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

Year ended 31 December 2007

Together with Independent Auditors' Report

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INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDER AND THE BOARD OF DIRECTORS OF OPEN JOINT STOCK COMPANY "THE STATE EXPORT-IMPORT BANK OF UKRAINE"

We have audited the accompanying consolidated financial statements of Open 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 2007 and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 2007, 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

8 May 2008

CONSOLIDATED BALANCE SHEET
As at 31 December 2007

(Thousands of Ukrainian hryvnia)

	Notes	*2007*	*2006*
Assets			
Cash and cash equivalents	6	3,460,104	2,943,944
Amounts due from credit institutions	7	279,139	97,049
Loans to customers	8	21,781,631	13,462,902
Investment securities:	9		
- designated at fair value through profit and loss		1,342,737	642,377
- available-for-sale		2,341	2,245
- held-to-maturity		508,025	227,224
Property and equipment	10	1,025,480	988,363
Intangible assets	11	9,228	8,646
Other assets	14	157,171	76,605
Total assets		**28,565,856**	**18,449,355**
Liabilities			
Amounts due to credit institutions	15	8,142,984	3,509,749
Amounts due to customers	16	10,594,902	6,689,519
Debt securities issued	18	1,287,093	505,732
Eurobonds issued	17	5,145,498	5,128,239
Current income tax liabilities	12	21,611	14,540
Deferred income tax liabilities	12	131,902	139,244
Subordinated debt	19	640,257	636,135
Provisions	13	7,301	21,390
Other liabilities	14	104,703	68,051
Total liabilities		**26,076,251**	**16,712,599**
Equity			
Share capital	20	2,199,232	1,631,649
Revaluation reserve		441,239	452,457
Accumulated deficit		(150,925)	(347,403)
Total equity attributable to the shareholder of the Bank		**2,489,546**	**1,736,703**
Minority interest		**59**	**53**
Total equity		**2,489,605**	**1,736,756**
Total equity and liabilities		**28,565,856**	**18,449,355**

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

Yurii Khramov — Acting Chairman of the Board

Natalia Potemska — Chief Accountant

8 May 2008

The accompanying notes on pages 5 to 52 are an integral part of these consolidated financial statements.

CONSOLIDATED INCOME STATEMENT
For the year ended 31 December 2007

(Thousands of Ukrainian hryvnia)

	Notes	*2007*	*2006*
Interest income			
Loans to customers		2,301,813	1,402,894
Amounts due from credit institutions		137,198	81,850
Investment securities		110,127	75,494
Other		-	222
		2,549,138	1,560,460
Interest expense			
Amounts due to customers		(587,476)	(371,400)
Eurobonds issued		(383,440)	(236,736)
Amounts due to credit institutions		(375,403)	(158,559)
Debt securities issued		(94,383)	(23,050)
Subordinated debt		(53,975)	(43,705)
Amounts due to the National Bank of Ukraine		(2,144)	(2,622)
		(1,496,821)	(836,072)
Net interest income		**1,052,317**	**724,388**
Allowance for loan impairment	8	(196,370)	(98,856)
Net interest income after allowance for loan impairment		**855,947**	**625,532**
Fee and commission income		336,282	243,470
Fee and commission expense		(33,371)	(21,525)
Fees and commissions, net	22	**302,911**	**221,945**
Net gains from investment securities		290	2,785
Net gains from foreign currencies and precious metals:			
- dealing		132,227	89,220
- translation differences		2,110	5,968
Other income		28,645	11,075
Non interest income		**163,272**	**109,048**
Losses on initial recognition of financial instruments, net		(7,119)	(12,443)
Personnel expenses	23	(408,153)	(322,598)
Depreciation and amortisation	10, 11	(50,714)	(44,972)
Other administrative and operating expenses	23	(143,043)	(96,903)
Reversal of / (charge for) other impairment and provisions	13	40,438	(15,514)
Non interest expense		**(568,591)**	**(492,430)**
Profit before income tax expenses		**753,539**	**464,095**
Income tax expense	12	(200,690)	(129,180)
Profit for the year		**552,849**	**334,915**
Attributable to:			
- shareholder of the Bank		552,843	334,915
- minority interest		6	-
		552,849	**334,915**

The accompanying notes on pages 5 to 52 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2007

(Thousands of Ukrainian hryvnia)

	Attributable to the shareholder of the Bank					
	Share capital	***Revaluation reserve***	***Accumulated deficit***	***Total***	***Minority interest***	***Total equity***
31 December 2005	**1,457,232**	**-**	**(510,830)**	**946,402**	**-**	**946,402**
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
Total income and expense for the year recognised directly in equity	-	452,457	2,929	455,386	53	455,439
Profit for the year			334,915	334,915	-	334,915
Total income and expense for the year	-	452,457	337,844	790,301	53	790,354
Increase of share capital (Note 20)	174,417	-	(174,417)	-	-	-
31 December 2006	**1,631,649**	**452,457**	**(347,403)**	**1,736,703**	**53**	**1,736,756**
Depreciation of revaluation reserve, net of tax	-	(11,156)	11,156	-	-	-
Disposal of property, net of tax		(62)	62	-		-
Total income and expense for the year recognised directly in equity	-	(11,218)	11,218	-	-	-
Profit for the year			552,843	552,843	6	552,849
Total income and expense for the year	-	(11,218)	564,061	552,843	6	552,849
Increase of share capital (Note 20)	367,583	-	(367,583)	-	-	-
Paid in share capital (Note 20)	200,000	-	-	200,000	-	200,000
31 December 2007	**2,199,232**	**441,239**	**(150,925)**	**2,489,546**	**59**	**2,489,605**

CONSOLIDATED CASH FLOW STATEMENT
For the year ended 31 December 2007

(Thousands of Ukrainian hryvnia)

	Notes	*2007*	*2006*
Cash flows from operating activities			
Interest and commissions received		2,731,678	1,837,109
Interest and commissions paid		(1,342,089)	(709,483)
Gains less losses from dealing in foreign currencies, precious metals and securities		132,662	92,100
Other operating income received		28,149	9,352
Personnel expenses		(396,736)	(306,916)
Other operating and administrative expenses		(129,495)	(93,593)
Cash flow from operating activities before changes in operating assets and liabilities		**1,024,169**	**828,569**
Net (increase) in operating assets			
Amounts due from credit institutions		(125,756)	(475)
Loans to customers		(6,683,715)	(6,163,536)
Other assets		(70,464)	(38,246)
Net increase / (decrease) in operating liabilities			
Amounts due to the National Bank of Ukraine		-	(44,939)
Amounts due to credit institutions		384,890	(274,748)
Amounts due to customers		3,734,128	1,811,945
Other liabilities		8,956	6,545
Net cash flows used in operating activities before income tax		**(1,727,792)**	**(3,874,885)**
Income tax paid		(200,957)	(142,021)
Net cash flows used in operating activities		**(1,928,749)**	**(4,016,906)**
Cash flows from financing activities			
Amounts due to credit institutions		2,449,965	1,932,986
Share capital increase		200,000	-
Eurobonds issued		-	2,524,828
Debt securities issued		775,112	301,260
Subordinated debt issued		-	617,952
Subordinated debt redemption		-	(202,000)
Net cash flows from financing activities		**3,425,077**	**5,175,026**
Cash flows from investing activities			
Purchase of investment securities		(980,819)	(388,938)
Purchases of property, equipment and computer software		(90,874)	(78,927)
Proceeds from sale of property and equipment		2,958	825
Net cash flows used in investing activities		**(1,068,735)**	**(467,040)**
Effect of exchange rates changes on cash and cash equivalents		88,567	36,028
Net change in cash and cash equivalents		**516,160**	**727,108**
Cash and cash equivalents, beginning of the year	6	**2,943,944**	**2,216,836**
Cash and cash equivalents, ending of the year	6	**3,460,104**	**2,943,944**

The accompanying notes on pages 5 to 52 are an integral part of these consolidated financial statements.

1. Principal activities

The State Export-Import Bank of Ukraine ("EximBank") was founded in 1992. It 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, EximBank operates under a general banking licence #2 renewed by the NBU on 25 December 2001, which provides EximBank with the right to conduct banking operations, including currency operations.

As at 31 December 2007 and 2006, 100% of EximBank's shares were owned by the Cabinet Ministers of Ukraine on behalf of the State of Ukraine.

EximBank's head office is located in Kyiv at 127 Gorky St. It has 30 branches and 95 operating outlets (2006: 29 branches and 80 operating outlets) located in Kyiv and other regions of Ukraine and 2 representative offices located in London and New-York. The EximBank and its branches form a single legal entity.

Historically, the main focus of EximBank's operations was servicing various export-import transactions. Currently, EximBank's customer base is diversified and includes some large industrial and State owned enterprises. EximBank 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 EximBank is to facilitate, on behalf of the Ukrainian Government, the administration of loan agreements entered into by the Ukrainian Government with other foreign governments. EximBank 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 EximBank 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 EximBank 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.

These consolidated financial statements comprise EximBank, its subsidiaries and unincorporated mutual investment fund (together referred to as the "Bank"). A list of consolidated subsidiaries is as follows:

"Ukreximleasing", a 100% owned subsidiary 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 was founded in 2006.

In 2006, EximBank established an unincorporated mutual investment fund - "Agat", which is of a non-diversified nature. As at 31 December 2007, EximBank holds 99% of the investment certificates of "Agat" (2006: 99%) and the assets and liabilities of this investment fund were consolidated into the financial statements of EximBank for the years ended 31 December 2007 and 2006 as Eximbank has the power to exercise control over operations of "Agat".

2. Basis of preparation

General

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

The Bank is 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" issued by the National Bank of Ukraine and in accordance with Ukrainian Accounting Standards ("UAR"). These consolidated financial statements are based on the Bank's UAR books and records, as adjusted and reclassified in order to comply with IFRS. The reconciliation between UAR and IFRS is presented later in this note.

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

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

Inflation accounting

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

Reconciliation of UAR and IFRS equity and profit for the year

Equity and profit for the year are reconciled between UAR and IFRS as follows:

	2007		***2006***	
	Equity	***Profit for the year***	***Equity***	***Profit for the year***
UAR (combined)	**2,560,797**	**507,127**	**1,852,741**	**385,601**
Application of IAS 29	50,729	(2)	50,731	(149)
Measurement of financial instrument	(13,449)	3,840	(16,360)	(18,373)
Additional allowance for impairment	(49,779)	58,124	(107,903)	(25,228)
Accruals	(4,548)	2,170	(6,718)	(6,373)
Additional IFRS depreciation	(69,543)	(4,640)	(64,903)	(9,128)
Deferred tax	18,828	(12,171)	30,999	9,400
Other	(3,430)	(1,599)	(1,831)	(835)
IFRS	**2,489,605**	**552,849**	**1,736,756**	**334,915**

Reclassifications

The following reclassifications have been made to 2006 balances to conform to the 2007 presentation.

Amount	***Previously reported***	***As reclassified***	***Comment***
3,761	Cash and cash equivalents – cash on hand	Other assets – precious metals	To achieve better presentation based on substance of cash equivalents
(1,470)	Other income	Impairment of other assets and provisions	Reclassification of allowance for other assets of "Ukreximleasing"

3. Summary of accounting policies

Changes in accounting policies

During the year, the Bank has adopted the following new and amended IFRS. Adoption of these standards did not have any effect on the financial performance or position of the Bank.

The principal effects of these changes are as follows:

IFRS 7 "Financial Instruments: Disclosures"
This standard requires disclosures that enable users of the financial statements to evaluate the significance of the Bank's financial instruments and the nature and extent of risks arising from those financial instruments. The new disclosures are included throughout the consolidated financial statements.

