Joint-Stock Bank
"ING Bank Ukraine"

Financial Statements

Year ended 31 December 2008
Together with Independent Auditors' Report

CONTENTS

INDEPENDENT AUDITORS' REPORT

FINANCIAL STATEMENTS

NOTES TO FINANCIAL STATEMENTS

INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDER AND THE BOARD OF DIRECTORS OF JOINT STOCK BANK "ING BANK UKRAINE"

We have audited the accompanying financial statements of Joint Stock Bank "ING Bank Ukraine" (the "Bank"), which comprise the balance sheet as at 31 December 2008 and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, 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 ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2008, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young Audit Services LLC

15 May 2009

BALANCE SHEET
As at 31 December 2008

(Thousands of Ukrainian hryvnias)

	Notes	*2008*	*2007*
Assets			
Cash and cash equivalents	5	1,781,590	1,228,307
Trading securities	6	310,418	351,681
Trading securities pledged under repurchase agreements	7	47,665	349,836
Amounts due from credit institutions	8	222,374	244,574
Loans to customers	9	7,070,372	3,167,697
Investment securities available-for-sale	10	3,026	202,097
Property and equipment	11	76,886	13,253
Intangible assets	12	17,936	527
Deferred income tax assets	13	34,103	12,006
Other assets	15	38,974	13,969
Total assets		**9,603,344**	**5,583,947**
Liabilities			
Amounts due to credit institutions	16	5,601,260	1,849,935
Amounts received under trust operations	17	328,136	914,095
Amounts due to customers	18	2,072,843	2,089,421
Current income tax liability		12,252	6,035
Other liabilities	15	68,995	76,433
Subordinated debt	19	41,580	27,377
Prepaid contribution into share capital	20	651,328	-
Total liabilities		**8,776,394**	**4,963,296**
Equity			
Share capital	21	325,042	325,042
Retained earnings		501,908	295,609
Total equity		**826,950**	**620,651**
Total equity and liabilities		**9,603,344**	**5,583,947**

Signed and authorised for release on behalf of the Management Board of the Bank

Chairman of the Board J.F.Grisel

Chief Financial Officer S.Sokolov

15 May 2009

The accompanying notes on pages 5 to 37 are an integral part of these financial statements.

INCOME STATEMENT
For the year ended 31 December 2008

(Thousands of Ukrainian hryvnia)

	Notes	2008	2007
Interest income			
Loans to customers		437,393	186,186
Amounts due from credit institutions		50,446	14,329
Securities available-for-sale		1,380	2,368
		489,219	202,883
Trading securities and securities pledged under repurchase agreements		107,421	72,874
		596,640	275,757
Interest expense			
Amounts due to customers		(61,154)	(28,999)
Amounts due to credit institutions		(126,763)	(39,497)
Subordinated debt		(857)	(1,522)
		(188,774)	(70,018)
Net interest income		**407,866**	**205,739**
Allowance for loan impairment	9	(20,260)	-
Net interest income after allowance for loan impairment		**387,606**	**205,739**
Net fee and commission income	23	8,951	49,959
Gains less losses from trading securities		(18,628)	(24,125)
Gains less losses from foreign currencies:		143,314	29,635
- dealing		165,390	27,622
- translation differences		(22,076)	2,013
Other income	24	6,690	4,197
Non-interest income		**140,327**	**59,666**
Personnel expenses	25	(120,403)	(58,762)
Depreciation and amortisation	11,12	(16,329)	(4,180)
Other administrative and operating expenses	25	(118,167)	(44,956)
Other impairment and provisions	14	(734)	(668)
Non-interest expense		**(255,633)**	**(108,566)**
Profit before income tax expense		**272,300**	**156,839**
Income tax expense	13	(66,001)	(38,257)
Profit for the year		**206,299**	**118,582**

The accompanying notes on pages 5 to 37 are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2008

(Thousands of Ukrainian hryvnia)

	Share capital	*Retained earnings*	*Total*
31 December 2006	**325,042**	**177,027**	**502,069**
Profit for the year		118,582	118,582
31 December 2007	**325,042**	**295,609**	**620,651**
Profit for the year	-	206,299	206,299
31 December 2008	**325,042**	**501,908**	**826,950**

The accompanying notes on pages 5 to 37 are an integral part of these financial statements.

CASH FLOW STATEMENT
For the year ended 31 December 2008

(Thousands of Ukrainian hryvnia)

	Notes	*2008*	*2007*
Cash flows from operating activities			
Interest received		591,901	255,930
Interest paid		(144,044)	(64,853)
Fees and commissions received		84,357	77,149
Fees and commissions paid		(74,747)	(25,976)
Gains less losses from trading securities		(38,042)	(24,125)
Realised gains less losses from dealing in foreign currencies		165,390	29,635
Gains less losses from derivatives financial instruments		25,375	-
Other income received		6,690	4,199
Personnel expenses paid		(106,666)	(59,064)
Other operating expenses paid		(98,689)	(44,654)
Cash flows from operating activities before changes in operating assets and liabilities		**411,525**	**148,241**
Net increase in operating assets			
Trading securities and securities pledged under repurchase agreements		318,431	(206,416)
Amounts due from credit institutions		73,684	(183,824)
Loans to customers		(1,472,339)	(1,175,500)
Other assets		(22,536)	(9,522)
Net increase in operating liabilities			
Amounts due to credit institutions		2,042,415	999,807
Amounts due to customers		(1,402,210)	1,055,624
Other liabilities		(61,631)	54,494
Net cash flows (used in) / from operating activities before income tax		**(112,661)**	**687,904**
Income tax paid		(81,881)	(45,994)
Net cash (used in) / from operating activities		**(194,542)**	**641,910**
Cash flows from investing activities			
Proceeds from sale and redemption of available-for-sale securities		203,452	85,442
Purchase of available-for-sale securities		(3,000)	(285,000)
Purchase of property, equipment and intangible assets		(99,067)	(9,355)
Proceeds from sale of property and equipment		-	108
Net cash from / (used in) investing activities		**101,385**	**(208,805)**
Cash flows from financing activities			
Prepaid contribution into the share capital		439,896	-
Net cash from financing activities		**439,896**	-
Effect of exchange rates changes on cash and cash equivalents		206,544	-
Net increase in cash and cash equivalents		**553,283**	**433,105**
Cash and cash equivalents, beginning		**1,228,307**	**795,202**
Cash and cash equivalents, ending	5	**1,781,590**	**1,228,307**

The accompanying notes on pages 5 to 37 are an integral part of these financial statements.

(Thousands of Ukrainian hryvnia, unless otherwise indicated)

1. Principal activities

Joint-Stock Bank "ING Bank Ukraine" (hereinafter – the Bank) was created as a closed joint-stock company according to the Ukrainian legislation and was registered by the National Bank of Ukraine (the "NBU") on 15 December 1997. The Bank is a wholly owned subsidiary of ING Bank N.V.

The Bank specialises in providing banking services to leading Ukrainian and foreign companies and banks. These services include lending, trade finance, payments and cash, custody and other services. The Bank also opens accounts and offers fixed-term liability products to legal entities and individuals. The Bank operates under a general banking license issued by the National Bank of Ukraine. The Bank also has securities trading, depositary and custodian licenses issued by the State Commission on Securities and Stock Market and is a member of the state deposit insurance scheme in Ukraine.

The activities are conducted principally in Ukraine, although the Bank also conducts transactions on international markets.

The head office is located at 30-A Spasskaya str., Kyiv, Ukraine.

2. Basis of preparation

General

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

The Bank is required to maintain its books of account in Ukrainian hryvnia and prepare statements for regulatory purposes in accordance with the "Regulations on the Organisation of Accounting and Reporting for Ukrainian Banking Institutions" issued by the National Bank of Ukraine and in accordance with Ukrainian Accounting Standards ("UAS"). These financial statements are based on the Bank's UAS books and records, as adjusted and reclassified in order to comply with IFRS.

The financial statements are prepared under the historical cost convention except as disclosed in the accounting policies below. For example, trading, available-for-sale securities and derivatives are measured at fair value.

These financial statements are presented in thousands of Ukrainian hryvnia ("UAH") unless otherwise indicated.

Inflation accounting

The Ukrainian economy was considered hyperinflationary until 31 December 2000. As such, the Bank has applied IAS 29 "Financial accounting in hyperinflationary economies". The effect of applying IAS 29 is that non-monetary items, including components of equity, were restated to the measuring units current at 31 December 2000 by applying the Consumer Price Indexes to the historical cost, and that these restated values were used as a basis for accounting in subsequent accounting periods.

Reclassifications

The following reclassifications have been made to the 2007 balances to conform to the 2008 presentation.

	Previously reported	*As reclassified*	*Comment*
7,709	Cash	Cash and Cash equivalents	To achieve better presentation
287,459	Balances with the National Bank of Ukraine	Cash and Cash equivalents	To achieve better presentation
933,139	Amounts due from credit institutions	Cash and Cash equivalents	To achieve better presentation
202,071	Financial assets at fair value through profit and loss	Investment securities available-for-sale	Reclassification based on the substance
351,707	Financial assets at fair value through profit and loss	Trading securities	Reclassification based on the substance
349,836	Amounts receivable under reverse repurchase agreements	Trading securities pledged under repurchase agreements	Reclassification based on the substance
527	Property, equipment and intangible assets	Intangible assets	To achieve better presentation
1,674,310	Current accounts	Amounts due to customers	To achieve better presentation
415,111	Deposits	Amounts due to customers	To achieve better presentation
914,095	Other liabilities	Amounts received under trust operations	To achieve better presentation

(Thousands of Ukrainian hryvnia, unless otherwise indicated)

3. Summary of significant accounting policies

Changes in accounting policies

The Bank has adopted the following amended IFRS and new IFRIC Interpretations during the year. The principal effects of these changes are as follows:

IFRIC 11 "IFRS 2 - Group and Treasury Share Transactions"
IFRIC Interpretation 11 became effective for annual periods beginning on or after 1 March 2007 and requires arrangements whereby an employee is granted rights to an entity's equity instruments to be accounted for as an equity-settled scheme, even if the entity buys the instruments from another party, or the shareholders provide the equity instruments needed. This Interpretation has no impact on the financial position or performance of the Bank.

