CJSC Credit Europe Bank

Financial Statements
As of and For the Year Ended
31 December 2008
with Independent Auditors' Report Thereon

Akis Bağımsız Denetim ve Serbest
Muhasebeci Mali Müşavirlik
Anonim Şirketi

12 February 2009

This report contains 1 page of independent auditors' report and 49 pages of financial statements and notes to the financial statements.

CJSC Credit Europe Bank

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KPMG

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Closed Joint Stock Company Credit Europe Bank:

We have audited the accompanying financial statements of CJSC Credit Europe Bank which comprise the balance sheet as of 31 December 2008, and the income statement, the statement of changes in shareholders' equity and the cash flows statement for the year then ended, and a summary of significant accounting policies and other explanatory notes. The financial statements of the Bank as at and for the year ended 31 December 2007, were audited by another auditor whose report dated 5 February 2008, expressed an unqualified opinion on those 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. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

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

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

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of CJSC Credit Europe Bank as of 31 December 2008, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG Akis Bağımsız Denetim ve SMMM A.Ş.

12 February 2009
Kiev, Ukraine

CJSC CREDIT EUROPE BANK

Balance Sheet
As of 31 December 2008
(Amounts expressed in Ukrainian Hryvnia ("UAH") unless otherwise stated)

	Note	2008	2007
ASSETS			
Cash and cash equivalents	*13*	219,839,503	732,165,603
Loans and advances to banks	*14*	1,002,575,785	307,177,667
Loans and advances to customers	*15*	1,039,314,086	222,083,037
Investment securities	*16*	287,185,076	247,601,506
Property and equipment	*17*	47,301,978	18,718,567
Intangible assets	*18*	4,775,881	1,482,739
Other assets	*19*	64,681,041	39,931,881
Total assets		**2,665,673,350**	**1,569,161,000**
LIABILITIES			
Deposits from banks	*20*	1,898,809,029	1,158,224,911
Deposits from customers	*21*	236,849,528	72,672,219
Current tax liabilities	*12*	971,025	665,736
Deferred tax liabilities	*12*	737,275	994,237
Other liabilities and provisions	*22*	7,354,552	2,133,773
Total liabilities		**2,144,721,409**	**1,234,690,876**
EQUITY			
Share capital	*23*	505,000,000	329,088,311
Fair value reserve	*23*	(4,898,067)	(239,484)
Retained earnings	*23*	20,850,008	5,621,297
Total equity attributable to equity holders of the Bank		**520,951,941**	**334,470,124**
Total liabilities and equity		**2,665,673,350**	**1,569,161,000**
Commitments and contingencies	*25*	**542,248,580**	**115,040,512**

The accompanying notes are an integral part of these financial statements.

Income Statement
For the year ended 31 December 2008
(Amounts expressed in Ukrainian Hryvnia ("UAH") unless otherwise stated)

	Note	2008	2007
Interest income	*7*	226,298,856	65,156,396
Interest expense	*7*	(89,922,352)	(27,874,199)
Net interest income		**136,376,504**	**37,282,197**
Fees and commission income	*8*	9,385,221	2,157,556
Fees and commission expense	*8*	(2,885,800)	(475,762)
Net fee and commission income		**6,499,421**	**1,681,794**
Net trading income	*9*	39,623,669	3,787,909
Other operating income		--	51,627
		39,623,669	**3,839,536**
Operating income		**182,499,594**	**42,803,527**
Net impairment loss on financial assets	*14, 15, 16, 22*	(62,103,120)	(4,487,736)
Personnel expenses	*10*	(50,339,702)	(14,137,133)
Depreciation and amortisation	*17, 18*	(8,012,252)	(1,521,735)
Other expenses	*11*	(42,250,012)	(14,217,016)
Profit before income tax		**19,794,508**	**8,439,907**
Income tax expense	*12*	(4,565,797)	(2,818,610)
Net profit for the year		**15,228,711**	**5,621,297**

The accompanying notes are an integral part of these financial statements.

Statement of Recognized Income and Expense
For the year ended 31 December 2008
(Amounts expressed in Ukrainian Hryvnia ("UAH") unless otherwise stated)

	Note	2008	2007
Fair value reserve			
Net change in fair value of available-for-sale financial assets		(4,658,583)	(239,484)
Income and expense recognized directly in equity	*23*	**(4,658,583)**	**(239,484)**
Profit for the year	*23*	**15,228,711**	**5,621,297**
Net change in fair value of available-for-sale financial assets (transferred to income statement)		(30,241)	--
Other		15,258,952	5,621,297
Total recognized income for the period	***23***	**10,570,128**	**5,381,813**

The accompanying notes are an integral part of these financial statements.

CJSC CREDIT EUROPE BANK

Cash Flows Statement
For the year ended 31 December 2008
(Amounts expressed in Ukrainian Hryvnia ("UAH") unless otherwise stated)

	Note	2008	2007
Cash flows from operating activities			
Profit for the year		15,228,711	5,621,297
Adjustments for:			
Depreciation and amortisation	*17, 18*	8,012,252	1,521,735
Net impairment loss on investment securities	*16*	7,764,000	--
Net impairment loss on loans and advances	*14,15,22*	54,339,120	4,487,736
Net interest income	*7*	(136,376,504)	(37,282,197)
Net loss / (gain) on sale of available-for-sale securities	*9*	27,546	(3,787,909)
Income tax expense	*12*	4,565,797	2,818,610
Change in loans and advances to banks		(497,696,317)	(307,600,002)
Change in loans and advances to customers		(863,263,899)	(225,644,023)
Change in other assets		(24,749,160)	(39,931,881)
Change in deposits from banks		739,336,535	1,158,224,911
Change in deposits from customers		162,983,275	72,672,219
Change in other liabilities and provisions		5,601,029	1,753,523
Interest received		198,150,440	60,500,862
Interest paid		(83,030,494)	(27,874,199)
Income tax paid		(4,517,470)	(1,158,637)
Net cash provided from / (used in) operating activities		**(413,625,139)**	**664,322,045**
Cash flows from investing activities			
Acquisition of investment securities		(377,795,374)	(276,849,379)
Proceeds from sale of investment securities		338,211,804	37,451,832
Acquisition of property and equipment	*17*	(36,055,615)	(20,108,001)
Acquisition of intangible assets	*18*	(3,833,190)	(1,615,040)
Net cash used in investing activities		**(79,472,375)**	**(261,120,588)**
Cash flows from financing activities			
Proceeds from issue of shares	*23*	175,911,689	329,088,311
Net cash provided from financing activities		**175,911,689**	**329,088,311**
Net increase in cash and cash equivalents		**(317,185,825)**	**732,289,768**
Cash and cash equivalents on 1 January	*13*	732,289,768	--
Cash and cash equivalents on 31 December	*13*	**415,103,943**	**732,289,768**

The accompanying notes are an integral part of these financial statements.

Notes to the financial statements

1. Reporting entity

General

CJSC Credit Europe Bank ("the Bank") that domiciled in Ukraine was registered by the National Bank of Ukraine ("NBU") under the name "Finansbank" in August 2006 with authorized capital UAH 43,088,311 and received the banking license in December 2006.

The Bank is controlled by CEB N.V. which owns 99.99% of ordinary shares (31 December 2007: 99.99%).

The Bank started its banking activities as of 2 February 2007. In June 2007, the Bank was renamed to Credit Europe Bank and increased its authorized capital to UAH 286,000,000. On 21 April 2008 the shareholders of the Bank decided to issue 175,911,689 additional shares totalling UAH 175,911,689. On 25 November 2008, the NBU registered the share capital increase of the Bank.

The Bank is allowed to carry out all main banking activities in accordance with its license. The Bank acts in compliance with the legislation of Ukraine including the normative legal acts of the NBU, main principles of international and local accounting standards and internal Bank's regulations.

The major objective of the Bank is improving the quality of banking services rendered, implementing modern IT solutions, increasing the customer base and meeting their expectations, gaining and raising the share in Ukrainian financial market, enhancing the financial performance and ensuring simultaneously the risk minimization.

The main activities of the Bank are treasury activities, corporate banking, SME banking and retail banking. The Bank strives to be universal, customer-oriented and renders services both to corporates, SME's and to retail customers.

The Bank intends to develop its branch network in different regions of Ukraine. The Bank has 13 branches as of 31 December 2008 (31 December 2007: 2).

The Bank created necessary conditions for its further successful development, in particular it formed sufficient human and material resource basis. The Bank employs 341 employees as of 31 December 2008 (31 December 2007: 206).

The head office of the Bank is located at Chervonoarmiyska Street 77A, 03150, Kiev.

Operating environment

Whilst there have been improvements in economic trends in the country, Ukraine continues to display certain characteristics of an emerging market. These characteristics include, but are not limited to, the existence of a currency that is not freely convertible outside of Ukraine, restrictive currency controls, and inflation.

The tax, currency and customs legislation within Ukraine is subject to varying interpretations and changes, which can occur frequently. Management is unable to predict all developments which could have an impact on the banking sector and consequently what effect, if any, they could have on the financial position of the Bank.

