JOINT-STOCK COMMERCIAL BANK “PRAVEX-BANK”

Financial Statements
For the Year Ended 31 December 2007

JOINT-STOCK COMMERCIAL BANK “PRAVEX-BANK”

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JOINT-STOCK COMMERCIAL BANK "PRAVEX-BANK"

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

The following statement, which should be read in conjunction with the independent auditors' responsibilities stated in the independent auditors' report set out on pages 2-3 is made with a view to distinguish the respective responsibilities of management and those of the independent auditors in relation to the financial statements of Joint-Stock Commercial Bank "PRAVEX-BANK" (the "Bank").

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

In preparing the financial statements, management is responsible for:

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

Management is also responsible for:

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

The financial statements for the year ended 31 December 2007 were authorized for issue on 19 April 2008 by the Management Board.

On behalf of the Management Board:

Natalia Zubritskaya	Olga Kibets
Chairman of the Management Board	Chief Accountant
19 April 2007	19 April 2007
Kyiv	Kyiv

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INDEPENDENT AUDITORS' REPORT

To the Shareholders and the Management Board of Joint-Stock Commercial Bank "PRAVEX-BANK":

We have audited the accompanying financial statements of Joint-Stock Commercial Bank "PRAVEX-BANK" (the "Bank") which comprise the balance sheet as at 31 December 2007 and the statements of income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Bank'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 Bank'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.

Basis for Qualified Opinion

We were unable to obtain sufficient audit evidence in respect of rent expenses and interest expense on subordinated debt related to operations with Byrass Consultants Limited. We also were not able to satisfy ourselves as to these amounts by other audit procedures.

Qualified Opinion

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to obtain sufficient audit evidence regarding matters described in preceding paragraph, the financial statements present fairly, in all material respects the financial position of the Bank as at 31 December 2007, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Deloitte & Touche

19 April 2008

JOINT-STOCK COMMERCIAL BANK "PRAVEX-BANK"

INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2007
(in US dollars and in thousands)

	Notes	Year ended 31 December 2007	Year ended 31 December 2006
Interest income	4, 27	141,289	80,490
Interest expense	4, 27	(61,015)	(35,168)
NET INTEREST INCOME BEFORE PROVISION FOR IMPAIRMENT LOSSES ON INTEREST BEARING ASSETS		80,274	45,322
Provision for impairment losses on interest bearing assets	5, 27	(31,585)	(8,216)
NET INTEREST INCOME		48,689	37,106
Net gain on foreign exchange operations	6	8,466	6,104
Fee and commission income	7, 27	68,410	44,855
Fee and commission expense	7	(678)	(731)
Other income	8, 27	4,026	1,475
NET NON-INTEREST INCOME		80,224	51,703
OPERATING INCOME		128,913	88,809
OPERATING EXPENSES	9, 27	(116,837)	(74,441)
PROFIT BEFORE INCOME TAX		12,076	14,368
Income tax expense	10	(7,115)	(4,362)
NET PROFIT		4,961	10,006

On behalf of the Management Board:

Natalia Zubritskaya
Chairman of the Management Board

19 April 2008

Olga Kibets
Chief Accountant

19 April 2008

The notes on pages 9-50 form an integral part of these financial statements.

JOINT-STOCK COMMERCIAL BANK “PRAVEX-BANK”

BALANCE SHEET
AS AT 31 DECEMBER 2007
(in US dollars and in thousands)

	Notes	31 December 2007	31 December 2006
ASSETS:			
Cash and balances with the National Bank of Ukraine	11	77,011	70,267
Precious metals	12	3,351	2,344
Due from banks	13	216,944	75,398
Loans to customers	14, 27	751,225	461,157
Investment property	15	3,859	1,227
Property, plant and equipment and intangible assets	16	94,655	61,225
Other assets	17	3,061	6,386
TOTAL ASSETS		1,150,106	678,004
LIABILITIES AND EQUITY			
LIABILITIES:			
Due to banks	18	207,612	55,592
Customer accounts	19, 27	726,619	538,261
Debt securities issued	20	31,790	3,592
Loan received from the international financial organization	21	30,731	-
Current income tax liabilities		804	1,228
Deferred income tax liabilities	10	9,631	3,137
Other liabilities	22, 27	6,675	3,744
Subordinated debt	23	14,923	14,744
Total liabilities		1,028,785	620,298
EQUITY:			
Share capital	24	87,353	47,750
Additional capital		193	193
Property revaluation reserve		35,496	16,445
Accumulated deficit and cumulative translation reserve		(1,721)	(6,682)
Total equity		121,321	57,706
TOTAL LIABILITIES AND EQUITY		1,150,106	678,004

On behalf of the Management Board:

Natalia Zubritskaya
Chairman of the Management Board

19 April 2008

Olga Kibets
Chief Accountant

19 April 2008

The notes on pages 9-50 form an integral part of these financial statements.

JOINT-STOCK COMMERCIAL BANK "PRAVEX-BANK"

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

	Notes	Share capital	Additional capital	Property revaluation reserve	Accumulated deficit and cumulative translation reserve	Total equity
31 December 2005		**35,366**	**193**	**-**	**(11,027)**	**24,532**
Share capital increase		5,941	-	-	-	5,941
Capitalization of dividends previously declared		782	-	-	-	782
Capitalization of dividends		5,661	-	-	(5,661)	-
Property revaluation		-	-	21,927	-	21,927
Deferred tax on property revaluation		-	-	(5,482)	-	(5,482)
Net profit		-	-	-	10,006	10,006
31 December 2006		**47,750**	**193**	**16,445**	**(6,682)**	**57,706**
Share capital increase	24	39,603	-	-	-	39,603
Property revaluation		-	-	25,401	-	25,401
Deferred tax on property revaluation		-	-	(6,350)	-	(6,350)
Net profit		-	-	-	4,961	4,961
31 December 2007		**87,353**	**193**	**35,496**	**(1,721)**	**121,321**

On behalf of the Management Board:

Natalia Zubritskaya
Chairman of the Management Board

19 April 2008

Olga Kibets
Chief Accountant

19 April 2008

The notes on pages 9-50 form an integral part of these financial statements.

JOINT-STOCK COMMERCIAL BANK "PRAVEX-BANK"

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2007
(in US dollars and in thousands)

	Notes	Year ended 31 December 2007	Year ended 31 December 2006
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit before income tax		12,076	14,368
Adjustments for:			
Provision for impairment losses on interest bearing assets		31,585	8,216
Provision for impairment losses on other transactions		92	404
Translation differences, net		(637)	(443)
Amortized cost accounting adjustments		(558)	176
Net loss on derecognition of investments available for sale		21	-
Effective interest method adjustment		8,035	11,416
Net gain from fair value adjustment on investment property		(1,637)	(1,030)
Depreciation and amortization of property, plant and equipment and intangible assets		6,919	5,000
Net change in interest accruals		(13,757)	(900)
Net change in other accruals		1,916	1,628
Loss on disposal of property, plant and equipment and intangible assets		41	21
Cash flow from operating activities before changes in operating assets and liabilities		44,096	38,856
Changes in operating assets and liabilities:			
(Increase)/decrease in operating assets:			
Minimum reserve deposit with the National Bank of Ukraine		(6,119)	9,419
Precious metals		(360)	(170)
Due from banks		(139,854)	(47,510)
Loans to customers		(305,418)	(204,362)
Other assets		3,953	(2,912)
Increase in operating liabilities:			
Due to banks		151,826	49,326
Customer accounts		178,295	176,369
Other liabilities		277	759
Cash (outflow)/inflow from operating activities before income tax		(73,304)	19,775
Income tax paid		(7,440)	(6,770)
Net cash (outflow)/inflow from operating activities		(80,744)	13,005
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property, plant and equipment and intangible assets		(16,256)	(12,742)
Proceeds from sale of property, plant and equipment and intangible assets		38	110
Purchase of investments available for sale		(64,543)	-
Proceeds from sale of investments available for sale		64,720	-
Net cash outflow from investing activities		(16,041)	(12,632)

JOINT-STOCK COMMERCIAL BANK "PRAVEX-BANK"

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

	Notes	Year ended 31 December 2007	Year ended 31 December 2006
CASH FLOWS FROM FINANCING ACTIVITIES:			
Contributions of shareholders to share capital	24	39,603	5,941
Loan from international financial organization	21	30,000	-
Proceeds from subordinated debt receipt		-	7,100
Proceeds from sale of debt securities issued	20	30,396	3,564
Repurchase of debt securities issued	20	(2,388)	-
Net cash inflow from financing activities		97,611	16,605
Effect of changes in foreign exchange rates on cash and cash equivalents		866	604
NET INCREASE IN CASH AND CASH EQUIVALENTS		826	16,978
CASH AND CASH EQUIVALENTS at the beginning of the period	11	75,995	58,413
CASH AND CASH EQUIVALENTS at the end of the period	11	77,687	75,995

Interest paid and received by the Bank during the year ended 31 December 2007 amounted to USD 53,086 thousand and USD 101,103 thousand, respectively.

