OJSC Kredobank
Financial Statements

Year ended 31 December 2007
Together with Independent Auditors' Report

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INDEPENDENT AUDITORS' REPORT

To the Shareholders and the Board of Directors of Open Joint Stock Company Kredobank

We have audited the accompanying financial statements of Open Joint Stock Company Kredobank (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.

Auditor's Responsibility

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

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

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

Unqualified Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2007, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young Audit Services LLC

10 April 2008
Kyiv, Ukraine

BALANCE SHEET
As at 31 December 2007
(Thousands of Ukrainian hryvnia)

	Notes	2007	2006
Assets			
Cash and cash equivalents	6	439,049	412,308
Financial assets at fair value through profit or loss	7	208,516	136,376
Amounts due from credit institutions	8	99,871	72,655
Loans to customers	9	3,430,606	2,378,361
Financial investments available-for-sale		30	929
Non-current assets held for sale	10	10,509	15,771
Property and equipment	11	339,977	199,579
Intangible assets	12	15,659	5,398
Deferred income tax assets	15	22,294	14,659
Income tax receivable		-	566
Other assets	14	25,711	37,993
Total assets		**4,592,222**	**3,274,595**
Liabilities			
Amounts due to the National Bank of Ukraine		-	53,055
Amounts due to credit institutions	16	856,269	521,925
Amounts due to customers	17	3,160,783	2,379,553
Subordinated debt	18	111,864	73,751
Debt securities issued	19	25,400	-
Income tax liability		576	-
Other liabilities	14	13,771	8,944
Total liabilities		**4,168,663**	**3,037,228**
Equity	20		
Share capital		450,057	273,307
Accumulated deficit		(26,498)	(35,940)
Total equity		**423,559**	**237,367**
Total liabilities and equity		**4,592,222**	**3,274,595**

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

Stepan Kubiv Chairman of the Board

Taras Khoma Deputy Chairman of the Board

10 April 2008

ВІДКРИТЕ АКЦІОНЕРНЕ ТОВАРИСТВО "КРЕДОБАНК" КРЕДОБАНК 09807862 ЛЬВІВ * УКРАЇНА

The accompanying notes on pages 5 to 37 are an integral part of these financial statements

STATEMENT OF INCOME
For the year ended 31 December 2007
(Thousand of Ukrainian hryvnia)

	Notes	*2007*	*2006*
Interest income			
Loans to customers		456,773	290,975
Amounts due from credit institutions		4,962	4,386
Securities		18,085	10,604
Other		180	222
		480,000	**306,187**
Interest expense			
Amounts due to customers		(253,713)	(146,295)
Amounts due to credit institutions		(29,103)	(22,773)
Subordinated loans		(8,795)	(5,981)
Amounts due to the National Bank of Ukraine		(116)	(300)
		(291,727)	**(175,349)**
Net interest income		**188,273**	**130,838**
Impairment of interest earning assets	9	(21,776)	(12,987)
Net interest income after impairment of interest earning assets		**166,492**	**117,851**
Fee and commission income		72,869	61,562
Fee and commission expense		(3,675)	(5,170)
Net fee and commission income	21	**69,194**	**56,392**
Gains less losses from trading securities		(310)	381
Gains less losses from foreign currencies:			
- dealing, net		13,955	10,677
- translation differences, net		(505)	679
Other income		7,480	4,965
Other non interest income		**20,620**	**16,702**
Salaries and benefits	22	(93,454)	(58,773)
Depreciation and amortisation	11,12	(23,682)	(17,032)
Other administrative and operating expenses	22	(121,184)	(71,821)
Impairment of other assets and provisions	13	(1,901)	(557)
Other non interest expense		**(240,221)**	**(148,183)**
Profit before income tax expense		**16,090**	**42,762**
Income tax expense	15	(6,648)	(15,530)
Profit for the year		**9,442**	**27,232**

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2007

(Thousand of Ukrainian hryvnia)

	Share capital	*Accumulated Deficit*	*Total Equity*
31 December 2005	**197,557**	**(63,172)**	**134,385**
Issue of share capital	75,750		75,750
Profit for the year		27,232	27,232
31 December 2006	**273,307**	**(35,940)**	**237,367**
Issue of share capital	176,750		176,750
Profit for the year		9,442	9,442
31 December 2007	**450,057**	**(26,498)**	**423,559**

The accompanying notes on pages 5 to 37 are an integral part of these financial statements

STATEMENT OF CASH FLOWS
For the year ended 31 December 2007
(Thousand of Ukrainian hryvnia)

	Notes	2007	2006
Cash flows from operating activities			
Interest and commissions received		553,653	377,324
Interest and commissions paid		(276,836)	(167,354)
Gains less losses from dealing in foreign currencies and securities		13,645	11,058
Other operating income received		7,480	4,965
Salaries and benefits paid		(91,708)	(57,754)
Other operating and administrative expenses paid		(120,597)	(70,156)
Cash flow from operating activities before changes in operating assets and liabilities		**85,637**	**98,083**
Net (increase) / decrease in operating assets			
Amounts due from credit institutions		(25,674)	(55,477)
Trading securities		(73,940)	(95,075)
Loans to customers		(1,028,135)	(890,607)
Other assets		12,855	(10,993)
Net increase / (decrease) in operating liabilities			
Amounts due to the National Bank of Ukraine		(53,000)	53,000
Amounts due to credit institutions		318,205	247,943
Amounts due to customers		727,121	812,775
Other liabilities		5,743	1,178
Net cash flows from operating activities before income taxes		**(31,187)**	**160,827**
Income tax paid		(13,141)	(15,090)
Net cash flows from operating activities		**(44,328)**	**145,737**
Cash flows from investing activities			
Purchase of property and equipment		(163,696)	(106,691)
Purchase of intangible assets		(12,794)	(3,101)
Proceeds from sale of property and equipment		759	125
Net cash flows used in investing activities		**(175,731)**	**(109,667)**
Cash flows from financing activities			
Proceeds from issue of share capital		176,750	75,750
Debt securities issued		25,000	-
Subordinated loans received		37,875	-
Net cash flows from financing activities		**239,625**	**75,750**
Effect of exchange rate changes on cash and cash equivalents		7,175	7,038
Net change in cash and cash equivalents		**26,741**	**118,859**
Cash and cash equivalents, at the beginning of the year	6	**412,308**	**293,449**
Cash and cash equivalents, at the end of the year	6	**439,049**	**412,308**

The accompanying notes on pages 5 to 37 are an integral part of these financial statements

1. Principal activities

OJSC Kredobank (the "Bank") was founded in 1990 as a joint stock company. Initially registered at the USSR State Bank, the Bank was re-registered at the National Bank of Ukraine (the "NBU") on 14 October 1991 under the name of West-Ukrainian Commercial Bank. In 2002, the Bank was renamed as Kredyt Bank (Ukraina). In November 2005, the shareholders of the Bank made the decision to change the name to Kredobank. The Bank operates under general banking licence #43 issued by the NBU on 27 January 2006. This provides the Bank with the right to conduct banking operations, including currency operations. The Bank also possesses a licence for securities operations and custodial services from the State Commission for Securities and Stock Market, which was issued on 19 October 2004.

The Bank's Head office is in Lviv at 78 Saharova St. In 2007, it had 24 branches (2006 - 20) located in Lviv and other regions of Ukraine. The Bank and its branches form a single legal entity. The Bank had 2,769 employees as at 31 December 2007 (2006 - 2,214 employees).

The Bank's customer base is mainly comprised of medium-sized enterprises. The Bank accepts deposits from the public and makes loans, transfers payments in Ukraine and abroad, exchanges currencies, invests funds and provides cash and settlements, and other banking services to its customers.

As at 31 December 2007, 98.2% of the issued paid-in share capital was owned by PKO BP S.A. (Poland) (2006 - 98.1% owned by: PKO BP S.A. (Poland) and the European Bank for Reconstruction and Development). Details of the Bank's shareholders are presented in Note 20 and the Bank's transactions with its related parties are disclosed in Note 27.

The Bank is a subsidiary of PKO BP S.A. and is a part of the PKO BP S.A. Group ("PKO BP S.A. Group" or the "Group"). The Group is ultimately controlled by the State Treasury of Poland.

2. Operating environment of the Bank

Whilst there have been improvements in recent years in the economic situation in Ukraine, the economy of Ukraine continues to display certain characteristics of an emerging market. These characteristics include, but are not limited to, the existence of a currency that is not freely convertible outside of the country, a low level of liquidity in the capital markets, restrictive currency controls and relatively high inflation.

