

# **OPEN JOINT STOCK BANK “UKRGASBANK”**

**Independent Auditors' Report**

**Interim Financial Statements**  
For 6 months ended 30 June 2007  
and 2006

# OPEN JOINT STOCK BANK “UKRGASBANK”

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## OPEN JOINT STOCK BANK "UKRGASBANK"

### STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE INTERIM FINANCIAL STATEMENTS FOR THE 6 MONTHS ENDED 30 JUNE 2007 AND 2006

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The following statement, which should be read in conjunction with the independent auditors' responsibilities stated in the independent auditor's audit report set out on page 2, is made with a view to distinguishing the respective responsibilities of management and those of the independent auditors in relation to the interim financial statements of the Open Joint Stock Bank "UkrGasBank" (the "Bank").

Management is responsible for the preparation of the interim financial statements that present fairly the financial position of the Bank at 30 June 2007 and at 31 December 2006, and the results of its operations, cash flows and changes in equity for the 6 months ended on 30 June 2007 and 2006, in accordance with International Financial Reporting Standards ("IFRS").

In preparing the interim financial statements, management is responsible for:

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

Management is also responsible for:

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

The interim financial statements for the 6 months ended 30 June 2007 and 2006, were authorized for issue on 15 August 2007 by the Board.

On behalf of the Board

Vadim Lyashko, Chairman of the Board

15 August 2007



Ruslana Lechekhlid, Chief Accountant

15 August 2007

15 August 2007

## INDEPENDENT AUDITORS' REPORT

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

### Report on the Interim Financial Statements

We have audited the accompanying interim financial statements of the Open Joint Stock Bank "UkrGasBank" (the "Bank"), which comprise the interim balance sheet as at 30 June 2007, and the balance sheet as at 31 December 2006, and the interim statements of income, changes in equity and cash flows for the 6 months ended 30 June 2007 and 2006, and a summary of significant accounting policies and other explanatory notes.

### Management's Responsibility for the Interim Financial Statements

Management is responsible for the preparation and fair presentation of these interim 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 the interim 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 interim financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

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

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

### Opinion

In our opinion, the interim financial statements present fairly, in all material respects the financial position of the Bank as at 30 June 2007 and 31 December 2006, and of its financial performance and its cash flows for the 6 months ended on 30 June 2007 and 2006 in accordance with International Financial Reporting Standards.

*Deloitte & Touche*

# OPEN JOINT STOCK BANK "UKRGASBANK"

## INTERIM INCOME STATEMENTS FOR THE 6 MONTHS ENDED 30 JUNE 2007 AND 2006

(in Ukrainian Hryvnias and in thousands)

	Notes	6 months ended 30 June 2007	6 months ended 30 June 2006
Interest income	4, 28	316,787	169,712
Interest expense	4, 28	<u>(183,505)</u>	<u>(108,485)</u>
NET INTEREST INCOME BEFORE PROVISION FOR IMPAIRMENT LOSSES ON INTEREST BEARING ASSETS		133,282	61,227
Initial fair value recognition adjustment on interest bearing assets		(1,345)	(250)
Provision for impairment losses on interest bearing assets	5, 28	<u>(35,947)</u>	<u>(2,632)</u>
NET INTEREST INCOME		95,990	58,345
Net gain on foreign exchange operations	6	13,230	12,699
Net gain on precious metals operations		867	3,660
Fee and commission income	7	39,491	23,033
Fee and commission expense	7	<u>(7,333)</u>	<u>(5,502)</u>
Net realized gain on investments available for sale		9,369	2,697
Income on investment property	8	3,555	341
Other income	9	<u>1,529</u>	<u>810</u>
NET NON-INTEREST INCOME		60,708	37,738
OPERATING INCOME		156,698	96,083
OPERATING EXPENSES	5, 10	<u>(122,860)</u>	<u>(78,630)</u>
PROFIT BEFORE INCOME TAX		33,838	17,453
Income tax expense	11	<u>(13,595)</u>	<u>(6,574)</u>
NET PROFIT		<u>20,243</u>	<u>10,879</u>
EARNINGS PER SHARE (in UAH)	26	<u>0.06</u>	<u>0.06</u>

On behalf of the Board:

Vadim Lyashko, Chairman of the Board

15 August 2007

The notes on pages 8-45 form an integral part of these interim financial statements.

Ruslana Lechekhlib, Chief Accountant

15 August 2007

# OPEN JOINT STOCK BANK "UKRGASBANK"

## INTERIM BALANCE SHEET AS AT 30 JUNE 2007 AND BALANCE SHEET AS AT 31 DECEMBER 2006 (in Ukrainian Hryvnias and in thousands)

	Notes	30 June 2007	31 December 2006
<b>ASSETS:</b>			
Cash and balances with the National Bank of Ukraine	12	296,051	294,172
Financial assets at fair value through profit or loss	13	21,053	-
Due from banks	14	1,634,096	1,253,225
Loans to customers	15, 28	3,184,021	2,061,413
Investments available for sale	16	476,043	401,304
Investment property	17	14,164	9,241
Property, plant and equipment and intangible assets	18	529,656	409,197
Other assets	19	90,685	44,374
<b>TOTAL ASSETS</b>		<b>6,245,769</b>	<b>4,472,926</b>
<b>LIABILITIES AND EQUITY</b>			
<b>LIABILITIES:</b>			
Due to banks	20	1,636,096	1,007,378
Other borrowed funds	21	385,393	105,781
Customer accounts	22, 28	3,247,744	2,647,908
Debt securities issued	23	154,812	88,311
Deferred income tax liabilities	11	98,328	70,272
Other liabilities	24	16,078	13,697
Subordinated debt	25	50,493	50,509
<b>Total liabilities</b>		<b>5,588,944</b>	<b>3,983,856</b>
<b>EQUITY:</b>			
Share capital	26	412,835	312,835
Share premium	26	2,816	2,816
Property revaluation reserve		189,449	144,934
Investments available for sale fair value reserve		2,997	-
Retained earnings		48,728	28,485
<b>Total equity</b>		<b>656,825</b>	<b>489,070</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>6,245,769</b>	<b>4,472,926</b>

On behalf of the Board:

Vadim Lyashko, Chairman of the Board  
15 August 2007



Ruslana Lechekhlib, Chief Accountant  
15 August 2007

The notes on pages 8-45 form an integral part of these interim financial statements.

# OPEN JOINT STOCK BANK "UKRGASBANK"

## INTERIM STATEMENTS OF CHANGES IN EQUITY FOR THE 6 MONTHS ENDED 30 JUNE 2007 AND 2006 (in Ukrainian Hryvnias and in thousands)

	Share capital	Share premium	Investments available for sale fair value reserve	Property revaluation reserve	Retained earnings	Total equity
<b>31 December 2005</b>	<b>182,650</b>	<b>2,816</b>	<b>-</b>	<b>62,832</b>	<b>15,717</b>	<b>264,015</b>
Share capital increase of:						
- ordinary shares	30,000	-	-	-	-	30,000
Treasury shares sold	183	-	-	-	-	183
Property revaluation	-	-	-	45,949	-	45,949
Deferred tax on property revaluation	-	-	-	(11,487)	-	(11,487)
Net profit	-	-	-	-	10,879	10,879
<b>30 June 2006</b>	<b>212,833</b>	<b>2,816</b>	<b>-</b>	<b>97,294</b>	<b>26,596</b>	<b>339,539</b>
<b>31 December 2006</b>	<b>312,835</b>	<b>2,816</b>	<b>-</b>	<b>144,934</b>	<b>28,485</b>	<b>489,070</b>
Share capital increase of:						
- ordinary shares	100,000	-	-	-	-	100,000
Revaluation of available-for-sale investments	-	-	4,728	-	-	4,728
Deferred tax on revaluation of available-for-sale investments	-	-	(1,182)	-	-	(1,182)
Revaluation gains transferred to income statement on sale of available-for-sale investments	-	-	(732)	-	-	(732)
Deferred tax on revaluation gains transferred to income statement	-	-	183	-	-	183
Property revaluation	-	-	-	59,353	-	59,353
Deferred tax on property revaluation	-	-	-	(14,838)	-	(14,838)
Net profit	-	-	-	-	20,243	20,243
<b>30 June 2007</b>	<b>412,835</b>	<b>2,816</b>	<b>2,997</b>	<b>189,449</b>	<b>48,728</b>	<b>656,825</b>

On behalf of the Board:

Vadim Lyashko, Chairman of the Board

15 August 2007

Ruslana Lechekhlib, Chief Accountant

15 August 2007

The notes on pages 8-45 form an integral part of these interim financial statements.

