve funds set up under the laws of Ukraine	34 016	30 720
of them – reserve funds	7 743	7 578
Decrease in core capital (CC) (the amount of insufficiently formed reserves; intangible assets net of amortization amount; capital investments in intangibles; losses of the past and current years including:	576	671
Intangible assets less amortization amount	576	665
Capital investments in intangibles	-	6
Core capital (CC) (tier 1 capital)	283 440	225 049
Reserves for standard debt of other banks, for standard debt on loans issued to the customers and for standard debt on the transactions in off-balance sheet accounts (by taking into account revaluation of FA)	182	181
Estimated profit of the current year	2 344	3 296
Additional capital (tier 2 capital)	2 526	3 477
Total regulatory capital	285 966	228 526
Risk-weighted assets	1 350 407	1 009 753
Rate of regulatory capital adequacy	20,73%	22,63%

Structure of the Bank's capital computed on the basis of Basel Capital Accord is as follows:

Item description	2010	2009
	UAH'000	UAH'000
Tier 1 capital	231 724	184 016
Tier 2 capital	-	-

28 Contingent and other liabilities and derivatives

Liabilities on operating leases. Future minimal lease payments of the Bank under the non-cancellable operating lease agreements for the buildings as of 31 December 2010 and 31 December 2009 are presented as follows:

	31 December 2010	31 December 2009
	UAH'000	UAH'000
Less than one year	2 753	525
1 to 5 years	3 828	14 089
More than 5 years	-	-
Total liabilities on operating leases	6 581	14 614

Lender liabilities. To satisfy the clients' needs the Bank, in the process of its operations, uses the financial instruments exposed to credit risks not recorded in the balance sheet. Contingent liabilities on such financial instruments are presented as follows:

	31 December 2010 UAH'000	31 December 2009 UAH'000
Guarantees issued	8 356	1 669
Unused credit lines	12 249	23 437
Reserve for lender liabilities	612	95
Total lender liabilities	21 217	25 201

Assets pledged as collateral and assets of use limitations.

During 2009-2010 the Bank pledged as collateral the loans of the legal entities, the property rights for deposits and real estate. As of 31 December 2010 total amount of collateral pledged was UAH 325 979 thousand (at 31 December 2009 it was UAH 271 038 thousand).

29 Fair value of financial instruments

Fair value is the amount for which a financial instrument could be exchanged between knowledgeable, willing parties in an arm's length transaction, except its forced sale or liquidation.

Estimated fair value of the financial instruments was computed by the Bank based on the current information about the relevant markets using appropriate valuation techniques (if any) acceptable for use at the end of the year.

	2010		2009	
	Carrying amount	fair value	Carrying amount	fair value
Financial assets				
Funds with other banks	239 846	239 846	165 574	165 574
Loans to clients	1 00 782	1 00 782	797 514	797 514
Financial liabilities				
NBU's funds	114 000	114 000	180 000	180 000
Funds of other banks	313 435	313 435	319 027	319 027
Clients' money	885 816	885 816	433 787	433 787

30 Related party transactions

In accordance with IAS 24 *Related Party Disclosures*, the parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making operating and financial and decisions. In analyzing every case of relationships which could be related party relationships, attention is paid to the substance of the relationships, not their legal form.

Related parties may enter into transactions that unrelated parties would not. The terms of such transactions may differ from the terms of transactions between the unrelated parties.

Below are shown balances with respect to related party transactions as of 31 December 2010:

	Largest participants (shareholders) of the Bank	Key management	Other related parties
	UAH'000	UAH'000	UAH'000
Loans and amounts due from the customers	-	-	2 096
Clients' money	408 431	3 752	11 353

Below are shown balances with respect to related party transactions as of 31 December 2009:

	Largest participants (shareholders) of the Bank	Key management	Other related parties
	UAH'000	UAH'000	UAH'000
Loans and amounts due from the customers	-	-	2 444
Clients' money	231 196	3 155	49 092

Income and expenses on related party transactions for 2010:

	Largest participants (shareholders) of the Bank	Key management	Other related parties
	UAH'000	UAH'000	UAH'000
Interest income			322
Interest expenses	39 002	689	7 576
Commission earnings	41	5	11

Income and expenses on related party transactions for 2009:

	Largest participants (shareholders) of the Bank	Key management	Other related parties
	UAH'000	UAH'000	UAH'000
Interest income	257	22	408
Interest expenses	42 155	89	8 241
Commission earnings	11	3	19

Loans issued to the related parties and repaid by related parties during 2010:

	Largest participants (shareholders) of the Bank	Key management	Other related parties
	UAH'000	UAH'000	UAH'000
The amount of loans to the related parties during the year	-	-	-
The amount of loans repaid by the related parties during the year	-	-	(348)

Loans issued to the related parties and repaid by related parties during 2009:


	Largest participants (shareholders) of the Bank	Key management	Other related parties
	UAH'000	UAH'000	UAH'000
The amount of loans to the related parties during the year	-	-	-
The amount of loans repaid by the related parties during the year	1 753	36	527

Remuneration to key managers in 2010 amounted to UAH 17 012 thousand, in 2009 amounted to UAH 15 227 thousand.


31 Post-balance sheet events

No events occurred after the balance sheet date that may impact the financial position of the Bank and its ability to continue as a going concern.

5 April 2011



V. Ye. Antonyuk
Board's Deputy President



N. O. Verba
Chief Accountant