Public Joint-Stock Company
“ING Bank Ukraine”

IFRS Financial Statements

Year ended 31 December 2010
Together with Independent Auditors’ Report

CONTENTS

Ernst & Young

Ernst & Young Audit Services LLC
Khreschatyk Street, 19A
Kyiv, 01001, Ukraine
Tel: +380 (44) 490 3000
Fax: +380 (44) 490 3030
Ukrainian Chamber of Auditors
Certificate: 3516
www.ey.com/ukraine

ТОВ «Ернст енд Янг Аудиторські Послуги»
Україна, 01001, Київ
вул. Хрещатик, 19А
Тел.: +380 (44) 490 3000
Факс: +380 (44) 490 3030
Свідоцтво Аудиторської Палати України: 3516

INDEPENDENT AUDITORS' REPORT
TO THE SHAREHOLDER AND BOARD OF DIRECTORS OF
PUBLIC JOINT STOCK COMPANY "ING BANK UKRAINE"

We have audited the accompanying financial statements of PUBLIC JOINT STOCK COMPANY "ING BANK UKRAINE", which comprise the statement of financial position as at 31 December 2010, and the income statement, statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of PUBLIC JOINT STOCK COMPANY "ING BANK UKRAINE" as at 31 December 2010, 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

25 May 2011

STATEMENT OF FINANCIAL POSITION
As at 31 December 2010

(Thousands of Ukrainian hryvnia)

	Notes	2010	2009 (reclassified)	2008 (reclassified)
Assets				
Cash and cash equivalents	5	804,739	2,170,414	1,781,590
Trading securities	6	933,859	238,181	310,418
Trading securities pledged under repurchase agreements		-	-	47,665
Amounts due from credit institutions	7	1,476,364	351,384	222,374
Loans to customers	8	6,421,250	6,874,681	7,070,372
Investment securities available-for-sale	9	10,356	18,766	3,026
Property and equipment	10	7,748	12,041	76,886
Intangible assets	11	1,360	1,616	17,936
Corporate current tax assets		25,636	-	-
Deferred income tax assets	12	10,736	44,674	34,103
Other assets	14	8,705	11,425	38,974
Total assets		**9,700,753**	**9,723,182**	**9,603,344**
Liabilities				
Amounts due to credit institutions	15	5,482,554	6,154,802	5,601,260
Amounts due to customers	16	2,523,942	2,025,103	2,401,699
Current income tax liabilities		24,662	19,982	12,252
Other liabilities	14	68,238	50,141	68,275
Subordinated debt	17	43,003	43,119	41,580
Prepaid contribution into share capital		-	-	651,328
Total liabilities		**8,142,399**	**8,293,147**	**8,776,394**
Equity				
Share capital	18	751,579	751,579	325,042
Additional paid-in capital		13,359	13,359	-
Retained earnings		793,416	664,970	501,908
Revaluation reserve		-	127	-
Total equity		**1,558,354**	**1,430,035**	**826,950**
Total equity and liabilities		**9,700,753**	**9,723,182**	**9,603,344**

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

First Deputy Chairman of the Board O. Grinchenko

Chief Financial Officer S. Sokolov

25 May 2011

The accompanying notes on pages 6 to 36 are an integral part of these financial statements.

INCOME STATEMENT
For the year ended 31 December 2010

(Thousands of Ukrainian hryvnia)

	Notes	*2010*	*2009*
Interest income			
Loans to customers		550,506	677,773
Amounts due from credit institutions		5,616	26,986
Securities available-for-sale		5,770	11,387
Amounts due from the National Bank of Ukraine		2,681	645
		564,573	716,791
Trading securities and securities pledged under repurchase agreements		46,116	30,924
		610,689	747,715
Interest expense			
Amounts due to customers		(14,371)	(39,741)
Amounts due to credit institutions		(31,119)	(57,097)
Subordinated debt		(160)	(479)
		(45,650)	(97,317)
Net interest income		**565,039**	**650,398**
Allowance for loan impairment	7, 8	(28,368)	(84,626)
Net interest income after allowance for loan impairment		**536,671**	**565,772**
Net fee and commission expense	20	(114,609)	(132,745)
Gains less losses from trading securities		91,467	(37,518)
Gains less losses from investment securities available-for-sale		(1,476)	-
Gains less losses from foreign currencies:		26,909	328,916
- dealing		33,018	124,775
- translation differences		(6,109)	204,141
Other income	21	6,046	4,431
Non-interest income		**8,337**	**163,084**
Personnel expenses	22	(95,219)	(146,347)
Depreciation and amortisation	10,11	(5,795)	(21,882)
Other administrative and operating expenses	22	(100,247)	(279,943)
Other impairment and provisions	13	21,949	(21,879)
Non-interest expense		**(179,312)**	**(470,051)**
Profit before income tax expense		**365,696**	**258,805**
Income tax expense	12	(87,350)	(95,743)
Profit for the year		**278,346**	**163,062**

The accompanying notes on pages 6 to 36 are an integral part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2010

(Thousands of Ukrainian hryvnia)

	2010	*2009*
Profit for the year	**278,346**	**163,062**
Other comprehensive income		
Unrealised (loss)/gain on securities available-for-sale	(1,645)	169
Unrealised loss on securities available-for-sale reclassified to the income statement on impairment	1,476	-
Income tax relating to other comprehensive income	42	(42)
Other comprehensive income	**(127)**	**127**
Total comprehensive income	**278,219**	**163,189**

The accompanying notes on pages 6 to 36 are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2010

(Thousands of Ukrainian hryvnia)

	Share capital	*Additional paid-in capital*	*Retained earnings*	*Revaluation reserve*	*Total*
1 January 2009	**325,042**	**-**	**501,908**	**-**	**826,950**
Issuance of shares	426,537	13,359	-	-	439,896
Total comprehensive income for the year	-	-	163,062	127	163,189
31 December 2009	**751,579**	**13,359**	**664,970**	**127**	**1,430,035**
Dividends to shareholder of the Bank	-	-	(149,900)	-	(149,900)
Total comprehensive income for the year	-	-	278,346	(127)	278,219
31 December 2010	**751,579**	**13,359**	**793,416**	**-**	**1,558,354**

The accompanying notes on pages 6 to 36 are an integral part of these financial statements.