# OPEN JOINT STOCK BANK “UKRGASBANK”

## INTERIM STATEMENTS OF CASH FLOWS FOR THE 6 MONTHS ENDED 30 JUNE 2007 AND 2006 *(in Ukrainian Hryvnias and in thousands)*

	6 months ended 30 June 2007	6 months ended 30 June 2006
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Profit before income tax	33,838	17,453
Adjustments for:		
Provision for impairment losses on interest bearing assets	35,947	2,631
Provision for impairment losses on other transactions	760	381
Unrealized gain and amortization of discounts on securities	(49,064)	(18,171)
Initial recognition of loans	1,345	755
Revaluation of investment property	(3,037)	259
Unrealized loss on foreign exchange operations	1,449	437
Depreciation and amortization	11,266	8,334
Loss from property, plant and equipment and intangible assets disposal	102	376
Change in interest accruals, net	11,089	1,024
Cash flows from operating activities before changes in operating assets and liabilities	43,695	13,479
Changes in operating assets and liabilities		
(Increase)/decrease in operating assets:		
Minimum reserve deposit with the National Bank of Ukraine	(8,450)	38,528
Financial assets at fair value through profit or loss	(20,813)	(28,748)
Due from banks	(353,758)	(305,991)
Loans to customers	(1,149,888)	(5,011)
Precious metals	(168)	(6,070)
Other assets	(6,885)	(1,384)
Increase in operating liabilities		
Due to banks	626,652	104,485
Other borrowed funds	278,088	-
Customer accounts	577,919	299,349
Other liabilities	3,510	2,987
Cash inflow from operating activities before taxation	(10,098)	111,624
Income tax paid	(1,388)	(898)
Net cash (outflow)/inflow from operating activities	(11,486)	110,726
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of property, plant and equipment and intangible assets	(115,103)	(38,262)
Proceeds on sale of property, plant and equipment and intangible assets	427	1,017
Purchase of investments available for sale	(1,525,774)	(483,477)
Sale of investments available for sale	1,504,681	395,378
Net cash outflow from investing activities	(135,769)	(125,344)



# OPEN JOINT STOCK BANK "UKRGASBANK"

## INTERIM STATEMENTS OF CASH FLOWS (CONTINUED) FOR THE 6 MONTHS ENDED 30 JUNE 2007 AND 2006 *(in Ukrainian Hryvnias and in thousands)*

	Notes	6 months ended 30 June 2007	6 months ended 30 June 2006
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Share capital issued	26	100,000	30,000
Proceeds from debt securities issued		241,914	-
Purchase of debt securities issued		(176,130)	-
Payment of dividends accrued in prior periods		(833)	-
Sale of treasury stock		-	183
Net cash inflow from financing activities		164,951	30,183
Effect of changes in foreign exchange rate on cash and cash equivalents		(265)	1,601
NET INCREASE IN CASH AND CASH EQUIVALENTS		17,431	17,166
CASH AND CASH EQUIVALENTS, beginning of the period		253,317	203,070
CASH AND CASH EQUIVALENTS, end of the period	12	270,748	220,236

Interest paid and received by the Bank during the 6 months ended 30 June 2007 amounted to UAH 163,045 thousand and UAH 258,209 thousand, respectively.

Interest paid and received by the Bank during the 6 months ended 30 June 2006 amounted to UAH 96,190 thousand and UAH 140,270 thousand, respectively.

On behalf of the Board:

Vadim Lyashko, Chairman of the Board

15 August 2007



Ruslana Lechekhlil, Chief Accountant

15 August 2007

The notes on pages 8-45 form an integral part of these interim financial statements.

# OPEN JOINT STOCK BANK “UKRGASBANK”

## NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE 6 MONTHS ENDED 30 JUNE 2007 AND 2006 *(in Ukrainian Hryvnias and in thousands)*

### 1. ORGANISATION

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

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

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

As at 30 June 2007 the Bank has 22 branches operating in Ukraine, and 196 outlets operating in Ukraine. As at 31 December 2006 the Bank has 22 branches and 126 outlets operating in Ukraine.

As at 30 June 2007 and 31 December 2006, the following direct shareholders owned the issued shares:

	30 June 2007, %	31 December 2006, %
“Finansovo-investytsiynyi al’yans” LLC	33.0	24.9
“Companiya “Ukrgasinvest plyus” LLC	18.0	9.9
“Investanalytik” LLC	9.5	9.8
“Ukrains’ka kompaniya rozvytku proektiv” LLC	9.1	9.6
“Novitni gazovi tekhnologii” LLC	6.1	0.4
“Brokinvest-Laert” CJSC	3.9	3.9
“Arsenal-invest” LLC	3.9	3.9
“Ukrains’kyi venchurnyi capital” LLC	3.6	9.9
“Ukrainian construction innovation” LLC	3.9	2.9
“Capital constructor technology LTD”	-	6.4
Gorbal V.M.	2.9	3.9
JSIC CENTER	-	3.0
NJS “Oilgas of Ukraine”	2.1	2.9
Other	4.0	8.6
<b>Total</b>	<b>100.0</b>	<b>100.0</b>

Mr. Gorbal V.M. and Mr. Omelyanenko O.A. exercise control over the Bank through direct and indirect ownership.

These interim financial statements were authorized for issue by the Bank’s Board on 15 August 2007.

## 2. BASIS OF PRESENTATION

### Accounting basis

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

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

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

Since the results of the Bank operations closely relate to and depend on changing market conditions, the results of the Bank operations for the interim period are not necessarily indicative of the results for the year.

These interim financial statements should be read in conjunction with the annual financial statements as of 31 December 2006 and for the year then ended, which were authorized for issue on 30 March 2007.

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

### Key assumptions

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

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 within the next financial year, include:

	<b>30 June 2007</b>	<b>31 December 2006</b>
Loans to customers (allowance for impairment)	3,184,021	2,061,413
Investments available for sale	476,043	401,304
Investment property	14,164	9,241
Property, plant and equipment and intangible assets	529,656	409,197

Loans to customers are measured at amortised cost less allowance for impairment losses. The estimation of allowances for impairments involves the exercise of significant judgment.

The Bank estimates allowances for impairment with the objective of maintaining balance sheet provisions at a level believed by management to be sufficient to absorb probable losses incurred in the Bank's loan portfolio. The calculation of provisions on impaired loans is based on the likelihood of the asset being written off and the estimated loss on such a write-off. These assessments are made using statistical techniques based on historic experience. These determinations are supplemented by various formulaic calculations and the application of management judgment.

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

In determining fair values of investments available for sale, for which a valuation technique was used as at 30 June 2007, the Bank applied following assumptions:

- assumption on the level of interest rates used for discounting - in the range from 15% to 19% for instruments classified as issued by non-related parties, and from 60% to 63% for instruments classified as issued by related parties;
- assumption on estimated timing of future cash flows (as presented in the maturity analysis);
- assumption on the level of credit risk by estimating allowance for impairment losses on the level of 0.06% of the gross amount of investments available for sale.

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

<b>Assumption</b>	<b>Change in assumption by:</b>	<b>Effect on carrying amount</b>	<b>Change in assumption by:</b>	<b>Effect on carrying amount</b>
Interest rates used for discounting	+1%	(3,994)	-1%	4,470
Expected timing of future cash flows	Later by one quarter	(18,304)	Earlier by one quarter	13,578
Effective rate of provisions for impairment losses	+1%	(4,763)	n/a	n/a

### **Functional currency**

The functional currency of these interim financial statements is the Ukrainian Hryvnia.

### **3. SIGNIFICANT ACCOUNTING POLICIES**

#### **Recognition and measurement of financial instruments**

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

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

#### **Cash and cash equivalents**

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

#### **Precious metals**

Assets and liabilities denominated in precious metals are measured at fair value which is determined at the current rate computed based on the second fixing of the London Bullion Market rates using the UAH/USD exchange rate effective at the date. Changes in bid prices are recorded in net gain/(loss) on operations with precious metals in the interim income statement.

#### **Due from banks**

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

#### **Financial assets at fair value through profit or loss**

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

## **Loans to customers**

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

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

Loans to customers are carried net of any allowance for impairment losses.

## **Write off of loans and advances**

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

## **Repurchase and reverse repurchase agreements**

The Bank enters into sale and purchase back agreements (“repos”) and purchase and sale back agreements (“reverse repos”) in the normal course of its business. Repos and reverse repos are utilized by the Bank as an element of its treasury management and serving corporate customers.

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

Assets purchased under reverse repos are recorded in the interim financial statements as cash placed on deposit which is collateralized by securities and other assets.

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

## **Impairment of financial assets**

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

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

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

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

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

### **Investments available for sale**

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

The Bank uses quoted market price to determine fair value for investments available for sale.

If the market for investments is not active, particularly in case of bonds issued for financing of construction (Note 16), the Bank establishes fair value by using a valuation technique. Valuation techniques include discounted cash flow analysis. For other non-market investments the valuation techniques include recent arm's length market transactions between knowledgeable, willing parties, reference to the current fair value of another instrument that is substantially the same, and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the Bank uses that technique. Interest earned on investments available for sale is reflected in the income statement as interest income on investment securities.

Non-marketable debt and equity securities are stated at amortized cost and cost, respectively, less impairment losses, if any, unless fair value can be reliably measured. When there is objective evidence that such securities have been impaired, the cumulative loss previously recognized in equity is removed from equity and recognized in the income statement for the period. Reversals of such impairment losses on debt instruments, which are objectively related to events occurring after the impairment, are recognized in the income statement for the period. Reversals of such impairment losses on equity instruments are not recognized in the income statement.

## **Property, plant and equipment and intangible assets**

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

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

Leasehold improvements	15%
Furniture, vehicles and equipment	10%-25%
Intangible assets	25%-30%

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

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

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

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

Buildings are amortized during their useful lives estimated by the Bank of up to fifty years.

Depreciation on revalued buildings is charged to the income statement.

### **Investment property**

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



## **Taxation**

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

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

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

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

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

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

### **Deposits from banks and customers, subordinated debt, other borrowed funds and debt securities issued**

Customer, bank deposits, subordinated debt, other borrowed funds and debt securities issued are initially recognized at fair value. Subsequently amounts due are stated at amortized cost and any difference between carrying and redemption value is recognized in the income statement over the period of the borrowings using the effective interest method.

## **Provisions**

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

### **Financial guarantee contracts issued and letters of credit**

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

## **Share capital and share premium**

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

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

## **Retirement and other benefit obligations**

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

## **Recognition of income and expense**

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

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

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

Loan origination fees are deferred, together with the related direct costs, and recognized as an adjustment to the effective interest rate of the loan. Loan servicing fees are recognized as revenue as the services are provided. Loan syndication fees are recognized in the profit and loss when the syndication has been completed. All other commissions are recognized when services are provided.