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

1. Reporting entity *(continued)*

Operating environment *(continued)*

Ukraine is experiencing political and economic change which has affected, and may continue to affect, the activities of entities operating in this environment. Consequently, operations in Ukraine involve risks that do not typically exist in other markets. These financial statements reflect management’s assessment of the impact of the business environment in Ukraine on the operations and the financial position of the Bank. The future business environment may differ from management’s assessment. The impact of such differences on the operations and the financial position of the Bank may be significant. The ability to assess the valuation of Bank’s assets is also significantly influenced by the transition process and current economic conditions.

The ongoing global liquidity crisis resulted in, among other things, a lower level of capital market funding, and lower liquidity levels across the Ukrainian financial sector, and higher lending rates. The uncertainties in the global financial market also led to bank failures and bank rescues around the world. The Bank’s customers may be affected by the lower liquidity situation which could in turn impact their ability to repay the amounts owed. Deteriorating operating conditions may also have an impact on the Bank's cash flow forecasts and assessment of the impairment of financial and non-financial assets. Due to the potential for these economic uncertainties to continue in the foreseeable future, there is a possibility that the assets may not be recovered at their carrying amounts in the ordinary course of business, with a corresponding impact on profitability in the future periods. The Bank is currently assessing the potential impact of the economic uncertainties on revenues and profitability and, as a consequence, on the recoverability of its current and non-current assets.

Given the current uncertainties, the Bank is unable to reliably estimate the effects on the financial position of any further deterioration in the liquidity of the financial markets and the increased volatility in the currency and equity markets.

2. Basis of preparation

2.1 Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs).

The Bank which is incorporated in Ukraine maintain its books of account and prepare their statutory financial statements in accordance with the Ukraine Banking Law, based on the regulations on accounting and reporting framework and accounting standards regulated by NBU.

The financial statements have been prepared from statutory financial statements of the Bank with adjustments and certain reclassifications for the purpose of fair presentation in accordance with IFRS.

The financial statements were authorised for issue by the Managing Board on 12 February 2009.

2.2 Basis of measurement

The financial statements have been prepared on the historical cost basis except for the following:

- available-for-sale financial investments are measured at fair value.

2.3 Functional and presentation currency

The accompanying financial statements are presented in UAH, which is the Bank’s functional currency. Financial information presented in UAH unless otherwise indicated.

2. Basis of preparation *(continued)*

2.4 Use of estimates and judgements

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are as follows;

Key sources of estimation uncertainty

Allowances for credit losses

The Bank reviews its loan portfolio to assess impairment at least on a monthly basis. In determining whether an impairment loss should be recorded in the income statement, the Bank makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans and individual loans. Evidence for impairment may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the Bank. Impairment and uncollectibility are measured and recognised individually for loans and receivables that are individually significant, and on a portfolio basis for a group of similar loans and receivables that are not individually identified as impaired.

Portfolio-basis assessed impairment allowances cover credit losses inherent in portfolios of claims with similar economic characteristics when there is objective evidence to suggest that they contain impaired claims, but the individual impaired items cannot yet be identified. A component of portfolio-basis assessed allowances is for country risks. In assessing the need for collective loan loss allowances, management considers factors such as credit quality, portfolio size, concentrations, and economic factors. In order to estimate the required allowance, assumptions are made to define the way inherent losses are modeled and to determine the required input parameters, based on sector experience and current economic conditions. The accuracy of the allowances depends on how well these estimate, future cash flows for specific counterparty allowances and the model assumptions and parameters used in determining collective allowances.

Determining fair values

The fair values of financial instruments that are not quoted in active markets are determined by using valuation techniques. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the Bank uses that technique. To the extent practical, models use only observable data; however areas such as credit risk, volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair value of financial instruments.

(Amounts expressed in Ukrainian Hryvnia ("UAH") unless otherwise stated)

2. Basis of preparation *(continued)*

2.4 Use of estimates and judgements *(continued)*

Critical accounting judgements in applying the Bank's accounting policies

Critical accounting judgements made in applying the Bank's accounting policies include:

Financial asset and liability classification

The Bank's accounting policies provide scope for assets and liabilities to be designated on inception into different accounting categories in certain circumstances:

In classifying financial assets as "held-to-maturity", the Bank has determined that it meets the description of held-to-maturity investment securities set out in accounting policy 3.10.

3. Significant accounting policies

The accounting policies set out below, have been applied consistently to all periods presented in these financial statements.

The following comparative amounts of 2007 have been reclassified to conform with the current year's presentation:

- Cash and cash equivalents amounting to UAH 35,000,000 which was reserve deposit has been reclassified to "Other assets",
- Other liabilities amounting to UAH 994,237 was reclassified to "Deferred tax liabilities",
- Other liabilities amounting to UAH 665,736 was reclassified to "Current tax liabilities",
- Other expenses amounting to UAH 6,756 was reclassified to "Net impairment loss on financial assets".

3.1 Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of the Bank at exchange rates on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies on the reporting date are retranslated to the functional currency at the exchange rate on that date. Foreign currency differences arising on retranslation are recognised in profit or loss.

The official NBU exchange rates used by the Bank for foreign currency translation are as follows:

	EUR / UAH	USD / UAH
31 December 2008	10.85	7.70
31 December 2007	7.42	5.05

3. Significant accounting policies *(continued)*

3.2 Interest

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

The calculation of the effective interest rate includes all fees and points paid or received transaction costs, and discounts or premiums that are integral part of the effective interest rate.

Interest income and expense presented in the income statement include:

- interest on financial assets and liabilities at amortised cost calculated on an effective interest basis,
- interest on available-for-sale investment securities calculated on an effective interest basis.

Interest income and expense presented in the income statement include the interest income on financial assets and liabilities at amortised cost on an effective interest rate basis.

3.3 Fees and commission

Fees and commissions income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other fees and commission income including account servicing fees and placement fees are recognised as the related services are performed. When a loan commitment is not expected to result in the draw-down of a loan, loan commitment fees are recognised on a straight-line basis over the commitment period.

Other fees and commission expense relates mainly to transaction and service fees, which are expensed as the services are received.

3.4 Net trading income

Net trading income comprises gains less loss related to trading assets and liabilities, and includes all realised and unrealised fair value changes and foreign exchange differences.

3.5 Lease payments made

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

3. Significant accounting policies *(continued)*

3.6 Income tax expense

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted on the balance sheet date, and any adjustment to tax payable in respect of prior years.

Deferred tax is provided using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

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

3.7 Financial assets and liabilities

Recognition

The Bank initially recognises loans and advances, deposits and funds borrowed on the date that they are originated. All other financial assets and liabilities are initially recognised on the trade date at which the Bank becomes a party to the contractual provisions of the instrument.

Classification

See accounting policies 3.8, 3.9 and 3.10.

Derecognition

The Bank derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Bank is recognised as a separate asset or liability.

The Bank derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

Available-for-sale assets that are sold are derecognized and corresponding receivables from the buyer for the payment are recognized as of the date the Bank commit to sell the assets. The specific identification method is used to determine the gain or loss on derecognition.

Held-to-maturity instruments and loans and receivables are derecognized on the days that they are transferred by the Bank.

3. Significant accounting policies *(continued)*

3.7 Financial assets and liabilities *(continued)*

Offsetting

Financial assets and liabilities are set off and the net amount presented in the balance sheet when, and only when, the Bank has a legal right to set off the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions such as in the Bank's trading activity.

Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

Fair value measurement

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date.

When available, the Bank measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

If a market for a financial instrument is not active, the Bank establishes fair value using a valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same and discounted cash flow analyses. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Bank, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument. The Bank calibrates valuation techniques and tests them for validity using prices from observable current market transactions in the same instrument or based on other available observable market data.

Identification and measurement of impairment

On each balance sheet date, the Bank assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows on the asset that can be estimated reliably.

Loans and receivables are presented net of specific and portfolio basis allowances for uncollectibility. Specific allowances are made against the carrying amount of loans and receivables that are identified as being impaired based on regular reviews of outstanding balances to reduce these loans and receivable to their recoverable amounts. In assessing the recoverable amounts of the loans and receivables, the estimated future cash flows are discounted to their present value. Portfolio basis allowances are maintained to reduce the carrying amount of portfolios of similar loans and receivables to their estimated recoverable amounts at the balance sheet date. In order to determine allowance rate for portfolio basis, the Bank uses sector (peer group) allowance rates based on loan types in Ukraine.

3. Significant accounting policies *(continued)*

3.7 Financial assets and liabilities *(continued)*

Identification and measurement of impairment (continued)

Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Bank about the following loss events

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest, penalty or principal payments;
- the Bank granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider;
- it becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties; or
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the Bank, including:
  - adverse changes in the payment status of borrowers; or
  - national or local economic conditions that correlate with defaults on the assets in the Bank.

Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial assets and the present value of estimated cash flows discounted at the assets' original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and advances. Interest on the impaired asset continues to be recognised through the unwinding of the discount.

When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through profit or loss.

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

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

3.8 Cash and cash equivalents

Cash and cash equivalents include cash on hand, unrestricted balances held with Central Bank and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value, and are used by the Bank in the management of its short-term commitments.

Cash and cash equivalents are carried at amortised cost in the balance sheet.

3.9 Loans and advances

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Bank does not intend to sell immediately or in the near term.

When the Bank purchases a financial asset and simultaneously enters into an agreement to resell the asset (or a substantially similar asset) at a fixed price on a future date ("reverse repo or stock borrowing"), the arrangement is accounted for as a loan or advance, and the underlying asset is not recognised in the Bank's financial statements.