STATEMENT OF CASH FLOWS
For the year ended 31 December 2010

(Thousands of Ukrainian hryvnia)

	Notes	*2010*	*2009*
Cash flows from operating activities			
Interest received		609,435	758,223
Interest paid		(45,599)	(145,631)
Fees and commissions received		83,060	97,221
Fees and commissions paid		(197,669)	(229,966)
Gains less losses from trading securities		86,095	(45,637)
Realised gains less losses from dealing in foreign currencies		33,018	124,775
Gains less losses from derivative financial instruments		(1,975)	(2,833)
Other income received		8,144	1,051
Personnel expenses paid		(92,497)	(151,592)
Other operating expenses paid		(75,608)	(186,815)
Cash flows from operating activities before changes in operating assets and liabilities		**406,404**	**218,796**
Net (increase)/decrease in operating assets			
Trading securities and securities pledged under repurchase agreements		(688,462)	105,538
Amounts due from credit institutions		(1,125,915)	(131,685)
Loans to customers		337,855	318,725
Other assets		2,198	1,328
Net increase/(decrease) in operating liabilities			
Amounts due to credit institutions		(614,384)	193,316
Amounts due to customers		563,444	(169,502)
Other liabilities		15,224	(724)
Net cash flows (used in)/from operating activities before income tax		**(1,103,636)**	**535,792**
Income tax paid		(74,326)	(98,627)
Net cash (used in)/from operating activities		**(1,177,962)**	**437,165**
Cash flows from investing activities			
Proceeds from sale and redemption of available-for-sale securities		2,496,707	3,300,105
Purchase of available-for-sale securities		(2,490,060)	(3,315,280)
Purchase of property, equipment and intangible assets		(1,273)	(14,200)
Proceeds from sale of property and equipment		4	13,582
Net cash from/(used in) investing activities		**5,378**	**(15,793)**
Cash flows from financing activities			
Dividends paid		(149,900)	-
Net cash used in financing activities		**(149,900)**	**-**
Effect of exchange rates changes on cash and cash equivalents		(43,191)	(32,548)
Net (decrease)/increase in cash and cash equivalents		**(1,365,675)**	**388,824**
Cash and cash equivalents, 1 January		**2,170,414**	**1,781,590**
Cash and cash equivalents, 31 December	5	**804,739**	**2,170,414**

The accompanying notes on pages 6 to 36 are an integral part of these financial statements.

(Thousands of Ukrainian hryvnia unless otherwise indicated)

1. Principal activities

Public Joint-Stock Company “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., Netherlands.

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 licence issued by the NBU. The Bank also has trading securities, depositary and custodian licences 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 Spasska St., Kyiv, Ukraine.

In April 2009, the Bank announced its intention to close its retail banking business in Ukraine. The decision was a part of the ING global portfolio revision process aimed at simplifying ING’s global business structure. The Bank’s retail offices kept working until the end of May 2009, and subsequently all retail assets were either written off or sold.

2. Basis of preparation

Statement of compliance

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 to prepare its financial statements for statutory purposes in accordance with the “Regulations for 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.

Basis of measurement

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

Functional and presentation currency

The national currency of Ukraine is the Ukrainian hryvnia (“UAH”). These financial statements are presented in thousands of Ukrainian hryvnia (“UAH thousands”) 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

In 2010, the Bank determined that it was more appropriate to classify certain transit accounts as amounts due to customers and accordingly the balances for previous years have been reclassified as detailed below:

Financial statements line item	As previously reported	Reclassification	As adjusted
Statement of financial position as at 31 December 2009			
Amounts due to customers	2,001,381	23,722	2,025,103
Other liabilities	73,863	(23,722)	50,141
Statement of financial position as at 31 December 2008			
Amounts due to customers	2,400,979	720	2,401,699
Other liabilities	68,995	(720)	68,275

(Thousands of Ukrainian hryvnia unless otherwise indicated)

3. Summary of significant accounting policies

Changes in accounting policies and disclosures – new and amended standards and interpretations

The accounting policies adopted are consistent with those of the previous financial year, except for the following new and amended IFRS and IFRIC interpretations effective as of 1 January 2010:

IFRS 2 Share-based Payment: Group Cash-settled Share-based Payment Transactions

IFRS 3 “Business Combinations” (revised in January 2008) and IAS 27 “Consolidated and Separate Financial Statements” (revised in January 2008)

IAS 24 “Related party disclosures” (Revised)

Amendment to IAS 39 “Financial Instruments: recognition and measurement” - Eligible Hedged Items

IFRIC 17 “Distribution of Non-Cash Assets to Owners”

Adoption of these revised standards and interpretations did not have any impact on the accounting policies or financial statements of the Bank.

Improvements to IFRSs

In April 2009, the IASB issued the second omnibus of amendments to IFRSs, primarily with a view to removing inconsistencies and clarifying wording. Most of the amendments are effective for annual periods beginning on or after 1 January 2010. There are separate transitional provisions for each standard. Amendments included in the April 2009 “Improvements to IFRS” had no impact on the accounting policies, financial position or performance of the Bank, except the following amendments resulting in changes to accounting policies, as described below.

- IFRS 5 Non-current Assets Held for Sale and Discontinued Operations: clarifies that the disclosures required in respect of non-current assets and disposal groups classified as held for sale or discontinued operations are only those set out in IFRS 5. The disclosure requirements of other IFRSs only apply if specifically required for such non-current assets or discontinued operations.
- IFRS 8 Operating Segment Information: clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker. As the Bank’s chief operating decision maker doesn’t review segment assets and liabilities, the Bank continues to not disclose this information.
- IAS 7 Statement of Cash Flows: Explicitly states that only expenditure that results in recognising an asset can be classified as a cash flow from investing activities.
- IAS 36 Impairment of Assets: The amendment clarifies that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in IFRS 8 before aggregation for reporting purposes. The amendment had no impact on 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.

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 as effective hedging instruments. Gains or losses on financial assets at fair value through profit or loss are recognised in the income statement.

(Thousands of Ukrainian hryvnia unless otherwise indicated)

3. Summary of significant accounting policies (continued)

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.

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 in the statement of comprehensive income 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 the statement of comprehensive income 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 an active market at the reporting date is based on their quoted market price or dealer price quotations (bid price for long positions and offer price for short positions), without any deduction for transaction costs.

For all other financial instruments not listed in an active market, 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, forward pricing models and other relevant valuation models.

Offsetting

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

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, current accounts with the NBU not restricted for use by the Bank, 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 statement of financial position and, in the event that the transferee has the right by contract or custom to sell or repledge them, they are 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 the 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 and securities markets. 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 if their fair value is positive and as liabilities if 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 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 statement of financial position 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 statement of financial position 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 reporting 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.

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.

(Thousands of Ukrainian hryvnia unless otherwise indicated)

3. Summary of significant accounting policies (continued)

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 based on historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted based on 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 reporting 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 cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement – is removed from statement of comprehensive income 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 statement of comprehensive income.

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.

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.

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 as 'Other liabilities' being the premium received. After the 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 settling any financial obligation arising as a result of the guarantee.

(Thousands of Ukrainian hryvnia unless otherwise indicated)

3. Summary of significant accounting policies (continued)

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.

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 reporting 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
Furniture, fixtures and other equipments	4
Computer and related equipment	4

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 from three to four 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

The Bank does not have any pension arrangements separate from the State pension system of Ukraine, which requires current contributions by the employer calculated as a percentage of current gross salary payments; such expense is charged in the period the related salaries are earned. In addition, the Bank has no significant post-retirement benefits.

Share capital

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”.

Dividends

Dividends are recognised as a liability and deducted from equity at the reporting date only if they are declared before or on the reporting date. Dividends are disclosed when they are proposed before the reporting date or proposed or declared after the reporting date but before the financial statements are authorised for issue.

Contingencies

Contingent liabilities are not recognised in the statement of financial position but are disclosed unless the possibility of any outflow in settlement is remote. A contingent asset is not recognised in the statement of financial position 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 expenses

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 reporting 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 transaction dates. 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.