Interest paid and received by the Bank during year ended 31 December 2006 amounted to USD 28,362 thousand and USD 57,214 thousand, respectively.

On behalf of the Management Board:

Natalia Zubritskaya
Chairman of the Management Board

19 April 2008

Olga Kibets
Chief Accountant

19 April 2008

The notes on pages 9-50 form an integral part of these financial statements.

(in US dollars and in thousands)

1. ORGANIZATION

Joint-Stock Commercial Bank "PRAVEX-BANK" (the "Bank") was created as an open joint-stock company under the laws of Ukraine and was registered by the National Bank of Ukraine (the "NBU") on 29 December 1992.

The Bank operates under a general banking license granted by the NBU on 3 December 2001. Based on this license the Bank is able to provide a full range of banking services to its clients, including cash and settlement services to companies, documentary operations, lending and conversion operations, operations with securities and precious metals and other operations. The Bank is a principal member of international payment systems such as Visa and MasterCard and direct agent of American Express, and has wide networks of ATMs, Pos-terminals and Cash disbursement Pos-terminals all over Ukraine. The Bank represents significant share of the Ukrainian market of money transfers under Western Union system in terms of the number of transactions. It also has its own system of express money transfer called "Pravex-Telegraph".

Though the Bank operates as a universal bank, at present it is focused on retail banking represented by a large number of branches, consumer credit points, wide network of cash machines and POS-terminals.

The registered address of the Bank is 9/2 Klovskiy Spusk, Kyiv, Ukraine.

As at 31 December 2007 and 2006 the Bank had 556 and 468 outlets, respectively.

The average number of employees of the Bank as at 31 December 2007 and 2006 was 10,314 and 7,106, respectively.

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

Shareholder:	**31 December 2007**	**31 December 2006**
Mr. Chernovetskiy Stepan Leonidovich	61.43%	-
JV "Pravex-Brock" LLC	10.68%	23.11%
"Serviden Enterprises" Ltd.	7.66%	16.60%
Mr. Chernovetskiy Leonid Mikhailovich	7.00%	46.20%
Mrs. Chernovetskaya Khristina Leonidovna	7.00%	-
JV "Commercial Systems" LLC	3.70%	8.02%
IC "Pravex-Insurance" JSC	2.33%	5.04%
Other legal entities and individuals	0.20%	1.03%
Total	**100.00%**	**100.00%**

The ultimate controlling parties of the Bank as at 31 December 2007 and 2006 were members of the Chernovetskiy family.

These financial statements were authorized for issue on 19 April 2008 by the Management Board.

2. BASIS OF PRESENTATION

Accounting basis

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

These financial statements are presented in thousands of US Dollars ("USD"), unless otherwise indicated. These financial statements have been prepared under the historical cost convention, except for remeasured property (buildings) at revalued amounts according to allowed alternative treatment under International Accounting Standard 16 "Property, Plant and Equipment" and investment property at fair value under IAS 40 "Investment property".

In accordance with IAS 29 "Financial Reporting in Hyperinflationary Economies" ("IAS 29") the economy of Ukraine was considered to be hyperinflationary during 2000 and prior years.
From 1 January 2001 the Ukrainian economy is no longer considered to be hyperinflationary and the values of the Bank's share capital as stated in measuring units as at 31 December 2000 have formed the basis for the amounts carried forward.

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

Key assumptions

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

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

	31 December 2007	**31 December 2006**
Allowance for impairment loss on loans to customers	49,960	18,755
Investment property	3,859	1,227
Property, plant and equipment and intangible assets	94,655	61,225

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

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

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

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

Taxation is discussed in Note 25.

Functional currency

The functional currency of these financial statements is the Ukrainian Hryvnia ("UAH").
For the purpose of convenience of users outside Ukraine US dollars ("USD") have been chosen for presentation of information, all assets and liabilities have been translated into USD at the closing exchange rate (as at 31 December 2007 – 5.05 UAH/USD). The income statement have been translated at the average exchange rates (for years ended 31 December 2007 and 2006 – 5.05 UAH/USD).

3. SIGNIFICANT ACCOUNTING POLICIES

Recognition and measurement of financial instruments

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

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

Cash and cash equivalents

Cash and cash equivalents include cash on hand, unrestricted balances on correspondent accounts with the National Bank of Ukraine with original maturity within 90 days, advances to banks in countries included in the Organization for Economic Co-operation and Development ("OECD"), except for margin deposits for operations with plastic cards, which may be converted to cash within a short period of time. For purposes of determining cash flows, the minimum reserve deposit required by the National Bank of Ukraine is not included as a cash equivalent due to restrictions on its availability.

Precious metals

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

Due from banks

In the normal course of business the Bank maintains advances and deposits for various periods of time with other banks. Due from banks with a fixed maturity term are subsequently measured at amortized cost using the effective interest method. Those that do not have fixed maturities are carried at amortized cost based on maturities estimated by the management. Amounts due from banks are carried net of any allowance for impairment losses.

Loans to customers

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

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

Write off of loans

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

Impairment losses

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

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

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

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

Investment property

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

Property, plant and equipment and intangible assets

Property, plant and equipment and intangible assets other than buildings, acquired after 1 January 2001 are carried at historical cost less accumulated depreciation and amortization and any recognized impairment loss, if any. Property, plant and equipment and intangible assets, acquired before 1 January 2001 are carried at historical cost restated for inflation less accumulated depreciation and amortization and any recognized impairment loss, if any. Depreciation on assets under construction and those not placed in service commences from the date the assets are ready for their intended use.

Depreciation of property, plant and equipment and amortization of intangible assets is charged on the historical (restated/revalued) cost of property, plant and equipment and intangible assets and is designed to write off assets over their useful economic lives. It is calculated on a straight line basis at the following annual rates:

Buildings	1.3-2%
Computers and office equipment	10-33%
Motor vehicles	5-10%
Furniture and fixtures	8-25%
Leasehold improvements	10-100%
Intangible assets	20%

Buildings held for use in supply of services, or for administrative purposes, are stated in the balance sheet at their revalued amounts, being the fair value at the date of revaluation, determined from market-based evidence by appraisal undertaken by professional appraisers, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date. Any revaluation increase arising on the revaluation of such buildings is credited to the property revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognized as an expense, in which case the increase is credited to the income statement to the extent of the decrease previously charged. A decrease in carrying amount arising on the revaluation of such buildings is charged as an expense to the extent that it exceeds the balance, if any, held in the property revaluation reserve relating to a previous revaluation of that asset. The decrease is debited directly to equity to property revaluation reserve to the extent of any credit balance existing in the property revaluation reserve in respect of that asset.

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

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

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

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

Operating leases

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

Taxation

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

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

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

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

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

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

Due to banks, customer accounts, loan received from international financial organization, subordinated debt and debt securities issued

Customer and bank deposits, loan from international financial organization, subordinated debt and debt securities issued are initially recognized at fair value. Subsequently amounts due are stated at amortized cost and any difference between net proceeds and the redemption value is recognized in the income statement over the period of the borrowings using the effective interest method. Those that do not have fixed maturities are carried at amortized cost based on expected maturities.

Provisions

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

Financial guarantee contracts issued and letters of credit

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

Share capital

Contributions to share capital, made before 1 January 2001, are recognized at their cost restated for inflation. Contributions to share capital, made after 1 January 2001 are recognized at cost.

External costs directly attributable to the issue of new shares are deducted from equity net of any related income taxes.

Retirement and other benefit obligations

In accordance with the requirements of the Ukrainian legislation, the Bank withholds amounts of pension contributions from employee salaries and pays them to the state pension fund. In addition, such pension system provides for calculation of current payments by the employer as a percentage of current total disbursements to staff. Such expense is charged in the period the related salaries are earned. Upon retirement a retirement benefit payments are made by the State pension fund. The Bank does not have any pension arrangements separate from the State pension system of Ukraine, which requires current contributions by employer calculated as a percentage of current gross salary payments. In addition, the Bank has no post-retirement benefits or other significant compensated benefits requiring accrual.

Recognition of income and expense

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

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

Interest income also includes income earned on investments in securities. Other income is credited to income statement when the related transactions are completed.

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

Foreign currency translation

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

Rates of exchange

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

	31 December 2007	**31 December 2006**
UAH/ US Dollar	5.05000	5.05000
UAH/ Euro	7.41946	6.65085

Offset of financial assets and liabilities

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

Segment reporting

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

Adoption of new standards

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

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

At the date of these financial statements IFRS 8 "Operating Segments" was issued but not yet effective for these financial statements (effective 1 January 2009). The new Standard will replace IAS 14 "Segment Reporting". The management is currently assessing the impact of the adoption of this new Standard on future period. The Bank anticipates that other new Standards and Interpretations will have no material financial impact on the financial statements of the Bank.