IFRIC 12 "Service Concession Arrangements"
IFRIC Interpretation 12 was issued in November 2006 and became effective for annual periods beginning on or after 1 January 2008. This Interpretation applies to service concession operators and explains how to account for the obligations undertaken and rights received in service concession arrangements. The Bank is not an operator and hence this Interpretation has no impact on the financial position or performance of the Bank.

IFRIC 14 "IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction"
IFRIC Interpretation 14 was issued in July 2007 and became effective for annual periods beginning on or after 1 January 2008. This Interpretation provides guidance on how to assess the limit on the amount of surplus in a defined benefit scheme that can be recognised as an asset under IAS 19 Employee Benefits. This Interpretation has no impact on the financial position or performance of the Bank.

Reclassification of Financial Assets – Amendments to IAS 39 "Financial instruments: Recognition and measurement" and IFRS 7 "Financial instruments: Disclosures"
Amendments to IAS 39 and IFRS 7 were issued on 13 October 2008 and allow reclassification of non-derivative financial assets out of the held for trading category in particular circumstances. The amendments also allow transfer of certain financial assets from the available for sale category to loans and receivables category. The effective date of those amendments is 1 July 2008. Any reclassification made in periods beginning on or after 1 November 2008 shall take effect only from the date when the reclassification is made. The Bank did not reclassify any financial assets from held for trading or available for sale categories and hence these amendments did not have any impact on the financial position or performance of the Bank.

Financial assets

Initial recognition

Financial assets in the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Bank determines the classification of its financial assets upon initial recognition, and subsequently can reclassify financial assets in certain cases as described below.

Date of recognition

All regular way purchases and sales of financial assets are recognised on the trade date i.e. the date that the Bank commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial assets at fair value through profit or loss

Financial assets classified as held for trading and those designated at fair value through profit or loss at inception are included in the category 'financial assets at fair value through profit or loss'. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives are also classified as held for trading unless they are designated and effective hedging instruments. Gains or losses on financial assets at fair value through profit or loss are recognised in the income statement.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as trading securities or designated as investment securities available-for-sale. Such assets are carried at amortised cost using the effective interest rate method. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

(Thousands of Ukrainian hryvnia, unless otherwise indicated)

3. Summary of significant accounting policies (continued)

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments. After initial recognition available-for-sale financial assets are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the income statement. However, interest calculated using the effective interest rate method is recognised in the income statement.

Investments in equity instruments that do not have a quoted market price in an active market are measured at cost less any allowance for impairment.

Determination of fair value

The fair value for financial instruments traded in active market at the balance sheet date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist, options pricing models and other relevant valuation models.

Offsetting

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

Reclassification of financial assets

If a non-derivative financial asset classified as held for trading is no longer held for the purpose of selling in the near term, it may be reclassified out of the fair value through profit or loss category in one of the following cases:

- a financial asset that would have met the definition of loans and receivables above may be reclassified to loans and receivables category if the Bank has the intention and ability to hold it for the foreseeable future or until maturity;
- other financial assets may be reclassified to available-for-sale or held-to-maturity categories only in rare circumstances.

A financial asset classified as available-for-sale that would have met the definition of loans and receivables may be reclassified to loans and receivables category if the Bank has the intention and ability to hold it for the foreseeable future or until maturity.

Financial assets are reclassified at their fair value on the date of reclassification. Any gain or loss already recognised in profit or loss is not reversed. The fair value of the financial asset on the date of reclassification becomes its new cost or amortised cost, as applicable.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, amounts due from the NBU, and amounts due from credit institutions that mature within ninety days of the date of origination and are free from contractual encumbrances.

Repurchase and reverse repurchase agreements and securities lending

Sale and repurchase agreements ("repos") are treated as secured financing transactions. Securities sold under sale and repurchase agreements are retained in the balance sheet and, in case the transferee has the right by contract or custom to sell or repledge them, reclassified as securities pledged under sale and repurchase agreements. The corresponding liability is presented within amounts due to credit institutions or customers. Securities purchased under agreements to resell ("reverse repo") are recorded as amounts due from credit institutions or loans to customers as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of repo agreements using the effective yield method.

Securities lent to counterparties are retained in the financial statements. Securities borrowed are not recorded in the financial statements, unless these are sold to third parties, in which case the purchase and sale are recorded within gains less losses from trading securities in the income statement. The obligation to return them is recorded at fair value as a trading liability.

(Thousands of Ukrainian hryvnia, unless otherwise indicated)

3. Summary of significant accounting policies (continued)

Derivative financial instruments

In the normal course of business, the Bank enters into various derivative financial instruments including forwards in the foreign exchange market. Such financial instruments are held for trading and recorded at fair value. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Gains and losses resulting from these instruments are included in the income statement as gains less losses from trading securities or gains less losses from foreign currencies dealing, depending on the nature of the instrument.

Borrowings

Issued financial instruments or their components are classified as liabilities, where the substance of the contractual arrangement results in the Bank having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity instruments. Such instruments include amounts due to credit institutions, amounts due to customers, amounts received under trust operations and subordinated debt. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in the income statement when the borrowings are derecognised as well as through the amortisation process.

If the Bank purchases its own debt, it is removed from the balance sheet and the difference between the carrying amount of the liability and the consideration paid is recognised in the income statement.

Leases

Operating – Bank as lessee

Leases of assets under which the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. Lease payments under an operating lease are recognised as expenses on a straight-line basis over the lease term and included into other operating expenses.

Operating – Bank as lessor

The Bank presents assets subject to operating leases in the balance sheet according to the nature of the asset. Lease income from operating leases is recognised in the income statement on a straight-line basis over the lease term as other income. The aggregate cost of incentives provided to lessees is recognised as a reduction of rental income over the lease term on a straight-line basis. Initial direct costs incurred specifically to earn revenues from an operating lease are added to the carrying amount of the leased asset.

Impairment of financial assets

The Bank assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

(Thousands of Ukrainian hryvnia, unless otherwise indicated)

3. Summary of significant accounting policies (continued)

Impairment of financial assets (continued)

Amounts due from credit institutions and loans to customers

For amounts due from credit institutions and loans to customers carried at amortised cost, the Bank first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risks characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is an objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Bank. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the income statement.

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

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Bank's internal credit grading system that considers credit risk characteristics such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors.

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

Available-for-sale financial assets

For available-for-sale financial assets, the Bank assesses at each balance sheet date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition coast and the current fair value, less any impairment loss on that investment previously recognised in the income statement – is removed from equity and recognised in the income statement. Impairment losses on equity investments are not reversed through the income statement; increases in their fair value after impairment are recognised directly in equity.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed through the income statement.

(Thousands of Ukrainian hryvnia, unless otherwise indicated)

3. Summary of significant accounting policies (continued)

Impairment of financial assets (continued)

Renegotiated loans

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original or current effective interest rate.

Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Bank has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; and
- the Bank either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Bank's continuing involvement is the amount of the transferred asset that the Bank [Group] may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Bank's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

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

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the income statement.

Financial guarantees

In the ordinary course of business, the Bank gives financial guarantees, consisting of letters of credit, guarantees and avals. Financial guarantees are initially recognised in the financial statements at fair value, in 'Other liabilities', being the premium received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amortised premium and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is taken to the income statement. The premium received is recognised in the income statement on a straight-line basis over the life of the guarantee.

(Thousands of Ukrainian hryvnia, unless otherwise indicated)

3. Summary of significant accounting policies (continued)

Taxation

The current income tax charge is calculated in accordance with Ukrainian taxation regulations.

Deferred tax assets and liabilities are calculated in respect of temporary differences using the liability method. Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, except where the deferred income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Ukraine also has various operating taxes, which are assessed on the Bank's activities. These taxes are included as a component of administrative and operating expenses.

Property and equipment

Leasehold improvements and equipment is carried at cost excluding the costs of day-to-day servicing, less accumulated depreciation and any accumulated impairment.

The carrying values of equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

Depreciation of an asset begins when it is available for use. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

	Years
Computer and related equipment	4 years
Furniture, fixtures and other equipments	4 years

Leasehold improvements (restructuring costs for premises in lease contract) are depreciated over a period not exceeding the leasing period.

The asset's residual values, useful lives and methods are reviewed, and adjusted as appropriate, at each financial year-end.

Costs related to repairs and renewals are charged when incurred and included in other operating and administrative expenses unless they qualify for capitalisation.

Intangible assets

Intangible assets include acquired computer software and licences. Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic lives of three years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation periods and methods for intangible assets with finite useful lives are reviewed at least at each financial year-end.

Provisions

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of obligation can be made.

(Thousands of Ukrainian hryvnia, unless otherwise indicated)

3. Summary of significant accounting policies (continued)

Employee benefits

Pensions are provided by the State. Mandatory contributions are made by the Bank and employees based on the earnings of the employees. The cost of these contributions is recognised in the income statement when contributions are due and is recorded as expenses under "Personnel expenses".

Fiduciary assets

The Bank provides custody, trust, asset management and other fiduciary services that result in holding or placing of assets on behalf of third parties. These assets and income arising thereon are excluded from these financial statements as they are not assets of the Bank.

Share capital

Ordinary shares are classified as equity. Share capital contributions received before 31 December 2000 are recognised at restated cost following the application of IAS 29 "Financial Reporting in Hyperinflationary Economies".

Contingencies

Contingent liabilities are not recognised in the balance sheet but are disclosed unless the possibility of any outflow in settlement is not remote. A contingent asset is not recognised in the balance sheet but disclosed when an inflow of economic benefits is probable.