The principal Ukrainian hryvnia exchange rates used in the preparation of these financial statements as at 31 December are as follows:

Currency	*31 December 2010*	*31 December 2009*
US dollar	7.962	7.985
Euro	10.573	11.449

Accounting standards and interpretations issued but not yet effective

Standards issued but not yet effective up to the date of issuance on the Bank's financial statements are listed below. This listing is of standards and interpretations issued, which the Bank reasonably expects to be applicable as at a future date. The Bank intends to adopt these standards when they become effective.

Amendments to IAS 12 "Income Taxes" – Deferred tax: Recovery of underlying assets
In December 2010, the IASB issued amendments to IAS 12 effective for annual periods beginning on or after 1 January 2012. IAS 12 has been updated to include a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale and a requirement that deferred tax on non-depreciable assets, measured using the revaluation model in IAS 16 should always be measured on a sale basis The Bank expects that these amendments will have no impact on the Bank's financial position.

Amendments to IAS 32 "Financial instruments: Presentation": Classification of Rights Issues"
In October 2009, the IASB issued an amendment to IAS 32. Entities shall apply that amendment for annual periods beginning on or after 1 February 2010. Earlier application is permitted. The amendment alters the definition of a financial liability in IAS 32 to classify rights issues and certain options or warrants as equity instruments. This is applicable if the rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, in order to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. The Bank expects that this amendment will have no impact on the Bank's financial statements.

Amendments to IFRS 7 "Financial Instruments: Disclosures"
The Amendments were issued in October 2010 and are effective for annual periods beginning on or after 1 July 2011. The Amendments introduce additional disclosure requirements for transferred financial assets that are not derecognised. The Bank expects that these amendments will have no impact on the Bank's financial position.

IFRS 9 "Financial Instruments"
In November 2009, the IASB issued the first phase of IFRS 9 Financial instruments. This Standard will eventually replace IAS 39 Financial Instrument: Recognition and Measurement. IFRS 9 becomes effective for financial years beginning on or after 1 January 2013. The first phase of IFRS 9 introduces new requirements on classification and measurement of financial assets. In particular, for subsequent measurement all financial assets are to be classified at amortised cost or at fair value through profit or loss with the irrevocable option for equity instruments not held for trading to be measured at fair value through other comprehensive income. Further, in October 2010, the IASB added to IFRS 9 the requirements for classifying and measuring financial liabilities. Most of the requirements were carried forward unchanged from IAS 39. However, some changes were made to the fair value option for financial liabilities to address the problem of own credit risk. The Bank is currently evaluating the impact of the adoption of new Standard and is considering the initial application date.

Amendment to IFRIC 14 "Prepayments of a Minimum Funding Requirement"
This amendment is effective for annual periods beginning on or after 1 January 2011 and will have a limited impact as it applies only to companies that are required to make minimum funding contributions to a defined benefit pension plan. It removes an unintended consequence of IFRIC 14 related to voluntary pension prepayments when there is a minimum funding requirement. The Bank does not expect the interpretation to have any material effect on the Bank's future financial statements.

(Thousands of Ukrainian hryvnia unless otherwise indicated)

3. Summary of significant accounting policies (continued)

IFRIC 19 “Extinguishing Financial Liabilities with Equity Instruments”
IFRIC Interpretation 19 was issued in November 2009 and is effective for annual periods beginning on or after 1 July 2010. The interpretation clarifies the accounting when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor to extinguish all or part of the financial liability. IFRIC 19 is not expected to have any material impact on the Bank’s financial statements.

On 12 May 2011, the IASB issued four new standards that are applicable for annual periods beginning on or after 1 January 2013. Earlier application is permitted.

IFRS 10 “Consolidated Financial Statements”
IFRS 10 Consolidated Financial Statements provides a single consolidation model that identifies control as the basis for consolidation for all types of entities. The standard sets out requirements for situations when control is difficult to assess, including cases involving potential voting rights, agency relationships, control of specified assets and circumstances in which voting rights are not the dominant factor in determining control. In addition IFRS 10 introduces specific application guidance for agency relationships. The standard also contains accounting requirements and consolidation procedures, which are carried over unchanged from IAS 27. IFRS 10 replaces the consolidation requirements in SIC-12 Consolidation - Special Purpose Entities and IAS 27 Consolidated and Separate Financial Statements. The Bank does not at present envisage that there will be any effect of the adoption of IFRS 10 on its financial position and performance.

IFRS 11 “Joint Arrangements”
IFRS 11 Joint Arrangements improves the accounting for joint arrangements by introducing a principle-based approach that requires a party to a joint arrangement to recognise its rights and obligations arising from the arrangement. The classification of a joint arrangement is determined by assessing the rights and obligations of the parties arising from that arrangement. There are only two types of arrangements provided in the standard - joint operation and joint venture. IFRS 11 also eliminates proportionate consolidation as a method to account for joint arrangements. IFRS 11 supersedes IAS 31 Interests in Joint Ventures and SIC-13 Jointly Controlled Entities - Non-monetary Contributions by Venturers. The Bank does not at present envisage that there will be any effect of the adoption of IFRS 10 on its financial position and performance.

IFRS 12 “Disclosure of Interests in Other Entities”
IFRS 12 Disclosure of Interests in Other Entities issued is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates and unconsolidated structured entities. IFRS 12 is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted. Adoption of the standard may require new disclosures to be made in the financial statements of the Bank but will have no impact on its financial position or performance.

IFRS 13 “Fair Value Measurement“
IFRS 13 Fair Value Measurement defines fair value, and sets out in a single IFRS a framework for measuring fair value and requires disclosures about fair value measurements. The standard applies when other IFRSs require or permit fair value measurements. It does not introduce any new requirements to measure an asset or a liability at fair value, change what is measured at fair value in IFRSs or address how to present changes in fair value. The adoption of IFRS 13 may have an effect on the measurement of the Bank’s assets and liabilities accounted for at fair value. Currently the Bank is evaluating the possible effect of the adoption of IFRS 13 on its financial position and performance.

Improvements to IFRSs

In May 2010, the IASB issued the third omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. Most of the amendments are effective for annual periods beginning on or after 1 January 2011. There are separate transitional provisions for each standard. The amendments included in the May 2010 “Improvements to IFRS” will have an impact on the accounting policies, financial position or performance of the Bank, as described below.

- IFRS 3 Business combinations: limits the scope of the measurement choices that only the components of non-controlling interest that are present ownership interests that entitle their holders to a proportionate share of the entity’s net assets, in the event of liquidation, shall be measured either at fair value or at the present ownership instruments’ proportionate share of the acquiree’s identifiable net assets. As the amendment should be applied from the date the Bank applies IFRS 3 Revised, it may be required to restate for effects incurred under IFRS 3 Revised, but before the adoption of this amendment. The Bank expects that other amendments to IFRS 3 will have no impact on financial statements of the Bank.
- IFRS 7 Financial instruments: Disclosures; introduces the amendments to quantitative and credit risk disclosures. The additional requirements are expected to have minor impact as information is expected to be readily available.
- Amendments to IFRS 1, IAS 1, IAS 27 and IFRIC 13 will have no impact on the accounting policies, financial position or performance of the Bank.

