Joint Stock Company
"The State Export-Import Bank of Ukraine"
Consolidated Financial Statements

Year ended 31 December 2006
Together with Independent Auditors' Report

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INDEPENDENT AUDITORS' REPORT

To the Shareholder and Board of Directors of Joint Stock Company "The State Export-Import Bank of Ukraine"

We have audited the accompanying consolidated financial statements of Joint Stock Company "The State Export-Import Bank of Ukraine" and its subsidiaries (the "Bank"), which comprise the consolidated balance sheet as at 31 December 2006, and the consolidated statement of income, consolidated statement of changes in equity and consolidated statement of 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 consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2006, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young Audit Services LLC

13 April 2007

CONSOLIDATED BALANCE SHEET

(Thousands of Ukrainian hryvnia)

		31 December	
	Notes	***2006***	***2005***
Assets			
Cash and cash equivalents	5	2,947,705	2,217,258
Amounts due from credit institutions	6	97,049	101,316
Loans to customers	7	13,462,902	6,992,680
Investment securities:	8		
- designated at fair value through profit and loss		642,377	230,738
- available for sale		2,245	1,252
- held to maturity		227,224	238,691
Property, equipment	11	988,363	349,620
Intangible assets	12	8,646	6,905
Deferred income tax assets		-	3
Other assets	13	72,844	54,726
Total assets		**18,449,355**	**10,193,189**
Liabilities			
Amounts due to the National Bank of Ukraine		-	44,939
Amounts due to credit institutions	14	3,509,749	1,435,952
Amounts due to customers	15	6,689,519	4,761,072
Eurobonds issued	16	5,128,239	2,552,026
Bonds issued	17	505,732	200,470
Subordinated debt	18	636,135	205,194
Current income tax liabilities	9	14,540	12,323
Deferred income tax liabilities	9	139,244	2,512
Other liabilities	13	68,051	20,202
Provisions	10	21,390	12,097
Total liabilities		**16,712,599**	**9,246,787**
Equity			
Share capital		1,631,649	1,457,232
Revaluation reserve		452,457	-
Accumulated deficit		(347,403)	(510,830)
Total equity attributable to shareholders of the Bank	19	**1,736,703**	**946,402**
Minority interest		**53**	**-**
Total equity		**1,736,756**	**946,402**
Total liabilities and equity		**18,449,355**	**10,193,189**

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

Victor Kapustin Chairman of the Board

Natalia Potemska Chief Accountant

13 April 2007

The accompanying notes on pages 5 to 35 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF INCOME

(Thousands of Ukrainian hryvnia)

	Notes	Year ended 31 December 2006	2005
Interest income			
Loans to customers		1,402,894	680,400
Amounts due from credit institutions		81,850	41,990
Investment securities		75,494	57,473
Other		222	29
		1,560,460	779,892
Interest expense			
Due to customers		(394,450)	(237,801)
Eurobonds issued		(236,736)	(111,982)
Due to credit institutions		(158,559)	(25,901)
Subordinated debt		(43,705)	(16,750)
Due to the NBU		(2,622)	(6,340)
		(836,072)	(398,774)
Net interest income		**724,388**	**381,118**
Impairment of interest earning assets	10	(98,856)	(30,055)
Net interest income after impairment of interest earning assets		**625,532**	**351,063**
Fee and commission income		243,470	183,731
Fee and commission expense		(21,525)	(15,763)
Fees and commissions, net	21	**221,945**	**167,968**
Gains less losses from foreign currencies:			
- dealing		89,220	65,108
- translation differences		5,968	(2,570)
Dealing in securities		2,785	616
Other income		9,605	2,649
Non interest income		**107,578**	**65,803**
Remeasurement of financial instruments		(12,443)	(1,333)
Salaries and benefits	22	(322,598)	(211,111)
Depreciation and amortisation	11,12	(44,972)	(37,483)
Other administrative and operating expenses	22	(96,903)	(70,033)
Impairment of other assets and provisions	10	(14,044)	(8,706)
Non interest expense		**(490,960)**	**(328,666)**
Profit before income tax expenses		**464,095**	**256,168**
Income tax expense	9	(129,180)	(71,289)
Profit for the year		**334,915**	**184,879**
Attributable to:			
- shareholder of the Bank		334,915	184,879
- minority interest		-	-
		334,915	**184,879**

The accompanying notes on pages 5 to 35 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2006

(Thousands of Ukrainian hryvnia)

	Attributable to shareholders of the Bank					
	Share capital	***Revaluation reserve***	***Accumulated deficit***	***Total***	***Minority interest***	***Total equity***
31 December 2004	**1,081,232**	**-**	**(619,709)**	**461,523**	**-**	**461,523**
Capitalised profits	76,000		(76,000)	-	-	-
Share capital issued	300,000			300,000	-	300,000
Profit for the year			184,879	184,879	-	184,879
31 December 2005	**1,457,232**	**-**	**(510,830)**	**946,402**	**-**	**946,402**
Capitalised profits	174,417		(174,417)	-	-	-
Revaluation of property, net of tax		455,386		455,386	-	455,386
Depreciation of revaluation reserve, net of tax		(2,915)	2,915	-	-	-
Disposal of property, net of tax		(14)	14	-	-	-
Minority interest					53	53
Profit for the year			334,915	334,915	-	334,915
31 December 2006	**1,631,649**	**452,457**	**(347,403)**	**1,736,703**	**53**	**1,736,756**

The accompanying notes on pages 5 to 35 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

(Thousands of Ukrainian hryvnia)

	Notes	Year ended 31 December 2006	2005
Cash flows from operating activities			
Interest and commissions received		1,837,109	911,578
Interest and commissions paid		(709,483)	(368,104)
Gains less losses from dealing in foreign currencies and securities		92,100	65,411
Other operating income received		9,352	2,519
Salaries and benefits		(306,916)	(208,151)
Other operating and administrative expenses		(93,593)	(69,367)
Cash flow from operating activities before changes in operating assets and liabilities		**828,569**	**333,886**
Net (increase) in operating assets			
Amounts due from credit institutions		(475)	(75,961)
Loans to customers		(6,163,536)	(3,712,210)
Other assets		(34,907)	(29,503)
Net increase / (decrease) in operating liabilities			
Amounts due to the National Bank of Ukraine		(44,939)	(245,714)
Amounts due to credit institutions		(274,748)	396,064
Amounts due to customers		1,811,945	1,996,706
Other liabilities		6,545	(4,536)
Net cash flows used in operating activities before income tax		**(3,871,546)**	**(1,341,268)**
Income tax paid		(142,021)	(48,635)
Net cash flows used in operating activities		**(4,013,567)**	**(1,389,903)**
Cash flows used in financing activities			
Amounts due to credit institutions		1,932,986	452,343
Share capital issued		-	300,000
Eurobonds issued		2,524,828	1,789,578
Local bonds issued		301,260	200,226
Subordinated debt issued		617,952	207,394
Subordinated debt redemption		(202,000)	-
Net cash flows used in financing activities		**5,175,026**	**2,949,541**
Cash flows used in investing activities			
Purchase of investment securities		(389,383)	(77,693)
Purchases of property, equipment and computer software		(78,482)	(48,962)
Proceeds from sale of property and equipment		825	1,620
Net cash flows used in investing activities		**(467,040)**	**(125,035)**
Effect of exchange rates changes on cash and cash equivalents		36,028	(22,213)
Net change in cash and cash equivalents		**730,447**	**1,412,390**
Cash and cash equivalents, beginning of the year	5	**2,217,258**	**804,868**
Cash and cash equivalents, ending of the year	5	**2,947,705**	**2,217,258**

The accompanying notes on pages 5 to 35 are an integral part of these consolidated financial statements.

(Thousands of Ukrainian hryvnia)

1. Principal activities

The State Export-Import Bank of Ukraine (the "Bank") was founded in 1992. The Bank was registered at the National Bank of Ukraine (the "NBU") on 23 January 1992 and on 18 September 2000 was re-registered as an open joint stock company. Currently the Bank operates under a general banking licence #2 renewed by the NBU on 25 December 2001, which provides the Bank with the right to conduct banking operations, including currency operations.

As at 31 December 2006 and 2005, 100% of Bank's shares were owned by the Cabinet Ministers of Ukraine on behalf of the State of Ukraine.

The Bank's head office is in Kyiv at 127 Gorky St. The Bank has 29 branches and 80 operating outlets (2005: 29 branches and 64 operating outlets) located in Kyiv and other regions of Ukraine. The Bank and its branches form a single legal entity. There were 3,471 employees as at 31 December 2006 (2005: 3,200 employees).

Historically, the main focus of the Bank's operations was servicing various export-import transactions. Currently, the Bank's customer base is diversified and includes some large industrial and State owned enterprises. The Bank accepts deposits from the public and makes loans, transfers payments in Ukraine and abroad, exchanges currencies, invests funds and provides cash and settlements, and other banking services to its customers.

One of the activities of the Bank is to facilitate, on behalf of the Ukrainian Government, the administration of loan agreements entered into by the Ukrainian Government with other foreign governments. The Bank acts as an agent, on behalf of the Ukrainian Government, with respect to loans from foreign financial institutions based on the aforementioned agreements. The loan proceeds are advanced to various enterprises within Ukraine based on separate loan agreements between the Bank and Ukrainian enterprises.

A letter from the Cabinet of Ministers dated 4 August 1995, which was subsequently formalised in an Agency Agreement dated 19 September 1996, confirms that the responsibility of the Bank is to act as an agent of the Ukrainian Government for the above-described activities and thereby the loan obligations and related risks belong to the Government.