Additionally, the banking sector in Ukraine is particularly sensitive to adverse currency and interest rates fluctuations, political instability and economic conditions. Furthermore, the need for further developments in the bankruptcy laws, formalised procedures for the registration and enforcement of collateral, and other legal and fiscal impediments contribute to the difficulties experienced by banks currently operating in Ukraine.

The future direction of Ukraine is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with legal, regulatory and political developments, which are beyond the Bank's control.

In addition, economic conditions continue to limit the volume of activity in the financial markets. Market quotations may not be reflective of the values for securities which would be determined in an efficient, active market involving a large number of willing buyers and willing sellers.

3. Basis of preparation

General

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

The Bank is required to maintain its books of account in Ukrainian hryvnia and prepare financial statements for regulatory purposes in accordance with the "Regulations on the Organisation of Accounting and Reporting for Ukrainian Banking Institutions" ("Ukrainian Accounting Regulation" or "UAR") issued by the National Bank of Ukraine and in accordance with Ukrainian Accounting Standards. These financial statements are based on the Bank's statutory books and records, as adjusted and reclassified in order to comply with IFRS. The reconciliation between UAR and IFRS is presented later in this note.

The financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies below. For example, trading securities have been measured at fair value.

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

(Thousands of Ukrainian hryvnia, unless otherwise indicated)

3. Basis of preparation (continued)

Changes in accounting policies

The Bank has adopted the following new and amended IFRS during the year. Adoption of these standards did not have any effect on the financial performance or position of the Bank. The principal effects of these changes are as follows:

IFRS 7 "Financial Instruments: Disclosures"

This standard requires disclosures that enable users of the financial statements to evaluate the significance of the Bank's financial instruments and the nature and extent of risks arising from those financial instruments. The new disclosures are included throughout the financial statements.

Amendment to IAS 1 "Presentation of Financial Statements"

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

Inflation accounting

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

Reconciliation of UAR and IFRS equity and profit for the year

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

	2007		*2006*	
	Equity	*Profit for the year*	*Equity*	*Profit for the year*
Ukrainian Accounting Regulations	**431,784**	**1,786**	**257,742**	**23,159**
Inflation impact on non-monetary items	9,654	(382)	10,036	(1,374)
Application of effective interest rate concept	(9,415)	(1,147)	(10,562)	1,481
Fair value adjustment on financial instruments	1,032	(3,166)	(296)	176
Impairment of financial assets	(29,829)	(1,513)	(28,316)	1,921
Valuation of assets held-for-sale	(6,993)	(1,545)	(5,448)	1,658
Effect of accruals	(1,499)	(2,419)	920	2,222
Deferred tax	11,378	6,205	5,173	(5,940)
Difference in depreciation	16,858	9,022	7,836	3,518
Other	589	307	282	411
International Financial Reporting Standards	**423,559**	**9,442**	**237,367**	**27,232**

4. Summary of accounting policies

Financial instruments – initial recognition and subsequent measurement

Financial assets

Initial recognition

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

Date of recognition

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

4. Summary of accounting policies (continued)

Financial assets at fair value through profit or loss

Financial assets are designated by management as financial assets at fair value through profit and loss if they meet either of the following conditions: they are classified as held for trading or they are initially recognised at fair value through profit and loss.

Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives are also classified as held for trading unless they are designated and effective hedging instruments. Gains or losses on financial assets held for trading are recognised in the statement of income.

Financial assets are initially designated as financial assets at fair value through profit and loss when the following criteria are met:

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

Financial assets at fair value through profit or loss are recorded in the balance sheet at fair value. Changes in fair value are recorded in the statement of income. Interest earned is accrued in interest income according to the terms of contract, while dividend income is recorded in other operating income when the right to the payment has been established.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as trading securities or designated as investment securities available-for-sale. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the statement of income when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets

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

Determination of fair value

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

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

Offsetting

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

Cash and cash equivalents

Cash and cash equivalents are items which can be converted into cash within a day and which are subject to an insignificant risk of changes in value. Cash and cash equivalents include balances on correspondent accounts and overnight deposits due from other banks, cash on hand and amounts due from the NBU.

4. Summary of accounting policies (continued)

Repurchase and reverse repurchase agreements and securities lending

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

Securities lent to counterparties are retained in the balance sheet. Securities borrowed are not recorded in the balance sheet, unless these are sold to third parties, in which case the purchase and sale are recorded within gains less losses from trading securities in the statement of income. The obligation to return them is recorded at fair value as a trading liability.

Promissory notes

Promissory notes purchased are included in trading securities or in loans to customers, depending on their substance and are accounted for in accordance with the accounting policies for these categories of assets.

Borrowings

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

Impairment of financial assets

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

Amounts due from credit institutions and loans to customers

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

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

4. Summary of accounting policies (continued)

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

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

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

Available-for-sale financial investments

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

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

Renegotiated loans

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

Derecognition of financial assets and liabilities

Financial assets

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

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

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

4. Summary of accounting policies (continued)

Financial liabilities

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

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

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 recognised as expenses on a straight-line basis over the lease term in the statement of income.

Financial guarantees

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

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

Taxation

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

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

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

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

Property and equipment

Property and equipment are carried at cost or restated cost (for assets acquired prior to 31 December 2000) less accumulated depreciation. Depreciation of assets under construction and those not placed in service commences from the date the assets are placed in service. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

	Years
Buildings	50
Furniture, fixtures and other assets	10
Banking equipment	10
Motor vehicles	4
Computers	5

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

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

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

4. Summary of accounting policies (continued)

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

Intangible assets

Intangible assets include acquired licences for computer software. Intangible assets are stated at cost net of accumulated amortisation. Amortisation is provided so as to write down the cost of an asset on a straight-line basis over its estimated useful economic life. The useful life is 5 years.

Non-current assets as held for sale

The Bank classifies a non-current asset as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the non-current asset must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets and its sale must be highly probable.

The sale qualifies as highly probable if the Bank's management is committed to a plan to sell the non-current asset and an active program to locate a buyer and complete the plan must have been initiated. Further, the non-current asset must have been actively marketed for a sale at price that is reasonable in relation to its current fair value and in addition the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification of the non-current asset as held for sale.

The Bank measures an asset classified as held for sale at the lower of its carrying amount and fair value less costs to sell. The Bank recognises an impairment loss for any initial or subsequent write-down of the asset to fair value less costs to sell if events or changes in circumstance indicate that their carrying amount may be impaired.

Provisions

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

Retirement and other benefit obligations

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

Share capital

Share capital contributions received before 31 December 2000 are recognised at restated cost in accordance with IAS 29 "Financial reporting in hyperinflationary economies".

Bank has only ordinary shares which are classified as equity. Any newly issued, registered and fully paid ordinary shares are also classified as equity. Any excess of the fair value of consideration received over the par value of shares issued is recognised as additional paid-in capital.

Fiduciary assets

Assets held in a fiduciary capacity are not reported in the financial statements, as they are not the assets of the Bank.

Contingencies

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

Recognition of income and expenses

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

4. Summary of accounting policies (continued)

Interest and similar income and expense

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

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

Fee and commission income

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

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

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

- Fee income from providing transaction services

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

Dividend income

Revenue is recognised when the Bank's right to receive the payment is established.

Foreign currency translation

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

Differences between the contractual exchange rate of a certain transaction in a foreign currency and the NBU exchange rate on the date of the transaction are included in gains less losses from dealing in foreign currencies.

The official NBU exchange rates at 31 December 2007 and 2006 were UAH 5.05 and 5.05 hryvnia to 1 US dollar and UAH 7.4195 and UAH 6.6509 to 1 euro, respectively. The official NBU exchange rates as at date of issue of these financial statements were UAH 5.05 hryvnia to 1 US dollar and UAH 7.9416 to 1 euro.

4. Summary of accounting policies (continued)

Future changes in accounting policies

Standards and interpretations issued but not yet effective

IAS 23 (revised) "Borrowing Costs"

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

IFRIC 12 "Service Concession Arrangements"

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

IFRIC 13 "Customer Loyalty Programmes"

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

IFRIC 14 "IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction"

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

5. Significant accounting judgements and estimates

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities. Judgements and estimates are continually evaluated and are based on Management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Allowance for impairment of loans and receivables

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

Related party transactions

In the normal course of business the Bank enters into transactions with its related parties. IAS 39 required initial recognition of financial instruments based on their fair values. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analysis.