(Thousands of Ukrainian hryvnia unless otherwise indicated)

4. Significant accounting judgements and estimates

Judgements

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

Classification of securities

Securities owned by the Bank comprise Ukrainian State and corporate bonds, deposit certificates issued by the NBU 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 the statement of comprehensive income.

Estimation uncertainty

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

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the statement of financial position 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.

Deferred tax asset recognition

Deferred tax assets are recognised in respect of tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits, together with future tax planning strategies.

5. Cash and cash equivalents

Cash and cash equivalents comprise:

	2010	*2009*
Cash on hand	14,990	14,627
Current accounts with the NBU	355,292	499,107
Current accounts with other credit institutions	422,514	1,623,542
Overnight deposits placed	11,943	33,138
Cash and cash equivalents	**804,739**	**2,170,414**

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

As at 31 December 2010, an amount of UAH 382,327 thousand placed on current accounts with eight OECD banks (2009: UAH 1,617,360 thousand with eight OECD banks) is included in current accounts with other credit institutions. The placements have been made under normal banking terms and conditions.

As at 31 December 2010, overnight deposits represent an overnight deposit placed with one OECD bank (2009: one OECD bank). This placement bears a market interest rate.

(Thousands of Ukrainian hryvnia unless otherwise indicated)

6. Trading securities

Trading securities owned comprise:

	2010	*2009*
Corporate bonds	-	6,214
Ukrainian State bonds	933,859	231,967
Trading securities	**933,859**	**238,181**

7. Amounts due from credit institutions

Amounts due from credit institutions comprise:

	2010	*2009*
Loans and deposits due from banks	323,127	270,281
Obligatory reserves with the NBU	1,132,850	85,108
Other amounts	24,752	-
Gross Amounts due from credit institutions	**1,480,729**	**355,389**
Less – Allowance for impairment	(4,365)	(4,005)
Amounts due from credit institutions	**1,476,364**	**351,384**

As at 31 December 2010, included in amounts due from credit institutions is UAH 247,370 thousand (2009: UAH 223,845 thousand) of loans and deposits placed with five Ukrainian banks.

With effect from August 2009, Ukrainian banks are required to keep 50% of the obligatory reserve for the previous month on a separate account with the NBU. In May 2010, the requirement was increased to 100%. The interest rate on this account initially was 3.00% p.a. and from 8 June 2010 decreased to 2.85% p.a. As at 31 December 2010, the amount of obligatory reserves of the Bank placed on separate account was UAH 164,762 thousand (2009: UAH 85,082 thousand).

In addition, with effect from October 2010, the Bank is also required to reserve 20% of funds attracted in foreign currencies from non-residents of Ukraine for terms less than 183 days on separate non-interest bearing deposit with the NBU. As at 31 December 2010 the amount placed on this account was UAH 968,088 thousand (2009: UAH 26 thousand).

The obligatory reserve with the NBU represents a mandatory reserve deposit and is not available for use in the Bank's day-to-day operations. The Bank complied with the NBU's requirements for such obligatory reserve as at 31 December 2010 and 2009.

The movements in allowance for impairment of amounts due from credit institutions were as follows:

	2010	*2009*
1 January	**4,005**	**-**
Charge	360	4,005
31 December	**4,365**	**4,005**

8. Loans to customers

Loans to customers comprise:

	2010	*2009*
Commercial	6,250,172	6,813,474
Overdrafts	201,876	53,027
Retail	98,091	109,061
Gross loans to customers	**6,550,139**	**6,975,562**
Less – Allowance for impairment	(128,889)	(100,881)
Loans to customers	**6,421,250**	**6,874,681**

(Thousands of Ukrainian hryvnia unless otherwise indicated)

8. Loans to customers (continued)

Allowance for impairment of loans to customers

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

	Commercial	*Overdrafts*	*Retail*	*Total*
At 1 January 2010	**96,745**	**-**	**4,136**	**100,881**
Charge for the year	24,299	38	3,671	28,008
At 31 December 2010	**121,044**	**38**	**7,807**	**128,889**
Individual impairment	116,907	-	1,986	118,893
Collective impairment	4,137	38	5,821	9,996
	121,044	**38**	**7,807**	**128,889**
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	**1,546,287**	**-**	**2,663**	**1,548,950**

	Commercial	*Overdrafts*	*Retail*	*Total*
At 1 January 2009	**4,168**	**219**	**15,873**	**20,260**
Charge for the year	92,577	(219)	(11,737)	80,621
At 31 December 2009	**96,745**	**-**	**4,136**	**100,881**
Individual impairment	87,658	-	-	87,658
Collective impairment	9,087	-	4,136	13,223
	96,745	**-**	**4,136**	**100,881**
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	**349,312**	**-**	**19,411**	**368,723**

Details of the loans, which were renegotiated as at 31 December, are as follows:

	2010	*2009*
Commercial loans and overdrafts	1,835,733	2,003,072
Retail	5,367	13,895
Loans to customers	**1,841,100**	**2,016,967**

No losses were incurred as a result of renegotiation of loan terms.

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 ING Bank N.V. 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.

Concentration of loans to customers

As at 31 December 2010, the Bank had a concentration of loans represented by UAH 3,167,217 thousand due from the ten largest third party borrowers (48.4% of gross loan portfolio) (2009: UAH 3,195,543 thousand or 46.1%). Allowance for impairment recognised against these loans amounted to UAH 1,629 thousand as at 31 December 2010 (2009: UAH 839 thousand).

(Thousands of Ukrainian hryvnia unless otherwise indicated)

8. Loans to customers (continued)

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

	2010	*2009*
Metallurgy	1,532,121	1,745,687
Trade	1,421,566	1,336,231
Food and beverages	1,040,247	1,162,692
Machinery	611,019	531,506
Chemical goods production	401,459	223,197
Energy	365,506	210,768
Construction material production	328,345	85,766
Tobacco	205,273	355,068
IT products and services	127,947	248,554
Automobile construction	100,341	199,891
Retail	98,091	109,061
Communications	94,278	103,528
Wood processing	83,538	307,155
Consultancy services	280	15,994
Mining	-	206,129
Other	140,128	134,335
	6,550,139	**6,975,562**

9. Investment securities available-for-sale

As at 31 December 2010, available-for-sale securities are represented by corporate bonds and shares with a carrying value of UAH 6,965 thousand and UAH 3,391 thousand respectively (2009: UAH 15,435 thousand and UAH 3,331 thousand respectively).

The Bank recognised an impairment loss of UAH 1,476 thousand on available-for-sale securities for the year ended 31 December 2010 (2009: nil).