Recognition of income and expense

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Interest and similar income and expense

For all financial instruments measured at amortised cost and interest bearing securities classified as trading or available-for-sale, interest income or expense is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the original effective interest rate applied to the new carrying amount.

Fee and commission income

The Bank earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

- Fee income earned from services that are provided over a certain period of time

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and asset management, custody and other management and advisory fees. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the effective interest rate on the loan.

- Fee income from providing transaction services

Fees arising from negotiating or participating in the negotiation of a transaction for a third party – such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses – are recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

(Thousands of Ukrainian hryvnia, unless otherwise indicated)

3. Summary of significant accounting policies (continued)

Foreign currency translation

The financial statements are presented in Ukrainian hryvnia ("UAH"), which is the Bank's functional and presentation currency. Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. Gains and losses resulting from the translation of foreign currency transactions are recognised in the income statement as gains less losses from foreign currencies and precious metals – translation differences. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Differences between the contractual exchange rate of a transaction in a foreign currency and the NBU exchange rate on the date of the transaction are included in gains less losses from dealing in foreign currencies. The official NBU exchange rates at 31 December 2008 and 2007, were UAH 7.70 and UAH 5.05 to 1 US dollar and UAH 10.85546 and UAH 7.41946 to 1 Euro, respectively. As at 15 May 2009, the official NBU exchange rates were UAH 7.6235 to 1 US dollar and UAH 10.339753 to 1 euro.

Future changes in accounting policies

Standards and interpretations issued but not yet effective

Improvements to IFRS
In May 2008, the IASB issued amendments to IFRS, which resulted from the IASB's annual improvements project. They comprise amendments that result in accounting changes for presentation, recognition or measurement purposes as well as terminology or editorial amendments related to a variety of individual IFRS standards. Most of the amendments are effective for annual periods beginning on or after 1 January 2009, with earlier application permitted. The Bank is currently evaluating the potential impact that the adoption of the amendments will have on its financial statements.

IAS 1 "Presentation of Financial Statements" (Revised)
A revised IAS 1 was issued in September 2007, and becomes effective for annual periods beginning on or after 1 January 2009. This revised Standard separates owner and non-owner changes in equity. The statement of changes in equity will include only details of transactions with owners, with non-owner changes in equity presented as a single line. In addition, the Standard introduces the statement of comprehensive income: it presents all items of recognised income and expense, either in one single statement, or in two linked statements. The Bank is still evaluating whether it will have one or two statements.

IAS 23 "Borrowing Costs" (Revised)
A revised IAS 23 Borrowing costs was issued in March 2007, and becomes effective for financial years beginning on or after 1 January 2009. The standard has been revised to require capitalisation of borrowing costs when such costs relate to a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. In accordance with the transitional requirements in the Standard, the Bank will adopt this as a prospective change. Accordingly, borrowing costs will be capitalised on qualifying assets with a commencement date after 1 January 2009. No changes will be made for borrowing costs incurred to this date that have been expensed.

Amendments to IAS 32 "Financial Instruments: Presentation" and IAS 1 "Presentation of Financial Statements" – Puttable Financial Instruments and Obligations Arising on Liquidation
These amendments were issued in February 2008, and become effective for annual periods beginning on or after 1 January 2009. The amendments require puttable instruments that represent a residual interest in an entity to be classified as equity, provided they satisfy certain conditions. These amendments will have no impact on the Bank.

Amendment to IAS 39 "Financial Instruments: recognition and measurement" – Eligible Hedged Items
The amendment to IAS 39 was issued in August 2008, and becomes effective for annual periods beginning on or after 1 July 2009. The amendment addresses the designation of a one-sided risk in a hedged item, and designation of inflation as a hedged risk or portion in particular situations. It clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as hedged item. Management does not expect the amendment to IAS 39 to affect the Bank's financial statements as the Bank has not entered into any such hedges.

(Thousands of Ukrainian hryvnia, unless otherwise indicated)

3. Summary of significant accounting policies (continued)

Future change in accounting policies (continued)

Amendments to IFRS 1 "First-time Adoption of IFRSs" and IAS 27 "Consolidated and Separate Financial Statements" - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
These amendments were issued in May 2008, and become effective for annual periods beginning on or after 1 January 2009. The revision to IAS 27 will have to be applied prospectively. The amendments to IFRS 1 allow an entity to determine the cost of investments in a subsidiary, jointly controlled entity or associate in its opening IFRS financial statements in accordance with IAS 27 or using a deemed cost. The amendment to IAS 27 requires all dividends from a subsidiary, jointly controlled entity or associate to be recognised in the income statement in the separate financial statements. The new requirements affect only the parent's separate financial statements and do not have an impact on the financial statements of the Bank.

Amendments to IFRS 2 "Share-based Payment"- Vesting Conditions and Cancellations
Amendment to IFRS 2 were issued in January 2008 and become effective for annual periods beginning on or after 1 January 2009. This amendment clarifies the definition of vesting conditions and prescribes the accounting treatment of an award that is effectively cancelled because a non-vesting condition is not satisfied. This amendment will have no impact on the financial position or performance of the Bank.

IFRS 3 "Business Combinations" (revised in January 2008) and IAS 27 "Consolidated and Separate Financial Statements" (revised in January 2008)
The revised standards were issued in January 2008 and become effective for financial years beginning on or after 1 July 2009. Revised IFRS 3 introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results. Revised IAS 27 requires that a change in the ownership interest of a subsidiary is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give raise to a gain or loss. Furthermore, the revised standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes introduced by the revised Standards must be applied prospectively and will affect only future acquisitions and transactions with minority interests.

IFRS 8 "Operating Segments"
IFRS 8 becomes effective for annual periods beginning on or after 1 January 2009. This Standard requires disclosure of information about the Bank's operating segments and replaces the requirement to determine primary (business) and secondary (geographical) reporting segments of the Bank. Adoption of this Standard will not have any impact on the financial position or performance of the Bank as the Bank does not have any traded debt or equity and is not going to be public in the near future.

IFRIC 13 "Customer Loyalty Programmes"
IFRIC Interpretation 13 was issued in June 2007 and becomes effective for annual periods beginning on or after 1 July 2008. This interpretation requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted and therefore part of the fair value of the consideration received is allocated to the award credits and deferred over the period that the award credits are fulfilled. The Bank expects that this interpretation will have no impact on the Bank's financial statements as no such schemes currently exist.

IFRIC 15 "Agreements for the Construction of Real Estate"
IFRIC Interpretation 15 was issued in July 2008 and is applicable retrospectively for annual periods beginning on or after 1 January 2009. IFRIC 15 clarifies when and how revenue and related expenses from the sale of a real estate unit should be recognised if an agreement between a developer and a buyer is reached before the construction of the real estate is completed. The interpretation also provides guidance on how to determine whether an agreement is within the scope of IAS 11 "Construction Contracts" or IAS 18 "Revenue" and supersedes the current guidance for real estate in the Appendix to IAS 18. The Bank expects that this interpretation will have no impact on the Bank's financial statements.

IFRIC 16 "Hedges of a Net Investment in a Foreign Operation"
IFRIC Interpretation 16 was issued in July 2008 and is applicable for annual periods beginning on or after 1 October 2008. This interpretation provides guidance on identifying the foreign currency risks that qualify for hedge accounting in the hedge of net investment, where within the group the hedging instrument can be held and how an entity should determine the amount of foreign currency gain or loss, relating to both the net investment and the hedging instrument, to be recycled on disposal of the net investment. The Bank expects that this interpretation will have no impact on the Bank's financial statements.

(Thousands of Ukrainian hryvnia, unless otherwise indicated)

3. Summary of accounting policies (continued)

Future changes in accounting policies (continued)

IFRIC 17 "Distribution of Non-Cash Assets to Owners"
IFRIC Interpretation 17 was issued on 27 November 2008 and is effective for annual periods beginning on or after 1 July 2009. IFRIC 17 applies to pro rata distributions of non-cash assets except for common control transactions and requires that a dividend payable should be recognised when the dividend is appropriately authorised and is no longer at the discretion of the entity; an entity should measure the dividend payable at the fair value of the net assets to be distributed; an entity should recognise the difference between the dividend paid and the carrying amount of the net assets distributed in profit or loss. The Interpretation also requires an entity to provide additional disclosures if the net assets being held for distribution to owners meet the definition of a discontinued operation. The Bank expects that this interpretation will have no impact on the Bank's financial statements.

IFRIC 18 "Transfers of Assets from Customers"
IFRIC 18 was issued in January 2009 and becomes effective for financial years beginning on or after 1 July 2009 with early application permitted, provided valuations were obtained at the date those transfers occurred. This interpretation should be applied prospectively. IFRIC 18 provides guidance on accounting for agreements in which an entity receives from a customer an item of property, plant and equipment that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services or to do both. The interpretation clarifies the circumstances, in which the definition of an asset is met, the recognition of the asset and its measurement on initial recognition, the identification of the separately identifiable services, the recognition of revenue and the accounting for transfers of cash from customers. IFRIC 18 will have no impact on the financial position or performance of the Bank, as the Bank does not receive assets from customers.

4. Significant accounting judgements and estimates

Judgements

In the process of applying the Bank's accounting policies, management has made the following judgements, apart from those involving estimates, which have the most significant effect on the amounts recognised in the consolidated financial statements:

Classification of securities

Securities owned by the Bank comprise Ukrainian State and corporate bonds, deposit certificates issued by the National Bank of Ukraine and corporate shares. Upon initial recognition, the Bank designates securities as financial assets with recognition of changes in fair value through profit or loss, or available-for-sale financial assets with recognition of changes in fair value through equity.

Estimation uncertainty

In the process of applying the Bank's accounting policies, management has used its judgements and made estimates in determining the amounts recognised in the financial statements. The most significant use of judgements and estimates are as follows:

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded on the balance sheet cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values.