(Thousands of Ukrainian hryvnia, unless otherwise indicated)

6. Cash and cash equivalents

Cash and cash equivalents comprise:

	2007	*2006*
Cash on hand	183,844	146,537
Current account with the NBU	134,701	140,172
Current accounts with other credit institutions	65,335	105,542
Time deposits with credit institutions up to 90 days	55,169	20,057
Total cash and due from the NBU	**439,049**	**412,308**

The current account with the NBU represents amounts deposited with the NBU relating to daily settlements and other activities. The Bank is also required to maintain, in the form of a non-interest earning cash deposit, certain cash reserves with the NBU (obligatory reserve), which are computed as a percentage of certain of the Bank's liabilities less cash on hand and other eligible balances. There are no restrictions on the withdrawal of funds from the NBU, however, if minimum average reserve requirements are not met, the Bank could be subject to certain penalties. The Bank was obliged to and maintained the minimal cumulative average reserve calculated on a daily basis over a monthly period. The average daily requirement for the period from 1 to 31 December 2007 was UAH 85,723 thousand (2006: UAH 48,125 thousand). The Bank meets the NBU obligatory reserve requirements as at 31 December 2007 and 2006.

7. Financial assets at fair value through profit or loss

Financial assets designated at fair value through profit or loss comprise:

	2007	*2006*
Ukrainian state bonds	100,710	61,995
Corporate bonds	83,658	49,212
Investment certificates	24,148	25,169
Total financial assets at fair value through profit or loss	**208,516**	**136,376**

Investment certificates represent certificates of a closed private diversified mutual fund managed by an asset management company. As at 31 December 2007 and 2006, these funds comprise a portfolio of corporate bonds and other money market instruments available on the Ukrainian financial market, including short-term deposits with Ukrainian banks and investments into projects with real estate. The investment certificates are redeemable in 2016.

As at 31 December 2007, Ukrainian state bonds with carrying amount of UAH 59,657 thousand were pledged as security under a short-term loan received from one Ukrainian bank (2005 – UAH 55,798 thousand pledged as security under a short-term loan received from NBU).

Coupon interest rates and maturities are as follows:

	2007		*2006*	
	%	*Maturity*	*%*	*Maturity*
Corporate bonds	15%-18%	2008-2012	14%-18%	2007-2011
Ukrainian state bonds	6%-12%	2008-2009	6%-12%	2007-2009

8. Amounts due from credit institutions

Amounts due from credit institutions comprise:

	2007	*2006*
Inter-bank loans	95,950	62,452
Guarantee deposits	3,921	10,203
Total amounts due from credit institutions	**99,871**	**72,655**

As at 31 December 2007 guarantee deposits include an equivalent of UAH 3,921 thousand due from two Ukrainian banks placed as guarantee deposits in US dollars for card settlements and transfers (2006 - UAH 3,636 thousand and an equivalent of UAH 6,567 thousand placed in Ukrainian hryvnia and US dollars). Such placements are normally non-interest bearing.

(Thousands of Ukrainian hryvnia, unless otherwise indicated)

8. Amounts due from credit institutions (continued)

As at 31 December 2007, inter-bank loans are represented by an equivalent of UAH 95,950 thousand placed as stabilisation loans in US dollars with four OECD banks under a special-purpose short-term credit facility received from the bank-shareholder (2006 – nil). See also Note 16.

9. Loans to customers

Loans to customers comprise:

	2007	*2006*
Corporate lending	2,672,627	1,914,622
Retail lending	906,612	590,877
	3,579,239	**2,505,499**
Less – Allowance for impairment	(148,633)	(127,138)
Total loans to customers	**3,430,606**	**2,378,361**

Allowance for impairment of loans to customers

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

	Corporate lending 2007	*Retail lending 2007*	*Total 2007*
At 1 January 2007	123,180	3,958	127,138
Charge for the year	6,786	14,878	21,664
Translation difference	140	126	266
Amounts written off	(435)	-	(435)
At 31 December 2007	**129,671**	**18,962**	**148,633**
Individual impairment	43,808	14,248	58,056
Collective impairment	85,863	4,714	90,577
	129,671	**18,962**	**148,633**
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	**261,269**	**28,027**	**289,296**

	Corporate lending 2006	*Retail lending 2006*	*Total 2006*
At 1 January 2006	109,663	6,826	116,489
Charge / (reversal) for the year	15,036	(2,017)	13,019
Translation difference	489	(673)	(184)
Amounts written off	(2,008)	(178)	(2,186)
At 31 December 2006	**123,180**	**3,958**	**127,138**
Individual impairment	46,705	-	46,705
Collective impairment	76,475	3,958	80,433
	123,180	**3,958**	**127,138**
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	**152,862**	**-**	**152,862**

(Thousands of Ukrainian hryvnia, unless otherwise indicated)

9. Loans to customers (continued)

The fair value of collateral that the Bank holds relating to loans individually determined to be impaired at 31 December 2007 amounts to UAH 63,943 thousand (2006: UAH 72,547 thousand). In accordance with Ukrainian legislation, loans may only be written off with the approval of the Board of Directors and, in certain cases, with the respective decision of the Court.

Collateral and other credit enhancements

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

The main types of collateral obtained are as follows:

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

The Bank also obtains guarantees from parent companies for loans to their subsidiaries.

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

During the year, the Bank took possession of non-production premises with an estimated value of UAH 280 thousand, which the Bank is in the process of selling. It is the Bank's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In general, the Bank does not occupy repossessed properties for business use.

Concentration of loans to customers

As at 31 December 2007, the Bank had a concentration of loans represented by UAH 363,454 thousand due from the ten largest third party borrowers (10% of loan gross portfolio) (2006 – UAH 253,056 thousand or 13%). An allowance of UAH 9,127 thousand (2006 – UAH 25,087 thousand) was recognised against these loans.

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

	2007	*%*	*2006*	*%*
Trading	931,882	26.0	761,301	30.4
Retail loans	459,936	12.9	157,884	6.3
Agriculture and food processing	430,913	12.0	305,606	12.2
Manufacturing	414,897	11.6	356,540	14.2
Residential mortgage	278,655	7.8	275,559	11.0
Real estate and construction	214,810	6.0	112,770	4.5
Services	184,798	5.2	82,559	3.3
Car loans	168,021	4.7	157,434	6.3
Financial services	101,185	2.8	42,665	1.7
Sports and recreation	92,784	2.6	72,035	2.9
Transport	85,909	2.4	58,019	2.3
Printing	64,839	1.8	28,067	1.1
Mining	42,281	1.2	23,768	1.0
Research and science	26,501	0.7	8,724	0.4
Energy	17,819	0.5	5,995	0.2
Telecommunications	4,800	0.1	18,267	0.7
Other industries	59,209	1.7	38,306	1.5
	3,579,239	**100**	**2,505,499**	**100**
Less – Allowance for impairment	(148,633)		(127,138)	
Total loans to customers	**3,430,606**		**2,378,361**	

(Thousands of Ukrainian hryvnia, unless otherwise indicated)

10. Non-current assets held for sale

As of 31 December 2007, non-current assets held for sale are represented by property taken over by the Bank as a result of its foreclosure on non performing loans. The Bank intends to sale of these assets by the end of 2008. As at 31 December 2007, the fair value less estimated costs to sell of these assets amounts to UAH 10,509 thousand (as at 31 December 2006: UAH 15,771 thousand).

11. Property and equipment

The movements of property and equipment were as follows:

	Property	*Computers and equipment*	*Furniture, fixtures and other assets*	*Motor vehicles*	*Construction in progress*	*Total*
Cost						
31 December 2006	**102,524**	**73,768**	**30,091**	**8,812**	**44,016**	**259,2**
Additions	577	-	11,995	4,096	145,151	161,81
Transfers	31,465	48,637	6,653	-	(86,755)	-
Disposals	(71)	(1,769)	(1,246)	(1,318)	-	(4,40
31 December 2007	**134,495**	**120,636**	**47,493**	**11,590**	**102,412**	**416,62**
Accumulated depreciation						
31 December 2006	**13,427**	**27,428**	**14,000**	**4,777**		**59,63**
Charge for the year	2,331	10,262	7,026	1,535		21,15
Disposals	(8)	(1,658)	(1,132)	(1,339)		(4,13
31 December 2007	**15,750**	**36,032**	**19,894**	**4,973**		**76,64**
Net book value						
31 December 2006	**89,097**	**46,340**	**16,091**	**4,035**	**44,016**	**199,57**
31 December 2007	**118,745**	**84,604**	**27,599**	**6,617**	**102,412**	**339,97**

	Property	*Computers and equipment*	*Furniture, fixtures and other assets*	*Motor vehicles*	*Construction in progress*	*Total*
Cost						
31 December 2005	**90,587**	**48,708**	**19,984**	**5,668**	**1,259**	**166,20**
Additions	-	4,766	10,873	3,566	77,968	97,17
Transfers	12,150	23,061	-	-	(35,211)	-
Disposals	(213)	(2,767)	(766)	(422)	-	(4,168)
31 December 2006	**102,524**	**73,768**	**30,091**	**8,812**	**44,016**	**259,21**
Accumulated depreciation						
31 December 2005	**10,794**	**22,222**	**10,472**	**4,126**		**47,61**
Charge for the year	2,633	7,891	4,174	1,075		15,77
Disposals	-	(2,685)	(646)	(424)		(3,755
31 December 2006	**13,427**	**27,428**	**14,000**	**4,777**		**59,63**
Net book value						
31 December 2005	**79,793**	**26,486**	**9,512**	**1,542**	**1,259**	**118,59**
31 December 2006	**89,097**	**46,340**	**16,091**	**4,035**	**44,016**	**199,57**

As at 31 December 2007, property comprises buildings occupied by the Bank with a carrying value of UAH 102,415 thousand, leasehold improvements with a carrying value of UAH 15,467 thousand and land with a carrying value of UAH 863 thousand (2006 – UAH 79,969 thousand, UAH 8,230 thousand and UAH 898 thousand, respectively). Land is not amortised.