10. Property and equipment

The movements in property and equipment are as follows:

	Leasehold improvements	*Furniture, fixtures and other equipment*	*Computers and related equipment*	*Total*
Cost				
31 December 2009	**3,918**	**16,534**	**12,821**	**33,273**
Additions	-	159	428	587
Disposals	-	(220)	(665)	(885)
31 December 2010	**3,918**	**16,473**	**12,584**	**32,975**
Accumulated depreciation				
31 December 2009	**3,090**	**8,769**	**9,373**	**21,232**
Depreciation charge	336	2,993	1,517	4,846
Disposals	-	(220)	(631)	(851)
31 December 2010	**3,426**	**11,542**	**10,259**	**25,227**
Net book value:				
31 December 2009	**828**	**7,765**	**3,448**	**12,041**
31 December 2010	**492**	**4,931**	**2,325**	**7,748**

(Thousands of Ukrainian hryvnia unless otherwise indicated)

10. Property and equipment (continued)

	Leasehold improvements	*Furniture, fixtures and other equipment*	*Computers and related equipment*	*Assets under construction*	*Total*
Cost					
31 December 2008	**23,517**	**24,878**	**43,762**	**9,883**	**102,040**
Additions	491	1,167	914	25,658	28,230
Disposals	(23,106)	(15,225)	(32,037)	(26,629)	(96,997)
Transfers	3,016	5,714	182	(8,912)	-
31 December 2009	**3,918**	**16,534**	**12,821**	**-**	**33,273**
Accumulated depreciation					
31 December 2008	**5,064**	**8,266**	**11,824**		**25,154**
Depreciation charge	3,753	5,132	7,279		16,164
Disposals	(5,727)	(4,629)	(9,730)		(20,086)
31 December 2009	**3,090**	**8,769**	**9,373**		**21,232**
Net book value:					
31 December 2008	**18,453**	**16,612**	**31,938**	**9,883**	**76,886**
31 December 2009	**828**	**7,765**	**3,448**	**-**	**12,041**

11. Intangible assets

The movements in intangible assets are as follows:

	Licences and computer software
Cost	
31 December 2009	**3,621**
Additions	693
31 December 2010	**4,314**
Accumulated amortisation	
31 December 2009	**2,005**
Amortisation charge	949
31 December 2010	**2,954**
Net book value:	
31 December 2009	**1,616**
31 December 2010	**1,360**

	Licences and computer software
Cost	
31 December 2008	**21,335**
Additions	3,497
Disposals	(21,211)
31 December 2009	**3,621**
Accumulated amortisation	
31 December 2008	**3,399**
Amortisation charge	5,718
Disposals	(7,112)
31 December 2009	**2,005**
Net book value:	
31 December 2008	**17,936**
31 December 2009	**1,616**

(Thousands of Ukrainian hryvnia unless otherwise indicated)

12. Taxation

The corporate income tax expense comprises:

	2010	*2009*
Current tax charge	53,370	106,356
Deferred tax credit	33,980	(10,613)
Income tax expense	**87,350**	**95,743**

In 2010, Ukrainian corporate income tax was levied on taxable income less allowable expenses at the rate of 25% (2009: 25%).

On 13 December 2010, the Parliament of Ukraine adopted a Tax Code. According to the newly adopted provisions, the corporate income tax rate will be decreased to 23% with effect from 1 April 2011, to 21% from 1 January 2012, to 19% from 1 January 2013 and to 16% from 1 January 2014. Deferred tax balances are measured using of the tax rates that will be applicable when the temporary differences are expected to reverse.

The effective income tax rate differs from the statutory income tax rates. A reconciliation of the income tax expense based on statutory rates with actual is as follows:

	2010	*2009*
Profit before income tax expense	365,696	258,804
Statutory tax rate	25%	25%
Income tax expense at the statutory rate	91,424	64,701
Non-deductible expenditures:		
- Office maintenance	336	1,775
- Representative expenses	170	245
- Penalties paid	65	8,733
- Other taxes	60	546
- Advertising	6	119
- Loss on disposal of property, equipment and intangible assets	-	13,946
- Loss on sale of loan portfolio	-	1,718
- Salary	-	84
- Other expenses	20	536
Income recognised for tax purposes only	(6,125)	-
Additional share capital	-	3,340
Effect of change in tax rates	1,394	-
Income tax expense	**87,350**	**95,743**

Deferred tax assets and liabilities as at 31 December and their movements for the respective years comprise:

		Origination and reversal of temporary differences			***Origination and reversal of temporary differences***		
	2008	***in the income statement***	***in other comprehensive income***	***2009***	***in the income statement***	***in other comprehensive income***	***2010***
Tax effect of deductible and taxable temporary differences:							
Amounts due from credit institutions	-	(2,192)	-	(2,192)	(7,641)	-	(9,833)
Securities owned	17,911	4,108	(42)	21,977	(24,519)	42	(2,500)
Loans to customers	1,866	(3,105)	-	(1,239)	(3,420)	-	(4,659)
Property and equipment	203	8,183	-	8,386	(3,777)	-	4,609
Other assets	1,003	4,025	-	5,028	(4,639)	-	389
Amounts due to customers	-	3,194	-	3,194	7,730	-	10,924
Other liabilities	13,120	(3,600)	-	9,520	2,286	-	11,806
Deferred tax asset	**34,103**	**10,613**	**(42)**	**44,674**	**(33,980)**	**42**	**10,736**

(Thousands of Ukrainian hryvnia unless otherwise indicated)

13. Other impairment and provisions

The movements in other impairment allowances and provisions were as follows:

	Other assets
31 December 2008	**1,695**
Charge	21,879
31 December 2009	**23,574**
Charge (reversal)	(21,949)
Write-offs	(69)
31 December 2010	**1,556**

The allowance for impairment of assets is deducted from the carrying amounts of the related assets.

14. Other assets and liabilities

Other assets comprise:

	2010	*2009*
Accrued income	4,391	5,207
Derivative financial instruments	2,836	1,825
Amounts due on operations with other financial instruments	1,458	1,410
Prepaid expenses	780	1,141
Other prepayments	401	93
Amounts due on operations with securities	293	22,627
Prepayments for fixed assets	29	41
Transit accounts in respect of transactions with clients	-	2,584
Other	73	71
	10,261	**34,999**
Less – Allowance for impairment of other assets (Note 13)	(1,556)	(23,574)
Other assets	**8,705**	**11,425**

Other liabilities comprise:

	2010	*2009 (reclassified)*	*2008 (reclassified)*
Accrued expenses	46,950	38,932	50,404
Payables for services	9,954	4,452	554
Derivative financial instruments	6,316	606	6,094
Taxes payable other than income tax	2,009	1,153	2,745
Transit accounts in respect of transactions with clients	1,698	3,991	5,268
Other	1,311	1,007	3,210
Other liabilities	**68,238**	**50,141**	**68,275**

15. Amounts due to credit institutions

Amounts due to credit institutions comprise:

	2010	*2009*
Time deposits and loans	5,482,554	6,154,802
Amounts due to credit institutions	**5,482,554**	**6,154,802**

As at 31 December 2010, loans and deposits due to credit institutions include UAH 5,226,775 thousand received from ING Group banks (2009: UAH 5,586,872 thousand). These loans are denominated in US dollars and euros, and bear fixed and floating interest rates, and are matched in maturity with loans issued to customers.

(Thousands of Ukrainian hryvnia unless otherwise indicated)

16. Amounts due to customers

The amounts due to customers include the following:

	2010	2009 (reclassified)	2008 (reclassified)
Current accounts			
- Legal entities	1,972,394	1,466,906	1,843,829
- Individuals	19,502	20,443	61,574
	1,991,896	**1,487,349**	**1,905,403**
Time deposits			
- Legal entities	532,046	535,290	495,280
- Individuals	-	2,464	1,016
	532,046	**537,754**	**496,296**
Amounts due to customers	**2,523,942**	**2,025,103**	**2,401,699**
Held as security against letters of credit	3,753	-	16,277
Held as security against guarantees	3,523	8,800	7,921

As at 31 December 2010, current accounts of legal entities amounting to UAH 777,725 thousand (39.4% of legal entities current accounts) were due to the ten largest customers (2009: UAH 559,923 thousand or 38.8%).

