

**OJSC Kredobank**  
**Financial Statements**

*Year ended 31 December 2006*

*Together with Independent Auditors' Report*

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## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of Open Joint Stock Company Kredobank (the "Bank"), which comprise the balance sheet as at 31 December 2006, and the statement of income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

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

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

### *Auditor's Responsibility*

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

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

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

### *Opinion*

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



16 April 2007  
Kyiv, Ukraine

**BALANCE SHEET****As at 31 December 2006***(Thousands of Ukrainian hryvnia)*

	<i>Notes</i>	<i>2006</i>	<i>2005</i>
<b>Assets</b>			
Cash and cash equivalents	5	412,308	293,449
Financial assets at fair value through profit or loss	6	136,376	39,477
Amounts due from credit institutions	7	72,655	15,586
Loans to customers	8	2,378,361	1,497,568
Financial investments available-for-sale		929	938
Non-current assets held for sale	9	15,771	7,515
Property and equipment	10	199,579	118,592
Intangible assets	11	5,398	3,556
Deferred income tax assets	18	14,659	15,904
Income tax receivable		566	-
Other assets	13	37,993	17,715
<b>Total assets</b>		<b>3,274,595</b>	<b>2,010,300</b>
<b>Liabilities</b>			
Amounts due to the National Bank of Ukraine		53,055	-
Amounts due to credit institutions	14	521,925	260,245
Amounts due to customers	15	2,379,553	1,536,528
Subordinated debt	16	73,751	73,579
Income tax liability		-	239
Other liabilities	13	8,944	5,324
<b>Total liabilities</b>		<b>3,037,228</b>	<b>1,875,915</b>
<b>Equity</b>			
Share capital	17	273,307	197,557
Accumulated deficit		(35,940)	(63,172)
<b>Total equity</b>		<b>237,367</b>	<b>134,385</b>
<b>Total liabilities and equity</b>		<b>3,274,595</b>	<b>2,010,300</b>

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

Stepan Kubiv

Chairman of the Board

Taras Khoma

Deputy Chairman of the Board

17 April 2007

**STATEMENT OF INCOME**  
**For the year ended 31 December 2006**  
*(Thousand of Ukrainian hryvnia)*

	<i>Notes</i>	<i>2006</i>	<i>2005</i>
<b>Interest income</b>			
Loans to customers		290,975	192,499
Amounts due from credit institutions		4,386	6,586
Securities		10,604	2,162
Other		222	207
		<b>306,187</b>	<b>201,454</b>
<b>Interest expense</b>			
Amounts due to customers		(146,295)	(105,577)
Amounts due to credit institutions		(22,773)	(9,909)
Subordinated loans		(5,981)	(1,059)
Amounts due to the National Bank of Ukraine		(300)	(120)
		<b>(175,349)</b>	<b>(116,665)</b>
<b>Net interest income</b>			
Impairment of interest earning assets	12	(12,987)	(35,415)
<b>Net interest income after impairment of interest earning assets</b>			
		<b>117,851</b>	<b>49,374</b>
Fee and commission income		61,562	56,791
Fee and commission expense		(5,170)	(4,122)
<b>Net fee and commission income</b>			
	19	<b>56,392</b>	<b>52,669</b>
Gains less losses from trading securities		381	(57)
Gains less losses from foreign currencies:			
- dealing, net		10,677	13,752
- translation differences, net		679	(21)
Other income		4,965	1,719
<b>Other non interest income</b>			
		<b>16,702</b>	<b>15,393</b>
Salaries and benefits	20	(58,773)	(41,971)
Depreciation and amortisation	10,11	(17,032)	(11,354)
Other administrative and operating expenses	20	(71,821)	(44,904)
Impairment of other assets and provisions	12	(557)	(1,948)
<b>Other non interest expense</b>			
		<b>(148,183)</b>	<b>(100,177)</b>
<b>Profit before income tax expense</b>			
		<b>42,762</b>	<b>17,259</b>
Income tax expense	18	(15,530)	(6,936)
<b>Profit for the year</b>			
		<b>27,232</b>	<b>10,323</b>

*The accompanying notes on pages 5 to 26 are an integral part of these financial statements*

**STATEMENT OF CHANGES IN EQUITY****For the year ended 31 December 2006***(Thousand of Ukrainian hryvnia)*

	<i>Share capital</i>	<i>Treasury shares</i>	<i>Accumulated deficit</i>	<i>Total equity</i>
<b>31 December 2004</b>	<b>197,557</b>	<b>(464)</b>	<b>(73,513)</b>	<b>123,580</b>
Sale of treasury shares	-	464	18	482
Profit for the year	-	-	10,323	10,323
<b>31 December 2005</b>	<b>197,557</b>	<b>-</b>	<b>(63,172)</b>	<b>134,385</b>
Issue of share capital	75,750	-	-	75,750
Profit for the year	-	-	27,232	27,232
<b>31 December 2006</b>	<b>273,307</b>	<b>-</b>	<b>(35,940)</b>	<b>237,367</b>

**STATEMENT OF CASH FLOWS**  
**For the year ended 31 December 2006**  
*(Thousand of Ukrainian hryvnia)*

	<i>Notes</i>	<i>2006</i>	<i>2005</i>
<b>Cash flows from operating activities</b>			
Interest and commissions received		377,324	259,128
Interest and commissions paid		(167,354)	(116,519)
Gains less losses from dealing in foreign currencies and securities		11,058	13,752
Other operating income received		4,965	2,307
Salaries and benefits paid		(57,754)	(41,565)
Other operating and administrative expenses paid		(70,156)	(43,802)
<b>Cash flow from operating activities before changes in operating assets and liabilities</b>		<b>98,083</b>	<b>73,301</b>
<i>Net (increase) / decrease in operating assets</i>			
Amounts due from credit institutions		(55,477)	25,688
Trading securities		(95,075)	(31,051)
Loans to customers		(890,607)	(632,104)
Other assets		(10,993)	(5,239)
<i>Net increase in operating liabilities</i>			
Amounts due to the National Bank of Ukraine		53,000	-
Amounts due to credit institutions		247,943	85,841
Amounts due to customers		812,775	584,845
Other liabilities		1,178	547
<b>Net cash flows from operating activities before income taxes</b>		<b>160,827</b>	<b>101,828</b>
Income tax paid		(15,090)	(8,056)
<b>Net cash flows from operating activities</b>		<b>145,737</b>	<b>93,772</b>
<b>Cash flows from investing activities</b>			
Purchase of property and equipment		(106,691)	(25,809)
Purchase of intangible assets		(3,101)	(433)
Proceeds from sale of property and equipment		125	472
<b>Net cash flows used in investing activities</b>		<b>(109,667)</b>	<b>(25,770)</b>
<b>Cash flows from financing activities</b>			
Proceeds from issue of share capital		75,750	-
Proceeds from sale of treasury shares		-	482
Subordinated loans received		-	73,225
<b>Net cash flows from financing activities</b>		<b>75,750</b>	<b>73,707</b>
Effect of exchange rate changes on cash and cash equivalents		7,038	(12,686)
<b>Net change in cash and cash equivalents</b>		<b>118,859</b>	<b>129,023</b>
<b>Cash and cash equivalents, at the beginning of the year</b>	5	<b>293,449</b>	<b>164,426</b>
<b>Cash and cash equivalents, at the end of the year</b>	5	<b>412,308</b>	<b>293,449</b>

*The accompanying notes on pages 5 to 26 are an integral part of these financial statements*

*(Thousands of Ukrainian hryvnia, unless otherwise indicated)*

## 1. Principal activities

**OJSC Kredobank** (the “Bank”) was founded in 1990 as a joint stock company. Initially registered at the USSR State Bank, the Bank was re-registered at the National Bank of Ukraine (the “NBU”) on 14 October 1991 under the name of West-Ukrainian Commercial Bank. In 2002, the Bank was renamed as Kredyt Bank (Ukraine). In November 2005, the shareholders of the Bank made the decision to change the name to Kredobank. The Bank operates under general banking licence #43 issued by the NBU on 24 September 2001. This provides the Bank with the right to conduct banking operations, including currency operations. The Bank also possesses a licence for securities operations and custodial services from the State Commission for Securities and Stock Market, which was issued on 19 October 2004.