As at 31 December 2007, the cost of fully depreciated property and equipment still in use comprised UAH 29,165 thousand (2006 – UAH 20,317 thousand).

(Thousands of Ukrainian hryvnia, unless otherwise indicated)

12. Intangible assets

The movements of intangible assets, which comprise software licences, were as follows:

	Cost	*Accumulated amortization*	*Net book value*
31 December 2005	**6,462**	**(2,906)**	**3,556**
Additions/(charge) for the year	3,101	(1,259)	1,842
31 December 2006	**9,563**	**(4,165)**	**5,398**
Additions/(charge) for the year	12,794	(2,528)	10,266
Disposals	(46)	41	(5)
31 December 2007	**22,311**	**(6,652)**	**15,659**

13. Other impairment and provisions

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

	Securities	*Due from credit institutions*	*Other assets*	*Guarantees and commitments*	*Total*
31 December 2005	**204**	**36**	**3,908**	**441**	**4,589**
Translation differences	-	5	20	429	454
Charge/(release)	9	(41)	962	(405)	525
Write-offs	(149)	-	(71)	-	(220)
31 December 2006	**64**	**-**	**4,819**	**465**	**5,348**
Translation differences	-	-	115	(9)	106
Charge	116	-	1,458	439	2,013
Write-offs	-	-	(601)	-	(601)
31 December 2007	**180**	**-**	**5,791**	**895**	**6,866**

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

14. Other assets and liabilities

Other assets comprise:

	2007	*2006*
Prepayments for property and equipment	13,723	11,847
Prepayments for materials	6,858	12,829
Receivables from clients	3,882	1,624
Prepaid taxes other then income tax	2,938	2,914
Materials	1,141	1,229
Receivables for collateral sold	1,034	1,384
Cash issued to couriers for distribution to clients	676	1,332
Transit accounts	613	6,043
Receivables on operations with securities	294	689
Other	343	2,921
	31,502	**42,812**
Less – Allowance for impairment (Note 13)	(5,791)	(4,819)
Total other assets	**25,711**	**37,993**

As at 31 December 2007, other prepaid taxes include UAH 2,797 thousand of value added tax on collateral under loans extended to customers, taken over by the Bank as a result of its foreclosure, and classified as assets held for sale (2006 - UAH 2,858 thousand).

The Bank acts as an agent for cash transfer operations under the Meest money transfer programme. Cash issued to couriers represents cash funds, which are provided to couriers who deliver cash to the Bank's customers.

(Thousands of Ukrainian hryvnia, unless otherwise indicated)

14. Other assets and liabilities (continued)

Other liabilities comprise:

	2007	*2006*
Payables for utilities and services	6,002	3,708
Payables to personnel on salary and wages	3,199	1,425
Payables to individuals deposits guarantee fund	2,158	1,300
Transit accounts	296	623
Provision for commitments	909	465
Payables to budget on other taxes	357	222
Other	850	1,201
Total other liabilities	**13,771**	**8,944**

Transit accounts are used for operations with payment cards, cheques and cash transfer under international money transfer systems.

15. Taxation

The corporate income tax expense comprises:

	2007	*2006*
Current tax expense	14,283	14,285
Deferred tax expense / (credit)	(7,635)	1,245
Total income tax expense	**6,648**	**15,530**

In 2007, Ukrainian corporate income tax was levied on taxable income less allowable expenses at a rate of 25% (2006 – 25%).

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

	2007	*2006*
Profit before tax	**16,090**	**42,762**
Theoretical income tax expense at the statutory rate (25 %)	4,022	10,691
Effect of revaluation of property and equipment for tax purposes	(490)	(476)
Non-deductible expenditures	4,208	3,335
Change in valuation allowance against deferred tax asset	-	2,780
Tax deductions	(1,092)	(800)
Total income tax expense	**6,648**	**15,530**

Deferred tax assets and liabilities consist of the following:

	2007	*Origination and reversal of temporary differences in the statement of income*	*2006*
Tax effect of deductible temporary differences:			
Allowance for impairment and other provisions	22,592	5,568	17,024
Amounts due to customers	3,118	3,118	-
Fair value measurement of securities	3,283	3,283	-
Deferred tax assets	**28,993**	**11,969**	**17,024**
Tax effect of taxable temporary differences:			
Fair value measurement of securities	(1,189)	(1,030)	(159)
Property and equipment	(5,510)	(3,304)	(2,206)
Deferred tax liability	**(6,699)**	**(4,334)**	**(2,365)**
Net deferred tax position	**22,294**	**7,635**	**14,659**
Less – Valuation allowance	-	-	-
Deferred tax asset, net	**22,294**	**7,635**	**14,659**

(Thousands of Ukrainian hryvnia, unless otherwise indicated)

15. Taxation (continued)

	2006	*Origination and reversal of temporary differences in the statement of income*	*2005*
Tax effect of deductible temporary differences:			
Allowance for impairment and other provisions	17,024	(3,313)	20,337
Amounts due to customers	-	(1,357)	1,357
Deferred tax assets	**17,024**	**(4,670)**	**21,694**
Tax effect of taxable temporary differences:			
Fair value measurement of securities	(159)	99	(258)
Property and equipment	(2,206)	546	(2,752)
Deferred tax liability	**(2,365)**	**645**	**(3,010)**
Net deferred tax position	**14,659**	**(4,025)**	**18,684**
Less – Valuation allowance	-	2,780	(2,780)
Deferred tax asset, net	**14,659**	**(1,245)**	**15,904**

16. Amounts due to credit institutions

Amounts due to credit institutions comprise:

	2007	*2006*
Current accounts	2,743	3,953
Time deposits and loans	793,526	517,972
Repurchase agreements	60,000	-
Total amounts due to credit institutions	**856,269**	**521,925**

As at 31 December 2007, current accounts of other banks include UAH 2,016 thousand placed by the bank-shareholder (2006 – UAH 2,987 thousand).

As at 31 December 2007, the Bank received funds of UAH 55,141 thousand from the EBRD under a loan agreement for financing the franchisee network of an international enterprise (2006– UAH 15,253 thousand).

As at 31 December 2007, time deposits and loans include UAH 228,675 thousand received under credit facilities from three OECD banks which were used to finance letters of credit and loans to customers (2006 – UAH 169,233 thousand received from two OECD banks).

As at 31 December 2007, time deposits and loans include UAH 142,037 thousand of credit facilities provided by one US based non-banking institution to finance the import operations of the Bank's clients (2006 – UAH 86,681 thousand).

As at 31 December 2007, time deposits and loans include an equivalent of UAH 95,950 thousand of a special-purpose short-term credit facility in US dollars received from the bank-shareholder which were used to provide stabilization loans to four OECD banks (2006 – nil). Equal amounts were included in inter-bank loans due from four OECD banks (see Note 8).

17. Amounts due to customers

Amounts due to customers comprise:

	2007	*2006*
Current accounts		
- Companies	542,750	351,071
- Individuals	306,869	224,714
	849,619	**575,785**
Time deposits		
- Companies	617,085	546,409
- Individuals	1,694,079	1,257,359
	2,311,164	**1,803,768**
Total amounts due to customers	**3,160,783**	**2,379,553**

(Thousands of Ukrainian hryvnia, unless otherwise indicated)

17. Amounts due to customers (continued)

As at 31 December 2007, amounts due to corporate customers of UAH 416,214 thousand (36%) were due to the ten largest third party customers (2006 - UAH 396,125 thousand (48%)).