## **Operating leases**

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

## **Foreign currency translation**

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

## Rates of exchange

The exchange rates at the balance sheet dates used by the Bank in the preparation of the interim financial statements are as follows:

	30 June 2007	31 December 2006
UAH/1 US Dollar	5.050000	5.050000
UAH/1 Euro	6.797300	6.650850

## Offset of financial assets and liabilities

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

## Fiduciary activities

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

## Segment reporting

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

## 4. NET INTEREST INCOME

	6 months ended 30 June 2007	6 months ended 30 June 2006
<b>Interest income</b>		
Interest on loans to customers	232,450	131,609
Interest on due from banks	30,076	17,874
Interest on investments available for sale	54,261	20,229
<b>Total interest income</b>	<b>316,787</b>	<b>169,712</b>
<b>Interest expense</b>		
Interest on customer accounts	136,693	82,995
Interest on due to banks	35,851	22,515
Interest expense on debt securities issued by the Bank	6,955	-
Interest on subordinated debt	2,975	2,975
Interest on other borrowed funds	1,031	-
<b>Total interest expense</b>	<b>183,505</b>	<b>108,485</b>
<b>Net interest income before provision for impairment losses on interest bearing assets</b>	<b>133,282</b>	<b>61,227</b>

## 5. ALLOWANCE FOR IMPAIRMENT LOSSES, OTHER PROVISIONS

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

	Loans and advances to banks	Loans to customers	Total
<b>31 December 2005</b>	<b>1,990</b>	<b>69,344</b>	<b>71,334</b>
Provision	-	2,632	2,632
<b>30 June 2006</b>	<b>1,990</b>	<b>71,976</b>	<b>73,966</b>
<b>31 December 2006</b>	<b>1,990</b>	<b>99,826</b>	<b>101,816</b>
Provision	-	35,947	35,947
Write-off of assets	-	(1,480)	(1,480)
<b>30 June 2007</b>	<b>1,990</b>	<b>134,293</b>	<b>136,283</b>

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

	Investments available for sale	Other assets	Guarantees and other commitments	Total
<b>31 December 2005</b>	<b>739</b>	<b>1,154</b>	<b>1,935</b>	<b>3,828</b>
Provision/(recovery of provision)	2	1,309	(930)	381
Write-off of assets	(397)	-	-	(397)
<b>30 June 2006</b>	<b>344</b>	<b>2,463</b>	<b>1,005</b>	<b>3,812</b>
<b>31 December 2006</b>	<b>336</b>	<b>1,530</b>	<b>1,910</b>	<b>3,776</b>
(Recovery of provision)/provision	-	148	612	760
Write-off of assets	(61)	-	-	(61)
<b>30 June 2007</b>	<b>275</b>	<b>1,678</b>	<b>2,522</b>	<b>4,475</b>

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

## 6. NET GAIN ON FOREIGN EXCHANGE OPERATIONS

Net gain on foreign exchange operations comprises:

	6 months ended 30 June 2007	6 months ended 30 June 2006
Dealing, net	14,679	13,136
Translation differences, net	(1,449)	(437)
<b>Total net gain on foreign exchange operations</b>	<b>13,230</b>	<b>12,699</b>

## 7. FEE AND COMMISSION INCOME AND EXPENSE

Fee and commission income and expense comprise:

	6 months ended 30 June 2007	6 months ended 30 June 2006
<b>Fee and commission income:</b>		
Settlements	30,780	19,307
Foreign exchange operations	3,983	2,825
Loan operations	2,802	145
Securities operations	772	377
Other	1,154	379
<b>Total fee and commission income</b>	<b>39,491</b>	<b>23,033</b>
<b>Fee and commission expense:</b>		
Settlements	4,371	3,106
Foreign currency operations	2,541	2,391
Other	421	5
<b>Total fee and commission expense</b>	<b>7,333</b>	<b>5,502</b>

## 8. INCOME ON INVESTMENT PROPERTY

Other income comprises:

	6 months ended 30 June 2007	6 months ended 30 June 2006
Revaluation of investment property	3,037	-
Lease income on investment property	518	341
<b>Total income on investment property</b>	<b>3,555</b>	<b>341</b>

## 9. OTHER INCOME

Other income comprises:

	6 months ended 30 June 2007	6 months ended 30 June 2006
Other non-banking income	440	92
Fines and penalties received	400	345
Income from disposal of property, plant and equipment and intangible assets	118	25
Other	571	348
<b>Total other income</b>	<b>1,529</b>	<b>810</b>

## 10. OPERATING EXPENSES

Operating expenses comprise:

	<b>6 months ended 30 June 2007</b>	<b>6 months ended 30 June 2006</b>
Staff costs	62,200	35,654
Depreciation and amortization	11,266	8,334
Communication	9,961	7,358
Operating lease expenses	8,713	4,587
Repairs and maintenance	5,358	3,697
Advertising	5,261	1,678
Deposit Insurance Fund	4,412	2,683
General bank expenses	3,723	1,642
Payments to non-government pension fund	2,371	1,328
Security expenses	2,367	1,669
Professional services fees	1,676	1,431
Provision for impairment losses on other transactions	760	381
Charity	751	664
Business trip expenses	691	641
Taxes other than income tax	605	3,880
Losses from disposals of property, plant and equipment and intangible assets	220	142
Representative expenses	34	6
Fines and penalties	25	120
Impairment of investment property	-	259
Other	2,466	2,476
<b>Total operating expenses</b>	<b>122,860</b>	<b>78,630</b>

## 11. INCOME TAXES

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

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

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Temporary differences as at 30 June 2007 and 31 December 2006 relate mostly to different methods of income and expense recognition as well as to recorded values of certain assets.

Temporary differences as at 30 June 2007 and 31 December 2006 comprise:

	<b>30 June 2007</b>	<b>31 December 2006</b>
<b>Deductible temporary differences:</b>		
Allowance for impairment of assets	18,890	14,667
Loans to customers	7,594	3,837
Debt securities issued	4,760	3,801
Other liabilities	3,887	7,041
Other assets	3,886	1,296
Allowance for impairment on investments available for sale	275	336
Accrued interest on customer accounts	587	587
<b>Total temporary differences</b>	<b>39,879</b>	<b>31,565</b>
<b>Taxable temporary differences:</b>		
Property, plant and equipment and intangible assets	(258,376)	(194,440)
Investments available for sale	(173,162)	(107,055)
Accrued interest on investments available for sale	(1,068)	(3,056)
Accrued interest on loans to customers	(401)	(5,646)
Other borrowed funds	(182)	(1,025)
Other assets	-	(1,432)
<b>Total taxable temporary differences</b>	<b>(433,189)</b>	<b>(312,654)</b>
Net taxable temporary differences	(393,310)	(281,089)
<b>Net deferred tax liabilities (25%)</b>	<b>(98,328)</b>	<b>(70,272)</b>

Relationships between tax expenses and accounting profit for the 6 months ended 30 June 2007 and 2006 are explained as follows:

	<b>6 months ended 30 June 2007</b>	<b>6 months ended 30 June 2006</b>
Profit before income tax	<b>33,838</b>	<b>17,453</b>
Statutory tax rate	25%	25%
Tax at the statutory tax rate	8,460	4,363
Tax effect of permanent differences	5,135	2,211
<b>Income tax expense</b>	<b>13,595</b>	<b>6,574</b>
Current income tax expense	1,376	898
Provision for deferred tax liabilities	12,219	5,676
<b>Income tax expense</b>	<b>13,595</b>	<b>6,574</b>
	<b>6 months ended 30 June 2007</b>	<b>Year ended 31 December 2006</b>
<b>Deferred income tax liabilities</b>		
<b>Beginning of the period</b>	<b>70,272</b>	<b>35,182</b>
Tax effect of changes in property revaluation reserve	14,838	27,368
Tax effect of changes in investments available for sale fair value reserve	999	-
Increase in income tax liability for the period charged to profit	12,219	7,722
<b>End of the period</b>	<b>98,328</b>	<b>70,272</b>

## 12. CASH AND BALANCES WITH THE NATIONAL BANK OF UKRAINE

	30 June 2007	31 December 2006
Cash	179,317	194,103
Balances with the National Bank of Ukraine	116,734	100,069
<b>Total cash and balances with the National Bank of Ukraine</b>	<b>296,051</b>	<b>294,172</b>

The balances with the National Bank of Ukraine as at 30 June 2007 and 31 December 2006 include UAH 64,542 thousand and UAH 56,092 thousand, respectively, which represent the obligatory minimum reserve deposits with the NBU. The Bank is required to maintain the reserve balance at the NBU at all times.

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

	30 June 2007	31 December 2006
Cash and balances with the National Bank of Ukraine	296,051	294,172
Due from banks in OECD countries	60,286	29,246
	356,337	323,418
Less guarantee deposits for plastic cards (Note 14)	(21,047)	(14,009)
Less minimum reserve deposits with the NBU	(64,542)	(56,092)
<b>Total cash and cash equivalents</b>	<b>270,748</b>	<b>253,317</b>

## 13. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets at fair value through profit at loss comprise:

	Interest to nominal %	30 June 2007	Interest to nominal %	31 December 2006
<b>Dealing securities:</b>				
“Lutskiy avtomobilnyy zavod” OJSC	15%	7,894	-	-
Bank “Khreschatik” OJSC	13%	5,046	-	-
Bank “Credit – Dnipro” CJSC	14%	3,072	-	-
“Soyuz Vician” OJSC	14%	5,031	-	-
State treasury notes	-	10	-	-
		<b>21,053</b>		<b>-</b>

As at 30 June 2007 and 31 December 2006 included in assets at fair value through profit or loss is accrued interest income on debt securities amounting to UAH 240 thousand and nil, respectively.



## 14. DUE FROM BANKS

Due from banks comprise:

	30 June 2007	31 December 2006
Time deposits	1,432,263	986,776
Correspondent accounts	203,823	189,486
Loans under reverse repurchase agreements	-	78,953
	<u>1,636,086</u>	<u>1,255,215</u>
Less allowance for impairment losses	<u>(1,990)</u>	<u>(1,990)</u>
<b>Total due from banks</b>	<b><u>1,634,096</u></b>	<b><u>1,253,225</u></b>

Movements in allowances for impairment losses on balances due from banks for the 6 months ended 30 June 2007 and 2006 are disclosed in Note 5.

