Open Joint Stock Company
"Raiffeisen Bank Aval"
Consolidated Financial Statements

Year ended 31 December 2006
Together with Independent Auditors' Report

CONTENTS

INDEPENDENT AUDITORS' REPORT

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Balance Sheet ... 1
Consolidated Statement of Income ... 2
Consolidated Statement of Changes in Equity ... 3
Consolidated Statement of Cash Flows ... 4

NOTES TO THE 2006 CONSOLIDATED FINANCIAL STATEMENTS

1. Principal activities ... 5
2. Basis of preparation ... 5
3. Summary of accounting policies ... 6
4. Significant accounting judgements and estimates ... 14
5. Cash and cash equivalents ... 15
6. Amounts due from credit institutions ... 16
7. Loans to customers ... 16
8. Investment securities ... 17
9. Income tax ... 18
10. Assets held for sale ... 19
11. Allowances for impairment ... 20
12. Property and equipment ... 21
13. Intangible assets ... 22
14. Other assets and liabilities ... 22
15. Amounts due to the National Bank of Ukraine ... 23
16. Amounts due to credit institutions ... 23
17. Amounts due to customers ... 24
18. Subordinated debt ... 24
19. Equity ... 25
20. Commitments and contingencies ... 26
21. Fees and commissions, net ... 28
22. Salaries and other administrative and operating expenses ... 28
23. Risk management policies ... 28
24. Fair values of financial instruments ... 33
25. Related party transactions ... 35
26. Capital adequacy ... 35
27. Subsequent events ... 35

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INDEPENDENT AUDITORS' REPORT

To the Shareholders and Directors of Open Joint Stock Company "Raiffeisen Bank Aval"

We have audited the accompanying consolidated financial statements of Open Joint Stock Company "Raiffeisen Bank Aval" and its subsidiary (together the "Bank"), which comprise the consolidated balance sheet as at 31 December 2006, and the consolidated statement of income, consolidated statement of changes in equity and consolidated 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 consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

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

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

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

Opinion

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

Ernst & Young Audit Services LLC

11 June 2007

CONSOLIDATED BALANCE SHEET

As at 31 December 2006

(Thousands of US dollars)

	Notes	31 December 2006	2005
Assets			
Cash and cash equivalents	5	843,784	953,116
Amounts due from credit institutions	6	7,495	17,083
Loans to customers	7	4,077,065	2,354,123
Investment securities:	8		
- designated at fair value through profit or loss		74,232	49,888
- available-for-sale		262	2,925
- held-to-maturity		773	120,175
Assets held for sale	10	443	2,138
Property and equipment	12	315,099	181,153
Intangible assets	13	16,722	11,432
Deferred income tax assets	9	37	-
Other assets	14	30,716	14,005
Total assets		**5,366,628**	**3,706,038**
Liabilities			
Amounts due to the National Bank of Ukraine	15	501	13,214
Amounts due to credit institutions	16	1,348,216	496,096
Amounts due to customers	17	3,321,464	2,827,357
Subordinated debt	18	70,590	69,908
Current income tax liabilities	9	5,824	4,135
Deferred income tax liabilities	9	17,895	1,958
Other liabilities	14	39,303	21,962
Provisions	11	1,869	920
Total liabilities		**4,805,662**	**3,435,550**
Equity			
Share capital		430,800	307,660
Share premium		14,143	-
Revaluation reserve		111,192	24,116
Retained earnings/(Accumulated deficit)		4,403	(61,288)
Total equity attributable to shareholders of the Bank	19	**560,538**	**270,488**
Minority interest		**428**	-
Total equity	19	**560,966**	**270,488**
Total liabilities and equity		**5,366,628**	**3,706,038**

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

Volodymyr Lavrenchuk — Chairman of the Board

Ludmyla Makarenko — Chief Accountant

31 May 2007

The accompanying notes on pages 5 to 36 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF INCOME

For the year ended 31 December 2006

(Thousands of US dollars)

	Notes	*Year ended 31 December* 2006	2005
Interest income			
Loans to customers		521,811	320,077
Amounts due from credit institutions		7,445	9,443
Investment securities		6,752	10,833
Due from the NBU		102	-
		536,110	340,353
Interest expenses			
Due to customers		(181,313)	(148,565)
Due to credit institutions		(43,520)	(16,343)
Subordinated debt		(7,555)	(3,893)
Due to the NBU		(963)	(3,158)
Dividends paid on preference shares		(137)	(137)
		(233,488)	(172,096)
Net interest income		**302,622**	**168,257**
Impairment of interest earning assets	11	(93,565)	(71,967)
		209,057	**96,290**
Fee and commission income		157,255	130,357
Fee and commission expense		(15,063)	(13,138)
Fees and commissions, net	21	**142,192**	**117,219**
Gains less losses from foreign currencies:			
- dealing		27,928	31,624
- translation differences		1,968	(903)
Dealing in securities		439	(266)
Re-measurement of financial instruments		2,946	(2,309)
Other income		2,415	2,967
Non interest income		**35,696**	**31,113**
Salaries and benefits	22	(148,132)	(107,321)
Depreciation and amortisation	12,13	(29,263)	(23,460)
Other administrative and operating expenses	22	(113,602)	(81,233)
Impairment of other assets and provisions	11	(4,280)	(2,843)
Non interest expense		**(295,277)**	**(214,857)**
Profit before income tax expenses		**91,668**	**29,765**
Income tax expense	9	(24,818)	(15,614)
Profit for the year		**66,850**	**14,151**
Attributable to:			
- shareholders of the Bank		66,892	**14,151**
- minority interest		(42)	**-**
		66,850	**14,151**

The accompanying notes on pages 5 to 36 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2006

(Thousands of US dollars)