Allowance for impairment of loans and receivables

The Bank regularly reviews its loans and receivables to assess impairment. The Bank uses its judgement to estimate the amount of any impairment loss in cases where a borrower is in financial difficulties and there is little available historical data relating to similar borrowers. Similarly, the Bank estimates changes in future cash flows based on the observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of loans and receivables. The Bank uses its judgement to adjust observable data for a group of loans or receivables to reflect current circumstances.

(Thousands of Ukrainian hryvnia, unless otherwise indicated)

4. Significant accounting judgements and estimates (continued)

Deferred tax asset recognition

As at 31 December 2008, the Bank has recognised a deferred tax asset of UAH 34,103 thousand (2007: UAH 15,170 thousand). Management believes that this will be utilised within a reasonable period against taxable profits.

5. Cash and cash equivalents

Cash and cash equivalents comprise:

	2008	*2007*
Cash on hand	25,806	7,709
Current accounts with the National Bank of Ukraine	332,861	287,459
Current accounts with other credit institutions	1,369,251	933,139
Overnight deposits placed	53,672	-
Cash and cash equivalents	**1,781,590**	**1,228,307**

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

There are no restrictions on the withdrawal of funds from the NBU, however, if minimum average reserve requirements are not met, the Bank could be subject to certain penalties. The Bank was obligated to and maintained the minimal cumulative average reserve calculated on a daily basis over a monthly period. The average daily requirement for the period from 1 to 31 December 2008 was UAH 233,341 thousand (2007: UAH 73,139 thousand). The Bank meets the NBU obligatory reserve requirements as at 31 December 2008 and 2007.

As at 31 December 2008, included in current accounts with other credit institutions is an amount of UAH 1,241,220 thousand placed on current accounts with two OECD banks (2007: UAH 826,708 thousand). These banks are the main counterparties of the Bank in performing international settlements. The placements have made under normal banking terms and conditions.

As at 31 December 2008, overnight deposits represent an overnight deposit placed with one OECD bank (2007: none). This placement bears a market interest rate.

6. Trading securities

Trading securities owned comprise:

	2008	*2007*
Corporate bonds	286,116	311,777
Ukrainian State bonds	21,593	3,773
Municipal bonds	2,709	36,131
Trading securities	**310,418**	**351,681**

7. Trading securities pledged under repurchase agreements

As at 31 December 2008 and 2007, trading securities pledged under repurchase agreements relate to interest bearing bonds issued by the Ukrainian government and Ukrainian enterprises acquired by the Bank and pledged subsequent to 31 December 2008 and 2007, respectively.

8. Amounts due from credit institutions

As at 31 December 2008, amounts due from credit institutions comprise time deposits with Ukrainian banks and one CIS bank of UAH 222,374 thousand (2007: UAH 244,574 thousand).

As at 31 December 2008, included in amounts due from credit institutions is UAH 202,402 thousand (2007 – UAH 192,285 thousand) of loans and deposits placed with five Ukrainian banks.

(Thousands of Ukrainian hryvnia, unless otherwise indicated)

9. Loans to customers

Loans to customers comprise:

	2008	*2007*
Commercial	6,833,541	2,774,549
Overdrafts	115,737	357,841
Retail	141,354	35,307
Gross loans to customers	**7,090,632**	**3,167,697**
Less – Allowance for impairment	(20,260)	-
Loans to customers	**7,070,372**	**3,167,697**

Allowance for impairment of loans to customers

A reconciliation of the allowance for impairment of loans to customers by class is as follows:

	Commercial 2008	**Overdrafts 2008**	**Retail 2008**	**Total 2008**
At 1 January 2008	-	-	-	-
Charge for the year	4,168	219	15,873	20,260
At 31 December 2008	4,168	219	15,873	20,260
Individual impairment	-	-	-	-
Collective impairment	6,833,541	115,737	141,354	7,090,632
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	**6,833,541**	**115,737**	**141,354**	**7,090,632**

As at 31 December 2007, there were no individually and collectively assessed loans and no allowance for impairment was created for the loan portfolio.

Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- For commercial lending - bank guarantees, charges over real estate properties, inventory and trade receivables,
- For retail lending - mortgages over residential properties.

The Bank also obtains guarantees from parent bank for loans granted to corporate customers.

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for loan impairment.

(Thousands of Ukrainian hryvnia, unless otherwise indicated)

9. Loans to customers (continued)

Concentration of loans to customers

As at 31 December 2008, the Bank had a concentration of loans represented by UAH 3,274,316 thousand due from the ten largest third party borrowers (46.1% of gross loan portfolio) (2007: UAH 1,499,189 thousand or 47.3%). No allowance was recognised against these loans.

Loans are made principally within Ukraine in the following industry sectors:

	2008	*2007*
Metallurgy	1,764,257	35,642
Food and beverages	1,545,859	683,840
Trade	1,223,658	1,073,307
Machinery	513,400	14,961
Chemical goods production	365,901	135,366
Automobile construction	338,566	-
IT products and services	252,702	-
Wood processing	233,775	194,484
Tobacco	174,118	377,610
Energy	154,323	-
Retail	141,354	35,306
Mining	98,991	190,022
Communications	70,510	-
Construction material production	43,095	-
Transportation and logistics	36,881	114,544
Consultancy services	11,655	139,487
Polygraphy	-	102,416
Other	121,587	70,712
	7,090,632	**3,167,697**

10. Investment securities available-for-sale

Available-for-sale securities comprise:

	2008	*2007*
Deposit certificates issued by the NBU	-	202,071
Corporate shares	3,026	26
Available-for-sale securities	**3,026**	**202,097**

(Thousands of Ukrainian hryvnia, unless otherwise indicated)

11. Property and equipment

The movements in property and equipment are as follows:

	Leasehold improvements	*Furniture, fixtures and other equipment*	*Computers and related equipment*	*Assets under construction*	*Total*
Cost					
31 December 2007	**3,613**	**14,535**	**12,305**	**-**	**30,453**
Additions	21,278	12,896	35,248	9,883	79,305
Disposals	(1,374)	(2,553)	(3,791)	-	(7,718)
31 December 2008	**23,517**	**24,878**	**43,762**	**9,883**	**102,040**
Accumulated depreciation					
31 December 2007	**2,322**	**8,928**	**5,950**		**17,200**
Depreciation charge	3,338	4,885	5,753		13,976
Disposals	(29)	(2,202)	(3,791)		(6,022)
31 December 2008	**5,631**	**11,611**	**7,912**		**25,154**
Net book value:					
31 December 2007	**1,291**	**5,607**	**6,355**	**-**	**13,253**
31 December 2008	**17,886**	**13,267**	**35,850**	**9,883**	**76,886**

	Leasehold improvements	*Furniture, fixtures and other equipment*	*Computers and related equipment*	*Total*
Cost				
31 December 2006	**3,326**	**11,988**	**7,513**	**22,827**
Additions	287	2,549	6,068	8,904
Disposals	-	(2)	(1,276)	(1,278)
31 December 2007	**3,613**	**14,535**	**12,305**	**30,453**
Accumulated depreciation				
31 December 2006	**1,607**	**7,375**	**5,241**	**14,223**
Depreciation charge	715	1,554	1,876	4,145
Disposals	-	(1)	(1,167)	(1,168)
31 December 2007	**2,322**	**8,928**	**5,950**	**17,200**
Net book value:				
31 December 2006	**1,719**	**4,613**	**2,272**	**8,604**
31 December 2007	**1,291**	**5,607**	**6,355**	**13,253**

12. Intangible assets

The movements in intangible assets are as follows:

	Licences and computer software
Cost	
31 December 2007	**1,573**
Additions	19,762
31 December 2008	**21,335**
Accumulated amortisation	
31 December 2007	**1,046**
Amortisation charge	2,353
31 December 2008	**3,399**
Net book value:	
31 December 2007	**527**
31 December 2008	**17,936**

(Thousands of Ukrainian hryvnia, unless otherwise indicated)

16. Amounts due to credit institutions

Amounts due to credit institutions comprise:

	2008	*2007*
Current accounts	4,070	5,597
Time deposits and loans	5,597,190	1,844,338
Amounts due to credit institutions	**5,601,260**	**1,849,935**

As at 31 December 2008, included in current accounts is UAH 4,070 thousand received from one Ukrainian bank (2007: UAH 4,678 thousand). The amount was received under normal banking terms and conditions.

As at 31 December 2008, loans and deposits due to credit institutions include UAH 5,586,872 thousand received from ING Group banks (2007: UAH 1,493,418 thousand). These loans are denominated in US dollars, euro, Swedish Krone and bear fixed and floating interest rates and are matched in maturity with loans to customers issued.

17. Amounts received under trust operations

As at 31 December 2008, amounts received under trust operations of UAH 328,136 thousand relate to funds transferred to the Bank by ING Group banks and banks located in OECD countries to be used for purchase of corporate bonds and bonds issued by the Ukrainian government on behalf of these banks (2007: UAH 914,095 thousand).

18. Amounts due to customers

The amounts due to customers include the following:

	2008	*2007*
Current accounts		
- Legal entities	1,512,643	1,629,170
- Individuals	61,574	44,599
	1,574,217	**1,673,769**
Time deposits		
- Legal entities	497,610	412,983
- Individuals	1,016	2,669
	498,626	**415,652**
Amounts due to customers	**2,072,843**	**2,089,421**
Held as security against letters of credit	16,277	13,854
Held as security against guarantees	7,921	1,269
Held as security against promissory notes guarantees	-	578

As at 31 December 2008, legal entities current accounts of UAH 549,412 thousand (36.3% of legal entities current accounts) were due to the ten largest third party clients (2007: UAH 979,764 thousand or 58.5%).

