OPEN JOINT STOCK BANK “UKRGASBANK”

Independent Auditors’ Report

Financial Statements
For the Year Ended 31 December 2007

OPEN JOINT STOCK BANK "UKRGASBANK"

TABLE OF CONTENTS

OPEN JOINT STOCK BANK “UKRGASBANK”

STATEMENT OF MANAGEMENT’S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

The following statement, which should be read in conjunction with the independent auditors’ responsibilities stated in the independent auditors’ report set out on page 2, is made with a view to distinguish the respective responsibilities of management and those of the independent auditors in relation to the financial statements of Open Joint Stock Bank “UkrGasBank” (the “Bank”).

Management is responsible for the preparation of the financial statements that present fairly the financial position of the Bank as at 31 December 2007, the results of its operations, cash flows and changes in equity for the year then ended, in accordance with International Financial Reporting Standards (“IFRS”).

In preparing the financial statements, management is responsible for:

- Selecting suitable accounting principles and applying them consistently;
- Making judgments and estimates that are reasonable and prudent;
- Stating whether IFRS have been followed, subject to any material departures disclosed and explained in the financial statements; and
- Preparing the financial statements on a going concern basis, unless it is inappropriate to presume that the Bank will continue in business for the foreseeable future.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Bank;
- Maintaining proper accounting records that disclose, with reasonable accuracy at any time, the financial position of the Bank, and which enable them to ensure that the financial statements of the Bank comply with IFRS;
- Maintaining statutory accounting records in compliance with legislation and accounting standards of Ukrainian;
- Taking such steps as are reasonably available to them to safeguard the assets of the Bank; and
- Detecting and preventing fraud, errors and other irregularities.

The financial statements for the year ended 31 December 2007 were authorized for issue on 7 March 2008 by the Board.

On behalf of the Board:

Vadim Lyashko, Chairman of the Board

7 March 2008

Nataliya Ilnytska, Deputy Chief Accountant

7 March 2008

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INDEPENDENT AUDITORS' REPORT

To the Shareholders and the Board of Directors of Open Joint Stock Bank "UkrGasBank":

We have audited the accompanying financial statements of the OJSB "UkrGasBank", which comprise the balance sheet as at 31 December 2007, and the statements of income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 OJSB "UkrGasBank" as at 31 December 2007, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Deloitte & Touche

7 March 2008

OPEN JOINT STOCK BANK "UKRGASBANK"

INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2007
(in Ukrainian Hryvnias and in thousands, except for earnings per share which is in Ukrainian Hryvnias)

	Notes	Year ended 31 December 2007	Year ended 31 December 2006
Interest income	5, 33	859,313	389,728
Interest expense	5, 33	(508,361)	(241,322)
NET INTEREST INCOME BEFORE PROVISION FOR IMPAIRMENT LOSSES ON INTEREST BEARING ASSETS		350,952	148,406
Initial fair value recognition adjustment on interest bearing assets		(274)	(555)
Provision for impairment losses on interest bearing assets	6, 33	(94,399)	(31,219)
NET INTEREST INCOME		256,279	116,632
Net gain on financial assets at fair value through profit or loss	7	657	-
Net gain on foreign exchange operations	8	45,464	26,238
Net gain on precious metals operations		1,711	3,002
Fee and commission income	9	106,151	56,882
Fee and commission expense	9	(17,902)	(12,460)
Net realized gain on investments available for sale		20,242	2,843
Income on investment property	10	6,338	2,243
Other income	11	3,640	1,812
NET NON-INTEREST INCOME		166,301	80,560
OPERATING INCOME		422,580	197,192
OPERATING EXPENSES	12	(300,857)	(174,325)
(Provision)/recovery of provision for impairment losses on other transactions	6	(5,288)	52
PROFIT BEFORE INCOME TAX		116,435	22,919
Income tax expense	13	(34,726)	(10,151)
NET PROFIT		81,709	12,768
EARNINGS PER SHARE, UAH	14	0.22	0.07

On behalf of the Management Board:

Vadim Lyashko, Chairman of the Board

7 March 2008

Nataliya Ilnytska, Deputy Chief Accountant

7 March 2008

The notes on pages 8-52 form an integral part of these financial statements.

OPEN JOINT STOCK BANK "UKRGASBANK"

BALANCE SHEET
AS AT 31 DECEMBER 2007
(in Ukrainian Hryvnias and in thousands)

	Notes	31 December 2007	31 December 2006
ASSETS:			
Cash and balances with the National bank of Ukraine	15	467,081	294,172
Precious metals	16	24,722	6,929
Financial assets at fair value through profit or loss	17	1,808	-
Due from banks	18	3,853,007	1,253,225
Loans to customers	19, 33	4,706,411	2,061,413
Investments available for sale	20, 33	586,059	401,304
Property, plant and equipment	21	778,390	408,271
Investment property	22	17,031	9,241
Other assets	23	43,954	38,371
TOTAL ASSETS		10,478,463	4,472,926
LIABILITIES AND EQUITY			
LIABILITIES:			
Due to banks	24	3,278,424	1,007,378
Customer accounts	25, 33	5,237,339	2,647,908
Debt securities issued	26	387,372	88,311
Other borrowed funds	27	389,648	105,781
Deferred income tax liabilities	13	142,599	70,272
Other liabilities	28	29,694	13,697
Subordinated debt	29	50,510	50,509
Total liabilities		9,515,586	3,983,856
EQUITY:			
Share capital	30	512,835	312,835
Share premium	30	69,404	2,816
Investments available for sale fair value reserve		54	-
Property revaluation reserve		270,390	144,934
Retained earnings		110,194	28,485
Total equity		962,877	489,070
TOTAL LIABILITIES AND EQUITY		10,478,463	4,472,926

On behalf of the Board:

Vadim Lyashko, Chairman of the Board

7 March 2008

Nataliya Ilnytska, Deputy Chief Accountant

7 March 2008

The notes on pages 8-52 form an integral part of these financial statements.

OPEN JOINT STOCK BANK "UKRGASBANK"

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2007
(in Ukrainian Hryvnias and in thousands)

	Notes	Share capital	Share premium	Investments available for sale fair value reserve	Property revaluation reserve	Retained earnings	Total equity
31 December 2005		**182,650**	**2,816**	**-**	**62,832**	**15,717**	**264,015**
Share capital increase of ordinary shares	30	130,000	-	-	-	-	130,000
Sale of treasury shares		185	-	-	-	-	185
Property revaluation		-	-	-	109,470	-	109,470
Deferred tax on property revaluation		-	-	-	(27,368)	-	(27,368)
Net profit		-	-	-	-	12,768	12,768
31 December 2006		**312,835**	**2,816**	**-**	**144,934**	**28,485**	**489,070**
Share capital increase of ordinary shares	30	200,000	66,588	-	-	-	266,588
Fair value adjustment on available for sale investments		-	-	15,497	-	-	15,497
Deferred tax liabilities attributable to revaluation of available for sale investments		-	-	(3,874)	-	-	(3,874)
Disposal of available for sale investments		-	-	(15,425)	-	-	(15,425)
Deferred tax liabilities attributable to disposal of previously revalued investments		-	-	3,856	-	-	3,856
Gains on revaluation of property, plant and equipment		-	-	-	167,274	-	167,274
Deferred tax liabilities attributable to revaluation of property, plant and equipment		-	-	-	(41,818)	-	(41,818)
Net profit		-	-	-	-	81,709	81,709
31 December 2007		**512,835**	**69,404**	**54**	**270,390**	**110,194**	**962,877**

On behalf of the Board

Vadim Lyashko, Chairman of the Board

7 March 2008

Nataliya Ilnytska, Deputy Chief Accountant

7 March 2008

The notes on pages 8-52 form an integral part of these financial statements.

OPEN JOINT STOCK BANK “UKRGASBANK”

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2007
in Ukrainian Hryvnias and in thousands)

	Year ended 31 December 2007	Year ended 31 December 2006
CASH FLOWS FROM OPERATING ACTIVITIES:		
Profit before income tax	116,435	22,919
Adjustments for:		
Provision for impairment losses on interest bearing assets	94,399	31,219
Provision/(recovery of provision) for impairment losses on other transactions	5,288	(52)
Unrealized gain and amortization of discounts on securities	(113,513)	(51,892)
Revaluation of investment property	(5,170)	(1,538)
Unrealized gain on foreign exchange operations	6,665	968
Amortization of premium on issued securities	-	(39)
Depreciation and amortization	25,518	18,358
Loss/(gain) from property, plant and equipment and intangible assets disposal and impairment	(116)	172
Change in interest accruals, net	29,909	12,880
Dividend income	-	(2)
Initial recognition of loans	274	555
Other	501	-
Cash flows from operating activities before changes in operating assets and liabilities	160,190	33,548
Changes in operating assets and liabilities		
(Increase)/decrease in operating assets:		
Minimum reserve deposit with the National bank of Ukraine	(49,333)	47,949
Precious metals	(17,793)	(5,784)
Financial assets at fair value through profit or loss	(1,808)	-
Due from banks	(2,561,202)	(687,845)
Loans to customers	(2,695,799)	(847,110)
Other assets	110	(948)
Increase in operating liabilities		
Due to banks	2,240,313	474,990
Customer accounts	2,514,481	1,060,110
Other borrowed funds	249,067	105,394
Other liabilities	12,095	6,343
Cash (outflow)/inflow from operating activities before taxation	(149,679)	186,647
Income tax paid	(4,435)	(1,907)
Net cash (outflow)/inflow from operating activities	(154,114)	184,740
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property, plant and equipment and intangible assets	(238,147)	(129,473)
Proceeds on sale of property, plant and equipment and intangible assets	525	600
Proceeds on sale of investments available for sale	5,381,994	326,384
Purchase of investments available for sale	(5,448,597)	(549,621)
Net cash outflow from investing activities	(304,225)	(352,110)

STATEMENT OF CASH FLOWS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2007
(in Ukrainian Hryvnias and in thousands)

	Notes	Year ended 31 December 2007	Year ended 31 December 2006
CASH FLOWS FROM FINANCING ACTIVITIES:			
Share capital issue	30	200,000	130,000
Sale of treasury stock		-	185
Proceeds from debt securities issued		841,541	194,306
Purchase of debt securities issued		(547,922)	(109,000)
Other borrowed funds		29,210	-
Share premium		66,588	-
Dividends paid		(833)	(62)
Net cash inflow from financing activities		588,584	215,429
Effect of changes in foreign exchange rate on cash and cash equivalents		16,659	2,188
NET INCREASE IN CASH AND CASH EQUIVALENTS		146,904	50,247
CASH AND CASH EQUIVALENTS, beginning of year	15	253,317	203,070
CASH AND CASH EQUIVALENTS, end of year	15	400,221	253,317

Interest paid and received by the Bank during the year ended 31 December 2007 amounted to UAH 274,201 thousand and UAH 406,272 thousand, respectively.

Interest paid and received by the Bank during the year ended 31 December 2006 amounted to UAH 220,156 thousand and UAH 329,511 thousand, respectively.

On behalf of the Board:

Vadim Lyashko, Chairman of the Board

7 March 2008

Nataliya Ilnytska, Deputy Chief Accountant

7 March 2008

The notes on pages 8-52 form an integral part of these financial statements.

(in Ukrainian Hryvnias and in thousands)

1. ORGANISATION

Open Joint Stock Bank "UkrGasBank" (the "Bank" or "UkrGasBank") was legally established as a closed joint stock company on 22 August 1995 under the National bank of Ukraine ("NBU") license #183, from the former Closed Joint Stock Bank "Hadjibei", which later was renamed to "Intergazbank". On 27 May 1997 the Bank changed its name from Intergazbank to UkrGasBank. Subsequently, on 10 October 1997, UkrGasBank was re-registered with the NBU as an open joint stock company. In 1999 the Bank acquired two other Ukrainian banks – "Service Bank" located in Uzhgorod region and "Ukrnaftogasbank", which had a network of branches in different regions of Ukraine. Effective dates of acquisition were 14 January 1999 and 24 December 1999, respectively. In 2002 UkrGasBank acquired another bank – JSB "Narodniy Bank" with effective date of acquisition 30 September 2002. In November 2002 the Bank acquired branch in Kharkiv from JSB "Energobank". In 2003 the Bank acquired branch of OJSB "Zahidbudgasbank" in Kamyanets-Podilskiy. Effective date of acquisition was 8 January 2003. Acquired banks lost their legal status and became branches of the Bank.

The Bank's primary business consists of commercial activities, securities trading, foreign currencies operations, originating loans and guarantees, acceptance of deposits from legal entities and public, and processing of payments.

The registered office of the Bank is located at 1 Yerevanska St. Kyiv.

As at 31 December 2007 the Bank had 18 branches were operating in Ukraine, and 268 outlets operating in Ukraine. As at 31 December 2006 the Bank had 22 branches and 126 outlets were operating in Ukraine.

The number of employees of the Bank as at 31 December 2007 and 2006 was 3,449 and 2,507, respectively.