As at 31 December 2007, included in time deposits of customers were deposits of UAH 135,242 thousand held as collateral for loans to customers and UAH 3,410 thousand held as collateral for un-drawn loan commitments (2006 – UAH 117,713 thousand and UAH 522 thousand respectively). Additionally, UAH 5,466 thousand was held as collateral for commitments under guarantees, promissory notes and import letters of credits (2006 – UAH 11,340 thousand).

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

18. Subordinated debt

As at 31 December subordinated debt was as follows:

	Effective interest rate 2007	*Carrying value 2007*	*Carrying value 2006*
USD 7,000 thousand floating rate due 2013	Libor 1m + 3%	35,601	35,603
USD 7,500 thousand floating rate due 2013	Libor 1m + 3%	38,144	38,148
USD 7,500 thousand floating rate due 2015	Libor 1m + 2.3%	38,119	-
		111,864	**73,751**

Three long-term loans as presented above were received by the Bank in August 2005, December 2005 and January 2007 respectively from PKO BP S.A. These loans are subordinated in favour of the claims of all other creditors.

19. Debt securities issued

As at 31 December 2007 debt securities issued represent 25,000 non-documentary non-convertible 13.75% bonds at a nominal value of UAH 1 thousand per bond maturing on 20 February 2012. As at 31 December 2007, the carrying amount of bonds issued comprised UAH 25,400 thousand (2006 – nil). The contractual interest rate on the bonds is reconsidered annually. At 31 December 2007, the effective interest rate on the bonds was 13.81%. The bonds are puttable at par at the option of the holder during February of each year until maturity date.

During the year ended 31 December 2007, the Bank has re-purchased and subsequently re-sold bonds issued with a total nominal amount of UAH 13,000 thousand.

20. Equity

The movement of fully paid and outstanding shares was as follows:

	Number of shares	*Nominal amo*	*Inflation adjustment*	*Total*
31 December 2005	**14,354,946,916**	**143,549**	**54,(**	**197,557**
Increase in share capital	7,575,000,000	75,750	-	75,750
31 December 2006	**21,929,946,916**	**219,299**	**54,(**	**273,307**
Increase in share capital	17,675,000,000	176,750	-	176,750
31 December 2007	**39,604,946,916**	**396,049**	**54,(**	**450,057**

In May 2007, the shareholders of the Bank approved an issue of 17,675,000,000 ordinary shares. This share issue was registered by the State Commission of Securities and Stock Market and by the NBU on 12 June 2007 and 30 August 2007, respectively.

At 31 December 2007, the Bank's authorised share capital comprised 39,604,946,916 (2006 – 21,929,946,916) ordinary shares, with a nominal value of UAH 0.01 per share. All ordinary shares have equal voting rights. As at 31 December 2007, 39,604,946,916 shares were issued, fully paid and registered (2006 – 21,929,946,916 shares).

(Thousands of Ukrainian hryvnia, unless otherwise indicated)

20. Equity (continued)

The respective interests of shareholders are as follows:

Shareholder	*2007*	*2006*
PKO BP S.A.	98.2%	69.9%
EBRD	0.0%	28.2%
Other (resident and non-resident shareholders)	1.8%	1.9%
	100.0%	**100.0%**

The share capital of the Bank was contributed by the shareholders in Ukrainian hryvnia, US dollars or Euro and they are entitled to dividends and any capital distribution in Ukrainian hryvnia.

The Bank's distributable reserves are determined by the amount of its reserves as disclosed in the accounts prepared in accordance with UAR. As at 31 December 2007, the statutory accounts of the Bank disclosed distributable reserves of UAH 1,786 thousand (2006 – UAH 23,159 thousand) and the amount of non-distributable reserves was UAH 38,403 thousand (2006 - UAH 15,245 thousand). Non-distributable reserves are represented by a general reserve fund, which is created as required by Ukrainian legislation, in respect of general banking risks, including future losses and other unforeseen risks or contingencies.

21. Net fee and commission income

Net fee and commission income comprises:

	2007	*2006*
Cash and settlement operations	47,627	37,711
Currency conversion operations	10,861	8,835
Credit services	9,458	11,383
Guarantees and letters of credit	4,282	2,632
Securities operations	237	756
Other	404	245
Fee and commission income	**72,869**	**61,562**
Cash and settlement operations	(1,444)	(2,725)
Guarantees and letters of credit	(1,428)	(1,166)
Currency conversion operations	(8)	(64)
Other	(795)	(1,215)
Fee and commission expense	**(3,675)**	**(5,170)**
Net fee and commission income	**69,194**	**56,392**

22. Salaries and benefits, other administrative and operating expenses

Salaries and benefits comprise:

	2007	*2006*
Salaries and bonuses	70,604	44,820
Social security costs	22,850	13,953
Total salaries and benefits	**93,454**	**58,773**

The aggregate remuneration and other benefits paid to members of the Management Board for 2007 is UAH 3,538 thousand (2006 – UAH 3,021 thousand).

(Thousands of Ukrainian hryvnia, unless otherwise indicated)

22. Salaries and benefits, other administrative and operating expenses (continued)

Other administrative and operating expenses comprise:

Occupancy and rent	37,631	18,188
Security	10,424	5,285
Office expenses	10,073	7,344
Payments to individuals' deposits guarantee fund	8,022	4,912
EDP costs	7,439	4,660
Repairs and maintenance	7,350	5,139
Legal and consultancy	6,328	3,606
Marketing and advertising	4,996	6,239
Communications	4,348	3,270
Business travel and related expenses	3,872	2,605
Insurance	2,685	860
Agency fees	2,647	2,483
Loss on initial recognition on loans granted lo legal entities	2,635	-
Valuation adjustment on assets held-for-sale	1,545	-
Operating taxes	1,152	1,305
Cash collection	1,200	816
Charity	1,365	627
Penalties incurred	82	37
Other	7,390	4,445
Total other administrative and operating expenses	**121,184**	**71,821**

23. Commitments and contingencies

Legal

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

Tax and other regulatory compliance

Ukrainian legislation and regulations regarding taxation and other operational matters, including currency exchange control and custom regulations, continue to evolve. Legislation and regulations are not always clearly written and are subject to varying interpretations by local, regional and national authorities, and other Governmental bodies. Instances of inconsistent interpretations are not unusual. At the same time there is a risk that transactions and interpretations that have not been challenged in the past may be challenged by the authorities in the future, although this risk significantly diminishes with passage of time.

Recent events within Ukraine suggest that the tax authorities are taking a more assertive position in its interpretation of the legislation and assessments and, as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged. As such, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

It is not practical to determine the amount of unasserted claims that may manifest, if any, or the likelihood of any unfavourable outcome.

As at 31 December 2007, the management believes that its interpretation of the relevant legislation is appropriate and that the Bank has complied with all regulations and paid or accrued all taxes and withholdings that are applicable.

(Thousands of Ukrainian hryvnia, unless otherwise indicated)

23. Commitments and contingencies (continued)

Financial commitments and contingencies

As at 31 December, the Bank's financial commitments and contingencies comprised the following:

	2007	*2006*
Credit related commitments		
Undrawn loan commitments	245,061	96,931
Promissory note guarantees	38,455	42,899
Guarantees	33,922	17,763
Letters of credit	25,180	13,505
	342,618	**171,098**
Operating lease commitments		
Not later than 1 year	32,449	24,960
Later than 1 year but not later than 5 years	85,309	70,492
Later than 5 years	2,728	8,779
	120,486	**104,231**
Capital expenditure commitments	9,534	-
Less – Provisions (Note 13)	(895)	(465)
Less – Cash held as security against letters of credit and guarantees	(5,466)	(11,340)
Financial commitments and contingencies	**466,277**	**263,524**

Promissory note guarantees are provided in respect of promissory notes issued by the Bank's customers in favour of the tax authorities.

The Bank has entered into commercial leases on premises and equipment. These leases have an average life of between one and five years. These leases have terms of renewal but no purchase options or escalation clauses. Renewal occurs upon the expiry of a particular lease contract, unless the parties agree otherwise. There are no restrictions placed upon the lessee by entering into these leases.

Financial covenants

The Bank is a party to debt arrangements with the EBRD (see Note 16), which contain certain financial covenants relating to the financial performance and general risk profile of the Bank. Such financial covenants may restrict the Bank's ability to execute certain business strategies and enter into other significant transactions in the future. The Bank complied with these covenants as at 31 December 2007.