Included in due from banks is accrued interest in the amount of UAH 937 thousand and UAH 283 thousand as at 30 June 2007 and 31 December 2006, respectively.

As at 30 June 2007 and 31 December 2006 the Bank had due from ten and six banks, totaling UAH 880,365 thousand and UAH 864,099 thousand, respectively, which individually exceeded 10 % of the Bank's equity.

As at 30 June 2007 and 31 December 2006 the maximum credit risk exposure on due from banks amounted to UAH 1,634,096 thousand and UAH 1,253,225 thousand, respectively, and a maximum credit exposure on loan commitments extended to other banks amounted to UAH 5,320 thousand and UAH 5,433 thousand, respectively.

As at 30 June 2007 and 31 December 2006 the Bank simultaneously placed with and received short-term funds from Ukrainian banks in different currencies. As at 30 June 2007 and 31 December 2006, the Bank placed equivalent of UAH 757,003 thousand and UAH 678,958 thousand, respectively, as deposits with Ukrainian banks, and received deposits from the same banks (see Note 20).

As at 30 June 2007 and 31 December 2006 included in balances due from banks are guarantee deposits placed by the Bank for its operations with plastic cards in the amount of UAH 21,047 thousand and UAH 16,181 thousand, respectively.

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

## 15. LOANS TO CUSTOMERS

Loans to customers comprise:

	30 June 2007	31 December 2006
Originated loans	3,318,314	2,161,239
Less allowance for impairment losses	<u>(134,293)</u>	<u>(99,826)</u>
<b>Total loans to customers</b>	<b><u>3,184,021</u></b>	<b><u>2,061,413</u></b>

As at 30 June 2007 and 31 December 2006 accrued interest income included in loans to customers amounted to UAH 31,253 thousand and UAH 23,219 thousand, respectively.

Movements in allowances for impairment losses for the 6 months ended 30 June 2007 and 2006 are disclosed in Note 5.

	<b>30 June 2007</b>	<b>31 December 2006</b>
Loans collateralized by real estate or rights thereon	1,419,987	865,020
Loans collateralized by cash	492,601	335,498
Loans collateralized by equipment and other movables	409,146	374,617
Loans collateralized by land plots	367,520	82,097
Loans collateralized by other assets	133,838	4,599
Loans collateralized by accounts receivable	127,682	140,380
Loans collateralized by shares of other companies	99,342	151,651
Unsecured loans	268,198	207,377
Less allowance for impairment losses	(134,293)	(99,826)
<b>Total loans to customers</b>	<b>3,184,021</b>	<b>2,061,413</b>

The above table summarized the amount of loans secured by collateral, rather than the fair value of the collateral itself.

	<b>30 June 2007</b>	<b>31 December 2006</b>
<b>Analysis by sector:</b>		
Individuals	862,048	595,974
Trade	682,544	412,946
Services	590,949	287,485
Agriculture and food processing	328,621	128,037
Construction	249,016	215,326
Manufacturing	239,990	321,736
Financial sector	195,997	116,009
Mining and metallurgy	103,679	3,870
Transport and communication	58,693	79,252
Other	6,777	604
Less allowance for impairment losses	(134,293)	(99,826)
<b>Total loans to customers</b>	<b>3,184,021</b>	<b>2,061,413</b>

As at 30 June 2007 and 31 December 2006 the Bank provided loans to nine and eleven groups of customers, totaling UAH 1,014,382 thousand and UAH 680,986 thousand, respectively, which individually exceeded 10% of the Bank's equity.

As at 30 June 2007 and 31 December 2006 a maximum credit risk exposure of loans to customers amounted to UAH 3,184,021 thousand and UAH 2,061,413 thousand, respectively, and a maximum credit risk exposure on loan commitments and overdrafts extended by the Bank to its customers amounted to UAH 605,615 thousand and UAH 377,196 thousand, respectively.

As at 30 June 2007 and 31 December 2006 eight and three loans to customers amounted to UAH 43,044 thousand and UAH 81,574 thousand, respectively, were pledged as collateral under deposit received from another bank (Note 20).

As at 30 June 2007 and 31 December 2006 the loans to customers in the amount of UAH 2,400 thousand were pledged under the loan received from State Mortgage Company (Note 21).

As at 30 June 2007 the mortgage loans to customers in the amount of UAH 56,524 thousand were pledged under the debt securities issued by the Bank (Note 23).

Loans to individuals by type of product as at 30 June 2007 and 31 December 2006 comprised:

	30 June 2007	31 December 2006
Mortgage loans	428,904	280,291
Consumer loans	262,551	219,548
Auto loans	136,070	80,822
Other loans	34,523	15,313
<b>Total loans to individuals</b>	<b>862,048</b>	<b>595,974</b>

## 16. INVESTMENTS AVAILABLE FOR SALE

Investments available for sale comprise:

	Interest to nominal %	30 June 2007	Interest to nominal %	31 December 2006
<b>Debt investments available for sale</b>				
“Ukrainian engineering investment company” LLC (series F,G,E,H)	N/a	57,305	N/a	58,783
“Ukrainian engineering investment company” LLC (series I,V,W,X,Y,Z)	N/a	47,867		33,368
“Trade house DEKA” LLC	N/a	71,816	N/a	62,978
“Ukrgholovsnabspetsbud” LLC	N/a	52,359	N/a	-
“Zhytlomarket KMB-1” LLC	N/a	33,263	N/a	37,182
“Fundatsiya Yakisne zhytlo” LLC	N/a	28,047	N/a	25,789
“Capital constructor technology LTD”	N/a	27,694	N/a	36,257
FC “MKS-invest” LLC (seria B)	0.01%	11,296	0.01%	11,123
BK “Tsytadel” LLC	N/a	11,053	N/a	10,015
“Finansova leasingova group” LLC	N/a	9,182	N/a	10,390
TD “Berezan” LLC	3.5%	8,952	3.5%	5,615
FC “MKS-invest” LLC (seria A)	N/a	8,917	N/a	-
VO “Zhytlomarket-invest” LLC	N/a	7,946	N/a	28,279
“Ukrainian professional Bank” JSC	6%	30,020	-	-
“Euro Leasing” LLC	15%	20,710	-	-
Insurance Company “Ukrainian insurance group” CJSC	15%	26,316	-	-
“Rodovid bank” OJSC	-	-	14%	32,253
Trest “Kyivmiskbud-1” OJSC	-	-	14%	20,107
“Stara fortetsya” DP	-	-	16%	5,878
<b>Total debt investments available for sale</b>		<b>452,743</b>		<b>378,017</b>
	<b>Share %</b>	<b>30 June 2007</b>	<b>Share %</b>	<b>31 December 2006</b>
<b>Equity investments available for sale</b>				
“Trest “Kyivmiskbud - 1” im. Zagorodnego JSC	2.00%	20,050	2.00%	20,050
“Ukrainian Interbank Currency Exchange” CJSC	5.00%	1,800	5.00%	1,800
“UkrCARD” OJSC	9.29%	1,300	9.29%	1,300
Other	-	425	-	473
		<b>23,575</b>		<b>23,623</b>
Less allowance for impairment losses		(275)		(336)
<b>Total investments available for sale</b>		<b>476,043</b>		<b>401,304</b>

Movements in allowances for impairment losses for the 6 months ended 30 June 2007 and 2006 are disclosed in Note 5. As at 30 June 2007 and 31 December 2006 accrued coupon interest income on debt investments available for sale amounted to UAH 828 thousand and UAH 242 thousand, respectively.

As at 30 June 2007 and 31 December 2006 included in debt investments available for sale were bonds of “Zhytlomarket KMB-1” LLC, “Trade house DEKA” LLC, “Ukrainian engineering investment company” LLC, “Fundatsiya Yakisne zhytlo” LLC, VO “Zhytlomarket-invest” LLC issued for the purpose of raising finance for completion of real estate construction in the amount of UAH 198,377 thousand and UAH 213,011 thousand, respectively. The Bank provided financing for construction projects under the effective interest rates of 23% and 25%, respectively, as at 30 June 2007 and 31 December 2006.

## 17. INVESTMENT PROPERTY

	<b>6 months ended 30 June 2007</b>	<b>Year ended 31 December 2006</b>
At the beginning of the period	9,241	7,093
Transferred from fixed assets	1,886	610
Change in fair value	3,037	1,538
<b>At the end of the period</b>	<b>14,164</b>	<b>9,241</b>

Rental income on investment property for 6 months ended 30 June 2007 and 2006 amounted to UAH 518 thousand and UAH 341 thousand, respectively (Note 8).

Operating expenses arising from the investment property that generated rental income during 6 months ended 30 June 2007 and 2006, amounted to UAH 65 thousand and UAH 46 thousand, respectively.

Investment property was revalued by independent appraisers as of 31 December 2006. The following methods were used for the estimation of its fair value: integrated cost estimation method (cost based method), method of analogous sales (comparative approach). For the estimation of the final value, certain weights were assigned to the results obtained using different approaches, depending on the degree to which the estimates met the following characteristics: reliability and completeness of the information, specifies the valued property and other.

As at 30 June 2007 an independent appraiser performed actualization of valuation by examination of general level of market prices.