Reclassifications

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

	Before reclassification	Amount of reclassification	After reclassification
Balance sheet items			
Investments available for sale	210	(210)	-
Other assets	6,176	210	6,386
Income statement items			
Interest income	78,142	2,348	80,490
Initial fair value recognition adjustment on interest bearing assets	(176)	176	-
Provision for impairment losses on other transactions	(404)	404	-
Other income	4,403	(2,928)	1,475

4. NET INTEREST INCOME

Net interest income comprises:

	Year ended 31 December 2007	Year ended 31 December 2006
Interest income comprises:		
Interest income on assets recorded at amortized cost:		
Interest income on assets that have been written down as a result of an impairment loss	138,615	79,491
Interest income on unimpaired assets	2,674	999
Total interest income	**141,289**	**80,490**
Interest income on assets recorded at amortized cost comprises:		
Interest on loans to customers	138,615	79,491
Interest on due from banks	2,444	999
Interest income on investments available for sale	230	-
Total interest income on financial assets recorded at amortized cost	141,289	80,490
Total interest income	**141,289**	**80,490**
Interest expense comprises:		
Interest on liabilities recorded at amortized cost	(61,015)	(35,168)
Total interest expense	**(61,015)**	**(35,168)**
Interest on customer accounts	(52,498)	(33,834)
Interest on due to banks	(2,553)	(116)
Interest expense on loan from international financial organization	(2,482)	-
Interest on debt securities issued	(1,925)	(17)
Interest on subordinated debt	(1,557)	(1,201)
Total interest expense on financial assets recorded at amortized cost	**(61,015)**	**(35,168)**
Net interest income before provision for impairment losses on interest bearing assets	**80,274**	**45,322**

5. ALLOWANCE FOR IMPAIRMENT LOSSES, OTHER PROVISIONS

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

	Due from banks	Loans to customers	Total
31 December 2005	**47**	**10,575**	**10,622**
Provision	-	8,216	8,216
Write-off of assets	-	(36)	(36)
31 December 2006	**47**	**18,755**	**18,802**
Provision	-	31,585	31,585
Write-off of assets	-	(380)	(380)
31 December 2007	**47**	**49,960**	**50,007**

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

	Investments available for sale	Other assets	Guarantees and other commitments	Total
31 December 2005	**4,118**	**293**	**52**	**4,463**
Provision/(recovery of provision)	-	445	(41)	404
Write-off of assets	(4,118)	(11)	-	(4,129)
31 December 2006	**-**	**727**	**11**	**738**
Provision	-	55	37	92
31 December 2007	**-**	**782**	**48**	**830**

Allowances for impairment losses on assets are deducted from the related assets. Provisions for guarantees and other commitments are recorded in other liabilities.

6. NET GAIN ON FOREIGN EXCHANGE OPERATIONS

Net gain on foreign exchange operations comprises:

	Year ended 31 December 2007	Year ended 31 December 2006
Dealing, net	7,829	5,661
Translation differences, net	637	443
Total net gain on foreign exchange operations	**8,466**	**6,104**

7. FEE AND COMMISSION INCOME AND EXPENSE

Fee and commission income and expense comprise:

	Year ended 31 December 2007	Year ended 31 December 2006
Fee and commission income:		
Cash and settlement operations	58,088	42,403
Securities operations	7,855	-
Foreign exchange operations	1,183	1,341
Operations with other banks	750	550
Other	534	561
Total fee and commission income	**68,410**	**44,855**
Fee and commission expense:		
Cash and settlement operations	(677)	(621)
Foreign exchange operations	-	(108)
Other	(1)	(2)
Total fee and commission expense	**(678)**	**(731)**

8. OTHER INCOME

Other income comprises:

	Year ended 31 December 2007	Year ended 31 December 2006
Fair value adjustment on investment property	1,637	1,030
Other banking operating income	899	356
Income from settlement services provided through payment systems	774	534
Amortized cost accounting adjustments	558	(176)
Income from operating lease	140	59
Other non-bank operating income	110	76
Provision for impairment losses on other operations	(92)	(404)
Total other income	**4,026**	**1,475**

9. OPERATING EXPENSES

Operating expenses comprise:

	Year ended 31 December 2007	Year ended 31 December 2006
Staff costs	56,526	31,288
Salary related social security contributions	13,778	7,926
Operating leases expenses	7,543	4,616
Depreciation and amortization	6,919	5,000
Communication expenses	6,465	4,004
Insurance expenses	4,337	5,652
Miscellaneous office expenses	3,646	3,462
Property, plant and equipment maintenance expense	3,009	1,937
Payments to the Individuals Deposits Guarantee Fund	2,440	1,565
Security expenses	2,263	1,554
Advertising and marketing expenses	1,976	2,451
Expenses related to operations with plastic cards	1,381	1,036
Utilities	1,108	719
Professional services fees	682	316
Electronic data processing expenses	667	374
Legal services	642	528
Taxes, other than income tax	361	538
Cash collection expenses	231	183
Business trips	119	108
Other	2,744	1,184
Total operating expenses	**116,837**	**74,441**

10. INCOME TAX

The Bank provides for taxes based on the statutory tax accounts maintained and prepared in accordance with the Ukrainian statutory tax regulations which may differ from International Financial Reporting Standards.

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

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

Temporary differences as at 31 December 2007 and 2006 comprise:

	Year ended 31 December 2007	Year ended 31 December 2006
Deductible temporary differences:		
Due from banks and loans to customers	33,650	23,213
Accrued expenses	4,850	2,033
Other assets	770	728
Other liabilities	362	11
Debt securities issued	319	-
Total deductible temporary differences	39,951	25,985
Less valuation allowance	(14,894)	-
Total deductible temporary differences net of valuation allowance	25,057	25,985
Taxable temporary differences:		
Property, plant and equipment and intangible assets and investment property	(63,048)	(34,137)
Subordinated debt	(532)	-
Deferred expenses	-	(4,397)
Total taxable temporary differences	(63,580)	(38,534)
Net taxable temporary differences	(38,523)	(12,549)
Net deferred tax liability at the statutory tax rate (25%)	**(9,631)**	**(3,137)**

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

	Year ended 31 December 2007	Year ended 31 December 2006
Profit before income tax	**12,076**	**14,368**
Tax at the statutory tax rate (25%)	3,019	3,592
Non-deductible expense	520	1,116
Non-taxable income	(148)	(38)
Change in valuation allowance	3,724	(308)
Income tax expense	**7,115**	**4,362**
Current income tax expense	6,971	6,707
Provision/(recovery) of deferred tax liabilities	144	(2,345)
Income tax expense	**7,115**	**4,362**

Deferred income tax liabilities	Year ended 31 December 2007	Year ended 31 December 2006
At the beginning of the period	**(3,137)**	**-**
Tax effect of changes in property revaluation reserve	(6,350)	(5,482)
Deferred tax (expense)/benefits charged to expense	(144)	2,345
At the end of the period	**(9,631)**	**(3,137)**

11. CASH AND BALANCES WITH THE NATIONAL BANK OF UKRAINE

Cash and balances with the National Bank of Ukraine comprise:

	31 December 2007	31 December 2006
Cash	55,185	43,343
Balances with the National Bank of Ukraine	21,826	26,924
Total cash and balances with the National Bank of Ukraine	**77,011**	**70,267**

The balances with National Bank of Ukraine as at 31 December 2007 and 2006 include USD 18,106 thousand and USD 11,987 thousand, respectively, which represent the obligatory minimum reserve deposits with the NBU. The Bank is required to maintain the reserve balance at the NBU at all times.

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

	31 December 2007	31 December 2006
Cash and balances with the National Bank of Ukraine	77,011	70,267
Due from banks in OECD countries	18,782	17,715
	95,793	87,982
Less minimum reserve deposits with the National Bank of Ukraine	(18,106)	(11,987)
Total cash and cash equivalents	**77,687**	**75,995**

12. PRECIOUS METALS

Precious metals comprise:

	31 December 2007	31 December 2006
Gold in vault	2,901	2,137
Silver in vault	290	122
Platinum	153	78
Palladium	7	7
Total precious metals	**3,351**	**2,344**

13. DUE FROM BANKS

Due from banks comprise:

	31 December 2007	31 December 2006
Time deposits with other banks	111,711	55,466
Correspondent accounts with other banks	104,166	18,920
Guarantee deposits on plastic cards operations	1,114	1,059
	216,991	75,445
Less allowance for impairment losses	(47)	(47)
Total due from banks	**216,944**	**75,398**

Movements in allowance for impairment losses on balances due from banks for the years ended 31 December 2007 and 2006 are disclosed in Note 5.