As at 31 December 2008, time deposits from legal entities of UAH 433,638 thousand (87.1% of time deposits of legal entities) were due to the ten largest third party clients (2007: UAH 367,626 thousand or 88.6%).

In accordance with Ukrainian legislation, the Bank is obliged to repay such deposits upon demand of a depositor. In October 2008, the NBU introduced a moratorium on early withdrawal of deposits for the indefinite period of time. In case a term deposit is repaid upon demand of the depositor prior to maturity, interest on it is paid based on the interest rate for demand deposits, unless a different interest rate is specified in the agreement.

(Thousands of Ukrainian hryvnia, unless otherwise indicated)

19. Subordinated debt

In 2002, the Bank received a long-term subordinated loan of USD 5,400 thousand (UAH 41,580 thousand) bearing a variable interest rate of three month LIBOR multiplied by 1.021%. This subordinated loan matures in 2012. The average interest rate for the year ended 31 December 2008 approximated 3.49% (2007: 5.6%). The subordinated loan agreement does not contain any share conversion terms.

20. Prepaid contribution into share capital

As at 31 December 2008, the existing shareholder of the Bank advanced EUR 60,000 thousand (UAH 651,328 thousand) as additional contribution to the Bank's share capital. This contribution was made in accordance with the decision of the Shareholders' Meeting held in August 2008 to increase the Bank's share capital. The increase in share capital was not registered with the respective Ukrainian authorities by 31 December 2008.

21. Equity

As at 31 December 2008, the Bank's authorised issued share capital comprised 30,476,092,500 (2007; 30,476,092,500) ordinary shares, with a nominal value of UAH 0.01 per share. All shares have equal voting rights. As at 31 December 2008, all issued shares were fully paid and registered (2007: all shares were fully paid and registered).

These financial statements reflect the amount of paid-in share capital stated at cost, which is restated using the consumer price index for the contributions made before 31 December 2000. The share capital of the Bank was contributed in Ukrainian hryvnia and the shareholder is entitled to dividends and any capital distributions in Ukrainian hryvnia.

The movements in share capital were as follows:

	Number of shares	*Nominal amount, UAH*	*Restated cost, UAH'000*
31 December 2006	**30,476,092,500**	**304,761**	**325,042**
Shares issued	-	-	-
31 December 2007	**30,476,092,500**	**304,761**	**325,042**
Shares issued	-	-	-
31 December 2008	**30,476,092,500**	**304,761**	**325,042**

In August 2008, the Bank's shareholder approved a decision to increase the share capital through additional contributions via a closed share placing at existing par value, in the amount of EUR 170,000 thousand. In January 2009 the shareholder decided to change the previously announced increase in authorised share capital from EUR 170,000 thousand to EUR 60,000 thousand.

22. Commitments and contingencies

Operating environment

The Ukrainian economy while deemed to be of market status, continues to display certain characteristics consistent with that of an economy in transition. These characteristics include, but are not limited to, low levels of liquidity in the capital markets, high inflation and the existence of currency controls which cause the national currency to be illiquid outside of Ukraine. The stability of the Ukrainian economy will be significantly impacted by the Government's policies and actions with regard to administrative, legal, and economic reforms. As a result, operations in Ukraine involve risks that are not typical for developed markets.

The Ukrainian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. The ongoing global financial crisis has resulted in considerable instability in the capital markets, significant deterioration in the liquidity of banks, much tighter credit conditions where credit is available, and significant devaluation of the national currency against major currencies. Furthermore, in the fourth quarter of 2008, international agencies began to downgrade the country's credit ratings. Whilst the Ukrainian Government is introducing various stabilisation measures aimed at providing liquidity for Ukrainian banks, there continues to be uncertainty regarding access to capital and its cost for the Bank and its counterparties. These factors could affect the Bank's financial position, results of operations and business prospects.

(Thousands of Ukrainian hryvnia, unless otherwise indicated)

22. Commitments and contingencies (continued)

Operating environment (continued)

In addition, the borrowers of the Bank may have been affected by a deterioration in their own liquidity, which could in turn impact their ability to repay the amounts due to the Bank. Due to the decrease in values in the Ukrainian real estate market may affect recoverability of the Bank's loans secured by pledges of property. To the extent that information is available, the Bank has reflected revised estimates of expected future cash flows in its impairment assessment.

Whilst management believes it is taking appropriate measures to support the sustainability of the Bank's business in the current circumstances, unexpected further deterioration in the areas described above could negatively affect the Bank's results and financial position in a manner not currently determinable.

Legal

In the ordinary course of business, the Bank is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations of the Bank.

Taxation

Ukrainian legislation and regulations regarding taxation and other operational matters continue to evolve as a result of an economy in transition. Legislation and regulations are not always clearly written and their interpretation is subject to varying interpretations by local, regional and national authorities, and other Governmental bodies. Instances of inconsistent interpretations are not unusual. Management believes that the Bank and its subsidiary have complied with all regulations and paid or accrued all taxes that are applicable. Where the risk of outflow of resources is probable, the Bank and its subsidiary have accrued tax liabilities based on management's best estimate.

The Bank's operations and financial position will continue to be affected by Ukrainian political developments including the application of existing and future legislation and tax regulations. The Bank believes that obligations that could arise as a result of these contingencies, as relating to its operations, would not be more significant than those of similar enterprises in Ukraine.

Commitments and contingencies

The Bank's financial commitments and contingencies comprise the following:

	2008	*2007*
Credit related commitments		
Undrawn loan commitments	409,093	5,050
Guarantees	191,836	66,522
Letters of credit	152,715	387,058
Promissory note guarantees	7,110	8,218
	760,754	**466,848**
Less – Cash held as security against letters of credit, guarantees and promissory notes guarantees	(24,198)	(15,641)
Commitments and contingencies	**736,556**	**451,207**

As at 31 December 2008, the Bank issued letters of credit of UAH 132,191 thousand to five Ukrainian companies (2007: UAH 350,104 thousand). As at 31 December 2008, the Bank issued guarantees of UAH 146,738 thousand in favour of five Ukrainian companies (2007: UAH 43,515 thousand).

(Thousands of Ukrainian hryvnia, unless otherwise indicated)

23. Net fee and commission income

Net fee and commission income comprises:

	2008	*2007*
Currency exchange	31,946	20,260
Guarantees and commitments	31,248	35,637
Payments and withdrawals	10,442	8,470
Operations with securities	7,273	12,863
Credit service to customers	52	560
Other	2,737	1,008
Fee and commission income	**83,698**	**78,798**
Guarantees and commitments	(67,153)	(23,796)
Payments and withdrawals	(5,136)	(2,648)
Operations with securities	(1,966)	(2,199)
Other	(492)	(196)
Fee and commission expense	**(74,747)**	**(28,839)**
Net fee and commission income	**8,951**	**49,959**

24. Other income

	2008	*2007*
Penalties received	3,166	793
Consulting	2,086	3,333
Sub-leasing	1,191	70
Other	247	1
Total other income	**6,690**	**4,197**

25. Personnel and other administrative and operating expenses

Personnel and other operating expenses comprise:

	2008	*2007*
Salaries and bonuses	106,364	53,603
Social security costs	14,039	5,159
Personnel expenses	**120,403**	**58,762**
Occupancy and rent	27,862	6,300
EDP cost	24,078	15,348
Marketing and advertising	15,799	636
Consulting	13,962	6,375
Operational and maintenance	9,825	4,224
Business trips	7,681	4,562
Repair and maintenance	6,435	2,024
Communications	3,868	1,886
Loss on disposal of tangible fixed assets	1,696	2
Operating taxes	1,075	342
Security	632	183
Other	5,254	3,074
Other operating expenses	**118,167**	**44,956**

(Thousands of Ukrainian hryvnia, unless otherwise indicated)

26. Risk management

Introduction

The Bank is exposed to risks i.e. credit risk, liquidity risk and market risk (which is subdivided into interest rate risk, currency risk and trading book risk), operational risk as well as strategic and reputation risk which are continuously identified, assessed and controlled within the risk management process. The risk management process is decisive for ensuring the Bank's efficiency and profitability and each employee of the Bank is responsible for respecting the risk management rules and procedures in the course of fulfilling their tasks and duties.

Risk management structure

The risk management policies aim to identify, analyse and manage the risks faced by the Bank, to set appropriate risk limits and controls, and to continuously monitor risk levels and adherence to limits. The operational risk management functions are aimed at developing and ensuring proper functioning of internal processes and procedures to manage the exposure to internal and external risk factors.

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

Risk management policies, monitoring and control are conducted by a number of specialised divisions and units within the Risk Management Department ("RMD") under the supervision of the Asset and Liability Management Committee ("ALCO"). ALCO is supervised by the Supervisory Board and the Management Board.

The Supervisory Board has the highest degree of authority with respect to risk management, and is empowered through the Charter to approve any transactions on behalf of the Bank, including those that are outside of the scope of the authority of the Management Board and other governing bodies. The Supervisory Board is responsible, among other things, for appointing the external auditor and for establishing the procedure for auditing and monitoring the financial and economic activities. The Supervisory Board's Risk Management Committee determines the overall risk management strategy. The Management Board is directly responsible for its implementation.

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

The ALCO is chaired by the Chairman of the Management Board. The ALCO sits at least once every month or more frequently if required. The ALCO is responsible for the control and management of the asset and liability structure. It also sets interest rates and maturity limits and compares key performance indicators with those of competitors. In addition, the ALCO is responsible for managing risks and monitoring compliance with the limits it has set, reviewing reports on liquidity, interest and foreign exchange risk, establishing the methodology for carrying out risk assessment and setting limits and standards with the aim of balancing the level of risks and profitability.

The Credit Committees are responsible for approving loans, implementing the lending strategy, coordinating the activities of the departments and sub-committees and forming a balanced and diversified loan portfolio. Approval from the relevant Credit Committee is required to grant loans, make provisions and recover debt (including signing loan agreements and bringing claims or legal proceedings).