Loans and advances are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method.

3.10 Investment securities

Investment securities are initially measured at fair value plus incremental direct transaction costs, and subsequently accounted for depending on their classification as either held-to-maturity or available-for-sale.

Held-to-maturity

Held-to-maturity investments are non-derivative assets with fixed or determinable payments and fixed maturity that the Bank has the positive intent and ability to hold to maturity, and which are not designated as at fair value through profit or loss or as available-for-sale.

Held-to-maturity investments are carried at amortised cost using the effective interest method. Any sale or reclassification of a more than insignificant amount of held-to-maturity investments not close to their maturity would result in the reclassification of all held-to-maturity investments as available-for-sale, and put restrictions on the Bank for classifying investment securities as held-to-maturity for the current and the following two financial years.

Available-for-sale

Available-for-sale investments are non-derivative investments that are designated as available-for-sale or are not classified as another category of financial assets. All other available-for-sale investments are carried at fair value.

Interest income is recognised in profit or loss using the effective interest method. Dividend income is recognised in profit or loss when the Bank becomes entitled to the dividend. Foreign exchange gains or losses on available-for-sale debt security investments are recognised in profit or loss.

Other fair value changes are recognised directly in equity until the investment is sold or impaired, whereupon the cumulative gains and losses previously recognised in equity are recognised in profit or loss.

3.11 Property and equipment

Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset.

Subsequent costs

The cost of replacing part of an item of property or equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Bank and its cost can be measured reliably. The costs of the day-to-day servicing of property and equipment are recognised in profit or loss as incurred.

Depreciation

Depreciation is recognised in the income statement on a straight-line basis over the estimated useful lives of each part of an item of property and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives.

The estimated useful lives for the current and comparative periods are as follows:

- furniture and fixtures 3-15 years
- motor vehicles 5 years

Leasehold improvements are depreciated on a straight-line method over a period of time of their lease contract.

3.12 Intangible assets

Software acquired by the Bank is stated at cost less accumulated amortisation and accumulated impairment losses.

Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Amortisation is recognised in income statement on a straight-line basis over the estimated useful life of the software, from the date that it is available for use.

The estimated useful lives for the current and comparative periods are as follows:

- software 3-5 years
- other intangible assets 3-15 years

3.13 Leased assets – lessee

Leases in terms of which the Bank assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and, the leased assets are not recognised on the Bank's balance sheet.

3. Significant accounting policies *(continued)*

3.14 Impairment of non-financial assets

The carrying amounts of the Bank's non-financial assets, other than deferred tax assets, are reviewed on each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in income statement. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

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

3.15 Deposits

Deposits are the Bank's sources of debt funding.

Deposits are initially measured at fair value plus directly attributable transaction costs, and subsequently measured at their amortised cost using the effective interest method.

3.16 Provisions

A provision is recognised if, as a result of a past event, the Bank has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

A provision for restructuring is recognised when the Bank has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating costs are not provided for.

A provision for onerous contracts is recognised when the expected benefits to be derived by the Bank from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Bank recognises any impairment loss on the assets associated with that contract.

3. Significant accounting policies *(continued)*

3.17 Employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A provision is recognised for the amount expected to be paid under short-term cash bonus if the Bank has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

The Bank does not have any internally set defined contribution plan.

3.18 Segment reporting

A segment is a distinguishable component of the Bank that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. The Bank's primary format for segment reporting is based on business segments.

3.19 New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective as of and for the year ended 31 December 2008, and have not been applied in preparing these financial statements:

- IFRIC 13 Customer Loyalty Programmes addresses the accounting by entities that operate or otherwise participate in customer loyalty programmes under which the customer can redeem credits for awards such as free or discounted goods or services. IFRIC 13 becomes mandatory for the Bank's 2009 financial statements and will be applicable retrospectively. It is not expected to have any impact on the financial statements.
- Amendment to IFRS 2 Share-based Payment – Vesting Conditions and Cancellations clarifies the definition of vesting conditions, introduces the concept of non-vesting conditions, requires non-vesting conditions to be reflected in grant-date fair value and provides the accounting treatment for non-vesting conditions and cancellations. The amendments to IFRS 2 will become mandatory for the Bank's 2009 financial statements, with retrospective application. It is not expected to have any impact on the financial statements.
- IFRS 8 Operating Segments introduces the "management approach" to segment reporting. IFRS 8, which becomes mandatory for the Bank's 2009 financial statements, will require a change in the presentation and disclosure of segment information based on the internal reports that are regularly reviewed by the Bank's "chief operating decision maker" in order to assess each segment's performance and to allocate resources to them. Currently the Bank presents segment information in respect of its business and geographical segments (see note 6). This standard will have no effect on the Bank's reported total profit or loss or equity. The Bank is currently in the process of determining the potential effect of this standard on the Bank's segment reporting.

3. Significant accounting policies *(continued)*

3.19 New standards and interpretations not yet adopted *(continued)*

- Revised IAS 1 Presentation of Financial Statements (2007) introduces the term "total comprehensive income," which represents changes in equity during a period other than those changes resulting from transactions with owners in their capacity as owners. Total comprehensive income may be presented in either a single statement of comprehensive income (effectively combining both the income statement and all non-owner changes in equity in a single statement), or in an income statement and a separate statement of comprehensive income. Revised IAS 1, which becomes mandatory for the Bank's 2009 financial statements, is expected to have a significant impact on the presentation of the financial statements as the Bank plans to provide total comprehensive income in a single statement of comprehensive income for its 2009 financial statements.
- Revised IAS 23 Borrowing Costs removes the option to expense borrowing costs and requires that an entity capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. Revised IAS 23 will become mandatory for the Bank's 2009 financial statements and will constitute a change in accounting policy for the Bank. In accordance with the transitional requirements, the Bank will apply the revised IAS 23 to qualifying assets for which capitalisation of borrowing costs commences on or after the effective date. It is not expected to have any impact on the financial statements.
- Amended IAS 27 Consolidated and Separate Financial Statements (2008) requires accounting for changes in ownership interests in a subsidiary that occur without loss of control, to be recognised as an equity transaction. When the Bank loses control of a subsidiary, any interest retained in the former subsidiary will be measured at fair value with the gain or loss recognised in profit or loss. The amendments to IAS 27, which become mandatory for the Bank's 2010 financial statements, are not expected to have any impact on the financial statements.
- Amendments to IAS 32 and IAS 1 Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation require puttable instruments and instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation to be classified as equity if certain conditions are met. The amendments, which become mandatory for the Bank's 2009 financial statements with retrospective application required, are not expected to have any significant impact on the financial statements.
- The International Accounting Standards Board made certain amendments to existing standards as part of its first annual improvements project. The effective dates for these amendments vary by standard and most will be applicable to the Bank's 2009 consolidated financial statements. The Bank does not expect these amendments to have any significant impact on the financial statements.
- Amendments to IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items clarifies the application of existing principles that determine whether specific risks or portions of cash flows are eligible for designation in a hedging relationship. The amendments will become mandatory for the Bank's 2010 financial statements, with retrospective application required. It is not expected to have any impact on the financial statements.

3. Significant accounting policies *(continued)*

3.19 New standards and interpretations not yet adopted *(continued)*

- IFRIC 16 Hedges of a Net Investment in a Foreign Operation clarifies that:

  I. net investment hedging can be applied only to foreign exchange differences arising between the functional currency of a foreign operation and the parent entity's functional currency and only in an amount equal to or less than the net assets of the foreign operation

  II. the hedging instrument may be held by any entity within the group except the foreign operation that is being hedged

  III. on disposal of a hedged operation, the cumulative gain or loss on the hedging instrument that was determined to be effective is reclassified to profit or loss.

  The Interpretation allows an entity that uses the step-by-step method of consolidation an accounting policy choice to determine the cumulative currency translation adjustment that is reclassified to profit or loss on disposal of a net investment as if the direct method of consolidation had been used. IFRIC 16, which becomes mandatory for the Bank's 2009 financial statements, applies prospectively to the Bank's existing hedge relationships and net investments. It is not expected to have any impact on the financial statements.

4. Financial risk management

Introduction and overview

The Bank has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risks
- operational risks.

This note presents information about the Bank's exposure to each of the above risks, the Bank's objectives, policies and processes for measuring and managing risk, and the Bank's management of capital.

Risk management framework

The Supervisory Board and Managing Board have overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board has established the Risk Management Department, which is responsible for monitoring the Bank risk management policies in specified areas. Internal Audit Department of the Bank undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the local Board.

The Bank's risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Bank, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

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4. Financial risk management *(continued)*

Credit risk

Credit risk is defined as the current or prospective threat to the Bank's earnings and capital as a result of counterparty's failure to comply with a financial or other contractual obligation in respect of the institution, including the possibility of restrictions on or impediments to the transfer of payments from abroad and arises principally from the Bank's loans and advances to customers and other banks and investment securities. For risk management reporting purposes, the Bank considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector risk).

Management of credit risk

The Bank's credit risk management strategy is based on a three-part methodology that embraces the customer selection, credit allocation, and credit pricing stages. Since it was established, the Bank has always managed its credit risks taking a portfolio-logic approach.

In the first stage of the lending process, sectoral weightings are determined and customers are given a preliminary screening. This initial check is followed by the credit allocation stage in which firms are individually rated and the bank's guarantee strategy is determined according to the results of this rating. In the final stage of the lending process, prices are determined by taking a risk-premium approach.