	Share capital	*Share premi-um*	*Treasury shares*	*Revalua-tion reserve*	*Retained earnings/ (Accumula-ted deficit)*	*Total*	*Minority interest*	*Total equity*
31 December 2004	**203,731**	**473**	**(4,575)**	**24,192**	**(60,280)**	**163,541**	**-**	**163,541**
Translation differences	11,747	16	(240)	1,208	(2,612)	10,119		10,119
Share capital increase by ordinary shares	97,567					97,567		97,567
Registered but not paid in shares	(1)					(1)		(1)
Purchase of treasury shares		(489)	(13,203)			(13,692)		(13,692)
Sale of treasury shares			12,634		(13,898)	(1,264)		(1,264)
Depreciation of revaluation reserve, net of tax				(126)	126	-		-
Revaluation of tangible assets' disposal				(1,158)	1,158	-		-
Change in fair value of available-for-sale securities, net of tax					67	67		67
Net profit for the year					14,151	14,151		14,151
31 December 2005	**313,044**	**-**	**(5,384)**	**24,116**	**(61,288)**	**270,488**	**-**	**270,488**
Share capital increase by ordinary shares	118,800					118,800	-	118,800
Purchase of treasury shares		(399)	(1,044)		(26)	(1,469)	-	(1,469)
Sale of treasury shares		14,542	5,384			19,926	-	19,926
Revaluation of property, net of tax				88,110		88,110	-	88,110
Depreciation of revaluation reserve, net of tax				(958)	958	-	-	-
Revaluation of tangible assets' disposal				(76)	76	-	-	-
Change in fair value of available-for-sale securities, net of tax					(2,209)	(2,209)	-	(2,209)
Minority interest contribution							470	470
Net profit for the year					66,892	66,892	(42)	66,850
31 December 2006	**431,844**	**14,143**	**(1,044)**	**111,192**	**4,403**	**560,538**	**428**	**560,966**

The accompanying notes on pages 5 to 36 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2006

(Thousands of US dollars)

	Notes	*Year ended 31 December* 2006	2005
Cash flows from operating activities			
Interest and commissions received		671,677	481,786
Interest and commissions paid		(245,634)	(167,497)
Gains less losses from dealing in foreign currencies and securities		28,367	31,163
Other operating income received		2,355	2,967
Salaries and benefits		(134,209)	(104,030)
Other operating and administrative expenses		(108,901)	(79,856)
Cash flow from operating activities before changes in operating assets and liabilities		**213,655**	**164,533**
Net (increase) / decrease in operating assets			
Amounts due from credit institutions		9,484	14,517
Loans to customers		(1,820,864)	(915,128)
Other assets		(15,942)	4,828
Net increase / (decrease) in operating liabilities			
Amounts due to credit institutions		498,222	(10,392)
Amounts due to customers		511,974	1,177,347
Other liabilities		(2,231)	5,790
Net cash flows (used in)/from operating activities before income tax		**(605,702)**	**441,495**
Income tax paid		(35,860)	(6,706)
Net cash flows (used in)/from operating activities		**(641,562)**	**434,789**
Cash flows from financing activities			
Amounts due to credit institutions		380,921	261,869
Amounts due to the National Bank of Ukraine		(12,680)	(123,750)
Share capital issued		118,800	97,566
Sale/(purchase) of treasury shares		18,457	(14,957)
Minority interest contribution		470	-
Redemption of debt securities issued		-	(96)
Subordinated debt issued		-	69,068
Net cash flows from financing activities		**505,968**	**289,700**
Cash flows used in investing activities			
Purchase/(sale) of investment securities, net		97,950	(113,476)
Proceeds from assets held for sale		218	3,191
Purchase of property and equipment		(48,324)	(34,444)
Purchase of intangible assets		(8,086)	(8,672)
Proceeds from sale of property and equipment		4,033	8,117
Net cash flows from/(used in) investing activities		**45,791**	**(145,284)**
Effect of exchange rate changes on cash and cash equivalents		(19,529)	24,325
Net change in cash and cash equivalents		**(109,332)**	**603,530**
Cash and cash equivalents, beginning of the year	5	**953,116**	**349,586**
Cash and cash equivalents, ending of the year	5	**843,784**	**953,116**

The accompanying notes on pages 5 to 36 are an integral part of these consolidated financial statements.

(Thousands of US dollars)

1. Principal activities

Joint Stock Commercial Bank "Aval" (the "Bank") was registered on 27 March 1992 by the National Bank of Ukraine (the "NBU"), as an open joint stock company under the laws of Ukraine. In April 1994, the Bank was re-registered as Joint Stock Post-Pension Bank "Aval". In 2006 the Bank was re-registered as Open Joint Stock Company "Raiffeisen Bank Aval". Currently, the Bank operates under a general banking licence, renewed by the NBU on 3 December 2001, which provides the Bank with the right to conduct banking operations, including currency operations, and to service the accounts of Ukrainian budgetary organisations.

The Bank's head office is located at 9 Leskova St.., Kyiv. At 31 December 2006, the Bank had 35 branches and sub-branches, plus 1,342 operating outlets throughout Ukraine (2005: 35 branches and sub-branches, and 1,375 operating outlets). It had 17,395 employees as at 31 December 2006 (2005: 17,132 employees).

The Bank accepts deposits from the public and issues loans, transfers payments in Ukraine and abroad, exchanges currencies, invests funds, provides cash, settlement and other banking services to its clients.

Limited liability company "Raiffeisen Leasing Aval", a 60% owned subsidiary of the Bank, was founded in 2006 and operates in Ukraine in the leasing business.

2. Basis of preparation

General

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

The Bank and its subsidiary are required to maintain their books of account in Ukrainian hryvnia and prepare statements for regulatory purposes in accordance with the "Regulations on the Organisation of Accounting and Reporting for Ukrainian Banking Institutions" ("UAR") issued by the National Bank of Ukraine and in accordance with Ukrainian Accounting Standards. The consolidated financial statements are based on the books and records of the Bank and its subsidiary as adjusted and reclassified in order to comply with IFRS.

The consolidated financial statements are prepared under the historical cost convention except as disclosed in the accounting policies below.

The consolidated financial statements are presented in thousands of US dollars ("USD") 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 recognized initially at fair value and subsequently remeasured at the higher of the amount determined in accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" and the amount initially recognized less, when appropriate, cumulative amortization recognized in accordance with IAS 18 "Revenue".