Included in due from banks is accrued interest income in the amount of USD 170 thousand and USD 19 thousand as at 31 December 2007 and 2006, respectively.

As at 31 December 2007 and 2006 the Bank had placements with four and seven banks totaling USD 156,287 thousand and USD 65,217 thousand, respectively, which individually exceeded 10% of the Bank’s equity.

As at 31 December 2007 and 2006 the maximum credit risk exposure on due from banks amounted to USD 216,944 thousand and USD 75,398 thousand, respectively.

As at 31 December 2007 and 2006 the Bank simultaneously placed with and received funds from Ukrainian banks. As at 31 December 2007 and 2006 the Bank placed equivalent of USD 191,949 thousand and USD 47,500 thousand, respectively, with Ukrainian banks, which were collateralized by the deposits received from the same banks (Note 18).

14. LOANS TO CUSTOMERS

Loans to customers comprise:

	31 December 2007	31 December 2006
Loans to customers	801,185	479,912
Less allowance for impairment losses	(49,960)	(18,755)
Total loans to customers	**751,225**	**461,157**

Movements in allowances for impairment losses on loans to customers for the years ended 31 December 2007 and 2006 are disclosed in Note 5.

As at 31 December 2007 and 2006 accrued interest income included in loans to customers amounted to USD 31,925 thousand and USD 11,236 thousand, respectively.

The table below summarizes the amount of loans secured by collateral.

	31 December 2007	31 December 2006
Loans collateralized by pledged real estate, rights thereon, equipment and other movables	576,390	313,011
Unsecured loans	161,731	161,100
Loans collateralized by cash	38,838	5,503
Loans collateralized by securities	24,055	-
Loans collateralized by other property rights	171	298
	801,185	479,912
Less allowance for impairment losses	(49,960)	(18,755)
Total loans to customers	**751,225**	**461,157**

The table below represents the borrowers' sector structure as at 31 December 2007 and 2006:

	31 December 2007	31 December 2006
Analysis by sector:		
Individuals	677,092	424,230
Trade	55,728	32,121
Real estate construction	31,689	723
Services	23,143	8,067
Food and agriculture	6,857	1,342
Manufacturing	4,640	9,188
Information and telecommunication	1,591	2,395
Chemical	410	1,035
Metallurgy and related business	12	159
Other	23	652
	801,185	479,912
Less allowance for impairment losses	(49,960)	(18,755)
Total loans to customers	**751,225**	**461,157**

Loans to individuals comprise the following products:

	31 December 2007	31 December 2006
Loans other than mortgage, secured by real estate	203,381	89,008
Mortgage loans	175,149	107,297
Consumer loans	142,898	161,100
Auto loans	121,891	66,308
Other	33,773	517
	677,092	424,230
Less allowance for impairment losses	(42,928)	(14,122)
Total loans to individuals	**634,164**	**410,108**

As at 31 December 2007 and 2006 the Bank had issued loans to two customers totaling USD 28,806 thousand and USD 12,185 thousand, respectively, which individually exceeded 10% of the Bank's equity.

All loans are granted to companies operating in Ukraine, which represents significant geographical concentration in one country.

As at 31 December 2007 and 2006 the maximum credit risk exposure on loans to customers amounted to USD 751,225 thousand and USD 461,157 thousand, respectively.

15. INVESTMENT PROPERTY

	31 December 2007	31 December 2006
At the beginning of the period	1,227	197
Transfer from property, plant and equipment and intangible assets	1,152	-
Transfer to property, plant and equipment and intangible assets	(157)	-
Fair value adjustment	1,637	1,030
At the end of the period	**3,859**	**1,227**

Included into other income is investment property rental income for the years ended 31 December 2007 and 2006 amounted to USD 123 thousand and USD 31 thousand, respectively.

Operating expenses arising from the investment property that generated rental income during the year ended 31 December 2007 amounted to USD 226 thousand.

16. PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

Tangible and intangible assets comprise:

	Buildings	Computers and office equipment	Motor vehicles	Furniture and fixtures	Intangible assets	Leasehold improvements	Construction in progress	Total
At initial/restated/revalued cost								
31 December 2006	34,698	26,627	1,669	3,014	1,277	5,554	4,537	77,376
Additions	1,117	6,410	208	512	682	2,325	4,756	16,010
Revaluation	25,401	-	-	-	-	-	-	25,401
Eliminated against accumulated depreciation on revaluation	(517)	-	-	-	-	-	-	(517)
Transfers from construction in progress	3,516	-	-	-	-	-	(3,516)	-
Transferred to investment property	(1,152)	-	-	-	-	-	-	(1,152)
Transferred from investment property	157	-	-	-	-	-	-	157
Disposals	-	(582)	(33)	(58)	(12)	(43)	-	(728)
31 December 2007	63,220	32,455	1,844	3,468	1,947	7,836	5,777	116,547
Accumulated depreciation and amortization								
31 December 2006	-	11,471	427	1,343	834	2,076	-	16,151
Charge for the year	517	4,608	140	383	233	1,038	-	6,919
Eliminated on revaluation	(517)	-	-	-	-	-	-	(517)
Disposals	-	(535)	(21)	(54)	(11)	(40)	-	(661)
31 December 2007	-	15,544	546	1,672	1,056	3,074	-	21,892
Net book value 31 December 2007	**63,220**	**16,911**	**1,298**	**1,796**	**891**	**4,762**	**5,777**	**94,655**
Net book value 31 December 2006	**34,698**	**15,156**	**1,242**	**1,671**	**443**	**3,478**	**4,537**	**61,225**

	Buildings	Computers and office equipment	Motor vehicles	Furniture and fixtures	Intangible assets	Leasehold improvements	Construction in progress	Total
At historical/restated/revalued cost								
31 December 2005	13,421	20,228	1,476	2,495	1,156	4,921	682	44,379
Additions	-	6,674	268	578	162	669	4,361	12,712
Revaluation	21,927	-	-	-	-	-	-	21,927
Eliminated against accumulated depreciation on revaluation	(1,095)							(1,095)
Transfers from construction in progress	445	-	-	-	-	-	(445)	-
Disposals	-	(275)	(75)	(59)	(41)	(36)	(61)	(547)
31 December 2006	34,698	26,627	1,669	3,014	1,277	5,554	4,537	77,376
Accumulated depreciation and amortization								
31 December 2005	834	8,413	327	1,067	592	1,429	-	12,662
Charge for the year	261	3,328	146	335	258	672	-	5,000
Eliminated on revaluation	(1,095)	-	-	-	-	-	-	(1,095)
Disposals	-	(270)	(46)	(59)	(16)	(25)	-	(416)
31 December 2006	-	11,471	427	1,343	834	2,076	-	16,151
Net book value								
31 December 2006	**34,698**	**15,156**	**1,242**	**1,671**	**443**	**3,478**	**4,537**	**61,225**

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

If the buildings would have been accounted at historical cost restated according to inflation indices less accumulated depreciation and impairment losses, its carrying value would be USD 20,439 thousand and USD 12,412 thousand as at 31 December 2007 and 2006, respectively.

17. OTHER ASSETS

Other assets comprise:

	31 December 2007	31 December 2006
Prepayments for tangible assets	1,049	772
Other prepayments and debtors	600	456
Deferred expenses	595	225
Materials	380	290
Accrued income	330	135
Current income tax prepaid	46	2
Prepayments for credit risks insurance	22	4,249
Equity investments	12	210
Other	809	774
	3,843	7,113
Less allowance for impairment losses	(782)	(727)
Total other assets	**3,061**	**6,386**

Movements in allowances for impairment losses for the years ended 31 December 2007 and 2006 are disclosed in Note 5.

18. DUE TO BANKS

Due to banks comprise:

	31 December 2007	31 December 2006
Time deposits	118,758	55,416
Correspondent accounts of other banks	88,854	176
Total due to banks	**207,612**	**55,592**

As at 31 December 2007 and 2006 accrued interest expenses included in due to banks amounted to USD 161 thousand and USD 14 thousand, respectively.

During 2007 and 2006 the Bank simultaneously placed term funds with and received loans and advances from Ukrainian banks in different currencies (Note 13).

As at 31 December 2007 and 2006 due to banks in the amounts of USD 141,485 thousand (68%) and USD 53,916 thousand (97%), respectively were due to three and seven banks, respectively, which represents significant concentration.

19. CUSTOMER ACCOUNTS

Customer accounts comprise:

	31 December 2007	31 December 2006
Time deposits	575,859	422,285
Repayable on demand	150,760	115,976
Total customer accounts	**726,619**	**538,261**

As at 31 December 2007 and 2006 accrued interest expenses included in customers accounts amounted to USD 21,803 thousand and USD 16,499 thousand, respectively.