## 18. PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

	Buildings	Furniture, vehicles, equipment and leasehold improvements	Intangible assets	Construction in progress	Total
<b>At cost/revalued amount</b>					
31 December 2005	121,094	78,796	2,005	51,492	253,387
Additions	-	13,513	247	85,828	99,588
Transfers	12,673	12,407	140	(25,830)	(610)
Disposals	(46)	(3,736)	(31)	-	(3,813)
Revaluation	73,754	-	-	35,716	109,470
Eliminated against accumulated depreciation on revaluation	(2,737)	-	-	-	(2,737)
31 December 2006	204,738	100,980	2,361	147,206	455,285
Additions	3,744	2,833	257	67,953	74,787
Transfers	41,609	19,464	102	(63,061)	(1,886)
Disposals	-	(1,396)	(30)	-	(1,426)
Revaluation	52,604	-	-	6,749	59,353
Eliminated against accumulated depreciation on revaluation	(1,797)	-	-	-	(1,797)
30 June 2007	300,898	121,881	2,690	158,847	584,316
<b>Accumulated depreciation</b>					
31 December 2005	-	32,336	1,308	-	33,644
Charge for the period	2,737	15,258	363	-	18,358
Disposals	-	(3,146)	(31)	-	(3,177)
Eliminated on revaluation	(2,737)	-	-	-	(2,737)
31 December 2006	-	44,448	1,640	-	46,088
Charge for the period	1,797	9,291	178	-	11,266
Disposals	-	(897)	-	-	(897)
Eliminated on revaluation	(1,797)	-	-	-	(1,797)
30 June 2007	-	52,842	1,818	-	54,660
<b>Net book value</b>					
<b>30 June 2007</b>	<b>300,898</b>	<b>69,039</b>	<b>872</b>	<b>158,847</b>	<b>529,656</b>
<b>31 December 2006</b>	<b>204,738</b>	<b>56,532</b>	<b>721</b>	<b>147,206</b>	<b>409,197</b>

Buildings and construction in progress owned by the Bank were revalued by independent appraisers as of 31 December 2006. The following methods were used for the estimation of their fair value: integrated cost estimation method (cost based method), method of analogous sales (comparative approach). For the estimation of the final value, certain weights were assigned to the results obtained using different approaches, depending on the degree to which the estimates met the following characteristics: reliability and completeness of the information, specifies the valued property and other.

As at 30 June 2007 an independent appraiser performed actualization of valuation by examination of general level of market prices.

Had the land and buildings been carried under the cost model, the total carrying amount of property and construction in progress as at 30 June 2007 would have been recognised in the amount of UAH 120,248 thousand and UAH 99,707 thousand, respectively.  
Intangible assets include software, patents and licenses.

## 19. OTHER ASSETS

Other assets comprise:

	30 June 2007	31 December 2006
Prepayments for building	65,970	25,654
Prepayments for works (repairs)	8,528	6,145
Precious metals	7,097	6,929
Other income accrued	4,643	2,354
Prepayments and other accounts receivable	2,641	1,606
Prepaid expenses	1,930	736
Advances for stationery and other materials	940	658
Current income tax asset	107	1,023
Other	507	799
	<u>92,363</u>	<u>45,904</u>
Less allowance for impairment losses	<u>(1,678)</u>	<u>(1,530)</u>
<b>Total other assets</b>	<b><u>90,685</u></b>	<b><u>44,374</u></b>

Movements in allowances for impairment losses on other assets for the 6 months ended 30 June 2007 and 2006 are disclosed in Note 5.

As at 30 June 2007 and 31 December 2006 precious metals included gold in vault of UAH 7,097 thousand and UAH 6,929 thousand, respectively. As at 30 June 2007 precious metals included silver in vault of UAH 2 thousand.

## 20. DUE TO BANKS

Due to banks comprise:

	31 December 2006	31 December 2006
Time deposits	1,255,386	649,809
Correspondent accounts	354,584	357,569
Loans under reverse repurchase agreements	<u>26,126</u>	<u>-</u>
<b>Total due to banks</b>	<b><u>1,636,096</u></b>	<b><u>1,007,378</u></b>

As at 30 June 2007 and 31 December 2006 accrued interest expenses included in due to banks amounted to UAH 1,047 thousand and UAH 501 thousand, respectively.

As at 30 June 2007 and 31 December 2006 the Bank simultaneously placed with and received short-term funds from Ukrainian banks in different currencies (see Note 14).

As at 30 June 2007 and 31 December 2006 loans and correspondent accounts in the amounts of UAH 1,270,360 thousand (65%) and UAH 771,826 thousand (76%), respectively, were due to ten banks.

As at 30 June 2007 and 31 December 2006 loans and advances from banks were collateralized by loans to customers in the amount of UAH 43,044 and UAH 81,574 thousand (Note 15).

As at 30 June 2007 loans to banks included loans under reverse repurchase agreements in the amount of UAH 26,126 thousand, secured by bonds of Ukrainian companies with carrying value of UAH 26,126 thousand, which approximates their fair value.

## 21. OTHER BORROWED FUNDS

Other borrowed funds comprise:

	Currency	Maturity	Interest rate %	31 June 2007	Interest rate %	31 December 2006
Standard Bank London LTD	USD	12 June 2008	LIBOR + 2.7%	235,884	-	-
Standard Bank London LTD	USD	5 December 2007	LIBOR + 3.1%	81,493	LIBOR + 3.1%	80,117
Cargill Financial Service International Inc	USD	9 June 2008	6.90%	28,428	-	-
Cargill Financial Service International Inc	USD	17 December 2007	6.90%	24,483	6.90%	23,664
ING BANK	EUR	1 September 2012	EURIBOR + 1.35%	13,105	-	-
State Mortgage Company	UAH	27 July 2007	12.00%	2,000	12.00%	2,000
<b>Total other borrowed funds</b>				<b>385,393</b>		<b>105,781</b>

As at 30 June 2007 and 31 December 2006 accrued interest expense is included in other borrowed funds amounting to UAH 1,911 thousand and UAH 387 thousand, respectively.

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

As at 30 June 2007 and 31 December 2006 the Bank had a loan obtained from State Mortgage Company in the amount of UAH 2,000 thousand. Under this agreement the Bank provided property rights for mortgage loans in the total amount of UAH 2,400 thousand as collateral (Note 15). The loan is granted with purpose of financing of mortgage loans to individuals.

## 22. CUSTOMER ACCOUNTS

Customer accounts comprise:

	31 December 2006	31 December 2006
Time deposits	2,421,307	1,971,908
Repayable on demand	826,437	676,000
<b>Total customer accounts</b>	<b>3,247,744</b>	<b>2,647,908</b>

As at 30 June 2007 and 31 December 2006 accrued interest expenses included in customers accounts amounted to UAH 62,863 thousand and UAH 45,125 thousand, respectively.

As at 30 June 2007 and 31 December 2006 customer accounts amounted to UAH 30,695 thousand and UAH 36,514 thousand, respectively, were held as collateral against guarantees issued.

As at 30 June 2007 and 31 December 2006 the customer accounts in the amounts of UAH 601,480 thousand (19%) and UAH 661,013 thousand (25%), respectively, were due to 20 customers.

	30 June 2007	31 December 2006
<b>Analysis by sector:</b>		
Individuals	2,160,346	1,789,827
Other services	290,546	132,382
Manufacturing	177,617	101,494
Transport and communication	136,687	104,629
Trade	124,525	101,836
Insurance	113,971	122,272
Finance sector	63,129	37,044
Construction	61,634	55,461
Agriculture and food processing	24,632	103,999
Non-residents	23,854	19,824
Energy	23,849	36,499
Mining and metallurgy	5,114	1,490
Other	41,840	41,151
<b>Total customer accounts</b>	<b>3,247,744</b>	<b>2,647,908</b>

## 23. DEBT SECURITIES ISSUED

Debt securities issued comprise:

	Currency	Maturity	Annual coupon rate %	30 June 2007	Annual coupon rate %	31 December 2006
Bonds issued without collateral	UAH	14 June 2011	12.75%	103,572	12.75%	88,311
Bonds secured by mortgage loans	UAH	25 February 2010	10.50%	51,240	-	-
<b>Total debt securities issued</b>				<b>154,812</b>		<b>88,311</b>

The coupon rate for unsecured bonds is defined for the period from 20 July 2006 till 19 July 2007 and for the next half of the year would be declared by the Bank in 30 days period till 19 July 2007. Coupon income is paid quarterly.

The coupon rate for the bonds secured by mortgage loans are fixed and paid quarterly.

As at 30 June 2007 and 31 December 2006 accrued interest expense included in debt securities issued amounted to UAH 2,997 thousand and UAH 2,186 thousand, respectively.

## 24. OTHER LIABILITIES

Other liabilities comprise:

	30 June 2007	31 December 2006
Provision for unused vacation	5,691	4,210
Provision for guarantees and other commitments	2,522	1,910
Accounts payable to the Deposit Insurance Fund	2,206	1,653
Deferred income	1,526	912
Current income tax liability	900	1,828
Dividends payable to shareholders	115	948
Taxes payable, other than income tax	209	358
Other	2,909	1,878
<b>Total other liabilities</b>	<b>16,078</b>	<b>13,697</b>

Movements in provision for guarantees and other commitments for the 6 months ended 30 June 2007 and 2006 are disclosed in Note 5.



## 25. SUBORDINATED DEBT

	Currency	Maturity date year	Interest rate %	30 June 2007	31 December 2006
Subordinated debt of "Investenergo" LLC	UAH	30 August 2011	12%	50,493	50,509
<b>Total subordinated debt</b>				<b>50,493</b>	<b>50,509</b>

As at 30 June 2007 and 31 December 2006 accrued interest expense included in subordinated debt amounted to UAH 493 thousand and UAH 509 thousand, respectively.

The interests for subordinated debt are paid monthly.

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

## 26. SHARE CAPITAL, SHARE PREMIUM AND EARNINGS PER SHARE

As of 30 June 2007, authorized, issued and paid-in share capital consisted of 399,523 thousand ordinary shares and 477 thousand preferred shares, each having a nominal value of UAH 1.

As of 31 December 2006, authorized, issued and paid-in share capital consisted of 299,523 thousand ordinary shares and 477 thousand preferred shares, each having a nominal value of UAH 1.

Dividend on preferred shares is subject to an approval at the Shareholders' meeting. Owners of preferred shares have primary right to assets distribution in case of the Bank's liquidation.

As at 30 June 2007 and 31 December 2006 share premium comprised UAH 2,816 thousand.