The Bank’s Head office is in Lviv at 78 Saharova St. In 2006, it had 19 branches (2005 - 18) located in Lviv and other regions of Ukraine. The Bank and its branches form a single legal entity. The Bank had 2,214 employees as at 31 December 2006 (2005 - 1,730 employees).

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

As at 31 December 2006, 98.1% of the issued paid-in share capital (2005 - 97.3%) was owned by non-residents: PKO BP S.A. (Poland) and the European Bank for Reconstruction and Development (“EBRD”). Details of the Bank’s shareholders are presented in Note 18 and the Bank’s transactions with its related parties are disclosed in Note 24.

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

## 2. Basis of preparation

### General

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

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

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

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

### Changes in accounting policies

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

The adoption of the above pronouncement did not have a significant impact on the Bank’s financial statements.

### IFRSs and IFRIC interpretations not yet effective

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

IFRS 7 “Financial Instruments: Disclosures”;

Amendment to IAS 1 “Presentation of financial Statements” – “Capital Disclosures”;

IFRIC 8 “Scope of IFRS 2”;



(Thousands of Ukrainian hryvnia, unless otherwise indicated)

## 2. Basis of preparation (continued)

IFRIC 9 “Reassessment of Embedded Derivatives”;

IFRIC 10 “Interim Financial Reporting and Impairment”

IFRIC 11 “IFRS 2 – Group and Treasury Share Transactions”

IFRIC 12 “Service Concession Arrangements”

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

### Inflation accounting

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

### Reconciliation of UAR and IFRS equity and profit for the year

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

	2006		2005	
	Equity	Profit for the year	Equity	Profit for the year
<b>Ukrainian Accounting Regulations</b>	<b>257,742</b>	<b>23,159</b>	<b>158,834</b>	<b>10,721</b>
Inflation impact on non-monetary items	11,410	-	11,410	(495)
Fair value adjustment on financial instruments	(33,953)	3,862	(37,945)	1,583
Effect of accruals	(612)	(77)	(406)	(406)
Deferral of loan origination fees	(10,386)	1,657	(12,043)	(6,824)
Deferred tax	6,499	(3,719)	10,218	(1,336)
Difference in depreciation	6,667	2,350	4,317	7,080
<b>International Financial Reporting Standards</b>	<b>237,367</b>	<b>27,232</b>	<b>134,385</b>	<b>10,323</b>

### Reclassifications

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

Amount	Previously reported as	Reclassified as	Comment
70,058	Amounts due from credit institutions	Cash and cash equivalents	[IAS7.6]. The “short-term” characteristic of a cash equivalent is generally taken as a maturity of three months from the date of acquisition.

## 3. Summary of accounting policies

### Financial instruments – initial recognition and subsequent measurement

#### Financial Assets

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

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

*(Thousands of Ukrainian hryvnia, unless otherwise indicated)*

### 3. Summary of accounting policies (continued)

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

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

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

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

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

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

#### *Loans and receivables*

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

#### *Available-for-sale financial investments*

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

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

### **Derecognition of financial assets and liabilities**

#### *Financial assets*

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

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

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

*(Thousands of Ukrainian hryvnia, unless otherwise indicated)*

### **3. Summary of accounting policies (continued)**

#### *Financial liabilities*

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

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

#### **Allowances for impairment of financial assets**

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

#### *Assets carried at amortised cost*

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

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

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

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the statement of income, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

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

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

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

#### **Repurchase and reverse repurchase agreements and securities lending**

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

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

#### **Promissory notes**

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

(Thousands of Ukrainian hryvnia, unless otherwise indicated)

### 3. Summary of accounting policies (continued)

#### Borrowings

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

#### Operating leases

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

#### Taxation

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

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

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

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

#### Property and equipment

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

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

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

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

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

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

#### Intangible assets

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

#### Non-current assets as held for sale

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

*(Thousands of Ukrainian hryvnia, unless otherwise indicated)*

### **3. Summary of accounting policies (continued)**

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

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

#### **Provisions**

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

#### **Retirement and other benefit obligations**

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

#### **Share capital**

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

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

#### **Offsetting**

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

#### **Contingencies**

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

#### **Income and expense recognition**

Interest income and expense are recognised on an accrual basis calculated using the effective interest method. Loan origination fees for loans issued to customers are deferred (together with related direct costs) and recognised as an adjustment to the effective yield of the loans. Fees, commissions and other income and expense items are generally recorded on an accrual basis when the service has been provided.

#### **Foreign currency translation**

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

Differences between the contractual exchange rate of a certain transaction in a foreign currency and the NBU exchange rate on the date of the transaction are included in gains less losses from dealing in foreign currencies. The official NBU exchange rates at 31 December 2006 and 2005, were UAH 5.05 and 5.05 hryvnia to 1 US dollar and UAH 6.6509 and UAH 5.9716 to 1 euro, respectively. The official NBU exchange rates as at date of issue of these financial statements were UAH 5.05 hryvnia to 1 US dollar and UAH 6.0337 to 1 euro.

(Thousands of Ukrainian hryvnia, unless otherwise indicated)

#### 4. Significant accounting estimates

##### Estimation uncertainty

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

##### *Allowance for impairment of loans and receivables*

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

#### 5. Cash and cash equivalents

Cash and cash equivalents comprise:

	<u>2006</u>	<u>2005</u>
Cash on hand	146,537	96,775
Current account with the NBU	140,172	97,612
Time deposits with the NBU up to 90 days	-	29,004
Current accounts with other credit institutions	105,542	70,058
Time deposits with credit institutions up to 90 days	20,057	-
<b>Total cash and due from the NBU</b>	<b><u>412,308</u></b>	<b><u>293,449</u></b>

The current account with the NBU represents amounts deposited with the NBU relating to daily settlements and other activities. The Bank is also required to maintain, in the form of a non-interest earning cash deposit, certain cash reserves with the NBU (obligatory reserve), which are computed as a percentage of certain of the Bank's liabilities less cash on hand and other eligible balances. There are no restrictions on the withdrawal of funds from the NBU, however, if minimum average reserve requirements are not met, the Bank could be subject to certain penalties. The Bank was obliged to and maintained the minimal cumulative average reserve calculated on a daily basis over a monthly period. The average daily requirement for the period from 1 to 31 December 2006 was UAH 48,125 thousand (2005: UAH 92,975 thousand). The Bank meets the NBU obligatory reserve requirements as at 31 December 2006 and 2005.

As at 31 December 2006, UAH 112,695 thousand was placed on current accounts with two internationally recognised OECD banks, who are the main counterparties of the Bank in performing international settlements (2005 – UAH 64,339 thousand with two OECD banks).