In addition to the local policies and procedures, there are also Credit Europe Group level policies and procedures implemented by Credit Europe Bank N.V. ("CEB N.V.") to identify, measure, monitor, control and report material credit risk in all its subsidiaries. In addition to the local risk management function, Credit Europe Group level credit risk management function covers "Sovereign / Counterparty / Treasury / Corporate-Commercial / Retail and SME's". Committees like Credit Committee, Retail Committees and SME Committees are responsible for managing credit risk at the Bank through separate policies for corporate, bank and retail lending.

Regular audits of business units and Bank's credit processes are undertaken by internal audit.

(Amounts expressed in Ukrainian Hryvnia ("UAH") unless otherwise stated)

4. Financial risk management *(continued)*

Credit risk *(continued)*

Exposure to credit risk

		2008		
	Note	**Loans and advances to customers**	**Loans and advances to banks**	**Investment securities**
Carrying amount	*14,15,16*	1,039,314,086	1,002,575,785	287,185,076
Assets at amortised cost				
Individually impaired				
Grade 6: Impaired		8,567,171	--	--
Grade 7: Impaired		12,594,077	--	--
Grade 8: Impaired		11,778,535	--	--
Gross amount		32,939,783	--	--
Allowance for impairment	*15*	(23,163,283)	--	--
Carrying amount		**9,776,500**	--	--
Collectively impaired				
Not past due		1,031,781,844	1,002,575,785	125,650,685
Past due: 1-30 days		23,367,365	--	--
Past due: 31-60 days		7,300,199	--	--
Past due: 61-90 days		2,751,751	--	--
Gross amount		1,065,201,159	1,002,575,785	125,650,685
Allowance for impairment	*15*	(35,663,573)	--	--
Carrying amount		**1,029,537,586**	**1,002,575,785**	**125,650,685**
Carrying amount – amortised cost		**1,039,314,086**	**1,002,575,785**	**125,650,685**
Available-for-sale assets				
Individually impaired				
Grade 8: Impaired		--	--	7,764,000
Gross amount		--	--	**7,764,000**
Allowance for impairment	*16*	--	--	(7,764,000)
Carrying amount		--	--	--
Neither past due nor impaired		--	--	161,534,391
Carrying amount – fair value	*16*	--	--	**161,534,391**
Total carrying amount		**1,039,314,086**	**1,002,575,785**	**287,185,076**

(Amounts expressed in Ukrainian Hryvnia ("UAH") unless otherwise stated)

4. Financial risk management *(continued)*

Credit risk *(continued)*

Exposure to credit risk (continued)

		2007		
	Note	**Loans and advances to customers**	**Loans and advances to banks**	**Investment securities**
Carrying amount	*14,15,16*	222,083,037	307,177,667	247,601,506
Assets at amortised cost				
Individually impaired				
Grade 6: Impaired		--	--	--
Grade 7: Impaired		--	--	--
Grade 8: Impaired		--	--	--
Gross amount		--	--	--
Allowance for impairment		--	--	--
Carrying amount		--	--	--
Collectively impaired				
Not past due		225,644,023	307,724,167	--
Past due: 1-30 days		--	--	--
Past due: 31-60 days		--	--	--
Past due: 61-90 days		--	--	--
Gross amount		225,644,023	307,724,167	--
Allowance for impairment	*14, 15*	(3,560,986)	(546,500)	--
Carrying amount		**222,083,037**	**307,177,667**	--
Carrying amount – amortised cost		**222,083,037**	**307,177,667**	--
Available-for-sale assets				
Individually impaired				
Grade 8: Impaired		--	--	--
Gross amount		--	--	--
Allowance for impairment		--	--	--
Carrying amount		--	--	--
Neither past due nor impaired	*16*	--	--	247,601,506
Carrying amount – fair value	*16*	--	--	**247,601,506**
Total carrying amount		**222,083,037**	**307,177,667**	**247,601,506**

(Amounts expressed in Ukrainian Hryvnia ("UAH") unless otherwise stated)

4. Financial risk management *(continued)*

Credit risk *(continued)*

Impaired loans and investment securities

Impaired loans and securities are loans and advances and investment securities for which the Bank determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan or investment security agreement.

Past due but not impaired loans and investment securities

Past due but not impaired loans and investment securities are those for which contractual interest or principal payments are past due but the Bank believes that impairment is not appropriate on the basis of the level of security / collateral available and / or the stage of collection of amounts owed to the Bank.

Allowances for impairment

The Bank establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loan loss allowance established for groups of homogeneous assets in respect of losses that have been incurred but have not been identified on loans subject to individual assessment for impairment.

Set out below is an analysis of the gross and net (of allowances for impairment) amounts of individually impaired assets by risk grade. The Bank does not have individually impaired assets as at 31 December 2007.

2008	Loans and advances to customers		AFS investment securities	
	Gross	Net	Gross	Net
Grade 6	8,567,171	4,389,362	--	--
Grade 7	12,594,077	2,365,457	--	--
Grade 8	11,778,535	3,021,681	7,764,000	--
Total	**32,939,783**	**9,776,500**	**7,764,000**	**--**

Write-off policy

The Bank writes off a receivable balance (and any related allowances for impairment losses) when it is determined that the receivable is uncollectible based on the evidence of insolvency issued by the Court. In cases where any possible collections are negligible comparing to the prospective expenses and costs, such receivables are written off by the decision of the board of directors.

Collateral policy

The Bank's policy is to require suitable collateral to be provided by certain customers prior to the disbursement of approved loans. The Bank currently hold collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets and guarantees. Collateral generally is not held over loans and advances to bank and investment securities, and no such collateral was held at 31 December 2008 and 2007.

(Amounts expressed in Ukrainian Hryvnia ("UAH") unless otherwise stated)

4. Financial risk management *(continued)*

Credit risk *(continued)*

An estimate of the fair value of collateral and other security enhancements held against loans and advances to customers and banks and investment securities are presented below:

	2008	**2007**
Collaterals held against loans and advances to customers		
Pledge on factory equipment / machinery / vehicles	278,976,158	522,670
Bank letter of guarantee	132,723,586	--
Mortgage on a land and a non-residential building	186,104,376	--
Mortgage on a residential building	153,821,092	52,218,253
Pledge on common shares	60,500,000	--
Pledge on commodity / stocks / inventory	36,536,132	--
Other	132,499,722	150,373,808
Total of collateral amount	**981,161,066**	**203,114,731**
Uncollateralized	58,153,020	18,968,306
Total	**1,039,314,086**	**222,083,037**

	2008	**2007**
Collaterals held against loans and advances to banks		
Bank letter of guarantee	80,850,000	50,500,000
Pledge of deposits	62,574,999	--
Letter of guarantee issued by a corporate (corporate guarantee)	26,558,841	--
Other	219,521,400	237,350,000
Total of collateral amount	**389,505,240**	**287,850,000**
Uncollateralized	613,070,545	19,327,667
Total	**1,002,575,785**	**307,177,667**

	2008	**2007**
Collaterals held against investment securities		
Corporate and personal guarantee	95,203,511	89,694,590
Total of collateral amount	**95,203,511**	**89,694,590**
Uncollateralized	191,981,565	157,906,916
Total	**287,185,076**	**247,601,506**

(Amounts expressed in Ukrainian Hryvnia ("UAH") unless otherwise stated)

4. Financial risk management *(continued)*

Credit risk *(continued)*

Sectoral analysis

The Bank monitors concentrations of credit risk by sector. An analysis of concentrations of credit risk at the reporting date is shown below:

	2008		2007	
Sector	**Carrying amount**	**%**	**Carrying amount**	**%**
Trade and commerce	261,440,949	25	30,383,018	14
Retail	261,162,880	25	30,146,625	13
Financial institutions	97,852,150	10	70,966,354	32
Construction	69,688,201	7	28,560,087	13
Services	34,508,155	3	62,026,706	28
Other	314,661,751	30	247	--
	1,039,314,086	**100**	**222,083,037**	**100**

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Liquidity risk

Liquidity risk is defined as the current or prospective threat to an institution's earnings and capital as a result of the possibility that it will not be able to meet its short-term payment obligations at any point in time without this involving unacceptable costs or losses. The Bank manages its liquidity position at the Credit Europe Group level in order to be able to ride out a crisis without damaging the on-going viability of the business. Daily reports are produced to ensure the good management of the liquidity and to be in line with NBU ratios.

(Amounts expressed in Ukrainian Hryvnia ("UAH") unless otherwise stated)

4. Financial risk management *(continued)*

Liquidity risk *(continued)*

Residual contractual maturities of financial liabilities

2008	*Note*	Carrying amount	Gross nominal inflow / (outflow)	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	More than 5 years
Deposits from banks	*20*	1,898,809,029	2,028,031,708	82,978,939	374,783,805	1,196,808,601	241,417,264	132,043,099
Deposits from customers	*21*	236,849,528	239,214,244	139,452,783	94,076,148	485,081	5,200,232	--
		2,135,658,557	**2,267,245,952**	**222,431,722**	**468,859,953**	**1,197,293,682**	**246,617,496**	**132,043,099**

2007	*Note*	Carrying amount	Gross nominal inflow / (outflow)	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	More than 5 years
Deposits from banks	*21*	1,158,224,911	1,200,908,560	175,574,808	151,770,603	873,563,149	--	--
Deposits from customers	*22*	72,672,219	73,581,148	56,226,171	15,639,537	102,535	1,612,905	--
		1,230,897,130	**1,274,489,708**	**231,800,979**	**167,410,140**	**873,665,684**	**1,612,905**	**--**

The table above shows the undiscounted cash flows on the Bank's financial liabilities on the basis of their earliest possible contractual maturity.