As at 31 December 2007 customer accounts amounting to USD 89,962 thousand (12%) were due to ten customers.

The table below represents customer accounts' sector structure as at 31 December 2007 and 2006:

	31 December 2007	31 December 2006
Analysis by sector:		
Individuals	621,808	473,267
Services	48,914	14,790
Trade	32,264	29,829
Real estate construction	8,444	4,097
Manufacturing	3,906	4,584
Food and agriculture	2,180	1,203
Information	1,310	734
Energy	1,167	1,040
Chemical industry	333	244
Metallurgy and related business	18	264
Insurance	-	2,752
Other	6,275	5,457
Total customer accounts	**726,619**	**538,261**

As at 31 December 2007 and 2006 customer accounts amounting to USD 428 thousand and USD 18 thousand, respectively, were held as collateral against guarantees issued.

20. DEBT SECURITIES ISSUED

Debt securities issued comprise:

Domestic bonds denominated in UAH:	Maturity date month/year	Annual coupon rate %	31 December 2007	31 December 2006
A series	10 December 2009	13.5	7,571	3,592
B series	20 September 2010	12.5	19,877	-
C series	7 November 2010	13.5	4,342	-
Total debt securities issued			**31,790**	**3,592**

As at 31 December 2007 and 2006 accrued interest expense included in debt securities issued amounted to USD 218 thousand and USD 28 thousand, respectively.

21. LOAN RECEIVED FROM THE INTERNATIONAL FINANCIAL ORGANIZATION

In April 2007 the Bank received a loan in amount of USD 30,000 thousand from the international financial organization with 3-months LIBOR + 6% annual interest rate maturing on 11 April 2008. As at 31 December 2007 accrued interest expenses amounted to USD 731 thousand.

22. OTHER LIABILITIES

Other liabilities comprise:

	31 December 2007	31 December 2006
Accrual for unused vacation	4,850	1,635
Accounts payable to Individuals Deposits Guarantee Fund	637	436
Salary payable	156	108
Accounts payable for professional services	87	747
Accounts payable for purchase of tangible assets	77	35
Taxes payable, other than income tax	52	70
Provision for guarantees and other commitments	48	11
Deferred income	2	324
Other creditors	766	378
Total other liabilities	**6,675**	**3,744**

Movements in provision for guarantees and other commitments for the years ended 31 December 2007 and 2006 are disclosed in Note 5.

23. SUBORDINATED DEBT

	Currency	Maturity	Nominal interest rate, %	31 December 2007
Byrass Consultants Limited	USD	21 September 2015	1.0	3,181
Byrass Consultants Limited	USD	1 November 2015	1.0	4,240
Byrass Consultants Limited	USD	1 June 2016	1.0	4,758
Byrass Consultants Limited	USD	31 July 2016	1.0	2,744
Total subordinated debt				**14,923**

	Currency	Maturity	Nominal interest rate, %	31 December 2006
Byrass Consultants Limited	USD	21 September 2015	10.3	3,143
Byrass Consultants Limited	USD	1 November 2015	10.3	4,192
Byrass Consultants Limited	USD	1 June 2016	10.5	4,699
Byrass Consultants Limited	USD	31 July 2016	10.5	2,710
Total subordinated debt				**14,744**

In June 2007 the Bank renegotiated terms of the subordinated debt resulting in recognition of gain in amount of USD 846 thousand in the income statement.

Management has intention to change the interest rate on subordinated debt starting from 1 June 2008. The new interest rate will be stated at Libor +5% per annum.

As at 31 December 2007 and 2006 accrued interest expenses included in subordinated debt amounted to USD 1,355 thousand and USD 644 thousand, respectively.

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

24. SHARE CAPITAL

Share capital comprises:

	31 December 2007		31 December 2006	
	Number of shares	**Amount**	**Number of shares**	**Amount**
Total shares authorized, issued and fully paid	**371,499,139**	**73,563**	**171,499,139**	**33,960**
Effect of hyperinflation for contribution made before 31 December 2000 (Note 2)		13,790		13,790
Total share capital		**87,353**		**47,750**

All ordinary shares have equal voting, dividend and capital repayment rights. All shares have a nominal value of UAH 1.

During 2007 the Bank has successfully completed the 15th and the 16th additional share capital issue in amount of USD 39,603 thousand.

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

25. COMMITMENTS AND CONTINGENCIES

Contingent liabilities and credit commitments

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

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

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

Provision for guarantees and other commitments amounted to USD 48 thousand and USD 11 thousand as at 31 December 2007 and 2006, respectively.

The risk-weighted amount is obtained by applying credit conversion factor and counterparty risk weightings according to the principles employed by the Basle Committee on Banking Supervision.

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

	31 December 2007		**31 December 2006**	
	Nominal amount	**Risk weighted amount**	**Nominal amount**	**Risk weighted amount**
Contingent liabilities and credit commitments				
Guarantees issued and similar commitments	2,571	2,143	863	845
Letters of credit and other transaction related contingent obligations	100	50	54	27
Total contingent liabilities and credit commitments	**2,671**	**2,193**	**917**	**872**

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

	31 December 2007	**31 December 2006**
Not later than 1 year	7,210	5,684
Later than 1 year and not later than 5 years	11,890	13,437
Later than 5 years	3,212	3,806
Total operating lease commitments	**22,312**	**22,927**

As at 31 December 2007 and 2006 the Bank rented 234 and 216 premises from Byrass Consultants Limited.

Up to 1 April 2007 the rate paid for a square meter varied from USD 1 to USD 25 depending on premises location and condition. Starting from 1 April 2007 the rate was set at USD 0.2 per square meter irrespective of the premises location and condition.

Related operating lease expenses for the years ended 31 December 2007 and 2006 amounted to USD 473 thousand and USD 1,774 thousand, respectively.

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

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

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

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

26. SUBSEQUENT EVENTS

In February 2008 current shareholders of the Bank received permission of the Antimonopoly Committee and the National Bank of Ukraine to sell 100% of the Bank shares to Italian banking group Intesa Sanpaolo S.p.A.

In April 2008 current shareholders of the Bank made decision to increase share capital by USD 29,703 thousand through additional issue, which is to be finished in May 2008.

On 11 April 2008 the Bank repaid the loan to international financial organization in full.

27. TRANSACTIONS WITH RELATED PARTIES

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

a) Parties that directly, or indirectly through one or more intermediaries: control, or are controlled by, or are under common control with, the Bank (this includes parents, subsidiaries and fellow subsidiaries); have an interest in the Bank that gives them significant influence over the Bank; and that have joint control over the Bank

b) Associates – enterprises on which the Bank has significant influence and which is neither a subsidiary nor a joint venture of the investor

c) Joint ventures in which the Bank is a venturer

d) Members of key management personnel of the Bank or its parent

e) Close members of the family of any individuals referred to in (a) or (d)

f) Parties that are entities controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e), or

g) Post-employment benefit plans for the benefit of employees of the Bank, or of any entity that is a related party of the Bank.

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form. The Bank had the following transactions outstanding with related parties (other related parties include key management personnel, their close family members, entities under common control, etc.):

	31 December 2007		31 December 2006	
	Related party balances	**Total category as per financial statements caption**	**Related party balances**	**Total category as per financial statements caption**
Loans to customers, gross:	2,118	801,185	282	479,912
- other related parties	2,118		282	
Allowance for impairment losses	(124)	(49,960)	(5)	(18,755)
- other related parties	(124)		(5)	
Customer accounts	50,261	726,619	13,932	538,261
- shareholders	21,506		7,019	
- other related parties	28,755		6,913	
Accrual for unused vacation:	1,899	4,850	468	1,635
-key personnel of the Bank	1,899		468	

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

	31 December 2007		31 December 2006	
	Related party transactions	**Total category as per financial statements caption**	**Related party transactions**	**Total category as per financial statements caption**
Interest income	151	141,289	11	80,490
- other related parties	151		11	
Interest expense	(3,093)	(61,015)	(977)	(35,168)
- shareholders	(1,419)		(255)	
- other related parties	(1,674)		(722)	
Provision for impairment losses on loans to customers	(119)	(31,585)	(4)	(8,216)
- other related parties	(119)		(4)	
Fee and commission income	43	68,410	30	44,855
- shareholders	7		-	
- other related parties	36		30	
Other income	21	4,026	62	1,475
- other related parties	21		62	
Operating leases expense	(1,576)	(7,543)	(703)	(4,616)
- shareholders	(1,021)		(568)	
- other related parties	(555)		(135)	
Insurance expenses	(97)	(4,337)	(1,030)	(5,652)
- other related parties	(97)		(1,030)	
Advertising and marketing expenses	(469)	(1,976)	(706)	(2,451)
- other related parties	(469)		(706)	
Other operating expenses	(1,560)	(2,744)	(179)	(1,184)
- other related parties	(1,560)		(179)	

Included in financial commitments and contingencies as at 31 December 2007 and 2006 are operating lease commitments on tangible assets to shareholder of the Bank totaling USD 2,196 thousand and USD 2,930 thousand respectively.