Amendment to IAS 1 "Presentation of Financial Statements"
This amendment requires the Bank to make new disclosures to enable users of the financial statements to evaluate the Bank's objectives, policies and processes for managing capital. These new disclosures are shown in Note 28.

Subsidiaries

Subsidiaries, which are those entities in which the Bank has an interest of more than one half of the voting rights, or otherwise has power to exercise control over their operations, are consolidated. Subsidiaries are consolidated from the date on which control is transferred to the Bank and are no longer consolidated from the date that control ceases. All intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated in full; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Bank.

Acquisition of subsidiaries

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Bank. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest.

The excess of purchase consideration over the Bank's share in the net fair value of the identifiable assets, liabilities and contingent liabilities is recorded as goodwill. If the cost of the acquisition is less than the Bank's share in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary acquired the difference is recognised directly in the consolidated income statement.

Minority interest is the interest in subsidiaries not held by the Bank. Minority interest at the balance sheet date represents the minority shareholders' share in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary at the acquisition date and the minorities' share in movements in equity since the acquisition date. Minority interest is presented within equity.

Losses allocated to minority interest do not exceed the minority interest in the equity of the subsidiary unless there is a binding obligation of the minority to fund the losses. All such losses are allocated to the Bank.

Financial assets

Initial recognition

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

Date of recognition

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

Financial assets at fair value through profit or loss

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

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.

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. Gains and losses are recognised in the consolidated income statement when the investments are 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. They are not entered into with the intention of immediate or short-term resale and are not classified as trading securities or designated as investment securities available-for-sale. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the consolidated income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified 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 consolidated income statement. However, interest calculated using the effective interest method is recognised in the consolidated income statement.

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

Determination of fair value

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

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

Offsetting

Financial assets and liabilities are offset and the net amount is reported in the consolidated 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.

Precious metals

Gold and other precious metals are recorded at the NBU bid prices, which approximate fair values and are quoted at a discount to London Bullion Market rates. Changes in the NBU bid prices are recorded as translation differences in net gains from foreign currencies and precious metals.

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

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

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

Leases

i. Finance – Bank as lessee

The Bank recognises finance leases as assets and liabilities in the consolidated balance sheet at the date of commencement of the lease term at amounts equal to the fair value of the leased property or, if lower, at the present value of the minimum lease payments. In calculating the present value of the minimum lease payments the discount factor used is the interest rate implicit in the lease, when it is practicable to determine; otherwise, the Bank's incremental borrowing rate is used. Initial direct costs incurred are included as part of the asset. Lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to periods during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

The costs identified as directly attributable to activities performed by the lessee for a finance lease, are included as part of the amount recognised as an asset under the lease.

ii. Finance – Bank as lessor

The Bank recognises lease receivables at 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.

iii. Operating – Bank as lessee

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

iv. Operating – Bank as lessor

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

Impairment of financial assets

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

Amounts due from credit institutions and loans to customers

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

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

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

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

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

Held-to-maturity financial investments

For held-to-maturity investments the Bank assesses individually whether there is objective evidence of impairment. If there is objective evidence that an impairment loss 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. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated income statement.

If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognised, any amounts formerly charged are credited to the consolidated income statement.

Available-for-sale financial investments

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

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

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded in the consolidated income statement. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the consolidated income statement, the impairment loss is reversed through the consolidated income statement.

Renegotiated loans

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

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.

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 consolidated statement of income.

Financial guarantees

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

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

Taxation

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

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

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

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

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

Property and equipment

Equipment is carried at cost or restated cost (for assets acquired prior to 31 December 2000), excluding the costs of day-to-day servicing, less accumulated depreciation and any accumulated impairment. Buildings are measured at fair value less depreciation and impairment charged subsequent to the date of the revaluation.

The carrying values of 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 income statement, in which case the increase is recognised in the consolidated income statement. A revaluation deficit is recognised in the consolidated income statement, 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 is calculated on a straight-line basis over the following estimated useful lives:

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

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

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

Intangible assets

Intangible assets include acquired computer software and licences. Intangible assets acquired separately are measured on initial recognition at cost or restated cost (for assets acquired prior to 31 December 2000). Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic lives of five to ten years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation periods and methods for intangible assets with finite useful lives are reviewed at least at each financial year-end.

Provisions

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

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 "Personnel 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

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

Segment reporting

A segment is a distinguishable component of the Bank that is engaged in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. Segment income, segment expenses and segment performance include transfers between business segments and between geographical segments.

Contingencies

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

Recognition of income and expense

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

Interest and similar income and expense

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

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

Fee and commission income

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

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

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

- Fee income from providing transaction services

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

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, converted at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. Gains and losses resulting from the translation of foreign currency transactions are recognised in the consolidated income statement as gains less losses from foreign currencies and precious metals– translation differences. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Differences between the contractual exchange rate of a transaction in a foreign currency and the NBU exchange rate on the date of the transaction are included in gains less losses from dealing in foreign currencies. The official NBU exchange rates at 31 December 2007 and 2006, were UAH 5.05 and UAH 5.05 to 1 US dollar and UAH 7.41946 and UAH 6.6509 to 1 euro, respectively.

Future changes in accounting policies

Standards and interpretations issued but not yet effective

IFRS 2 "Share-based Payments – Vesting Conditions and Cancellations"
The amendment to IFRS 2 "*Share-based payments"* was published in January 2008 and becomes effective for financial years beginning on or after 1 January 2009. The standard restricts the definition of "vesting condition" to a condition that includes an explicit or implicit requirement to provide services. Any other conditions are non-vesting conditions, which have to be taken into account to determine the fair value of the equity instruments granted. In the case that the award does not vest as the result of a failure to meet a non-vesting condition that is within the control of either the entity or the counterparty, this must be accounted for as a cancellation. The Bank has not entered into share-based payment schemes with non-vesting conditions attached and, therefore, does not expect significant implications on its accounting for share-based payments.

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

IAS 1 Revised "Presentation of Financial Statements"
The revised IAS 1 "*Presentation of Financial Statements*" was issued in September 2007 and becomes effective for financial years beginning on or after 1 January 2009. The Standard separates owner and non-owner changes in equity. The statement of changes in equity will include only details of transactions with owners, with all non-owner

changes in equity presented as a single line. In addition, the Standard introduces the statement of comprehensive income: it presents all items of income and expense recognised in profit or loss, together with all other items of recognised income and expense, either in one single statement or in two linked statements. The Bank is still evaluating whether it will have one or two statements.

Amendments to IAS 32 and IAS 1 "Puttable Financial Instruments"
Amendments to IAS 32 and IAS 1 were issued in February 2008 and become effective for annual periods beginning on or after 1 January 2009. The amendment to IAS 32 requires certain puttable financial instruments and obligations arising on liquidation to be classified as equity if certain criteria are met. The amendment to IAS 1 requires disclosure of certain information relating to puttable instruments classified as equity. The Bank does not expect these amendments to impact financial statements of the Bank.

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

IFRIC 12 "*Service Concession Arrangements*"
IFRIC Interpretation 12 was issued in November 2006 and becomes effective for annual periods beginning on or after 1 January 2008. This Interpretation applies to service concession operators and explains how to account for the obligations undertaken and rights received in service concession arrangements. This Interpretation will have no impact on the Bank.

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

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

4. Significant accounting judgements and estimates

Judgements

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

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

Consolidation of mutual investment fund based on "de-facto" control
In 2006, EximBank established an unincorporated mutual investment fund - "Agat", which is of a non-diversified nature. As at 31 December 2007, EximBank holds 99% of the investment certificates of "Agat" (2006: 99%) and

the assets and liabilities of this investment fund were consolidated into the financial statements of EximBank for the years ended 31 December 2007 and 2006. The management of Eximbank believes that it has "de-facto" control as prescribed by SIC-12 "Consolidation – Special Purpose Entities" and has the power to exercise control over operations of "Agat" through the majority in the Supervisory Board.

Estimation uncertainty

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

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

5. Segment information

The primary segment reporting format is determined to be business segments as the Bank's risks and rates of return are affected predominantly by differences in the products and services produced. Secondary information is not reported geographically due to the fact that the Bank operates solely on the territory of the Ukraine, which determines primary location of the Bank's assets and location of its clients. The operating businesses are organised and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets.

For management purposes, the Bank is organised into four business segments:

Retail banking	Principally handling individual customers' deposits, and providing consumer loans, overdrafts, credit cards facilities and funds transfer facilities.
Corporate banking	Principally handling loans and other credit facilities and deposit and current accounts for corporate and institutional customers.
Investment banking	Principally providing investment banking services including corporate finance, merger and acquisitions advice, specialised financial advice and trading.
Other/Unallocated	Treasury and finance and other central functions which are not directly allocated.

For the purpose of segment reporting, interest is allocated based on a pool rate determined by Treasury based on the Bank's cost of borrowing.

(in thousands of Ukrainian hryvnia unless otherwise indicated)

Business segments

The following table presents income and profit and certain asset and liability information regarding the Bank's business segments for the year ended 31 December 2007:

	Retail banking	*Corporate banking*	*Investment banking*	*Other/ Unallocated*	*Total*
External income					
Net interest income	(318,215)	1,938,172	(567,632)	(8)	**1,052,317**
Allowance for loan impairment	692	(197,062)	-	-	**(196,370)**
Net interest income after allowance for loan impairment	**(317,523)**	**1,741,110**	**(567,632)**	**(8)**	**855,947**
Net fee and commission income	224,887	42,048	35,984	(8)	**302,911**
Other non-interest income	56,549	106,405	(4,002)	4,320	**163,272**
Non-interest expense	(290,394)	(85,320)	(30,604)	(162,273)	**(568,591)**
Net income from other segments	477,880	(1,392,901)	762,755	152,266	**-**
Segment results	**151,399**	**411,342**	**196,501**	**(5,703)**	**753,539**
Income tax expense					(200,690)
Profit for the year					**552,849**
Assets and liabilities					
Segment assets	2,354,483	21,027,664	5,017,435	-	28,399,582
Unallocated assets				166,274	166,274
Total assets					**28,565,856**
Segment liabilities	7,555,511	5,553,430	12,802,818	-	25,911,759
Unallocated liabilities				164,492	164,492
Total liabilities					**26,076,251**
Other segment information					
Capital expenditure	(83,151)	(14,756)	(2,665)	(14,733)	(115,305)
Depreciation and amortisation	(36,424)	(6,603)	(1,178)	(6,509)	(50,714)
Other impairment and provisions		36,790	710	2,938	40,438

(in thousands of Ukrainian hryvnia unless otherwise indicated)

The following table presents income and profit and certain asset and liability information regarding the Bank's business segments for the year ended 31 December 2006:

	Retail banking	***Corporate banking***	***Investment banking***	***Other/ Unallocated***	***Total***
External income					
Net interest income	(196,778)	1,241,037	(319,420)	(451)	**724,388**
Allowance for loan impairment	(4,429)	(94,427)	-	-	**(98,856)**
Net interest income after allowance for loan impairment	**(201,207)**	**1,146,610**	**(319,420)**	**(451)**	**625,532**
Net fee and commission income	182,014	33,846	6,088	(3)	**221,945**
Other non-interest income	17,062	4,679	80,880	6,427	**109,048**
Non-interest expense	(205,007)	(121,321)	(24,082)	(142,020)	**(492,430)**
Net income from other segments	253,728	(888,752)	414,173	220,851	**-**
Segment results	**46,590**	**175,062**	**157,639**	**84,804**	**464,095**
Income tax expense					(129,180)
Profit for the year					**334,915**
Assets and liabilities					
Segment assets	1,289,504	13,410,550	3,583,538	-	**18,283,592**
Unallocated assets				165,763	**165,763**
Total assets					**18,449,355**
Segment liabilities	4,179,061	3,325,353	9,044,011	-	**16,548,425**
Unallocated liabilities				164,174	**164,174**
Total liabilities					**16,712,599**
Other segment information					
Capital expenditure	(58,230)	(18,023)	(2,342)	(12,861)	(91,456)
Depreciation and amortisation	(28,747)	(8,818)	(1,142)	(6,265)	(44,972)
Other impairment and provisions	-	(8,838)	(1,040)	(5,636)	(15,514)