(Amounts expressed in Ukrainian Hryvnia (“UAH”) unless otherwise stated)

4. Financial risk management *(continued)*

Market risk

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

Overall authority for market risk is vested in Asset and Liability Committee (“ALCO”).

Exposure to interest rate risk

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instrument because of a change in market interest rates. Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for repricing bands. The ALCO is the monitoring body for compliance with these limits and is assisted by Risk Management in its day-to-day monitoring activities.

The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Bank’s financial assets and liabilities to various standard and non-standard interest rate scenarios. Standard scenarios that are considered on a monthly basis include a 100 basis point (bp) parallel fall or rise in all yield curves. An analysis of the Bank’s sensitivity to an increase or decrease in market interest rates (assuming no asymmetrical movement in yield curves and a constant balance sheet position) is as follows:

	100 bp parallel increase		**100 bp parallel decrease**	
	Equity	**Profit or loss**	**Equity**	**Profit or loss**
At 31 December 2008	(590,642)	--	594,739	--
At 31 December 2007	(1,173,198)	--	1,161,442	--

(Amounts expressed in Ukrainian Hryvnia ("UAH") unless otherwise stated)

4. Financial risk management *(continued)*

Market risk *(continued)*

Interest rate risk

	Note	Carrying amount	Non-interest	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years
2008								
Cash and cash equivalents	*13*	219,839,503	219,839,503	--	--	--	--	--
Loans and advances to banks	*14*	1,002,575,785	--	390,075,198	535,150,000	77,350,587	--	--
Loans and advances to customers	*15*	1,039,314,086	--	274,198,719	89,443,683	271,482,366	269,197,611	134,991,707
Investment securities	*16*	287,185,076	--	130,609,468	18,458,160	--	138,117,448	--
		2,548,914,450	**219,839,503**	**794,883,385**	**643,051,843**	**348,832,953**	**407,315,059**	**134,991,707**
Deposits from banks	*20*	1,898,809,029	--	253,136,901	1,110,250,726	263,023,250	201,505,573	70,892,579
Deposits from customers	*21*	236,849,528	45,000,215	186,964,937	16,764	2,798,357	2,069,255	--
		2,135,658,557	**45,000,215**	**440,101,838**	**1,110,267,490**	**265,821,607**	**203,574,828**	**70,892,579**
Interest rate gap		**413,255,893**	**174,839,288**	**354,781,547**	**(467,215,647)**	**83,011,346**	**203,740,231**	**64,099,128**

	Note	Carrying amount	Non-interest	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years
2007								
Cash and cash equivalents	*13*	732,165,603	732,165,603	--	--	--	--	--
Loans and advances to banks	*14*	307,177,667	--	111,224,167	57,473,500	138,480,000	--	--
Loans and advances to customers	*15*	222,083,037	--	63,006,518	5,123,006	95,052,534	57,532,685	1,368,294
Investment securities	*16*	247,601,506	--	12,946,661	68,663,767	134,764,513	31,226,565	--
		1,509,027,813	**732,165,603**	**187,177,346**	**131,260,273**	**368,297,047**	**88,759,250**	**1,368,294**
Deposits from banks	*20*	1,158,224,911	--	324,460,438	52,750,000	781,014,473	--	--
Deposits from customers	*21*	72,672,219	32,127,590	39,272,479	--	--	1,272,150	--
		1,230,897,130	**32,127,590**	**363,732,917**	**52,750,000**	**781,014,473**	**1,272,150**	**--**
Interest rate gap		**278,130,683**	**700,038,013**	**(176,555,571)**	**78,510,273**	**(412,717,426)**	**87,487,100**	**1,368,294**

(Amounts expressed in Ukrainian Hryvnia ("UAH") unless otherwise stated)

4. Financial risk management *(continued)*

Market risk *(continued)*

Summary of average interest rates

As of 31 December 2008 and 2007, the summary of average interest rates for different assets and liabilities are as follows:

	2008			2007		
	Euro	USD	UAH	Euro	USD	UAH
Assets						
Loans and advances to banks	--	10.58	25.96	--	9.73	11.69
Loans and advances to customers	12.56	16.26	40.18	9.03	14.71	32.19
Available-for-sale securities	--	--	17.11	--	--	12.29
Held-to-maturity securities	--	--	23.39	--	--	--
Liabilities						
Deposit from banks	6.82	5.73	6.00	6.03	6.27	--
Deposit from customers	6.80	7.89	14.50	9.00	6.23	6.25

Operational risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people, and systems or from external events. It includes legal risk and outsourcing risk but excludes strategic risk, business risk, liquidity risk, reputation risk. Credit Europe Group targets low residual risks after taking account of appropriate system controls and mitigation efforts. Under CEB N.V. Managing Board, the Operational Risk Management Committee ("ORMC") defines and manages the operational risk appetite of the whole Credit Europe Group. Operational Risk Management Policy of the Credit Europe Group will be implemented by the Bank once approved by the Supervisory Board.

(Amounts expressed in Ukrainian Hryvnia ("UAH") unless otherwise stated)

4. Financial risk management *(continued)*

Foreign currency risk

The Bank takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. Position limit of the Bank related with currency risk is determined according to foreign currency net position standard ratio determined by NBU.

	Euro	USD	Other	Total
31 December 2008				
Cash and cash equivalents	5,330,908	187,144,520	42,739	192,518,167
Loans and advances to banks	--	947,526,246	--	947,526,246
Loans and advances to customers	23,277,439	931,495,069	--	954,772,508
Other assets	--	750	--	750
Deposits from banks	(21,255,124)	(1,869,572,513)	--	(1,890,827,637)
Deposits from customers	(7,676,136)	(102,276,825)	--	(109,952,961)
Other liabilities	(103,338)	(1,735,871)	--	(1,839,209)
Net on balance sheet exposure	**(426,251)**	**92,581,376**	**42,739**	**92,197,864**

	Euro	USD	Other	Total
31 December 2007				
Cash and cash equivalents	1,637,304	570,226,040	18,610	571,881,954
Loans and advances to banks	--	252,472,667	--	252,472,667
Loans and advances to customers	10,353,604	209,168,061	--	219,521,665
Other assets	--	275	--	275
Deposits from banks	(9,392,387)	(990,867,524)	--	(1,000,259,911)
Deposits from customers	(835,325)	(65,022,583)	--	(65,857,908)
Other liabilities	--	(378,750)	--	(378,750)
Net on balance sheet exposure	**1,763,196**	**(24,401,814)**	**18,610**	**(22,620,008)**

For the purpose of the evaluation of the table above, the figures represent the UAH equivalent of the related hard currencies.

The following significant exchange rates applied during the year ended 31 December 2008 and 2007:

	Average rate		Balance sheet date	
UAH	**2008**	**2007**	**31 December 2008**	**31 December 2007**
USD	5.28	5.05	7.70	5.05
Euro	7.72	6.92	10.85	7.42

(Amounts expressed in Ukrainian Hryvnia ("UAH") unless otherwise stated)

4. Financial risk management *(continued)*

Foreign currency risk *(continued)*

Sensitivity analysis

A 10 percent weakening of UAH against the foreign currencies on 31 December 2008 and 2007 would have increased / (decreased) equity and profit or loss by the amounts presented below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2007.

31 December 2008	Equity*	Profit or loss
Euro	(42,625)	(42,625)
USD	9,258,137	9,258,137
Other currencies	4,274	4,274
	9,219,786	**9,219,786**

31 December 2007	Equity*	Profit or loss
Euro	176,320	176,320
USD	(2,440,181)	(2,440,181)
Other currencies	1,861	1,861
	(2,262,000)	**(2,262,000)**

* Includes the profit or loss effect.

A 10 percent strengthening of the UAH against the foreign currencies on 31 December 2008 and 2007 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

(Amounts expressed in Ukrainian Hryvnia ("UAH") unless otherwise stated)

4. Financial risk management *(continued)*

Capital management

The standards applied by the NBU for the principal capital ratios are based on the capital adequacy guidelines of the European Union and the Basel Committee for Banking Supervision. These ratios compare the Bank's total capital and tier 1 capital (both calculated according to rules established by the NBU) with the total of risk-weighted assets and off-balance sheet items and take into consideration the market risk associated with the trading portfolios. The minimum requirement for the total capital ratio and tier 1 ratio is 12% and 4%, respectively. In addition, the NBU required more strict ratios as part of its country risk policy (for example, the total capital ratio for new banks within the first year of their activities is set 15%, and for the second year 12%, and after the second year 10%).

The Bank monitors the mentioned ratios on a daily basis and takes respective measures in case of achieving their critical values.

The following table analyses actual capital and the minimum standard in accordance with supervisory requirements of the NBU.