The RMD assists the ALCO and the various Credit Committees in discharging their functions. Its functions include evaluating and analysing financial risks, monitoring compliance with limits, and making recommendations with regard to balancing levels of risk and profitability, based on overall levels of risk and risks associated with particular business areas and banking products.

The RMD evaluates financial risks using information on parameters of assets and liabilities (including interest rates, amounts and maturities) from the business divisions, information on exposure limits, procedures and methodologies from the ALCO. It then provides the ALCO with the results of its risk analysis and monitoring and recommendations on setting or changing limits, and informs the business divisions, back office, etc. of the normative risk levels.

The risks are managed in an integrated manner and are evaluated in terms of the policy of the Bank, which is reviewed and approved by the Management Board on an annual basis. Risk limits are established for credit, market and liquidity risks and the level of exposure is then maintained within these limits. The Bank uses risk assessment/management methods used by ING Group in general to the extent they are in line with regulations of the NBU.

The Internal Audit Department is responsible for monitoring compliance with risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank. The Internal Audit Department undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Supervisory Board.

(Thousands of Ukrainian hryvnia, unless otherwise indicated)

26. Risk management (continued)

The principal categories of risks to which the Bank is exposed through its operations and the way the Bank manages these risks are described below.

Risk Mitigation

The Bank does not use the derivatives for the management of risks arising due to the changes in interest rates, foreign exchange rates, credit risk and liquidity risk since a market for such financial instruments does not yet exist in Ukraine.

The Bank extensively uses collateral to minimise the credit risk.

Excessive risks concentration

Concentration arises when a number of counterparts are engaged in similar business activities, or activities in the same geographic region, or have similar economic characteristics, which determine their ability to meet contractual obligations that are equally affected by the changes in economic, political or other environment. Concentration indicates the relative sensitivity of the Bank's performance to the developments affecting a particular industry or geographical area.

In order to avoid excessive concentrations of risks, the Bank's internal policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations risks concentration is duly controlled and managed.

Credit risk

Credit risk is the risk of a financial loss to the Bank if a customer or counterparty fails to meet its contractual obligations, and arises principally from loans and advances 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 customer and counterparty default risk, country, and industry risk)

For risk management purposes, credit risk arising on trading securities is managed independently, and reported as a component of market risk exposure.

The Bank manages its credit risk by establishing internal policies aimed at maximising risk adjusted profit by maintaining credit risk exposure within accepted parameters, by setting, monitoring and reviewing credit ratings, by setting and authorising lending limits and by actively monitoring the performance of its customers. The Bank deals with counterparties of good credit standing and, when appropriate, obtains collateral. The credit policy is reviewed and approved by its Management Board and Supervisory Board.

The RMD determines levels of overall risk exposure by reference to customers and products. The Credit Risk Sub-Department regularly evaluates customers' creditworthiness and business performance.

In evaluating the risks associated with a particular borrower, the Bank takes into account the borrower's business and factors such as the quality of its management, its main business activities, its geographic location, suppliers, customers, other indebtedness, financial stability, turnover, likely return on the loan, the liquidity of the proposed collateral and whether it is sufficient in view of the credit risk, their credit history with the Bank and other financial institutions and the amount of risk involved in lending to a particular borrower, using a rating scale. A lack of credit history with the Bank or lack of credit history in general is not an absolute bar to granting a loan, provided the Bank receives sufficient information to assess the borrower's business and financial condition. However, when the Bank lends to a borrower with no credit history, it sets conditions such as a requirement to transfer a certain part of the customer's banking operations to the Bank for a certain period and charging a higher interest rate, or requiring additional collateral or guarantees from such borrower.

The Bank also considers the weighted average credit risk associated with the industry in which the borrower operates. The Bank has developed an internal credit rating system whereby each borrower is assigned ratings based on (i) financial and operational ratios, (ii) financial position, (iii) market position and management effectiveness and (iv) the quality of the collateral. In making its credit decisions with regard to loans to banks, the Bank uses a rating scale based on the international rating, if any, and financial statements audited by recognised auditors, allocating various credit ratings to the borrowers. The Bank evaluates the borrower's financial statements, credit history, and cash flows in order to determine the expected risk of default for such borrower and also monitors the weighted average credit risk of potential borrowers on a portfolio basis and by industry sector.

The borrower's financial standing is subject to continual monitoring and review on a quarterly basis or as the business may require.

(Thousands of Ukrainian hryvnia, unless otherwise indicated)

26. Risk management (continued)

The Bank structures the levels of credit risk it undertakes by placing separate limits on the amount of risk accepted in relation to each borrower and each category of borrowers within a particular industry or geographical region. Such risks are monitored and reviewed regularly (at least once per month).

When structuring loans to corporate customers, the Bank follows certain basic principles. It sets out repayment schedules and adapts them so as to take into account any seasonality in the borrower's business and, where applicable, also obtains guarantees from affiliates of the borrower or other ING Group division, enters into collateral agreements to secure related loans, prescribes the borrower's own equity contribution for the project financing and requires cash flows from the financed project or counter-parties to be directed to the current accounts opened with the Bank. In the case of loans to retail customers, the Bank typically takes collateral or requires guarantees to secure such loans. As the lending policy is to give priority to the quality of the borrower over the quality of the collateral available, lending decisions are always based on risk assessment rather than on the quality of the collateral. When taking security, the Bank gives preference to the most liquid form of collateral with the highest re-sale value. It also takes into account regional factors when determining the value of collateral.

Each year, the RMD determines and submits to the Board for approval an annual Credit Risk Policy, containing, inter alia, target credit risk exposures by particular industry sectors, products, currency and borrower risk classes. A similar system is employed to monitor credit risk relating to the retail business.

The Bank establishes an allowance for loan losses that represent its estimates of losses incurred in its loan portfolio.

The Bank writes off a loan balance (and any related provision for impairment losses) when the Credit Committee determines that the loan is uncollectible and when all necessary steps to collect the loan are completed. This determination is reached after considering information such as the occurrence of significant changes in the borrower's financial position such that the borrower can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure.

Credit-related commitments risks

The Bank issues guarantees to its customers, under which the Bank may be required to make payments on behalf of the relevant customers. Such payments are collected from customers under the terms of the letters of credit. The mentioned guarantees expose the Bank to the risks similar to the credit risks, which are mitigated by the similar control procedures and principles.

The table below shows the maximum credit risk exposures under the balance sheet items. The maximum exposure is shown gross without regard to risk mitigation effect through the execution of the master netting and collateral agreements and after deducting any allowance for impairment.

	Notes	*Maximum exposure 2008*	*Maximum exposure 2007*
Cash and cash equivalents (excluding cash on hand)	5	1,755,783	1,220,598
Trading securities	6	310,418	351,681
Trading securities pledged under repurchase agreements	7	47,665	349,836
Amounts due from credit institutions	8	222,374	244,574
Loans to customers	9	7,070,372	3,167,697
Securities available-for-sale	10	-	202,071
Other assets	15	38,974	13,969
Financial commitments and contingencies	22	760,754	466,848
Total credit risk exposure		**10,206,340**	**6,017,274**

If recorded at fair value, the amounts shown above represent the current credit risk exposure but not the maximum risk exposure that could arise in future as a result of changes in values.

(Thousands of Ukrainian hryvnia, unless otherwise indicated)

26. Risk management (continued)

Credit quality per class of financial assets

		Neither past due nor impaired				
	Notes	High grade 2008	Standard grade 2008	Sub-standard grade 2008	Past due or individually impaired 2008	Total 2008
Amounts due from credit institutions	8	222,374	-	-	-	222,374
Loans to customers	9					
Commercial		2,069,343	4,764,031	-	167	6,833,541
Overdrafts		5,996	109,741	-	-	115,737
Retail		133,943	5,754	1,657	-	141,354
		2,209,282	4,879,526	1,657	167	7,090,632
Total		**2,431,656**	**4,879,526**	**1,657**	**167**	**7,313,006**

		Neither past due nor impaired				
	Notes	High grade 2007	Standard grade 2007	Sub-standard grade 2007	Past due or individually impaired 2007	Total 2007
Amounts due from credit institutions	8	244,574	-	-	-	244,574
Loans to customers	9					
Commercial		1,191,622	1,247,342	335,585	-	2,774,549
Overdrafts		126,714	198,839	32,288	-	357,841
Retail		35,307				35,307
		1,353,643	1,446,181	367,873	-	3,167,697
Securities available-for-sale	10	202,071	-	-	-	202,071
Total		**1,800,288**	**1,446,181**	**367,873**	**-**	**3,614,342**

Ageing analysis of past due loans is provided below. The most past due loans are not considered to be impaired.

	Less than 30 days	*31 to 60 days*	*More than 61 days*	*Total*
2008	167	-	-	**167**

There were not any past due but not impaired loans as at 31 December 2007.

Of the total aggregate amount of gross past due but not impaired loans to customers (commercial), the fair value of collateral that the Bank held as at 31 December 2008 was UAH 16,283 thousand (2007: nil).

See Note 9 for more detailed information with respect to the allowance for impairment of loans to customers.

Impairment assessment

The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue by more than 90 days or there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract. The Bank addresses impairment assessment in two areas: individually assessed allowances and collectively assessed allowances.

Individually assessed allowances

The Bank determines the allowances appropriate for each individually significant loan on an individual basis. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and the expected dividend payout should bankruptcy ensue, the availability of other financial support and the realisable value of collateral, and the timing of the expected cash flows. The impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

(Thousands of Ukrainian hryvnia, unless otherwise indicated)

26. Risk management (continued)

Collectively assessed allowances

Allowances are assessed collectively for losses on loans to customers that are not individually significant (including credit cards, residential mortgages) and for individually significant loans where there is not yet objective evidence of individual impairment. Allowances are evaluated on each reporting date with each portfolio receiving a separate review.