During 6 months ended 30 June 2007 and the year ended 31 December 2006 the shareholders of the Bank increased its share capital by UAH 100,000 thousand and UAH 130,000 thousand, respectively.

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

For 6 months ended 30 June 2006 and the year ended 31 December 2006 basic earnings per share comprised:

	30 June 2007	31 December 2006
Net profit, (UAH'000)	20,243	10,879
<b>Weighted average number of ordinary shares:</b>		
For basic earnings per share	356,171,206	169,699,396
<b>Basic earnings per share, (UAH)</b>	<b>0.06</b>	<b>0.06</b>

## 27. FINANCIAL COMMITMENTS AND CONTINGENCIES

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

Provision for losses on letters of credit and guarantees amounted to UAH 2,522 thousand and UAH 1,910 thousand, as at 30 June 2007 and as at 31 December 2006, respectively.

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

As at 30 June 2007 and 31 December 2006, the nominal or contract amounts and risk-weighted amounts were:

	30 June 2007		31 December 2006	
	Nominal amount	Risk weighted amount	Nominal amount	Risk weighted amount
<b>Contingent liabilities and credit commitments</b>				
Guarantees issued and similar commitments	169,204	138,509	91,194	54,680
Commitments on credits and unused credit lines:	610,935	11,539	377,196	46,932
- non cancellable with maturity over 1 year,	23,078	11,539	93,864	46,932
- non cancellable with maturity less than 1 year and cancellable	582,537	-	277,899	-
Commitments on loans to banks and unused credit lines	5,320	-	5,433	-
<b>Total contingent liabilities and credit commitments</b>	<b>780,139</b>	<b>150,048</b>	<b>468,390</b>	<b>101,612</b>

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

	30 June 2007	31 December 2006
Not later than 1 year	12,925	11,891
Later than 1 year and not later than 5 years	18,964	16,865
Later than 5 years	154	1,489
<b>Total operating lease commitments</b>	<b>32,043</b>	<b>30,245</b>

**Fiduciary activities** – In the normal course of its business the Bank enters into agreements with limited right on decision making with clients for their assets management in accordance with specific criteria established by clients. The Bank may be liable for losses or actions aimed at appropriation of the clients' funds until such funds or securities are not returned to the client due to gross negligence or willful misconduct by the Bank only. The maximum potential financial risk of the Bank at any given moment is equal to the volume of the clients' funds plus/minus any unrealized income/loss on the client's position. In the judgment of management, as at 30 June 2007 and 31 December 2006 the maximum potential financial risk on securities accepted by the Bank on behalf of its clients does not exceed UAH 12,534 thousand and UAH 12,534 thousand, respectively.

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

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

**Pensions and retirement plans** – Employees receive pension benefits in accordance with the laws and regulations of the Ukraine. In March 2003 the Bank arranged supplementary defined contribution pension scheme for employees with the "Narodniy pension fund "Ukraine" LLC (which was renamed later to "Administrator of pension funds "Ukraine-service" LLC). The Bank paid UAH 2,371 thousand and UAH 1,328 thousand during the 6 months 2007 and 2006, respectively, to this pension fund. Employees have the right to receive pension in the amount of such accumulated payments.

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

## **28. TRANSACTIONS WITH RELATED PARTIES**

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

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

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form. The Bank had the following transactions outstanding as at 30 June 2007 and 31 December 2006 with related parties:

	30 June 2007		31 December 2006	
	Related party balances	Total category as per financial statements caption	Related party balances	Total category as per financial statements caption
Loans to customers	25,777	3,184,021	15,300	2,061,413
- <i>shareholders</i>	10,208		10,100	
- <i>key management personnel of the Bank</i>	2,660		2,115	
- <i>other related parties</i>	12,909		3,085	
Allowance for impairment losses	(791)	(134,293)	(240)	(99,826)
- <i>shareholders</i>	(462)		-	
- <i>key management personnel of the Bank</i>	(55)		(98)	
- <i>other related parties</i>	(274)		(142)	
Customer accounts	25,770	3,247,744	21,111	2,647,908
- <i>shareholders</i>	134		4,191	
- <i>key management personnel of the Bank</i>	8,620		10,096	
- <i>other related parties</i>	17,016		6,824	
Investments available for sale	33,263	476,043	38,482	401,304
Guarantees given	1,515	169,204	-	91,194
Loan commitments	2,472	610,935	7,618	377,196
Subordinated debt				
- <i>shareholders</i>	50,493	50,493	50,509	50,509

Included in the income statement for the 6 months ended 30 June 2007 and 2006 are the following amounts which arose due to transactions with related parties:

	6 months ended 30 June 2007		6 months ended 30 June 2006	
	Related party transactions	Total category as per financial statements caption	Related party transactions	Total category as per financial statements caption
Interest income	1,708	316,787	1,485	169,712
- <i>shareholders</i>	651		301	
- <i>key management personnel of the Bank</i>	233		149	
- <i>other related parties</i>	824		1,035	
Interest expense	1,184	183,505	1,075	108,485
- <i>shareholders</i>	100		145	
- <i>key management personnel of the Bank</i>	565		196	
- <i>other related parties</i>	519		734	
Investments available for sale fair value reserve	2,197	4,728	-	-
Interest income on investments available for sale	10,892	54,261	9,697	20,229
Provision for impairment losses on loans to customers	(551)	(35,947)	(432)	(2,632)
- <i>shareholders</i>	(462)		(1,805)	
- <i>key management personnel of the Bank</i>	43		27	
- <i>other related parties</i>	(132)		1,346	
<b>Key management personnel compensation:</b>	1,063	64,571	829	36,982
Short-term employee benefits	942		739	
Benefits paid under pension scheme	121		90	

## 29. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

	30 June 2007		31 December 2006	
	Carrying value	Fair value	Carrying value	Fair value
Cash and balances with the National Bank of Ukraine	296,051	296,051	294,172	294,172
Financial assets at fair value through profit or loss	21,053	21,053	-	-
Investments available for sale	476,043	476,043	401,304	401,304
Loans to customers	3,184,021	3,184,021	2,061,413	2,061,413
Due from banks	1,634,096	1,634,096	1,253,225	1,253,225
Due to banks	1,636,096	1,636,096	1,007,378	1,007,378
Other borrowed funds	385,393	385,393	105,781	105,781
Customer accounts	3,247,744	3,247,744	2,647,908	2,647,908
Debt securities issued	154,812	154,812	88,311	88,311
Subordinated debt	50,493	50,493	50,509	50,509

## 30. SUBSEQUENT EVENTS

Subsequent to 30 June 2007 the loan obtained from State Mortgage Company was repaid by the Bank in the amount of UAH 2,000 thousand plus interest portion on 27 July 2007.

## 31. REGULATORY MATTERS

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

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

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

As at 30 June 2007 the Bank’s total capital amount for Capital Adequacy purposes was UAH 696,323 thousand and the tier 1 capital amount was UAH 463,877 thousand with ratios of 16% and 10%, respectively.

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

As at 30 June 2007 and 31 December 2006 the Bank included in the computation of Total capital for Capital adequacy purposes the subordinated debt received, limited to 50% of Tier 1 capital. In the event of bankruptcy or liquidation of the Bank, repayment of this debt is subordinate to the repayments of the Bank's liabilities to all other creditors.

## **32. RISK MANAGEMENT POLICIES**

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

The Bank manages the following risks:

### **Liquidity risk**

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

The Risk-Management Department performs control over balance (term) liquidity of the Bank by analysing and monitoring gap of assets and liabilities. On the basis of analysis results it gives proposals to the Bank's management concerning optimization of balance structure in view of liquidity management.

Assets and Liability Committee considers and approves the decision based on proposals given by the Bank's departments concerning optimization of assets and liabilities management and performs control over its fulfilment.

### **Cash flow interest rate risk**

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

Assets and Liabilities Committee approves and takes decision concerning management of interest rate risk and market risks by matching the Bank's interest rate position, which provides the Bank with a sufficient profitability.

The majority of the Bank's loan contracts and other financial assets and liabilities that bear interest have fixed interest rate, at the same time agreement terms foresee change of interest rates by a borrower under condition notification about the intent. The Bank monitors its interest rate margin and consequently does not consider itself exposed to significant interest rate risk or consequential cash flow risk.

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

	30 June 2007				31 December 2006			
	UAH	USD	EUR	Other currencies	UAH	USD	EUR	Other currencies
<b>ASSETS</b>								
Due from banks	9%	6%	5%	-	11%	6%	4%	2%
Loans to customers	18%	13%	12%	18%	18%	14%	13%	-
Investments available for sale	19%	-	-	-	21%	-	-	-
<b>LIABILITIES</b>								
Due to banks	5%	7%	4%	-	8%	6%	4%	-
Other borrowed funds	12%	8%	5%	-	12%	8%	-	-
Customer accounts	14%	12%	9%	1%	11%	8%	9%	4%
Debt securities issued	12%	-	-	-	13%	-	-	-
Subordinated debt	12%	-	-	-	12%	-	-	-