2008	**Required**	**Actual**
Total capital	189,051,386	510,438,743
Total capital ratio	12%	27%
Tier 1 capital	107,460,788	510,438,743
Tier 1 ratio	4%	19%

2007	**Required**	**Actual**
Total capital	168,222,127	333,191,961
Total capital ratio	15%	30%
Tier 1 capital	62,863,311	327,675,011
Tier 1 ratio	4%	21%

The Bank's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

The impact of the level of capital on shareholders' return is also recognised and the Bank recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position. There have been no material changes in the Bank's management of capital during the period.

The Bank and its individually regulated operations have complied with all externally imposed capital requirements throughout the period.

5. Use of estimates and judgements

Determining fair values

The determination of fair values of financial assets and financial liabilities is based on quoted market prices or dealer price quotations for financial instruments traded in active markets or valuation techniques. However, the Bank expects no significant difference between the fair value and carrying value of the financial instruments below since their maturities are short-term and majority of the loans and advances to customers are originated in the last month.

6. Segment reporting

Segment information is presented in respect of the Bank's business and geographical segments. The primary format, business segments, is based on the Bank's management and internal reporting structure.

Business segments

The Bank comprises the following main business segments:

- Retail Banking: Includes loans, deposits and other transactions and balances with retail customers.
- Corporate Banking: Includes loans, deposits and other transactions and balances with corporate customers.
- Treasury: Includes the Bank's trading and corporate finance activities

Geographical

The Bank operates in three geographic regions, being:

- Ukraine
- OECD
- Commonwealth of Independent States ("CIS") and other non-OECD countries

(Amounts expressed in Ukrainian Hryvnia ("UAH") unless otherwise stated)

6. Segment reporting *(continued)*

Business segments

2008	Retail banking	Corporate banking	Treasury	Unallocated	Total
External revenue					
Interest income	20,716,716	92,638,041	112,944,099	--	226,298,856
Interest expense	(190,597)	(3,169,761)	(86,488,939)	(73,055)	(89,922,352)
Commission income	1,663,155	7,722,066	--	--	9,385,221
Commission expense	(200,623)	(2,245,343)	(355,318)	(84,516)	(2,885,800)
Net trading income	--	--	(27,546)	39,651,215	39,623,669
Other operating income	--	--	--	--	--
Total operating income	**21,988,651**	**94,945,003**	**26,072,296**	**39,493,644**	**182,499,594**
Net impairment loss on financial assets	(18,100,679)	(37,165,191)	(6,837,250)	--	(62,103,120)
Net operating income	**3,887,972**	**57,779,812**	**19,235,046**	**39,493,644**	**120,396,474**
Operating expense other than impairment loss on financial assets	(48,609,876)	(17,028,937)	(4,025,022)	(30,938,131)	(100,601,966)
Segment results	**(44,721,904)**	**40,750,875**	**15,210,024**	**8,555,513**	**19,794,508**
Income tax expense					(4,565,797)
Profit for the year					**15,228,711**
Assets and liabilities					
Segment assets	211,962,846	827,351,240	1,520,824,184	105,535,080	**2,665,673,350**
Segment liabilities	14,363,797	222,485,731	1,898,809,029	9,062,852	**2,144,721,409**

(Amounts expressed in Ukrainian Hryvnia ("UAH") unless otherwise stated)

6. Segment reporting *(continued)*

Business segments (continued)

2007	Retail banking	Corporate banking	Treasury	Unallocated	Total
External revenue					
Interest income	598,042	5,325,560	59,232,794	--	65,156,396
Interest expense	(8,995)	(7,616,105)	(20,249,099)	--	(27,874,199)
Commission income	511,511	1,646,045	--	--	2,157,556
Commission expense	--	(386,310)	(89,452)	--	(475,762)
Net trading income	--	--	54,558	3,733,351	3,787,909
Other operating income	--	--	--	51,627	51,627
Total operating income	**1,100,558**	**(1,030,810)**	**38,948,801**	**3,784,978**	**42,803,527**
Net impairment loss on financial assets	(1,609,922)	(2,331,314)	(546,500)	--	(4,487,736)
Net operating income	**(509,364)**	**(3,362,124)**	**38,402,301**	**3,784,978**	**38,315,791**
Operating expense other than impairment loss on financial assets	(7,470,662)	(4,482,396)	(1,494,132)	(16,428,694)	(29,875,884)
Segment results	**(7,980,026)**	**(7,844,520)**	**36,908,169**	**(12,643,716)**	**8,439,907**
Income tax expense					(2,818,610)
Profit for the year					**5,621,297**
Assets and liabilities					
Segment assets	19,487,390	202,595,647	1,278,176,936	68,901,027	**1,569,161,000**
Segment liabilities	5,829,406	66,842,813	1,158,224,911	3,793,746	**1,234,690,876**

(Amounts expressed in Ukrainian Hryvnia ("UAH") unless otherwise stated)

6. Segment reporting *(continued)*

Geographic segments

2008	Ukraine	OECD	CIS and other non-OECD countries	Total
Cash and cash equivalents	41,948,108	177,883,392	8,003	219,839,503
Loans and advances to banks	847,000,139	--	155,575,646	1,002,575,785
Loans and advances to customers	995,587,625	43,726,461	--	1,039,314,086
Investment securities	287,185,076	--	--	287,185,076
Property and equipment	47,301,978	--	--	47,301,978
Intangible assets	4,775,881	--	--	4,775,881
Other assets	64,681,041	--	--	64,681,041
Total assets	**2,288,479,848**	**221,609,853**	**155,583,649**	**2,665,673,350**
Deposits from banks	62,989,027	1,835,820,002	--	1,898,809,029
Deposits from customers	235,001,177	1,848,351	--	236,849,528
Current tax liabilities	971,025	--	--	971,025
Deferred tax liabilities	737,275	--	--	737,275
Other liabilities and provisions	7,354,552	--	--	7,354,552
Total liabilities	**307,053,056**	**1,837,668,353**	**--**	**2,144,721,409**

2007	Ukraine	OECD	CIS and other non-OECD countries	Total
Cash and cash equivalents	731,903,980	261,370	253	732,165,603
Loans and advances to banks	307,177,667	--	--	307,177,667
Loans and advances to customers	162,731,873	1,629,328	57,721,836	222,083,037
Investment securities	247,601,506	--	--	247,601,506
Property and equipment	18,718,567	--	--	18,718,567
Intangible assets	1,482,739	--	--	1,482,739
Other assets	39,931,881	--	--	39,931,881
Total assets	**1,509,548,213**	**1,890,698**	**57,722,089**	**1,569,161,000**
Deposits from banks	193,315,000	964,909,911	--	1,158,224,911
Deposits from customers	48,790,863	23,833,002	48,354	72,672,219
Current tax liabilities	665,736	--	--	665,736
Deferred tax liabilities	994,237	--	--	994,237
Other liabilities and provisions	2,133,773	--	--	2,133,773
Total liabilities	**245,899,609**	**988,742,913**	**48,354**	**1,234,690,876**

(Amounts expressed in Ukrainian Hryvnia ("UAH") unless otherwise stated)

7. Net interest income

	2008	2007
Interest income		
Loans and advances to banks	112,638,629	52,170,104
Loans and advances to customers	69,079,082	5,923,603
Investment securities	44,581,145	7,062,689
Total interest income	**226,298,856**	**65,156,396**
Interest expense		
Deposits from banks	(86,488,939)	(20,249,098)
Deposits from customers	(3,433,413)	(7,625,101)
Total interest expense	**(89,922,352)**	**(27,874,199)**
Net interest income	**136,376,504**	**37,282,197**

8. Net fee and commission income

	2008	2007
Fee and commission income		
Payment and transaction services fees	4,499,832	158,177
Financial guarantee contracts issued	2,818,922	1,708,415
Foreign exchange transaction commissions	1,052,639	290,964
Credit related fees	643,510	--
Other	370,318	--
Total fee and commission income	**9,385,221**	**2,157,556**
Fee and commission expense		
Payment and transaction services expense	(2,883,800)	(55,251)
Account maintenance fees	--	(32,315)
Guarantees obtained fees	--	(376,761)
Other	(2,000)	(11,435)
Total fee and commission expense	**(2,885,800)**	**(475,762)**
Net fee and commission income	**6,499,421**	**1,681,794**

Net fee and commission income above excludes amounts included in determining the effective interest rate on financial assets and liabilities that are not at fair value through profit or loss.

9. Net trading income

	2008	2007
Foreign exchange gain, net	39,651,215	--
Investment securities	(27,546)	3,787,909
Total	**39,623,669**	**3,787,909**

(Amounts expressed in Ukrainian Hryvnia ("UAH") unless otherwise stated)

10. Personnel expenses

	2008	**2007**
Wages and salaries	(32,161,370)	(9,931,744)
Compulsory social security obligations	(10,506,147)	(2,792,956)
Short-term employee benefits	(4,103,679)	(1,366,098)
Termination payments	(3,568,506)	--
Other	--	(46,335)
Total	**(50,339,702)**	**(14,137,133)**

11. Other expenses

	2008	**2007**
Rent and maintenance expenses	(23,588,156)	(6,070,562)
Communication and information expenses	(3,168,728)	(1,152,650)
Legal and consultancy expenses	(2,717,185)	(401,780)
Advertising and marketing expenses	(2,311,111)	(257,315)
Taxes and duties other than income	(1,884,995)	(747,966)
Stationary, office supplies and printing expense	(1,796,173)	(299,845)
Travelling expenses	(1,636,505)	(587,401)
Security expenses	(1,166,418)	(230,589)
Membership fees	(989,851)	--
Insurance expense	(691,878)	(187,777)
Others	(2,299,012)	(4,281,131)
Total	**(42,250,012)**	**(14,217,016)**

12. Taxation

General information

The Bank is subject to taxation in accordance with the tax procedures and the legislation effective in Ukraine.