(in thousands of Ukrainian hryvnia unless otherwise indicated)

6. Cash and cash equivalents

Cash and cash equivalents comprise:

	2007	2006
Cash on hand	510,319	264,059
Current account with the National Bank of Ukraine	602,277	489,610
Current accounts with other credit institutions	1,194,024	1,283,042
Overnight deposits with other credit institutions	887,197	877,233
Time deposits with credit institutions up to 90 days	266,287	30,000
Cash and cash equivalents	**3,460,104**	**2,943,944**

The current account with the NBU represents amounts deposited with the NBU relating to daily settlements and other activities. The Bank is also required to maintain, in the form of a non-interest earning cash deposit, certain cash reserves with the NBU (obligatory reserve), which are computed as a percentage of certain of the Bank's liabilities. There are no restrictions on the withdrawal of funds from the NBU, however, if minimum average reserve requirements are not met, the Bank could be subject to certain penalties. The Bank was obligated to and maintained the minimal cumulative average reserve calculated on a daily basis over a monthly period. The average daily requirement for the period from 1 to 31 December 2007 was UAH 244,210 thousand (2006: UAH 177,092 thousand). The Bank meets the NBU obligatory reserve requirements as at 31 December 2007 and 2006.

As at 31 December 2007, included in current accounts with other credit institutions is an amount of UAH 1,088,139 thousand placed on current accounts with five OECD and CIS banks (2006: UAH 1,116,230 thousand with four OECD banks). These banks are the main counterparties of the Bank in performing international settlements. The placements have made under normal banking terms and conditions.

Overnight deposits represent overnight deposits placed with OECD banks. These placements bear market interest rates. As at 31 December 2007, UAH 771,122 thousand was placed with two OECD banks (2006: UAH 877,233 thousand with two OECD banks).

7. Amounts due from credit institutions

Amounts due from credit institutions comprise:

	2007	2006
Loans and deposits	276,517	95,070
Other amounts due from credit institutions	2,622	1,979
Due from credit institutions	**279,139**	**97,049**

As at 31 December 2007, loans and deposits due from credit institutions include UAH 6,910 thousand of security deposits, placed mainly in respect of customers' transactions, such as letters of credit, performance guarantees and transactions with travellers' cheques (2006: UAH 11,008 thousand).

8. Loans to customers

Loans to customers comprise:

	2007	2006
Loans to customers	21,656,051	13,667,404
Overdrafts	612,465	287,669
Finance lease receivables	182,924	29,093
Promissory notes	63,159	14,925
	22,514,599	**13,999,091**
Less – Allowance for impairment	(732,968)	(536,189)
Loans to customers	**21,781,631**	**13,462,902**

(in thousands of Ukrainian hryvnia unless otherwise indicated)

Allowance for impairment of loans to customers

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

	Loans to customers 2007	Overdrafts 2007	Finance lease receivables 2007	Promissory notes 2007	Total 2007
At 1 January 2007	528,240	6,110	-	1,839	536,189
Charge for the year	189,591	661	5,598	520	196,370
Recoveries	1,144	-	-	-	1,144
Amounts written off	(3,721)	-	-	(1,230)	(4,951)
Translation differences	4,139	77	-	-	4,216
At 31 December 2007	**719,393**	**6,848**	**5,598**	**1,129**	**732,968**
Individual impairment	461,897	-	-	-	461,897
Collective impairment	257,496	6,848	5,598	1,129	271,071
	719,393	**6,848**	**5,598**	**1,129**	**732,968**
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	**798,446**	**-**	**-**	**-**	**798,446**

	Loans to customers 2006	Overdrafts 2006	Finance lease receivables 2006	Promissory notes 2006	Total 2006
At 1 January 2006	446,656	7,110	-	5,878	459,644
Charge for the year	103,895	(1,000)	-	(4,039)	98,856
Recoveries	230	-	-	-	230
Amounts written off	(25,999)	-	-	-	(25,999)
Translation differences	3,458	-	-	-	3,458
At 31 December 2006	**528,240**	**6,110**	**-**	**1,839**	**536,189**
Individual impairment	325,294	-	-	1,330	326,624
Collective impairment	202,946	6,110	-	509	209,565
	528,240	**6,110**	**-**	**1,839**	**536,189**
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	**442,015**	**-**	**-**	**1,330**	**443,345**

Individually impaired loans

Interest income accrued on loans, for which individual impairment allowances have been recognised, as at 31 December 2007, comprised UAH 9,602 thousand (2006: UAH 16,480 thousand).

The fair value of collateral that the Bank holds relating to loans individually determined to be impaired at 31 December 2007 amounts to UAH 46,891 thousand (2006: nil). In accordance with the Ukrainian legislation, loans may only be written off with the approval of the Board of Directors and, in certain cases, with the respective decision of the Court.

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Collateral and other credit enhancements

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

The main types of collateral obtained are as follows:

- For securities lending and reverse repurchase transactions, cash or securities,
- For commercial lending, charges over real estate properties, inventory and trade receivables,
- For retail lending, mortgages over residential properties and vehicles.

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

Concentration of loans to customers

As at 31 December 2007, the Bank had a concentration of loans represented by UAH 3,596,968 thousand due from the ten largest third party borrowers (15.98% of gross loan portfolio) (2006: UAH 2,469,532 thousand or 17.7%). An allowance of UAH 41,857 thousand (2006: UAH 67,538 thousand) was recognised against these loans.

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

	2007	***2006***
Private entities	19,630,645	12,339,277
State and municipal entities	1,863,028	1,272,198
Individuals	1,020,926	387,616
	22,514,599	**13,999,091**

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

	2007	*%*	***2006***	*%*
Trade enterprises	7,027,727	31.2	4,180,100	29.8
Agriculture and food processing	3,247,242	14.4	2,288,797	16.3
Construction	2,135,104	9.5	905,734	6.5
Engineering	1,455,335	6.5	1,409,869	10.0
Real estate	1,051,724	4.7	715,929	5.1
Individuals	1,020,926	4.5	387,616	2.8
Production of rubber and plastic goods	966,336	4.3	517,879	3.7
Transport & communications	956,304	4.3	697,568	5.0
Production of construction materials	946,898	4.2	293,845	2.1
Power utilities	631,480	2.8	346,947	2.5
Extractive industry	548,853	2.4	251,197	1.8
Metallurgy	547,033	2.4	453,365	3.2
Metal processing	542,839	2.4	378,159	2.7
Light industry	439,022	2.0	246,349	1.8
Pulp and paper industry	279,870	1.2	205,968	1.5
Chemistry	252,827	1.1	290,559	2.1
Other	191,364	0.9	190,299	1.4
Wood processing	140,492	0.6	107,071	0.8
Finance	98,114	0.4	116,903	0.8
Hotels and restaurant	35,109	0.2	14,937	0.1
	22,514,599	**100**	**13,999,091**	**100**

(in thousands of Ukrainian hryvnia unless otherwise indicated)

Included in corporate lending portfolio are finance lease receivables. They may be analysed as follows:

	2007	*2006*
Gross investment in finance leases, receivable:		
Not later than 1 year	80,019	11,488
Later than 1 year and not later than 5 years	142,950	30,260
	222,969	**41,748**
Unearned future finance income on finance leases	(40,045)	(12,655)
Net investment in finance leases	**182,924**	**29,093**

9. Investment securities

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

	2007	*2006*
Corporate bonds	586,929	431,413
Ukrainian State bonds	755,808	210,964
Investment securities designated at fair value	**1,342,737**	**642,377**

As at 31 December 2007, corporate bonds designated at fair value include bonds issued by a number of Ukrainian entities maturing in 2008-2014 with an average yield of 14.97% (2006: 15.51%).

As at 31 December 2007, Ukrainian State bonds include State bonds issued by the Ministry of Finance in order to settle amounts due by the State in respect of refundable VAT, of UAH 25,197 thousand (2006: UAH 43,484 thousand), maturing in 2008-2009 with an average yield of 21.58% (2006: 21.58%).

As at 31 December 2007, Ukrainian State bonds include state bonds issued by the Ministry of Finance for internal debt financing of UAH 730,610 thousand (2006: UAH 167,480 thousand), maturing in 2008-2010 and with an average yield of 7.26% (2006: 9.57%). As at 31 December 2007, bonds with a carrying value of UAH 100,092 thousand were pledged as collateral under a loan received from a Ukrainian bank (Note 15).

Available-for-sale investment securities comprise:

	2007	*2006*
Corporate shares	3,551	3,120
Less – Allowance for impairment	(1,210)	(875)
Available-for-sale investments	**2,341**	**2,245**

Held-to-maturity investment securities comprise the following:

	2007		*2006*	
	Nominal value	***Carrying value***	***Nominal value***	***Carrying value***
Ukrainian State bonds	14,616	14,689	97,683	98,526
NBU deposit certificates	300,000	300,074	100,000	100,030
Corporate bonds	190,000	193,262	28,000	28,668
Held-to-maturity investments		**508,025**		**227,224**

(in thousands of Ukrainian hryvnia unless otherwise indicated)

10. Property and equipment

The movements of property and equipment were as follows:

	Buildings and property	*Computers and equipment*	*Furniture, fixtures and other assets*	*Motor vehicles*	*Construction in progress*	*Total*
Cost or revalued amount						
31 December 2006	**1,072,546**	**139,176**	**79,284**	**14,809**	**30,769**	**1,336,584**
Additions	2	9,774	7,065	-	72,315	89,156
Disposals	(865)	(1,598)	(636)	(775)	(1,841)	(5,715)
Transfers	26,353	19,437	12,178	1,939	(62,647)	(2,740)
Reclassifications	328	(23)	(305)	-	-	-
31 December 2007	**1,098,364**	**166,766**	**97,586**	**15,973**	**38,596**	**1,417,285**
Accumulated depreciation						
31 December 2006	**(191,251)**	**(97,143)**	**(47,877)**	**(11,950)**		**(348,221)**
Charge for the year	(23,235)	(13,502)	(8,885)	(1,219)		(46,841)
Disposals	327	1,554	602	774		3,257
Reclassifications	(2)	36	(34)	-		-
31 December 2007	**(214,161)**	**(109,055)**	**(56,194)**	**(12,395)**		**(391,805)**
Net book value:						
31 December 2006	**881,295**	**42,033**	**31,407**	**2,859**	**30,769**	**988,363**
31 December 2007	**884,203**	**57,711**	**41,392**	**3,578**	**38,596**	**1,025,480**

	Buildings and property	*Computers and equipment*	*Furniture, fixtures and other assets*	*Motor vehicles*	*Construction in progress*	*Total*
Cost or revalued amount						
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						
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**

As at 31 December 2007, buildings and property include leasehold improvements with a net book value of UAH 6,346 thousand (2006: UAH 4,952 thousand).