#### 6. Financial assets at fair value through profit or loss

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

	<u>2006</u>	<u>2005</u>
Ukrainian state bonds	61,995	2,275
Corporate bonds	49,212	25,165
Investment certificates	25,169	3,037
Certificates of deposit of the NBU	-	10,000
<b>Total financial assets at fair value through profit or loss</b>	<b><u>136,376</u></b>	<b><u>39,477</u></b>

Investment certificates represent certificates of a closed private diversified mutual fund managed by an asset management company. As at 31 December 2006 and 2005, these funds comprise a portfolio of corporate bonds and other money market instruments available on the Ukrainian financial market, including short-term deposits with Ukrainian banks and investments into projects with real estate. The investment certificates are redeemable during 2007.

As at 31 December 2006, Ukrainian state bonds with a carrying amount of UAH 55,798 thousand were pledged as security under a short-term loan received from the NBU (2005 – nil).

(Thousands of Ukrainian hryvnia, unless otherwise indicated)

## 6. Financial assets at fair value through profit or loss (continued)

Nominal interest rates and maturities are as follows:

	2006		2005	
	%	Maturity	%	Maturity
Corporate bonds	14%-18%	2007-2011	16%-18%	2007-2010
Certificates of deposit of NBU	-	-	6%	2006
Ukrainian state bonds	6%-12%	2007-2009	11%-12%	2009

## 7. Amounts due from credit institutions

Amounts due from credit institutions comprise:

	2006	2005
Inter-bank loans	62,452	7,575
Guarantee deposits	10,203	8,047
	<b>72,655</b>	<b>15,622</b>
Less – Allowance for impairment (Note 12)	-	(36)
<b>Total amounts due from credit institutions</b>	<b>72,655</b>	<b>15,586</b>

During 2006, the Bank placed with and received short-term funds from Ukrainian banks in various currencies. As at 31 December 2006, the Bank placed an equivalent of UAH 33,942 thousand (2005 – nil) as deposits in euro and an equivalent of UAH 18,685 thousand (2005 – nil) as deposits in US dollars with Ukrainian banks, which were related to the deposits received from the same banks (see Note 14).

As at 31 December 2006, guarantee deposits include UAH 3,636 thousand and an equivalent of UAH 6,567 thousand due from two Ukrainian banks placed as guarantee deposits in Ukrainian hryvnias and US dollars for card settlements and transfers (2005 - UAH 2,813 thousand and UAH 5,234 thousand respectively). Such placements are normally non-interest bearing.

## 8. Loans to customers

Loans to customers comprise:

	2006	2005
Loans to customers	2,441,316	1,571,769
Promissory notes	295	12,142
Overdrafts	63,888	30,146
	<b>2,505,499</b>	<b>1,614,057</b>
Less – Allowance for impairment (Note 12)	(127,138)	(116,489)
<b>Total loans to customers</b>	<b>2,378,361</b>	<b>1,497,568</b>

As at 31 December 2006, the total gross amount of overdue loans comprised UAH 88,187 thousand with allowances made against these loans amounting to UAH 70,462 thousand (2005 – UAH 105,902 thousand and UAH 82,076 thousand, respectively).

As at 31 December 2006, the Bank had a concentration of loans represented by UAH thousand 253,056 due from the ten largest third party borrowers (13% of loan gross portfolio) (2005 – UAH 190,681 thousand or 11%). An allowance of UAH 25,087 thousand (2005 – UAH 11,399 thousand) was recognised against these loans.

Loans have been extended to the following types of customers:

	2006	2005
Companies	1,914,622	1,331,259
Individuals	590,877	282,798
	<b>2,505,499</b>	<b>1,614,057</b>
Less – Allowance for impairment (Note 12)	(127,138)	(116,489)
<b>Total loans to customers</b>	<b>2,378,361</b>	<b>1,497,568</b>

As at 31 December 2006 interest income accrued on impaired loans amounts to UAH 6,868 thousand (2005: UAH 11,803 thousand).

(Thousands of Ukrainian hryvnia, unless otherwise indicated)

## 8. Loans to customers (continued)

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

	<i>2006</i>	<i>%</i>	<i>2005</i>	<i>%</i>
Trading	761,301	30.4	534	33.1
Retail customers	590,877	23.6	282	17.5
Manufacturing	356,540	14.2	313	19.5
Agriculture and food processing	305,606	12.2	179	11.2
Real estate and construction	112,770	4.5	39	2.4
Services	82,559	3.3	81	5.1
Sports and recreation	72,035	2.9	30	1.9
Transport	58,019	2.3	49	3.1
Financial services	42,665	1.7	29	1.8
Printing	28,067	1.1	21	1.3
Mining	23,768	1.0	24	1.5
Telecommunications	18,267	0.7	2	0.1
Research and science	8,724	0.4	8	0.5
Energy	5,995	0.2	495	0.0
Other industries	38,306	1.5	15	1.0
	<b>2,505,499</b>	<b>100</b>	<b>1</b>	<b>100</b>
Less – Allowance for impairment (Note 12)	(127,138)		(116)	
<b>Total loans to customers</b>	<b>2,378,361</b>		<b>1</b>	

## 9. Non-current assets held for sale

As of 31 December 2006, non-current assets held for sale are represented by property taken over by the Bank as a result of its foreclosure on non performing loans. The Bank intends to sale of these assets by the end of 2007. As at 31 December 2006, the fair value less estimated costs to sell of these assets amounts to UAH 15,771 thousand (as at 31 December 2005: UAH 7,515 thousand).

## 10. Property and equipment

The movements of property and equipment were as follows:

	<i>Property</i>	<i>Computers and equipment</i>	<i>Furniture, fixtures and other assets</i>	<i>Motor vehicles</i>	<i>Construction in progress</i>	<i>Total</i>
<b>Cost</b>						
<b>31 December 2005</b>	<b>90,587</b>	<b>48,708</b>	<b>19,984</b>	<b>5,668</b>	<b>1,259</b>	<b>166,206</b>
Additions	-	4,766	10,873	3,566	77,968	97,173
Transfers	12,150	23,061	-	-	(35,211)	-
Disposals	(213)	(2,767)	(766)	(422)	-	(4,168)
<b>31 December 2006</b>	<b>102,524</b>	<b>73,768</b>	<b>30,091</b>	<b>8,812</b>	<b>44,016</b>	<b>259,211</b>
<b>Accumulated depreciation</b>						
<b>31 December 2005</b>	<b>10,794</b>	<b>22,222</b>	<b>10,472</b>	<b>4,126</b>	<b>-</b>	<b>47,614</b>
Charge for the year	2,633	7,891	4,174	1,075	-	15,773
Disposals	-	(2,685)	(646)	(424)	-	(3,755)
<b>31 December 2006</b>	<b>13,427</b>	<b>27,428</b>	<b>14,000</b>	<b>4,777</b>	<b>-</b>	<b>59,632</b>
<b>Net book value</b>						
<b>31 December 2005</b>	<b>79,793</b>	<b>26,486</b>	<b>9,512</b>	<b>1,542</b>	<b>1,259</b>	<b>118,592</b>
<b>31 December 2006</b>	<b>89,097</b>	<b>46,340</b>	<b>16,091</b>	<b>4,035</b>	<b>44,016</b>	<b>199,579</b>



(Thousands of Ukrainian hryvnia, unless otherwise indicated)