The applicable tax rate for the corporate profit is 25%. The tax amount defined by the Bank could be re-assessed by the tax authorities during the three subsequent calendar years after the date of submitting the respective tax return; thus, the Bank should keep its primary documents related to tax returns at least for three years.

Tax losses can be carried forward to be offset against future taxable income for the next five taxable years after the year when this loss appeared.

As of 31 December 2008 and 2007, prepaid income taxes are netted off with the current tax liability as stated below:

	2008	**2007**
Income tax liability	4,822,759	1,824,373
Prepaid income tax	(3,851,734)	(1,158,637)
Income taxes payable	**971,025**	**665,736**

(Amounts expressed in Ukrainian Hryvnia ("UAH") unless otherwise stated)

12. Taxation *(continued)*

Income taxes payable

Income taxes payable as at 31 December comprised the following:

	2008	2007
Corporate tax liability on 1 January	665,736	--
Current income tax	4,822,759	1,824,373
Corporate taxes paid in advance	(4,517,470)	(1,158,637)
Income taxes payable on 31 December	**971,025**	**665,736**

Income tax recognised in the income statement

The components of income tax expense for the years ended 31 December 2008 and 2007 are:

	2008	2007
Current tax		
Current income tax	4,822,759	1,824,373
Deferred income tax		
Relating to origination and reversal of temporary differences	(256,962)	994,237
Income tax expense reported in the income statement	**4,565,797**	**2,818,610**

Reconciliation of effective tax rate

Reconciliation between tax expense and the accounting profit multiplied by the statutory income tax rate of the Bank for the years ended 31 December 2008 and 2007 is as follows:

	2008	%	2007	%
Profit before income tax	19,794,508		8,439,907	
Income tax using the domestic corporation tax rate	4,948,627	25	2,109,977	25
Effect of changes in assessment of tax treatment of non-current assets	--	--	98,300	1
Effect of changes in assessment of tax treatment of financial assets	126,420	1	738,120	9
Non-deductible expenses	1,671,855	8	118,822	1
Tax exempt income	(2,181,105)	(11)	(246,609)	(3)
Total income tax expense in the income statement	**4,565,797**	**23**	**2,818,610**	**33**

Tax expense recognised directly in equity

As of 31 December 2008 and 2007, there is not any tax expense recognised in equity.

(Amounts expressed in Ukrainian Hryvnia ("UAH") unless otherwise stated)

12. Taxation *(continued)*

Deferred tax

The deferred tax included in the balance sheet and changes recorded in the income tax expense are as follows:

	Deferred tax asset	**Deferred tax liability**	**Net deferred tax liability**
	2008	**2008**	**2008**
Valuation difference on financial assets and liabilities	1,002,148	(311,895)	690,253
Reversal of accrued interest on impaired financial assets	778,552	--	778,552
Unearned revenue	654,535	--	654,535
Short term employee benefits	519,322	--	519,322
Property and equipment, and software	388,520	--	388,520
Accrued liabilities	57,750	--	57,750
Reversal of statutory provisions	--	(3,683,265)	(3,683,265)
Prepaid expenses	--	(202,118)	(202,118)
Others	59,176	--	59,176
Deferred tax asset / (liability) on 31 December	**3,460,003**	**(4,197,278)**	**(737,275)**

	Deferred tax asset	**Deferred tax liability**	**Net deferred tax liability**
	2007	**2007**	**2007**
Valuation difference on financial assets and liabilities	--	(857,747)	(857,747)
Reversal of statutory provisions	--	(261,700)	(261,700)
Short term employee benefits	226,863	--	226,863
Property and equipment, and software	501,100	(70,300)	430,800
Prepaid expenses	--	(561,900)	(561,900)
Others	29,447	--	29,447
Deferred tax asset / (liability) on 31 December	**757,410**	**(1,751,647)**	**(994,237)**

Movement of net deferred tax liabilities can be presented as follows:

	2008	**2007**
Deferred tax liabilities, net on 1 January	994,237	--
Deferred tax recognised in the income statement	(256,962)	994,237
Deferred tax liabilities, net on 31 December	**737,275**	**994,237**

(Amounts expressed in Ukrainian Hryvnia ("UAH") unless otherwise stated)

13. Cash and cash equivalents

	2008	2007
Cash on hand	12,676,705	1,587,014
Current account with NBU	21,022,505	7,180,826
Placements with other banks	186,140,293	723,397,763
Total cash and cash equivalents	**219,839,503**	**732,165,603**
Loans and advances to banks with original maturity less than three months	195,264,440	124,165
Cash and cash equivalents in the statement of cash flows	**415,103,943**	**732,289,768**

The current account with the NBU represents amounts deposited with the NBU relating to daily settlements and other activities.

14. Loans and advances to banks

	2008	2007
Loans and advances to banks	1,002,575,785	307,724,167
Allowance for impairment	--	(546,500)
Total	**1,002,575,785**	**307,177,667**

As at 31 December 2008, all of the loans and advances to banks are short-term with interest rates ranging between 5%-14% per annum for foreign currency time placements and 32% per annum for UAH time placements (2007: 8%-12% and 5%-12%, respectively).

Specific allowance for impairment

	2008	2007
Balance on 1 January	546,500	--
Impairment loss for the year		
- Charge for the year	--	546,500
- Recoveries and reversals	(546,500)	--
Balance on 31 December	**--**	**546,500**

(Amounts expressed in Ukrainian Hryvnia ("UAH") unless otherwise stated)

15. Loans and advances to customers

As of 31 December 2008 and 2007, all the loans and advances to customers are at amortised cost.

	2008	2007
Corporate customers	747,884,681	194,988,836
Retail customers	191,234,186	19,751,424
SME customers	159,022,075	10,903,763
Gross amount	**1,098,140,942**	**225,644,023**
Allowance for impairment	(58,826,856)	(3,560,986)
Carrying amount	**1,039,314,086**	**222,083,037**

As at 31 December 2008, interest rates on loans granted to customers range between 4%-24% (31 December 2007: 7%-21%) per annum for the foreign currency denominated loans and 11%-54% (31 December 2007: 18%-39%) per annum for the UAH loans.

The provision for possible losses is comprised of amounts for specifically identified as being impaired and non-performing loans and advances and a further portfolio-basis amount considered adequate to cover the residual inherent risk of loss present in the lending relationships presently performing in accordance with agreements made with borrowers. The amount of the portfolio basis allowance is UAH 35,662,429 (31 December 2007: UAH 3,560,986).

Allowance for impairment including the portfolio basis allowances

	2008	2007
Balance on 1 January	3,560,986	--
Impairment loss for the year		
- Charge for the year	55,265,870	3,560,986
- Recoveries and reversals	--	--
Balance on 31 December	**58,826,856**	**3,560,986**

Movement in the portfolio basis allowance

	2008	2007
Balance on 1 January	3,560,986	--
Net change in provision for the period, net	32,102,587	3,560,986
Balance on 31 December	**35,663,573**	**3,560,986**

(Amounts expressed in Ukrainian Hryvnia ("UAH") unless otherwise stated)

16. Investment securities

	Interest rate %	Latest maturity	2008 Carrying amount	2007 Carrying amount
Held-to-maturity investment securities				
- Government bonds	28	2009	125,650,685	--
Available-for-sale investment securities				
- Corporate bonds	13 - 19	2011	94,922,058	157,906,916
- Debt securities issued by banks	13 - 20	2012	66,612,333	89,694,590
Balance on 31 December			**287,185,076**	**247,601,506**

Specific allowances for impairment against available-for-sale investment securities:

	2008	2007
Balance on 1 January	--	--
Impairment loss for the year		
- Charge for the year	7,764,000	--
Balance on 31 December	**7,764,000**	--

The Bank provided specific impairment amounting to UAH 7,764,000 for a corporate bond whose issuer declared bankruptcy on December 2008.