As at 31 December 2007, the Bank had capital commitments to purchase property and equipment amounting to UAH 51,435 thousand (2006: UAH 59,016 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

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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:

	2007 revalued	*2007 at cost*	*2006 revalued*	*2006 at cost*
Cost	1,087,533	345,662	1,064,590	322,664
Accumulated depreciation	(210,465)	(56,488)	(188,831)	(49,809)
Net carrying amount	**877,068**	**289,174**	**875,759**	**272,855**

11. Intangible assets

The movements of intangible assets were as follows:

	Computer software
Cost	
31 December 2006	**27,580**
Additions	1,718
Disposals	(2,934)
Transfers	2,740
31 December 2007	**29,104**
Accumulated amortisation	
31 December 2006	**(18,934)**
Charge for the year	(3,873)
Disposals	2,931
31 December 2007	**(19,876)**
Net book value:	
31 December 2006	**8,646**
31 December 2007	**9,228**

	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**

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12. Income tax

The corporate income tax charge comprises:

	2007	*2006*
Current tax charge	208,032	144,240
Deferred tax	(7,342)	(15,060)
Income tax expense	**200,690**	**129,180**

Tax assets and liabilities consist of the following:

	2007	*2006*
Current tax asset	-	4
Tax asset	**-**	**4**
Current tax liabilities	21,611	14,540
Deferred tax liabilities	131,902	139,244
Tax liabilities	**153,513**	**153,784**

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:

	2007	*2006*
Income before tax	753,539	464,095
Statutory tax rate	25%	25%
Income tax expense at the statutory tax rate	188,385	116,024
Initial recognition of loans to customers and guarantees issued	(1,158)	2,224
Changes in management estimates	-	2,401
Non-deductible expenditures:		
- salaries and bonuses	4,036	4,739
- consulting and marketing	2,318	1,170
- charity	1,543	1,707
- other expenses	5,566	915
Income tax expense	**200,690**	**129,180**

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Deferred tax assets and liabilities as at 31 December comprise:

		Origination and reversal of temporary differences			*Origination and reversal of temporary differences*		
	2005	*In the income statement*	*Directly in equity*	*2006*	*In the income statement*	*Directly in equity*	*2007*
Tax effect of deductible temporary differences:							
Allowance for loan impairment	51,587	10,183	-	61,770	667	-	62,437
Accruals	-	11,296	-	11,296	7,620	-	18,916
Other asset/ liabilities	-	115	-	115	459	-	574
Deferred tax asset	**51,587**	**21,594**	**-**	**73,181**	**8,746**	**-**	**81,927**
Tax effect of taxable temporary differences:							
Property, equipment and intangible assets	(24,193)	(837)	(151,795)	(176,825)	(1,170)	-	(177,995)
Valuation of financial instruments	(29,418)	(6,182)	-	(35,600)	(234)	-	(35,834)
Accruals	(42)	42	-	-	-	-	-
Other assets/ liabilities	(443)	443	-	-	-	-	-
Deferred tax liability	**(54,096)**	**(6,534)**	**(151,795)**	**(212,425)**	**(1,404)**	**-**	**(213,829)**
Deferred tax liability	**(2,509)**	**15,060**	**(151,795)**	**(139,244)**	**7,342**	**-**	**(131,902)**

13. Other impairment and provisions

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

	Investment securities	*Other assets*	*Guarantees and commitments*	*Total*
31 December 2005	**1,528**	**22,757**	**12,097**	**36,382**
Translation differences	-	10	885	895
Charge	-	7,106	8,408	15,514
Amounts written off	(653)	(170)	-	(823)
31 December 2006	**875**	**29,703**	**21,390**	**51,968**
Translation differences	-	171	1,751	1,922
Charge/(reversal)	352	(24,950)	(15,840)	(40,438)
Amounts written off	(17)	(914)	-	(931)
31 December 2007	**1,210**	**4,010**	**7,301**	**12,521**

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

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14. Other assets and liabilities

Other assets comprise:

	2007	*2006*
Prepayments	80,834	39,673
Precious metals	25,289	3,761
Service fee on issued financial guarantees	25,492	20,113
Settlements on card operations	12,540	5,285
Inventory	5,056	5,175
Settlements on transactions with customers	5,011	2,805
Other accrued income	1,501	670
Collateral held for resale	19	22,334
Prepaid income tax	-	4
Other	5,439	6,488
	161,181	**106,308**
Less – Allowance for impairment (Note 13)	(4,010)	(29,703)
Other assets	**157,171**	**76,605**

As at 31 December 2007, prepayments include balances amounting to UAH 47,581 thousand (2006: UAH 22,021 thousand) in respect of the construction of branch buildings and for other fixed assets.

As at 31 December 2006, collateral held for resale comprises balances of oil products amounting to 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. In April 2007, the guarantor, according to the amicable agreement, repaid the indebtedness amounting to UAH 35,000 thousand including VAT based on the current prices of oil products in part of collateral held amounted by UAH 4,724 thousand. In December 2007, due to the bankruptcy of the debtor, the remaining indebtedness of UAH 17,111 thousand was written-off.

Other liabilities comprise:

	2007	*2006*
Fair value of financial guarantees issued	38,494	21,062
Provision for unused vacations	28,765	17,650
Settlements on card operations	21,833	13,562
Deferred income	5,168	7,287
Payables to Guarantee Fund of Individuals' Deposits	4,433	2,647
Other accrued expenses	2,406	3,730
Accrued pension contribution	1,295	993
Settlements on transactions with customers	786	432
Other liabilities	1,523	688
Other liabilities	**104,703**	**68,051**

15. Amounts due to credit institutions

Amounts due to credit institutions comprise:

	2007	*2006*
Current accounts	167,043	128,901
Loans and deposits due to other banks	6,430,623	2,326,193
Loans due to international financial organisations	1,541,510	1,054,471
Other amounts due to credit institutions	3,808	184
Amounts due to credit institutions	**8,142,984**	**3,509,749**

As at 31 December 2007, included in current accounts is UAH 48,607 thousand received from two Ukrainian banks

(2006: UAH 79,715 thousand from three Ukrainian banks). The amount was received under normal banking terms and conditions.

As at 31 December 2007, loans and deposits due to other banks include UAH 24,709 thousand granted by Kreditanstalt fur Wiederaufbau ("KfW") under loan agreements for financing small and medium sized enterprises in Ukraine (2006: UAH 44,262 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 2007, loans and deposits due to other banks include UAH 2,083,869 thousand received from OECD banks under trade and export financing agreements (2006: UAH 1,925,252 thousand) and UAH 124,615 thousand received from other foreign banks under trade and export financing agreements (2006: UAH 339,349 thousand). These loans are denominated in US dollars, euro, Swiss frank, Japanese yeans and bear fixed and floating interest rates and are matched in maturity with loans to customers issued under these trade and export financing programmes.

As at 31 December 2007, included in loans and time deposits due to other bank is a loan of UAH 100,044 thousand due to one Ukrainian bank, which was secured by Ukrainian State Bonds with a carrying value of UAH 100,092 thousand (Note 9).

Loans due to international financial organisations include loans from the International Bank for Reconstruction and Development (the "IBRD") under the Export Development Project of UAH 182,058 thousand (2006: UAH 208,870 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% with reprising twice a year and have a current interest rate of LIBOR+0.15% and mature in 2013. This debt is subject to various covenants and restrictions as described in Note 21.

As at 31 December 2007, loans due to international financial organisations include loans from the International Bank for Reconstruction and Development (the "IBRD") under the Export Development Project-2 of UAH 77,447 thousand (total amount of this loan facility is USD 154,500 thousand). Proceeds from this loan are used to provide medium and long term financing for eligible Ukrainian borrowers and distributed through eligible Ukrainian commercial banks. This loan is denominated in US dollars, have a coupon interest rate of LIBOR+0.75% with reprising twice a year and have a current interest rate of LIBOR+0.4%mature in 2026.

Loans due to international financial organisations include loans from Cargill Financial Services Inc. of UAH 1,012,196 thousand (2006: UAH 375,510 thousand). Proceeds from these loans are used to provide financing to specified borrowers. The loans are denominated in US dollars and Swiss franks, bear fixed interest from 7.45% to 8.15% (for loans denominated in US dollars) and 4.7% (for loans denominated in Swiss franks) and mature in 2008.

Loans due to international financial organisations include loans from Minnetonka Insurance Company, USA of UAH 241,594 thousand (2006: UAH 436,075 thousand). Proceeds from these loans are used to provide financing to certain borrowers. The loans are denominated in US dollars, bear fixed interest rate of 7.45% and mature in 2008.

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16. Amounts due to customers

Amounts due to customers comprise:

	2007	*2006*
Current accounts		
- Budget funds	345,813	151,221
- Legal entities	2,247,337	2,026,849
- Individuals	602,539	469,803
- Due to funds under the Bank's management (see below)	11,858	1,157
	3,207,547	**2,649,030**
Time deposits		
- Budget funds	78,519	2,100
- Legal entities	2,634,033	1,493,306
- Individuals	4,674,803	2,545,083
	7,387,355	**4,040,489**
Due to customers	**10,594,902**	**6,689,519**
Held as security against letters of credit	58,294	444,573
Held as security against guarantees and avals	184,900	84,202

As at 31 December 2007, current accounts due to legal entities of UAH 490,929 thousand (21.8% of current accounts due to legal entities) were due to the ten largest clients (2006: UAH 268,509 thousand (13.2%)).

As at 31 December 2007, time deposits due to legal entities include UAH 967,789 thousand attracted from five customers (2006: UAH 618,541 thousand from five customers).

In accordance with the Ukrainian legislation, the Bank is obliged to repay deposits due to individuals upon demand of a depositor. In case a term deposit is repaid upon demand of the depositor prior to maturity, interest on it is paid based on the interest rate for demand deposits, unless a different interest rate is specified in the agreement.

Funds under the Bank's management

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

	2007	*2006*
At 1 January	**1,157**	**-**
Funds attracted from individuals	43,114	11,428
Invested funds	(32,413)	(10,271)
At 31 December	**11,858**	**1,157**

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An analysis of customer accounts by economic sector follows:

	2007	*%*	*2006*	%
Individuals	5,277,342	49.8	3,014,885	45.1
Trade enterprises	790,817	7.4	975,248	14.6
Transport & communications	716,222	6.7	228,770	3.4
Finance	612,124	5.8	269,723	4.0
Real estate	569,927	5.4	385,026	5.8
Engineering	568,444	5.4	319,384	4.8
Budget	424,332	4.0	153,321	2.3
Construction	331,658	3.1	250,691	3.7
Non-residents	242,219	2.3	456,473	6.8
Agriculture and food processing	154,222	1.5	92,753	1.4
Power utilities	127,030	1.2	4,850	0.1
Chemistry	94,254	0.9	41,641	0.6
Extractive industry	92,208	0.9	117,095	1.8
Production of construction materials	73,062	0.7	38,917	0.6
Pulp and paper industry	41,852	0.4	24,657	0.4
Light industry	27,407	0.3	26,441	0.4
Wood processing	26,167	0.2	21,146	0.3
Production of rubber and plastic goods	22,407	0.2	12,078	0.2
Metal processing	21,273	0.2	11,894	0.2
Metallurgy	16,452	0.2	40,119	0.6
Hotels and restaurant	9,230	0.1	9,553	0.1
Other	356,253	3.3	194,854	2.8
Amounts due to customers	**10,594,902**	**100**	**6,689,519**	**100**

17. Eurobonds issued

	2007		*2006*	
	Nominal value	***Carrying value***	***Nominal value***	***Carrying value***
September 2004 issue	757,500	759,973	757,500	757,466
February 2005 issue	505,000	523,109	505,000	522,694
October 2005 issue	1,262,500	1,276,316	1,262,500	1,275,156
September 2006 issue	1,767,500	1,804,295	1,767,500	1,803,268
November 2006 issue	757,500	781,805	757,500	769,655
Eurobonds issued		**5,145,498**		**5,128,239**

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 759,973 thousand as at 31 December 2007 (2006: UAH 757,466 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 523,109 thousand as at 31 December 2007 (2006: UAH 522,694 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 1,276,316 thousand as at 31 December 2007 (2006: UAH 1,275,156 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 1,804,295 thousand as at 31 December 2007 (2006: UAH 1,803,268 thousand). 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 2006, the Bank obtained a further loan amounting to USD 150,000 thousand (UAH 757,500 thousand) from Credit Suisse International (carrying value is UAH 781,805 thousand as at 31 December 2007 (2006: UAH 769,655 thousand). 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.