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

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	30 June 2007 Total
<b>ASSETS</b>							
Due from banks	673,091	756,678	-	-	-	504	1,430,273
Financial assets at fair value through profit or loss	-	-	-	21,053	-	-	21,053
Loans to customers	404,094	428,057	1,330,169	581,405	440,296	-	3,184,021
Investments available for sale	67,389	102,034	20,710	262,584	-	-	452,717
<b>Total interest bearing assets</b>	<b>1,144,574</b>	<b>1,286,769</b>	<b>1,350,879</b>	<b>865,042</b>	<b>440,296</b>	<b>504</b>	<b>5,088,064</b>
Cash and balances with the National Bank of Ukraine	231,509	-	-	-	-	64,542	296,051
Due from banks	203,823	-	-	-	-	-	203,823
Investments available for sale	-	-	-	-	-	23,326	23,326
Property, plant and equipment and intangible assets	-	-	-	-	-	529,656	529,656
Investment property	-	-	-	-	-	14,164	14,164
Other assets	86,109	1,676	589	813	-	1,498	90,685
<b>TOTAL ASSETS</b>	<b>1,666,015</b>	<b>1,288,445</b>	<b>1,351,468</b>	<b>865,855</b>	<b>440,296</b>	<b>633,690</b>	<b>6,245,769</b>
<b>LIABILITIES</b>							
Due to banks	285,756	539,177	443,731	-	12,848	-	1,281,512
Customer accounts	286,018	375,265	1,179,321	580,660	2	41	2,421,307
Other borrowed funds	2,000	-	370,287	-	13,106	-	385,393
Debt securities issued	2,997	151,815	-	-	-	-	154,812
Subordinated debt	493	-	-	50,000	-	-	50,493
<b>Total interest bearing liabilities</b>	<b>577,264</b>	<b>1,066,257</b>	<b>1,993,339</b>	<b>630,660</b>	<b>25,956</b>	<b>41</b>	<b>4,293,517</b>
Due to banks	354,584	-	-	-	-	-	354,584
Customer accounts	826,437	-	-	-	-	-	826,437
Deferred income tax liabilities	-	-	-	-	-	98,328	98,328
Other liabilities	9,648	125	1,595	485	-	4,225	16,078
<b>TOTAL LIABILITIES</b>	<b>1,767,933</b>	<b>1,066,382</b>	<b>1,994,934</b>	<b>631,145</b>	<b>25,956</b>	<b>102,594</b>	<b>5,588,944</b>
Liquidity gap	(101,918)	222,063	(643,466)	234,710	414,340		
Interest sensitivity gap	567,310	220,512	(642,460)	234,382	414,340		
<b>Cumulative interest sensitivity gap</b>	<b>567,310</b>	<b>787,822</b>	<b>145,362</b>	<b>379,744</b>	<b>794,084</b>		
<b>Cumulative interest sensitivity gap as a percentage of total assets</b>	<b>9%</b>	<b>13%</b>	<b>2%</b>	<b>6%</b>	<b>13%</b>		



	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	31 December 2006 Total
<b>ASSETS</b>							
Due from banks	637,541	264,922	114,028	-	-	-	1,016,491
Loans to customers	255,761	435,854	705,630	444,021	220,147	-	2,061,413
Investments available for sale	11,123	20,107	15,630	331,156	-	-	378,016
Total interest bearing assets	904,425	720,883	835,288	775,177	220,147	-	3,455,920
Cash and balances with the National Bank of Ukraine	238,080	-	-	-	-	56,092	294,172
Advances to banks	236,734	-	-	-	-	-	236,734
Investments available for sale	-	-	-	-	-	23,288	23,288
Property, plant and equipment and intangible assets	-	-	-	-	-	409,197	409,197
Investment property	-	-	-	-	-	9,241	9,241
Other assets	11,005	1,860	27,386	761	-	3,362	44,374
<b>TOTAL ASSETS</b>	<b>1,390,244</b>	<b>722,743</b>	<b>862,674</b>	<b>775,938</b>	<b>220,147</b>	<b>501,180</b>	<b>4,472,926</b>
<b>LIABILITIES</b>							
Due to banks	454,279	167,755	27,745	-	30	-	649,809
Other borrowed funds	387	-	105,394	-	-	-	105,781
Customer accounts	258,527	383,023	1,089,885	240,473	-	-	1,971,908
Debt securities issued	2,186	86,125	-	-	-	-	88,311
Subordinated loan	509	-	-	50,000	-	-	50,509
Total interest bearing liabilities	715,888	636,903	1,223,024	290,473	30	-	2,866,318
Loans and advances from banks	357,569	-	-	-	-	-	357,569
Customer accounts	676,000	-	-	-	-	-	676,000
Deferred income tax liabilities	-	-	-	-	-	70,272	70,272
Other liabilities	6,405	872	1,974	779	-	3,667	13,697
<b>TOTAL LIABILITIES</b>	<b>1,755,862</b>	<b>637,775</b>	<b>1,224,998</b>	<b>291,252</b>	<b>30</b>	<b>73,939</b>	<b>3,983,856</b>
Liquidity gap	(365,618)	84,968	(362,324)	484,686	220,117		
Interest sensitivity gap	188,537	83,980	(387,736)	484,704	220,117		
<b>Cumulative interest sensitivity gap</b>	<b>188,537</b>	<b>272,517</b>	<b>(115,219)</b>	<b>369,485</b>	<b>589,602</b>		
<b>Cumulative interest sensitivity gap as a percentage of total assets</b>	<b>4%</b>	<b>6%</b>	<b>(3%)</b>	<b>8%</b>	<b>13%</b>		

### Currency risk

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

The Department of Risk-Management controls currency risk by establishing limits for open currency position, determines the influence of future changes of interest rates on the financial market for main currency on the Bank's activities. The Treasury trades on the interbank currency markets.

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

	UAH	USD USD 1 = UAH 5.05	EUR EUR 1 = UAH 6.7973	Other currencies	Gold	30 June 2007 Total
<b>ASSETS</b>						
Cash and balances with the National Bank of Ukraine	211,112	69,419	14,075	1,445	-	296,051
Due from banks	587,169	851,174	193,743	2,010	-	1,634,096
Loans to customers	2,141,835	924,069	118,117	-	-	3,184,021
Financial assets at fair value through profit or loss	21,053	-	-	-	-	21,053
Investments available for sale	476,043	-	-	-	-	476,043
Property, plant and equipment and intangible assets	529,656	-	-	-	-	529,656
Investment property	14,164	-	-	-	-	14,164
Other assets	77,538	5,478	548	24	7,097	90,685
<b>TOTAL ASSETS</b>	<b>4,058,570</b>	<b>1,850,140</b>	<b>326,483</b>	<b>3,479</b>	<b>7,097</b>	<b>6,245,769</b>
<b>LIABILITIES</b>						
Due to banks	1,056,391	404,366	175,287	52	-	1,636,096
Other borrowed funds	2,000	370,288	13,105	-	-	385,393
Customer accounts	2,093,075	959,350	186,636	468	8,215	3,247,744
Debt securities issued	154,812	-	-	-	-	154,812
Deferred income tax liabilities	98,328	-	-	-	-	98,328
Other liabilities	12,047	2,501	1,219	311	-	16,078
Subordinated debt	50,493	-	-	-	-	50,493
<b>TOTAL LIABILITIES</b>	<b>3,467,146</b>	<b>1,736,505</b>	<b>376,247</b>	<b>831</b>	<b>8,215</b>	<b>5,588,944</b>
<b>NET POSITION</b>	<b>591,424</b>	<b>113,635</b>	<b>(49,764)</b>	<b>2,648</b>	<b>(1,118)</b>	

	UAH	USD USD 1 = UAH 5.05	EUR EUR 1 = UAH 6.65085	Other currencies	31 December 2006 Total
<b>ASSETS</b>					
Cash and balances with the National Bank of Ukraine	204,398	74,018	15,188	568	294,172
Due from banks	429,755	601,310	219,590	2,570	1,253,225
Loans to customers	1,321,959	658,822	80,554	78	2,061,413
Investments available for sale	401,304	-	-	-	401,304
Property, plant and equipment and intangible assets	409,197	-	-	-	409,197
Investment property	9,241	-	-	-	9,241
Other assets	35,458	1,858	118	6,940	44,374
<b>TOTAL ASSETS</b>	<b>2,811,312</b>	<b>1,336,008</b>	<b>315,450</b>	<b>10,156</b>	<b>4,472,926</b>
<b>LIABILITIES</b>					
Due to banks	521,375	333,516	152,485	2	1,007,378
Other borrowed funds	2,000	103,781	-	-	105,781
Customer accounts	1,634,355	870,847	136,619	6,087	2,647,908
Debt securities issued	88,311	-	-	-	88,311
Deferred income tax liabilities	70,272	-	-	-	70,272
Other liabilities	12,141	1,039	386	131	13,697
Subordinated debt	50,509	-	-	-	50,509
<b>TOTAL LIABILITIES</b>	<b>2,378,963</b>	<b>1,309,183</b>	<b>289,490</b>	<b>6,220</b>	<b>3,983,856</b>
<b>NET POSITION</b>	<b>432,349</b>	<b>26,825</b>	<b>25,960</b>	<b>3,936</b>	

## **Price risk**

Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices whether those changes are caused by factors specific to the individual security or its issuer or factors affecting all securities traded in the market. The Bank is exposed to price risks of its products which are subject to general and specific market fluctuations.

## **Fair value interest rate risk**

Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates.

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

## **Credit risk**

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

Credit risk is managed by the Credit Council, Credit Committee, Retail Credit Committee, Branch Credit Commission, Outlet Credit Commission, Loan Portfolio Quality Commission, and Risk-Management Department. Engaged in making decisions with regard to a certain loan transaction are Customer Policy Department, Risk-Management Department, Legal Department, Banking Security Department, and Problem Assets Department. Based on the conclusions made by the Bank functions, Collegial Executive Body approves limits for the loan transaction, and makes decisions on carrying out loan transactions. Risk Management and Credit Analysis Department on a monthly basis analyzes loan portfolio, measures loans in order to create the adequate provision for losses, and advises the Bank Board of Directors and other Collegial Executive Bodies on taking steps to minimize the Bank's credit risk.

Where appropriate, and in the case of most loans, the Bank obtains collateral and corporate and personal guarantees. An insignificant portion is unsecured personal lending (debts on payroll project overdrafts) and corporate lending (overdrafts for the purposes of increasing an entity's working capital). Such risks are monitored on a continuous basis and subject to monthly reviews.

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

## **Geographical concentration**

The ALMC exercises control over the risk in fluctuations of investment climate of Ukraine, that allows to minimize losses of unfavorable changes in Ukraine's economy. The Bank performs operations with banks of other countries accounting for risk of a country, where the risk appears.