17. Property and equipment

	Furniture and fixtures	Motor vehicles	Leasehold improvements	Total
Cost				
Balance on 1 January 2007	--	--	--	--
Additions	8,160,041	3,076,969	8,870,991	20,108,001
Balance on 31 December 2007	**8,160,041**	**3,076,969**	**8,870,991**	**20,108,001**
Balance on 1 January 2008	8,160,041	3,076,969	8,870,991	20,108,001
Additions	13,966,017	1,115,681	20,973917	36,055,615
Balance on 31 December 2008	**22,126,058**	**4,192,650**	**29,844,908**	**56,163,616**
Depreciation				
Balance on 1 January 2007	--	--	--	--
Depreciation for the year	1,067,542	321,892	--	1,389,434
Balance on 31 December 2007	**1,067,542**	**321,892**	--	**1,389,434**
Balance on 1 January 2008	1,067,542	321,892	--	1,389,434
Depreciation for the year	3,071,206	694,310	3,706,688	7,472,204
Balance on 31 December 2008	**4,138,748**	**1,016,202**	**3,706,688**	**8,861,638**
Carrying amounts				
Balance on 1 January 2007	--	--	--	--
Balance on 31 December 2007	7,092,499	2,755,077	8,870,991	**18,718,567**
Balance on 31 December 2008	17,987,310	3,176,448	26,138,220	**47,301,978**

(Amounts expressed in Ukrainian Hryvnia ("UAH") unless otherwise stated)

18. Intangible assets

	Patent and licenses	Other intangibles	Total
Cost			
Balance on 1 January 2007	--	--	--
Additions	650,949	964,091	1,615,040
Balance on 31 December 2007	**650,949**	**964,091**	**1,615,040**
Balance on 1 January 2008	650,949	964,091	1,615,040
Additions	73,650	3,759,540	3,833,190
Balance on 31 December 2008	**724,599**	**4,723,631**	**5,448,230**
Amortisation			
Balance on 1 January 2007	--	--	--
Amortisation for the year	32,576	99,725	132,301
Balance on 31 December 2007	**32,576**	**99,725**	**132,301**
Balance on 1 January 2008	32,576	99,725	132,301
Amortisation for the year	115,679	424,369	540,048
Balance on 31 December 2008	**148,255**	**524,094**	**672,349**
Carrying amounts			
Balance on 1 January 2007	--	--	--
Balance on 31 December 2007	618,373	864,366	**1,482,739**
Balance on 31 December 2008	576,344	4,199,537	**4,775,881**

During 2008 and 2007, the Bank identified no events or circumstances that would indicate that the Bank's intangible assets may be impaired.

19. Other assets

	2008	2007
Restricted deposits with Central Bank	58,582,180	35,000,000
Prepaid expenses	5,253,441	2,058,086
Advance payments to suppliers	360,503	2,821,572
Others	484,917	52,223
	64,681,041	**39,931,881**

The Bank is required to maintain, in the form of a non-interest earning cash deposit, certain cash reserves with the NBU (obligatory reserve), which are computed as a percentage of certain of the Bank's liabilities. Obligatory reserves are not available for use in the Bank's day to day operations. The Bank should maintain the minimum daily reserve and cumulative average reserve calculated on a daily basis over a monthly period.

The minimum daily reserve and average daily requirement for the period from 1 to 31 December 2008 were UAH 58,582,180 and UAH 61,952,910 (31 December 2007: UAH 12,827,980 and UAH 37,988,130). The Bank meets the NBU obligatory reserve requirements as at 31 December 2008 and 2007.

(Amounts expressed in Ukrainian Hryvnia ("UAH") unless otherwise stated)

20. Deposits from banks

	2008	2007
Domestic banks – UAH	7,981,392	--
Domestic banks – Foreign currency	55,007,635	209,488,986
Foreign banks – Foreign currency	1,835,820,002	948,735,925
	1,898,809,029	**1,158,224,911**

As at 31 December 2008, interest rates applicable to UAH bank deposits and foreign currency bank deposits vary within ranges of 6% and 4%-11% (31 December 2007: foreign currency bank deposits 5%-6%), respectively.

21. Deposits from customers

	2008	2007
Term deposits	191,849,313	40,544,629
Current deposits	45,000,215	32,127,590
	236,849,528	**72,672,219**

As at 31 December 2008, interest rates applicable to UAH deposits and foreign currency deposits vary within ranges of 11%-20% and 6%-13% (31 December 2007: 6%-9% and 5%-7%), respectively.

(Amounts expressed in Ukrainian Hryvnia ("UAH") unless otherwise stated)

22. Other liabilities and provisions

	2008	2007
Unearned commission income	3,648,856	--
Short-term employee benefits	2,077,289	907,450
Finance lease liabilities	637,500	668,115
VAT payables	247,829	--
Payables to suppliers	242,863	177,958
Expense accruals	231,000	--
Provision for non-cash loans	--	380,250
Other	269,215	--
Balance on 31 December	**7,354,552**	**2,133,773**

Movement in the provision for short-term employee benefits are as follows:

	2008	2007
Balance on 1 January	907,450	--
Payments during the year	(2,933,840)	--
Provision for the year	4,103,679	907,450
Balance on 31 December	**2,077,289**	**907,450**

Movement in the provision for non-cash loans are as follows:

	2008	2007
Balance on 1 January	380,250	--
Recoveries and reversals	(380,250)	--
Provision for the year	--	380,250
Balance on 31 December	**--**	**380,250**

Finance lease liabilities are payable as follows:

	2008			2007		
	Future minimum lease payments	**Interest**	**Present value of minimum lease payments**	**Future minimum lease payments**	**Interest**	**Present value of minimum lease payments**
Less than 1 year	197,092	32,643	164,449	195,340	59,366	135,974
Between 1-5 years	524,162	51,111	473,051	607,699	75,558	532,141
More than 5 years	--	--	--	--	--	--
	721,254	**83,754**	**637,500**	**803,039**	**134,924**	**668,115**

(Amounts expressed in Ukrainian Hryvnia ("UAH") unless otherwise stated)

23. Capital and reserves

As of 31 December 2008 and 2007, the composition of shareholders and their respective percentage of ownership are summarised as follows:

	2008		2007	
	Amount	**%**	**Amount**	**%**
CEB N.V.	504,949,500	99,99	329,055,402	99,99
Credit Europe Group N.V.	50,500	0,01	32,909	0,01
Total share capital	**505,000,000**	**100,00**	**329,088,311**	**100,00**

There are no right, preference and restriction on the distribution of dividends and the repayment of capital.

As at 31 December 2008, the authorized, issued and fully paid share capital comprised 505,000,000 ordinary shares (31 December 2007: 329,088,311 ordinary shares), with a nominal value of UAH 1 each.

On 21 April 2008 the shareholders of the Bank decided to issue 175,911,689 additional shares totalling UAH 175,911,689. On 25 November 2008 the NBU registered the increase in the share capital of the Bank.

Reconciliation of movement in capital and reserve:

	Share capital	Fair value reserve	Retained earnings	Total
Balance at 1 January 2007	**329,088,311**	**--**	**--**	**329,088,311**
Total recognised income and expense	--	(239,484)	5,621,297	5,381,813
Balance at 31 December 2007	**329,088,311**	**(239,484)**	**5,621,297**	**334,470,124**
Share capital increase	175,911,689	--	--	175,911,689
Total recognised income and expense	--	(4,658,583)	15,228,711	10,570,128
Balance at 31 December 2008	**505,000,000**	**(4,898,067)**	**20,850,008**	**520,951,941**

(Amounts expressed in Ukrainian Hryvnia ("UAH") unless otherwise stated)

24. Related parties

Parent and ultimate controlling party

The Bank is controlled by CEB N.V. which owns 99.99% of ordinary shares (31 December 2007: 99.99%) and the ultimate beneficial owner is FIBA Holding A.S. a Turkish joint stock company, which is ultimately controlled by a single individual, Mr. Hüsnü Özyegin.

Compensation of key management personnel of the Bank

Total salaries and other benefits paid to the Board of Members and top management during the year is UAH 3,447,042 (31 December 2007: UAH 562,504).

Balances with related parties

	2008	**2007**
Cash and cash equivalents	38,673,612	261,371
Loans and advances to customers	6,172,349	4,559,483
Other assets	3,600	201,500
Deposits from banks	1,835,820,002	964,867,798
Deposits from customers	185,683,776	38,104,716
Finance lease liabilities	637,500	670,017

Off balance sheet balances with related parties

	2008	**2007**
Letters of guarantees issued	1,001,816	--
Revocable liabilities to grant a loan	42,806,295	--

Transactions with related parties

	2008	**2007**
Interest income on loans	561,733	154,036
Fee and commission income	48,193	34,140
Interest expense	73,294,974	16,338,782
Fee and commission expense	2,245,107	376,762
Other expenses	--	206,091

25. Commitments and contingencies

	2008	**2007**
Letters of guarantees issued	135,844,828	37,875,000
Irrevocable liabilities to grant a loan (overdraft limits)	--	150,000
Total non-cash loans	**135,844,828**	**38,025,000**
Revocable liabilities to grant a loan	406,403,752	77,015,512
Total commitments and contingencies	**542,248,580**	**115,040,512**

(Amounts expressed in Ukrainian Hryvnia ("UAH") unless otherwise stated)

25. Commitments and contingencies *(continued)*

Contingent liabilities in respect of tax, currency and customs legislation

Tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Bank may be challenged by the relevant local and central authorities. Tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years proceeding the year of review. Under certain circumstances reviews may cover longer periods.

Ukrainian tax legislation does not provide definitive guidance in certain areas. From time to time, the Bank adopts interpretations of such uncertain areas that reduce the overall tax rate of the Bank. Such tax positions may come under scrutiny. The impact of any challenge by the tax authorities cannot be reliably estimated; however, it may be significant to the financial condition and/or the overall operations of the Bank.

The Bank's Management believes that its interpretation of the relevant legislation is appropriate and the Bank's tax position will be sustained. Accordingly, as at 31 December 2008 no provision for potential tax liabilities had been recorded (31 December 2007: no provision).

26. Lease commitments

Non-cancellable operating lease rentals are payable as follows:

	2008	2007
Less than one year	31,275,659	9,693,802
Between one and five years	48,799,195	11,435,182
More than five years	--	--
Balance on 31 December	**80,074,854**	**21,128,984**

27. Subsequent events

None.