**10. Property and equipment (continued)**

	<i>Property</i>	<i>Computers and equipment</i>	<i>Furniture, fixtures and other assets</i>	<i>Motor vehicles</i>	<i>Construction in progress</i>	<i>Total</i>
<b>Cost</b>						
31 December 2004	74,747	40,919	17,478	4,886	4,246	142,276
Additions	13,734	8,320	2,537	1,218	-	25,809
Transfers	2,987	-	-	-	(2,987)	-
Disposals	(881)	(531)	(31)	(436)	-	(1,879)
31 December 2005	90,587	48,708	19,984	5,668	1,259	166,206
<b>Accumulated depreciation</b>						
31 December 2004	9,243	16,842	8,511	3,708	-	38,304
Charge for the year	1,810	5,823	1,980	856	-	10,469
Disposals	(259)	(443)	(19)	(438)	-	(1,159)
31 December 2005	10,794	22,222	10,472	4,126	-	47,614
<b>Net book value</b>						
31 December 2004	65,504	24,077	8,967	1,178	4,246	103,972
31 December 2005	79,793	26,486	9,512	1,542	1,259	118,592

As at 31 December 2006, property comprises buildings occupied by the Bank with a carrying value of UAH 79,969 thousand, leasehold improvements with a carrying value of UAH 8,230 thousand and land with a carrying value of UAH 898 thousand (2005 – UAH 76,944 thousand, UAH 2,849 thousand and UAH 878 thousand, respectively). Aforementioned land is not amortised.

**11. Intangible assets**

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

	<i>Cost</i>	<i>Accumulated amortization</i>	<i>Net book value</i>
31 December 2004	6,029	(2,021)	4,008
Additions/(charge) for the year	433	(885)	-
31 December 2005	6,462	(2,906)	3,556
Additions/(charge) for the year	3,101	(1,259)	-
31 December 2006	9,563	(4,165)	5,398

**12. Allowances for impairment and provisions**

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

	<i>Loans to customers</i>	<i>Due from credit institutions</i>	<i>Investment securities</i>	<i>Total</i>
31 December 2004	83,433	762	204	84,399
Translation differences	(2,245)	(382)	-	(2,627)
Charge/(release)	35,759	(344)	-	35,415
Write-offs	(458)	-	-	(458)
31 December 2005	116,489	36	204	116,729
Translation differences	(184)	5	-	(179)
Charge/(release)	13,019	(41)	9	12,987
Write-offs	(2,186)	-	(149)	(2,335)
31 December 2006	127,138	-	64	127,202

(Thousands of Ukrainian hryvnia, unless otherwise indicated)

## 12. Allowance for impairment and provisions (continued)

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

	<i>Guarantees and commitments</i>	<i>Other assets</i>	<i>Total</i>
<b>31 December 2004</b>	-	<b>9,549</b>	<b>9,549</b>
Translation difference	-	(171)	(171)
Charge	441	1,507	1,948
Write-offs	-	(6,977)	(6,977)
<b>31 December 2005</b>	<b>441</b>	<b>3,908</b>	<b>4,349</b>
Translation difference	429	20	449
Charge	(405)	962	557
Write-offs	-	(71)	(71)
<b>31 December 2006</b>	<b>465</b>	<b>4,819</b>	<b>5,284</b>

Allowances for impairment of assets are deducted from the related assets. Provisions for guarantees and commitments are recorded in liabilities. In accordance with Ukrainian legislation, loans may only be written off with the approval of the Board of Directors and, in certain cases, with the respective decision of the Court.

## 13. Other assets and liabilities

Other assets comprise:

	<i>2006</i>	<i>2005</i>
Prepayments for property and equipment	11,847	2,329
Prepayments for materials	12,829	1,785
Transit accounts (settlements on payment cards)	6,043	1,311
Prepaid taxes other than income tax	2,914	1,636
Receivables from clients	1,624	2,129
Receivables for collateral sold	1,384	4,349
Cash issued to couriers for distribution to clients	1,332	3,088
Materials	1,229	685
Receivables on operations with securities	689	689
Other	2,921	3,622
	<b>42,812</b>	<b>21,623</b>
Less – Allowance for impairment (Note 12)	(4,819)	(3,908)
<b>Total other assets</b>	<b>37,993</b>	<b>17,715</b>

As at 31 December 2006, other prepaid taxes include UAH 2,858 thousand of value added tax on collateral under loans extended to customers, taken over by the Bank as a result of its foreclosure, and classified as assets held for sale (UAH 1,274 thousand).

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

Other liabilities comprise:

	<i>2006</i>	<i>2005</i>
Payables for utilities	3,708	2,043
Payables to personnel on salary and wages	1,425	406
Payables to individuals deposits guarantee fund	1,300	1,054
Transit accounts (settlements on payments cards)	623	940
Provision for commitments	465	441
Payables to budget on other taxes	222	249
Other	1,201	191
<b>Total other liabilities</b>	<b>8,944</b>	<b>5,324</b>

(Thousands of Ukrainian hryvnia, unless otherwise indicated)

#### 14. Amounts due to credit institutions

Amounts due to credit institutions comprise:

	<u>2006</u>	<u>2005</u>
Current accounts	3,953	2,304
Time deposits and loans	517,972	257,947
<b>Total amounts due to credit institutions</b>	<b><u>521,925</u></b>	<b><u>260,245</u></b>

As at 31 December 2006, current accounts of other banks include UAH 2,987 thousand placed by the bank-shareholder (2005 – UAH 392 thousand).

As at 31 December 2006, the Bank received funds of UAH 15,253 thousand from the EBRD under a loan agreement for financing the franchisee network of an international enterprise (2005– UAH 15,067 thousand).

As at 31 December 2006, time deposits and loans include UAH 169,233 thousand received under credit facilities from two foreign banks which were used to finance letters of credit and loans to customers (2005 – UAH 13,833 thousand).

As at 31 December 2006, time deposits and loans include UAH 86,681 thousand of credit facilities provided by one US based non-banking institution to finance the import operations of the Bank's clients (2005 – UAH 59,914 thousand).

During 2006, the Bank placed and received short-term funds from Ukrainian banks in various currencies. As of 31 December 2006, the Bank received UAH 33,824 thousand (2005 – nil) as deposits and an equivalent of UAH 18,642 thousand (2005 – nil) as a deposit in EURO with Ukrainian banks, which were related to deposits placed with the same banks (see Note 6).

#### 15. Amounts due to customers

Amounts due to customers comprise:

	<u>2006</u>	<u>2005</u>
Current accounts		
- Companies	351,071	352,293
- Individuals	224,714	113,618
	<b><u>575,785</u></b>	<b><u>465,911</u></b>
Time deposits		
- Companies	546,409	258,995
- Individuals	1,257,359	811,622
	<b><u>1,803,768</u></b>	<b><u>1,070,617</u></b>
<b>Total amounts due to customers</b>	<b><u>2,379,553</u></b>	<b><u>1,536,528</u></b>

As at 31 December 2006, amounts due to corporate customers of UAH 396,125 thousand (48%) were due to the ten largest third party customers (2005 - UAH 239,581 thousand (39%)).

#### 16. Subordinated debt

As at 31 December 2006 and 2005 subordinated debt represents two long-term loans of UAH 35,560 thousand (with original principal amount of USD 7,000 thousand) and UAH 38,191 thousand (with original principal amount of USD 7,500 thousand) received by the Bank in August and December 2005 respectively, from PKO BP S.A. These loans bear interest at LIBOR+3%, mature in 2013 and are subordinated in favour of the claims of all other creditors.