As at 31 December 2010, time deposits from legal entities of UAH 517,665 thousand (97.3% of time deposits of legal entities) were due to the ten largest third party clients (2009: UAH 446,977 thousand or 83.5%).

An analysis of customer accounts by economic sector follows:

	2010	2009 (reclassified)	2008 (reclassified)
Trade	753,905	425,417	446,284
Financial services	463,927	417,204	608,194
Agriculture and food processing	375,495	388,228	117,591
Metallurgy	229,550	8,475	136,022
Manufacturing	215,932	277,241	266,167
Services	146,681	130,094	95,452
Transport and communications	109,899	104,543	354,613
Chemical	20,077	36,828	16,393
Individuals	19,502	22,907	62,590
Real estate constructions	1,056	10,787	17,071
Machine building	758	1,252	40,180
Energy	183	27	200
Other	186,977	202,100	240,942
Amounts due to customers	**2,523,942**	**2,025,103**	**2,401,699**

17. Subordinated debt

In 2002, the Bank received a long-term subordinated loan of USD 5,400 thousand (UAH 42,993 thousand) bearing a variable interest rate of three month LIBOR multiplied by 1.021 (carrying value of UAH 43,003 thousand and UAH 43,119 thousand as at 31 December 2010 and 31 December 2009, respectively). This subordinated loan matures in 2012. The average interest rate for the year ended 31 December 2010 approximated 0.35% (2009: 0.26%).

18. Equity

As at 31 December 2010, the Bank’s authorised issued share capital comprised 73,129,804,500 (2009: 73,129,804,500) ordinary shares, with a nominal value of UAH 0.01 per share. All shares have equal voting rights. As at 31 December 2010, all issued shares were fully paid and registered (2009: all shares were fully paid and registered).

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.

(Thousands of Ukrainian hryvnia unless otherwise indicated)

18. Equity (continued)

The movements in share capital were as follows:

	Number of shares	*Nominal amount, UAH thousand*	*Restated cost, UAH thousand*
31 December 2008	**30,476,092,500**	**304,761**	**325,042**
Shares issued	42,653,712,000	426,537	426,537
31 December 2009	**73,129,804,500**	**731,298**	**751,579**
Shares issued	-	-	-
31 December 2010	**73,129,804,500**	**731,298**	**751,579**

19. 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 global financial crisis has resulted in a decline in the gross domestic product, instability in the capital markets, a significant deterioration in the liquidity of the banking sector, and tighter credit conditions within Ukraine. Whilst the Ukrainian Government continues to introduce various stabilisation measures aimed at supporting the banking sector and providing liquidity to Ukrainian banks and companies, there continues to be uncertainty regarding access to capital and its cost for the Bank and its counterparties, which could affect the Bank’s financial position, results of operations and business prospects.

In addition, factors including increased unemployment in Ukraine, reduced corporate liquidity and profitability, and increased corporate and personal insolvencies, have affected the ability of the Bank’s borrowers to repay the amounts due to the Bank. In addition, changes in economic conditions have resulted in deterioration in the value of collateral held against loans and other obligations. 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, any 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 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 has 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.

(Thousands of Ukrainian hryvnia unless otherwise indicated)

19. Commitments and contingencies (continued)

Commitments and contingencies

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

	2010	*2009*
Credit related commitments		
Letters of credit	365,859	183,150
Guarantees	218,726	162,730
Promissory note guarantees	18,948	10,392
Undrawn loan commitments	139,727	4,523
	743,260	**360,795**
Less – Cash held as security against letters of credit, guarantees and promissory notes guarantees (Note 16)	(7,276)	(8,800)
Commitments and contingencies	**735,984**	**351,995**

20. Net fee and commission expense

Net fee and commission expense comprises:

	2010	*2009*
Currency exchange transactions	33,453	56,583
Operations with securities	22,702	20,316
Payments and withdrawals	11,753	11,780
Guarantees and commitments	14,916	7,925
Credit service to customers	236	92
Other	-	526
Fee and commission income	**83,060**	**97,222**
Guarantees and commitments	(191,145)	(215,380)
Operations with securities	(1,893)	(5,626)
Payments and withdrawals	(3,676)	(4,899)
Currency exchange	(778)	(3,518)
Other	(177)	(544)
Fee and commission expense	**(197,669)**	**(229,967)**
Net fee and commission expense	**(114,609)**	**(132,745)**

21. Other income

	2010	*2009*
Sell of MasterCard shares and return of overpaid penalty	3,436	-
Consulting	952	842
Sub-leasing	665	1,444
Insurance agent services	467	205
Penalties received	324	1,718
Gain on disposal of property, equipment and intangible assets	18	-
Other	184	222
Total other income	**6,046**	**4,431**

(Thousands of Ukrainian hryvnia unless otherwise indicated)

22. Personnel and other administrative and operating expenses

Personnel and other operating expenses comprise:

	2010	*2009*
Salaries and bonuses	84,748	134,220
Social security costs	10,471	12,127
Personnel expenses	**95,219**	**146,347**
Repair and maintenance	33,795	35,108
Loss on sale of financial assets	29,587	14,042
Occupancy and rent	11,737	38,162
Operational and maintenance	8,510	14,964
Consulting	5,635	16,800
Business trips	4,495	3,777
EDP cost	2,970	35,941
Communications	1,864	4,187
Marketing and advertising	518	2,018
Security	403	1,252
Penalties paid	259	34,928
Operating taxes	44	2,409
Loss on disposal of property, equipment and intangible assets	-	73,728
Other	430	2,627
Other operating expenses	**100,247**	**279,943**

23. 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”). The 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. Specifically, the Supervisory Board is responsible 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 assets, liabilities and risks management to the ALCO.

(Thousands of Ukrainian hryvnia unless otherwise indicated)

23. Risk management (continued)

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.

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 derivatives for the management of risks arising from changes in interest rates, foreign exchange rates, credit risk and liquidity risk.

The Bank extensively uses collateral to minimise credit risk.

Excessive risk concentration

Concentration arises when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate 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 risk, the Bank’s internal policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified risk concentrations are 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.

(Thousands of Ukrainian hryvnia unless otherwise indicated)

23. Risk management (continued)

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 deal with counterparties of good credit standing and, when appropriate, obtains collateral. The credit policy is reviewed and approved by the 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, expected return on the loan, the liquidity of the proposed collateral and whether it is acceptable 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, 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 ratings, 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.

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 monthly).

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 counterparties 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.

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 makes available to its customers guarantees which may require that the Bank make payments their behalf. Such payments are collected from customers under the terms of the letters of credit. These arrangements expose the Bank to similar risks to loans and these are mitigated by similar control procedures and policies.

(Thousands of Ukrainian hryvnia unless otherwise indicated)

23. Risk management (continued)

The table below shows the maximum credit risk exposures under the statement of financial position items. The maximum exposure is shown gross, before the effect of mitigation through the use of the master netting and collateral agreements and after deducting any allowance for impairment.