Key management personnel compensation amounted to USD 15,127 thousand and USD 6,800 thousand for the years ended 31 December 2007 and 2006, respectively.

28. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

	31 December 2007		**31 December 2006**	
	Current value	**Fair value**	**Current value**	**Fair value**
Cash and balances with the National Bank of Ukraine	77,011	77,011	70,267	70,267
Due from banks	216,944	216,944	75,398	75,398
Loans to customers	751,225	751,225	461,157	461,157
Equity investments	12	12	210	210
Due to banks	207,612	207,612	55,592	55,592
Customer accounts	726,619	726,619	538,261	538,261
Debt securities issued	31,790	31,790	3,592	3,592
Loan received from international financial organization	30,731	30,731	-	-
Subordinated debt	14,923	14,923	14,744	14,744

In determining estimated fair values of financial instruments the Bank used valuation techniques commonly used by market participants, based on the presumption that outstanding balances result from transactions which were concluded on normal market terms.

29. REGULATORY MATTERS

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (as set forth in the table below) of total and tier 1 capital to risk weighted assets.

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

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

As at 31 December 2007 the Bank's total capital amount for capital adequacy purposes was USD 136,244 thousand and tier I capital amount was USD 85,825 thousand with ratios of 17% and 11%, respectively.

As at 31 December 2006 the Bank's total capital amount for capital adequacy purposes was USD 72,450 thousand and tier I capital amount was USD 41,261 thousand with ratios 13% and 7%, respectively.

As at 31 December 2007 and 2006 the Bank included in the computation of total capital for capital adequacy purposes the subordinated debt received, limited to 50% of tier I capital. In the event of bankruptcy or liquidation of the Bank, repayment of this debt is subordinate to the repayments of the Bank's liabilities to all other creditors.

30. CAPITAL MANAGEMENT

The Bank manages its capital to ensure that the Bank will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance.

The capital structure of the Bank consists of debt, which includes subordinated debt disclosed in Note 23, and equity attributable to equity holders of the Bank, comprising issued capital, reserves and retained earnings as disclosed in statement of changes in equity.

The Management Board reviews the capital structure on a semi-annual basis. As a part of this review, the Board considers the cost of capital and the risks associated with each class of capital. Based on recommendations of the Management Board, the Bank balances its overall capital structure through, new share issues as well as the issue of new debt or the redemption of existing debt.

The Bank's overall capital risk management policy remains unchanged from 2006.

31. SEGMENT REPORTING

The Bank's primary format for reporting segment information is business segments. Most operations of the Bank are concentrated in Ukraine.

Business segments – The Bank is organized on the basis of two main business segments:

- Retail banking – representing individuals' customer current accounts, deposits, credit and debit cards, consumer loans and mortgages
- Corporate banking – representing direct debt facilities, current accounts, deposits, overdrafts, loan and other credit facilities, foreign currency operations as well as transactions with small and medium enterprises.

In addition, Bank's headquarters, regional centres, administrative operations and certain other business operations, including inter-bank financial markets and financial institutions services are reported separately under segment reporting as unallocated.

Segment assets and liabilities comprise operating assets and liabilities, being the majority of the balances sheet, but excluding items such as taxation and borrowings. Internal charges and transfer pricing adjustments have been reflected in the performance of each business. Transactions between the business segments are on normal commercial terms and conditions. Funds are ordinarily reallocated between segments, resulting in funding cost transfers disclosed in operating income. Interest charged for these funds is based on the Bank's cost of capital. There are no other material items of income or expense between the business segments.

Segment information about these businesses is presented below.

	Retail banking	Corporate banking	Unallocated and other segments	31 December 2007 and Year ended 31 December 2007
Interest income	127,959	10,849	2,481	141,289
Interest expense	(51,276)	(6,859)	(2,880)	(61,015)
Provision for impairment losses on interest bearing assets	(29,293)	(2,292)	-	(31,585)
Net gain on foreign exchange operations	6,625	-	1,841	8,466
Fee and commission income	51,753	15,906	751	68,410
Fee and commission expense	(2)	-	(676)	(678)
Other income	916	562	2,548	4,026
External operating income	106,682	18,166	4,065	128,913
(Expense)/income from other segments	(3,812)	(1,869)	5,681	-
Total income	102,870	16,297	9,746	128,913
Operating expenses	(67,901)	(26,478)	(22,458)	(116,837)
Profit/(loss) before income tax	34,969	(10,181)	(12,712)	12,076
Income tax expense	-	-	(7,115)	(7,115)
Net profit/(loss)	**34,969**	**(10,181)**	**(19,827)**	**4,961**
Segment assets	**697,890**	**128,816**	**323,400**	**1,150,106**
Segment liabilities	**(621,460)**	**(177,882)**	**(229,443)**	**(1,028,785)**
Other segment items				
Depreciation and amortization charge on property, plant and equipment and intangible assets	4,515	833	1,571	6,919
Loans to customers	634,164	117,061	-	751,225
Property, plant and equipment and intangible assets	61,760	11,400	21,495	94,655
Customer accounts	621,808	104,811	-	726,619
Capital expenditure	10,446	1,928	3,636	16,010

	Retail banking	Corporate banking	Unallocated and other segments	31 December 2006 and Year ended 31 December 2006
Interest income	71,637	7,853	1,000	80,490
Interest expense	(32,600)	(2,452)	(116)	(35,168)
Provision for impairment losses on interest bearing assets	(7,526)	(690)	-	(8,216)
Net gain on foreign exchange operations	4,498	-	1,606	6,104
Fee and commission income	39,285	5,018	552	44,855
Fee and commission expense	-	-	(731)	(731)
Other income	(631)	9	2,097	1,475
External operating income	74,663	9,738	4,408	88,809
Income/(expense) from other segments	2,902	(3,237)	335	-
Total income/(loss)	77,565	6,501	4,743	88,809
Operating expenses	(44,976)	(15,844)	(13,621)	(74,441)
Profit/(loss) before income tax	32,589	(9,343)	(8,878)	14,368
Income tax expense	-	-	(4,362)	(4,362)
Net profit/(loss)	**32,589**	**(9,343)**	**(13,240)**	**10,006**
Segment assets	**456,003**	**56,235**	**165,766**	**678,004**
Segment liabilities	**(474,301)**	**(80,040)**	**(65,957)**	**(620,298)**
Other segment items				
Depreciation and amortization charge on property, plant and equipment and intangible assets	3,367	419	1,214	5,000
Loans to customers	410,108	51,049	-	461,157
Property, plant and equipment and intangible assets	41,222	5,132	14,871	61,225
Customer accounts	473,267	64,989	-	538,256
Capital expenditure	8,558	1,066	3,088	12,712

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

	Ukraine	Other non-OECD countries	OECD countries	31 December 2007 Year ended 31 December 2007 Total
External interest income	141,289	-	-	141,289
External net profit/(loss)	8,378	(935)	(2,482)	4,961
Assets	1,129,256	954	19,896	1,150,106
Liabilities	981,522	16,532	30,731	1,028,785
Capital expenditure	16,010	-	-	16,010

	Ukraine	Other non-OECD countries	OECD countries	31 December 2006 Year ended 31 December 2006 Total
External interest income	80,490	-	-	80,490
External net profit	10,006	-	-	10,006
Assets	658,506	724	18,774	678,004
Liabilities	605,554	14,744	-	620,298
Capital expenditure	12,712	-	-	12,712

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

32. RISK MANAGEMENT POLICIES

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

The Bank manages the following risks:

Market risk

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

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

The Asset and Liabilities Committee also manages interest rate and develops actions for market risks minimisation by matching the Bank's interest rate position, which provides the Bank with a positive interest margin. The Department for economic analysis and economic ratios management conducts monitoring of the Bank's current financial performance, estimates the Bank's sensitivity to changes in interest rates and its influence on the Bank's profitability.

The majority of the Bank's loan contracts and other interest bearing financial assets and liabilities are at fixed rates. The Bank monitors its interest rate margin and consequently does not consider itself exposed to significant interest rate risk or consequential cash flow risk.

Credit risk

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

Risk management and monitoring is performed within set limits of authority by the Credit Committees of the outlets and Head Office and the Management Board of the Bank. Before any application is made by the Credit Committee, all recommendations on credit processes (borrower's limits approved, or amendments made to loan agreements, etc.) are reviewed and approved by the outlets Credit Committees, Credit Committee of the Head Office and the Management Board. Daily risk management is performed by the Credit Divisions, Heads of outlets, special committees and the Management Board of the Bank.