The adoption of the above pronouncement did not have a significant impact on the Bank's consolidated 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:

(Thousands of US dollars)

IFRS 7 "Financial Instruments: Disclosures";
Amendment to IAS 1 "Presentation of financial Statements" – "Capital Disclosures";
IFRIC 8 "Scope of IFRS 2";
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 Group's consolidated 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 consolidated financial statements to evaluate the significance of the Group's financial instruments, the nature and extent of risks arising from those financial instruments, and the Group's objectives, policies and processes for managing capital.

Inflation accounting

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

Subsidiaries

The consolidated financial statements include the following subsidiary:

2006

Subsidiary	***Ownership/ Voting, %***	***Country***	***Date of incorporation***	***Industry***	***Date of acquisition***
LLC "Raiffeisen Leasing Aval"	60%	Ukraine	29 June 2006	Financial leasing	29 June 2006

3. Summary of accounting policies

Subsidiaries

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

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

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

Financial assets

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

(Thousands of US dollars)

financial assets are recognised initially, they are measured at fair value, and, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Bank determines the classification of its financial assets upon initial recognition, and where allowed and appropriate, re-evaluates this designation at each financial year-end.

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

Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives are also classified as held for trading unless they are designated and effective hedging instruments. Gains or losses on financial assets at fair value though profit or loss are recognised in the statement of income.

Financial asset classified in this category are designated by management on initial recognition when the following criteria are met:

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

Financial assets at fair value through profit and loss are recorded in the balance sheet at fair value. Changes in fair value are recorded in “Remeasurement of financial instruments”. Interest earned is accrued in interest income, respectively, according to the terms of the contract, while dividend income is recorded in “Other operating income” when the right to the payment has been established.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Bank has the positive intention and ability to hold them to maturity. Investments intended to be held for an undefined period are not included in this classification. Held-to-maturity investments are subsequently measured at amortised cost. This cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. For investments carried at amortised cost, gains and losses are recognised in the statement of income when the investments are derecognised or impaired, as well as through the amortisation process.

Loans and receivables

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

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial recognition available-for sale financial assets are measured at fair value with gains or losses being recognised as a separate component of equity until the

(Thousands of US dollars)

investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the consolidated statement of income. However, interest calculated using the effective interest method is recognised in the consolidated 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.

Offsetting

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

Cash and cash equivalents

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

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 consolidated 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 or cash and cash equivalents 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 consolidated balance sheet. Securities borrowed are not recorded in the consolidated 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 consolidated 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.

Borrowings

Borrowings, which include amounts due to the National Bank of Ukraine, amounts due to credit institutions, amounts due to customers, and subordinated debt 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 liabilities are derecognised as well as through the amortisation process.

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

(Thousands of US dollars)

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 consolidated 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 consolidated 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 amount of allowance for impairment in the consolidated statement of income.

Available-for-sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the consolidated statement of income, is transferred from equity to the consolidated statement of income. Reversals in respect of equity instruments classified as available-for-sale are not recognised in the consolidated statement of income. Reversals of impairment losses on debt instruments are reversed through the consolidated statement of income if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in profit or loss.

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 has transferred substantially all the risks and rewards of the asset, or 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 US dollars)

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Bank’s continuing involvement is the amount of the transferred asset that the Bank may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Bank’s continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

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

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

Taxation

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

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

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

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

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

Assets classified as held for sale

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

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

(Thousands of US dollars)

Property and equipment

Equipment is carried at cost less accumulated depreciation and any accumulated impairment in value. Such cost includes the cost of replacing part of equipment when that cost is incurred if the recognition criteria are met. Land and buildings are measured at fair value less depreciation and impairment charged subsequent to the date of the revaluation.

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.

Following initial recognition at cost, land and buildings are carried at revalued amount, which is the fair value at the date of the revaluation less any subsequent accumulated depreciation on buildings and subsequent accumulated impairment losses. Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount.

Any revaluation surplus is credited to the asset revaluation reserve included in the equity section of the balance sheet, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in the consolidated statement of income, in which case the increase is recognised in the consolidated statement of income. A revaluation deficit is recognised in the consolidated statement of income, except that a deficit directly offsetting a previous surplus on the same asset is directly offset against the surplus in the revaluation reserve for property and equipment.

An annual transfer from the asset revaluation reserve to retained earnings is made for the difference between depreciation based on the revalued carrying amount of the assets and depreciation based on the assets original cost. Additionally, accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

Depreciation of an asset begins when it is available for use. Depreciation on 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 (in years):

Buildings	50 years
Furniture, fixtures and other assets	10 years
Equipment	5 years
Motor vehicles	4 years

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

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

The carrying amounts of property and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount.

Expenses relating to repairs and renewals are charged to the income statement when incurred and included in other operating and administrative expenses unless they qualify for capitalisation.

Intangible assets

Intangible assets include computer software and licences.

(Thousands of US dollars)

Computer software and licenses

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic lives of 4 to 20 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation periods and methods for intangible assets with finite useful lives are reviewed at least at each financial year-end.

Intangible assets with indefinite useful lives are not amortised, but tested for impairment annually either individually or at the cash-generating unit level. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable.

Costs associated with maintaining computer software programs are recorded as an expense as incurred. Software development costs (relating to the design and testing of new or substantially improved software) are recognised as intangible assets only when the Bank can demonstrate the technical feasibility of completing the software so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete and the ability to measure reliably the expenditure during the development. Other software development costs are recognised as an expense as incurred.

Leases

Finance - Bank as lessee

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

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

Finance - Bank as lessor

The Bank recognises lease receivables at value equal to the net investment in the lease, starting from the date of commencement of the lease term. Finance income is based on a pattern reflecting a constant periodic rate of return on the net investment outstanding. Initial direct costs are included in the initial measurement of the lease receivables.

Operating - Bank as lessee

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

Operating - Bank as lessor

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

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.

(Thousands of US dollars)

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

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

Ordinary shares and non-redeemable preference shares with discretionary dividends are both classified as equity. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction from the proceeds in equity. Any excess of the fair value of consideration received over the par value of shares issued is recognised as additional paid-in capital.

Treasury shares

Where the Bank purchases the Bank's shares, the consideration paid, including any attributable transaction costs, net of income taxes, is deducted from total equity as treasury shares until they are cancelled or reissued. Where such shares are subsequently sold or reissued, any consideration received is included in equity. Treasury shares are stated at weighted average cost.