"Ukreximleasing", a 100% owned subsidiary of the Bank was founded in 1997 and operates in Ukraine in the leasing business. The Bank is the main customer of and provider of finance to this company.

"Eximleasing" Ltd, a 100% owned subsidiary of the Bank, was founded in 2006.

During the year ended 31 December 2006, the Bank established an unincorporated mutual investment fund-"Agat", which is of a non-diversified nature. As at 31 December 2006, the Bank holds 99% of the investment certificates of "Agat" and the assets and liabilities of this investment fund were consolidated into the financial statements of the Bank for the year ended 31 December 2006.

2. Basis of preparation

General

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

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

The consolidated financial statements are prepared under the historical cost convention except as disclosed in the accounting policies below. For example, available for sale investments and buildings have been measured at fair value.

(Thousands of Ukrainian hryvnia)

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

Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year except for the adoption of the amendment to IAS 39 "Financial Instruments: Recognition and Measurement": Financial Guarantees, effective for annual periods beginning on or after 1 January 2006. The amendment addresses the treatment of financial guarantee contracts by the issuer. Under the amended IAS 39, financial guarantee contracts are recognised initially at fair value and subsequently remeasured at the higher of the amount determined in accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" and the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with IAS 18 "Revenue".

The effect of adoption of the new and revised standards on the corresponding figures can be summarised as follows:

	As previously reported	*Effect of changes in accounting policies*	*As adjusted*
Balance sheet as at 31 December 2005			
Other assets	54,978	5,289	60,267
Other liabilities	14,913	5,289	20,202

IFRSs and IFRIC interpretations not yet effective

The Bank has not applied the following IFRSs and Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC") that have been issued but are not yet effective:

IFRS 7 "Financial Instruments: Disclosures";
Amendment to IAS 1 "Presentation of financial Statements" – "Capital Disclosures";
IFRIC 8 "Scope of IFRS 2";
IFRIC 9 "Reassessment of Embedded Derivatives";
IFRIC 10 "Interim Financial Reporting and Impairment"
IFRIC 11 "IFRS 2 – Group and Treasury Share Transactions"
IFRIC 12 "Service Concession Arrangements"

The Bank expects that the adoption of the pronouncements listed above will have no significant impact on the Bank's consolidated financial statements in the period of initial application, except for the inclusion of new disclosures in accordance with IFRS 7. These will enable users of the consolidated financial statements to evaluate the significance of the Bank's financial instruments, the nature and extent of risks arising from those financial instruments, and the Bank's objectives, policies and processes for managing capital.

Inflation accounting

The Ukrainian economy was regarded as being hyperinflationary for the ten-year period ended 31 December 2000. As such, the Bank has applied IAS 29 "Financial accounting in hyperinflationary economies". The effect of applying IAS 29 is that non-monetary items were restated using the Consumer Price Index to measuring units current at 31 December 2000, and these restated values were used as a basis for accounting in subsequent accounting periods.

(Thousands of Ukrainian hryvnia)

3. Summary of accounting policies

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries as at and for the year ended 31 December each year. The financial statements of the subsidiaries are prepared using consistent accounting policies. All intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions are eliminated in full.

Subsidiaries are fully consolidated from the date on which control is transferred to the Bank. Control is achieved where the Bank has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities

Minority interests represent the portion of profit or loss and net assets not owned, directly or indirectly, by the Bank and are presented separately in the statement of income and within equity in the consolidate balance sheet, separately from parent shereholders' equity.

Financial assets

Financial assets in the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, and, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Bank determines the classification of its financial assets at initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year-end.

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

Financial assets at fair value through profit or loss

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

Financial asset classified in this category are designated by management on initial recognition when the following criteria are met:

- The designation eliminates or significantly reduces the inconsistent treatment that would other wise arise from measuring the assets or liabilities or recognising gains or losses on them on a different basis: or
- The assets are part of a group of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
- The financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

Financial assets at fair value through profit and loss are recorded in the balance sheet at fair value. Changes in fair value are recorded in "Remeasurement of financial instruments". Interest earned is accrued in interest income, respectively, according to the terms of the contract, while dividend income is recorded in "Other operating income" when the right to the payment has been established.

(Thousands of Ukrainian hryvnia)

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Bank has the positive intention and ability to hold them to maturity. Investments intended to be held for an undefined period are not included in this classification. Held-to-maturity investments are subsequently measured at amortised cost. This cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. For investments carried at amortised cost, gains and losses are recognised in the statement of income when the investments are derecognised or impaired, as well as through the amortisation process.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the statement of income when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets

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

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions, reference to the current market value of another instrument, which is substantially the same, and discounted cash flow analysis.

Offsetting

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

Cash and cash equivalents

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

Repurchase and reverse repurchase agreements and securities lending

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

Securities lent to counterparties are retained in the financial statements. Securities borrowed are not recorded in the consolidated financial statements, unless these are sold to third parties, in which case the purchase and sale are

(Thousands of Ukrainian hryvnia)

recorded within gains less losses from trading securities in the statement of income. The obligation to return them is recorded at fair value as a trading liability.

Promissory notes

Promissory notes purchased are included in available for sale investment securities, or in amounts due from credit institutions or in loans to customers, depending on their substance and are accounted for in accordance with the accounting policies for these categories of assets.

Borrowings

Borrowings, which include amounts due to the National Bank of Ukraine, amounts due to credit institutions, amounts due to customers, local bonds issued, Eurobonds issued and subordinated debt are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in the statement of income when the liabilities are derecognised as well as through the amortisation process.

Leases

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

Finance - Bank as lessor
The Bank recognises lease receivables at a value equal to the net investment in the lease, starting from the date of commencement of the lease term. Finance income is based on a pattern reflecting a constant periodic rate of return on the net investment outstanding. Initial direct costs are included in the initial measurement of the lease receivables.

Allowances for impairment of financial assets

The Bank assesses at each balance sheet date whether a financial asset or group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on financial assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through use of an allowance account. The amount of the loss is recognised in the statement of income.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not the foreclosure is probable.

The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, 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 recognised, the previously recognised impairment loss is reversed.

(Thousands of Ukrainian hryvnia)

Any subsequent reversal of an impairment loss is recognised in the statement of income, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

When an asset is uncollectible, is it written off against the related allowance for impairment. Such assets are written off after all necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of allowance for impairment in the statement of income.

Available-for-sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the statement of income, is transferred from equity to the statement of income. Reversals in respect of equity instruments classified as available-for-sale are not recognised in the statement of income. Reversals of impairment losses on debt instruments are reversed through the statement of income if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in profit or loss.

Asset management

The Bank acts as an asset manager for a number of construction financing funds. The Bank acts as an agent in such arrangements and its responsibility is limited to fiduciary duties, which are commonly applied in the asset management business. Accordingly, the Bank does not recognise liabilities relating to the funds under management, but assesses the need to recognise any provisions related to additional guarantees issued by the Bank with respect to the activities of such funds. Funds under management are not legal entities under the laws of Ukraine. The management of fund activity is effectively delegated to the Bank. The funds keep their current accounts in the Bank to the extent to which the funds are not invested in eligible assets, which meet the investment profile for the fund.

Derecognition of financial assets and liabilities

Financial assets

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

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

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

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

Financial liabilities

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

(Thousands of Ukrainian hryvnia)

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

Taxation

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

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

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

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

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

Property and equipment

Property and equipment are carried at cost or restated cost (for assets acquired prior to 31 December 2000), less accumulated depreciation and any accumulated impairment in value. Buildings are measured at fair value less depreciation and impairment charged subsequent to the date of the revaluation.

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

Following initial recognition at cost, buildings are carried at their revalued amount, which is the fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount.

Any revaluation surplus is credited to the revaluation reserve for property and equipment which is included in equity, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in the consolidated statement of income, in which case the increase is recognised in the consolidated statement of income. A revaluation deficit is recognised in the consolidated statement of income, except that a deficit directly offsetting a previous surplus on the same asset is directly offset against the surplus in the revaluation reserve for property and equipment.

An annual transfer from the revaluation reserve for property and equipment to retained earnings is made for the difference between depreciation based on the revalued carrying amount of the assets and depreciation based on the assets' original cost. Additionally, accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

Depreciation of an asset begins when it is available for use. Depreciation on assets under construction and those not placed in service commences from the date the assets are placed in service. Depreciation is calculated on a straight-line basis over the following estimated useful lives (in years):

(Thousands of Ukrainian hryvnia)

Buildings	6-50 years
Furniture, fixtures and other assets	2-25 years
Equipment and computers	2- 15 years
Motor vehicles	5 years

Leasehold improvements are amortised over the shorter of the life of the related leased asset or term of the respective lease agreement.

In 2006, management revised its estimates of the useful economic lives for all groups and sub-groups of fixed assets. This change in accounting estimates resulted in a decrease of depreciation and amortisation expense of approximately UAH 8,060 thousand for the year ended 31 December 2006.

The carrying amounts of property and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount.

Expenses relating to repairs and renewals are charged to the income statement when incurred and included in other operating and administrative expenses unless they qualify for capitalisation.

Computer software

Computer software includes acquired software licences. Computer software is stated at cost or restated cost (for assets acquired prior to 31 December 2000) net of accumulated amortisation. Amortisation is calculated on a straight-line basis over a useful life of five to ten years.