As at 31 December 2007 and 2006, the following direct shareholders owned the issued shares:

	31 December 2007, %	**31 December 2006, %**
"Financial Investment Alliance" LLC	33.0	24.9
"Company "Ukrgasinvest plus" LLC	18.0	9.9
"Ukrainian company of projects development" LLC	8.8	9.6
"Investanalytik" LLC	8.2	9.8
"Ukrainian venture capital" LLC	7.4	9.9
"New Gas Technology" LLC	4.9	0.4
"Arsenal-invest" LLC	3.9	3.9
"Ukrainski budivelni innovatsii" LLC	3.9	-
"Insurance company Tcentr" CJSC	-	3.0
Gorbal V.M.	2.4	3.9
National JSC "Naftogas Ukraine"	1.8	2.9
"Stolichni budivelni tehnologii" LLC	-	6.4
"Brokinvest-Laert" CJSC	3.1	3.9
Other	4.6	11.5
Total	**100.0**	**100.0**

Mr. Gorbal V.M. (47.7%) and Mr. Omelyanenko O.A. (35.2%) exercise control over the Bank through direct and indirect ownership.

These financial statements were authorized for issue by the Board of the Bank on 7 March 2008.

2. BASIS OF PRESENTATION

Accounting basis

These financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and Interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC").

These financial statements are presented in thousands of Ukrainian Hryvnya ("UAH"), unless otherwise indicated. These financial statements have been prepared under the historical cost convention, except for the measurement at fair value of certain financial instruments according to International Accounting Standard ("IAS") No. 39 "Financial Instruments: Recognition and measurement", measurement of buildings at revalued amounts according to IAS No. 16 "Property, Plant and Equipment", and measurement of investment property at fair value, according to IAS No. 40 "Investment Property".

In accordance with IAS No. 29 "Financial Reporting in Hyperinflationary Economies" the economy of Ukraine was considered to be hyperinflationary during 2000 and prior years. Starting 1 January 2001, Ukrainian economy is no longer considered to be hyperinflationary and the values of non-monetary assets, liabilities and equity as stated in measuring units as of 31 December 2000 have formed the basis for the amounts carried forward.

The Bank maintains its accounting records in accordance with Ukrainian law. These financial statements have been prepared from Ukrainian statutory accounting records and have been adjusted to conform with IFRS. These adjustments include certain reclassifications to reflect the economic substance of underlying transactions including reclassifications of certain assets and liabilities, income and expenses to appropriate financial statement captions.

Key assumptions

The preparation of financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts. Such estimates and assumptions are based on the information available to the Bank's management as of the date of the financial statements. Therefore, actual results could differ from those estimates and assumptions. Estimates that are particularly susceptible to change relate to the provisions for impairment losses and the fair value of financial instruments.

Key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period include:

	31 December 2007	31 December 2006
Due from banks	3,853,007	1,253,225
Loans to customers	4,706,411	2,061,413
Investments available for sale	586,059	401,304
Property, plant and equipment	778,390	408,271
Investment property	17,031	9,241

Loans to customers and due from banks are measured at amortised cost less allowance for impairment losses. The estimation of allowances for impairments involves the exercise of significant judgment. The Bank estimates allowances for impairment with the objective of maintaining balance sheet provisions at a level believed by management to be sufficient to absorb losses incurred in the Bank's loan portfolio. The calculation of provisions on impaired loans is based on the likelihood of the asset being written off and the estimated loss on such a write-off. These assessments are made using statistical techniques based on historic experience. These determinations are supplemented by the application of management judgment.

The Bank considers accounting estimates related to provisions for loans key sources of estimation uncertainty because: (i) they are highly susceptible to change from period to period as the assumptions about future default rates and valuation of losses relating to impaired loans and advances are based on recent performance experience, and (ii) any significant difference between the Bank's estimated losses (as reflected in the provisions) and actual losses will require the Bank to take provisions which, if significantly different, could have a material impact on its future income statement and its balance sheet. The Bank's assumptions about estimated losses are based on past performance, past customer behavior, the credit quality of recent underwritten business and general economic conditions, which are not necessarily an indication of future losses.

Certain property (buildings and office premises) is measured at revalued amounts. The date of the latest appraisal was 31 December 2007. The Bank performs revaluation on annual basis.
The following methods were used for estimation of fair value of buildings and office premises: income capitalization and sales comparison methods in respect of property and cost approach in respect of certain infrastructure.

In determining fair values of certain investments available for sale, for which a valuation technique was used as at 31 December 2007, the Bank applied following assumptions:

- assumption on the level of interest rates used for discounting − in the range from 12% to 19% for instruments classified as issued by non-related parties, and from 60% to 63% for instruments classified as issued by related parties;
- assumption on estimated timing of future cash flows (as presented in the maturity analysis);
- assumption on the level of credit risk by estimating allowance for impairment losses on the level of 0.05% of the gross amount of investments available for sale.

The below table represents the effect that a change in each of the assumptions mentioned above would have on the carrying amount of investments available for sale:

Assumption	**Change in assumption by:**	**Effect on carrying amount**	**Change in assumption by:**	**Effect on carrying amount**
Interest rates used for discounting	+1%	18,049	-1%	(19,400)
Expected timing of future cash flows	Later by one quarter	17,023	Earlier by one quarter	(22,487)
Effective rate of provisions for impairment losses	+1%	(48,987)	n/a	n/a

Investment property of the Bank is carried at fair value. The date of the latest appraisal was 31 December 2007. The Bank performs revaluation on annual basis by attracting external appraiser. The following methods were used for estimation of fair value of buildings and office premises: income capitalization and sales comparison methods in respect of property and cost approach in respect of certain infrastructure.

Functional currency

The functional currency of these financial statements is Ukrainian Hryvnia ("UAH").

3. SIGNIFICANT ACCOUNTING POLICIES

Recognition and measurement of financial instruments

The Bank recognizes financial assets and liabilities on its balance sheet when it becomes a party to the contractual obligation of the instrument. Regular way purchase and sale of the financial assets and liabilities are recognized using settlement date accounting. Regular way purchases of financial instruments that will be subsequently measured at fair value between trade date and settlement date are accounted for in the same way as for acquired instruments.

Financial assets and liabilities are initially recognized at fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss transaction costs that are directly attributable to acquisition or issue of the financial asset or financial liability. The accounting policies for subsequent re-measurement of these items are disclosed in the respective accounting policies set out below.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, unrestricted balances on correspondent and time deposit accounts with the National bank of Ukraine with original maturity within 90 days, advances to banks in countries included in the Organization for Economic Co-operation and Development (“OECD”), except for margin deposits for operations with plastic cards and government securities denominated in Ukrainian Hryvnias carried at fair value through profit or loss, which may be converted to cash within a short period of time. For purposes of determining cash flow, the minimum reserve deposit required by the National bank of Ukraine is not included as a cash equivalent due to restrictions on its availability.

Precious metals

Assets and liabilities denominated in precious metals are translated at the current rate computed based on the second fixing of the London Metal Exchange rates using the UAH/USD exchange rate effective at the date. Changes in the bid prices are recorded in net gain/(loss) on operations with precious metals.

Due from banks

In the normal course of business, the Bank maintains advances and deposits for various periods of time with other banks. Due from banks are measured at amortized cost using the effective interest method. Amounts due from credit institutions are carried net of any allowance for impairment losses.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss represent derivative instruments or securities acquired principally for the purpose of selling them in the near future, or are a part of portfolio of identified financial instruments that are managed together and for which there is evidence of a recent and actual pattern of short-term profit taking or securities that upon initial recognition are designated by the Bank at fair value through profit or loss. Financial assets at fair value through profit or loss are initially recorded and subsequently measured at fair value. The Bank uses quoted market prices to determine fair value for financial assets at fair value through profit or loss. Fair value adjustment on financial assets at fair value through profit or loss is recognized in the income statement for the period. The Bank does not reclassify financial instruments in or out of this category while they are held.

Repurchase and reverse repurchase agreements

In the normal course of business the Bank enters into sale and purchase back agreements ("repos") and purchase and sale back agreements of financial assets ("reverse repos"). Repos and reverse repos are utilized by the Bank as an element of its treasury management and trading business.

A repo is an agreement to transfer a financial asset to another party in exchange for cash or other consideration and a concurrent obligation to reacquire the financial assets at a future date for an amount equal to the cash or other consideration exchanged plus interest. These agreements are accounted for as financing transactions. Financial assets sold under repo are retained in the financial statements and consideration received under these agreements is recorded as due to banks.

Assets purchased under reverse repos are recorded in the financial statements as loans to customers.

In the event that assets purchased under reverse repo are sold to third parties, the results are recorded with the gain or loss included in net gains/(losses) on respective assets. Any related income or expense arising from the pricing difference between purchase and sale of the underlying assets is recognized as interest income or expense.

Loans to customers

Loans to customers are non-derivative assets with fixed or determinable payments that are not quoted in an active mark other than those classified in other categories of financial assets.

Loans granted by the Bank are initially recognized at fair value plus related transaction costs. Where the fair value of consideration given does not equal the fair value of the loan, for example where the loan is issued at lower than market rates, the difference between the fair value of consideration given and the fair value of the loan is recognized as a loss on initial recognition of the loan and included in the income statement according to nature of these losses. Subsequently, loans are carried at amortized cost using the effective interest method. Loans to customers are carried net of any allowance for impairment losses.

Write off of loans and advances

Loans and advances are written off against allowance for impairment losses based on decision of the Board. Such decisions are taken when all available possibilities to collect the amounts due have been exercised and available collateral has been sold.

Allowance for impairment losses

The Bank accounts for impairment losses of financial assets when there is objective evidence that a financial asset or group of financial assets is impaired. Impairment losses are measured as the difference between carrying amounts and the present value of expected future cash flows, including amounts recoverable from guarantees and collateral, discounted at the financial asset's original effective interest rate, for financial assets which are carried at amortized cost. If in a subsequent period the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. For financial assets carried at cost, the impairment losses are measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows, discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

The determination of impairment losses is based on an analysis of the risk assets and reflects the amount which, in the judgment of management, is adequate to provide for losses incurred. Provisions are made as a result of an individual appraisal of risk assets for financial assets that are individually significant, and an individual or collective assessment for financial assets that are not individually significant.

The change in impairment losses is charged to profit, and the total of impairment losses is deducted in arriving at assets as shown in the balance sheet. Factors that the Bank considers in determining whether it has objective evidence that an impairment loss has been incurred include information about the debtors' or issuers' liquidity, solvency and business and financial risk exposures, levels of and trends in delinquencies for similar financial assets, national and local economic trends and conditions, and the fair value of collateral and guarantees. These and other factors may, either individually or taken together, provide sufficient objective evidence that an impairment loss has been incurred in a financial asset or group of financial assets.

The Bank accounts for impairment losses on financial assets at amortised cost using allowance account, for financial assets measured at cost through direct write off.

It should be understood that estimates of losses involve an exercise of judgment. While it is possible that in particular periods the Bank may sustain losses that are substantial relative to the allowance for impairment losses, it is the judgment of management that the allowance for impairment losses is adequate to absorb losses incurred on the risk assets.

Investments available for sale

Investments available for sale represent debt and equity investments that are intended to be held for an indefinite period of time. Such securities are initially recorded at fair value. Subsequently the securities are measured at fair value, with such re-measurement recognized directly in equity until sold when gain/loss previously recorded in equity recycles through the income statement, except for impairment losses, foreign exchange gains or losses and interest income accrued using the effective interest method, which are recognized directly in the income statement.

The Bank uses quoted market prices to determine the fair value for the Bank's investments available for sale.

If the market for investments is not active, particularly in case of bonds issued for financing of construction (Note 20), the Bank establishes fair value by using a valuation technique. Valuation techniques include discounted cash flow analysis. For other non-market investments the valuation techniques include recent arm's length market transactions between knowledgeable, willing parties, reference to the current fair value of another instrument that is substantially the same, and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the Bank uses that technique. Interest earned on investments available for sale is reflected in the income statement as interest income on investment securities.

Non-marketable debt and equity securities are stated at amortized cost and cost, respectively, less impairment losses, if any, unless fair value can be reliably measured.

When there is objective evidence that such securities have been impaired, the cumulative loss previously recognized in equity is removed from equity and recognized in the income statement for the period. Reversals of such impairment losses on debt instruments, which are objectively related to events occurring after the impairment, are recognized in the income statement for the period. Reversals of such impairment losses on equity instruments are not recognized in the income statement.

Property, plant and equipment and intangible assets

Property, plant and equipment and intangible assets, except for buildings and office premises, acquired after 1 January 2001 are carried at historical cost less accumulated depreciation and any recognized impairment loss, if any. Property, plant and equipment and intangible assets, acquired before 1 January 2001 are carried at historical cost restated for inflation less accumulated depreciation and any recognized impairment loss, if any.