#### 17. Equity

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

	<i>Number of shares</i>	<i>Nominal amount</i>	<i>Inflation adjustment</i>	<i>Total</i>
<b>31 December 2004</b>	<b>14,308,535,550</b>	<b>143,085</b>	<b>54,008</b>	<b>197,628</b>
Sale of treasury shares	46,411,366	464	-	46,875
<b>31 December 2005</b>	<b>14,354,946,916</b>	<b>143,549</b>	<b>54,008</b>	<b>197,903</b>
Increase in share capital	7,575,000,000	75,750	-	7,650,750
<b>31 December 2006</b>	<b><u>21,929,947,164</u></b>	<b><u>219,299</u></b>	<b><u>54,008</u></b>	<b><u>279,506</u></b>

In March 2006, shareholders of the Bank approved an issue of 7,570,000,000 ordinary shares. This share issue was registered by the State Commission of Securities and Stock Market on 20 September 2006.

(Thousands of Ukrainian hryvnia, unless otherwise indicated)

## 17. Equity (continued)

At 31 December 2006, the Bank's authorised share capital comprised 21,929,947,164 (2005 – 14,354,946,916) ordinary shares, with a nominal value of UAH 0.01 per share. All ordinary shares have equal voting rights. As at 31 December 2006, 21,929,947,164 shares were issued, fully paid and registered (2005 – 14,354,946,916 shares).

The respective interests of shareholders are as follows:

Shareholder	2006	2005
PKO BP S.A.	69.9%	69.0%
EBRD	28.2%	28.3%
Other (resident and non-resident shareholders)	1.9%	2.7%
	<b>100.0%</b>	<b>100.0%</b>

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

The Bank's distributable reserves are determined by the amount of its reserves as disclosed in the accounts prepared in accordance with UAR. As at 31 December 2006, the statutory accounts of the Bank disclosed distributable reserves of UAH 23,159 thousand (2005 – UAH 10,721 thousand) and the amount of non-distributable reserves was UAH 15,254 thousand (2005 - UAH 4,524 thousand). Non-distributable reserves are represented by a general reserve fund, which is created as required by Ukrainian legislation, in respect of general banking risks, including future losses and other unforeseen risks or contingencies.

## 18. Taxation

The corporate income tax expense comprises:

	2006	2005
Current tax expense	14,285	7,921
Deferred tax expense / (credit)	1,245	(985)
<b>Total income tax expense</b>	<b>15,530</b>	<b>6,936</b>

In 2006, Ukrainian corporate income tax was levied on taxable income less allowable expenses at a rate of 25% (2005 – 25%).

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

	2006	2005
<b>Profit before tax</b>	<b>42,762</b>	<b>17,259</b>
Theoretical income tax expense at the statutory rate (25 %)	10,691	4,315
Effect of revaluation of property and equipment for tax purposes	(476)	(495)
Non-deductible expenditures	3,335	1,732
Change in valuation allowance against deferred tax asset	2,780	1,601
Tax deductions	(800)	(217)
<b>Total income tax expense</b>	<b>15,530</b>	<b>6,936</b>

Deferred tax assets and liabilities consist of the following:

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

(Thousands of Ukrainian hryvnia, unless otherwise indicated)

**18. Taxation (continued)**

	<i>Origination and reversal of temporary differences in the statement of income</i>		
	<i>2005</i>		<i>2004</i>
<b>Tax effect of deductible temporary differences:</b>			
Allowance for impairment and provisions for other losses	20,337	3,049	17,288
Amounts due to customers	1,357	491	866
Fair value measurement of securities	-	(433)	433
<b>Deferred tax assets</b>	<b>21,694</b>	<b>3,107</b>	<b>17,857</b>
<b>Tax effect of taxable temporary differences:</b>			
Fair value measurement of securities	(258)	(258)	-
Property and equipment	(2,752)	(263)	(2,489)
<b>Deferred tax liability</b>	<b>(3,010)</b>	<b>(521)</b>	<b>(2,489)</b>
<b>Net deferred tax position</b>	<b>18,684</b>	<b>2,585</b>	<b>16,098</b>
Less – Valuation allowance	(2,780)	(1,600)	(1,179)
<b>Deferred tax asset, net</b>	<b>15,904</b>	<b>985</b>	<b>14,919</b>

**19. Net fee and commission income**

Net fee and commission income comprises:

	<i>2006</i>	<i>2005</i>
Cash and settlement operations	37,711	31,798
Credit services	11,383	13,672
Currency conversion operations	8,835	8,771
Guarantees and letters of credit	2,632	1,846
Securities operations	756	508
Other	245	196
<b>Fee and commission income</b>	<b>61,562</b>	<b>56,791</b>
Cash and settlement operations	(2,725)	(1,308)
Guarantees and letters of credit	(1,166)	(411)
Currency conversion operations	(64)	(1,408)
Other	(1,215)	(995)
<b>Fee and commission expense</b>	<b>(5,170)</b>	<b>(4,122)</b>
<b>Net fee and commission income</b>	<b>56,392</b>	<b>52,669</b>

**20. Salaries and benefits, other administrative and operating expenses**

Salaries and benefits, other administrative and operating expenses comprise:

	<i>2006</i>	<i>2005</i>
Salaries and bonuses	44,820	31,885
Social security costs	13,953	10,086
<b>Total salaries and benefits</b>	<b>58,773</b>	<b>41,971</b>

(Thousands of Ukrainian hryvnia, unless otherwise indicated)

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

Other administrative and operating expenses comprise:

Occupancy and rent	18,188	7,441
Office expenses	6,922	4,036
Marketing and advertising	5,975	2,475
Security	5,285	4,054
Repairs and maintenance	5,139	3,745
Payments to individuals' deposits guarantee fund	4,912	3,834
EDP costs	3,724	3,137
Communications	3,270	2,517
Legal and consultancy	3,043	4,428
Business travel and related expenses	2,605	1,351
Operating taxes	1,305	1,873
Cash collection	816	844
Charity	627	293
Loss on disposal of property and equipment	317	1,184
Penalties incurred	37	19
Other	9,656	3,673
<b>Total other administrative and operating expenses</b>	<b>71,821</b>	<b>44,904</b>

The aggregate remuneration and other benefits paid to members of the Management Board for 2006 is UAH 3,0212 thousand (2005 – UAH 2,2952 thousand).

## 21. Commitments and contingencies

### Operating Environment

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

### Legal

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

### Tax and other regulatory compliance

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

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

(Thousands of Ukrainian hryvnia, unless otherwise indicated)

## 21. Commitments and contingencies (continued)

### Financial commitments and contingencies

As of 31 December 2006, the Bank's financial commitments and contingencies comprised the following:

	<u>2006</u>	<u>2005</u>
<b>Credit related commitments</b>		
Undrawn loan commitments	96,931	68,330
Promissory note guarantees	42,899	26,173
Guarantees	17,763	17,640
Letters of credit	13,505	29,079
	<u>171,098</u>	<u>141,222</u>
<b>Operating lease commitments</b>		
Not later than 1 year	24,960	5,653
Later than 1 year but not later than 5 years	70,492	13,485
Later than 5 years	8,779	4,285
	<u>104,231</u>	<u>23,423</u>
Capital expenditure commitments	-	4,000
Less – Provisions	(465)	(441)
Less – Cash held as security against letters of credit and guarantees	(11,340)	(29,403)
<b>Financial commitments and contingencies</b>	<u>263,524</u>	<u>138,801</u>

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

### Financial covenants

The Bank is a party to debt arrangements with the EBRD (see Note 15), which contains certain financial covenants relating to the financial performance and general risk profile of the Bank. Such financial covenants may restrict the Bank's ability to execute certain business strategies and enter into other significant transactions in the future. The Bank complied with these covenants as at 31 December 2006.