Dividends

Dividends are recognised as a liability and deducted from equity at the balance sheet date only if they are declared before or on the balance sheet date. Dividends are disclosed when they are proposed before the balance sheet date or proposed or declared after the balance sheet date but before the financial statements are authorised for issue.

Contingencies

Contingent liabilities are not recognised in the consolidated balance sheet but are disclosed unless the possibility of any outflow in settlement is remote. A contingent asset is not recognised in the consolidated 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 rate 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 expenses items are generally recorded on an accrual basis when the service has been provided. Asset management fees related to investment funds are recorded over the period the service is provided.

Foreign currency translation

The Bank identifies separately its functional and presentation currencies in accordance with IAS 21 (revised) "The Effects of Changes in Foreign Exchange Rates".

The Bank's functional currency is Ukrainian hryvnia. Transactions in foreign currencies are initially recorded in the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. Gains and losses resulting from the translation of foreign currency transactions are recognised in the consolidated statement of income as gains less losses from foreign currencies – translation differences. Non-monetary items that are

(Thousands of US dollars)

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 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 hryvnia and UAH 5.05 to 1 US dollar and UAH 6.6509 and UAH 5.9716 to 1 euro, respectively.

For convenience of users, the consolidated financial statements are presented in US dollars. As at the reporting date, the assets and liabilities are translated into US dollars at the rate of exchange ruling at the balance sheet date and, statements of income are translated at the weighted average exchange rates for the year. The exchange differences arising on the translation are taken directly to a separate component of equity.

Corresponding figures

Certain amounts in the prior year's consolidated financial statements have been reclassified to conform to the current year's presentation.

Amount	*Previously reported*	*As reclassified*	*Comment*
3,426	Fee and commission income	Interest income	Reclassification of commission for loan servicing
320,416	Amounts due from credit institutions	Cash and cash equivalents	Reclassification of amounts with contractual maturity of less then 90 days

4. Significant accounting judgements and estimates

Judgements

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

Classification of securities

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

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

(Thousands of US dollars)

Tax and other regulatory compliance risks

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

At the same time it is a risk that transactions and interpretations that have not been challenged in the past may be challenged by the authorities in the future, although this risk significantly diminishes with 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.

5. Cash and cash equivalents

Cash and cash equivalents comprise:

	2006	*2005*
Cash on hand	259,442	201,885
Current account with the National Bank of Ukraine	204,302	430,815
Current accounts with other credit institutions	242,666	153,369
Time deposits with credit institutions up to 90 days	125,335	162,110
Reverse repurchase agreements with credit institutions up to 90 days	12,039	4,937
Cash and cash equivalents	**843,784**	**953,116**

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 obligated to and maintained the minimal cumulative average reserve calculated on a daily basis over a monthly period. The average daily requirement for the period from 1 to 31 December 2006 was USD 69,159 thousand (2005: USD 193,922 thousand). The Bank meets the NBU obligatory reserve requirements as at 31 December 2006 and 2005.

As at 31 December 2006, the Bank has placed USD 101,793 thousand (2005: USD 119,168 thousand) in a current account with one OECD bank, which is a related party of the Bank.

As at 31 December 2006, current accounts with other credit institutions include USD 118,102 thousand (2005: USD 5,941 thousand) placed with a one Ukrainian bank. The Bank simultaneously received USD 118,514 thousand on current accounts from the same Ukrainian bank (Note 16), which are not subject to off-set (2005: USD 5,941 thousand of loan was granted to the same Ukrainian bank).

As at 31 December 2006, current accounts with other credit institutions include USD 2,460 thousand and time deposits with credit institutions include USD 7,200 thousand placed with a one Ukrainian bank. The Bank simultaneously received USD 9,200 thousand as inter-bank loan from the same Ukrainian bank (Note 16), which are not subject to off-set.

As at 31 December 2006, time deposits with other credit institutions include USD 39,119 thousand with a number of Ukrainian banks (2005: USD 102,223 thousand). The Bank simultaneously received USD 39,356 thousand as deposits from the same Ukrainian banks (Note 16), which are not subject to off-set (2005: USD 102,223 thousand as deposits and placements on current accounts).

As at 31 December 2006, time deposits with credit institutions include USD 15,072 thousand due from three OECD banks (2005: USD 39,614 thousand due from one OECD bank). These placements are overnight deposits and bear market interest rates.

(Thousands of US dollars)

The Bank has entered into reverse repurchase agreements with a number of Ukrainian banks for a total amount of USD 12,039 thousand (2005: USD 4,937 thousand). The subject of these agreements was corporate bonds issued by Ukrainian companies with a carrying value of USD 12,039 thousand (2005: USD 4,937 thousand).

6. Amounts due from credit institutions

Amounts due from credit institutions comprise:

	2006	*2005*
Loans and deposits		
OECD banks	1,278	3,390
Ukrainian banks	5,472	13,207
CIS and other foreign banks	-	486
	6,750	**17,083**
Other amounts due from credit institutions	745	-
Less – allowance for impairment	-	
Due from credit institutions	**7,495**	**17,083**

As at 31 December 2006, loans and deposits due from credit institutions include USD 1,278 thousand of security deposits, placed mainly in respect of customers transactions, such as letters of credit, performance guarantees and transactions with travellers' cheques (2005: USD 9,474 thousand).

As at 31 December 2006, loans and deposits due from Ukrainian banks include USD 527 thousand placed with a one Ukrainian bank, which were secured by funds received from the same Ukrainian bank as deposits (see Note 16).

The Bank has entered into reverse repurchase agreements with a number of Ukrainian banks for a total amount of USD 4,146 thousand (2005: USD 4,141 thousand). The subject of these agreements was corporate bonds issued by Ukrainian companies with a carrying value of USD 4,146 thousand (2005: USD 4,141 thousand).