Depreciation is charged on the carrying value of property, plant and equipment and intangible assets and is designed to write off assets over their useful economic lives. It is calculated on a straight line basis at the following annual prescribed rates:

Buildings and other real estate	2%
Furniture and equipment	10%-25%
Intangible assets	25%-30%

Leasehold improvements are amortized over the life of the related leased asset. Expenses related to repairs and renewals are charged when incurred and included in operating expenses unless they qualify for capitalization.

The carrying amounts of property, plant and equipment and intangible assets are reviewed at each balance sheet date to assess whether they are recorded in excess of their recoverable amounts, and where carrying values exceed this estimated recoverable amount, assets are written down to their recoverable amount.

Impairment is recognized in the respective period and is included in operating expenses. After the recognition of an impairment loss the depreciation charge for property, plant and equipment and intangible assets is adjusted in future periods to allocate the assets' revised carrying value, less its residual value (if any), on a systematic basis over its remaining useful life.

Buildings and office premises held for use in supply of services, or for administrative purposes, are stated in the balance sheet at their revalued amounts, being the fair value at the date of revaluation, determined from market-based evidence by appraisal undertaken by professional independent appraisers, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date.

Any revaluation increase arising on the revaluation of such land and buildings is credited to the property revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognized as an expense, in which case the increase is credited to the income statement to the extent of the decrease previously charged. A decrease in carrying amount arising on the revaluation of such land and buildings is charged as an expense to the extent that it exceeds the balance, if any, held in the properties revaluation reserve relating to a previous revaluation of that asset.

Depreciation on revalued buildings is charged to income statement. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the properties revaluation reserve is transferred directly to retained earnings.

Investment property

Investment property, comprising office buildings, is held for long-term rental yields or appreciation in value and is not occupied by the Bank. Investment property is initially measured at cost together with transaction costs. Subsequent to initial recognition, investment property is carried at fair value with gain or loss resulting from a change in the fair value of investment property recognized in profit or loss for the period in which it arises.

Taxation

Income tax expense represents the sum of the current and deferred tax expense.

The current tax expense is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Bank's current tax expense is calculated using tax rates that have been enacted during the reporting period.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Bank is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realized. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred income tax assets and deferred income tax liabilities are offset and reported net on the balance sheet if:

- The Bank has a legally enforceable right to set off current income tax assets against current income tax liabilities; and
- Deferred income tax assets and the deferred income tax liabilities relate to income taxes levied by the same taxation authority on the same taxable entity.

Ukraine has various other taxes, which are assessed on the Bank's activities. These taxes are included as a component of operating expenses in the income statement.

Due to banks, customer accounts, debt securities issued, other borrowed funds and subordinated debt

Due to banks, customer accounts, debt securities issued, other borrowed funds and subordinated debt are initially recognized at fair value. Subsequently, amounts due are stated at amortized cost and any difference between net proceeds and the redemption value is recognized in the income statement over the period of the borrowings using the effective interest method.

Provisions

Provisions are recognized 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 obligation can be made.

Financial guarantee contracts issued and letters of credit

Financial guarantee contracts and letters of credit issued by the Bank are credit insurance that provides for specified payments to be made to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due under the original or modified terms of a debt instrument. Such financial guarantee contracts and letters of credit issued are initially recognized at fair value. Subsequently they are measured at the higher of (a) the amount recognized as a provision and (b) the amount initially recognized less, where appropriate, cumulative amortization of initial premium revenue received over the financial guarantee contracts or letter of credit issued.

Share capital and share premium

Contributions to share capital, made before 1 January 2001 are recognized at their cost restated for inflation. Contributions to share capital, made after 1 January 2001 are recognized at cost. Share premium represents the excess of contributions over the nominal value of the shares issued. Gains and losses on sales of treasury stock are charged or credited to share premium.

Dividends on ordinary shares are recognized in equity as a reduction in the period in which they are declared. Dividends that are declared after the balance sheet date are treated as a subsequent event under International Accounting Standard 10 "Events after the Balance Sheet Date" ("IAS 10") and disclosed accordingly.

Retirement and other benefit obligations

In accordance with the requirements of Ukrainian legislation the Bank withholds amounts of pension contributions from employee salaries and pays them to state pension fund. State pension system provides for the calculation of current payments by the employer as a percentage of current total payments to staff. This expense is charged in the period the related salaries are earned. Upon retirement all retirement benefit payments are made by the State pension fund. Also the Bank has defined contribution pension arrangements with the "Administrator of pension funds "Ukraine-service" LLC, 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. The Bank has no post-retirement benefits or significant other compensated benefits requiring accrual.

Recognition of income and expense

Interest income and expense are recognized on an accrual basis using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

Once a financial asset or a group of similar financial assets has been written down (partly written down) as a result of an impairment loss, interest income is thereafter recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Interests earned on assets at fair value are classified within interest income.

Loan origination fees are deferred, together with the related direct costs, and recognized as an adjustment to the effective interest rate of the loan. Where it is probable that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are deferred, together with the related direct costs, and recognized as an adjustment to the effective interest rate of the resulting loan. Where it is unlikely that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are recognized in the income statement over the remaining period of the loan commitment. Where a loan commitment expires without resulting in a loan, the loan commitment fee is recognized in the income statement on expiry. Loan servicing fees are recognized as revenue as the services are provided. All other commissions are recognized when services are provided.

Operating leases

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

Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into UAH at the appropriate spot rates of exchange ruling at the balance sheet date. Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transaction. Profits and losses arising from these translations are included in net gain on foreign exchange operations.

Rates of exchange

The exchange rates at the year-end used by the Bank in the preparation of the financial statements are as follows:

	31 December 2007	**31 December 2006**
UAH/1 US Dollar	5.05000	5.050000
UAH/1 Euro	7.41946	6.650850

Offset of financial assets and liabilities

Financial assets and liabilities are offset and reported net on the balance sheet when the Bank has a legally enforceable right to set off the recognized amounts and the Bank intends either to settle on a net basis or to realize the asset and settle the liability simultaneously. In accounting for a transfer of a financial asset that does not qualify for derecognition, the Bank does not offset the transferred asset and the associated liability.

Fiduciary activities

The Bank provides trustee services to its customers. The Bank also provides depositary services to its customers that include transactions with securities on their depo accounts. Assets accepted and liabilities incurred under the fiduciary activities are not included in the Bank's financial statements. The Bank accepts the operational risk on these activities, but the Bank's customers bear the credit and market risks associated with such operations.

Segment reporting

A segment is a distinguishable component of the Bank that is engaged either in providing products or services (business segment) or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. Segments with a majority of revenue earned from sales to external customers and whose revenue, result or assets are ten per cent or more of all the segments are reported separately. Geographical segments of the Bank have been reported separately within these financial statements based on the ultimate domicile of the counterparty, e.g. based on economic risk rather than legal risk of the counterparty.

Adoption of new standards

In the current year, the Bank has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (the IASB) and the International Financial Reporting Interpretations Committee (the IFRIC) of the IASB that are relevant to its operations and effective for reporting periods beginning on 1 January 2007. The adoption of these new and revised Standards and Interpretations has not resulted in significant changes to the Bank's accounting policies that have affected the amounts reported for the current or prior years except for the effect of application of IFRS 7 "Financial Instruments: Disclosure" ("IFRS 7").

IFRS 7 is effective for the annual period beginning on or after 1 January 2007. IFRS 7 establishes new requirements and recommendations on financial instrument disclosure. Adoption of IFRS 7 did not affect the classification and measurement of Bank's financial instruments in the financial statements. Additional information was disclosed in the financials statements for the current and comparative reporting periods as required by IFRS 7.

At the date of performing of these financial statements the following Standards and Interpretations applicable to the Bank were issued but not yet effective for these financial statements: Effective 1 January 2009, the new IFRS 8 “Operating Segments” will replace IAS 14 “Operating Segments”. The management is currently assessing the impact of the adoption of these new and revised Standards in future period. The Bank anticipates that other new Standards and Interpretations will have no material financial impact on the financial statements of the Bank.

4. PRIOR PERIOD RECLASSIFICATIONS

Reclassifications

Some reclassification has been made to the financial statements as at 31 December 2006 and for the year then ended to conform to the current year presentation.

	Before reclassification	**Amount of reclassification**	**After reclassification**
Balance sheet items			
Property, plant and equipment	409,197	(926)	408,271
Precious metals	-	6,929	6,929
Other assets	44,374	(6,003)	38,371
Income statement items			
Recovery of provision for impairment losses on other transactions	-	52	52
Operating expenses	174,377	(52)	174,325

5. NET INTEREST INCOME

	Year ended 31 December 2007	**Year ended 31 December 2006**
Interest income comprises:		
Interest income on assets recorded at amortized cost:		
- interest income on assets that have been written down as a result of an impairment loss	15,845	16,050
- interest income on unimpaired assets	843,301	373,678
Interest income on assets at fair value through profit or loss	167	-
Total interest income	**859,313**	**389,728**
Interest income on assets recorded at amortized cost comprises:		
Interest on loans to customers	608,839	284,712
Interest on due from banks	125,570	45,482
Interest income on investments available for sale	124,737	59,534
Total interest income on financial assets recorded at amortized cost	859,146	389,728
Interest income on financial assets held for trading	167	-
Total interest income	**859,313**	**389,728**
Interest expense comprises:		
Interest on liabilities recorded at amortized cost	508,361	241,322
Total interest expense	**508,361**	**241,322**
Interest expense on liabilities recorded at amortized cost comprise:		
Interest on customer accounts	347,243	183,061
Interest on due to banks	111,823	44,992
Interest expense on debt securities issued by the Bank	25,737	6,587
Interest on other borrowed funds	17,558	682
Interest on subordinated debt	6,000	6,000
Total interest expense on financial assets recorded at amortized cost	**508,361**	**241,322**
Net interest income before provision for impairment losses on interest bearing assets	**350,952**	**148,406**

6. ALLOWANCE FOR IMPAIRMENT LOSSES, OTHER PROVISIONS

The movements in allowance for impairment losses on interest earning assets were as follows:

	Due from banks	Loans to customers	Total
31 December 2005	**1,990**	**69,344**	**71,334**
Provision	-	31,219	31,219
Write-off of assets	-	(737)	(737)
31 December 2006	**1,990**	**99,826**	**101,816**
Provision	-	94,399	94,399
Write-off of assets	-	(1,815)	(1,815)
31 December 2007	**1,990**	**192,410**	**194,400**

The movements in allowances for impairment losses on other transactions were as follows:

	Investments available for sale	Other assets	Guarantees and other commitments	Total
31 December 2005	739	1,154	1,935	3,828
Provision/(Recovery of provision)	(403)	376	(25)	(52)
31 December 2006	**336**	**1,530**	**1,910**	**3,776**
Provision	-	101	5,187	5,288
Write-off of assets	(60)	-	-	(60)
31 December 2007	**276**	**1,631**	**7,097**	**9,004**

7. NET GAIN ON FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

As at 31 December 2007 net gain on financial assets at fair value through profit or loss in the amount of UAH 657 thousand is represented by gain on assets held for trading and is related to result of securities resale.

8. NET GAIN ON FOREIGN EXCHANGE OPERATIONS

Net gain/(loss) on foreign exchange operations comprises:

	Year ended 31 December 2007	Year ended 31 December 2006
Dealing, net	52,129	27,206
Translation differences, net	(6,665)	(968)
Total net gain on foreign exchange operations	**45,464**	**26,238**

9. FEE AND COMMISSION INCOME AND EXPENSE

Fee and commission income and expense comprise:

	Year ended 31 December 2007	Year ended 31 December 2006
Fee and commission income:		
Settlements	73,139	46,570
Foreign exchange operations	18,113	7,167
Loan operation	6,369	829
Issuing guarantees	4,063	95
Securities operations	1,897	1,030
Other	2,570	1,191
Total fee and commission income	**106,151**	**56,882**
Fee and commission expense:		
Settlements	10,705	7,247
Foreign currency operations	5,957	5,179
Other	1,240	34
Total fee and commission expense	**17,902**	**12,460**

10. INCOME ON INVESTMENT PROPERTY

Income on investment property comprises:

	Year ended 31 December 2007	Year ended 31 December 2006
Revaluation of investment property	5,170	1,538
Rental income on investment property	1,168	705
Total income on investment property	**6,338**	**2,243**

11. OTHER INCOME

Other income comprises:

	Year ended 31 December 2007	Year ended 31 December 2006
Fines and penalties received	960	666
Other non-banking income	824	373
Gain from sale of property, plant and equipment	257	-
Consulting	238	-
Other	1,361	773
Total other income	**3,640**	**1,812**

12. OPERATING EXPENSES

Operating expenses comprise:

	Year ended 31 December 2007	Year ended 31 December 2006
Staff costs	155,941	81,073
Depreciation and amortization	25,518	18,358
Communications	22,826	16,124
Operating leases expenses	21,611	10,428
Repair and maintenance	12,619	8,249
Advertising	11,626	6,061
Payments to the Individuals Guarantee Fund	9,823	5,988
General bank expenses	8,590	5,299
Security expenses	5,508	3,542
Professional services fees	5,483	2,769
Payments to non-government pension fund	5,225	2,945
Taxes, other than income tax	2,290	4,712
Business trip expenses	2,005	1,529
Charity	1,960	1,202
Impairment of property in result of revaluation	747	-
Losses from disposal of property, plant and equipment and intangible assets	141	172
Fines and penalties	40	126
Representative expenses	41	47
Other	8,863	5,701
Total operating expenses	**300,857**	**174,325**

13. INCOME TAXES

The Bank provides for taxes based on the tax accounts maintained and prepared in accordance with the tax regulations of countries where the Bank and its subsidiaries operate and which may differ from International Financial Reporting Standards.