The Bank structures the level of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to industry segments. Limits on the level of credit risk by a borrower and a product (by industry sector, by region) are approved by the Management Board of the Bank. The exposure to any one borrower including banks and brokers is further restricted by sub-limits covering on and off-balance sheet exposures which are set by the Credit Committee and the Management Board of the Bank. Actual exposures against limits are monitored daily.

Where appropriate, and in the case of most loans, the Bank obtains collateral and corporate and personal guarantees.

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

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

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

The following table details the credit ratings of financial assets held by the Bank, which are neither past due nor impaired:

	In the range from AAA to A	In the range from BBB to B	Below B	Not rated	31 December 2007 Total
Due from banks	133,427	44,576	910	38,031	216,944
Equity investments	-	-	-	12	12

	In the range from AAA to A	In the range from BBB to B	Below B	Not rated	31 December 2006 Total
Due from banks	38,780	19,909	686	16,023	75,398
Equity investments	-	-	-	210	210

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

Liquidity risk

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

In order to manage liquidity risk, the Bank performs constant monitoring of future expected cash flows on clients' and banking operations, which is a part of assets/liabilities management process.

On a monthly basis the Assets and Liability Committee analyzes funding sources taking into account changes in interest rates for the previous month and determines strategy for assets and liability management for the next month.

The analysis of interest rate and liquidity risk on balance sheet transactions is presented in the following table:

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	31 December 2007 Total
ASSETS							
Due from banks	160,550	4,426	10,000	-	-	-	174,976
Loans to customers	38,300	23,220	135,406	276,247	278,052	-	751,225
Total interest bearing assets	198,850	27,646	145,406	276,247	278,052	-	926,201
Cash and balances with the National Bank of Ukraine	58,905	-	-	-	-	18,106	77,011
Precious metals	3,351	-	-	-	-	-	3,351
Due from banks	40,855	-	100	-	1,013	-	41,968
Investment property	-	-	-	-	-	3,859	3,859
Property, plant and equipment and intangible assets	-	-	-	-	-	94,655	94,655
Other assets	426	617	2,006	-	12	-	3,061
TOTAL ASSETS	**302,387**	**28,263**	**147,512**	**276,247**	**279,077**	**116,620**	**1,150,106**
LIABILITIES							
Due to banks	185,526	11,752	10,000	-	-	-	207,278
Customer accounts	227,526	103,607	374,354	21,132	-	-	726,619
Debt securities issued	-	218	-	31,572	-	-	31,790
Loan received from the international financial organization	731	-	30,000	-			30,731
Subordinated debt	-	-	1,355	-	13,568	-	14,923
Total interest bearing liabilities	**413,783**	**115,577**	**415,709**	**52,704**	**13,568**	**-**	**1,011,341**
Due to banks	334	-	-	-	-	-	334
Current income tax liabilities	-	-	804	-	-	-	804
Deferred income tax liabilities	-	-	9,631	-	-	-	9,631
Other liabilities	1,612	134	4,929	-	-	-	6,675
TOTAL LIABILITIES	**415,729**	**115,711**	**431,073**	**52,704**	**13,568**	**-**	**1,028,785**
Liquidity gap	(113,342)	(87,448)	(283,561)	223,543	265,509		
Interest sensitivity gap	(214,933)	(87,931)	(270,303)	223,543	264,484		
Cumulative interest sensitivity gap	**(214,933)**	**(302,864)**	**(573,167)**	**(349,624)**	**(85,140)**		
Cumulative interest sensitivity gap as a percentage of total assets	**(19%)**	**(26%)**	**(50%)**	**(30%)**	**(7%)**		

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	31 December 2006 Total
ASSETS							
Due from banks	70,839	3,500	100	-	959	-	75,398
Loans to customers	7,142	12,906	142,978	188,700	109,431	-	461,157
Total interest bearing assets	77,981	16,406	143,078	188,700	110,390	-	536,555
Cash and balances with the National Bank of Ukraine	58,280	-	-	-	-	11,987	70,267
Precious metals	2,344	-	-	-	-	-	2,344
Investment property	-	-	-	-	-	1,227	1,227
Property, plant and equipment and intangible assets	-	-	-	-	-	61,225	61,225
Other assets	2,235	1,175	2,476	-	210	290	6,386
TOTAL ASSETS	**140,840**	**17,581**	**145,554**	**188,700**	**110,600**	**74,729**	**678,004**
LIABILITIES							
Due to banks	51,916	3,500	-	-	-	-	55,416
Customer accounts	163,203	70,483	257,866	46,709	-	-	538,261
Debt securities issued	-	-	-	3,592	-	-	3,592
Subordinated debt	-	-	-	-	14,744	-	14,744
Total interest bearing liabilities	215,119	73,983	257,866	50,301	14,744	-	612,013
Due to banks	176	-	-	-	-	-	176
Current income tax liabilities	-	1,228	-	-	-	-	1,228
Deferred income tax liabilities	-	-	3,137	-	-	-	3,137
Other liabilities	2,098	11	-	1,635	-	-	3,744
TOTAL LIABILITIES	**217,393**	**75,222**	**261,003**	**51,936**	**14,744**	**-**	**620,298**
Liquidity gap	(76,553)	(57,641)	(115,449)	136,764	95,856		
Interest sensitivity gap	(137,138)	(57,577)	(114,788)	138,399	95,646		
Cumulative interest sensitivity gap	**(137,138)**	**(194,715)**	**(309,503)**	**(171,104)**	**(75,458)**		
Cumulative interest sensitivity gap as a percentage of total assets	**(20%)**	**(29%)**	**(46%)**	**(25%)**	**(11%)**		

The Bank's liquidity risk management includes estimation of core deposits, i.e. funds associated with stable customer deposits relationships, with statistical methods applied to historic information on fluctuations of customer accounts balances. Core deposits as at 31 December 2007 and 2006 amounted to USD 371,416 thousand and USD 247,946 thousand, respectively. Based on going concern assumption effective maturity of core deposits is considered to be undefined. Information as to the expected periods of repayment of customer accounts and effective liquidity gaps as at 31 December 2007 is as follows:

	Up to 1 month	**1 month to 3 months**	**3 months to 1 year**	**1 year to 5 years**	**Over 5 years**	**Maturity undefined**	**31 December 2007 Total**
Customer accounts analyzed based on expected withdrawal dates	53,506	62,773	225,916	13,008	-	371,416	726,619
Liquidity gap (based on expected withdrawal dates for customer accounts)	60,678	(46,614)	(135,123)	231,667	265,509		

	Up to 1 month	**1 month to 3 months**	**3 months to 1 year**	**1 year to 5 years**	**Over 5 years**	**Maturity undefined**	**31 December 2006 Total**
Customer accounts analyzed based on expected withdrawal dates	65,281	42,290	154,719	28,025	-	247,946	538,261
Liquidity gap (based on expected withdrawal dates for customer accounts)	21,369	(29,448)	(12,302)	155,448	95,856		

Also the Bank has an Emergency action plan for liquidity crisis, which prescribes the actions to be followed and responsible parties for their execution. The measures include such steps as decrease of the long-term lending, interbank borrowings and debt securities issues, receipt of syndicated loans and debt financing from international debt market.

An analysis of the liquidity and interest rate risks of financial liabilities is presented in the table, which summarizes the remaining contractual maturity of non-derivative financial liabilities based on the undiscounted cash flows of financial liabilities (both interest and principal cash flows) based on the earliest date on which the Bank can be required to pay. Effective interest rate is estimated as at 31 December 2007 and 2006, respectively.

	Weighted average effective interest rate, %	**Up to 1 month**	**1 month to 3 months**	**3 months to 1 year**	**1 year to 5 years**	**Over 5 years**	**31 December 2007 Total**
LIABILITIES							
Due to banks	3.23	186,301	11,892	10,368	-	-	208,561
Customer accounts	9.69	222,747	108,741	379,978	45,302	-	756,768
Debt securities issued	13.64	-	1,015	33,956	-	-	34,971
Loan received from the international financial organization	11.90	862	-	30,815	-	-	31,677
Subordinated debt	1	-	-	2,174	5,185	18,158	25,517
Total interest bearing liabilities		**409,910**	**121,648**	**457,291**	**50,487**	**18,158**	**1,057,494**

	Weighted average effective interest rate, %	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	31 December 2006 Total
LIABILITIES							
Due to banks	4.99	52,140	3,511	-	-	-	55,651
Customer accounts	9.69	159,961	79,168	275,109	48,103	-	562,341
Debt securities issued	13.50	37	92	363	3,564	-	4,056
Subordinated debt	10.40	644	241	474	564	14,764	16,687
Total interest bearing liabilities		**212,782**	**83,012**	**275,946**	**52,231**	**14,764**	**638,735**

Cash flow interest rate risk

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

The Asset and Liabilities Committee manages interest rate and market risks by matching its interest rate position, which provides the Bank with a positive interest margin. The Department for economic analysis and economic ratios management conducts monitoring of the Bank's current financial performance, estimates the Bank's sensitivity to changes in interest rates and its influence on the Bank's profitability.