18. Debt securities issued

In December 2005, the Bank issued local bonds series A amounting to UAH 200,000 thousand (carrying value of UAH 200,576 thousand as at 31 December 2007 (2006: UAH 200,524 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 2007, bonds with a carrying value of UAH 200,576 thousand were due to one legal entity (2006: UAH 200,524 thousand).

In October 2006, the Bank issued local bonds series B amounting to UAH 300,000 thousand (carrying value of UAH 308,847 thousand as at 31 December 2007 (2006: UAH 305,208 thousand). 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 from 9 April 2007. As at 31 December 2007, bonds with a carrying value of UAH 213,423 thousand were due to two legal entities (2006: UAH 280,791 thousand).

Prior to the year end the Bank concluded a contract with a bond holder who owned bonds of "B" issue with a carrying value of UAH 24,378 thousand to buy back those bonds on 28 February 2008.

In June 2007, the Bank issued local bonds series C amounting to UAH 500,000 thousand (carrying value of UAH 501,735 thousand as at 31 December 2007). The bonds are denominated in hryvnia, bear interest at 9.75% p.a. and mature in June 2010. Interest payments are made semi-annually in arrears in June and December starting from 19 December 2007. As at 31 December 2007, bonds with a carrying value of UAH 501,735 thousand were due to two legal entities.

In June 2007, the Bank issued local bonds series D amounting to UAH 275,000 thousand (carrying value of UAH 275,935 thousand as at 31 December 2007). The bonds are denominated in hryvnia, bear interest at 9.55% p.a. and mature in June 2012. Interest payments are made semi-annually in arrears in June and December starting from 19 December 2007. Holders of these bonds have the right for early redemption, which is exercisable on 17 June 2009. As at 31 December 2007, bonds with carrying value of UAH 275,935 thousand were due to one legal entity.

19. 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 485,296 thousand as at 31 December 2007 (2006: UAH 484,456 thousand). This loan was funded by 8.40% loan participation notes issued by Credit Suisse International on a limited recourse basis 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 154,961 thousand as at 31 December 2007 (2006: UAH 151,679 thousand). 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.

(in thousands of Ukrainian hryvnia unless otherwise indicated)

20. Equity

As at 31 December 2007, the Bank's authorised issued share capital comprised 1,486,000 (2006: 918,417) ordinary shares, with a nominal value of UAH 1,000 per share. All shares have equal voting rights. As at 31 December 2007, all issued shares were fully paid and registered (2006: all shares were fully paid and registered).

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

The movements in share capital were as follows:

	Number of shares	*Nominal amount, UAH'000*	*Restated cost, UAH'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**
Shares issued	567,583	567,583	567,583
31 December 2007	**1,486,000**	**1,486,000**	**2,199,232**

In accordance with the Decision of the Cabinet of Ministers of Ukraine dated 14 February 2007, the Bank's share capital was increased by UAH 367,583 thousand through capitalisation of profits.

In accordance with the Decision of the Cabinet of Ministers of Ukraine dated 15 August 2007, the Bank's share capital was further increased by UAH 200,000 thousand through additional cash contribution.

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 2007, the Bank has distributable reserves amounting to UAH 501,724 thousand (2006: UAH 387,835 thousand). The amount of non-distributable reserves was UAH 575,709 thousand (2006: UAH 548,073 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.

21. 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.

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.

(in thousands of Ukrainian hryvnia unless otherwise indicated)

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.

Financial commitments and contingencies

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

	2007	*2006*
Letters of credit	974,364	1,001,792
Guarantees	934,149	427,478
Avals on promissory notes	107,083	88,621
Undrawn loan commitments	517,399	388,574
	2,532,995	**1,906,465**
Less – Provisions	(7,301)	(21,390)
Financial commitments and contingencies (before deducting collateral)	**2,525,694**	**1,885,075**
Less – Cash held as security against letters of credit, avals and guarantees	(243,194)	(528,775)
Financial commitments and contingencies	**2,282,500**	**1,356,300**

As at 31 December 2007, the Bank issued letters of credit amounting to UAH 458,089 thousand to four Ukrainian companies (2006: UAH 415,834 thousand of letters of credit to one Ukrainian company fully secured by a cash deposit). As at 31 December 2007, the Bank issued guarantees amounting to UAH 632,134 thousand in favour of four Ukrainian companies that are partially secured by a cash deposit amounting to UAH 64,872 thousand (2006: UAH 235,331 thousand in favour of four Ukrainian companies secured by a cash deposit of UAH 42,925 thousand).

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.

(in thousands of Ukrainian hryvnia unless otherwise indicated)

22. Fees and commissions, net

Fees and commissions comprise:

	2007	*2006*
Fee and commission income		
Cash and settlement operations	150,564	119,466
Currency conversion	91,258	76,715
Operations with banks	24,678	15,388
Off-balance sheet operations	57,404	22,935
Credit servicing commission	7,412	6,254
Other	4,966	2,712
	336,282	**243,470**
Fee and commission expenses		
Cash and settlement operations	(28,539)	(19,461)
Currency conversion	(1,291)	(1,051)
Other	(3,541)	(1,013)
	(33,371)	**(21,525)**
Fees and commissions, net	**302,911**	**221,945**

23. Personnel and other administrative and operating expenses

Personnel and other administrative and operating expenses comprise:

	2007	*2006*
Salaries and bonuses	335,712	272,971
Employment taxes	72,441	49,627
Personnel expenses	**408,153**	**322,598**
Repair and maintenance expenses	20,166	15,932
Pledged assets written off	17,111	-
Expenses related to deposit insurance fund	16,472	9,633
Occupancy and rent	13,361	8,391
Sundry expenses	10,088	8,579
Marketing and advertising	9,035	10,096
EDP costs	7,834	6,916
Security	7,756	5,207
Legal and consultancy	7,059	2,752
Charity	6,176	6,828
Expenses for cash collection	5,555	4,444
Business travel and related expenses	5,156	4,399
Communications	4,449	3,841
Operating taxes	2,614	3,952
Expenses related to representative offices	2,086	1,522
Other	8,125	4,411
Other administrative and operating expenses	**143,043**	**96,903**

24. Risk management

Introduction

Risk is inherent in the Bank's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Bank's continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities. The Bank is exposed to credit risk, liquidity risk and market risk (market risk is subdivided into interest rate risk, currency risk and trading book market risk), operational risks as well as strategic and reputation risk.

The Bank adheres to the following key risk management principles:

- centralisation of liquidity, interest and currency risk management at the Head Office level;
- unification of: analysis and monitoring procedures for credit projects, assessment of the customer's creditworthiness and credit rating and rules for creating allowance for loan impairment across all branches of the Bank;
- clear definition of the roles of all participants in the risk management process and the interrelations among those participants;
- definition of risk limits: for transaction volumes by Branch or Bank Officer, limits on exposures to single borrowers, limits on exposures to related parties, credit portfolio concentration limits (by industry, counterparty groups, separate transactions/ balance sheet items, etc.);
- ensuring continuous risk monitoring and control and compliance with all established limits;
- avoidance of conflicts of interest;
- ensuring internal control over compliance with policies and procedures.

The risk management process includes four stages: identification of risk, its sources and risk areas; estimation of the level of risk; minimisation of risk or limitation of risk at an acceptable levels; on-going monitoring of positions at risk.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the Bank's strategic planning process.

Risk management structure

Board of Directors is ultimately responsible for identifying and controlling risks; however, there are separate independent bodies responsible for managing and monitoring risks. The following bodies are responsible for the risk management process at the Bank: Management Board, Assets and Liabilities Committee ("ALCO"), Credit Committee, Retail Business Committee, Treasury Division, Securities Division, Risk Management Division, Audit and Revision Division. Management Board approves the Bank's risk management policy for the next year on an annual basis.

Board of Directors

Board of Directors is responsible for the overall risk management approach and for approving the risk strategies and principles.

Management Board

Management Board has the overall responsibility for the development of the risk strategy and implementing principles, frameworks, policies and limits within the Bank. It is responsible for managing the fundamental risk issues and monitors relevant risk decisions based on quarterly reports of Risk Management Division, ALCO, Credit Committee and Retail Business Committee.

Assets and Liabilities Committee

ALCO has the overall responsibility for the implementing principles, frameworks, policies and limits regarding liquidity and market risks within the Bank and ensuring that liquidity and market risks are within the specified ranges approved by Management Board. ALCO reports to Management Board.

Credit Committee and Retail Business Committee

Credit Committee and Retail Business Committee have the overall responsibility for the implementing principles, frameworks, policies and limits regarding credit risk within the Bank and ensuring that credit risk indicators are within the specified ranges approved by Management Board. These Committees report to Management Board.

Treasury and Securities Divisions

Treasury is responsible for the management of the Bank's liquidity position via money market operations, while Securities Division is responsible for the management of the Bank's liquidity position via capital market operations. Treasury Division and Securities Division are reporting to the Management Board.

Risk Management Division

Risk Management Division is responsible for control, monitoring, analysis and reporting of key risk indicators of the Bank. In addition, Risk Management Division elaborates and supervises implementation of risk management methodologies, norms and procedures, estimates the risk of all banking products and structured transactions. Risk Management Division reports to Management Board.

Audit and Inspection Division

The risk management processes are audited on regular basis by Audit and Inspection Division, which examines both the adequacy of procedures and the Bank's compliance with those procedures. Audit findings, conclusions and recommendations are submitted to Risk Management Division, Management Board and Board of Directors.

Risk measurement and risk reporting systems

The Bank's risks are measured using a method which reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment. The Bank also runs worse case scenarios that would arise in the event that extreme events which are unlikely to occur do, in fact, occur. The Bank carries out back-testing of the models and checks their adequacy.

Monitoring and controlling risks is primarily performed based on limits established by the Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept, with additional emphasis on selected industries. In addition, the Bank monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risks types and activities.

Information regarding the balance-sheet structure, capital adequacy, compliance with limits and indicators established by ALCO, and covenants under contractual obligations is submitted to ALCO on a monthly basis. Management Board receives a comprehensive risk report once a quarter which is designed to provide all the necessary information to assess and conclude on the risks of the Bank.

For all levels of the Bank's management, various risk reports are prepared in order to provide access to all of the Bank's units to comprehensive, relevant and up-to-date information.

Risk Mitigation

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

The Bank actively uses collateral to reduce its credit risks (see below for more detail).

Excessive risk concentrations

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location.

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

Credit risk

Credit risk is the risk that the Bank will incur a loss because its customers, clients or counterparties failed to discharge their contractual obligations. It is the primary risk to which the Bank is exposed.