The Bank is subject to certain permanent tax differences due to non-tax deductibility of certain expenses and a tax free regime for certain income.

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Temporary differences as at 31 December 2007 and 2006 relate mostly to different methods of income and expense recognition as well as to recorded values of certain assets.

Temporary differences as at 31 December 2007 and 2006 comprise:

	31 December 2007	31 December 2006
Deductible temporary differences:		
Other liabilities	19,414	7,041
Debt securities issued	12,076	3,801
Loans to customers	10,087	3,837
Allowance for impairment of assets	-	16,299
Accrued interest	-	587
Total deductible temporary differences	**41,577**	**31,565**
Taxable temporary differences:		
Property, plant and equipment and intangible assets	(373,800)	(194,440)
Investments available for sale	(228,306)	(107,055)
Accrued interest	(5,641)	(8,702)
Allowance for impairment of assets	(4,228)	-
Other borrowed funds	-	(1,025)
Other assets	-	(1,432)
Total taxable temporary differences	**(611,975)**	**(312,654)**
Net taxable temporary differences	(570,398)	(281,089)
Net deferred tax liability (25%)	**(142,599)**	**(70,272)**

Relationships between tax expenses and accounting profit for the years ended 31 December 2007 and 2006 are explained as follows:

	Year ended 31 December 2007	Year ended 31 December 2006
Profit before income tax	**116,435**	**22,919**
Statutory tax rate	25%	25%
Tax at the statutory tax rate	29,109	5,730
Tax effect of permanent differences	5,617	4,421
Income tax expense	**34,726**	**10,151**
Current income tax expense	4,235	2,429
Change in the deferred tax liabilities	30,491	7,722
Income tax expense	**34,726**	**10,151**

Deferred income tax liabilities	31 December 2007	31 December 2006
Beginning of the period	**70,272**	**35,182**
Deferred income tax expense	30,491	7,722
Tax effect of changes in property revaluation reserve	41,818	27,368
Decrease of tax effect of changes in investments available for sale fair value reserve	18	-
End of the period	**142,599**	**70,272**

14. EARNINGS PER SHARE

	Year ended 31 December 2007	Year ended 31 December 2006
Net profit for the year	81,709	12,768
Weighted average number of ordinary shares for basic earnings per share	366,920,182	187,350,231
Earnings per share – basic (UAH)	**0.22**	**0.07**

15. CASH AND BALANCES WITH THE NATIONAL BANK OF UKRAINE

	31 December 2007	31 December 2006
Cash	253,887	194,103
Balances with the National bank of Ukraine	213,194	100,069
Total cash and balances with the National bank of Ukraine	**467,081**	**294,172**

The balances with the National bank of Ukraine as at 31 December 2007 and 2006 include UAH 105,425 thousand and UAH 56,092 thousand, respectively, which represent the obligatory minimum reserve deposits with the NBU. The Bank is required to maintain the reserve balance at the NBU at all times.

Cash and cash equivalents for the purposes of the statement of cash flows comprise the following:

	31 December 2007	31 December 2006
Cash and balances with the National bank of Ukraine	467,081	294,172
Due from banks in OECD countries	77,661	29,246
Less minimum reserve deposits with the National bank of Ukraine	(105,425)	(56,092)
Less restricted cash	(39,096)	(14,009)
Total cash and cash equivalents	**400,221**	**253,317**

16. PRECIOUS METALS

Precious metals comprise:

	31 December 2007	31 December 2006
Gold in vault	24,721	6,925
Silver in vault	1	4
Total precious metals	**24,722**	**6,929**

17. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

As at 31 December 2007 financial assets at fair value through profit at loss comprise bonds of Ministry of finance of Ukraine in the amount of UAH 1,808 thousand. The Bank accounted them in held for trading portfolio at that date.

18. DUE FROM BANKS

Due from banks comprise:

	31 December 2007	31 December 2006
Time deposits with other banks	3,583,598	986,776
Correspondent accounts with other banks	271,399	189,486
Loans under reverse repurchase agreements	-	78,953
	3,854,997	1,255,215
Less allowance for impairment losses	(1,990)	(1,990)
Total due from banks	**3,853,007**	**1,253,225**

Movements in allowances for impairment losses on balances due from banks for the years ended 31 December 2007 and 2006 are disclosed in Note 6.

Included in due from banks is accrued interest in the amount of UAH 1,450 thousand and UAH 283 thousand as at 31 December 2007 and 2006, respectively.

As at 31 December 2007 and 2006 the Bank had due from thirteen and six banks totaling UAH 2,390,122 thousand and UAH 864,099 thousand, respectively, which individually exceeded 10% of the Bank's equity.

As at 31 December 2007 and 2006 the maximum credit risk exposure on due from banks amounted to UAH 3,853,007 thousand and UAH 1,253,225 thousand, respectively.

During the years ended 31 December 2007 and 2006 the Bank simultaneously placed with and received short-term funds from Ukrainian banks in different currencies. As at 31 December 2007 and 2006 the Bank placed equivalent of UAH 2,150,396 thousand and UAH 538,630 thousand, respectively, as deposits with Ukrainian banks, which were received from the same banks (see Note 24).

As at 31 December 2007 and 2006 included in balances due from banks are guarantee deposits placed by the Bank for its operations with plastic cards in the amount of UAH 39,096 thousand and UAH 14,009 thousand, respectively.

As at 31 December 2007 and 31 December 2006 loans to banks included loans under reverse repurchase agreements of nil and UAH 78,953 thousand, secured by bonds of Ukrainian companies with carrying values of nil and UAH 78,953 thousand, respectively, which approximate their fair values.

19. LOANS TO CUSTOMERS

Loans to customers comprise:

	31 December 2007	31 December 2006
Loans to customers	4,888,142	2,161,239
Loans under reverse repurchase agreements	10,679	-
Less allowance for impairment losses	(192,410)	(99,826)
Total loans to customers	**4,706,411**	**2,061,413**

Movements in allowances for impairment losses for the years ended 31 December 2007 and 2006 are disclosed in Note 6.

The table below summarizes the amount of loans secured by collateral, rather than the fair value of the collateral itself:

	31 December 2007	31 December 2006
Loans collateralized by pledge of real estate or rights thereon	2,231,258	865,020
Loans collateralized by pledge of equipment and other movables	980,435	374,617
Loans collateralized by cash or Ukrainian Government guarantees	633,010	335,498
Unsecured loans	459,856	207,377
Loans collateralized by land plots	264,237	82,097
Loans collateralized by pledge of corporate shares	154,062	151,651
Loans collateralized by other assets	145,073	4,599
Loans collateralized by accounts receivable	30,890	140,380
	4.898.821	2.161.239
Less allowance for impairment losses	(192,410)	(99,826)
Total loans to customers	**4,706,411**	**2,061,413**

	31 December 2007	31 December 2006
Analysis by sector:		
Individuals	1,429,665	595,974
Trade	976,750	412,946
Services	484,215	287,485
Finance sector	465,943	116,009
Construction	450,303	215,326
Manufacturing	404,040	321,736
Agriculture and food processing	388,212	128,037
Mining and metallurgy	174,198	3,870
Transport and communication	59,720	79,252
Other	65,775	604
	4,898,821	2,161,239
Less allowance for impairment losses	(192,410)	(99,826)
Total loans to customers	**4,706,411**	**2,061,413**

Loans to individuals comprise the following products:

	31 December 2007	31 December 2006
Mortgage loans	732,224	280,291
Other loans secured by real estate	407,553	219,548
Auto loans	218,993	80,822
Other loans	70,895	15,313
	1,429,665	595,974
Less allowance for impairment losses	(28,068)	(6,935)
Total loans to individuals	**1,401,597**	**589,039**

As at 31 December 2007 and 2006 accrued interest income included in loans to customers amounted to UAH 39,280 thousand and UAH 23,219 thousand, respectively.

As at 31 December 2007 and 2006 the Bank provided loans to seven and eleven groups of customers, totaling UAH 936,758 thousand and UAH 680,986 thousand, respectively, which individually exceeded 10% of the Bank's equity.

As at 31 December 2007 and 2006 loans to customers included loans in amount of UAH 591,771 thousand and UAH 340,602 thousand, respectively, that were individually determined to be impaired. As at 31 December 2007 and 2006 such loans were collaterized by collateral with a fair value of UAH 160,885 thousand and UAH 71,824 thousand, respectively.

As at 31 December 2007 the mortgage loans to customers in the amount of UAH 56, 256 thousand were pledged under the debt securities issued by the Bank (Note 26).

As at 31 December 2007 and 31 December 2006 three loans to customers in amount UAH 58,720 thousand and UAH 81,574 thousand, respectively, were pledged as collateral under deposit received from another bank (Note 24).

Carrying value of loans under reverse repurchase agreements and fair value of assets pledged as at 31 December 2007 and 2006 are presented as follows:

	31 December 2007		31 December 2006	
	Carrying value of loans	Fair value of collateral	Carrying value of loans	Fair value of collateral
Bonds of Ukrainian companies	10,565	10,565	-	-
Total	**10,565**	**10,565**	-	-

20. INVESTMENTS AVAILABLE FOR SALE

Investments available for sale comprise:

	31 December 2007	31 December 2006
Debt securities	567,857	378,017
Equity securities	18,478	23,623
Less allowance for impairment losses	(276)	(336)
Total investments available for sale	**586,059**	**401,304**

	Interest to nominal %	31 December 2007	Interest to nominal %	31 December 2006
Debt investments available for sale				
Corporation				
"CreditPromBank"CJSC	11.50%	100,093	-	-
"Trade house DEKA" LLC	-	58,293	-	62,978
"Ukranian Inzhiniringova investyciyna company"LLC (series F, G, E, H)	-	43,838	-	58,783
"Argolait" DP	15.00%	38,062	-	-
"Ukrainian Inzhiniringova investyciyna company"LLC (series I, V, W, X, Y, Z)	-	35,557	-	33,368
"Finansova leasingova group" LLC	14.00%	32,294	-	10,390
"Rodovid bank" OJSC	12.50%	31,127	14.00%	32,253
"Euro Leasing" LLC (series B)	13.00%	30,867	-	-
"Zhytlomarket KMB - 1" LLC	-	30,057	-	37,182
Luganska Miska Rada (series A)	10.40%	29,765	-	-
"TM Favorit" LLC (series A)	17.00%	17,792	-	-
"KB Delta" LLC (series P)	15.00%	15,300	-	-
"Rodovid Bank" OJSC (series A)	11.25%	10,708	-	-
"KB IpoBank" OJSC (series A)	15.00%	10,536	-	-
"Alfa-Bank" CJSC (series C)	13.00%	10,222	-	-
"UkrPromBank" LLC (series A)	13.00%	10,148	-	-
"Euro Leasing" LLC (series A)	15.00%	9,501	-	-
"ProCreditBank" CJSC (series F)	13.00%	9,375	-	-
"Khreschatyk" KB OJSC (series E)	13.00%	8,758	-	-
"Fundatsiya Yakisne zhytlo" LLC	-	8,339	-	25,789
"KreditPromBank" OJSC (series D)	14.00%	5,158	-	-
"Finansova initsiatyva" KB OJSC	14.50%	5,009	-	-
"Ukranian Professional Bank" OJSC (series B)	14.50%	4,163	-	-
"Agromat" LLC (series A)	15.00%	3,666	-	-
"PK "Podillya" CJSC (series A)	15.00%	3,582	-	-
"Kredit - Dnipro" CJSC (series B)	14.00%	3,173	-	-
"Imeks Bank" AKB (series A)	14.00%	2,087	-	-
FK "MKS-invest" LLC	-	-	0.01%	11,123
"Stolichni budivelni tehnologii" LLC	-	-	-	36,257
VO "Zhytlomarket - invest" LLC	-	-	-	28,279
BK "Tsytadel" LLC	-	-	-	10,015
TD "Berezan" LLC	-	-	3.50%	5,615
Trest "Kyivmiskbud - 1" OJSC	-	-	14.00%	20,107
"Stara fortetsya" DP	-	-	16.00%	5,878
Other		387	-	-
		567,857		**378,017**

	Ownership interest	31 December 2007	Ownership interest	31 December 2006
Equity investments available for sale				
"Trest "Kyivmiskbud - 1" im. Zagorodnego JSC	1.00%	15,050	2.01%	20,050
"Ukrainian Interbank Currency Exchange" CJSC	5.00%	1,800	5.00%	1,800
"Ukrkart" OJSC	9.29%	1,300	9.29%	1,300
Other	-	328	-	473
		18,478		23,623
Less allowance for impairment losses		(276)		(336)
Total investments available for sale		**586,059**		**401,304**

Movements in allowances for impairment losses for the years ended 31 December 2007 and 2006 are disclosed in Note 6.