7. Loans to customers

Loans to customers comprise:

	2006	*2005*
Loans to customers	4,306,442	2,521,297
Reverse repo transactions	2,090	3,831
Promissory notes	17,545	2,636
	4,326,077	**2,527,764**
Less – Allowance for impairment	(249,012)	(173,641)
Loans to customers	**4,077,065**	**2,354,123**

(Thousands of US dollars)

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

	2006	%	2005	%
Individuals	2,100,821	49	867,724	34
Trade enterprises	911,662	21	520,912	21
Manufacturing	633,928	15	473,798	19
Agriculture and food processing	336,144	8	394,320	16
Real estate and construction	141,658	3	101,122	4
Services	124,813	3	85,002	3
Transport and communications	66,892	2	77,702	3
Other industries	10,159	0	7,184	0
	4,326,077	**100**	**2,527,764**	**100**

The finance lease receivables may be analysed as follows:

	2006	2005
Gross investment in finance leases, receivable:		
Not later than 1 year	1,627	-
Later than 1 year and not later than 5 years	3,219	-
	4,846	-
Unearned future finance income on finance leases	(790)	-
Net investment in finance leases	**4,056**	**-**

As at 31 December 2006, loans to customers include loans granted under EBRD financing programmes amounting to USD 2,380 thousand (2005: USD 13,516 thousand).

As at 31 December 2006, loans to customers include loans granted under the German-Ukrainian fund programme amounting to USD 14,785 thousand net of allowances (2005: USD 8,922 thousand).

As at 31 December 2006, loans to customers of USD 9,375 thousand (2005: USD 8,657 thousand) were pledged as collateral under the loan agreement with the EBRD (Note 16).

As at 31 December 2006, the Bank had a concentration of loans represented by USD 410,728 thousand due from the ten biggest borrowers (9% of gross loan portfolio) (2005: USD 279,498 thousand or 11% due from ten borrowers). An allowance of USD 11,079 thousand (2005: USD 15,318 thousand) was made against these loans.

As at 31 December 2006, members of the Management Board have USD 431 thousand loans outstanding (2005: nil).

8. Investment securities

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

	2006	2005
Corporate bonds	14,214	9,810
Ukrainian State bonds	60,018	40,078
Investment securities designated at fair value	**74,232**	**49,888**

The coupon interest rates and maturities of these securities are as follows:

	2006		2005	
	%	Maturity	%	Maturity
Corporate bonds	15.0%	2009-2013	14.1%	2006
Ukrainian State bonds	5.9%-9.4%	2007	5.9%	2007

As at 31 December 2006, corporate bonds include zero coupon bonds issued by a Ukrainian company. Under the issue conditions of these bonds, each bond can be exchanged for a defined quantity of square meters of apartment

(Thousands of US dollars)

space that will be constructed by the maturity date of the bonds. As at 31 December 2006, the market value of these bonds is USD 12,218 thousand. These bonds are accounted at fair value, which is based on the current prices for 1 sq. meter of residential premises under construction.

As at 31 December 2006, available-for-sale investment securities comprise corporate shares at a fair value of USD 262 thousand (2005: USD 2,925 thousand).

Held-to-maturity investment securities comprise the following:

	2006		*2005*	
	Nominal value	***Carrying value***	***Nominal value***	***Carrying value***
Russian state bonds	800	773	800	756
NBU deposit certificates		-	108,911	109,310
Corporate bonds		-	10,076	10,109
Held-to-maturity investments		**773**		120,175

The coupon interest rates and maturities of these securities are as follows:

	2006		*2005*	
	%	*Maturity*	*%*	*Maturity*
Russian state bonds	3.0%	2008	3.0%	2008
NBU deposit certificates		-	3.0%-8.5%	2006
Corporate bonds		-	12.0%-15.0%	2006

9. Income tax

The corporate income tax charge comprises:

	2006	*2005*
Current tax charge	37,552	10,815
Deferred tax effect of fixed assets revaluation measured through equity	(29,370)	-
Deferred tax effect on AFS securities measured through equity	736	(22)
Deferred tax	15,900	4,821
Income tax expense	**24,818**	**15,614**

Tax assets and liabilities consist of the following:

	2006	*2005*
Current tax asset	-	-
Deferred tax assets	37	-
Tax asset	**37**	**-**
Current tax liabilities	5,824	4,135
Deferred tax liabilities	17,895	1,958
Tax liabilities	**23,719**	**6,093**

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

	2006	*2005*
Income before tax	91,668	29,764
Statutory tax rate	25%	25%
Income tax expense at the statutory rate	22,917	7,441
Non-deductible expenditures	3,057	2,391
Initial recognition of loans to customers	(1,156)	
Adjustment in respect of current income tax of previous years	-	5,782
Income tax expense	**24,818**	**15,614**

(Thousands of US dollars)

Deferred tax assets and liabilities as at 31 December comprise:

	2006	*2005*
Tax effect of deductible temporary differences:		
Allowances for impairment	24,927	16,377
Investment securities valuation	-	3,547
Valuation of financial instruments	1,439	5
Accruals	5,375	-
Other assets	99	-
Deferred tax assets	**31,840**	**19,929**
Tax effect of taxable temporary differences:		
Property, equipment and computer software	(41,810)	(14,453)
Investment securities valuation	(7,024)	-
Accruals	-	(7,384)
Other assets	(864)	(50)
Deferred tax liabilities	**(49,698)**	**(21,887)**
Net deferred tax (liability)/ asset	**(17,858)**	**(1,958)**

Deferred tax of USD 345 thousand was transferred in 2006 from the revaluation reserve to retained earnings (2005: 428). This relates to the difference between the actual depreciation charged on the revalued amount of property and the equivalent depreciation based on cost.

10. Assets held for sale

As at 31 December 2006, assets held for sale include the following investments in equity instruments:

	2006		*2005*	
	Held, %	***Amount***	***Held, %***	***Amount***
CJSC "First National Soap making company"	75.00%	3,295	75.00%	3,295
CJSC "Nyzhynske beer"	55.53%	363	55.53%	363
CJSC "Lany Ukraine"	89.75%	357	89.75%	358
OJSC "Transautoservice"	69.70%	340	69.70%	340
CJSC "Cherkasy tara"	34.60%	179	34.60%	136
CJSC "ODZ"	26.98%	924	26.98%	924
CJSC "Infonet"	40.00%	12	40.00%	12
Consortium "Etalcom"	-	-	77.00%	200
CJSC "Aval-Invest"	-	-	99.00%	18
		5,470		5,646
Less – allowance for impairment		(5,470)		(3,508)
31 December 2006		**-**		2,138

As at 31 December 2006, a one building was classified as an asset held for sale with a carrying value of USD 443 thousand.