Provisions

Provisions are recognised when the Bank has a present obligation (legal or constructive) 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.

Retirement and other benefit obligations

The Bank has defined contribution pension plan separate from the State pension system of Ukraine, which requires current contributions by the employer calculated as a percentage of current gross salary payments; such expense is charged in the period the related salaries are earned. The contribution payable to a defined contribution plan is in proportion to the services rendered to the Bank by the employees, age of employees and years working for the Bank and is recorded as an expenses under "Salary and salary related expenses". Unpaid contributions are recorded as a liability. In addition, the Bank has no post-retirement benefits or significant other compensated benefits requiring accrual.

Share capital

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

Contingencies

Contingent liabilities are not recognised in the consolidated financial statements unless it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made. A contingent asset is not recognised in the consolidated financial statements but disclosed when an inflow of economic benefits is probable.

Income and expenses recognition

Interest income and expense are recognised on an accrual basis calculated using the effective interest rate method. Loan origination fees for loans issued to customers are deferred (together with related direct costs) and recognised

(Thousands of Ukrainian hryvnia)

as an adjustment to the effective yield of the loans. Fees, commissions and other income and expenses items are generally recorded on an accrual basis when the service has been provided. Asset management fees related to the construction-financing fund are recorded over the period the service is provided.

Foreign currency translation

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

Differences between the contractual exchange rate of a certain transaction and the NBU exchange rate on the date of the transaction are included in gains less losses from dealing in foreign currencies. The official NBU exchange rates at 31 December 2006 and 2005, were UAH 5.05 and 5.05 hryvnia to 1 US dollar and UAH 6.6509 and UAH 5.9716 to 1 euro, respectively.

Reclassifications

The following reclassifications have been made to 2005 balances to conform to the 2006 presentation.

Amount	*Previously reported*	*As reclassified*	*Comment*
1,379,875	Amounts due from credit institutions	Cash and cash equivalents	Reclassification of amounts with contractual maturity of less than 90 days
130	Other administrative and operating expenses	Other income	Gain on fixed assets disposal
5,547	Other assets	Loans to customers	Finance lease receivable
6	Tax assets	Other assets	Prepaid income tax

4. Significant accounting judgements and estimates

Judgements

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

Classification of securities

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

Estimation uncertainty

The 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 year are discussed below:

(Thousands of Ukrainian hryvnia)

Allowance for impairment of loans and receivables

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

Tax and other regulatory compliance risks

Ukrainian legislation and regulations regarding taxation and other operational matters, including currency exchange control and custom regulations, continue to evolve. Legislation and regulations are not always clearly written and are subject to varying interpretations by local, regional and national authorities, and other Governmental bodies. Instances of inconsistent interpretations are not unusual. Management believes that its interpretation of the relevant legislation is appropriate and that the Bank has complied with all regulations and paid or accrued all taxes and withholdings that are applicable.

At the same time it is a risk that transactions and interpretations that have not been challenged in the past may be challenged by the authorities in the future, although this risk significantly diminishes with the passage of time. It is not practical to determine the amount of unasserted claims that may manifest, if any, or the likelihood of any unfavourable outcome.

5. Cash and cash equivalents

Cash and cash equivalents comprise:

	2006	***2005***
Cash on hand	267,820	142,271
Current account with the National Bank of Ukraine	489,610	695,112
Current accounts with other credit institutions	1,283,042	386,672
Overnights deposits with other credit institutions	877,233	868,872
Time deposits with credit institutions up to 90 days	30,000	62,432
Reverse repurchase agreements with credit institutions up to 90 days	-	61,899
Cash and cash equivalents	**2,947,705**	**2,217,258**

The current account with the NBU represents amounts deposited with the NBU relating to daily settlements and other activities. The Bank is also required to maintain, in the form of a non-interest earning cash deposit, certain cash reserves with the NBU (obligatory reserve), which are computed as a percentage of certain of the Bank's liabilities less cash on hand and other eligible balances. There are no restrictions on the withdrawal of funds from the NBU, however, if minimum average reserve requirements are not met, the Bank could be subject to certain penalties. The Bank was obligated to and maintained the minimal cumulative average reserve calculated on a daily basis over a monthly period. The average daily requirement for the period from 1 to 31 December 2006 was UAH 177,092 thousand (2005: UAH 352,723 thousand). The Bank meets the NBU obligatory reserve requirements as at 31 December 2006 and 2005.

As at 31 December 2006, included in current accounts with other credit institutions is an amount of UAH 1,116,230 thousand placed on current accounts with four OECD banks (2005: UAH 212,409 thousand with two OECD banks and UAH 135,599 thousand with two CIS and other foreign banks). These banks are the main counter parties of the Bank in performing international settlements. The placements have made under normal banking conditions.

Overnight deposits represent overnight deposits placed with OECD banks. These placements bear market interest rates. As at 31 December 2006, UAH 877,233 thousand was placed with four OECD banks (2005: UAH 839,473 thousand with two OECD banks).

(Thousands of Ukrainian hryvnia)

6. Amounts due from credit institutions

Amounts due from credit institutions comprise:

	2006	2005
Loans and deposits		
Ukrainian banks	84,062	75,458
CIS and other foreign banks	6,435	21,931
OECD banks	4,573	2,828
	95,070	**100,217**
Other amounts due from credit institutions	1,979	1,099
Less – Allowance for impairment	-	-
Due from credit institutions	**97,049**	**101,316**

As at 31 December 2006, loans and deposits due from credit institutions include UAH 11,008 thousand of security deposits, placed mainly in respect of customers' transactions, such as letters of credit, performance guarantees and transactions with travellers' cheques (2005: UAH 24,759 thousand).

7. Loans to customers

Loans to customers comprise:

	2006	2005
Loans to customers	13,872,672	7,169,194
Overdrafts	79,951	262,708
Finance lease receivables	29,093	5,547
Promissory notes	17,375	14,875
	13,999,091	**7,452,324**
Less – Allowance for impairment	(536,189)	(459,644)
Loans to customers	**13,462,902**	**6,992,680**

Loans and advances to customers have been extended to the following types of customers:

	2006	2005
Private entities	12,342,031	6,577,528
State and municipal entities	1,272,198	778,244
Individuals	384,862	96,552
	13,999,091	**7,452,324**

Loans are made principally within Ukraine to companies of the following industry sectors:

	2006	%	2005	%
Services	3,373,150	24.1	1,255,732	16.9
Trade enterprises	2,905,817	20.8	1,635,612	21.9
Engineering	1,721,708	12.3	983,065	13.2
Consumer products	1,655,954	11.8	1,034,011	13.9
Chemistry	828,021	5.9	355,077	4.8
Real estate and construction	824,583	5.9	414,867	5.6
Agriculture and food processing	711,029	5.1	604,993	8.1
Metals	669,477	4.8	560,733	7.5
Individuals	384,862	2.7	96,552	1.2
Transport	368,053	2.6	83,573	1.1
Power utilities	306,695	2.2	237,534	3.2
Light industry	232,886	1.7	176,093	2.4
Communications	13,275	0.1	13,415	0.2
Other industries	3,581	0.0	1,067	0.0
	13,999,091	**100**	**7,452,324**	**100**

(Thousands of Ukrainian hryvnia)

The Bank's portfolio of loans and advances to customers consists of the following types of lending:

	2006	*2005*
Ordinary loans	13,188,896	7,171,199
Finance lease receivables	29,093	5,547
Trade finance loans	390,541	96,816
Loans issued under programs with foreign banks	390,561	178,762
	13,999,091	**7,452,324**

The finance lease receivables may be analysed as follows:

	2006	*2005*
Gross investment in finance leases, receivable:		
Not later than 1 year	11,488	2,117
Later than 1 year and not later than 5 years	30,260	5,843
	41,748	7,960
Unearned future finance income on finance leases	(12,655)	(2,413)
Net investment in finance leases	**29,093**	**5,547**

As at 31 December 2006, members of the Management and Supervisory Board have UAH 3,763 thousand (2005: UAH 432 thousand) of loans issued under normal conditions.

As at 31 December 2006, interest income accrued on loans, for which individual impairment allowances have been recognised, comprised UAH 16,480 thousand (2005: UAH 41,704 thousand).

As at 31 December 2006, the top 10 borrowers account for 17.7% of the Bank's gross loan portfolio and represent 142% of the Bank's total equity. As at 31 December 2005, 10 major borrowers accounted for 21.2% of the Bank's gross loan portfolio and represented 167% of the Bank's total equity. The gross value of these loans as at 31 December 2006 and 2005 are UAH 2,469,532 thousand and UAH 1,577,216 thousand respectively.

8. Investment securities

Investment securities designated at fair value through profit or loss comprise:

	2006	*2005*
Corporate bonds	431,413	140,512
Ukrainian State bonds	210,964	90,226
Investment securities designated at fair value	**642,377**	**230,738**

As at 31 December 2006 and 2005, corporate bonds designated at fair value include bonds issued by a number of Ukrainian entities maturing in 2007-2011 with an effective yield of 15.51% (2005: effective yield 15.2%).

As at 31 December 2006, Ukrainian State bonds include State bonds issued by the Ministry of Finance in order to settle amount due by the State in respect of refundable VAT, amounting to UAH 43,484 thousand (2005: UAH 60,052 thousand), maturing in 2008-2009 with an effective yield of 21.58% (2005: 22.3%).