As at 31 December 2007 and 2006 accrued coupon interest income on debt investments available for sale amounted to UAH 4,809 thousand and UAH 242 thousand, respectively.

As at 31 December 2007 and 2006 included in debt investments available for sale were bonds of "Zhytlomarket KMB-1" LLC, "Trade house DEKA" LLC, "Ukrainian engineering investment company" LLC, "Fundatsiya Yakisne zhytlo" LLC, VO "Zhytlomarket-invest" LLC issued for the purpose of raising finance for completion of real estate construction in the amount of UAH 140,528 thousand and UAH 213,011 thousand, respectively. The Bank provided financing for construction projects under the effective interest rates of 26% and 25%, respectively, as at 31 December 2007 and 2006.

21. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment comprise:

	Buildings and other real estate	Furniture and equipment	Construction in progress	Total
At initial/revalued cost				
31 December 2005	121,094	78,796	51,483	251,373
Additions	-	13,513	85,492	99,005
Revaluation increase	73,754	-	35,716	109,470
Eliminated against accumulated depreciation on revaluation	(2,737)	-	-	(2,737)
Transfers	12,673	12,407	(25,690)	(610)
Disposals	(46)	(3,736)	-	(3,782)
31 December 2006	204,738	100,980	147,001	452,719
Additions	9,337	11,850	210,537	231,724
Revaluation increase	111,810	-	54,717	166,527
Eliminated against accumulated depreciation on revaluation	(4,573)	-	-	(4,573)
Transfers	60,398	44,259	(107,277)	(2,620)
Disposals	-	(3,967)	-	(3,967)
31 December 2007	381,710	153,122	304,978	839,810
Accumulated depreciation				
31 December 2005	-	32,336	-	32,336
Charge for the year	2,737	15,258	-	17,995
Eliminated on revaluation	(2,737)	-	-	(2,737)
Eliminated on disposals	-	(3,146)	-	(3,146)
31 December 2006	-	44,448	-	44,448
Charge for the year	4,573	20,530	-	25,103
Eliminated on revaluation	(4,573)	-	-	(4,573)
Eliminated on disposals	-	(3,558)	-	(3,558)
31 December 2007	-	61,420	-	61,420
Net book value:				
31 December 2007	**381,710**	**91,702**	**304,978**	**778,390**
31 December 2006	**204,738**	**56,532**	**147,001**	**408,271**

As at 31 December 2007 and 2006 included in property, plant and equipment were fully depreciated assets of UAH 15,723 thousand and UAH 9,093 thousand, respectively.

Buildings and construction in progress owned by the Bank were revalued by independent appraisers as of 31 December 2007. The following methods were used for estimation fair value of buildings and office premises: income capitalization and sales comparison methods in respect of property and cost approach in relation of certain infrastructure. For the estimation of the final value certain weights were assigned to the results obtained using different approaches, depending on the degree to which the estimates met the following characteristics: reliability and completeness of the information, specifies the valued property and other.

Had the buildings been carried under the cost model, the total carrying amount of property as at 31 December 2007 would have been recognized in the amount of UAH 130,426 thousand and UAH 74,439 thousand, respectively. Had the construction in progress been carried under the cost model, its total carrying amount would have been recognized in the amount of UAH 187,869 thousand and UAH 94,610 thousand, respectively.

22. INVESTMENT PROPERTY

	Year ended 31 December 2007	Year ended 31 December 2006
At fair value		
At the beginning of the period	9,241	7,093
Transferred from property, plant and equipment	2,620	610
Changes in fair value	5,170	1,538
Net book value:	**17,031**	**9,241**
At the end of the year	**17,031**	**9,241**
At the beginning of the year	**9,241**	**7,093**

Included in operating lease income is investment property rental income for the years ended 31 December 2007 and 2006 in the amount of UAH 6,337 thousand and UAH 2,243 thousand, respectively.

Operating expenses arising from the investment property that generated rental income during the year ended 31 December 2007 and 2006 amounted to UAH 352 thousand and UAH 47 thousand, respectively.

23. OTHER ASSETS

Other assets comprise:

	31 December 2007	31 December 2006
Prepayments for property, plant and equipment	30,392	25,654
Other income accrued	4,580	2,354
Prepayment for other assets	2,919	6,145
Intangible assets	2,528	926
Prepayments and other accounts receivable	2,241	1,606
Prepaid expenses	1,527	736
Advantage for stationery and other materials	1,319	658
Other	79	1,822
	45,585	39,901
Less allowance for impairment losses	(1,631)	(1,530)
Total other assets	**43,954**	**38,371**

Movements in allowances for impairment losses on other assets for the years ended 31 December 2007 and 2006 are disclosed in Note 6.

Intangible assets include software, patents and licenses.

	Intangible assets
At cost	
31 December 2005	2,014
Additions	583
Transfers	-
Disposals	(31)
31 December 2006	2,566
Additions	2,017
Transfers	-
Disposals	(2)
31 December 2007	4,581
Accumulated amortization	
31 December 2005	1,308
Charge for the year	363
Eliminated on disposals	(31)
31 December 2006	1,640
Charge for the year	415
Eliminated on disposals	(2)
31 December 2007	2,053
Net book value	
31 December 2007	**2,528**
31 December 2006	**926**

24. DUE TO BANKS

Due to banks comprise:

	31 December 2007	31 December 2006
Correspondent accounts	217,100	357,569
Term deposits	2,965,929	649,809
Loans under repurchase agreements	95,395	-
Total due to banks	**3,278,424**	**1,007,378**

As at 31 December 2007 and 2006 accrued interest expenses included in due to banks amounted to UAH 866 thousand and UAH 501 thousand, respectively.

As at 31 December 2007 loans to banks included loans under reverse repurchase agreements in the amount of UAH 95,395 thousand, secured by bonds of Ukrainian companies with carrying value of UAH 95,395 thousand, which approximates their fair value.

During 2007 and 2006 the Bank simultaneously placed with and received short-term funds from Ukrainian banks in different currencies (see Note 18).

As at 31 December 2007 and 2006 the due to banks in the amounts of UAH 1,971,265 thousand (60%) and UAH 771,826 thousand (77%), respectively, were due to ten banks, which represents significant concentration.

As at 31 December 2007 and 2006 three loans to customers in amount UAH 58,720 thousand and UAH 81,574 thousand, respectively, were pledged as collateral under deposit received from another bank (Note 19).

25. CUSTOMER ACCOUNTS

Customer accounts comprise:

	31 December 2007	31 December 2006
Time deposits	3,880,466	1,971,908
Repayable on demand	1,356,873	676,000
Total customer accounts	**5,237,339**	**2,647,908**

As at 31 December 2007 and 2006 accrued interest expenses included in customers accounts amounted to UAH 89,708 thousand and UAH 45,125 thousand, respectively.

As at 31 December 2007 and 2006 customer accounts amounting to UAH 40,320 thousand and UAH 30,681 thousand, respectively, were held as collateral against guarantees issued.

As at 31 December 2007 and 2006 customer accounts of UAH 1,411,643 thousand (27%) and UAH 661,013 thousand (25%), respectively, were due to twenty customers, which represents significant concentration.

	31 December 2007	31 December 2006
Analysis by sector:		
Individuals	3,124,175	1,789,827
Other services	448,360	132,382
Trade	356,877	101,836
Transport and communication	301,167	104,629
Manufacturing	272,352	101,494
Construction	208,281	55,461
Insurance	196,676	122,272
Finance sector	169,366	37,044
Energy	31,581	36,499
Agriculture and food processing	59,933	103,999
Mining and metallurgy	20,755	1,490
Non-residents	-	19,824
Other	47,816	41,151
Total customer accounts	**5,237,339**	**2,647,908**

26. DEBT SECURITIES ISSUED

Debt securities issued comprise:

	Maturity date month/year	Annual coupon rate %	31 December 2007	31 December 2006
Ukrainian Hryvnias	14 June 2011	12.75%	94,658	88,311
Ukrainian Hryvnias	30 July 2012	12.0%	248,738	-
Ukrainian Hryvnias	18 September 2012	13.0%	19,144	-
Bonds secured by mortgage loans	25 February 2010	10.5%	24,832	-
Total debt securities issued			**387,372**	**88,311**

As at 31 December 2007 and 2006 accrued interest expense included in debt securities issued amounted to UAH 7,280 thousand and UAH 2,186 thousand, respectively.

As at 31 December 2007 the mortgage loans to customers in the amount of UAH 56,256 thousand were pledged under the debt securities issued by the Bank (Note 19).

27. OTHER BORROWED FUNDS

	Currency	Maturity	Interest rate, %	31 December 2007	31 December 2006
Standard Bank London LTD	USD	12 June 2008	LIBOR + 2.70%	231,244	-
Standard Bank London LTD	USD	15 December 2008	LIBOR + 3.25%	99,767	-
Cargill Financial Service International Inc	USD	9 June 2008	6.90%	29,427	-
ING BANK	EUR	1 September 2012	EURIBOR + 1.35%	23,416	-
NLB International Plaza	USD	25 November 2010	LIBOR+ 4,35%	3,421	-
Atlantic Forfaitierungs AG	USD	3 December 2010	LIBOR+ 4,50%	2,373	-
Standard Bank London LTD	USD	17 December 2007	LIBOR + 3.10%	-	80,117
Cargill Financial Service International Inc	USD	17 December 2007	6.90%	-	23,664
State Mortgage Institution	UAH	27 July 2007	12.00%	-	2,000
Total other borrowed funds				**389,648**	**105,781**

As at 31 December 2007 and 2006 accrued interest expense is included in other borrowed funds amounting to UAH 2,048 thousand and UAH 387 thousand, respectively.

Interest on loans from Standard Bank London LTD is accrued and capitalised monthly and paid in accordance with the schedule selected by the Bank according to the terms of the facility agreement. Interest on loans from Cargill Financial Service International Inc is accrued and capitalised monthly and paid at the maturity date. Interest on the loan from ING is paid semi-annually.

28. OTHER LIABILITIES

Other liabilities comprise:

	31 December 2007	31 December 2006
Provision for unused vacation	9,195	4,210
Provision for guarantees and other commitments	7,097	1,910
Accounts payables for purchasing assets	3,704	81
Accounts payable to the Deposit Insurance Fund	2,706	1,653
Deferred income	2,279	912
Rental payments	1,266	881
Telecommunication services	812	383
Current income tax liability	680	1,828
Taxes payable, other than income tax	409	358
Dividends payable to shareholders	115	948
Accrued salaries	44	32
Other	1,387	501
Total other liabilities	**29,694**	**13,697**

Movements in provision for guarantees and other commitments for the years ended 31 December 2007 and 2006 are disclosed in Note 6.

29. SUBORDINATED DEBT

	Currency	Maturity date year	Interest rate %	31 December 2007	31 December 2006
Subordinated debt provided by "Investenergo" LLC	UAH	30 August 2011	12%	**50,510**	**50,509**

As at 31 December 2007 and 2006 accrued interest expense included in subordinated debt amounted to UAH 510 thousand and UAH 509 thousand, respectively.

In the event of bankruptcy or liquidation of the Bank repayment of this debt is subordinate to the repayments of the Bank's liabilities to all other creditors.

30. SHARE CAPITAL AND SHARE PREMIUM

As at 31 December 2007 and 2006 authorized, issued and paid-in share capital consisted of 499,523 and 299,523 ordinary shares with par value of UAH 1 each and 477 and 477 preference shares with par value of UAH 1 each.

As at 31 December 2007 and 2006 the Bank's share capital comprised the following number of shares of UAH 1 each:

	Authorized share capital, Shares'000	Unpaid share capital, Shares'000	Repurchased share capital, Shares'000	Total share capital, Shares'000
Ordinary shares	499,523	-	-	499,523
Preference shares	477	-	-	477

As at 31 December 2006 the Bank's share capital comprised the following number of shares of UAH 1 each:

	Authorized share capital, Shares'000	Unpaid share capital, Shares'000	Repurchased share capital Shares'000	Total share capital Shares'000
Ordinary shares	299,523	-	-	299,523
Preference shares	477	-	-	477

The below table provides a reconciliation of the number of shares outstanding as at 31 December 2007 and 2006:

	Ordinary shares Share'000	Preference shares Share'000
31 December 2005	169,523	477
Issue of shares	130,000	-
31 December 2006	299,523	477
Issue of shares	200,000	-
31 December 2007	**499,523**	**477**

As at 31 December 2007 and 2006 share premium comprised UAH 69,404 thousand and UAH 2,816 thousand, respectively.

The Bank's distributable among shareholders reserves are limited to the amount of its reserves as disclosed in its statutory accounts.