	Notes	***Maximum exposure 2010***	***Maximum exposure 2009***
Cash and cash equivalents (excluding cash on hand)	5	789,749	2,155,787
Trading securities	6	933,859	238,181
Amounts due from credit institutions	7	1,476,364	351,384
Loans to customers	8	6,421,250	6,874,681
Investment securities available-for-sale	9	6,965	15,435
Other assets	14	8,705	11,425
		9,636,892	**9,646,893**
Financial commitments and contingencies	19	743,260	360,795
Total credit risk exposure		**10,380,152**	**10,007,688**

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.

Credit quality by class of financial assets

The credit quality of financial assets is managed by the Bank internal credit ratings. The table below shows the credit quality by class of asset for loan-related lines in the statement of financial position, based on the Bank's credit rating system.

		Neither past due nor impaired				
	Notes	***High grade 2010***	***Standard grade 2010***	***Sub-standard grade 2010***	***Past due or individually impaired 2010***	***Total 2010***
Amounts due from credit institutions	7	1,302,797	151,890	21,677	4,365	1,480,729
Loans to customers	8					
Commercial		3,117,155	280,567	1,249,990	1,602,460	6,250,172
Overdrafts		150,326	41,459	10,091	-	201,876
Retail		54,443	23,115	12,130	8,403	98,091
		3,321,924	**345,141**	**1,272,211**	**1,610,863**	**6,550,139**
Investment securities available-for-sale	9	-	-	8,441	-	8,441
Total		**4,624,721**	**497,031**	**1,302,329**	**1,615,228**	**8,039,309**

		Neither past due nor impaired				
	Notes	***High grade 2009***	***Standard grade 2009***	***Sub-standard grade 2009***	***Past due or individually impaired 2009***	***Total 2009***
Amounts due from credit institutions	7	351,384	-	-	4,005	355,389
Loans to customers	8					
Commercial		1,913,100	3,772,907	778,155	349,312	6,813,474
Overdrafts		1,645	51,382	-	-	53,027
Retail		65,998	19,216	3,320	20,527	109,061
		1,980,743	**3,843,505**	**781,475**	**369,839**	**6,975,562**
Investment securities available-for-sale	9	-	15,435	-	-	15,435
Total		**2,332,127**	**3,858,940**	**781,475**	**373,844**	**7,346,386**

In the table above loans to banks and customers of high grade are those having a minimal level of credit risk, normally with a credit rating on or close to sovereign level or very well collateralized. Other borrowers with good financial position and good debt service are included in the standard grade. Sub-standard grade comprises loans below standard grade but not individually impaired.

(Thousands of Ukrainian hryvnia unless otherwise indicated)

23. Risk management (continued)

Ageing analysis of past due but not impaired loans per class of financial assets

	Less than 30 days 2010	***31 to 60 days 2010***	***61 to 90 days 2010***	***More than 90 days 2010***	***Total 2010***
Loans to customers					
Commercial	52,585	599	-	2,989	56,173
Retail	5,610	-	-	130	5,740
Total	**58,195**	**599**	**-**	**3,119**	**61,913**

Of the total aggregate amount of gross past due but not impaired loans to customers the fair value of collateral that the Bank held as at 31 December 2010 was UAH 112,302 thousand (2009: UAH 728 thousand).

	Less than 30 days 2009	***31 to 60 days 2009***	***61 to 90 days 2009***	***More than 90 days 2009***	***Total 2009***
Loans to customers					
Retail	106	-	-	1,010	1,116
Total	**106**	**-**	**-**	**1,010**	**1,116**

See Note 8 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.

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 incurred 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.

(Thousands of Ukrainian hryvnia unless otherwise indicated)

23. Risk management (continued)

Geographical concentration

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

	2010			
	Ukraine	*OECD*	*CIS and other non-OECD countries*	*Total*
Assets:				
Cash and cash equivalents	372,339	394,263	38,137	804,739
Trading securities	933,859	-	-	933,859
Amounts due from credit institutions	1,476,364	-	-	1,476,364
Loans to customers	6,371,175	-	50,075	6,421,250
Investment securities available-for-sale	6,965	-	-	6,965
Other assets (monetary)	7,853	-	-	7,853
	9,168,555	**394,263**	**88,212**	**9,651,030**
Liabilities:				
Amounts due to credit institutions	255,778	5,226,776	-	5,482,554
Amounts due to customers	2,152,153	341,940	29,849	2,523,942
Subordinated debt	-	43,003	-	43,003
Other liabilities (monetary)	67,282	-	-	67,282
	2,475,213	**5,611,719**	**29,849**	**8,116,781**
Net financial position	**6,693,342**	**(5,217,456)**	**58,363**	**1,534,249**

	2009			
	Ukraine	*OECD*	*CIS and other non-OECD countries*	*Total*
Assets:				
Cash and cash equivalents	514,510	1,650,497	5,407	2,170,414
Trading securities	238,181	-	-	238,181
Amounts due from credit institutions	343,497	51	7,836	351,384
Loans to customers	6,800,695	73,986	-	6,874,681
Investment securities available-for-sale	15,435	-	-	15,435
Other assets (monetary)	8,388	-	-	8,388
	7,920,706	**1,724,534**	**13,243**	**9,658,483**
Liabilities:				
Amounts due to credit institutions	182,220	5,972,582	-	6,154,802
Amounts due to customers	1,857,109	154,553	13,441	2,025,103
Subordinated debt	-	43,119	-	43,119
Other liabilities (monetary)	49,166	-	-	49,166
	2,088,495	**6,170,254**	**13,441**	**8,272,190**
Net financial position	**5,832,211**	**(4,445,720)**	**(198)**	**1,386,293**

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 period.

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 the 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.

(Thousands of Ukrainian hryvnia unless otherwise indicated)

23. Risk management (continued)

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 NBU. 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 the respective liquidity ratios established by the NBU, was as follows:

	2010, %	*2009, %*
N4 “Instant Liquidity Ratio” (vault cash and balances on nostro accounts with banks / balances on customers’ current accounts) (minimum required by the NBU – 20%)	46.84	164.32
N5 “Current Liquidity Ratio” (vault cash, balances on nostro accounts with banks, banking metals, claims on banks 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%)	103.17	96.91
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 as at 31 December 2010 – 60%, as at 31 December 2009 – 20%)	108.23	28.31

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.

Financial liabilities As at 31 December 2010	***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	4,307,341	797,600	14,140	348,804	43,136	5,511,021
Amounts due to customers	2,491,818	27,514	5,706	-	-	2,525,038
Subordinated debt	21	22	102	43,121	-	43,266
Gross settled derivative financial instruments						
- Contractual amounts payable	1,143	5,173	-	-	-	6,316
- Contractual amounts receivable	(1,448)	-	(918)	(470)	-	(2,836)
Other liabilities	60,966	-	-	-	-	60,966
Total undiscounted financial liabilities	**6,859,841**	**830,309**	**19,030**	**391,455**	**43,136**	**8,143,771**

(Thousands of Ukrainian hryvnia unless otherwise indicated)

23. Risk management (continued)

Financial liabilities As at 31 December 2009	***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	5,685,393	381,553	12,479	38,497	51,656	6,169,578
Amounts due to customers	2,009,778	16,170	17	151	-	2,026,116
Subordinated debt	9	18	83	43,333	-	43,443
Gross settled derivative financial instruments						
- Contractual amounts payable	103	24	126	353	-	606
- Contractual amounts receivable	-	(1,825)	-	-	-	(1,825)
Other liabilities	48,560	-	-	-	-	48,560
Total undiscounted financial liabilities	**7,743,843**	**395,940**	**12,705**	**82,334**	**51,656**	**8,286,478**

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 based on information on deposit repayment in previous periods.