As at 31 December 2006, Ukrainian State bonds include state bonds issued by the Ministry of Finance for internal debt financing amounting to UAH 167,480 thousand (2005: UAH 30,174 thousand), maturing in 2008-2010 and with an effective yield of 9.57%(2005: 7.4%).

(Thousands of Ukrainian hryvnia)

Available-for-sale investment securities comprise:

	2006	*2005*
Corporate shares	3,120	2,127
Discount promissory notes	-	653
	3,120	**2,780**
Less – Allowance for impairment	(875)	(1,528)
Available-for-sale investments	**2,245**	**1,252**

Held-to-maturity investment securities comprise the following:

	2006		*2005*	
	Nominal value	***Carrying value***	***Nominal value***	***Carrying value***
Ukrainian State bonds	97,683	98,526	107,900	108,847
NBU deposit certificates	100,000	100,030	25,000	25,297
Corporate bonds	28,000	28,668	103,008	104,547
Held-to-maturity investments		**227,224**		**238,691**

9. Income tax

The corporate income tax charge comprises:

	2006	*2005*
Current tax charge	144,240	59,218
Deferred tax	136,735	12,071
Less: deferred tax recognised directly in equity	(151,795)	-
Income tax expense	**129,180**	**71,289**

Tax assets and liabilities consist of the following:

	2006	*2005*
Current tax asset	4	6
Deferred tax assets	-	3
Tax asset	**4**	**9**
Current tax liabilities	14,540	12,323
Deferred tax liabilities	139,244	2,512
Tax liabilities	**153,784**	**14,835**

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

	2006	*2005*
Income before tax	464,095	256,168
Statutory tax rate	25%	25%
Income tax expense at the statutory rate	116,024	64,042
Non-deductible expenditures	8,531	7,247
Initial recognition of loans to customers	2,224	-
Changes in management estimates	2,401	-
Income tax expense	**129,180**	**71,289**

(Thousands of Ukrainian hryvnia)

Deferred tax assets and liabilities as at 31 December comprise:

	2006	*2005*
Tax effect of deductible temporary differences:		
Allowances for impairment	61,770	51,587
Accruals	11,296	-
Other assets/liabilities	115	-
Deferred tax assets	**73,181**	**51,587**
Tax effect of taxable temporary differences:		
Property, equipment and computer software	(176,825)	(24,193)
Valuation of financial instruments	(35,600)	(29,418)
Accruals	-	(42)
Other assets and liabilities	-	(443)
Deferred tax liabilities	**(212,425)**	**(54,096)**
Net deferred tax (liability)	**(139,244)**	**(2,509)**

Deferred tax of UAH 976 thousand was transferred in 2006 from the revaluation reserve to retained earnings (2005: nil). This relates to difference between the actual depreciation charged on the revalued amount of buildings and property and the equivalent depreciation based on the cost of buildings and property.

10. Allowances for impairment and provisions

The movements in allowances for impairment of interest earning assets were as follows:

	Loans to customers	***Due from credit institutions***	***Total***
31 December 2004	**496,458**	**2,657**	**499,115**
Translation differences	(17,388)	(290)	(17,678)
Charge/(release)	32,422	(2,367)	30,055
Write-offs	(51,945)	-	(51,945)
Recoveries	97	-	97
31 December 2005	**459,644**	**-**	**459,644**
Translation differences	3,458	-	3,458
Charge	98,856	-	98,856
Write-offs	(25,999)	-	(25,999)
Recoveries	230	-	230
31 December 2006	**536,189**	**-**	**536,189**

The movements in allowances for other assets and provisions were as follows:

	Investment securities	***Other assets***	***Off-balance risk***	***Total***
31 December 2004	**1,528**	**22,797**	**4,132**	**28,457**
Translation differences	-	(26)	(687)	(713)
Charge	-	54	8,652	8,706
Write-offs	-	(68)	-	(68)
31 December 2005	**1,528**	**22,757**	**12,097**	**36,382**
Translation differences	-	10	885	895
Charge	-	5,636	8,408	14,044
Write-offs	(653)	(170)	-	(823)
31 December 2006	**875**	**28,233**	**21,390**	**50,498**

Allowances for impairment of assets are deducted from the related assets. Provisions are recognised as other liabilities.

(Thousands of Ukrainian hryvnia)

11. Property and equipment

The movements of property, equipment and computer software were as follows:

	Buildings and property	*Computers and equipment*	*Furniture, fixtures and other assets*	*Motor vehicles*	*Construction in progress*	*Total*
Cost						
31 December 2005	**292,963**	**125,049**	**50,916**	**14,842**	**40,691**	**524,461**
Additions	9	5,192	5,825	12	67,697	78,735
Disposals	(1,462)	(842)	(391)	(1,691)	(139)	(4,525)
Transfers	55,787	9,778	5,857	1,646	(77,480)	(4,412)
Reclassifications	(17,076)	(1)	17,077			-
Effect of revaluation	742,325					742,325
31 December 2006	**1,072,546**	**139,176**	**79,284**	**14,809**	**30,769**	**1,336,584**
Accumulated depreciation and amortisation						
31 December 2005	**(46,564)**	**(86,316)**	**(29,242)**	**(12,719)**		**(174,841)**
Charge for the year	(12,637)	(11,656)	(16,957)	(859)		(42,109)
Disposals	1,079	829	390	1,628		3,926
Reclassifications	2,068		(2,068)			-
Effect of revaluation	(135,144)					(135,144)
Impairment	(53)					(53)
31 December 2006	**(191,251)**	**(97,143)**	**(47,877)**	**(11,950)**		**(348,221)**
Net book value:						
31 December 2005	**246,399**	**38,733**	**21,674**	**2,123**	**40,691**	**349,620**
31 December 2006	**881,295**	**42,033**	**31,407**	**2,859**	**30,769**	**988,363**

	Buildings and property	*Computers and equipment*	*Furniture, fixtures and other assets*	*Motor vehicles*	*Construction in progress*	*Total*
Cost						
31 December 2004	**289,505**	**114,979**	**47,815**	**14,159**	**15,210**	**481,668**
Additions	52	5,947	2,452	-	39,323	47,774
Disposals	(1,465)	(1,352)	(376)	(264)	(57)	(3,514)
Transfers	4,871	5,475	1,025	947	(13,785)	(1,467)
31 December 2005	**292,963**	**125,049**	**50,916**	**14,842**	**40,691**	**524,461**
Accumulated depreciation and amortisation						
31 December 2004	**(36,735)**	**(69,163)**	**(26,817)**	**(10,859)**		**(143,574)**
Charge for the year	(9,965)	(18,467)	(2,688)	(2,172)		(33,292)
Disposals	136	1,314	263	312		2,025
31 December 2005	**(46,564)**	**(86,316)**	**(29,242)**	**(12,719)**		**(174,841)**
Net book value:						
31 December 2004	**252,770**	**45,816**	**20,998**	**3,300**	**15,210**	**338,094**
31 December 2005	**246,399**	**38,733**	**21,674**	**2,123**	**40,691**	**349,620**

As at 31 December 2006, buildings and property include leasehold improvements with a net book value of UAH 4,952 thousand (2005: UAH 5,579 thousand).

As at 31 December 2006, the Bank had capital commitments to purchase property and equipment amounting to UAH 59,016 thousand (2005: UAH 33,963 thousand).

During the year 2006, the Bank revalued its buildings and, consequently changed its accounting policy for buildings from the cost model to the revaluation model. The valuation was performed by an independent appraiser as at

(Thousands of Ukrainian hryvnia)

30 September 2006 and the fair value was determined by reference to market-based evidence. If the buildings were measured using the cost model, the carrying amounts would be as follows:

	2006 revalued	*2006 at cost*	*2005 at cost*
Cost	1,064,590	322,664	269,787
Accumulated depreciation	(188,831)	(49,809)	(44,052)
Net carrying amount	**875,759**	**272,855**	**225,735**

12. Intangible assets

The movements of intangible assets were as follows:

	Computer software
Cost	
31 December 2005	**23,238**
Additions	192
Disposals	(262)
Transfers	4,412
31 December 2006	**27,580**
Accumulated amortisation	
31 December 2005	**(16,333)**
Charge for the year	(2,863)
Disposals	262
31 December 2006	**(18,934)**
Net book value:	
31 December 2005	**6,905**
31 December 2006	**8,646**

	Computer software
Cost	
31 December 2004	**20,825**
Additions	1,188
Disposals	(242)
Transfers	1,467
31 December 2005	**23,238**
Accumulated amortisation	
31 December 2004	**(12,383)**
Charge for the year	(4,191)
Disposals	241
31 December 2005	**(16,333)**
Net book value:	
31 December 2004	**8,442**
31 December 2005	**6,905**

(Thousands of Ukrainian hryvnia)

13. Other assets and liabilities

Other assets comprise:

	2006	*2005*
Prepayments	39,673	15,718
Collateral held for resale	22,334	23,671
Service fee on issued financial guarantees	19,487	5,289
Settlements on card operations	5,285	6,495
Inventory	5,175	18,804
Settlements on transactions with customers	2,805	1,178
Other accrued income	1,296	2,490
Prepaid income tax	4	6
Other	5,018	3,832
	101,077	**77,483**
Less – Allowance for impairment	(28,233)	(22,757)
Other assets	**72,844**	**54,726**

As at 31 December 2006, collateral held for resale comprises balances of oil products amounting to UAH 21,835 thousand (2005: UAH 21,835 thousand) accepted by the Bank prior to 2002 on a non-performing loan. The Bank had a dispute as to the repayment of the outstanding receivable with the Ukrainian oil refinery, which accepted these products for processing from the original borrower. The Bank recognised a full allowance for this balance as at 31 December 2006 (2005: 100% allowance). Subsequent to 31 December 2006, the Bank concluded an amicable agreement to this dispute under which the debtor agreed to repay the indebtedness. In April 2007, the guarantor to the amicable agreement partially repaid the indebtedness amounting to UAH 35,000 thousand including VAT based on the current prices of oil products. The remaining indebtedness will be repaid in five years from the date of the conclusion of the amicable agreement.