Insurance

The Bank has obtained insurance coverage against physical damage and loss, from a Ukrainian insurance company in respect of the Bank's property for a sum insured of UAH 495,974 thousand (2006 - UAH 100,023 thousand).

24. Financial risk management

Introduction

Risk is inherent in the Bank's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Bank's continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities. The Bank is exposed to credit risk, liquidity risk and market risk, the latter being subdivided into trading and non-trading risks. It is also subject to operating risks.

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

Risk management structure

The Board of Directors is ultimately responsible for identifying and controlling risks; however, there are separate independent bodies responsible for managing and monitoring risks.

24. Financial risk management (continued)

Introduction (continued)
Board of Directors

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

Assets and Liabilities Committee

Assets and Liabilities Committee is responsible for designation of overall structure of the Bank's assets and liabilities based on assessment of liquidity risk, market risk, currency risk, interest rate risk, credit risk.

Credit Risk Assessment

The Credit Risk Assessment department is responsible for assessment, control and monitoring of risks related to the Bank's loan granting activities and distribution of off-balance sheet commitments. Credit Risk department is also responsible for monitoring the quality of the loan portfolio and assessing the allowances for impairment of loans and receivables.

Financial Risk Assessment

The Financial Risk Assessment department is responsible for implementation of efficient policies and procedures for managing the financial and credit risks related to short- and long-term activities of the Bank. The Financial Risk Assessment department is responsible for managing currency risk, interest rate risk, market risk and liquidity risk, to which the Bank is exposed.

Internal Audit

Risk management processes throughout the Bank are audited annually by the internal audit function, which examines both the adequacy of the procedures and the Bank's compliance with the procedures. Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the Audit Committee.

Risk measurement and reporting systems

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

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

Information compiled from all the businesses is examined and processed in order to analyse, control and identify risks on a timely basis. This information is presented and explained to the Management Board, the Assets and Liabilities Committee, and the head of each business division. The report includes aggregate credit exposure, credit metric forecasts, hold limit exceptions, liquidity ratios and risk profile changes. On a monthly basis detailed reporting of industry, customer and geographic risks takes place. Senior management assesses the appropriateness of the allowance for credit losses on a quarterly basis. The Board of Directors receives a comprehensive risk report once a quarter which is designed to provide all the necessary information to assess and conclude on the risks of the Bank.

For all levels throughout the Bank, specifically tailored risk reports are prepared and distributed in order to ensure that all business divisions have access to extensive, necessary and up-to-date information.

A daily briefing is given to the Management Board and all other relevant employees of the Bank on the utilisation of market limits, proprietary investments and liquidity, plus any other risk developments.

Risk mitigation

As part of its overall risk management, the Bank uses various instruments to manage exposures resulting from changes in interest rates, foreign currencies, equity risks, credit risks, and exposures arising from forecast transactions.

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

(Thousands of Ukrainian hryvnia, unless otherwise indicated)

24. Financial risk management (continued)

Introduction (continued)

Excessive risk concentration

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

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

Credit risk

Credit risk is the risk that the Bank will incur a loss because its customers, clients or counterparties fail to discharge their contractual obligations. The Bank manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits.

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

Credit-related commitments risks

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

The table below shows the maximum exposure to credit risk for the components of the balance sheet. The maximum exposure is shown before the effect of mitigation through the use of master netting and collateral agreements and after allowances for loan losses.

	Notes	*Maximum exposure 2007*	*Maximum exposure 2006*
Cash and cash equivalents (excluding cash on hand)	6	255,205	265,771
Trading securities	7	208,516	136,376
Amounts due from credit institutions	8	99,871	72,655
Loans to customers	9	3,430,606	2,378,361
Investment securities		30	929
Other assets	14	18,891	33,850
Financial commitments and contingencies	23	471,743	274,864
Total credit risk exposure		4,484,862	3,162,806

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

For more detail on the maximum exposure to credit risk for each class of financial instrument, references should be made to the specific notes. The effect of collateral and other risk mitigation techniques is shown below.

(Thousands of Ukrainian hryvnia, unless otherwise indicated)

24. Financial risk management (continued)

Credit risk (continued)

Credit quality per class of financial assets

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

	Notes	Neither past due nor impaired				
		High grade 2007	Standard grade 2007	Sub-standard grade 2007	Past due or individually impaired 2007	Total 2007
Amounts due from credit institutions	8	-	99,871	-	-	99,871
Loans to customers	9					
Corporate lending		1,416,706	629,623	82,067	544,231	2,672,627
Retail lending		739,395	65,109	7,662	94,447	906,613
		2,156,101	**694,732**	**89,729**	**638,678**	**3,579,240**
Debt investment securities						
Available-for-sale		-	-	-	98	98
Total		**2,156,101**	**794,603**	**89,729**	**638,776**	**3,679,209**

	Notes	Neither past due nor impaired				
		High grade 2006	Standard grade 2006	Sub-standard grade 2006	Past due or individually impaired 2006	Total 2006
Amounts due from credit institutions	8	-	72,655	-	-	72,655
Loans to customers	9					
Corporate lending		1,049,678	451,898	40,595	372,451	1,914,622
Retail lending		513,035	36,123	12,061	29,658	590,877
		1,562,713	**488,021**	**52,656**	**402,109**	**2,505,499**
Debt investment securities						
Available-for-sale		-	895	-	98	993
Total		**1,562,713**	**561,571**	**52,656**	**402,207**	**2,579,147**

Past due loans to customers include those that are only past due by a few days. An analysis of past due loans, by age, is provided below. The majority of the past due loans are not considered to be impaired.

It is the Bank's policy to maintain accurate and consistent risk ratings across the credit portfolio. This facilitates focused management of the applicable risks and the comparison of credit exposures across all lines of business, geographic regions and products. The rating system is supported by a variety of financial analytics, combined with processed market information to provide the main inputs for the measurement of counterparty risk. All internal risk ratings are tailored to the various categories and are derived in accordance with the Bank's rating policy. The attributable risk ratings are assessed and updated on a quarterly basis.

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

	Less than 30 days 2007	31 to 60 days 2007	61 to 90 days 2007	More than 90 days 2007	Total 2007
Loans to customers					
Corporate lending	45,240	4,474	-	33,200	**82,914**
Retail lending	1,496	1,098	528	49,330	**52,452**
Total	**46,736**	**5,572**	**528**	**82,530**	**135,366**

(Thousands of Ukrainian hryvnia, unless otherwise indicated)

24. Financial risk management (continued)

Credit risk (continued)

	Less than 30 days 2006	*31 to 60 days 2006*	*61 to 90 days 2006*	*More than 90 days 2006*	*Total 2006*
Loans to customers					
Corporate lending	1,368	10	-	5,362	**6,740**
Retail loans	3	7	-	14	**24**
Total	**1,371**	**17**	**-**	**5,376**	**6,764**

Of the total aggregate amount of gross past due but not impaired loans to customers, the fair value of collateral that the Bank held as at 31 December 2007 was UAH 59,160 thousand (2006: UAH 4,035 thousand). See 'Collateral and other credit enhancements' in Note 9 for the details of types of collateral held.

See Note 9 for more detailed information with respect to the allowance for impairment of loans to customers.

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

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

	2007	*2006*
Loans to customers		
Corporate lending	362,494	231,737
Retail lending	7,242	689
Total	**369,736**	**232,426**

Impairment assessment

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

Individually assessed allowances

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

Collectively assessed allowances

Allowances are assessed collectively for losses on loans to customers that are not individually significant (including credit cards, residential mortgages and unsecured consumer lending) and for individually significant loans where there is not yet objective evidence of individual impairment. Allowances are evaluated on each reporting date with each portfolio receiving a separate review.

The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is no yet objective evidence of the impairment in an individual assessment. Impairment losses are estimated by taking into consideration of the following information: historical losses on the portfolio, current economic conditions, the appropriate delay between the time a loss is likely to have been uncured and the time it will be identified as requiring an individually assessed impairment allowance, and expected receipts and recoveries once impaired. Local management is responsible for deciding the length of this period which can extend for as long as one year. The impairment allowance is then reviewed by credit management to ensure alignment with the Bank's overall policy.

Financial guarantees and letters of credit are assessed and provision made in a similar manner as for loans.