The Bank manages and controls credit risk based on the following principles:
- unification of procedures and technologies for performing asset transactions;
- separate management of individual and portfolio credit risks;
- classification of assets and customers (counterparties) into risk groups with the relevant credit risk provisioning rules applicable;
- limitation of credit risk by setting concentration limits for single borrowers or groups of related borrowers and loan portfolio concentration limits by industry, or groups of counterparties, etc.;
- development and maintenance of an adequate monitoring and control system;
- creation of adequate allowance for impairment on assets where the loss event has occurred;
- maintaining regulatory capital at the level adequate to cover unexpected losses from credit risk.

The Bank has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision. The credit quality review process allows the Bank to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

Individual credit risk

Individual credit risk is a risk which can be attributed to a particular transaction or counterparty.

Individual credit risk is managed through: loan and customer (or counterparty) classification via the system of internal credit ratings determined on the basis of the customer's (counterparties') creditworthiness and an evaluation of their loan repayment quality; evaluation and monitoring of collateral value and liquidity; setting credit risk limits and monitoring compliance with the limits; creation of adequate allowance for asset's impairment.

The Bank's lending policy determines the type of collateral required for a particular transaction, industry or customer. The primary types of collateral include: guarantees of primary banks, deposits with the Bank, real estate property and pledges of equipment or vehicles. The Bank requires obligatory insurance of collateral to be provided by the customer.

In order to limit individual credit risk, the Bank sets the following limits: maximum volume of credit transactions (loans, securities, receivables) per single counterparty (or group of related counterparties), including off-balance sheet obligations; maximum volume of credit transactions (loans, securities, receivables) for one insider, including off-balance sheet obligations.

Portfolio credit risk

Portfolio credit risk is the risk typical for a group of credit transactions (loans, securities, receivables) and group of counterparties with similar credit characteristics.

Portfolio credit risk management is exercised through: industry classification on the basis of an internal system of industry ratings, which characterises the systematic risk of the industry; monitoring of the credit portfolio structure (by category of customers, industries and credit ratings of customers and loans); establishment of concentration limits and appropriate monitoring and control thereof; diversification of credit portfolio (both by industry and customer category).

Diversification of credit portfolio (both by industry and customer category) is provided through establishment of the following limits: by industry; by maximum total volume of "large" loans (which constitute 10% or more of the regulatory capital of the Bank as to each counterparty or group of related counterparties); by maximum total volume of loans to insiders; by credit portfolio concentration per category of customers; by total indebtedness of 5 largest customers; by total indebtedness of 10 largest customers; by total indebtedness of 20 largest customers.

Moreover, the Bank establishes limits on the quality of credit portfolio in general, including limits on share of overdue and doubtful loans to total credit portfolio.

(in thousands of Ukrainian hryvnia unless otherwise indicated)

The Bank establishes internal credit risk related limits in a way that ensures compliance with the NBU credit risk management requirements.

Credit-related commitments risks

The Bank makes available to its customers guarantees which may require that the Bank make payments on their behalf. Such payments are collected from customers based on the terms of the letter of credit. They expose the Bank to similar risks to loans and these are mitigated by the same control processes and policies.

The table below shows the maximum exposure to credit risk for the components of the balance sheet. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting and collateral agreements and after deducting any allowance for impairment.

	Notes	***Maximum exposure 2007***	***Maximum exposure 2006***
Cash and cash equivalents (excluding cash on hand)	6	2,949,785	2,679,885
Amounts due from credit institutions	7	279,139	97,049
Loans to customers	8	21,781,631	13,462,902
Investment securities	9	1,853,103	871,846
Other assets	14	121,368	60,678
		26,985,026	**17,172,360**
Financial commitments and contingencies	21	2,525,694	1,885,075
Total credit risk exposure		**29,510,720**	**19,057,435**

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

For more detail on the maximum exposure to credit risk for each class of financial instrument, references shall be made to the specific notes.

Credit quality per class of financial assets

		Neither past due nor impaired				
	Notes	***High grade 2007***	***Standard grade 2007***	***Sub-standard grade 2007***	***Past due or individually impaired 2007***	***Total 2007***
Amounts due from foreign credit institutions	7	9,533	-	-	-	9,533
Amounts due from Ukrainian credit institutions	7	178,257	81,249	10,100	-	269,606
Investment securities:	9					
Held-to-maturity		335,151	-	172,874	-	508,025
Loans to corporate customers:	8					
Loans		10,293,859	7,056,988	2,485,670	798,621	20,635,138
Overdrafts		537,386	75,066	-	-	612,452
Finance lease receivables		21,659	157,248	4,017	-	182,924
Promissory notes		39,651	23,508	-	-	63,159
		10,892,555	7,312,810	2,489,687	798,621	21,493,673
Loans to individuals	8	407,215	575,232	12,747	25,732	1,020,926
Total		**11,822,711**	**7,969,291**	**2,685,408**	**824,353**	**23,301,763**

(in thousands of Ukrainian hryvnia unless otherwise indicated)

	Notes	Neither past due nor impaired: High grade 2006	Neither past due nor impaired: Standard grade 2006	Neither past due nor impaired: Sub-standard grade 2006	Past due or individually impaired 2006	Total 2006
Amounts due from foreign credit institutions	7	9,435	3,551	-	-	12,986
Amounts due from Ukrainian credit institutions	7	-	48,300	35,763	-	84,063
Investment securities:	9					
Held-to-maturity		218,940	3,085	5,199	-	227,224
Loans to corporate customers:	8					
Loans		7,910,115	3,599,816	1,319,772	450,091	13,279,794
Overdrafts		208,063	79,378	222	-	287,663
Finance lease receivables		1,942	25,789	1,362	-	29,093
Promissory notes		3,189	8,145	2,261	1,330	14,925
		8,123,309	3,713,128	1,323,617	451,421	13,611,475
Loans to individuals	8	177,262	197,444	7,806	5,104	387,616
Total		**8,528,946**	**3,965,508**	**1,372,385**	**456,525**	**14,323,364**

An analysis of past due loans, by age, is provided below. The majority of the past due loans are not considered impaired.

The following table shows the principle according to which the credit quality grades were assigned to financial assets in the table above.

	Rating system	Rating values: High grade	Rating values: Standard grade	Rating values: Sub-standard grade
Amounts due from foreign credit institutions	Fitch rating system	AAA, AA+, AA, AA-, A+, A, BBB+, BBB, BBB-	BB+, BB, BB-, B+, B, B-	CCC+, CCC, CCC-, CC, C
Amounts due from Ukrainian credit institutions	The NBU's classification system for credit institutions	A	B	C, D, E
Loans to corporate customers Investment securities	Internal rating system for corporate customers	1,2	3	4,5,6,7
Loans to individual customers	The NBU's classification system for individual customers	A	B	C, D, E

Investment securities held-to-maturity includes Ukrainian state bonds and the NBU deposit certificates, which are assumed to have the highest credit rating in terms of internal rating system for corporate customers (as the highest rating of any state resident is the state rating).

(in thousands of Ukrainian hryvnia unless otherwise indicated)

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

	Less than 30 days 2007	***31 to 60 days 2007***	***More than 61 days 2007***	***Total 2007***
Loans to customers				
Loans to customers	20,158	4,445	1,303	25,906
Overdrafts	1	-	-	1
Total	**20,159**	**4,445**	**1,303**	**25,907**

	Less than 30 days 2006	***31 to 60 days 2006***	***More than 61 days 2006***	***Total 2006***
Loans to customers				
Loans to customers	2,840	10,310	30	13,180
Total	**2,840**	**10,310**	**30**	**13,180**

See Note 8 for more detailed information with respect to the allowance for impairment of loans to customers.

Carrying amount per class of financial assets whose terms have been renegotiated

The table below shows the carrying amount for renegotiated financial assets, by class.

	2007	***2006***
Loans to customers:		
Loans	1,928,238	1,082,023
Overdrafts	12,181	49
Finance lease receivables	3,044	-
Total	**1,943,463**	**1,082,072**

Impairment assessment

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

Individually assessed allowances

The Bank determines, on an individual basis, the appropriate allowances for the following loans:
- for individually significant loans, if there is any objective evidence of impairment and;
- for individually insignificant loans, if there is strong objective evidence of impairment;

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

Collectively assessed allowances

Allowances are assessed collectively on the following loans:
- for individually insignificant loans (including credit cards, residential mortgages and unsecured consumer lending), for which there is no strong objective evidence of impairment;
- for individually significant loans, which do not have any objective evidence of impairment, and
- for loans, which were determined not to be impaired after performing the test for impairment.

(in thousands of Ukrainian hryvnia unless otherwise indicated)

Allowances are evaluated on each reporting date with each portfolio receiving a separate review.

Impairment losses are estimated by taking into consideration of the following information: historical losses on the portfolio, current economic conditions, the appropriate delay between the time a loss is likely to have been uncured and the time it will be identified as requiring an individually assessed impairment allowance, and expected receipts and recoveries once impaired. Local management is responsible for deciding the length of this period which can extend for as long as one year. The impairment allowance is then reviewed by credit management to ensure alignment with the Bank's overall policy.

Pricing

For transactions exposed to credit risk, the prices are set taking into account the expected and unexpected losses of these transactions. The loan interest rates are determined in such a way that the amount of interest income generated by them is enough to cover the cost of funds and the expected losses under these loans and also to provide the target amount of return on capital required to cover the unexpected losses under these loans.

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

	2007			
	Ukraine	***OECD countries***	***CIS and other non-OECD countries***	***Total***
Assets:				
Cash and cash equivalents	1,381,821	1,915,731	162,552	3,460,104
Due from credit institutions	269,606	4,398	5,135	279,139
Loans to customers	21,771,429	1,612	8,590	21,781,631
Investment securities:				
- designated at fair value through profit or loss	1,342,737	-	-	1,342,737
- available-for-sale	2,341	-	-	2,341
- held-to-maturity	508,025	-	-	508,025
Other assets (monetary)	43,043	-	-	43,043
	25,319,002	**1,921,741**	**176,277**	**27,417,020**
Liabilities:				
Due to credit institutions	564,699	7,188,484	389,801	8,142,984
Due to customers	10,285,890	218,876	90,136	10,594,902
Eurobonds issued		5,145,498	-	5,145,498
Bonds issued	198,372	978,247	110,474	1,287,093
Subordinated debt	-	640,257	-	640,257
Other liabilities (monetary)	26,107	438	3	26,548
	11,075,068	**14,171,800**	**590,414**	**25,837,282**
Net balance sheet position	**14,243,934**	**(12,250,059)**	**(414,137)**	**1,579,738**
Net off balance sheet position – financial commitments and contingencies (Note 21)	**2,281,616**	**505**	**379**	**2,282,500**

(in thousands of Ukrainian hryvnia unless otherwise indicated)

	2006 Ukraine	OECD countries	CIS and other non-OECD countries	Total
Assets:				
Cash and cash equivalents	784,574	2,107,737	51,633	2,943,944
Due from credit institutions	84,062	6,057	6,930	97,049
Loans to customers	13,458,620	494	3,788	13,462,902
Investment securities:	-	-	-	-
- designated at fair value through profit or loss	642,377	-	-	642,377
- available-for-sale	2,245	-	-	2,245
- held to maturity	227,224	-	-	227,224
Other assets (monetary)	28,176	27	-	28,203
	15,227,278	**2,114,315**	**62,351**	**17,403,944**
Liabilities:				
Due to credit institutions	189,887	2,979,723	340,139	3,509,749
Due to customers	6,182,560	411,372	95,587	6,689,519
Eurobonds issued	-	5,128,239	-	5,128,239
Bonds issued	126,153	200,523	179,056	505,732
Subordinated debt	-	636,135	-	636,135
Other liabilities (monetary)	18,204	205	3	18,412
	6,516,804	**9,356,197**	**614,785**	**16,487,786**
Net balance sheet position	**8,710,474**	**(7,241,882)**	**(552,434)**	**916,158**
Net off balance sheet position – financial commitments and contingencies (Note 21)	**1,354,304**	**1,996**	**-**	**1,356,300**

Liquidity risk and funding management

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations associated with its financial liabilities. To limit this risk, management has arranged diversified funding sources in addition to its core deposit base, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

The main liquidity risk factor is represented by the maturity gap in the assets and liabilities of the Bank.