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***
2010	327,605	275,258	140,397	-	743,260
2009	125,326	234,798	671	-	360,795

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 (Note 16).

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 re-pricing 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.

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.

(Thousands of Ukrainian hryvnia unless otherwise indicated)

23. Risk management (continued)

		2010			
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	+100	36,818	-25	(9,204)
EUR	LIBOR	+100	7,083	-25	(1,771)
Total			**43,901**		**(10,975)**

		2009			
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	+100	8,943	-25	(2,236)
EUR	LIBOR	+100	7,842	-25	(1,961)
Total			**16,785**		**(4,197)**

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 reporting 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 on a daily basis. Reports on changes in currency positions are provided to management on a weekly and a monthly basis.

	2010		2009	
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	29.50%	40,302	31.30%	33,476
EUR/UAH	27.90%	(16,477)	33.10%	(11,619)
Total		**23,825**		**21,857**
USD/UAH	-29.50%	(40,302)	-31.30%	(33,476)
EUR/UAH	-27.90%	16,477	-33.10%	11,619
Total		**(23,825)**		**(21,857)**

Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks may cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Bank does not expect to eliminate all operational risks, but a control framework, monitoring and timely responding to potential risks are effective tools to manage the risks. Controls include the effective segregation of duties, access rights, authorisation procedures, staff training and assessment processes. Currently, operational risks are considerably reduced due to more strict observance of the requirements of technological processes.

(Thousands of Ukrainian hryvnia unless otherwise indicated)

24. Fair values of financial instruments

The Bank uses the following hierarchic methods of measurement to determine and disclose the fair values of financial instruments:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: measurement methods the inputs for which, having a material impact on fair values recognised in the financial statements, are based on observable market data, either directly or indirectly.
- Level 3: measurement methods the inputs for which, having a material impact on fair values recognised in the financial statements, are not based on observable market data.

The table below shows the analysis of financial instruments presented in the financial statements at fair value by hierarchic levels of fair value sources as at 31 December 2010 and 2009:

At 31 December 2010	***Level 1***	***Level 2***	***Level 3***	***Total***
Financial assets				
Trading securities	-	933,859	-	933,859
Investment securities – available-for-sale	3,391	6,965	-	10,356
	3,391	**940,824**	**-**	**944,215**

At 31 December 2009	***Level 1***	***Level 2***	***Level 3***	***Total***
Financial assets				
Trading securities	-	238,181	-	238,181
Investment securities – available-for-sale	3,331	15,435	-	18,766
	3,331	**253,616**	**-**	**256,947**

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 reporting 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 reporting 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 re-pricing periods and/or market interest rates at period end. The fair value of loans and deposits with maturities greater than one year approximate their carrying value because for substantially all loans and deposits the Bank has applied floating interest rates that consider 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 judgement, the fair value should not be interpreted as being realisable in an immediate sale of the assets or settlement of liabilities.

(Thousands of Ukrainian hryvnia unless otherwise indicated)

25. Maturity analysis of assets and liabilities

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

	2010			*2009*		
	Within one year	***More than one year***	***Total***	***Within one year***	***More than one year***	***Total***
Assets						
Cash and cash equivalents	804,739	-	804,739	2,170,414	-	2,170,414
Trading securities	933,859	-	933,859	238,181	-	238,181
Amounts due from credit institutions	1,476,364	-	1,476,364	323,466	27,918	351,384
Loans to customers	5,791,359	629,891	6,421,250	6,155,488	719,193	6,874,681
Investment securities available-for-sale	5,259	5,097	10,356	-	18,766	18,766
Property and equipment	-	7,748	7,748	-	12,041	12,041
Intangible assets	-	1,360	1,360	-	1,616	1,616
Corporate current tax asset	25,636	-	25,636	-	-	-
Deferred tax assets	10,736	-	10,736	44,674	-	44,674
Other assets	8,705	-	8,705	11,425	-	11,425
Total assets	**9,056,657**	**644,096**	**9,700,753**	**8,943,648**	**779,534**	**9,723,182**
Liabilities						
Amounts due to credit institutions	5,106,075	376,479	5,482,554	6,078,944	75,858	6,154,802
Amounts due to customers	2,523,942	-	2,523,942	2,024,953	150	2,025,103
Current income tax liabilities	24,662	-	24,662	19,982	-	19,982
Subordinated debt	-	43,003	43,003	-	43,119	43,119
Other liabilities	68,238	-	68,238	50,141	-	50,141
Total liabilities	**7,722,917**	**419,482**	**8,142,399**	**8,174,020**	**119,127**	**8,293,147**
Net	**1,333,740**	**224,614**	**1,558,354**	**769,628**	**660,407**	**1,430,035**

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 year in the table above.

Included in due to customers are term deposits of individuals. In accordance with the Ukrainian legislation, the Bank is obliged to repay such deposits upon demand of a depositor. The Management believes that a majority of term deposits of individuals will not be withdrawn prior to the stated maturity date. Refer to Note 16.

26. 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:

	2010		*2009*	
	ING Group companies	***Key management personnel***	***ING Group companies***	***Key management personnel***
Cash and cash equivalents	272,216	-	1,118,583	-
Loans to customers	-	12,386	-	12,966
Amounts due to credit institutions	5,226,776	-	5,972,583	-
Amounts due to customers	45,607	1,689	1,312	-
Subordinated debt	43,003	-	43,119	-
Interest income	410	579	4,310	447
Interest expense	26,701	-	48,654	-
Fee and commission expense	191,461	2	215,558	1
Guaranties received	10,103,882	-	8,923,222	-

(Thousands of Ukrainian hryvnia unless otherwise indicated)

26. 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 2010 is UAH 18,752 thousand (2009: UAH 35,049 thousand).

27. 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 2010, 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 2010, the Bank’s capital adequacy ratio on this basis was as follows:

	2010	*2009*
Main capital	1,074,666	1,066,211
Additional capital	539,828	374,710
Total capital	**1,614,494**	**1,440,921**
Risk weighted assets	**2,227,195**	**2,225,629**
Capital adequacy ratio	**72.49%**	**64.74%**

Capital adequacy ratio under Basel Capital Accord 1988

As at 31 December 2010 and 2009, the Bank’s capital adequacy ratio, computed in accordance with the Basel Capital Accord 1988 amended to include market risk was as follows:

	2010	*2009*
Tier 1 capital	1,558,354	1,429,908
Tier 2 capital	8,599	11,035
Total capital	**1,566,953**	**1,440,943**
Risk weighted assets	**7,191,406**	**7,848,236**
Tier 1 capital ratio	**21.67%**	**18.22%**
Total capital ratio	**21.79%**	**18.36%**