31. COMMITMENTS AND CONTINGENCIES

In the normal course of business the Bank is a party to financial instruments with off-balance sheet risk in order to meet the needs of its customers. These instruments, involving varying degrees of credit risk, are not reflected in the balance sheet.

The Bank's maximum exposure to credit loss under contingent liabilities and commitments to extend credit, in the event of non-performance by the other party where all counterclaims, collateral or security prove valueless, is represented by the contractual amounts of those instruments.

The Bank uses the same credit control and management policies in undertaking off-balance sheet commitments as it does for on-balance operations.

Provision for guarantees and other commitments amounted to UAH 7,097 thousand and UAH 1,910 thousand as at 31 December 2007 and 2006, respectively.

As at 31 December 2007 and 2006 the nominal or contract amounts were:

	31 December 2007		31 December 2006	
	Nominal amount	**Risk weighted amount**	**Nominal amount**	**Risk weighted amount**
Contingent liabilities and credit commitments				
Guarantees issued and similar commitments	183,510	143,190	91,194	54,680
Letters of credit and other transaction related contingent obligations	97,052	48,526	-	-
Commitments on loans and unused credit lines:	1,189,140	53,673	377,196	46,932
- non-cancellable with maturity of over 1 year	107,346	53,673	93,864	46,932
- non-cancellable with maturity less than 1 year and cancellable	1,079,018	-	277,899	-
Loan commitments to banks and unused credit lines	2,776	-	5,433	-
Total contingent liabilities and credit commitments	**1,469,702**	**245,389**	**468,390**	**101,612**

Operating lease commitments – Where the Bank is the lessee, the future minimum lease payments under non cancelable operating leases are as follows:

	31 December 2007	**31 December 2006**
Not later than 1 year	27,721	11,891
Later than 1 year and not later than 5 years	50,125	16,865
Later than 5 years	3,921	1,489
Total operating lease commitments	**81,767**	**30,245**

Fiduciary activities – In the normal course of its business the Bank enters into agreements with limited right on decision making with clients for their assets management in accordance with specific criteria established by clients. The Bank may be liable for losses or actions aimed at appropriation of the clients' funds until such funds or securities are not returned to the client due to gross negligence or willful misconduct by the Bank only. The maximum potential financial risk of the Bank at any given moment is equal to the volume of the clients' funds plus/minus any unrealized income/loss on the client's position. In the judgment of management, as at 31 December 2007 and 2006 the maximum potential financial risk on securities accepted by the Bank on behalf of its clients does not exceed UAH 17,032 thousand and UAH 12,534 thousand, respectively.

Legal proceedings – From time to time and in the normal course of business, claims against the Bank are received from customers and counterparties. Management is of the opinion that no material unaccrued losses will be incurred and accordingly no provision has been made in these financial statements.

The Bank is receiving claims from individual customers with respect to certain commissions withheld by the Bank for loan agreements service. The NBU issued an instruction requiring banks to disclose effective interest rates on loans granted to individuals. Management is of the opinion that such claims would not have adverse consequences for the Bank, and is in the process of establishing procedures on disclosing additional information in loan agreements in compliance with the NBU instruction.

Taxation – Due to the presence in Ukrainian commercial legislation, and tax legislation in particular, of provisions allowing more than one interpretation, and also due to the practice developed in a generally unstable environment by the tax authorities of making arbitrary judgment of business activities, if a particular treatment based on management's judgment of the Bank's business activities was to be challenged by the tax authorities, the Bank may be assessed additional taxes, penalties and interest. Such uncertainty may relate to the valuation of financial instruments, loss and impairment provisions and the market level for the pricing of deals. The Bank believes that it has already made all tax payments, and therefore no allowance has been made in the financial statements. Tax records remain open to review by the tax authorities for three years.

Pensions and retirement plans – Employees receive pension benefits in accordance with the laws and regulations of Ukraine. In March 2003 the Bank arranged supplementary defined contribution pension scheme for employees with the "Narodniy pension fund "Ukraine" LLC (which was renamed later to "Administrator of pension funds "Ukraine-service" LLC). The Bank paid UAH 5,225 thousand and UAH 2,945 thousand for the years ended 31 December 2007 and 2006, respectively, to this pension fund. Employees have the right to receive pension in the amount of such accumulated payments.

Operating environment – The Bank's principal business activities are within Ukraine. Laws and regulations affecting the business environment in Ukraine are subject to rapid changes and the Bank's assets and operations could be at risk due to negative changes in the political and business environment.

32. SUBSEQUENT EVENTS

The Bank declared UAH 100,000 thousand share issue subsequent to balance sheet date.

33. TRANSACTIONS WITH RELATED PARTIES

Related parties or transactions with related parties, as defined by IAS 24 "Related party disclosures", represent:

(a) Parties that directly, or indirectly through one or more intermediaries: control, or are controlled by, or are under common control with, the Bank (this includes parents, subsidiaries and fellow subsidiaries); have an interest in the Bank that gives then significant influence over the Bank; and that have joint control over the Bank;
(b) Associates – enterprises on which the Bank has significant influence and which is neither a subsidiary nor a joint venture of the investor;
(c) Joint ventures in which the Bank is a venturer;
(d) Members of key management personnel of the Bank or its parent;
(e) Close members of the family of any individuals referred to in (a) or (d);
(f) Parties that are entities controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or
(g) Post-employment benefit plans for the benefit of employees of the Bank, or of any entity that is a related party of the Bank.

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form. The Bank had the following transactions outstanding as at 31 December 2007 and 2006 with related parties:

	31 December 2007		31 December 2006	
	Related party balances	**Total category as per financial statements caption**	**Related party balances**	**Total category as per financial statements caption**
Loans to customers	4,588	4,706,411	15,300	2,061,413
- shareholders	-		10,100	
- key management personnel of the Bank	1,945		2,115	
- other related parties	2,643		3,085	
Allowance for impairment losses	(152)	(192,410)	(240)	(99,826)
- shareholders			-	
- key management personnel of the Bank	(21)		(98)	
- other related parties	(131)		(142)	
Customer accounts	20,509	5,237,339	21,111	2,647,908
- shareholders	79		4,191	
- key management personnel of the Bank	1,738		10,096	
- other related parties	18,692		6,824	
Investments available for sale	31,357	586,059	38,482	401,304
- shareholders	-		-	
- key management personnel of the Bank	-		-	
- other related parties	31,357		38,482	
Guarantees given	2,702	183,510	-	91,194
- shareholders	-		-	
- key management personnel of the Bank	2,323		-	
- other related parties	379		-	
Loan commitments	6,914	1,186,364	7,618	377,196
- shareholders	-		-	
- key management personnel of the Bank	458		504	
- other related parties	6,456		7,114	
Subordinated debt	50,510	50,510	50,509	50,509
- shareholders	50,510		50,509	

	31 December 2007		31 December 2006	
	Related party transactions	**Total category as per financial statements caption**	**Related party transactions**	**Total category as per financial statements caption**
Key management personnel compensation:	3,782	161,166	4,095	84,018
- short-term employee benefits	3,413		1,150	
- post-employment benefits	369		2,945	

Included in the income statement for the years ended 31 December 2007 and 2006 are the following amounts which arose due to transactions with related parties:

	Year ended 31 December 2007		Year ended 31 December 2006	
	Related party transactions	**Total category as per financial statements caption**	**Related party transactions**	**Total category as per financial statements caption**
Interest income	1,024	859,313	29,089	389,728
- shareholders	-		1,008	
- key management personnel of the Bank	197		186	
- other related parties	827		27,895	
Interest expense	(2,466)	(508,361)	(1,229)	(241,322)
- shareholders	-		(65)	
- key management personnel of the Bank	(577)		(606)	
- other related parties	(1,889)		(558)	
Interest income on investments available for sale	16,744	124,737	28,833	59,534
Provision for impairment losses on loans to customers	(198)	(94,399)	(1,230)	(31,219)
- shareholders	-		-	
- key management personnel of the Bank	(59)		(9)	
- other related parties	(139)		(1,221)	

34. SEGMENT REPORTING

The Bank's primary format for reporting segment information is business segments and the secondary format is geographical segments.

Business segments

The Bank is organized on the basis of three main business segments:

- Retail banking – representing private banking services, private customer current accounts, savings, deposits, investment savings products, custody, credit and debit cards, consumer loans and mortgages.
- Corporate banking – representing direct debit facilities, current accounts, deposits, overdrafts, loan and other credit facilities, foreign currency and derivative products.
- Investment activity – representing financial instruments trading, letting out of investment property, structured financing, corporate leasing, and merger and acquisitions advice.

Transactions between the business segments are on normal commercial terms and conditions. Funds are ordinarily reallocated between segments, resulting in funding cost transfers disclosed in operating income. Interest charged for these funds is based on the Bank's cost of capital. There are no other material items of income or expense between the business segments. Internal charges and transfer pricing adjustments have been reflected in the performance of each business. Revenue sharing agreements are used to allocate external customer revenues to a business segment on a reasonable basis.

Segment information about these businesses is presented below.

	Retail banking	Corporate banking	Investment activity	Unallocated	31 December 2007/ Year ended 31 December 2007 Total
Interest income	137,958	596,451	124,904	-	859,313
Interest expense	(250,739)	(225,885)	(25,737)	(6,000)	(508,361)
Provisions for impairment losses on interest bearing assets	(21,133)	(73,266)	-	-	(94,399)
Net gain on financial assets at fair value through profit or loss	-	-	657	-	657
Initial fair value recognition adjustment on interest bearing assets	(22)	(252)	-	-	(274)
Net gain on foreign exchange operations	-	-	-	45,464	45,464
Net gain on precious metals operations	-	-	-	1,711	1,711
Fee and commission income	37,042	67,212	1,897	-	106,151
Fee and commission expense	-	(10,706)	(7)	(7,189)	(17,902)
Net realized gain on investments available for sale	-	-	20,242	-	20,242
Income on investment property	-	-	6,338	-	6,338
Other income	-	-	-	3,640	3,640
External operating income/(expenses)	(96,894)	353,554	128,294	37,626	422,580
Income/(expense) from other segments	138,065	(162,863)	(45,773)	70,571	-
Total operating income	41,171	190,691	82,521	108,197	422,580
Operating expenses	(105,287)	(85,537)	(11,948)	(98,085)	(300,857)
Provision for impairment losses on other transactions	-	-	-	(5,288)	(5,288)
Profit before income tax	(64,116)	105,154	70,573	4,824	116,435
Income tax expense	-	-	-	(34,726)	(34,726)
Net profit	**(64,116)**	**105,154**	**70,573**	**(29,902)**	**81,709**
Segment assets	**1,800,076**	**7,508,698**	**636,412**	**533,277**	**10,478,463**
Segment liabilities	**3,124,175**	**5,668,585**	**387,372**	**335,454**	**9,515,586**
Other segment items					
Depreciation charge on property, plant and equipment	13,459	10,118	1,526	-	25,103
Loans to customers	1,372,400	3,334,011	-	-	4,706,411
Property, plant and equipment	417,311	313,724	47,355	-	778,390
Customer accounts	3,124,175	2,113,164	-	-	5,237,339
Additions of property, plant and equipment	122,840	92,347	16,537	-	231,724

	Retail banking	Corporate banking	Investment activity	Unallocated	31 December 2006/ Year ended 31 December 2006 Total
Interest income	54,234	275,960	59,534	-	389,728
Interest expense	(149,698)	(79,037)	(6,587)	(6,000)	(241,322)
Provision for impairment losses on interest bearing assets	(5,164)	(26,055)	-	-	(31,219)
Initial fair value recognition adjustment on interest bearing assets	(495)	(60)	-	-	(555)
Fee and commission income	22,363	33,489	1,030	-	56,882
Fee and commission expense	-	(7,248)	(1)	(5,211)	(12,460)
Net gain on foreign exchange operations	-	-	-	26,238	26,238
Net gain on precious metals operations	-	-	-	3,002	3,002
Net realized gain on investments available for sale	-	-	2,843	-	2.843
Income on investment property	-	-	2,243	-	2,243
Other income	-	-	-	1,812	1,812
External operating income/(expenses)	(78,760)	197,049	59,062	19,841	197,192
Income/(expense) from other segments	118,142	(108,884)	(31,231)	21,973	-
Total operating income	39,382	88,165	27,831	41,814	197,192
Operating expenses	(57,631)	(44,000)	(8,160)	(64,534)	(174,325)
Recovery of provision for impairment losses on other transactions	-	-	-	52	52
Profit before income tax	(18,249)	44,165	19,671	(22,668)	22,919
Income tax expense	-	-	-	(10,151)	(10,151)
Net profit	**(18,249)**	**44,165**	**19,671**	**(32,819)**	**12,768**
Segment assets	**753,149**	**2,947,054**	**434,172**	**338,551**	**4,472,926**
Segment liabilities	**1,803,091**	**1,937,918**	**88,366**	**154,481**	**3,983,856**
Other segment items					
Depreciation charge on property, plant and equipment	9,504	7,080	1,411	-	17,995
Loans to customers	595,974	1,465,439	-	-	2,061,413
Property, plant and equipment	215,854	160,348	32,069	-	408,271
Customer accounts	1,789,827	858,081	-	-	2,647,908
Additions of property, plant and equipment	52,344	38,884	7,777	-	99,005

Geographical segments

Segment information for the main geographical segments of the Bank is set out below as at 31 December 2007 and 2006 and for the years then ended.