As at 31 December 2006, prepayments include balances amounting to UAH 22,021 thousand (2005: UAH 10,096 thousand) in respect of the construction of branch buildings and for other fixed assets.

Other liabilities comprise:

	2006	*2005*
Carrying value of issued financial guarantees	21,062	5,289
Settlements on card operations	13,562	3,576
Deferred income	7,287	2,398
Payables to Guarantee Fund of Individuals' Deposits	2,647	1,953
Other liabilities	688	1,647
Settlements on transactions with customers	432	1,081
	45,678	**15,944**
Provision on unused vacations	17,650	2,961
Other accrued expenses	3,719	1,292
Accrued pension contribution	993	-
Accrued salary payable	11	5
	22,373	**4,258**
Other liabilities	**68,051**	**20,202**

(Thousands of Ukrainian hryvnia)

14. Amounts due to credit institutions

Amounts due to credit institutions comprise:

	2006	*2005*
Current accounts		
Ukrainian banks	128,111	58,948
CIS and other foreign banks	790	1,944
	128,901	**60,892**
Loans and time deposits		
OECD banks	1,925,252	654,056
International financial organisations	1,054,471	430,566
CIS and other foreign banks	339,349	253,728
Ukrainian banks	61,592	36,553
	3,380,664	**1,374,903**
Other amounts due to credit institutions	184	157
Due to credit institutions	**3,509,749**	**1,435,952**

As at 31 December 2006, included in current accounts of Ukrainian banks is an amount of UAH 79,715 thousand received from two Ukrainian banks (2005: UAH 23,550 thousand from three Ukrainian banks). The amount was received under normal banking conditions.

Loans due to international financial organisations include loans from the International Bank for Reconstruction and Development (the "IBRD") under the Export Development Project amounting to UAH 208,870 thousand (2005: UAH 234,666 thousand). Proceeds from these loans are used to provide financing for eligible Ukrainian borrowers. These loans are denominated in US dollars or euro, have a coupon interest rate of LIBOR+0.5% and have an effective interest rate of LIBOR+0.14% and mature in 2013. This debt is subject to various covenants and restrictions as more fully described in Note 20.

Loans due to international financial organisations include loans from Cargill Financial Services Inc. amounting to UAH 375,510 thousand (2005: UAH 191,196 thousand). Proceeds from the loans are used to provide financing to specified borrowers. The loans are denominated in US dollars, euro and Swiss franks, bear fixed interest from 7.7% to 8.0% (for loans denominated in US dollars), at 6.5% (for loans denominated in euro), and at 4.75% (for loans denominated in Swiss franks) and mature in 2007.

Loans due to international financial organisations include loans from Minnetonka Insurance Company, USA amounting to UAH 436,075 thousand (2005: nil). Proceeds from the loans are used to provide financing to certain borrowers. The loans are denominated in US dollars, bear fixed interest rates from 7.45% to 8.00% and mature in 2007.

As at 31 December 2006, loans and deposits from OECD banks included UAH 44,262 thousand granted by Kreditanstalt fur Wiederaufbau ("KfW") under loan agreements for financing small and medium sized enterprises in Ukraine (2005: UAH 59, 550 thousand). The loans are denominated in euro, bear interest at a fixed interest rate of 5.04% and mature in 2008.

As at 31 December 2006, loans and deposits included UAH 1,925,252 thousand received from OECD banks under trade and export financing agreements (2005: UAH 594,513 thousand) and UAH 339,349 thousand received from other foreign banks under trade and export financing agreements (2005: UAH 253,728 thousand). These loans are denominated in US dollars or euro, bear interest at a floating rate and are matched in maturity with loans to customers issued under these trade and export financing programmes.

(Thousands of Ukrainian hryvnia)

15. Amounts due to customers

Amounts due to customers comprise:

	2006	2005
Current accounts		
- Budget funds	151,221	145,357
- Companies	2,026,849	1,694,127
- Individuals	469,803	355,128
- Due to funds under the Bank's management	1,157	-
	2,649,030	**2,194,612**
Time deposits		
- Budget funds	2,100	-
- Companies	1,493,306	1,196,237
- Individuals	2,545,083	1,370,223
	4,040,489	**2,566,460**
Due to customers	**6,689,519**	**4,761,072**
Held as security against letters of credit	444,573	315,827
Held as security against guarantees and avals	84,202	65,938

As at 31 December 2006, companies' current accounts of UAH 268,509 thousand (13.2% of companies' current accounts) were due to the ten largest clients (2005: UAH 260,925 thousand (15.4%)).

As at 31 December 2006, time deposits due to companies include UAH 618,541 thousand attracted from five legal entities (2005: UAH 807,460 thousand from five legal entities).

Funds under the Bank's management

The Bank set up a construction-financing fund in 2006 and acts as a fund manager. Amounts due to funds under the Bank's management are summarised as follows:

	2006	2005
Funds attracted from individuals	11,428	-
Invested funds	(10,271)	-
Due to funds under the Bank's management	**1,157**	**-**

An analysis of customer accounts by economic sector follows:

	2006	%	2005	%
Individuals	3,014,886	45.1	1,725,351	36.2
Trade enterprises	1,109,870	16.6	870,793	18.3
Finance	524,493	7.8	834,672	17.5
Services	466,139	7.0	291,150	6.1
Engineering	345,188	5.2	185,986	3.9
Real estate and construction	265,759	4.0	73,423	1.5
Budget	153,321	2.3	145,357	3.1
Oil and gas	120,025	1.8	81,914	1.7
Transport	116,643	1.7	88,083	1.9
Communications	104,564	1.6	88,676	1.9
Consumer products	80,442	1.2	43,722	0.9
Chemistry	59,243	0.9	40,028	0.8
Agriculture and food processing	42,092	0.6	30,205	0.6
Metals	43,105	0.6	14,916	0.3
Light industry	26,437	0.4	27,268	0.6
Power utilities	11,405	0.2	37,989	0.8
Other industries	205,907	3.0	181,539	3.9
Due to customers	**6,689,519**	**100**	**4,761,072**	**100**

(Thousands of Ukrainian hryvnia)

16. Eurobonds issued

	2006		2005	
	Nominal value	Carrying value	Nominal value	Carrying value
September 2004 issue	757,500	757,466	757,500	755,156
February 2005 issue	505,000	522,694	505,000	522,310
October 2005 issue	1,262,500	1,275,156	1,262,500	1,274,560
September 2006 issue	1,767,500	1,803,268		-
November 2006 issue	757,500	769,655		-
Eurobonds issued		**5,128,239**		**2,552,026**

In September 2004, the Bank obtained a loan amounting to USD 150,000 thousand (UAH 757,500 thousand), from Dresdner bank AG (carrying value of UAH 757,466 thousand as at 31 December 2006 (2005: UAH 755,156 thousand). This loan was funded by 7.75% loan participation notes ("Eurobonds") issued by, but without recourse to, Dresdner Bank AG, for the sole purpose of funding the loan to the Bank. The loan matures in September 2009. The interest rate on the loan is 7.75% p.a. Interest payments are made semi-annually in arrears on 23 March and 23 September of each year, commencing 23 March 2005.

In February 2005, the Bank obtained a further loan amounting to USD 100,000 thousand (UAH 505,500 thousand) from Dresdner Bank AG (carrying value of UAH 522,694 thousand as at 31 December 2006 (2005: UAH 522,310 thousand). This loan was funded by 7.75% loan participation notes ("Eurobonds") which were consolidated and form a single series with the notes issued in September 2004.

In October 2005, the Bank obtained a loan amounting to USD 250,000 thousand (UAH 1,262,500 thousand) from Credit Suisse First Boston International (carrying value of UAH 1,275,156 thousand as at 31 December 2006 (2005: UAH 1,274,560 thousand). This loan was funded by 6.80% loan participation notes ("Eurobonds") issued by, but without recourse to, Credit Suisse First Boston International, for the sole purpose of funding this loan to the Bank. The loan matures in October 2012 and the interest rate is 6.80% p.a. Interest payments are made semi-annually in arrears on 4 April and 4 October of each year, commencing on 4 April 2006.

In September 2006, the Bank obtained a loan amounting to USD 350,000 thousand (UAH 1,767,500 thousand) from Credit Suisse International (carrying value of UAH 1,803,268 thousand as at 31 December 2006). The loan was funded by 7.65% loan participation notes ("Eurobonds) issued by, but without recourse to, Credit Suisse International, for the sole purpose of funding this loan to the Bank. The loan matures in September 2011 and the interest rate is 7.65% p.a. Interest payments are made semi-annual in arrears on 7 March and 7 September of each year, commencing on 7 March 2007.

In November, the Bank obtained a further loan amounting to USD 150,000 thousand (UAH 757,500 thousand) from Credit Suisse International (carrying value is UAH 769,655 thousand as at 31 December 2006). This loan was funded by 7.65% loan participation notes ("Eurobonds") which were consolidated and form a single series with the notes issued in September 2006. The issue price of these notes was 101.25 per cent of principle amount plus accrued interest and the Bank received a premium amounting to USD 1,875 thousand.