In 2006, the Bank concluded an agreement with an OECD bank, according to which the Bank is required to conduct a certain number of transactions related to issuance of letters of credit and guarantees. In 2006, the Bank issued 66 letters of credit, including 47 for financing of import transactions of the Bank's customers, and 342 guarantees (340 – for import transactions of the Bank's customers).

### Insurance

The Bank has obtained insurance coverage against physical damage and loss, from a Ukrainian insurance company in respect of vehicles for a sum insured of UAH 100,023 thousand (2005 - UAH 113,762 thousand in respect of property and equipment).

## 22. Financial risk management

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

### Credit risk

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

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

(Thousands of Ukrainian hryvnia, unless otherwise indicated)

**22. Financial risk management (continued)**

With respect to undrawn loan commitments the Bank is potentially exposed to loss in an amount equal to the total amount of such commitments. However, the likely amount of loss is less than that, since most commitments are contingent upon certain conditions set out in the loan agreements.

**Geographical concentration**

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

	<i>2006</i>			
	<i>Ukraine</i>	<i>OECD</i>	<i>CIS and other non-OECD countries</i>	<i>Total</i>
<b>Assets:</b>				
Cash and cash equivalents	292,082	117,552	2,674	412,308
Financial assets at fair value through profit and loss	136,376	-	-	136,376
Amounts due from credit institutions	72,655	-	-	72,655
Loans to customers	2,378,361	-	-	2,378,361
Financial investments available-for-sale	929	-	-	929
Other monetary assets	22,870	391	-	23,261
	<b>2,903,273</b>	<b>117,943</b>	<b>2,674</b>	<b>3,023,890</b>
<b>Liabilities:</b>				
Due to the NBU	53,055	-	-	53,055
Due to credit institutions	121,027	400,898	-	521,925
Due to customers	2,379,553	-	-	2,379,553
Subordinated debt	-	73,751	-	73,751
Other monetary liabilities	7,992	-	-	7,992
	<b>2,561,627</b>	<b>474,649</b>	<b>-</b>	<b>3,036,276</b>
<b>Net balance sheet position</b>	<b>341,646</b>	<b>(356,706)</b>	<b>2,674</b>	<b>(12,386)</b>
<b>Net off-balance sheet position</b>	<b>263,524</b>	<b>-</b>	<b>-</b>	<b>263</b>
	<i>2005</i>			
	<i>Ukraine</i>	<i>OECD</i>	<i>CIS and other non-OECD countries</i>	<i>Total</i>
<b>Assets:</b>				
Cash and cash equivalents	223,438	68,357	1,654	293,449
Financial assets at fair value through profit and loss	39,477	-	-	39,477
Amounts due from credit institutions	15,586	-	-	15,586
Loans to customers	1,497,568	-	-	1,497,568
Financial investments available-for-sale	938	-	-	938
Other monetary assets	25,927	206	-	26,133
	<b>1,802,934</b>	<b>68,563</b>	<b>1,654</b>	<b>1,873,151</b>
<b>Liabilities:</b>				
Due to the NBU	-	-	-	-
Due to credit institutions	42,697	217,548	-	260,245
Due to customers	1,536,528	-	-	1,536,528
Subordinated debt	-	73,579	-	73,579
Tax liabilities	239	-	-	239
Other monetary liabilities	5,324	-	-	5,324
	<b>1,584,788</b>	<b>291,127</b>	<b>-</b>	<b>1,875,915</b>
<b>Net balance sheet position</b>	<b>218,146</b>	<b>(222,564)</b>	<b>1,654</b>	<b>(2,764)</b>
<b>Net off-balance sheet position</b>	<b>138,801</b>	<b>-</b>	<b>-</b>	<b>138,801</b>



(Thousands of Ukrainian hryvnia, unless otherwise indicated)

## 22. Financial risk management (continued)

### Market risk

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

### Currency risk

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

	2006				
	UAH	USD	EUR	Other	Total
<b>Assets:</b>					
Cash and cash equivalents	217,360	124,841	59,490	10,617	412,308
Financial assets at fair value through profit and loss	136,376	-	-	-	136,376
Amounts due from credit institutions	3,636	40,402	28,617	-	72,655
Financial investments available-for-sale	929	-	-	-	929
Loans to customers	1,071,257	1,037,816	269,288	-	2,378,361
Other monetary assets	21,247	1,547	98	369	23,261
	<b>1,450,805</b>	<b>1,204,606</b>	<b>357,493</b>	<b>10,986</b>	<b>3,023,890</b>
<b>Liabilities:</b>					
Due to the NBU	53,055	-	-	-	53,055
Due to credit institutions	43,824	357,202	120,699	200	521,925
Due to customers	1,329,856	796,525	244,427	8,745	2,379,553
Subordinated debt	-	73,751	-	-	73,751
Other monetary liabilities	7,664	68	179	81	7,992
	<b>1,434,399</b>	<b>1,227,546</b>	<b>365,305</b>	<b>9,026</b>	<b>3,036,276</b>
<b>Net balance sheet position</b>	<b>16,406</b>	<b>(22,940)</b>	<b>(7,812)</b>	<b>1,960</b>	<b>(12,386)</b>
<b>Net off-balance sheet position</b>	<b>175,266</b>	<b>69,093</b>	<b>19,139</b>	<b>26</b>	<b>263,524</b>

	2005				
	UAH	USD	EUR	Other	Total
<b>Assets:</b>					
Cash and cash equivalents	178,786	37,829	69,960	6,874	293,449
Financial assets at fair value through profit and loss	39,477	-	-	-	39,477
Amounts due from credit institutions	2,725	12,808	-	53	15,586
Financial investments available-for-sale	938	-	-	-	938
Loans to customers	696,135	671,028	130,405	-	1,497,568
Other monetary assets	22,348	2,856	203	726	26,133
	<b>940,409</b>	<b>724,521</b>	<b>200,568</b>	<b>7,653</b>	<b>1,873,151</b>
<b>Liabilities:</b>					
Due to the NBU	-	-	-	-	-
Due to credit institutions	5,125	183,833	71,118	169	260,245
Due to customers	910,140	484,549	134,828	7,011	1,536,528
Subordinated debt	-	73,579	-	-	73,579
Other monetary liabilities	5,063	289	211	-	5,563
	<b>920,328</b>	<b>742,250</b>	<b>206,157</b>	<b>7,180</b>	<b>1,875,915</b>
<b>Net balance sheet position</b>	<b>20,081</b>	<b>(17,7329)</b>	<b>(5,589)</b>	<b>473</b>	<b>(2,764)</b>
<b>Net off-balance sheet position</b>	<b>82,571</b>	<b>24,823</b>	<b>31,402</b>	<b>5</b>	<b>138,801</b>

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

### Interest rate risk

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

(Thousands of Ukrainian hryvnia, unless otherwise indicated)

**22. Financial risk management (continued)**

The table below summarises the Bank's exposure to interest rate risk as at 31 December 2006. Included in the table are the Bank's monetary assets and liabilities at carrying amounts, classified by the earlier of contractual re-pricing or maturity dates.