	Ukraine	OECD countries	Other non-OECD countries	31 December 2007/ Year ended 31 December 2007 Total
Interest income	857,986	1,315	12	859,313
Interest expense	(490,145)	(18,214)	(2)	(508,361)
Provision for impairment losses on interest bearing assets	(94,399)	-	-	(94,399)
Initial fair value recognition adjustment on interest bearing assets	(274)	-	-	(274)
Fee and commission income	106,151	-	-	106,151
Fee and commission expense	(12,915)	(4,987)	-	(17,902)
Net gain on financial assets at fair value through profit or loss	657	-	-	657
Net gain on foreign exchange operations	45,464	-	-	45,464
Net gain on precious metals operations	1,711			1,711
Net realized gain on investments available for sale	20,242	-	-	20,242
Income on investment property	6,338	-	-	6,338
Other income	3,640	-	-	3,640
External operating income/(expense)	444,456	(21,886)	10	422,580
Cash and balances with the National bank of Ukraine	467,081	-	-	467,081
Precious metals	24,722	-	-	24,722
Financial assets at fair value through profit or loss	1,808	-	-	1,808
Due from banks	3,771,532	77,661	3,814	3,853,007
Loans to customers	4,706,411	-	-	4,706,411
Investments available for sale	586,059	-	-	586,059
Property, plant and equipment	778,390	-	-	778,390
Other assets	43,954	-	-	43,954
Capital expenditure	231,724	-	-	231,724

	Ukraine	OECD countries	Other non-OECD countries	31 December 2006/ Year ended 31 December 2006 Total
Interest income	388,923	800	5	389,728
Interest expense	(240,754)	(568)	-	(241,322)
Provision for impairment losses on interest bearing assets	(31,219)	-	-	(31,219)
Initial fair value recognition adjustment on interest bearing assets	(555)	-	-	(555)
Fee and commission income	56,882	-	-	56,882
Fee and commission expense	(11,329)	(1,131)	-	(12,460)
Net gain on foreign exchange operations	26,238	-	-	26,238
Net gain on precious metals operations	3,002	-	-	3,002
Net realized gain on investments available for sale	2,843	-	-	2,843
Income on investment property	2,243	-	-	2,243
Other income	1,812	-	-	1,812
External operating income/(expense)	198,086	(899)	5	197,192
Cash and balances with the National bank of Ukraine	294,172	-	-	294,172
Precious metals	6,929	-	-	6,929
Due from banks	1,221,456	29,246	2,523	1,253,225
Loans to customers	2,061,413	-	-	2,061,413
Investments available for sale	401,304	-	-	401,304
Property, plant and equipment	408,271	-	-	408,271
Other assets	38,371	-	-	38,371
Capital expenditure	99,005	-	-	99,005

External operating income, assets, capital expenditure have been allocated based on domicile of the counterparty. Tangible assets (cash on hand, precious metals, premises and equipment) have been allocated based on the country in which they are physically held.

35. FAIR VALUE OF FINANCIAL INSTRUMENTS

Estimated fair value disclosures of financial instruments are made in accordance with the requirements of IAS 32 “Financial Instruments: Disclosure and Presentation” and IAS 39 “Financial Instruments: Recognition and Measurement”. Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm’s length transaction, other than in forced or liquidation sale. The estimates presented herein are not necessarily indicative of the amounts the Bank could realize in a market exchange from the sale of its full holdings of a particular instrument.

The fair value of financial assets and liabilities compared with the corresponding carrying amount in the balance sheet of the Bank is presented below:

	31 December 2007		31 December 2006	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
Cash and balances with the National bank of Ukraine	467,081	467,081	294,172	294,172
Financial assets at fair value through profit or loss	1,808	1,808	-	-
Due from banks	3,853,007	3,853,007	1,253,225	1,253,225
Loans to customers	4,706,411	4,706,411	2,061,413	2,061,413
Investments available for sale	586,059	586,059	401,304	401,304
Due to banks	3,278,424	3,278,424	1,007,378	1,007,378
Customer accounts	5,327,339	5,327,339	2,647,908	2,647,908
Debt securities issued	387,372	387,372	88,311	88,311
Other borrowed funds	29,694	29,694	105,781	105,781
Subordinated debt	50,510	50,510	50,509	50,509

36. REGULATORY MATTERS

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios of total (8%) and tier 1 capital (4%) to risk weighted assets.

The ratio was calculated according to the principles employed by the Basle Committee by applying the following risk estimates to the assets and off-balance sheet commitments net of allowances for impairment losses:

Estimate	**Description of position**
0%	Cash and balances with the National bank of Ukraine
0%	State debt securities
20%	Due from banks for up to 1 year
50%	Obligations and commitments on unused loans with the initial maturity of over 1 year
100%	Loans to customers
100%	Guaranties issued
100%	Other assets

As at 31 December 2007 the Bank's total capital amount for Capital Adequacy purposes was UAH 992,877 thousand and tier 1 capital amount was UAH 692,433 thousand with ratios of 15% and 10%, respectively.

As at 31 December 2006 the Bank's total capital amount for Capital Adequacy purposes was UAH 538,568 thousand and tier 1 capital amount was UAH 343,634 thousand with ratios of 18% and 12%, respectively.

As at 31 December 2007 the Bank included in the computation of total capital for Capital adequacy purposes the subordinated debt received, limited to 50% of tier 1 capital. In the event of bankruptcy or liquidation of the Bank repayment of this debt is subordinate to the repayments of the Bank's liabilities to all other creditors.

37. RISK MANAGEMENT POLICIES

Management of risk is fundamental to the Bank's banking business and is an essential element of the Bank's operations. The main risks inherent to the Bank's operations are those related to:

- Credit risk
- Liquidity risk
- Market risk.

The Bank recognizes that it is essential to have efficient and effective risk management processes in place. To enable this, the Bank has established a risk management framework, whose main purpose is to protect the Bank from risk and allow it to achieve its performance objectives. Through the risk management framework the Bank manages the following risks:

Credit risk

The Bank is exposed to credit risk which is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

Credit risk is managed by the Credit Council, Credit Committee, Retail Credit Committee, Branch Credit Commission, Outlet Credit Commission, Loan Portfolio Quality Commission, and Risk-Management Department.

Engaged in making decisions in relation to a certain loan transaction are Customer Policy Department, Risk-Management Department, Legal Department, Banking Security Department, and Problem Assets Department.

Based on the conclusions made by the Bank's divisions, Collegial Executive Body approves limits for the loan transaction, and makes decisions on carrying out loan transactions. The Risk-Management Department on a monthly basis perform analysis of loan portfolio, measured loans in order to create allowance for possible loan losses, and advise to the Board of Directors and Collegial Executive Body on taking steps for minimizing credit risk.

Where appropriate, and in the case of most loans, the Bank obtains collateral and corporate and personal guarantees but a significant portion is personal lending, where no such facilities can be obtained. Such risks are monitored on a continuous basis and subject to annual or more frequent reviews.

Commitments to extend credit represent unused portions of credit in the form of loans, guarantees or letters of credit. The credit risk on off-balance sheet financial instruments is defined as a probability of losses due to the inability of counterparty to comply with the contractual terms and conditions. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to a loss in an amount equal to the total unused commitments. However, the likely amount of the loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Bank applies the same credit policy to the contingent liabilities as it does to the balance sheet financial instruments, i.e. the one based on the procedures for approving the grant of loans, using limits to mitigate the risk, and current monitoring. The Bank monitors the term to maturity of off balance sheet contingencies because longer term commitments generally have a greater degree of credit risk than short-term commitments.

Maximum exposure

The Bank maximum exposure to credit risk varies significantly and is dependant on both individual risks and general market economy risks.

The following table presents the maximum exposure to credit risk of financial assets and contingent liabilities. For financial assets the maximum exposure equals to a carrying value of those assets prior to any offset or collateral. For financial guarantees and other contingent liabilities the maximum exposure to credit risk is the maximum amount the Bank would have to pay if the guarantee was called on or in the case of commitments, if the loan amount was called on.

			31 December 2007
	Maximum exposure	**Collateral pledged**	**Net exposure after collateral**
Financial assets at fair value through profit or loss	1,808	-	1,808
Due from banks	3,853,007	2,150,306	1,702,701
Loans to customers	4,706,411	5,486,381	-
Investments available for sale	586,059	-	586,059

			31 December 2006
	Maximum exposure	**Collateral pledged**	**Net exposure after collateral**
Due from banks	1,253,225	538,630	714,595
Loans to customers	2,061,413	3,086,143	-
Investments available for sale	401,304	-	401,304

Financial assets are graded according to the current credit rating they have been issued by an internationally and Ukrainian regarded agency. The highest possible rating is AAA. Investment grade financial assets have ratings from AAA to BBB. Financial assets which have ratings lower than BBB are classed as speculative grade.

The following table details the credit ratings of financial assets held by the Bank:

					31 December 2007
	In the range from AAA to A	**In the range from BBB to B**	**Below B**	**Not rated**	**Total**
Due from banks	1,062,915	2,066,908	-	723,184	3,853,007
Financial assets at fair value through profit or loss	-	-	-	1,808	1,808
Loans to customers	-	-	-	4,706,411	4,706,411
Investments available foe sale	18,980	154,422	-	412,657	586,059

					31 December 2006
	In the range from AAA to A	**In the range from BBB to B**	**Below B**	**Not rated**	**Total**
Due from banks	754,141	383,366	7,025	108,693	1,253,225
Loans to customers	-	-	-	2,061,413	2,061,413
Investments available for sale	-	-	-	401,304	401,304

The banking industry is generally exposed to credit risk through its financial assets and contingent liabilities. Credit risk exposure of the Bank is concentrated within Ukraine. The exposure is monitored on a regular basis to ensure that the credit limits and credit worthiness guidelines established by the Bank’s risk management policy are not breached.

The following table details the carrying value of assets that are impaired and the ageing of those that are past due but not impaired:

		Financial assets past due but not impaired				31 December 2007	
	Neither past due nor impaired	0-3 months	3-6 months	6 months to 1 year	Greater than one year	Financial assets that have been impaired	Total
Financial assets at fair value through profit or loss	1,808	-	-	-	-	-	1,808
Due from banks	3,851,017	-	-	-	-	1,990	3,853,007
Loans to customers	3,999,311	76,791	22,041	15,116	1,381	591,771	4,706,411
Investments available for sale	585,782	-	-	-	-	277	586,059

		Financial assets past due but not impaired				31 December 2006	
	Neither past due nor impaired	0-3 months	3-6 months	6 months to 1 year	Greater than one year	Financial assets that have been impaired	Total
Due from banks	1,251,235	-	-	-	-	1,990	1,253,225
Loans to customers	1,702,801	7,565	6,326	2,660	1,459	340,602	2,061,413
Investments available for sale	400,967	-	-	-	-	337	401,304

Geographical concentration

The ALMC exercises control over the risk in the legislation and regulatory arena and assesses its influence on the Bank’s activity. This approach allows the Bank to minimize potential losses from the investment climate fluctuations in Ukraine.

The geographical concentration of assets and liabilities is set out below:

	Ukraine	OECD countries	Other non-OECD countries	31 December 2007 Total
ASSETS				
Cash and balances with the National bank of Ukraine	467,081	-	-	467,081
Precious metals	24,722	-	-	24,722
Financial assets at fair value through profit or loss	1,808	-	-	1,808
Due from banks	3,771,532	77,661	3,814	3,853,007
Loans to customers	4,706,411	-	-	4,706,411
Investments available for sale	586,059	-	-	586,059
Property, plant and equipment	778,390	-	-	778,390
Investment property	17,031	-	-	17,031
Other assets	43,954	-	-	43,954
TOTAL ASSETS	**10,396,988**	**77,661**	**3,814**	**10,478,463**
LIABILITIES				
Due to banks	3,278424	-	-	3,278,424
Customer accounts	5,237,339	-	-	5,237,339
Debt securities issued	387,372	-	-	387,372
Other borrowed funds	-	389,648	-	389,648
Deferred income tax liabilities	142,599	-	-	142,599
Other liabilities	29,694	-	-	29,694
Subordinated debt	50,510	-	-	50,510
TOTAL LIABILITIES	**9,125,938**	**389,648**	**-**	**9,515,586**
NET POSITION	**1,271,050**	**(311,987)**	**3,814**	

	Ukraine	OECD countries	Non-OECD countries	31 December 2006 Total
ASSETS				
Cash and balances with the National bank of Ukraine	294,172	-	-	294,172
Precious metals	6,929	-	-	6,929
Due from banks	1,221,456	29,246	2,523	1,253,225
Loans to customers	2,061,413	-	-	2,061,413
Investments available for sale	401,304	-	-	401,304
Property, plant and equipment	408,271	-	-	408,271
Investment property	9,241	-	-	9,241
Other assets	38,371	-	-	38,371
TOTAL ASSETS	**4,441,157**	**29,246**	**2,523**	**4,472,926**
LIABILITIES				
Due to banks	1,007,378	-	-	1,007,378
Customer accounts	2,647,908	-	-	2,647,908
Debt securities issued	88,311	-	-	88,311
Other borrowed funds	2,000	103,781	-	105,781
Deferred income tax liabilities	70,272	-	-	70,272
Other liabilities	13,697	-	-	13,697
Subordinated debt	50,509	-	-	50,509
TOTAL LIABILITIES	**3,880,075**	**103,781**	**-**	**3,983,856**
NET POSITION	**561,082**	**(74,535)**	**2,523**	

Liquidity risk

Liquidity risk refers to the availability of sufficient funds to meet deposit withdrawals and other financial commitments associated with financial instruments as they actually fall due.