The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is no yet objective evidence of the impairment in an individual assessment. Impairment losses are estimated by taking into consideration of the following information: historical losses on the portfolio, current economic conditions, the appropriate delay between the time a loss is likely to have been uncured and the time it will be identified as requiring an individually assessed impairment allowance, and expected receipts and recoveries once impaired. Local management is responsible for deciding the length of this period which can extend for as long as one year. The impairment allowance is then reviewed by credit management to ensure alignment with the Bank's overall policy.

Financial guarantees and letters of credit are assessed and provision made in a similar manner as for loans.

Geographical concentration

The geographical concentration of Bank's monetary assets and liabilities is set out below:

	2008				*2007*			
	Ukraine	*OECD*	*CIS and other foreign banks*	*Total*	*Ukraine*	*OECD*	*CIS and other foreign banks*	*Total*
Assets:								
Cash and cash equivalents	367,572	1,408,883	5,135	1,781,590	309,447	908,060	10,800	1,228,307
Trading securities	310,418	-	-	310,418	351,681	-	-	351,681
Trading securities pledged under repurchase agreements	47,665	-	-	47,665	349,836	-	-	349,836
Amounts due from credit institutions	212,097	-	10,277	222,374	239,559	-	5,015	244,574
Loans to customers	6,989,313	-	81,059	7,070,372	3,167,697	-	-	3,167,697
Securities available-for-sale	3,026	-	-	3,026	202,097	-	-	202,097
Other assets (monetary)	11,443	-	-	11,443	4,502	-	-	4,502
	7,941,534	**1,408,883**	**96,471**	**9,446,888**	**4,624,819**	**908,060**	**15,815**	**5,548,694**
Liabilities:								
Amounts due to credit institutions	14,388	5,586,872	-	5,601,260	355,598	1,494,337	-	1,849,935
Amounts due to customers	1,924,376	128,269	20,198	2,072,843	1,199,546	774,510	115,365	2,089,421
Amounts receivable under trust operations	-	328,136	-	328,136	-	914,095	-	914,095
Subordinated debt	-	41,580	-	41,580	-	27,377	-	27,377
Other liabilities (monetary)	68,995	-	-	68,995	76,433	-	-	76,433
	2,007,759	**6,084,857**	**20,198**	**8,112,814**	**1,631,577**	**3,210,319**	**115,365**	**4,957,261**
Net balance sheet position	**5,933,775**	**(4,675,974)**	**76,273**	**1.334,074**	**2,993,242**	**(2,302,259)**	**(99,550)**	**591,433**
Net off balance sheet position	**(5,309)**	**-**	**-**	**(5,309)**	**(218)**	**-**	**-**	**(218)**

(Thousands of Ukrainian hryvnia, unless otherwise indicated)

26. Risk management (continued)

Liquidity risk and funding management

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

The process of managing liquidity risk is continuous. The RMD carries out day-to-day monitoring of short-term exposure to liquidity risk. Senior management receives weekly analysis and daily reports and the ALCO performs a monthly review of liquidity risk management.

The Bank assesses liquidity risk based on gap analysis, that is, an analysis of the difference between assets and liabilities with the same maturity. The amounts of such unmatched positions in assets and liabilities having the same maturity are used to calculate the cumulative gap, which is subject to certain limits. These limits are determined by ability to source funds on the money markets. Such limits may be reviewed, depending on changes in the Bank's capacity to source funds. The RMD is responsible for making recommendations with respect to changing limits, which are subject to approval by the ALCO. In addition, the Bank has procedures that apply in the event these limits are exceeded, as well as contingency plans for unforeseen situations.

The risks associated with the concentration of loans and deposits require continuous monitoring. Management acknowledges the risks associated with possible high concentrations of assets and liabilities and seeks to match maturities of high-value corporate loans and deposits, which management views as a means of managing liquidity and interest rate risk. The Bank has access to a diverse funding base, including deposits, subordinated liabilities and share capital, which enhances funding flexibility, limits dependence on any one source of funds and generally lowers the cost of funds. The Bank also holds a portfolio of liquid assets as part of its liquidity risk management. The use of a combination of instruments to manage liquidity risks enables the Bank to use its lending resources and maintain liquidity levels more effectively.

Assessment of the liquidity position

The adherence to the internal limits set by the Bank is in line with the liquidity risk standards established by the National Bank of Ukraine. The liquidity position is assessed and managed by the Bank by its own efforts, based on certain liquidity ratios established by the NBU as described in the Short-Term Liquidity Risk Management section. As at 31 December, the liquidity position, assessed by respective liquidity ratios established by the NBU, was as follows:

	2008, %	2007, %
N4 "Instant Liquidity Ratio" (vault cash and balances on nostro accounts with banks / balances on customers' current accounts) (minimum required by the NBU – 20%)	118.22	72.10
N5 "Current Liquidity Ratio" (vault cash, balances on nostro accounts with banks, banking metals, claims on banks maturing within with residual maturity of up to 31 days, bills and bonds with residual maturity of up to 31 days/ balances on customers' current accounts, term deposits, debt obligations and commitments with residual maturity of up to 31 days) (minimum required by the NBU – 40%)	182.56	78.77
N6 "Short-Term Liquidity Ratio" (vault cash, balances on nostro accounts with banks, banking metals, claims on banks with residual maturity of up to 1 year, bills and bonds with residual maturity of up to 1 year / balances on customers' current accounts, term deposits, debt obligations and commitments with residual maturity of up to 1 year) (minimum required by the NBU – 20%)	21.75	24.66

Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Bank's financial liabilities at 31 December based on contractual undiscounted repayment obligations. Within one month liabilities are those that due on the earliest date. However, the Bank expects that many customers will not demand repayment on the earliest date when the Bank could be required to make a respective repayment and the table does not reflect the expected cash flows calculated by the Bank on the basis of information on deposit repayment in previous period.

(Thousands of Ukrainian hryvnia, unless otherwise indicated)

26. Risk management (continued)

Liquidity risk and funding management (continued)

Financial liabilities As at 31 December 2008	**Within one month**	**From 1 to 3 months**	**3 months to one year**	**1 to 5 years**	**Over 5 years**	**Total**
Amounts due to credit institutions	1,026,176	4,396,379	195,876	-	-	5,618,431
Amounts due to customers	2,074,653	5	450	-	-	2,075,108
Amounts received under trust operations	328,136	-	-	-	-	328,136
Subordinated debt	51	101	454	43,963	-	44,569
Other liabilities	68,995	-	-	-	-	68,995
Total undiscounted financial liabilities	**3,498,011**	**4,396,485**	**196,780**	**43,963**	**-**	**8,135,239**

Financial liabilities As at 31 December 2007	**Within one month**	**From 1 to 3 months**	**3 months to one year**	**1 to 5 years**	**Over 5 years**	**Total**
Amounts due to credit institutions	1,333,252	158,284	374,483	-	-	1,866,019
Amounts due to customers	1,946,121	143,299	2,783	37	145	2,092,385
Amounts received under trust operations	914,095	-	-	-	-	914,095
Subordinated debt	107	227	1,023	31,815	-	33,172
Other liabilities	76,433	-	-	-	-	76,433
Total undiscounted financial liabilities	**4,262,570**	**301,810**	**378,289**	**31,852**	**145**	**4,974,666**

The table below shows the contractual expiry by maturity of the Bank's financial commitments and contingencies.

	Less than 3 months	**3 to 12 months**	**1 to 5 years**	**Over 5 years**	**Total**
2008	656,319	89,961	14,428	46	760,754
2007	42,445	325,686	98,717	-	466,848

The Bank expects that not all of the contingent liabilities or commitments will be drawn before their expiry. In order to limit liquidity risk arising from asymmetric prepayment and early repayment prospective of the term assets and liabilities, the Bank incorporates in standard client agreements conditions that motivate customers not to use the options of prepayment and early repayment.

The maturity analysis does not reflect the historical stability of current accounts. Their liquidation has historically taken place over a longer period than indicated in the tables above. These balances are included in amounts due within one month in the tables above.

Included in due to customers are term deposits of individuals. In accordance with Ukrainian legislation, the Bank is obliged to repay such deposits upon demand of a depositor. On 13 October 2008, the NBU announced emergency measures intended to improve up confidence in the banking sector by preventing a flight of capital and reassuring savers that their assets are secure, while Ukraine absorbs the impact of the financial crisis. As the result the NBU imposed a six-month suspension on early withdrawal of term deposits with maturity dates from commercial banks. Refer to Note 18.

Market risk

Interest rate risk

Interest rate risk is the risk that movements in interest rates will affect cash flows or the fair value of the Bank's portfolios of financial instruments. The Bank is exposed to interest rate risk, principally as a result of lending at fixed interest rates in amounts and for periods which differ from those of term borrowings at fixed interest rates. Interest margins on assets and liabilities having different maturities may increase as a result of changes in market interest rates.

The ALCO sets limits on the level of mismatch of interest rate repricing that may be undertaken, which is monitored by the RMD. In the absence of any available hedging instruments, the Bank seeks to match its interest rate positions. The evaluation and analysis of interest rate risk is performed as at the first day of each month and updated as necessary to reflect market changes, for example, a change in benchmark interest rates, market volatility or similar events. The results of such evaluation and analysis are discussed at regular ALCO meetings. In addition to applying standard calculations, the Bank uses stress-tests.

(Thousands of Ukrainian hryvnia, unless otherwise indicated)

26. Risk management (continued)

Market risk (continued)

These involve determining the level of interest-rate risk that would apply in the event of unforeseen circumstances or contingencies arising. This approach enables the Bank to evaluate changes in net interest income for future periods and determine the priority areas for interest risk management.