(Thousands of Ukrainian hryvnia, unless otherwise indicated)

24. Financial risk management (continued)

Geographical concentration

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

	2007			
	Ukraine	*OECD*	*CIS and other non-OECD countries*	*Total*
Assets:				
Cash and cash equivalents	355,408	77,797	5,844	**439,049**
Financial assets at fair value through profit and loss	148,859	-	-	**148,859**
Amounts due from credit institutions	3,921	95,950	-	**99,871**
Loans to customers	3,430,606	-	-	**3,430,606**
Financial investments available-for-sale	30	-	-	**30**
Securities pledged under re-purchase agreements	59,657	-	-	**59,657**
Other monetary assets	5,060	-	-	**5,060**
	4,003,541	**173,747**	**5,844**	**4,183,132**
Liabilities:				
Amounts due to credit institutions	157,388	692,222	6,659	**856,269**
Amounts due to customers	3,160,783	-	-	**3,160,783**
Subordinated debt	-	111,864	-	**111,864**
Debt securities issued	25,400	-	-	**25,400**
Other monetary liabilities	9,691	-	-	**9,691**
	3,353,262	**804,086**	**6,659**	**4,164,007**
Net balance sheet position	**650,279**	**(630,339)**	**(815)**	**19,125**
Net off-balance sheet position	**466,277**	**-**	**-**	**466,277**

	2006			
	Ukraine	*OECD*	*CIS and other non-OECD countries*	*Total*
Assets:				
Cash and cash equivalents	292,082	117,552	2,674	**412,308**
Financial assets at fair value through profit and loss	80,578	-	-	**80,578**
Amounts due from credit institutions	72,655	-	-	**72,655**
Loans to customers	2,378,361	-	-	**2,378,361**
Financial investments available-for-sale	929	-	-	**929**
Securities pledged under re-purchase agreements	55,798	-	-	**55,798**
Other monetary assets	22,870	391	-	**23,261**
	2,903,273	**117,943**	**2,674**	**3,023,890**
Liabilities:				
Amounts due to the NBU	53,055	-	-	**53,055**
Amounts due to credit institutions	121,027	400,898	-	**521,925**
Amounts due to customers	2,379,553	-	-	**2,379,553**
Subordinated debt	-	73,751	-	**73,751**
Other monetary liabilities	7,992	-	-	**7,992**
	2,561,627	**474,649**	**-**	**3,036,276**
Net balance sheet position	**341,646**	**(356,706)**	**2,674**	**(12,386)**
Net off-balance sheet position	**263,524**	**-**	**-**	**263,524**

Liquidity risk and funding management

Liquidity risk is the risk that the Bank will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its core deposit base, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

(Thousands of Ukrainian hryvnia, unless otherwise indicated)

24. Financial risk management (continued)

Liquidity risk and funding management (continued)

The Bank maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. The Bank also has committed lines of credit that it can assess to meet liquidity needs. In addition, the Bank maintains a cash deposit (obligatory reserve) with the NBU, the amount of which depends on the level of customer funds attracted.

The liquidity position is assessed and managed by the Bank primarily on a standalone basis, based on certain liquidity ratios established by the NBU. As at 31 December, these ratios were as follows:

	2007, %	*2006, %*
N4 "Instant Liquidity Ratio" (assets receivable or realisable within one day / liabilities repayable on demand)	43.02	40.48
N5 "Current Liquidity Ratio" (assets receivable or realisable within 31 day / liabilities repayable within 31 day)	53.14	58.56
N6 "Short-Term Liquidity Ratio" (assets receivable in less than one year / sum of capital and liabilities repayable in less than one year)	21.72	26.47

During past year the Bank has complied with liquidity requirements established by the NBU.

Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Bank's financial liabilities at 31 December 2007 based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay and the table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

Financial liabilities As at 31 December 2007	*Less than 3 months*	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total*
Amounts due to credit institutions	371,713	201,536	166,087	116,933	**856,269**
Amounts due to customers	1,587,796	791,983	294,989	486,015	**3,160,783**
Debt securities issued	25,400	-	-	-	**25,400**
Subordinated debt	764	-	-	111,100	**111,864**
Other liabilities	7,147	2,544	-	-	**9,691**
Total undiscounted financial liabilities	**1,992,820**	**996,063**	**461,076**	**714,048**	**4,164,007**

Financial liabilities As at 31 December 2006	*Less than 3 months*	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total*
Amounts due to the NBU	53,055	-	-	-	**53,055**
Amounts due to credit institutions	238,699	88,956	118,024	76,246	**521,925**
Amounts due to customers	1,201,437	800,669	225,710	151,737	**2,379,553**
Subordinated debt	526	-	-	73,225	**73,751**
Other liabilities	4,735	3,257	-	-	**7,992**
Total undiscounted financial liabilities	**1,498,452**	**892,882**	**343,734**	**301,208**	**3,036,276**

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

	Less than 3 months	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total*
2007	78,500	244,493	138,339	11,306	**472,638**
2006	33,146	124,885	101,299	15,999	**275,329**

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

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

(Thousands of Ukrainian hryvnia, unless otherwise indicated)

24. Financial risk management (continued)

Liquidity risk and funding management (continued)

The Bank has received significant funds from PKO BP S.A. and the EBRD. Any significant withdrawal of these funds would have an adverse impact on the operations of the Bank. Management believes that this level of funding will remain with the Bank for the foreseeable future and that in the event of withdrawal of funds, the Bank would be given sufficient notice so as to realise its liquid assets to enable repayment.

The maturity analysis does not reflect the historical stability of current accounts. Their liquidation has historically taken place over a longer period than indicated in the tables above. These balances are included in amounts due in less than three months in the tables above.

Debt securities issued are puttable at the holder's option within 2 month after the balance sheet date. However, none of the holders have exercised their put option in 2008.

Included in due to customers are term deposits of individuals. In accordance with the Ukrainian legislation, the Bank is obliged to repay such deposits upon demand of a depositor. Refer to Note 17.

Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchanges, and equity prices. The market risk is managed and monitored using sensitivity analysis. Except for the concentrations within foreign currency, the Bank has no significant concentration of market risk.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Bank's income statement.

The sensitivity of the income statement is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities held at 31 December 2007. The sensitivity of equity is calculated by revaluing fixed rate available-for-sale financial assets at 31 December 2007 for the effects of the assumed changes in interest rates based on the assumption that there are parallel shifts in the yield curve.

Currency	***Increase in basis points 2007***	***Sensitivity of net interest income 2007***	***Sensitivity of equity 2007***
Euro	0.75%	(409)	-
US dollars	0.75%	(2,367)	-

Currency	***Decrease in basis points 2007***	***Sensitivity of net interest income 2007***	***Sensitivity of equity 2007***
Euro	-1.50%	818	-
US dollars	-1.25%	3,945	-

Currency	***Increase in basis points 2006***	***Sensitivity of net interest income 2006***	***Sensitivity of equity 2006***
Euro	1.50%	(342)	-
US dollars	0.50%	(804)	-

Currency	***Decrease in basis points 2006***	***Sensitivity of net interest income 2006***	***Sensitivity of equity 2006***
Euro	-0.50%	114	-
US dollars	-1.00%	1,607	-

(Thousands of Ukrainian hryvnia, unless otherwise indicated)

24. Financial risk management (continued)

Market risk (continued)

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Management Board sets limits on the level of exposure by currencies (primarily US dollars and Euro), by branches and in total. These limits also comply with the minimum requirements of the National Bank of Ukraine. Positions are monitored on a daily basis.

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

Currency	*Change in currency rate in % 2007*	*Effect on profit before tax 2007*	*Change in currency rate in % 2006*	*Effect on profit before tax 2006*
US dollars	3.10%	(524)	3.00%	(4,679)
Euro	10.10%	(189)	10.30%	(1,296)

Prepayment risk

Prepayment risk is the risk that the Bank will incur a financial loss because its customers and counterparties repay or request repayment earlier or later than expected, such as fixed rate mortgages when interest rates fall.

The Bank uses regression models to project the impact of varying levels of prepayment on its net interest income. The model makes a distinction between the different reasons for repayment (e.g. relocation, refinancing and renegotiation) and takes into account the effect of any prepayment penalties. The model is back tested against actual outcomes.