	<i>2006</i>							
	<i>On demand</i>	<i>Less than 1 month</i>	<i>1 to 3 months</i>	<i>3 months to 1 year</i>	<i>1 to 5 years</i>	<i>Over 5 years</i>	<i>Past Due</i>	<i>Total</i>
<b>Assets:</b>								
Cash and cash equivalents	392,251	20,057	-	-	-	-	-	412,308
Financial assets at fair value through profit and loss	-	7,186	-	27,983	101,207	-	-	136,376
Amounts due from credit institutions	-	57,505	-	15,150	-	-	-	72,655
Financial investment available-for-sale	929	-	-	-	-	-	-	929
Loans to customers	-	64,151	93,898	705,804	1,100,188	396,595	17,725	2,378,361
Other monetary assets	185	4,141	47	17,679	1,088	-	121	23,261
	<b>393,365</b>	<b>153,040</b>	<b>93,945</b>	<b>766,616</b>	<b>1,202,483</b>	<b>396,595</b>	<b>17,846</b>	<b>3,023,890</b>
<b>Liabilities:</b>								
Due to the NBU	-	53,055	-	-	-	-	-	53,055
Due to credit institutions	3,953	232,435	2,311	88,956	118,024	76,246	-	521,925
Due to customers	575,611	212,455	413,371	800,669	225,710	151,737	-	2,379,553
Subordinated debt	-	73,751	-	-	-	-	-	73,751
Other monetary liabilities	-	4,735	-	3,257	-	-	-	7,992
	<b>579,564</b>	<b>576,431</b>	<b>415,682</b>	<b>892,882</b>	<b>343,734</b>	<b>227,983</b>	<b>-</b>	<b>3,036,276</b>
<b>Total interest sensitivity gap</b>	<b>(186,199)</b>	<b>(423,391)</b>	<b>(321,737)</b>	<b>(126,266)</b>	<b>858,749</b>	<b>168,612</b>	<b>17,846</b>	<b>(12,385)</b>
	<i>2005</i>							
	<i>On demand</i>	<i>Less than 1 month</i>	<i>1 to 3 months</i>	<i>3 months to 1 year</i>	<i>1 to 5 years</i>	<i>Over 5 years</i>	<i>Past Due</i>	<i>Total</i>
<b>Assets:</b>								
Cash and cash equivalents	264,445	29,004	-	-	-	-	-	293,449
Financial assets at fair value through profit and loss	-	-	759	18,541	20,177	-	-	39,477
Amounts due from credit institutions	-	8,011	-	7,575	-	-	-	15,586
Financial investment available-for-sale	938	-	-	-	-	-	-	938
Loans to customers	-	32,602	75,289	334,199	825,379	206,273	23,826	1,497,568
Other monetary assets	-	3,523	3,620	18,240	750	-	-	26,133
	<b>265,383</b>	<b>73,140</b>	<b>79,668</b>	<b>378,555</b>	<b>846,306</b>	<b>206,273</b>	<b>23,826</b>	<b>1,873,151</b>
<b>Liabilities:</b>								
Due to the NBU	-	-	-	-	-	-	-	-
Due to credit institutions	2,304	93,124	-	64,479	100,338	-	-	260,245
Due to customers	465,911	177,801	218,575	518,667	106,135	49,439	-	1,536,528
Subordinated debt	73,579	-	-	-	-	-	-	73,579
Other monetary liabilities	-	1,077	3,834	652	-	-	-	5,563
	<b>541,794</b>	<b>272,002</b>	<b>222,409</b>	<b>583,798</b>	<b>206,473</b>	<b>49,439</b>	<b>-</b>	<b>1,875,915</b>
<b>Total interest sensitivity gap</b>	<b>(276,411)</b>	<b>(198,862)</b>	<b>(142,741)</b>	<b>(205,243)</b>	<b>639,833</b>	<b>156,834</b>	<b>23,826</b>	<b>(2,764)</b>

(Thousands of Ukrainian hryvnia, unless otherwise indicated)

## 22. Financial risk management (continued)

As at 31 December 2006 and 2005, the effective average interest rates by currencies for interest generating/bearing monetary financial instruments were as follows:

	2006		2005	
	UAH	USD/euro	UAH	USD/euro
Cash and cash equivalents	-	3.18%	5.11%	-
Amounts due from credit institutions	0.50%	5.69%	-	10.50%
Debt trading securities	12.55%	-	13.01%	-
Loans to customers	17.32%	12.27%	18.45%	13.17%
Due to credit institutions	9.94%	6.97%	6.87%	6.12%
Subordinated loans	-	8.32%	-	9.01%
Customer deposits	11.66%	7.36%	13.01%	7.11%

### Liquidity risk

Liquidity risk refers to the availability of sufficient funds to meet deposit withdrawals and other financial commitments associated with financial instruments as they actually fall due. In order to manage liquidity risk, the Bank performs daily monitoring of future expected cash flows on clients' and banking operations, which is a part of assets/liabilities management process. The Board sets limits on the minimum proportion of maturing funds available to meet deposit withdrawals and on the minimum level of inter-bank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

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

	2006							Total
	On demand	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Past Due	
<b>Assets:</b>								
Cash and cash equivalents	392,251	20,057	-	-	-	-	-	412,308
Financial assets at fair value through profit and loss	-	7,186	-	27,983	101,207	-	-	136,376
Amounts due from credit institutions	-	57,505	-	15,150	-	-	-	72,655
Financial investment available-for-sale	929	-	-	-	-	-	-	929
Loans to customers	-	64,151	93,898	705,804	1,100,188	396,595	17,725	2,378,361
Other monetary assets	185	4,141	47	17,679	1,088	-	121	23,261
	<b>393,365</b>	<b>153,040</b>	<b>93,945</b>	<b>766,616</b>	<b>1,202,483</b>	<b>396,595</b>	<b>17,846</b>	<b>3,023,890</b>
<b>Liabilities:</b>								
Due to the NBU	-	53,055	-	-	-	-	-	53,055
Due to credit institutions	3,953	232,435	2,311	88,956	118,024	76,246	-	521,925
Due to customers	575,611	212,455	413,371	800,669	225,710	151,737	-	2,379,553
Subordinated debt	-	-	-	-	-	73,751	-	73,751
Other monetary liabilities	-	4,735	-	3,257	-	-	-	7,992
	<b>579,564</b>	<b>502,680</b>	<b>415,682</b>	<b>892,882</b>	<b>343,734</b>	<b>301,734</b>	<b>-</b>	<b>3,036,276</b>
<b>Net position</b>	<b>(186,199)</b>	<b>(349,640)</b>	<b>(321,737)</b>	<b>(126,266)</b>	<b>858,749</b>	<b>94,863</b>	<b>17,846</b>	<b>(12,386)</b>
<b>Accumulated gap</b>	<b>(186,199)</b>	<b>(535,839)</b>	<b>(857,576)</b>	<b>(983,842)</b>	<b>(125,093)</b>	<b>(30,232)</b>	<b>(12,386)</b>	

(Thousands of Ukrainian hryvnia, unless otherwise indicated)