The following table presents an analysis of interest rate risk and thus the potential of the Bank for gain or loss. Effective interest rates are presented by categories of financial assets and liabilities to determine interest rate exposure and effectiveness of the interest rate policy used by the Bank.

	31 December 2007			31 December 2006		
	UAH %	USD %	EUR %	UAH %	USD %	EUR %
ASSETS						
Due from banks	1.03	1.30	1.25	5.35	4.06	1.22
Loans to customers	31.35	12.75	13.26	52.84	13.66	13.65
LIABILITIES						
Due to banks	2.55	7.33	-	5.25	5.38	3.00
Current accounts	1.27	1.34	1.13	1.28	1.28	1.04
Deposit accounts	14.67	10.30	8.45	14.92	9.97	8.35
Debt securities issued	13.64	-	-	13.50	-	-
Loan received from the international financial organization	-	11.90	-	-	-	-
Subordinated debt	-	1.00	-	-	10.40	-

Interest rate risk

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

The Asset and Liabilities Committee manages interest rate and market risks by matching its interest rate position, which provides the Bank with a positive interest margin. The Department for analysis and risk management conducts monitoring of the Bank's current financial performance, estimates the Bank's sensitivity to changes in interest rates and its influence on the Bank's profitability.

The Bank has developed and implemented the methodology of the "break-even point" rate calculation (the lowest level of the loan rate, approved by the Board). Application of the methodology facilitates decision making and enables stable work of the Bank.

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

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

Impact on net profit and equity:

	As at 31 December 2007		As at 31 December 2006	
	Interest rate +1%	**Interest rate -1%**	**Interest rate +1%**	**Interest rate -1%**
Assets:				
Due from banks	1,750	(1,750)	754	(754)
Loans to customers	7,512	(7,512)	4,612	(4,612)
Liabilities:				
Due to banks	(2,073)	2,073	(554)	554
Customer accounts	(7,266)	7,266	(5,383)	5,383
Debt securities issued	(318)	318	(36)	36
Loan received from the international financial organization	(307)	307	-	-
Subordinated debt	(149)	149	(147)	147
Net impact on profit before tax	**(851)**	**851**	**(754)**	**754**

Price risk

Price risk is the risk that the value of a financial instrument will fluctuate as a result of unfavorable fluctuation in securities prices in the trading portfolio of the Bank, in the prices of derivative, other instruments and commodities, other than those caused by the changes in foreign exchange rates or interest rates.

The Department for investment business controls price risk through monitoring of the market price quotation.

Currency risk

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

The Department for economic analysis and economic ratios management controls currency risk by management of the open currency position on the estimated basis of UAH devaluation and other macroeconomic indicators, which gives the Bank an opportunity to minimize losses from significant currency rates fluctuations toward its national currency. The Department for economic analysis and economic ratios management performs daily monitoring of the Bank's open currency position with the aim to match the requirements of the NBU.

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

	National currency and non-monetary items	**USD** 1USD= UAH 5.05	**EUR** 1 EUR= UAH 7.41946	**Other currency**	**31 December 2007 Total**
ASSETS					
Cash and balances with the National Bank of Ukraine	56,657	13,516	5,885	953	77,011
Precious metals	-	-	-	3,351	3,351
Due from banks	130,509	67,060	16,998	2,377	216,944
Loans to customers	342,476	368,234	40,515	-	751,225
Investment property	3,859	-	-	-	3,859
Property, plant and equipment and intangible assets	94,655	-	-	-	94,655
Other assets	3,039	22	-	-	3,061
TOTAL ASSETS	**631,195**	**448,832**	**63,398**	**6,681**	**1,150,106**
LIABILITIES					
Due to banks	112,646	94,943	23	-	207,612
Customer accounts	372,126	298,593	52,418	3,482	726,619
Debt securities issued	31,790	-	-	-	31,790
Loan received from the international financial organization	-	30,731	-	-	30,731
Current income tax liabilities	804	-	-	-	804
Deferred income tax liabilities	9,631	-	-	-	9,631
Other liabilities	6,211	358	87	19	6,675
Subordinated debt	-	14,923	-	-	14,923
TOTAL LIABILITIES	**533,208**	**439,548**	**52,528**	**3,501**	**1,028,785**
OPEN POSITION	**97,987**	**9,284**	**10,870**	**3,180**	

	National currency and non-monetary items	**USD** 1USD= UAH 5.05	**EUR** 1 EUR= UAH 6.65085	**Other currency**	**31 December 2006 Total**
ASSETS					
Cash and balances with the National Bank of Ukraine	53,439	12,431	3,705	692	70,267
Precious metals	-	-	-	2,344	2,344
Due from banks	35,891	27,268	11,107	1,132	75,398
Loans to customers	192,975	242,772	25,410	-	461,157
Investment property	1,227	-	-	-	1,227
Property, equipment and intangible assets	61,225	-	-	-	61,225
Other assets	6,386	-	-	-	6,386
TOTAL ASSETS	**351,143**	**282,471**	**40,222**	**4,168**	**678,004**
LIABILITIES					
Due to banks	20,009	27,680	7,903	-	55,592
Customer accounts	271,849	232,795	32,093	1,524	538,261
Debt securities issued	3,592	-	-	-	3,592
Current income tax liabilities	1,228	-	-	-	1,228
Deferred income tax liabilities	3,137	-	-	-	3,137
Other liabilities	3,744	-	-	-	3,744
Subordinated debt	-	14,744	-	-	14,744
TOTAL LIABILITIES	**303,559**	**275,219**	**39,996**	**1,524**	**620,298**
OPEN POSITION	**47,584**	**7,252**	**226**	**2,644**	

Currency risk sensitivity

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

	As at 31 December 2007		As at 31 December 2006	
	UAH/USD +1%	UAH/USD -1%	UAH/USD +1%	UAH/USD -1%
Impact on profit or loss	93	(93)	73	(73)
Impact on equity	93	(93)	73	(73)

	As at 31 December 2007		As at 31 December 2006	
	UAH/EUR +9%	UAH/ EUR -9%	UAH/ EUR +10%	UAH/ EUR -10%
Impact on profit or loss	978	(978)	23	(23)
Impact on equity	978	(978)	23	(23)

Limitations of sensitivity analysis

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

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

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

Geographical concentration

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

	Ukraine	Other non-OECD countries	OECD countries	31 December 2007 Total
ASSETS				
Cash and balances with the National Bank of Ukraine	77,011	-	-	77,011
Precious metals	3,351	-	-	3,351
Due from banks	196,094	954	19,896	216,944
Loans to customers	751,225	-	-	751,225
Investment property	3,859	-	-	3,859
Property, plant and equipment and intangible assets	94,655	-	-	94,655
Other assets	3,061	-	-	3,061
TOTAL ASSETS	**1,129,256**	**954**	**19,896**	**1,150,106**
LIABILITIES				
Due to banks	207,611	1	-	207,612
Customer accounts	725,011	1,608	-	726,619
Debt securities issued	31,790	-	-	31,790
Loan received from the international financial organization	-	-	30,731	30,731
Current income tax liabilities	804	-	-	804
Deferred income tax liabilities	9,631	-	-	9,631
Other liabilities	6,675	-	-	6,675
Subordinated debt	-	14,923	-	14,923
TOTAL LIABILITIES	**981,522**	**16,532**	**30,731**	**1,028,785**
OPEN POSITION	**147,734**	**(15,578)**	**(10,835)**	

	Ukraine	Other non-OECD countries	OECD countries	31 December 2006 Total
ASSETS				
Cash and balances with the National Bank of Ukraine	70,267	-	-	70,267
Precious metals	2,344	-	-	2,344
Due from banks	55,900	724	18,774	75,398
Loans to customers	461,157	-	-	461,157
Investment property	1,227	-	-	1,227
Property, plant and equipment and intangible assets	61,225	-	-	61,225
Other assets	6,386	-	-	6,386
TOTAL ASSETS	**658,506**	**724**	**18,774**	**678,004**
LIABILITIES				
Due to banks	55,592	-	-	55,592
Customer accounts	538,261	-	-	538,261
Debt securities issued	3,592	-	-	3,592
Current income tax liabilities	1,228	-	-	1,228
Deferred income tax liabilities	3,137	-	-	3,137
Other liabilities	3,744	-	-	3,744
Subordinated debt	-	14,744	-	14,744
TOTAL LIABILITIES	**605,554**	**14,744**	**-**	**620,298**
OPEN POSITION	**52,952**	**(14,020)**	**18,774**	