(Thousands of US dollars)

11. Allowances for impairment

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

	Loans to customers	*Due from credit institutions*	*Total*
31 December 2004	**119,205**	**472**	**119,677**
Translation differences	6,734	17	6,751
Charge/(release)	72,336	(369)	71,967
Write-offs	(23,510)	-	(23,510)
Recoveries	58	-	58
Exchange differences	(1,182)	(120)	(1,302)
31 December 2005	**173,641**	**-**	**173,641**
Translation differences	-	-	-
Charge/(release)	93,565	-	93,565
Write-offs	(18,986)	-	(18,986)
Recoveries	195	-	195
Exchange differences	597	-	597
31 December 2006	**249,012**	**-**	**249,012**

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

	Investment in associates and non-consolidated subsidiaries	*Assets held for sale*	*Other assets*	*Off-balance risk*	*Total*
31 December 2004	**1,069**	**524**	**1,499**	**360**	**3,452**
Translation differences	38	69	70	27	204
Charge/(release)	(1,107)	2,915	367	668	2,843
Write-offs	-	-	(715)	-	(715)
Recoveries	-	-	1	-	1
Exchange differences	-	-	(70)	(135)	(205)
31 December 2005	**-**	**3,508**	**1,152**	**920**	**5,580**
Translation differences	-	-	-	-	-
Charge/(release)	-	1,980	1,449	851	4,280
Write-offs	-	(18)	(393)	-	(411)
Recoveries	-	-	27	-	27
Exchange differences	-	-	1	98	99
31 December 2006	**-**	**5,470**	**2,236**	**1,869**	**9,575**

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

(Thousands of US dollars)

12. Property and equipment

The movements of property and equipment were as follows:

	Property	*Computers and equipment*	*Furniture, fixtures and other assets*	*Motor vehicles*	*Construction in progress*	*Total*
Cost						
31 December 2005	**129,811**	**106,000**	**41,796**	**11,233**	**11,308**	**300,148**
Additions	4,061	13,501	6,237	2,330	21,688	47,817
Disposals	(1,364)	(2,159)	(2,314)	(666)	-	(6,503)
Transfers	5,577	7,627	2,130	1,327	(16,672)	(11)
Effect of revaluation	109,644					109,644
31 December 2006	**247,729**	**124,969**	**47,849**	**14,224**	**16,324**	**451,095**
Accumulated depreciation						
31 December 2005	**(14,061)**	**(74,129)**	**(21,482)**	**(9,323)**		**(118,995)**
Charge for the year	(4,893)	(15,847)	(5,114)	(613)		(26,467)
Disposals	4	525	935	166		1,630
Effect of revaluation	7,836					7,836
31 December 2006	**(11,114)**	**(89,451)**	**(25,661)**	**(9,770)**		**(135,996)**
Net book value:						
31 December 2005	**115,750**	**31,871**	**20,314**	**1,910**	**11,308**	**181,153**
31 December 2006	**236,615**	**35,518**	**22,188**	**4,454**	**16,324**	**315,099**

	Property	*Computers and equipment*	*Furniture, fixtures and other assets*	*Motor vehicles*	*Construction in progress*	*Total*
Cost						
31 December 2004	**116,831**	**88,426**	**35,407**	**12,061**	**11,027**	**263,752**
Translation differences	5,786	8,752	4,655	720	548	20,461
Additions	8,223	12,192	3,861	935	7,277	32,488
Disposals	(7,584)	(3,370)	(2,127)	(2,483)	(989)	(16,553)
Transfers	6,555	-	-	-	(6,555)	-
31 December 2005	**129,811**	**106,000**	**41,796**	**11,233**	**11,308**	**300,148**
Accumulated depreciation						
31 December 2004	**(10,434)**	**(60,319)**	**(18,354)**	**(10,433)**		**(99,540)**
Translation differences	(548)	(3,306)	(1,083)	(347)		(5,284)
Charge for the year	(4,353)	(13,615)	(3,528)	(429)		(21,925)
Disposals	1,274	3,111	1,483	1,886		7,754
31 December 2005	**(14,061)**	**(74,129)**	**(21,482)**	**(9,323)**		**(118,995)**
Net book value:						
31 December 2004	**106,397**	**28,107**	**17,053**	**1,628**	**11,027**	**164,212**
31 December 2005	**115,750**	**31,871**	**20,314**	**1,910**	**11,308**	**181,153**

As at 31 December 2006, property includes leasehold improvements with a net book value of USD 12,940 thousand (2005: USD 14,688 thousand).

During the year 2006, the Bank revalued its land and buildings. The valuation was performed by an independent appraiser as at 31 August 2006 and the fair value was determined by reference to market-based evidence.

(Thousands of US dollars)

13. Intangible assets

The movements of intangible assets were as follows:

	Computer software	*Licences*	*Total*
Cost			
31 December 2005	**10,256**	**5,329**	**15,585**
Additions	4,425	3,684	8,109
Disposals	(34)	-	(34)
Transfers	11	-	11
31 December 2006	**14,658**	**9,013**	**23,671**
Accumulated amortisation			
31 December 2005	**(2,710)**	**(1,443)**	**(4,153)**
Charge for the year	(993)	(1,803)	(2,796)
31 December 2006	**(3,703)**	**(3,246)**	**(6,949)**
Net book value:			
31 December 2005	**7,546**	**3,886**	**11,432**
31 December 2006	**10,955**	**5,767**	**16,722**

	Computer software	*Licences*	*Total*
Cost			
31 December 2004	**9,762**	**1,788**	**11,550**
Translation differences	507	140	647
Additions	396	3,401	3,797
Disposals	(409)		(409)
31 December 2005	**10,256**	**5,329**	**15,585**
Accumulated amortisation			
31 December 2004	**(2,483)**	**(358)**	**(2,841)**
Translation differences	(127)	(36)	(163)
Charge for the year	(486)	(1,049)	(1,535)
Disposals	386	-	386
31 December 2005	**(2,710)**	**(1,443)**	**(4,153)**
Net book value:			
31 December 2004	**7,279**	**1,430**	**8,709**
31 December 2005	**7,546**	**3,886**	**11,432**