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

	Ukraine	OECD countries	Non-OECD countries	30 June 2007 Total
<b>ASSETS</b>				
Cash and balances with the National Bank of Ukraine	296,051	-	-	296,051
Due from banks	1,570,989	60,286	2,821	1,634,096
Loans to customers	3,184,021	-	-	3,184,021
Financial assets at fair value through profit or loss	21,053	-	-	21,053
Investments available for sale	476,043	-	-	476,043
Property, plant and equipment and intangible assets	529,656	-	-	529,656
Investment property	14,164	-	-	14,164
Other assets	90,685	-	-	90,685
<b>TOTAL ASSETS</b>	<b>6,182,662</b>	<b>60,286</b>	<b>2,821</b>	<b>6,245,769</b>
<b>LIABILITIES</b>				
Due to banks	1,636,096	-	-	1,636,096
Customer accounts	3,247,744	-	-	3,247,744
Other borrowed funds	2,000	383,393	-	385,393
Debt securities issued	154,812	-	-	154,812
Deferred income tax liabilities	98,328	-	-	98,328
Other liabilities	16,078	-	-	16,078
Subordinated debt	50,493	-	-	50,493
<b>TOTAL LIABILITIES</b>	<b>5,205,551</b>	<b>383,393</b>	<b>-</b>	<b>5,588,944</b>
<b>NET POSITION</b>	<b>977,111</b>	<b>(323,107)</b>	<b>2,821</b>	
	Ukraine	OECD countries	Non-OECD countries	31 December 2006 Total
<b>ASSETS</b>				
Cash and balances with the National Bank of Ukraine	294,172	-	-	294,172
Due from banks	1,221,456	29,246	2,523	1,253,225
Loans to customers	2,061,413	-	-	2,061,413
Investments available for sale	401,304	-	-	401,304
Property, plant and equipment and intangible assets	409,197	-	-	409,197
Investment property	9,241	-	-	9,241
Other assets	44,374	-	-	44,374
<b>TOTAL ASSETS</b>	<b>4,441,157</b>	<b>29,246</b>	<b>2,523</b>	<b>4,472,926</b>
<b>LIABILITIES</b>				
Due to banks	1,007,378	-	-	1,007,378
Other borrowed funds	2,000	103,781	-	105,781
Customer accounts	2,647,908	-	-	2,647,908
Debt securities issued	88,311	-	-	88,311
Deferred income tax liabilities	70,272	-	-	70,272
Other liabilities	13,697	-	-	13,697
Subordinated debt	50,509	-	-	50,509
<b>TOTAL LIABILITIES</b>	<b>3,880,075</b>	<b>103,781</b>	<b>-</b>	<b>3,983,856</b>
<b>NET POSITION</b>	<b>561,082</b>	<b>(74,535)</b>	<b>2,523</b>	

### 33. SEGMENT REPORTING

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

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

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

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

Segment assets and liabilities comprise operating assets and liabilities, being the majority of the balances sheet, but excluding items such as taxation and borrowings. Internal charges and transfer pricing adjustments have been reflected in the performance of each business. Revenue sharing agreements are used to allocate external customer revenues to a business segment on a reasonable basis.

Segment information about these businesses is presented below.

	<b>Retail banking</b>	<b>Corporate banking</b>	<b>Investments</b>	<b>Unallocated</b>	<b>6 months ended 30 June 2007</b>
Interest income	52,608	209,917	54,262	-	316,787
Interest expense	(105,783)	(67,869)	(6,955)	(2,898)	(183,505)
Provisions for impairment losses on interest bearing assets	(7,384)	(28,563)	-	-	(35,947)
Effect of financial instruments issued at rates below market	-	(1,345)	-	-	(1,345)
Fee and commission income	11,864	26,855	772	-	39,491
Fee and commission expense	-	(7,333)	-	-	(7,333)
Net gain on foreign exchange operations	-	-	-	13,230	13,230
Net gain on precious metals operations	-	-	-	867	867
Net realized gain on investments available for sale	-	-	9,369	-	9,369
Income on investment property	-	518	3,037	-	3,555
Other income	-	-	-	1,529	1,529
<b>External revenue</b>	<b>(48,695)</b>	<b>132,180</b>	<b>60,485</b>	<b>12,728</b>	<b>156,698</b>
Income/(expense) from other segments	67,588	(63,244)	(31,127)	26,783	-
<b>Operating income</b>	<b>18,893</b>	<b>68,936</b>	<b>29,358</b>	<b>39,511</b>	<b>156,698</b>
<b>Operating expenses</b>	<b>(40,624)</b>	<b>(23,389)</b>	<b>(5,599)</b>	<b>(53,248)</b>	<b>(122,860)</b>
<b>Profit before income tax</b>	<b>(21,731)</b>	<b>45,547</b>	<b>23,759</b>	<b>(13,737)</b>	<b>33,838</b>
Income tax expense	-	-	-	(13,595)	(13,595)
<b>Net (loss)/profit</b>	<b>(21,731)</b>	<b>45,547</b>	<b>23,759</b>	<b>(27,332)</b>	<b>20,243</b>
<b>Segment assets</b>	<b>1,111,229</b>	<b>4,168,291</b>	<b>554,439</b>	<b>411,810</b>	<b>6,245,769</b>
<b>Segment liabilities</b>	<b>2,213,420</b>	<b>3,107,344</b>	<b>105,476</b>	<b>162,704</b>	<b>5,588,944</b>
<b>Other items:</b>					
Capital expenses	83,516	51,966	13,294	10,071	
Depreciation charge	6,681	3,163	809	613	

	<b>Retail Banking</b>	<b>Corporate banking</b>	<b>Investments</b>	<b>Unallocated</b>	<b>6 months ended 30 June 2006</b>
Interest income	17,308	132,174	20,230	-	169,712
Interest expense	(68,120)	(37,131)	(258)	(2,976)	(108,485)
(Provisions)/recovery of provision for impairment losses on interest bearing assets	(632)	(2,000)	-	-	(2,632)
Effect of financial instruments issued at rates below market	-	(250)	-	-	(250)
Fee and commission income	8,870	13,786	377	-	23,033
Fee and commission expense	(3)	(3,102)	-	(2,397)	(5,502)
Net gain on foreign exchange operations	-	-	-	12,699	12,699
Net gain on precious metals operations	-	-	-	3,660	3,660
Net realized gain on investments available for sale	-	-	2,697	-	2,697
Income on investment property	-	341	-	-	341
Other income	-	-	-	810	810
<b>External revenue</b>	<b>(42,577)</b>	<b>103,818</b>	<b>23,046</b>	<b>11,796</b>	<b>96,083</b>
Income/(expense) from other segments	49,633	(43,738)	(14,294)	8,399	-
<b>Operating income</b>	<b>7,056</b>	<b>60,080</b>	<b>8,752</b>	<b>20,195</b>	<b>96,083</b>
<b>Operating expenses</b>	<b>(21,805)</b>	<b>(17,314)</b>	<b>(3,078)</b>	<b>(36,433)</b>	<b>(78,630)</b>
<b>Profit before income tax</b>	<b>(14,749)</b>	<b>42,766</b>	<b>5,674</b>	<b>(16,238)</b>	<b>17,453</b>
Income tax expense	-	-	-	(6,574)	(6,574)
<b>Net profit/(loss)</b>	<b>(14,749)</b>	<b>42,766</b>	<b>5,674</b>	<b>(22,812)</b>	<b>10,879</b>
<b>Segment assets as at 31 December 2006</b>	<b>783,841</b>	<b>2,882,057</b>	<b>439,498</b>	<b>367,530</b>	<b>4,472,926</b>
<b>Segment liabilities as at 31 December 2006</b>	<b>(1,803,092)</b>	<b>(1,957,923)</b>	<b>(88,366)</b>	<b>(134,475)</b>	<b>(3,983,856)</b>
<b>Other items:</b>					
Capital expenses	72,329	53,620	10,724	10,533	
Depreciation charge	4,224	3,192	441	478	

Segment information for the main geographical segments of the Bank is set out below as at 30 June 2007 and for six-month period then ended and as at 31 December 2006 and for six-month period ended 30 June 2006:

	<b>Ukraine</b>	<b>OECD countries</b>	<b>Non-OECD countries</b>	<b>30 June 2007 Total</b>
External interest income before provision for impairment losses	316,479	308	-	316,787
External interest expense before provision for impairment losses	(180,050)	(3,455)	-	(183,505)
<b>External net interest income</b> before provision for impairment losses	<b>136,429</b>	<b>(3,147)</b>	<b>-</b>	<b>133,282</b>
	<b>Ukraine</b>	<b>OECD countries</b>	<b>Non-OECD countries</b>	<b>30 June 2007 Total</b>
<b>ASSETS</b>	<b>6,182,662</b>	<b>60,286</b>	<b>2,821</b>	<b>6,245,769</b>
<b>LIABILITIES</b>	<b>5,205,551</b>	<b>383,393</b>	<b>-</b>	<b>5,588,944</b>

	<b>Ukraine</b>	<b>OECD countries</b>	<b>Non-OECD countries</b>	<b>30 June 2006 Total</b>
External interest income before provision for impairment losses	169,657	55	-	169,712
External interest expense before provision for impairment losses	(108,485)	-	-	(108,485)
<b>External net interest income before provision for impairment losses</b>	<b>61,172</b>	<b>55</b>	<b>-</b>	<b>61,227</b>
	<b>Ukraine</b>	<b>OECD countries</b>	<b>Non-OECD countries</b>	<b>31 December 2006 Total</b>
<b>ASSETS</b>	<b>4,441,157</b>	<b>29,246</b>	<b>2,523</b>	<b>4,472,926</b>
<b>LIABILITIES</b>	<b>3,880,075</b>	<b>103,781</b>	<b>-</b>	<b>3,983,856</b>

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