17. Bonds issued

In December 2005, the Bank issued local bonds series A amounting to UAH 200,000 thousand (carrying value of UAH 200,524 thousand as at 31 December 2006 (2005: UAH 200,470 thousand). The bonds are denominated in hryvnia, bear interest at 9.55% p. a. and mature in December 2008. Interest payments are made quarterly. As at 31 December 2006, bonds with a carrying value of UAH 200,524 thousand were due to one legal entity (2005: UAH 163,531 thousand were due to one legal entity).

In October 2006, the Bank issued local bonds series B amounting to UAH 300,000 thousand (carrying value of UAH 305,208 thousand as at 31 December 2006. The bonds are denominated in hryvnia, bear interest at 10.5% p.a. and mature in October 2009. Interest payments are made semi-annually in arrears in April and October starting

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from 9 April 2007. Holders of these bonds have the right to early redemption on 9 October 2007. As at 31 December 2006, bonds with a carrying value of UAH 280,791 thousand were due to two legal entities.

Prior to the year end, the Bank concluded a contract with a bond holder who owned bonds with a carrying value of UAH 24,091 thousand to buy back those bonds at amortised cost on 30 August 2007.

18. Subordinated debt

In February 2006, the Bank obtained a loan amounting to USD 95,000 thousand (UAH 479,750 thousand) from Credit Suisse International (carrying value of UAH 484,456 thousand as at 31 December 2006). This loan was funded by 8.40% loan participation notes issued by on a limited recourse basis to Credit Suisse International, for the sole purpose of funding a subordinated loan to the Bank. The loan matures in February 2016 with an interest rate step- up in 2011. Interest payments are made semi-annually in arrears on 9 February and 9 August of each year, commencing on 9 August 2006.

In November 2006, the Bank obtained a further loan amounting to USD 30,000 thousand (UAH 151,500 thousand) from Credit Suisse International (carrying value of UAH 151,679 thousand as at 31 December 2006). This loan was funded by 8.40% loan participation notes, which were consolidated and form a single series with the notes issued in February 2006.

19. Equity

As at 31 December 2006, the Bank's authorised issued share capital comprised 918,417 (2005: 744,000) ordinary shares, with a nominal value of UAH 1,000 per share. All shares have equal voting rights. As at 31 December 2006, all issued shares were fully paid and registered (2005: 444,000 shares were fully paid and registered and 300,000 shares were fully paid but not registered).

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

The movements in share capital for the years ended 31 December 2006 and 2005 were as follows:

	Number of shares	*Nominal amount, UAH'000*	*Restated cost, UAH'000*
31 December 2004	**368,000**	**368,000**	**1,081,232**
Shares issued	376,000	376,000	376,000
31 December 2005	**744,000**	**744,000**	**1,457,232**
Shares issued	174,417	174,417	174,417
31 December 2006	**918,417**	**918,417**	**1,631,649**

In accordance with the Decision of the Cabinet of Ministers of Ukraine dated 6 June 2006, the Bank's share capital was increased by UAH 174,417 thousand through capitalisation of profits.

The Bank's distributable reserves are determined by the amount of its reserves as disclosed in the accounts prepared in accordance with UAR. As at 31 December 2006, the Bank has distributable reserves amounting to UAH 387,835 thousand (2005: UAH 181,310 thousand). The amount of non-distributable reserves was UAH 548,073 thousand (2005: UAH 138,976 thousand). Non-distributable reserves are represented by a statutory revaluation reserve and a general reserve fund, which is created to cover general banking risks, including future losses and other unforeseen risks or contingencies.

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20. Commitments and contingencies

Operating environment

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

Legal

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

Financial commitments and contingencies

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

	2006	***2005***
Letters of credit	1,001,792	818,137
Guarantees	427,478	187,630
Avals on promissory notes	88,621	71,405
Indrawn loan commitments	388,574	200,610
	1,906,465	**1,277,782**
Less – Cash held as security against letters of credit, avals and guarantees	(528,775)	(381,765)
Financial commitments and contingencies	**1,377,690**	**896,017**

As at 31 December 2006, the Bank has recognised a provision of UAH 21,390 thousand (2005: UAH 12,097 thousand) against unsecured commitments.

As at 31 December 2006, the Bank issued letters of credit amounting to UAH 415,834 thousand to one Ukrainian company that was fully secured by cash deposit (2005: UAH 287,835 thousand of letters of credit to one Ukrainian company fully secured by a cash deposit).

As at 31 December 2006, the Bank issued guarantees amounting to UAH 235,331 thousand in favour of four Ukrainian companies that are partially secured by a cash deposit amounting to UAH 42,925 thousand (2005: UAH 88,961 thousand in favour of four Ukrainian companies unsecured).

Insurance

The Bank's premises were not insured as at 31 December 2006 and 2005. The Bank has not obtained insurance coverage relating to liabilities arising from errors or omissions.

Financial covenants

The Bank is a party to various arrangements with other credit institutions, which contain financial covenants relating to the financial performance and general risk profile of the Bank. Under such covenants, the Bank is required to maintain a minimum international risk based capital adequacy ratio of 10%, to limit credit exposure to a single borrower and to ensure a certain level of operating activity. These financial covenants may restrict the Bank's ability to execute certain business strategies and enter into other significant transactions in the future.

(Thousands of Ukrainian hryvnia)

21. Fees and commissions, net

Fees and commissions comprise:

	2006	*2005*
Fee and commission income		
Cash and settlement operations	119,466	93,569
Currency conversion	76,715	57,081
Operations with banks	15,388	11,669
Off-balance sheet operations	22,935	17,457
Credit servicing commission	6,254	2,412
Other	2,712	1,543
	243,470	**183,731**
Fee and commission expenses		
Cash and settlement operations	(19,461)	(13,002)
Currency conversion	(1,051)	(903)
Other	(1,013)	(1,858)
	(21,525)	**(15,763)**
Fees and commissions, net	**221,945**	**167,968**

22. Salaries and other administrative and operating expenses

Salaries and benefits, other administrative and operating expenses comprise:

	2006	*2005*
Salaries and bonuses	272,971	177,171
Employment taxes	49,627	33,940
Salaries and benefits	**322,598**	**211,111**
Repair and maintenance expenses	15,932	13,781
Marketing and advertising	10,096	2,563
Expenses related to deposit insurance fund	9,633	7,335
Occupancy and rent	8,391	6,146
EDP costs	6,916	6,191
Charity	6,828	1,538
Operating taxes	3,952	5,094
Security	5,207	4,709
Expenses for cash collection	4,444	3,734
Business travel and related expenses	4,399	3,488
Communications	3,841	3,454
Sundry expenses	8,579	7,626
Legal and consultancy	2,752	2,349
Expenses related to representative offices	1,522	-
Other	4,411	2,025
Other administrative and operating expenses	**96,903**	**70,033**

The aggregate remuneration and other benefits paid to nine members of the Management Board for 2006 is UAH 14,610 thousand (2005: UAH 10,638 thousand).

23. Risk management policies

Risk management is fundamental to the banking business and is an essential element of the Bank's operations. The main risks inherent in the Bank's operations are those relating to credit exposures, liquidity and market movements in interest rates and foreign exchange rates. A description of the Bank's risk management policies in relation to those risks follows.

(Thousands of Ukrainian hryvnia)

Credit risk

The Bank is exposed to credit risk which is the risk that a counter party will be unable to pay amounts in full when due. The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to industry segments. The Management Board and/or Credit Committee approve limits on the level of credit risk by borrower and product. Normally, the Bank obtains collateral. Such risks are monitored on a continuous basis and are subject to annual or more frequent reviews.

The exposure to any one borrower including banks is further restricted by sub-limits covering on- and off-balance sheet exposures, which are set by the Management Board and/or Credit Committee. The maximum credit risk exposure, ignoring the fair value of any collateral, in the event other parties fail to meet their obligations under financial instruments is equal to the carrying value of financial assets as presented in the accompanying consolidated financial statements and the disclosed financial commitments.

Concentration

The Bank is 100% owned by the Government and by virtue of its function performs a large part of its transactions with Government bodies and State owned enterprises. Further disclosure of the proportion of assets and liabilities with Government related entities is made in Note 25.

Market risk

The Bank takes on exposure to market risks. Market risks arise from open positions in interest rate and currency products, all of which are exposed to general and specific market movements. The Bank manages market risk through periodic estimation of potential losses that could arise from adverse changes in market conditions and establishing and maintaining appropriate stop-loss limits, margin and collateral requirements. The main components of the market risks are analysed below.