The main principles of liquidity risk management are as follows:

- centralisation of liquidity risk management at the Head Office level;
- separate management of short-term and structural liquidity;
- diversification of funding sources;
- limitation of liquidity risk through establishment of limits;
- matching of assets and liabilities in terms of maturity;
- maintenance of an adequate liquidity buffer in the event of a liquidity deficit;
- adequate monitoring and control system.

In order to evaluate liquidity risk the Bank uses gap analysis, ratio analysis, scenario analysis (including stress-testing) and borrowed funds structure analysis. Liquidity risk is evaluated with respect to each currency.

Assets and Liabilities Committee is generally responsible for development of the liquidity risk management strategy. Operational short-term liquidity (up to 90 days) risk management is exercised by Treasury Division and Securities Division, ensuring compliance with short-term liquidity risk limits. The structural liquidity management decisions are taken by ALCO on the basis of the information prepared by Risk Management Division.

Short-term liquidity risk management

In order to evaluate short-term liquidity risk a gap analysis is prepared daily with respect to contractual maturity and currency. For maturities up to 14 days – a detailed daily payment schedule is used to determine a daily demand for additional financing; maturities greater than 14 days up to 90 days are grouped into several time categories (time buckets) for liquidity management purposes.

The Bank maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. The Bank considers the following assets to be liquid: cash on hand, correspondent accounts with the NBU and other banks and securities refinanced by the NBU. The adequate volume of liquid assets is determined based on the stress-testing. Furthermore, the Bank has entered into facility agreements with several banks, which it may use in order to satisfy an unexpected demand for funds. In addition, the Bank maintains a cash deposit (obligatory reserve) with the NBU, the amount of which depends on the level of customer funds attracted.

In order to restrict short-term liquidity risk, the following ratios have been established for the Bank on a stand-alone basis:

- instant liquidity ratio, which is computed under the algorithm established by the NBU for N4 ratio (vault cash and balances on nostro accounts with banks/ balances on customers' current accounts);
- current liquidity ratio, which is computed under the algorithm established by the NBU for N5 ratio (vault cash, balances on nostro accounts with banks, banking metals, claims on banks maturing within with residual maturity of up to 31 days, bills and bonds with residual maturity of up to 31 days / balances on customers' current accounts, term deposits, debt obligations and commitments with residual maturity of up to 31 days);
- short-term liquidity ratio limit which is computed under the algorithm established by the NBU for N6 ratio (vault cash, balances on nostro accounts with banks, banking metals, claims on banks with residual maturity of up to 1 year, bills and bonds with residual maturity of up to 1 year / balances on customers' current accounts, term deposits, debt obligations and commitments with residual maturity of up to 1 year).

Structural liquidity risk management

In order to evaluate structural liquidity risk, a gap analysis of assets and liabilities is prepared on a daily basis with respect to contractual maturity (greater than 91 days) and currency.

The Bank has set the following ratios in order to measure and limit its structural liquidity risk:

- ratio of term liabilities to total liabilities;
- ratio of amounts due to other credit institutions to total liabilities;
- ratio of the cumulative gap between monetary assets and liabilities to monetary assets.

Scenario analysis in liquidity risk management

The Bank regularly monitors the liquidity of the money market. 3 scenarios are analysed: usual market conditions; liquidity crisis of the Bank; liquidity crisis in the market. In the latter case, the Bank implements a preliminary developed action plan for maintaining liquidity under crisis conditions.

Additionally, the Bank develops stress-testing scenarios, which reflect unlikely but material adverse changes of factors affecting the business of the Bank.

The diversified structure of the Bank's obligations is achieved through permanent monitoring of the liabilities portfolio concentration by category of customers with the largest amounts of funds with the Bank (the total amount of funds due to the 5, 10 and 20 largest customers).

Assessment of the liquidity position

The adherence to the internal limits set by the Bank is in line with the liquidity risk standards established by the National Bank of Ukraine. The liquidity position is assessed and managed by the Bank primarily on a standalone basis, based on certain liquidity ratios established by the NBU as described in Short-term liquidity risk management section above.

(in thousands of Ukrainian hryvnia unless otherwise indicated)

As at 31 December, the liquidity position, assessed by certain liquidity ratios established by the NBU, was as follows:

	2007, %	*2006, %*
N4 "Instant Liquidity Ratio" (vault cash and balances on nostro accounts with banks / balances on customers' current accounts) (minimum required by the NBU – 20%)	108.43	98.57
N5 "Current Liquidity Ratio" (vault cash, balances on nostro accounts with banks, banking metals, claims on banks maturing within with residual maturity of up to 31 days, bills and bonds with residual maturity of up to 31 days/ balances on customers' current accounts, term deposits, debt obligations and commitments with residual maturity of up to 31 days) (minimum required by the NBU – 40%)	100.00	84.22
N6 "Short-Term Liquidity Ratio" (vault cash, balances on nostro accounts with banks, banking metals, claims on banks with residual maturity of up to 1 year, bills and bonds with residual maturity of up to 1 year / balances on customers' current accounts, term deposits, debt obligations and commitments with residual maturity of up to 1 year) (minimum required by the NBU – 20%)	38.25	26.60

The value of N4 ratio is given as at 31 December 2006 and 2007; the values of N5 and N6 ratios are given as at the nearest reporting date – 11 January of the respective year.

Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Bank's financial liabilities at 31 December based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay and the table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

Financial liabilities As at 31 December 2007	***Less than 3 months***	***3 to 12 months***	***1 to 5 years***	***Over 5 years***	***Total***
Amounts due to credit institutions	1,866,660	4,136,849	2,056,930	1,043,952	9,104,391
Amounts due to customers	5,718,617	4,506,520	792,691	38,224	11,056,052
Eurobonds issued	146,502	232,447	6,072,445	-	6,451,394
Bonds issued	29,235	318,188	1,166,359	-	1,513,782
Subordinated debt	26,513	26,588	212,100	816,838	1,082,039
Other liabilities	26,548	-	-	-	26,548
Total undiscounted financial liabilities	**7,814,075**	**9,220,592**	**10,300,525**	**1,899,014**	**29,234,206**

Financial liabilities As at 31 December 2006	***Less than 3 months***	***3 to 12 months***	***1 to 5 years***	***Over 5 years***	***Total***
Amounts due to credit institutions	831,854	1,342,240	1,357,954	367,846	3,899,894
Amounts due to customers	4,054,896	2,528,058	381,599	1,471	6,966,024
Eurobonds issued	133,611	232,473	5,103,044	1,348,350	6,817,478
Bonds issued	4,762	345,513	219,048	-	569,323
Subordinated debt	23,432	26,741	212,176	869,863	1,132,212
Other liabilities	18,412	-	-	-	18,412
Total undiscounted financial liabilities	**5,066,967**	**4,475,025**	**7,273,821**	**2,587,530**	**19,403,343**

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

	Less than 3 months	***3 to 12 months***	***1 to 5 years***	***Over 5 years***	***Total***
2007	857,500	1,212,135	401,780	61,580	2,532,995
2006	636,992	860,008	365,489	43,976	1,906,465

The Bank expects that not all of the contingent liabilities or commitments will be drawn before expiry of the commitments.

(in thousands of Ukrainian hryvnia unless otherwise indicated)

The funds due to customers include deposits of individuals that, according to the Law of Ukraine, the Bank is obliged to repay at the customer's first demand regardless of the contractual maturity (in such a case the customer will receive reduced interest income on the deposit). Refer to Note 16. However, under normal market conditions, the Bank does not expect significant pre-maturity withdrawal from the deposit accounts of individuals.

In order to limit liquidity risk arising from asymmetric prepayment options on the term assets and liabilities, the Bank incorporates in standard client agreements conditions that motivate customers not to use these options.

Market risk – Non-trading

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchanges and equity prices. The Bank classifies exposures to market risk into either trading or non-trading portfolios. The effect of market risk for the trading portfolio is not significant for the purposes of preparation these financial statements. Non-trading positions are managed and monitored using sensitivity analysis other than VaR model. The Bank has no significant concentration of market risk.

The main market risk management principles are:

- centralised market risk management at the level of the Head Office;
- maintaining an optimal proportion of net profit related to market risk and the level of market risk;
- adequate monitoring and control.

Interest rate risk

Interest rate risk arises from the possibility that changes in market interest rates will affect future cash flows or the fair values of financial instruments. In order to assess the interest rate risk the Bank performs gap analysis and sensitivity analysis. The interest rate risk is assessed by currency. The analysis of the interest rate gap of assets and liabilities generating interest income/expenses is performed by the time to repricing (or time to maturity – for fixed interest rate assets and liabilities) and by currency. The size of the gaps shows the exposure of the Bank to interest rate risk.

The sensitivity of the income statement is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities held at the reporting date.

The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Bank's income statement. The sensitivity of the income statement is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities held at the end of the reporting period. The sensitivity of floating rate loan portfolio income to the decrease in interest rates is limited by the interest rate floors that are set by the Bank as usual condition of a loan agreement.

Currency	*Base for interest rate*	*Increase in basis points 2007*	*Effect on profit before tax 2007*	*Decrease in basis points 2007*	*Effect on profit before tax 2007*
UAH	Libor	+75	62	-75	(62)
	Euribor	+75	116	-75	(116)
	NBU	+100	17,472	-100	(4,842)
UAH Total			**17,650**		**(5,020)**
USD	Libor	+75	28,452	-75	16,954
EUR	Euribor	+75	5,762	-75	(3,164)
Other	Libor	+75	470	-75	1,109
Total			**52,334**		**9,879**

(in thousands of Ukrainian hryvnia unless otherwise indicated)

Currency	Base for interest rate	Increase in basis points 2006	Effect on profit before tax 2006	Decrease in basis points 2006	Effect on profit before tax 2006
UAH	Libor	+50	24	-50	(24)
	Euribor	+50	103	-50	(103)
	NBU	+100	26,435	-100	(6,516)
UAH Total			**26,562**		**(6,643)**
USD	Libor	+50	24,442	-50	(5,593)
EUR	Euribor	+50	3,736	-50	(526)
Other	Libor	+50	(136)	-50	1,013
Total			**54,604**		**(11,749)**

The Bank sets the following limits for the interest rate risk:

- total gap of assets and liabilities generating interest income and expenses to assets ratio by time to repricing;
- limits of the sensitivity of net interest income to a one hundred basis points change in interest rates.

In the absence of hedging instruments, the Bank strives to match maturities and rollover conditions of assets and liabilities. The Bank performs both fixed and floating interest rate transactions. The Bank lends floating rate borrowers funds at floating interest rates with respective repayment and rollover (direct funding) terms and conditions. When direct funding is impractical, the Bank extends loans at floating interest rates with fixed floors.
In order to limit interest rate risk caused by gaps in early repayment terms of assets and liabilities, the Bank includes provisions in the standard agreements, which create a disincentive for customers to make use of early repayment terms.

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Decisions regarding currency risk management are made by Assets and Liabilities Committee on the basis of information prepared by Risk Management Division. Management Board set limits on positions by currency based on the NBU regulations. Positions are monitored on a daily basis.