**22. Financial risk management (continued)**

	<i>2005</i>							
	<i>On demand</i>	<i>Less than 1 month</i>	<i>1 to 3 months</i>	<i>3 months to 1 year</i>	<i>1 to 5 years</i>	<i>Over 5 years</i>	<i>Past Due</i>	<i>Total</i>
<b>Assets:</b>								
Cash and cash equivalents	264,445	29,004	-	-	-	-	-	293,449
Financial assets at fair value through profit and loss	-	-	759	18,541	20,177	-	-	39,477
Amounts due from credit institutions	-	8,011	-	7,575	-	-	-	15,586
Financial investment available-for-sale	938	-	-	-	-	-	-	938
Loans to customers	-	32,602	75,289	334,199	825,379	206,273	23,826	1,497,568
Other monetary assets	-	3,523	3,620	18,240	750	-	-	26,133
	<u>265,383</u>	<u>73,140</u>	<u>79,668</u>	<u>378,555</u>	<u>846,306</u>	<u>206,273</u>	<u>23,826</u>	<u>1,873,151</u>
<b>Liabilities:</b>								
Due to the NBU	-	-	-	-	-	-	-	-
Due to credit institutions	2,304	93,124	-	64,479	100,338	-	-	260,245
Due to customers	465,911	177,801	218,575	518,667	106,135	49,439	-	1,536,528
Subordinated debt	-	-	-	-	-	73,579	-	73,579
Other monetary liabilities	-	1,077	3,834	652	-	-	-	5,563
	<u>468,215</u>	<u>272,002</u>	<u>222,409</u>	<u>583,798</u>	<u>206,473</u>	<u>123,018</u>	<u>-</u>	<u>1,875,915</u>
<b>Net position</b>	<u>(202,832)</u>	<u>(198,862)</u>	<u>(142,741)</u>	<u>(205,243)</u>	<u>639,833</u>	<u>83,255</u>	<u>23,826</u>	<u>(2,764)</u>
<b>Accumulated gap</b>	<u>(202,832)</u>	<u>(401,694)</u>	<u>(544,435)</u>	<u>(749,678)</u>	<u>(109,845)</u>	<u>(26,590)</u>	<u>(2,764)</u>	

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

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

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

Management monitors the Bank's liquidity position and has plans to reduce the liquidity gap in the period up to one year in 2007. These plans include controlling the growth in long-term loans, extending the maturity of customer deposits, increase of the Bank's capital. The Bank believes that in spite of a substantial portion of deposits from individuals being in the period up to 1 year, diversification of these deposits by number and type of depositors and past experience of the Bank indicates that these deposits provide a long-term and stable source of funding for the Bank. The Bank concluded an agreement to attract another portion of subordinated debt amounting to USD 7,500 thousand from PKO BP S.A. on the 30<sup>th</sup> January 2007. Maturity was set on the 30<sup>th</sup> January 2015 and interest rate 1 month LIBOR + 2.3%. The Bank received funds on the 2nd February 2007.

(Thousands of Ukrainian hryvnia, unless otherwise indicated)

## 22. Financial risk management (continued)

Considering the above, management believes that the Bank will be able to meet its liquidity needs in 2007 and beyond. The plans as described above and overall liquidity management requires that the Bank extends the maturity of its customer deposits, which are subject to prevailing market conditions, including market liquidity, pricing and competitive pressures, and to secure additional long-term funding. Failure to extend the maturity of its customer deposits or to effectively implement any of the plans described above could have a materially adverse effect on the ability of the Bank to meet its obligations, including debt servicing, and, therefore, the Bank's results of operations and financial condition.

## 23. Fair values of financial instruments

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

The following table summarises the carrying amounts and fair values of those financial assets and liabilities not presented on the Bank's balance sheet at fair value.

	2006		2005	
	<i>Carrying amount</i>	<i>Fair value</i>	<i>Carrying amount</i>	<i>Fair value</i>
<i>Financial assets</i>				
Loans to customers	2,378,361	2,394,423	1,497,568	1,494,274
<i>Financial liabilities</i>				
Due to customers	2,379,553	2,377,154	1,536,528	1,541,175

The following methods and assumptions are used by the Bank to estimate the fair value of these financial instruments:

### Amounts due from and to the National Bank of Ukraine, credit institutions and customers

For assets with maturing within one month, the carrying amount approximates fair value due to the relatively short-term maturity of these financial instruments. For the assets and liabilities maturing in over one month, the fair value was estimated as the present value of estimated future cash flows discounted at the appropriate year-end market rates.

#### Loans to customers

The estimate of the fair value was made by discounting the scheduled future cash flows of individual loans through to estimated maturity using prevailing market rates as at the respective year-end.

#### Amounts due to customers

For balances maturing within one month the carrying amount approximates fair value due to the relatively short-term maturity of these financial instruments. For longer term fixed interest bearing deposits and other borrowings the estimated fair value is based on discounted cash flows using interest rates for new debts with similar remaining maturity.

#### Subordinated debt

This financing was obtained at market rates, which are considered also as appropriate year-end market rates. Consequently, the carrying value measured at amortised cost is a reasonable estimate of its fair value.

## 24. Related party transactions

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

(Thousands of Ukrainian hryvnia, unless otherwise indicated)

## 25. Related party transactions (continued)

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

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

	2006		2005	
	Share-holders	Key management personnel	Share-holders	Key management personnel
Loans outstanding at January 1, gross	-	235	-	-
Loans issued during the year	-	811	-	269
Loan repayments during the year	-	583	-	34
Loans outstanding at 31 December, gross	-	463	-	235
Less: allowance for impairment at 31 December	-	-	-	-
Loans outstanding at 31 December, net	-	463	-	235
Interest income on loans	-	42	-	39
Impairment charge for loans	-	-	-	-
Deposits at 1 January	143,491	1,381	59,271	222
Deposits received during the year	189,482	-	95,960	-
Deposits repaid during the year	39,550	-	11,740	-
Deposits at 31 December	293,423	858	143,491	1,381
Current accounts at 31 December	1,018	-	660	-
Subordinated debt at 1 January	73,579	-	-	-
Subordinated debt received during the year	-	-	73,225	-
Subordinated debt repaid during the year	-	-	-	-
Other movements (interest accrued)	172	-	354	-
Deposits at 31 December	73,751	-	73,579	73,579
Interest expense on deposits	9,751	59	5,154	126
Interest expense on subordinated debt	5,981	-	1,059	-
Interest income on amounts due from credit institutions	-	-	186	-
Fee and commission expense	1,202	-	-	-

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

- 1) As at 31 December 2006 and 2005, due from credit institutions consisted of balances on current accounts with PKO BP S.A..
- 2) As at 31 December 2006, due to credit institutions include time deposits and loans of UAH 168,148 thousand received from PKO BP S.A. and UAH 25,275 thousand received from the EBRD (2005 – UAH 128,031 thousand received from PKO BP S.A. and UAH 15,067 thousand from EBRD).
- 3) The amounts of interest expense to credit institutions for 2006 represent interests on transactions with PKO BP S.A. and the EBRD amounting to UAH 8,363 thousand and UAH 1,388 thousand, respectively (2005 – UAH 4,311 thousand with PKO BP S.A., and UAH 843 thousand with EBRD).

## 25. Capital adequacy

The Bank's risk based capital adequacy ratio, computed in accordance with the Basle Accord guidelines issued in 1988, as at 31 December 2006 and 2005, was 12.5% and 12%, respectively. These ratios exceeded the minimum ratio of 8% recommended by the Basle Accord.