Currency risk

The Bank is exposed to the effects of fluctuation in the prevailing foreign currency exchange rates on its financial position and cash flows. The Bank sets limits on the level of exposure by currencies (primarily US dollars and euro), by branches and in total. These limits also comply with the minimum requirements of the NBU. The Bank's exposure to foreign currency exchange rate risk follows:

	2006				
	UAH	***USD***	***Euro***	***Other currencies***	***Total***
Assets:					
Cash and cash equivalents	672,872	1,719,001	404,069	151,763	2,947,705
Due from credit institutions	-	93,547	3,484	18	97,049
Loans to customers	3,490,444	8,013,341	1,698,318	260,799	13,462,902
Investment securities	871,846	-	-	-	871,846
Other monetary assets	34,720	15,218	12,097	5,139	67,174
	5,069,882	**9,841,107**	**2,117,968**	**417,719**	**17,446,676**
Liabilities:					
Due to credit institutions	6,085	1,925,038	1,239,301	339,325	3,509,749
Due to customers	3,652,405	2,119,999	857,233	59,882	6,689,519
Eurobonds issued	-	5,128,239	-	-	5,128,239
Bonds issued	505,732	-	-	-	505,732
Subordinated debt	-	636,135	-	-	636,135
Current income tax liabilities	14,540	-	-	-	14,540
Deferred income tax liabilities	139,244	-	-	-	139,244
Other liabilities	37,346	18,318	12,281	106	68,051
Provisions	356	11,952	9,052	30	21,390
	4,355,708	**9,839,681**	**2,117,867**	**399,343**	**16,712,599**
Net balance sheet position	**714,174**	**1,426**	**101**	**18,376**	

(Thousands of Ukrainian hryvnia)

	2005				
	UAH	**USD**	**Euro**	**Other currencies**	**Total**
Assets:					
Cash and cash equivalents	917,251	1,081,948	64,087	153,972	2,217,258
Due from credit institutions	20,000	79,618	1,695	3	101,316
Loans to customers	2,109,663	4,278,215	597,125	7,677	6,992,680
Investment securities	470,681	-	-	-	470,681
Deferred income tax asset	3	-	-	-	3
Other monetary assets	23,464	8,403	2,218	1	34,086
	3,541,062	**5,448,184**	**665,125**	**161,653**	**9,816,024**
Liabilities:					
Due to the NBU	44,939	-		-	44,939
Due to credit institutions	9,886	1,082,386	335,516	8,164	1,435,952
Due to customers	2,813,645	1,493,685	308,560	145,182	4,761,072
Eurobonds issued	-	2,552,026	-	-	2,552,026
Bonds issued	200,470	-	-	-	200,470
Subordinated debt	-	205,194	-	-	205,194
Current income tax liabilities	12,323	-	-	-	12,323
Deferred income tax liabilities	2,512	-	-	-	2,512
Other liabilities	10,617	7,293	2,169	123	20,202
Provisions	10	8,212	2,914	961	12,097
	3,094,402	**5,348,796**	**649,159**	**154,430**	**9,246,787**
Net balance sheet position	**446,660**	**99,388**	**15,966**	**7,223**	

The Bank does not enter into foreign exchange contracts to hedge its foreign exchange risk as such financial instruments are not readily available for currencies where the Bank considers it has exposure.

The Bank's principal cash flows (revenues, operating expenses) are largely generated in Ukrainian hryvnia and US dollars. As a result, future movements in the exchange rate between the Ukrainian hryvnia and other currencies will affect the carrying value of the Bank's foreign currency denominated monetary assets and liabilities.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect the fair value of the financial instruments or the future cash flows on financial instruments. The Bank's interest rate policy is reviewed and approved by the Bank's Assets and Liabilities Management Committee.

Certain 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. As disclosed below, the maturity dates applicable to the large portion of the Bank's assets and liabilities are relatively short-term. The Bank analyses changes in its interest rate margin and consequently does not consider itself exposed to significant interest rate risk or consequential cash flow risk.

The table below summarises the Bank exposure to interest rate risk as at 31 December 2005. Included in the table are the Bank's monetary assets and liabilities at carrying amounts, classified by the earlier of contractual repricing or maturity dates.

(Thousands of Ukrainian hryvnia)

	2006					
	Less than 1 month	***1 to 3 months***	***3 months to 1 year***	***1 to 5 years***	***Over 5 year***	***Total***
Assets:						
Cash and due from the NBU	2,947,705	-	-	-	-	2,947,705
Due from credit institutions	17,542	26,514	52,993	-	-	97,049
Loans to customers	2,753,192	3,163,668	6,484,573	982,930	78,539	13,462,902
Investment securities	748,299	2,147	86,784	34,616	-	871,846
	6,466,738	**3,192,329**	**6,624,350**	**1,017,546**	**78,539**	**17,379,502**
Liabilities:						
Due to credit institutions	354,136	1,679,525	1,127,802	94,611	253,675	3,509,749
Due to customers	3,194,447	763,198	2,405,923	325,109	842	6,689,519
Eurobonds issued	-	75,979	20,747	3,777,104	1,254,409	5,128,239
Bonds issued	-	524	305,208	200,000	-	505,732
Subordinated debt	-	18,089	-	618,046	-	636,135
	3,548,583	**2,537,315**	**3,859,680**	**5,014,870**	**1,508,926**	**16,469,374**
Net position	**2,918,155**	**655,014**	**2,764,670**	**(3,997,324)**	**(1,430,387)**	**910,128**
Accumulated gap	**2,918,155**	**3,573,169**	**6,337,839**	**2,340,515**	**910,128**	

	2005					
	Less than 1 month	***1 to 3 months***	***3 months to 1 year***	***1 to 5 years***	***Over 5 year***	***Total***
Assets:						
Cash and due from the NBU	2,217,258	-	-	-	-	2,217,258
Due from credit institutions	57,962	21,010	3,564	18,780	-	101,316
Loans to customers	1,635,941	2,095,081	989,631	2,233,965	38,062	6,992,680
Investment securities	239,051	13,811	100,253	117,566	-	470,681
	4,150,212	**2,129,902**	**1,093,448**	**2,370,311**	**38,062**	**9,781,935**
Liabilities:						
Due to the NBU	5,256	10,481	29,202	-	-	44,939
Due to credit institutions	113,997	674,721	344,394	50,340	252,500	1,435,952
Due to customers	2,392,745	456,914	1,227,219	684,194	-	4,761,072
Eurobonds issued	-	47,926	-	1,250,287	1,253,813	2,552,026
Bonds issued	-	470	-	200,000	-	200,470
Subordinated debt	-	7,064	-	198,130	-	205,194
	2,511,998	**1,197,576**	**1,600,815**	**2,382,951**	**1,506,313**	**9,199,653**
Net position	**1,638,214**	**932,326**	**(507,367)**	**(12,640)**	**(1,468,251)**	**582,282**
Accumulated gap	**1,638,214**	**2,570,540**	**2,063,173**	**2,050,533**	**582,282**	

The Bank does not enter into interest rate derivative contracts; as such contracts are generally not available in Ukraine.

The interest rate on certain loans to customers and deposits due to customers of the Bank are linked to the NBU discount rate, which is reconsidered on a monthly basis. Consequently, these financial instruments are included in "less than 1 month" category in the tables above.

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As at 31 December, the effective average interest rates by currencies for interest generating/ bearing monetary financial instruments were as follows:

	2006		*2005*	
	UAH	***USD/euro***	***UAH***	***USD/euro***
Due from credit institutions	n/a	8.96%	12.6%	6.4%
Loans to customers	16.35%	10.97%	16.39%	10.96%
Interest bearing securities	12.03%	n/a	13.78%	n/a
Due to credit institutions	n/a	6.81%	7.00%	5.62%
Customer deposits	12.05%	8.29%	10.61%	7.39%
Eurobonds issued	n/a	7.76%	n/a	7.71%
Bonds issued	11.48%	n/a	9.55%	n/a
Subordinated debt	n/a	8.93%	n/a	9.71%

During 2006, the NBU discount rate decreased from 9.5% to 8.5% (2005: increased from 9% to 9.5%).

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. In order to manage liquidity risk, the Bank monitors, on a daily basis, the expected cash flows on clients' and banking operations. This is a part of the normal asset and liability management process. The Board sets limits on the minimum proportion of maturing funds available to meet deposit withdrawals and on the minimum level of inter-bank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

The tables below provide an analysis of banking assets and liabilities grouped on the basis of the remaining period from the balance sheet date to the contractual maturity date.

	2006					
	Less than 1 month	***1 to 3 months***	***3 months to 1 year***	***1 to 5 years***	***Over 5 years***	***Total***
Assets:						
Cash and cash equivalents	2,947,705	-	-	-	-	2,947,705
Due from credit institutions	17,542	18,144	57,172	4,191	-	97,049
Loans to customers	385,821	891,473	4,182,894	7,568,354	434,360	13,462,902
Investment securities	748,299	2,147	86,784	34,616	-	871,846
Other monetary assets	17,780	15,190	12,255	21,949	-	67,174
	4,117,147	**926,954**	**4,339,105**	**7,629,110**	**434,360**	**17,446,676**
Liabilities:						
Due to credit institutions	271,670	543,070	1,220,378	1,154,303	320,328	3,509,749
Due to customers	3,194,447	763,198	2,405,923	325,109	842	6,689,519
Eurobonds issued	-	75,979	20,747	3,777,104	1,254,409	5,128,239
Bonds issued	-	524	305,208	200,000	-	505,732
Subordinated debt	-	18,089	-	-	618,046	636,135
Current income tax liabilities	-	14,540	-	-	-	14,540
Deferred income tax liabilities	-	-	-	-	139,244	139,244
Other liabilities	22,225	9,398	5,438	30,861	129	68,051
Provisions	368	7,255	11,436	296	2,035	21,390
	3,488,710	**1,432,053**	**3,969,130**	**5,487,673**	**2,335,033**	**16,712,599**
Net position	**628,437**	**(505,099)**	**369,975**	**2,141,437**	**(1,900,673)**	**734,077**
Accumulated gap	**628,437**	**123,338**	**493,313**	**2,634,750**	**734,077**	

(Thousands of Ukrainian hryvnia)