14. Other assets and liabilities

Other assets comprise:

	2006	*2005*
Settlements on transactions with customers	14,923	851
Prepayments	9,810	8,758
Inventory	3,409	3,425
Service fee for financial guarantees	2,235	-
Other accrued income	525	391
Unamortised insurance premiums	-	482
Other	2,050	1,250
	32,952	**15,157**
Less – allowance for impairment	(2,236)	(1,152)
Other assets	**30,716**	**14,005**

(Thousands of US dollars)

Other liabilities comprise:

	2006	*2005*
Accrued salary payable	9,551	4,628
Other accrued expenses	8,395	1,597
Provision on unused vacations	6,077	3,600
Settlements on transactions with customers	4,216	3,390
Other taxes payable	3,034	143
Carrying value of issued financial guarantees	2,457	-
Payables to Guarantee Fund of Individuals' Deposits	2,380	1,589
Payables for equipment	1,079	4,154
Deferred income	878	816
Other liabilities	1,236	2,045
Other liabilities	**39,304**	**21,962**

15. Amounts due to the National Bank of Ukraine

Amounts due to the NBU comprise:

	2006	*2005*
Loans received from the NBU under EBRD financing programmes	501	4,100
Refinancing loans from the NBU	-	9,114
Due to the NBU	**501**	**13,214**

As at 31 December 2006, amounts due to the NBU include credit lines received from the NBU under the Small and Medium Enterprise Support Programme of the EBRD. The credit lines to the Bank and the loans made by it are denominated in US dollars and the Bank bears the credit risk on the loans it makes. The credit lines bear an interest rate of six months LIBOR plus 3% p.a. This debt is subject to various covenants and restrictions as more fully described in Note 20. These loans were secured by a lien over loans to customers of USD 438 thousand.

16. Amounts due to credit institutions

Amounts due to credit institutions comprise:

	2006	*2005*
Current accounts		
Ukrainian banks	127,798	11,804
CIS and other foreign banks	5,951	3,661
	133,749	**15,465**
Loans and deposits		
OECD banks	1,075,150	201,434
Ukrainian banks	85,114	107,032
CIS and other foreign banks	19,525	-
	1,179,789	**308,466**
Other amounts due to credit institutions	**-**	62
Loans from International financial organisations	34,678	172,103
Due to credit institutions	**1,348,216**	**496,096**

As at 31 December 2006, USD 118,514 thousand of current accounts with Ukrainian banks was due to one Ukrainian bank. The Bank has USD 118,102 thousand placed on current account with the same Ukrainian bank (Note 6).

(Thousands of US dollars)

As at 31 December 2006, loans and deposits due to Ukrainian banks include USD 49,083 thousand (2005: USD 102,223 thousand) placed with a number of Ukrainian banks, which were secured by funds placed with the same Ukrainian banks as deposits and placements on current accounts (see Note 5 and Note 6). The Bank enters into these transactions for treasury management purposes.

Loans due to international financial organisations include loans from the International Financial Corporation (the "IFC") amounting to USD 9,414 thousand (2005: USD 13,176 thousand) were received by the Bank in February 2005. This loan is denominated in US dollars, has a coupon interest rate of LIBOR plus 3.5% and matures in 2009. This debt is subject to various covenants and restrictions as more fully described in Note 20. This loan is secured by a lien over loans to customers issued under this agreement of USD 9,375 thousand.

As at 31 December 2006, loans due to international financial organisations include a loan from Cargill Financial Services Inc. amounting to USD 10,430 thousand (2005: USD 144,228 thousand). This loan is denominated in US dollars, bears interest at 8.1% and matures in 2007. Proceeds from the loan are used to provide financing to certain borrowers.

As at 31 December 2006, loans due to international financial organisations include loans from European Bank for Reconstruction and Development amounting to USD 14,694 thousand (2005: USD 13,507 thousand). The loans are denominated in US dollars, mature in 2010 and 2011 and bear interest at a rate of LIBOR plus 3.5%and LIBOR plus 2.7%. This debt is subject to various covenants and restrictions as more fully described in Note 20. One from these loans is secured by a lien over loans to customers of USD 9,375 thousand.

As at 31 December 2006, loans and deposits from OECD banks included USD 1,028,477 thousand (2005: USD 174,053 thousand) due to one OECD bank, which is a related party to the Bank. The loans are denominated in euro and US dollars, bear interest at fixed rates ranging from 4.8% to 10.0% and mature from 2007 to 2011.

17. Amounts due to customers

Amounts due to customers comprise:

	2006	*2005*
Current accounts		
- Budget funds	5,176	3,394
- Companies	707,882	681,829
- Individuals	618,050	508,878
	1,331,108	**1,194,101**
Time deposits		
- Budget	31,797	1,791
- Companies	328,355	316,314
- Individuals	1,630,384	1,315,151
	1,990,536	**1,633,256**
Amounts due to customers	**3,321,464**	**2,827,357**
Held as security against letters of credit and guarantees	9,264	8,481

As at 31 December 2006, time deposits due to legal entities include USD 190,952 thousand (2005: USD 205,396 thousand) due to five legal entities.

As at 31 December 2006, time deposits due to individuals include USD 178,194 thousand (2005: USD 239,398 thousand) due to ten customers.

18. Subordinated debt

In February 2005, the Bank obtained a loan in the principal amount of USD 20,000 thousand (carrying value of USD 21,052 thousand as at 31 December 2006) from the IFC. The loan is repayable in two equal instalments on

(Thousands of US dollars)

15 June 2010 and 2011. This loan bears an interest rate of LIBOR+5.75% p.a. Interest payments are made semi-annually in arrears on 15 June of each year, commencing on 15 June 2005.