		2008			
Currency	*Base for interest rate*	*Increase in basis points*	*Effect on profit before income tax expense*	*Decrease in basis points*	*Effect on profit before income tax expense*
USD	LIBOR	+55	11,953	-55	(11,953)
EUR	LIBOR	+55	6,045	-55	(6,045)
Total			**17,998**		**(17,998)**

		2007			
Currency	*Base for interest rate*	*Increase in basis points*	*Effect on profit before income tax expense*	*Decrease in basis points*	*Effect on profit before income tax expense*
USD	LIBOR	+75	20,040	-125	(33,400)
Total			**20,040**		**(33,400)**

Currency risk

Exchange rate risk is the risk of losses resulting from adverse movements in foreign currency exchange rates. Exchange rate risk results from the Bank having open positions in different currencies. Such positions are calculated as differences between assets and liabilities in the same currencies as at the balance sheet date.

The Bank evaluates, monitors and sets limits for long and short foreign exchange positions. The Bank complies with all applicable NBU requirements in addition to using its own methods for evaluating exchange rate risk. The policy with regard to open foreign currency positions is restricted to certain thresholds under Ukrainian law and is strictly monitored by the NBU on a daily basis.

The ALCO sets limits on the level of exposure by currencies. Such limits are reviewed in the event of volatility in foreign exchange rates. The ALCO may amend limits based on recommendations by the RMD. The Bank monitors compliance with such limits daily. Reports on changes in currency positions are provided to management on a weekly and a monthly basis.

	2008		2007	
Currency	*Change in currency rate*	*Effect on profit before income tax expenses*	*Change in currency rate*	*Effect on profit before income tax expenses*
USD/UAH	+33.80%	11,977	+3.10%	(1,196)
EUR/UAH	+39.70%	(18,112)	+10.10%	(1,808)
Total		**(6,135)**		**(3,004)**
USD/UAH	-33.80%	(11,977)	-2.80%	1,196
EUR/UAH	-39.70%	18,112	-8.40%	1,808
Total		**6,135**		**3,004**

Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. In case the internal controls system fails to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Bank cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Bank is able to manage the risks. Controls system includes efficient segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

Prepayment risk

The Bank is not exposed to prepayment risk and it is not segregated and measured by the Bank's management.

(Thousands of Ukrainian hryvnia, unless otherwise indicated)

27. Fair values of financial instruments

The estimated fair values of financial assets and liabilities is determined using market prices for actively traded financial assets and discounted cash flow and other appropriate valuation methodologies as at the balance-sheet date. These estimates do not reflect any premium or discount that could result from offering for sale at one time the Bank's entire holdings of a particular financial instrument. Fair value estimates are based on judgments regarding future expected cash flows, current economic conditions, risk characteristics of various financial instruments and other factors, and the discount rate is a market related rate for a similar instrument at the balance sheet date.

Fair value estimates are based on existing financial instruments without attempting to estimate the value of anticipated future business and the value of assets and liabilities not considered financial instruments.

The fair values of all short-term financial assets and liabilities are assumed to equal their carrying values due to their short-term nature, regular repricing periods and/or market interest rates at period end. The fair value of loans and deposits with maturities greater than one year approximates its carrying value because for substantially all loans and deposits, the Bank applied floating interest rates on almost all the loans and deposits that considers current value of cash flows and market conditions.

The estimates of fair value are intended to approximate the amount for which a financial instrument could be exchanged between knowledgeable, willing parties in an arm's length transaction. However, given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realisable in an immediate sale of the assets or settlement of liabilities.

28. Maturity analysis of assets and liabilities

The table below shows an analysis of financial assets and liabilities according to when they are expected to be recovered or settled.

	2008					
	Within one month	Form one to three months	From three months to one year	From one to five years	Over five years	Total
Financial assets						
Cash and cash equivalents	1,781,590	-	-	-	-	1,781,590
Trading securities	310,418	-	-	-	-	310,418
Trading securities pledged under repurchase agreements	47,665	-	-	-	-	47,665
Amounts due from credit institutions	82,801	3,983	-	135,590	-	222,374
Loans to customers	4,166,836	1,387,219	680,916	702,839	132,562	7,070,372
Investment securities available-for-sale	3,026					3,026
Other assets (financial and contractual)	7,924	-	-	-	-	7,924
Total	**6,400,260**	**1,391,202**	**680,916**	**838,429**	**132,562**	**9,443,369**
Financial liabilities						
Amounts due to credit institutions	1,015,174	4,391,225	194,861	-	-	5,601,260
Amounts due to customers	2,072,405	-	438	-	-	2,072,843
Amounts received under trust operations	328,136	-	-	-	-	328,136
Subordinated debt	-	-	-	41,580	-	41,580
Other liabilities (financial and contractual)	62,901	-	-	-	-	62,901
Total	**3,478,616**	**4,391,225**	**195,299**	**41,580**	**-**	**8,106,720**
Net	**2,921,644**	**(3,000,023)**	**485,617**	**796,849**	**132,562**	**1,336,649**

(Thousands of Ukrainian hryvnia, unless otherwise indicated)

28. Maturity analysis of assets and liabilities (continued)

	2007					
	Within one month	**Form one to three months**	**From three months to one year**	**From one to five years**	**Over five years**	**Total**
Financial assets						
Cash and cash equivalents	1,228,307	-	-	-	-	1,228,307
Trading securities	351,681	-	-	-	-	351,681
Trading securities pledged under repurchase agreements	349,836	-	-	-	-	349,836
Amounts due from credit institutions	133,774	60,205	2,517	48,078	-	244,574
Loans to customers	1,671,434	415,483	802,525	166,997	111,258	3,167,697
Securities available-for-sale	26	202,071	-	-	-	202,097
Other assets (financial)	4,255	-	-	-	-	4,255
Total	**3,739,313**	**677,759**	**805,042**	**215,075**	**111,258**	**5,548,447**
Financial liabilities						
Amounts due to credit institutions	1,328,136	154,448	367,351	-	-	1,849,935
Amounts due to customers	1,944,182	142,409	2,703	-	127	2,089,421
Amounts received under trust operations	914,095	-	-	-	-	914,095
Subordinated debt	-	-	-	27,377	-	27,377
Other liabilities (financial)	76,433	-	-	-	-	76,433
Total	**4,262,846**	**296,857**	**370,054**	**27,377**	**127**	**4,957,261**
Net	**(523,533)**	**380,902**	**434,988**	**187,698**	**111,131**	**591,186**

29. Related party disclosures

In accordance with IAS 24 "Related Party Disclosures", parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

The volumes of related party transactions, outstanding balances at the year end, and related expense and income for the year are as follows:

	2008		*2007*	
	ING Group companies	***Key management personnel***	***ING Group companies***	***Key management personnel***
Cash and cash equivalents	433,117	-	666,671	-
Loans to customers	-	16,495	-	5,239
Amounts due to credit institutions	5,586,872	-	1,494,337	-
Amounts due to customers	-	1,040	-	1,824
Amounts received under trust operations	191	-	116,981	-
Subordinated debt	41,580	-	27,377	-
Prepaid contribution into share capital	651,328	-	-	-
Interest income	1,245	605	1,226	218
Interest expense	109,148	-	30,648	-
Fee and commission expense	68,253	-	23,692	-
Guaranties received	9,176,852	-	4,291,284	-

(Thousands of Ukrainian hryvnia, unless otherwise indicated)

29. Related party disclosures (continued)

Guaranties received from ING Group companies represent irrevocable unconditional guarantees for credit risk cover on loans granted by the Bank to corporate customers.

The aggregate short-term benefits paid to the key management personnel for 2008 is UAH 26,354 thousand (2007: UAH 14,959 thousand).

All transactions with related parties have been effected on the same terms and conditions as transactions between unrelated parties.

30. Capital adequacy

The Bank maintains an actively managed adequate capital level to cover external risks inherent in the business. The adequacy of the Bank's capital is monitored using the ratios established by the NBU and Basel Capital Accord 1988.

During 2008, the Bank had complied in full with all its externally imposed capital requirements.

The primary objectives of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains strong credit ratings and proper capital ratios in order to support its business and to maximise shareholders' value.

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. No changes were made in the objectives, policies and processes from the previous years.

NBU capital adequacy ratio

The NBU requires banks to maintain a capital adequacy ratio of 10% of the amount of risk-weighted assets, computed in accordance with the UAS.

As at 31 December 2008, the Bank's capital adequacy ratio on this basis was as follows:

	2008	*2007*
Main capital	584,353	497,696
Additional capital	253,046	125,873
Total capital	**837,399**	**623,569**
Risk weighted assets	**3,547,055**	**2,627,766**
Capital adequacy ratio	22.60%	23.73%

Capital adequacy ratio under Basel Capital Accord 1988

As at 31 December 2008 and 2007, the Bank's capital adequacy ratio, computed in accordance with the Basel Capital Accord 1988 amended to include market risk was as follows:

	2008	*2007*
Tier 1 capital	826,950	620,651
Tier 2 capital	16,362	21,902
Total capital	**843,312**	**642,553**
Risk weighted assets	**8,341,864**	**5,798,754**
Tier 1 capital ratio	9.9%	10.7%
Total capital ratio	10.1%	11.1%

(Thousands of Ukrainian hryvnia, unless otherwise indicated)

31. Events after the balance sheet date

On 9 April 2009, the Bank announced its intention to close its retail banking business in Ukraine, which was launched in 2008. This decision is a part of the ING global portfolio revision process aimed at simplifying ING's global business structure.

It is planned that the Bank's retail offices will keep on working until 29 May 2009, and further all retail assets will be either written off or sold.

During recent months, the ING Group has taken actions to mitigate risks, cut costs and optimise the efficiency of its. However, given the continuing difficult economic conditions ING is to continue prudent capital and balance sheet management.

In January 2009, the shareholder of the Bank amended it's previous decision to increase the share capital of the Bank by EUR 170,000 thousand and decreased amount to EUR 60,000 thousand (see Note 20 and 21) .