	2005					
	Less than 1 month	*1 to 3 months*	*3 months to 1 year*	*1 to 5 years*	*Over 5 years*	*Total*
Assets:						
Cash and cash equivalents	2,217,258	-	-	-	-	2,217,258
Due from credit institutions	22,835	45,250	10,654	22,577	-	101,316
Loans to customers	302,600	375,012	1,494,688	3,789,579	1,030,801	6,992,680
Investment securities	239,051	13,811	100,253	117,566	-	470,681
Deferred income tax assets	-	-	-	3	-	3
Other monetary assets	1,899	14,176	12,011	6,000	-	34,086
	2,783,643	**448,249**	**1,617,606**	**3,935,725**	**1,030,801**	**9,816,024**
Liabilities:						
Due to the NBU	5,256	10,481	29,202	-	-	44,939
Due to credit institutions	103,153	35,161	712,031	274,974	310,633	1,435,952
Due to customers	2,392,745	456,914	1,227,219	684,194	-	4,761,072
Eurobonds issued	-	47,926	-	1,250,287	1,253,813	2,552,026
Bonds issued	-	470	-	200,000	-	200,470
Subordinated debt	-	7,064	-	198,130	-	205,194
Current income tax liabilities	-	12,323	-	-	-	12,323
Deferred income tax liabilities	-	-	-	2,512	-	2,512
Other liabilities	8,525	2,675	2,951	6,051	-	20,202
Provisions	2,756	4,776	4,352	213	-	12,097
	2,512,435	**577,790**	**1,975,755**	**2,616,361**	**1,564,446**	**9,246,787**
Net position	**271,208**	**(129,541)**	**(358,149)**	**1,319,364**	**(533,645)**	**569,237**
Accumulated gap	**271,208**	**141,667**	**(216,482)**	**1,102,882**	**569,237**	

As at 31 December 2006, overdue loans amounting to UAH 22,292 thousand net of allowance (2005: UAH 3,587 thousand net of allowance) are included as amounts due in less than one month.

In Ukraine there is currently no market for derivative financial instruments to manage liquidity risk.

The Bank's capability to discharge its liabilities relies on its ability to realise an equivalent amount of assets within the same period of time.

The maturity gap analysis does not reflect the historical stability of current accounts, whose maturity is generally longer than that indicated in the table above. The table is based upon the account holder's entitlement to withdraw on demand.

Investment securities classified as designated at fair value through profit and loss and available for sale have been included in the category "less than 1 month".

In the Ukrainian marketplace, many short-term loans are granted with the expectation of renewing the loans at maturity. Accordingly, the effective maturity of the loan portfolio may be longer than indicated by a classification based on contractual terms. Additionally, in the case of liabilities, the earliest repayment date is shown whereas the expectation is that the real maturity of liabilities is greater than that indicated by contractual maturity.

24. Fair values of financial instruments

The following disclosure of the estimated fair value of financial instruments is made in accordance with the requirements of IAS 32 "Financial Instruments: disclosure and presentation". Fair value is defined as the amount at which the instrument could be exchanged between knowledgeable willing parties in an arm's length transaction, other than in a forced or liquidation sale. As no readily available market exists for a large part of the Bank's financial instruments, judgement is necessary in arriving at fair value, based on current economic conditions and the specific risks attributable to the instrument. The estimates presented herein are not necessarily indicative of the amounts the Bank could realise in a market exchange from the sale of its full holdings of a particular instrument.

(Thousands of Ukrainian hryvnia)

The following methods and assumptions are used by the Bank to estimate the fair value of those classes of financial instrument not shown on the Bank's balance sheet at their fair value:

Cash and cash equivalents

These assets mature within one month and the carrying amount approximates fair value due to the relatively short-term maturity of these financial instruments.

Amounts due from and to credit institutions

For assets maturing within one month, the carrying amount approximates fair value due to the relatively short-term maturity of these financial instruments. For longer-term deposits and loans, the interest rates applicable reflect current year-end market rates and consequently the fair value approximates the carrying amounts.

Loans to customers

The fair value of the loan portfolio is based on the credit and interest rate characteristics of individual loans within each sector of the portfolio. The estimation of the allowance for loan impairment includes consideration of risk premiums applicable to various types of loans based on factors such as the current situation of the economic sector in which each borrower operates, the economic situation of each borrower and guarantees obtained. Accordingly, the allowance for loan impairment is considered a reasonable estimate of the discount required to reflect the impact of credit risk.

Loans are generally granted at market rates and consequently the carrying amount of loans is a reasonable estimate of their fair value. For loans issued under preferential terms, the fair value of consideration given is recognised as the cost at initial measurement. Consequently, the carrying value calculated as the amortised cost of such instruments is a reasonable estimate of their fair value.

For long-term fixed interest bearing loans, the estimated fair value is based on discounted cash flows using interest rates applicable to new instruments with similar remaining maturities and risk characteristics.

As at 31 December 2006, the total fair value of loans to customers was UAH 14,001,411 thousand (2005: UAH 6,996,264 thousand).

Investment securities

Available-for-sale and securities designated at fair value through profit or loss are measured as described in Note 3. As at 31 December 2006, the carrying amount of available-for-sale securities is equal to their fair value. Held-to-maturity securities bear interest rates, which reflect fair market rates, and consequently the fair value approximates the carrying amount of such instruments.

Amounts due to customers

For deposits maturing within one month the carrying amount approximates fair value due to the relatively short-term maturity of these financial instruments. For longer-term deposits, the interest rates applicable reflect market rates and consequently the fair value approximates the carrying amounts.

Eurobonds issued

The fair value of Eurobonds is determined based on the latest available market. As at 31 December 2006, the fair value of Eurobonds was UAH 5,110,348 thousand.

Bonds issued

Bonds issued bear interest rates, which reflect fair market rates and consequently the fair value approximates the carrying amount of such instruments.

(Thousands of Ukrainian hryvnia)

Subordinated debt

Subordinated debt bears interest rates, which reflect fair market rates and consequently the fair value approximates the carrying amount of subordinated debt.

25. Related party transactions

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

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

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

	2006	***2005***
	State controlled entities	***State controlled entities***
Correspondent account with the NBU	**486,610**	**695,112**
Amounts due from credit institutions	**41**	-
State bonds designated at fair value through profit and loss	210,964	90,226
Other corporate bonds designated at fair value through profit and loss	-	12,203
Total financial assets designated at fair value through profit and loss	**210,964**	**102,429**
Held to maturity State bonds	98,526	108,847
Held to maturity NBU deposit certificates	100,030	25,297
Held to maturity other corporate bonds	20,384	69,703
Total held to maturity securities	**218,940**	**203,847**
Loans outstanding at 31 December, gross	1,263,948	777,342
Less: allowance for impairment at 31 December	(78,372)	(29,221)
Loans outstanding at 31 December, net	**1,185,576**	**748,121**
Other assets	**10,631**	**650**
Amounts due to the NBU	**-**	**44,939**
Amounts due to credit institutions	**3,923**	-
Current accounts at 31 December	406,510	795,964
Time deposits as at 31 December	89,681	114,623
Amounts due to customers	**496,191**	**910,587**
Bonds issued	**101,736**	**-**
Other liabilities	**10,801**	**3,230**
Provisions	**12,490**	**-**
Commitments and guarantees issued	**271,132**	**194,043**
Interest income on loans	150,970	80,420
Interest income on securities	27,830	44,704
Interest income on amounts due from NBU	222	-
Interest income on amounts due from credit institutions	49	-
Interest income	**179,071**	**125,124**

(Thousands of Ukrainian hryvnia)

	2006	**2005**
	State controlled entities	***State controlled entities***
Interest expenses on amounts due to credit institutions	(15,004)	-
Interest expense on clients' deposits	(31,950)	(26,016)
Interest expenses on bonds issued	(707)	
Interest expenses on amounts due to the NBU	(2,622)	(6,340)
Interest expenses	**(50,283)**	**(32,356)**
Commission income	27,094	24,278
Commission expenses	(98)	(109)
Translation differences	4,273	(6,237)
Other operating income	154	2
Measurement of financial instruments	(12,937)	-
Other operating and administrative expenses	175	(136)

All transactions were performed under normal banking conditions.

26. Capital adequacy

The NBU requires banks to maintain a capital adequacy ratio of 10% of risk-weighted assets (2005: 10%), computed on the basis of UAR. At 31 December 2006, the Bank's capital adequacy ratio on this basis was 11.50% (2005: 13.61%) and exceeded the statutory minimum.

The Bank's international risk based capital adequacy ratio as at 31 December 2006 was 15.94% (2005: 14.48%), which exceeds the minimum ratio of 8% recommended by the Basle Accord. Capital adequacy was assessed based on the requirements and methodology defined in the 1988 Basle Accord.

27. Subsequent events

In February 2007, the Bank's Supervisory Board approved a decision to capitalise profit for 2006 in the amount of UAH 367,583 thousand. This decision has been approved by the Cabinet of Ministers of Ukraine on 14 February 2007.

In March 2007, an agreement with the International Bank for Reconstruction and Development (the "IBRD"), concluded by the Bank at the end of 2006, was ratified. Under this agreement, loan facilities amounting to USD 154,500 thousand will be provided to the Bank under the second Export Development Project, which became effective from ratification. Proceeds from this loan will be used for provide medium and long term financing for eligible Ukrainian borrowers and will be disbursed through eligible Ukrainian commercial banks. The loan has a 5 years grace period and matures in 20 years.