The Assets and Liabilities Management Committee (“ALMC”) controls these types of risks by means of maturity analysis, determining the Bank’s strategy for the next financial period. Current liquidity is managed by the Treasury Department, which deals in the money markets for current liquidity support and cash flow optimisation.

In order to manage liquidity risk the Bank performs daily monitoring of future expected cash flows on clients’ and banking operations, which is a part of assets/liabilities management process. The Board sets limits on the minimum proportion of maturing funds available to meet deposit withdrawals and on the minimum level on interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

Cash flow interest rate risk

Cash flow interest rate risk is the risk that the future cash flow of a financial instrument will fluctuate because of change in market interest rates.

An analysis of the liquidity and interest rate risks is presented in the following table. The tables have been drawn up to detail:

(i) The remaining contractual maturity of non-derivative financial liabilities based on the undiscounted cash flows of financial liabilities (both interest and principal cash flows) based on the earliest date on which the Bank can be required to pay,

	Weighted average effective interest rate, %	**Up to 1 month**	**1 month to 3 months**	**3 month to 1 year**	**1 year to 5 years**	**Over 5 years**	**Maturity undefined**	**31 December 2007 Total**
LIABILITIES								
Due to banks	6	518,211	1,298,378	677,647	5,311	-	831,540	3,331,087
Customer accounts	12	236,748	585,900	1,574,351	1,905,350	62	1,415,286	5,717,697
Debt securities issued	11	4,236	8,473	143,780	292,453	-	-	448,942
Other borrowed funds	7	27,402	19,584	22,233	-	-	-	69,219
Subordinated debt	12	500	1,500	4,500	68,000	-	-	74,500
Total interest bearing liabilities at fixed rates		787,097	1,913,835	2,422,511	2,271,114	62	2,246,826	9,641,445
Other borrowed funds	6	89	540	342,469	29,393	-	-	372,491
Total interest bearing liabilities at floating rates		89	540	342,469	29,393	-	-	372,491
Total interest bearing liabilities		787,186	1,914,375	2,764,980	2,300,507	62	2,246,826	10,013,936
Deferred income tax liabilities		-	-	-	-	-	142,599	142,599
Other liabilities		16,030	900	2,999	2,759	16	6,990	29,694
Commitments on loans and unused credit lines		40,788	175,060	837,309	174,697	45,181	13,158	1,286,193
TOTAL LIABILITIES		**844,004**	**2,090,335**	**3,605,288**	**2,477,963**	**45,259**	**2,409,573**	**11,472,422**

	Weighted average effective interest rate, %	**Up to 1 month**	**1 month to 3 months**	**3 month to 1 year**	**1 year to 5 years**	**Over 5 years**	**Maturity undefined**	**31 December 2006 Total**
LIABILITIES								
Due to banks	7	430,623	168,822	30,338	-	30	382,497	1,012,310
Customer accounts	11	191,392	393,585	1,143,541	386,595	3,609	753,005	2,871,727
Debt securities issued	13	925	1,851	91,704	-	-	-	94,480
Other borrowed funds	7	5,033	872	34,681	779	-	2,298	43,663
Subordinated debt	12	500	1,500	4,500	74,000	-	-	80,500
Total interest bearing liabilities at fixed rates		628,473	566,630	1,304,764	461,374	3,639	1,137,800	4,102,680
Other borrowed funds	8	-	-	123,376	-	-	-	123,376
Total interest bearing liabilities at floating rates		-	-	123,376	-	-	-	123,376
Total interest bearing liabilities		628,473	566,630	1,428,140	461,374	3,639	1,137,800	4,226,056
Deferred income tax liabilities		-	-	-	-	-	70,272	70,272
Other liabilities		6,405	872	1,974	779	-	3,667	13,697
Commitments on loans and unused credit lines		40,788	175,060	837,309	174,697	45,181	13,158	1,286,193
TOTAL LIABILITIES		**675,666**	**742,562**	**2,267,423**	**636,850**	**48,820**	**1,224,897**	**5,596,218**

Market Risk

Market risk covers interest rate risk, currency risk and other pricing risks to which the Bank is exposed. There have been no changes as to the way the Bank measures risk or to the risk it is exposed in 2007.

The Bank is exposed to interest rate risks as entities in the Bank borrow funds at both fixed and floating rates. The risk is managed by the Bank maintaining an appropriate mix between fixed and floating rate borrowings.

The ALMC also manages interest rate and market risks by matching the Bank's interest rate position, which provides the Bank with a positive interest margin. The Risk-Management Department conducts monitoring of the Bank's current financial performance, estimates the Bank's sensitivity to changes in interest rates and its influence on the Bank's profitability.

The majority of the Bank's loan contracts and other financial assets and liabilities that bear interest are either variable or contain clauses enabling the interest rate to be changed at the option of the lender. The Bank monitors its interest rate margin and consequently does not consider itself exposed to significant interest rate risk or consequential cash flow risk.

Interest rate risk

The Bank manages fair value interest rate risk through periodic estimation of potential losses that could arise from adverse changes in market conditions. The Risk-Management Department conducts monitoring of the Bank's current financial performance, estimates the Bank's sensitivity to changes in fair value interest rates and its influence on the Bank's profitability.

The following table presents a sensitivity analysis of interest rate risk, which has been determined based on "reasonably possible changes in the risk variable". The level of these changes is determined by management and is contained within the risk reports provided to key management personnel.

Impact on profit before tax:

	As at 31 December 2007		**As at 31 December 2006**	
	Interest rate +1%	**Interest rate -1%**	**Interest rate +1%**	**Interest rate -1%**
Liabilities:				
Other borrowed funds	3,896	(3,896)	801	(801)
Net impact on profit before tax	**3,896**	**(3,896)**	**801**	**(801)**

Impact on shareholders equity:

	As at 31 December 2007		**As at 31 December 2006**	
	Interest rate +1%	**Interest rate -1%**	**Interest rate +1%**	**Interest rate -1%**
Liabilities:				
Other borrowed funds	3,896	(3,896)	801	(801)
Net impact on shareholders equity	**3,896**	**(3,896)**	**801**	**(801)**

Currency risk

Currency risk is defined as the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Bank is exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows.

The Risk-Management Department controls currency risk by management of the open currency position on the estimated basis of UAH devaluation and other macroeconomic indicators, which gives the Bank an opportunity to minimize losses from significant currency rates fluctuations toward its national currency. The Treasury Department performs daily monitoring of the Bank's open currency position with the aim to match the requirements of National bank of Ukraine.

The Bank's exposure to foreign currency exchange rate risk is presented in the table below:

	UAH	**USD** USD 1 = 5.05 UAH	**EUR** EUR 1 = UAH 7.41946	**Other currency**	**Precious metals**	**31 December 2007 Total**
ASSETS						
Cash and balances with the National Bank of Ukraine	363,342	71,828	29,752	2,159	-	467,081
Precious metals	-	-	-	-	24,722	24,722
Financial assets at fair value through profit or loss	1,808	-	-	-	-	1,808
Due from banks	2,170,268	1,646,376	27,902	3,487	4,974	3,853,007
Loans to customers	3,118,647	1,422,110	164,667	3	984	4,706,411
Investments available for sale	586,059	-	-	-	-	586,059
Property, plant and equipment	778,390	-	-	-	-	778,390
Investment property	17,031	-	-	-	-	17,031
Other assets	40,546	1,480	1,928	-	-	43,954
TOTAL ASSETS	**7,076,091**	**3,141,794**	**224,249**	**5,649**	**30,680**	**10,478,463**
LIABILITIES						
Due to banks	2,035,847	1,110,438	132,139	-	-	3,278,424
Customer accounts	3,447,945	1,429,277	342,557	1,322	16,238	5,237,339
Debt securities issued	387,372	-	-	-	-	387,372
Other borrowed funds	-	366,232	23,416	-	-	389,648
Deferred income tax liabilities	142,599	-	-	-	-	142,599
Other liabilities	20,440	7,226	1,618	410	-	29,694
Subordinated debt	50,510	-	-	-	-	50,510
TOTAL LIABILITIES	**6,084,713**	**2,913,173**	**499,730**	**1,732**	**16,238**	**9,515,586**
OPEN BALANCE SHEET POSITION	**991,378**	**228,621**	**(275,481)**	**3,917**	**14,442**	

	UAH	USD USD 1 = UAH 5.05	EUR EUR 1 = UAH 6.65085	Other currency	Precious metals	31 December 2006 Total
ASSETS						
Cash and balances with the National Bank of Ukraine	204,398	74,018	15,188	568	-	294,172
Precious metals	-	-	-	-	6,929	6,929
Due from banks	429,755	601,310	219,590	2,570	-	1,253,225
Loans to customers	1,321,959	658,822	80,554	78	-	2,061,413
Investments available for sale	401,304	-	-	-	-	401,304
Property, plant and equipment and intangible assets	408,271	-	-	-	-	408,271
Investment property	9,241	-	-	-	-	9,241
Other assets	36,335	1,904	121	11	-	38,371
TOTAL ASSETS	**2,811,263**	**1,336,054**	**315,453**	**3,227**	**6,929**	**4,472,926**
LIABILITIES						
Due to banks	521,375	333,516	152,485	2	-	1,007,378
Customer accounts	1,634,355	870,847	136,619	5,726	361	2,647,908
Debt securities issued	88,311	-	-	-	-	88,311
Other borrowed funds	2,000	103,781	-	-	-	105,781
Deferred income tax liabilities	70,272	-	-	-	-	70,272
Other liabilities	12,141	1,039	386	131	-	13,697
Subordinated debt	50,509	-	-	-	-	50,509
TOTAL LIABILITIES	**2,378,963**	**1,309,183**	**289,490**	**5,859**	**361**	**3,983,856**
NET POSITION	**432,300**	**26,871**	**25,963**	**(2,632)**	**6,568**	

Currency risk sensitivity

The following table details the Bank's sensitivity to an increase and decrease in the USD against the UAH, in result of possible changes in currency rates. Sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the possible change in foreign currency exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the period for the appropriate change in foreign currency rates. The sensitivity analysis includes external loans as well as loans to foreign operations within the Bank where the denomination of the loan is in a currency other than the currency of the lender or the borrower.

	As at 31 December 2007		As at 31 December 2006	
	UAH/USD +8%	**UAH/USD -3%**	**UAH/USD +0.2%**	**UAH/USD -1%**
Impact on profit or loss	18,508	(6,858)	53	(268)
Impact on equity	18,508	(6,858)	53	(268)

	As at 31 December 2007		As at 31 December 2006	
	UAH/EUR +2%	**UAH/ EUR -24%**	**UAH/ EUR +2%**	**UAH/ EUR -25%**
Impact on profit or loss	5,510	(66,116)	2,336	(6,490)
Impact on equity	5,510	(66,116)	2,336	(6,490)

Limitations of sensitivity analysis

The above tables demonstrate the effect of a change in a key assumption while other assumptions remain unchanged. In reality there is a correlation between the assumptions and other factors. It should also be noted that these sensitivities are non-linear, and larger or smaller impacts should not be interpolated or extrapolated from these results.

The sensitivity analyses do not take into consideration that the Bank's assets and liabilities are actively managed. Additionally, the financial position of the Bank may vary at the time that any actual market movement occurs. For example, the Bank's financial risk management strategy aims to manage the exposure to market fluctuations. As investment markets move past various trigger levels, management actions could include selling investments, changing investment portfolio allocation and taking other protective action. Consequently, the actual impact of a change in the assumptions may not have any impact on the liabilities, whereas assets are held at market value on the balance sheet. In these circumstances, the different measurement bases for liabilities and assets may lead to volatility in shareholder equity.

Other limitations in the above sensitivity analyses include the use of hypothetical market movements to demonstrate potential risk that only represent the Bank's view of possible near-term market changes that cannot be predicted with any certainty; and the assumption that all interest rates move in an identical fashion.