The effect on profit before tax for one year and on equity, assuming 10% of repayable financial instruments were to prepay at the beginning of the year, with all other variables held constant, is as follows:

	Effect on net interest income	*Effect on equity*
2007	(26,684)	-
2006	(17,443)	-

Operational risk

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

(Thousands of Ukrainian hryvnia, unless otherwise indicated)

25. Fair values of financial instruments

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

	Carrying value 2007	*Fair value 2007*	*Unrecognised gain/(loss) 2007*
Financial assets			
Cash and cash equivalents	439,049	439,049	-
Trading securities	208,516	208,516	-
Amounts due from credit institutions	99,871	99,871	-
Loans to customers	3,430,606	3,427,841	**(2,765)**
Investment securities available-for-sale	30	30	-
Financial liabilities			
Amounts due to credit institutions	856,269	856,269	-
Amounts due to customers	3,160,783	3,169,428	**(8,645)**
Subordinated debt	111,864	111,864	-
Debt securities issued	25,400	24,713	**687**
Total unrecognised change in unrealised fair value			**(10,723)**

	Carrying value 2006	*Fair value 2006*	*Unrecognised gain/(loss) 2006*
Financial assets			
Cash and cash equivalents	412,308	412,308	-
Trading securities	136,376	136,376	-
Amounts due from credit institutions	72,655	72,655	-
Loans to customers	2,378,361	2,394,423	**16,062**
Investment securities available-for-sale	929	929	-
Financial liabilities			
Amounts due to the NBU	53,055	53,055	-
Amounts due to credit institutions	521,925	521,925	-
Amounts due to customers	2,379,553	2,377,154	**2,399**
Subordinated debt	73,751	73,751	-
Total unrecognised change in unrealised fair value			**18,461**

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

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

Assets for which fair value approximates carrying value

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

(Thousands of Ukrainian hryvnia, unless otherwise indicated)

25. Fair value of financial instruments (continued)

Fixed rate financial instruments

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

Financial instruments recorded at fair value

The following table shows an analysis of financial instruments recorded at fair value, between those whose fair value is based on quoted market prices, those involving valuation techniques where all the model inputs are observable in the market, and those where the valuation techniques involves the use of non-market observable inputs.

	Quoted market price 2007	*Valuation techniques – market observable inputs 2007*	*Valuation techniques – non-market observable inputs 2007*	*Total 2007*
Financial assets				
Trading securities	100,710	107,806	-	**208,516**
Investment securities – available-for-sale	-	-	30	**30**
	100,710	**107,806**	**30**	**208,546**

	Quoted market price 2006	*Valuation techniques – market observable inputs 2006*	*Valuation techniques – non-market observable inputs 2006*	*Total 2006*
Financial assets				
Trading securities	61,995	74,381	-	**136,376**
Investment securities – available-for-sale	-	-	929	**929**
	61,995	**74,381**	**929**	**137,305**

26. Maturity analysis of financial assets and liabilities

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

	2007			*2006*		
	Within one year	*More than one year*	*Total*	*Within one year*	*More than one year*	*Total*
Financial assets						
Cash and cash equivalents	439,049	-	**439,0**	412,308	-	**412,308**
Trading securities	68,832	139,684	**208,5**	35,169	101,207	**136,376**
Amounts due from credit institutions	99,871	-	**99,8**	72,655	-	**72,655**
Loans to customers	1,177,773	2,252,833	**3,4**	881,578	1,496,783	**2,378,361**
Investment securities:						
- available-for-sale	30	-	**30**	929	-	**929**
Total	**1,785,555**	**2,392,517**	**4,1**	**1,402,639**	**1,597,990**	**3,000,629**
Financial liabilities						
Amounts due to the NBU	-	-	**-**	53,055	-	**53,055**
Amounts due to credit institutions	573,249	283,020	**856,2**	327,655	194,270	**521,925**
Amounts due to customers	2,379,779	781,004	**3,1**	2,002,106	377,447	**2,379,553**
Subordinated debt	-	111,864	**111,8**	-	73,751	**73,751**
Debt securities issued	-	25,400	**25,4**	-	-	**-**
Total	**2,953,028**	**1,201,288**	**4,1**	**2,382,816**	**645,468**	**3,028,284**
Net	**(1,167,473)**	**1,191,229**	**23,7**	**(980,177)**	**952,522**	**(27,655)**

(Thousands of Ukrainian hryvnia, unless otherwise indicated)

26. Maturity analysis of financial assets and liabilities (continued)

The Bank's capability to repay its liabilities relies on its ability to realise an equivalent amount of assets within the same period of time. As shown in the table above, there is a significant deficit in the periods less than one year. Partly, this results from a significant concentration of short-term deposits from PKO BP S.A., which are utilised to grant loans to customers. The management of the Bank believes that the maturity of deposits will be rescheduled considering the nature of the relationship between the Bank and the related lender.

Long-term loans are generally not available in Ukraine except for programs set up by international financial institutions. However, in the Ukrainian marketplace, many short-term loans are granted with the expectation of renewing the loans at maturity. As such, the ultimate maturity of assets may be different from the analysis presented above. In addition, the maturity gap analysis does not reflect the historical stability of current accounts. Their liquidation has historically taken place over a longer period than indicated in the table above. These balances are included in amounts due on demand in the table above. In addition, financial assets at fair value through profit or loss are shown at their latest contractual maturity, however such assets maybe realized in a short period of time without adverse price effects.

The Bank has received significant funds from PKO BP S.A. and the EBRD. Any significant withdrawal of these funds would have an adverse impact on the operations of the Bank. Management believes that this level of funding will remain with the Bank for the foreseeable future and that in the event of withdrawal of funds, the Bank would be given sufficient notice so as to realise its liquid assets to enable repayment.

Included in due to customers are term deposits of individuals. In accordance with the Ukrainian legislation, the Bank is obliged to repay such deposits upon the demand of a depositor (see Note 17).

Management monitors the Bank's liquidity position and has plans to reduce the liquidity gap in the period up to one year in 2008. These plans include controlling the growth in long-term loans, extending the maturity of customer deposits, increase of the Bank's capital. The Bank believes that in spite of a substantial portion of deposits from individuals being in the period up to 1 year, diversification of these deposits by number and type of depositors and past experience of the Bank indicates that these deposits provide a long-term and stable source of funding for the Bank.

27. Related party transactions

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

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

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

	2007		***2006***	
	Share-holders	***Key management personnel***	***Share-holders***	***Key management personnel***
Loans outstanding at January 1, gross	-	463	-	235
Loans issued during the year	-	55	-	811
Loan repayments during the year	-	410	-	583
Loans outstanding at 31 December, gross	-	108	-	463
Less: allowance for impairment at 31 December	-	-	-	-
Loans outstanding at 31 December, net	-	108	-	463
Interest income on loans	-	23	-	42
Impairment charge for loans	-	-	-	-
Deposits at 1 January	293,423	858	143,491	1,381
Deposits received during the year	274,628	85	189,482	-
Deposits repaid during the year	108,624	497	39,550	-
Other movements – change in shareholder's structure	(25,275)	-	-	-
Deposits at 31 December	434,152	446	293,423	858

(Thousands of Ukrainian hryvnia, unless otherwise indicated)

27. Related party transactions (continued)

	2007		2006	
	Share-holders	***Key management personnel***	***Share-holders***	***Key management personnel***
Current accounts at 31 December	2,416	-	1,018	-
Subordinated debt at 1 January	73,571	-	73,579	-
Subordinated debt received during the year	37,875	-	-	-
Subordinated debt repaid during the year	-	-	-	-
Other movements (interest accrued)	238	-	172	-
Deposits at 31 December	111,864	-	73,751	-
Interest expense on deposits	23,908	115	9,751	59
Interest expense on subordinated debt	8,795	-	5,981	-
Fee and commission expense	4,508	-	1,202	-

Included in the table above are the following outstanding transactions with related parties:

1) As at 31 December 2007 and 2006, due from credit institutions consisted of balances on current accounts with PKO BP S.A.

2) As at 31 December 2007, due to credit institutions include time deposits and loans of UAH 422,885 thousand received from PKO BP S.A. (2006 - 168,148 thousand received from PKO BP S.A. and UAH 25,275 thousand received from the EBRD).

3) The amounts of interest expense to credit institutions for 2007 represent interests on transactions with PKO BP S.A. in amount of UAH 21,735 thousand (2006 – UAH 8,363 thousand with PKO BP S.A., and UAH 1 388 thousand with the EBRD).

28. Capital

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

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

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

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

NBU capital adequacy ratio

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

	2007	*2006*
Main capital	422,084	231,687
Additional capital	118,819	92,152
Total capital	**540,903**	**323,839**
Risk weighted assets	**4,342,770**	**2,992,815**
Capital adequacy ratio	12.46%	10.82%

(Thousands of Ukrainian hryvnia, unless otherwise indicated)

28. Capital (continued)

Capital adequacy ratio under Basel Capital Accord 1988

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

	2007	***2006***
Tier 1 capital	423,559	237,367
Tier 2 capital	111,864	73,751
Total capital	**535,423**	**311,118**
Risk weighted assets	**3,603,802**	**2,488,294**
Tier 1 capital ratio	11.72%	9.54%
Total capital ratio	14.86%	12.50%