The tables below indicate the currencies to which the Bank had significant exposure at 31 December 2007 on its non-trading monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against the hryvnia, with all other variables held constant on the consolidated income statement (due to the fair value of currency sensitive non-trading monetary assets and liabilities). The effect on equity does not differ from the effect on the consolidated income statement. A negative amount in the table reflects a potential net reduction in the consolidated income statement while a positive amount reflects a net potential increase.

Currency	Increase/(decrease) in currency rate 2007	Effect on profit before tax 2007	Increase/(decrease) in currency rate 2006	Effect on profit before tax 2006
USD/UAH	3.10%	12,188	3.00%	43
EUR/UAH	10.10%	(9,391)	10.30%	10
Total		**2,797**		**53**
USD/UAH	-2.80%	(11,009)	-2.80%	(40)
EUR/UAH	-8.40%	7,811	-8.50%	(9)
Total		**(3,198)**		**(49)**

The Bank has established the following limits to minimise its exposure to currency risk:

- total open currency position;
- total long open currency position;
- total short open currency position;
- maximum possible loss (with a probability of 99%) over a 1-day time period on total open currency position.

(in thousands of Ukrainian hryvnia unless otherwise indicated)

Compliance with the internal limits of the Bank is in line with the currency risk management requirements established by the NBU.

Operational risk

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

25. Fair values of financial instruments

Set out below is a comparison by class of the carrying amounts and fair values of the Bank's financial instruments that are carried in the financial statements. The table does not include the fair values of non-financial assets and non-financial liabilities.

	Carrying value 2007	*Fair value 2007*	*Unrecognised gain/(loss) 2007*	*Carrying value 2006*	*Fair value 2006*	*Unrecognised gain/(loss) 2006*
Financial assets						
Cash and cash equivalents	3,460,104	3,460,104	-	2,943,944	2,943,944	-
Amounts due from credit institutions	279,139	279,139	-	97,049	97,049	-
Loans to customers	21,781,631	22,122,212	340,581	13,462,902	14,001,411	538,509
Investment securities:						
- designated at fair value through profit or loss	1,342,737	1,342,737		642,377	642,377	-
- available-for-sale	2,341	2,341	-	2,245	2,245	
- held-to-maturity	508,025	508,025	-	227,224	227,224	-
Other assets	43,043	43,043	-	28,203	28,203	-
Financial liabilities						
Amounts due to credit institutions	8,142,984	8,142,984	-	3,509,749	3,509,749	-
Amounts due to customers	10,594,902	10,497,212	97,690	6,689,519	6,617,448	72,071
Eurobonds issued	5,145,498	5,022,831	122,667	5,128,239	5,110,348	17,891
Debt securities issued	1,287,093	1,287,093	-	505,732	505,732	-
Subordinated debt	640,257	640,257	-	636,135	636,135	-
Other liabilities	65,042	65,042	-	39,474	39,474	-
Total unrecognised change in unrealised fair value			**560,938**			**628,471**

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the financial statements.

Assets for which fair value approximates carrying value

For financial assets and financial liabilities that are liquid or having a short term maturity (less than thee months) it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits, savings accounts without a specific maturity and variable rate financial instruments.

(in thousands of Ukrainian hryvnia unless otherwise indicated)

Fixed rate financial instruments

The fair value of fixed rate financial assets and liabilities carried at amortised cost are estimated by comparing market interest rates when they were first recognised with current market rates offered for similar financial instruments. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and maturity. For quoted debt issued the fair values are calculated based on quoted market prices. For those notes issued where quoted market prices are not available, a discounted cash flow model is used based on a current interest rate yield curve appropriate for the remaining term to maturity.

Financial instruments recorded at fair value

As at 31 December 2007, the Bank's investment securities designated at fair value through profit or loss of UAH 1,342,737 thousand (2006: UAH 642,377 thousand) were recorded at fair value based on quoted market prices.

26. Maturity analysis of financial assets and liabilities

The table below shows an analysis of financial assets and liabilities according to when they are expected to be recovered or settled. See Note 24 "Risk management" for the Bank's contractual undiscounted repayment obligations.

	2007			*2006*		
	Within one year	***More than one year***	***Total***	***Within one year***	***More than one year***	***Total***
Financial assets						
Cash and cash equivalents	3,460,104	-	3,460,104	2,943,944	-	2,943,944
Amounts due from credit institutions	208,238	70,901	279,139	92,858	4,191	97,049
Loans to customers	10,014,272	11,767,359	21,781,631	5,460,188	8,002,714	13,462,902
Investment securities:						
- designated at fair value through profit or loss	1,342,737	-	1,342,737	642,377	-	642,377
- available-for-sale	2,341		2,341	2,245	-	2,245
- held-to-maturity	316,016	192,009	508,025	192,608	34,616	227,224
Other assets	39,782	3,261	43,043	11,688	16,515	28,203
Total	**15,383,490**	**12,033,530**	**27,417,020**	**9,345,908**	**8,058,036**	**17,403,944**
Financial liabilities						
Amounts due to credit institutions	5,699,392	2,443,592	8,142,984	2,035,118	1,474,631	3,509,749
Amounts due to customers	9,863,963	730,939	10,594,902	6,363,568	325,951	6,689,519
Eurobonds issued	95,245	5,050,253	5,145,498	96,726	5,031,513	5,128,239
Debt securities issued	235,773	1,051,320	1,287,093	305,732	200,000	505,732
Subordinated debt	19,928	620,329	640,257	18,089	618,046	636,135
Other liabilities	56,963	8,079	65,042	23,090	16,384	39,474
Total	**15,971,264**	**9,904,512**	**25,875,776**	**8,842,323**	**7,666,525**	**16,508,848**
Net	**(587,774)**	**2,129,018**	**1,541,244**	**503,585**	**391,511**	**895,096**

The Bank has received significant funds from different credit and international financial institutions (Note 15 and 17). Any significant withdrawal of these funds would have an adverse impact on the operations of the Bank. Management believes that this level of funding will remain with the Bank for the foreseeable future and that in the event of withdrawal of funds, the Bank would be given sufficient notice so as to realise its liquid assets to enable repayment.

(in thousands of Ukrainian hryvnia unless otherwise indicated)

Long-term loans are generally not available in Ukraine, except for programmes set up by international financial institutions. However, in the Ukrainian marketplace, many short-term credits are granted with the expectation of renewing the loans at maturity. As such, the ultimate maturity of assets may be different from the analysis presented above. In addition, the maturity analysis does not reflect the historical stability of current accounts. Their liquidation has historically taken place over a longer period than indicated in the tables above. These balances are included in amounts due within one year in the tables above. While investment securities are shown as realisable within one year, realising such assets upon demand is dependent upon financial market conditions. Significant security positions may not be liquidated in a short period of time without adverse price effects.

Included in amounts due to customers are term deposits of individuals. In accordance with the Ukrainian legislation, the Bank is obliged to repay such deposits upon the demand of a depositor. Refer to Note 16.

27. Related party disclosures

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

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

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

	2007	*2006*
	State controlled entities	*State controlled entities*
Correspondent account with the NBU	**602,277**	**486,610**
Amounts due from credit institutions	**1**	**41**
State bonds designated at fair value through profit and loss	**755,808**	**210,964**
Held to maturity State bonds	314,763	98,526
Held to maturity NBU deposit certificates	-	100,030
Held to maturity other corporate bonds	193,263	20,384
Total held to maturity securities	**508,026**	**218,940**
Loans outstanding at 31 December, gross	1,863,028	1,263,948
Less: allowance for impairment at 31 December	(101,839)	(78,372)
Loans outstanding at 31 December, net	**1,761,189**	**1,185,576**
Other assets	**6,326**	**10,631**
Amounts due to credit institutions	**130,809**	**3,923**
Current accounts at 31 December	792,686	406,510
Time deposits as at 31 December	130,288	89,681
Amounts due to customers	**922,974**	**496,191**
Debt securities issued	**102,949**	**101,736**
Other liabilities	**13,358**	**10,801**
Provisions	**7,287**	**12,490**
Commitments and guarantees issued	**329,414**	**271,132**

(in thousands of Ukrainian hryvnia unless otherwise indicated)

	2007	*2006*
	State controlled entities	*State controlled entities*
Interest income on loans	185,695	150,970
Interest income on securities	40,087	27,830
Interest income on amounts due from NBU	149	222
Interest income on amounts due from credit institutions	52	49
Interest income	**225,983**	**179,071**
Interest expenses on amounts due to credit institutions	(6,235)	(15,004)
Interest expense on clients' deposits	(30,329)	(31,950)
Interest expenses on debt securities issued	(11,940)	(707)
Interest expenses on amounts due to the NBU	(2,144)	(2,622)
Interest expenses	**(50,648)**	**(50,283)**
Commission income	24,784	27,094
Commission expenses	(112)	(98)
Translation differences	17,625	4,273
Other operating income	1	154
Measurement of financial instruments	(3,100)	(12,937)
Other operating and administrative expenses	(258)	(175)

The aggregate remuneration and other benefits paid to eleven members of Management Board for 2007 is UAH 18,846 thousand (2006: UAH 14,610 thousand).

As at 31 December 2007, members of Management and Board of Directors have UAH 136 thousand (2006: UAH 3,763 thousand) of loans issued under normal terms and conditions.

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

28. Capital

The Bank maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Bank's capital is monitored using, among other measures, the ratios established by the Basel Capital Accord 1988 and the ratios established by the NBU in supervising the Bank.

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

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

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

(in thousands of Ukrainian hryvnia unless otherwise indicated)

NBU capital adequacy ratio

The NBU requires banks to maintain a capital adequacy ratio of 10% of risk-weighted assets, computed based on UAR. As at 31 December 2007 and 2006, the Bank's capital adequacy ratio on this basis was as follows:

	2007	2006
Main capital	1,561,965	974,311
Additional capital	1,561,965	968,383
Less: deductions from capital	(6,633)	(6,633)
Total capital	**3,117,297**	**1,936,061**
Risk weighted assets	**27,288,100**	**16,828,683**
Capital adequacy ratio	11.42%	11.50%

Regulatory capital comprises Tier 1 capital (Main capital) consisting of paid-in registered share capital, reserves less expected losses, and Tier 2 capital (Additional capital), consisting of credit risk provisions, asset revaluation provision, current result, qualifying subordinated debt, retained earnings. Tier 2 capital is limited to 100% of Tier 1 capital. Qualifying subordinated debt is limited to 50% of Tier 1 capital.

Capital adequacy ratio under Basel Capital Accord 1988

The Bank's capital adequacy ratio, computed in accordance with the Basel Capital Accord 1988, with subsequent amendments including the amendment to incorporate market risks, as at 31 December 2007 and 2006, comprised:

	2007	2006
Tier 1 capital	2,048,368	1,284,299
Tier 2 capital	1,081,496	1,088,592
Total capital	**3,129,864**	**2,372,891**
Risk weighted assets	**24,056,671**	**14,889,957**
Tier 1 capital ratio	8.51%	8.63%
Total capital ratio	13.01%	15.94%

29. Events after the balance sheet date

In February 2008, the Bank's Supervisory Board approved a decision to increase the share capital through capitalisation of profit for 2007 in the amount of UAH 476,635 thousand. This decision has been approved by the Cabinet of Ministers of Ukraine on 22 February 2008.

In March 2008, the Bank re-financed a syndicated term loan facility of USD 325,000 thousand received in April 2007. The amount of new Syndicated Term Loan Facility is USD 345,000 thousand with maturity in April 2009.