In August 2005, the Bank obtained another loan from the IFC with a principal of USD 50,000 thousand (carrying value of USD 49,538 thousand as at 31 December 2006). The loan is repayable in two equal instalments on 15 December 2010 and 2011. This loan bears an interest rate of 9.75% p.a. Interest payments are made semi-annually in arrears on 15 December of each year, commencing on 15 December 2005.

19. Equity

As at 31 December 2006, the Bank's authorised issued share capital comprised 20,949,349,754 ordinary shares and 50,000,000 preference shares (2005: 14,950,000,000 ordinary shares and 50,000,000 preference shares), with a nominal value of UAH 0.1 per share. All ordinary shares have equal voting rights. Preference shares do not have voting rights and are entitled to fixed dividends. As at 31 December 2006, 20,929,224,702 ordinary shares and 49,994,576 preference shares were fully paid and registered (2005: 14,726,090,413 ordinary shares and 1,991,767 preference shares were fully paid and registered).

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

The movements in share capital for the years ended 31 December 2006 and 2005 were as follows:

	Number of ordinary shares, thousand	***Number of preference shares, thousand***	***Nominal amount, UAH'000***	***Restated and translated cost, USD'000***
31 December 2004	**9,707,693**	**49,578**	**975,727**	**199,156**
Translation differences				11,507
Shares issued	4,999,972		499,997	97,566
Repurchase of shares	(629,005)	(47,586)	(67,659)	(13,203)
Sale of own shares	647,430		64,743	12,634
31 December 2005	**14,726,090**	**1,992**	**1,472,808**	**307,660**
Translation differences				-
Shares issued	5,999,378	-	599,938	118,800
Sale of own shares	203,757	48,003	25,176	4,340
31 December 2006	**20,929,225**	**49,995**	**2,097,922**	**430,800**

(Thousands of US dollars)

The respective interests of shareholders are as follows:

	2006		2005	
	Number of shares	**Share in issued capital**	**Number of shares**	**Share in issued capital**
Legal entities:				
Raiffeisen International Bank Holding AG	20,062,508,956	95.54%	14,025,603,604	93.50%
Ukrtelecom	-	-	105,500,863	0.70%
Bank Austria Creditanstalt AG	205,921,211	0.98%	68,345,682	0.46%
Julius Baer International Equity Fund	191,865,265	0.91%	-	-
UIFL (Cyprus) Limited	77,738,179	0.37%	-	-
Concentra Limited	41,440,000	0.20%	-	-
Raiffeisen Zentralbank	40,615,815	0.19%	-	-
Other legal entities	282,556,883	1.35%	352,210,851	2.35%
	20,902,645,309	**99.53%**	**14,551,661,000**	**97.01%**
Individuals:				
Management of the Bank	100	0.00%	932,000	0.01%
Employees	11,075,175	0.05%	100,349,000	0.67%
Other individuals	65,498,881	0.31%	75,168,367	0.50%
	76,574,156	**0.36%**	**176,449,367**	**1.18%**
Treasury shares	20,130,289	0.10%	271,889,633	1.81%
Unpaid shares	-		(28,180)	0.00%
Total shares issued	**20,999,349,754**	**100.00%**	**14,999,971,820**	**100.00%**

The Bank's distributable reserves are determined by the amount of its reserves as disclosed in its accounts prepared in accordance with UAR. At 31 December 2006, the statutory accounts of the Bank disclosed distributable reserves of UAH 355,202 thousand (2005: UAH 33,541 thousand) and the amount of non-distributable reserves was UAH 689,555 thousand (2005: UAH 239,196 thousand). Non-distributable reserves are represented by a statutory revaluation reserve and a general reserve fund, which is created to cover general banking risks, including future losses and other unforeseen risks or contingencies.

20. 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 Ukraine. The stability of the Ukrainian economy will be significantly impacted by the Government's policies and actions with regard 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 and its subsidiary.

Tax risks

Ukrainian legislation and regulations regarding taxation and other operational matters continue to evolve as a result of an economy in transition. Legislation and regulations are not always clearly written and their interpretation is subject to the opinions of local, regional and national authorities, and other Governmental bodies. Instances of inconsistent opinions are not unusual. Management believes that the Bank and its subsidiary have complied with

(Thousands of US dollars)

all regulations and paid or accrued all taxes that are applicable. Where the risk of outflow of resources is probable, the Bank and its subsidiary have accrued tax liabilities based on management's best estimate.

The Bank's operations and financial position will continue to be affected by Ukrainian political developments including the application of existing and future legislation and tax regulations. The Bank does not believe that these contingencies, as relating to its operations, are any more significant than those of similar enterprises in Ukraine.

Financial commitments and contingencies

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

	2006	*2005*
Letters of credit	85,203	15,322
Guarantees	69,694	77,434
Avals on promissory notes	59,294	75,549
	214,191	**168,305**
Less – Cash held as security against letters of credit, avals and guarantees	(9,264)	(8,481)
Financial commitments and contingencies	**204,927**	**159,824**

As at 31 December 2006, the Bank has recognised a provision of USD 1,869 thousand (2005: USD 920 thousand) against unsecured commitments.

As at 31 December 2006, the Bank issued letters of credit amounting to USD 75,431 thousand to five Ukrainian companies that were not secured by cash deposits (2005: USD 9,185 thousand of letters of credit to five Ukrainian companies that were secured by cash deposits amounting to USD 5,723 thousand).

As at 31 December 2006, the Bank issued guarantees amounting to USD 31,456 thousand in favour of five Ukrainian companies (2005: USD 39,191 thousand in favour of three Ukrainian companies).

As at 31 December 2006, the Bank issued avals on promissory notes amounting to USD 32,436 thousand issued to five Ukrainian companies (2005: USD 42,162 thousand to five Ukrainian companies).

Insurance

The Bank's premises were not insured as at 31 December 2006 and 2005. The Bank has not obtained insurance coverage relating to liabilities arising from errors or omissions.

Financial covenants

The Bank is a party to various arrangements with other credit institutions, which contain financial covenants relating to the financial performance and general risk profile of the Bank. These financial covenants may restrict the Bank's ability to execute certain business strategies and enter into other significant transactions in the future

(Thousands of US dollars)

21. Fees and commissions, net

Fees and commissions comprise:

	2006	*2005*
Fees and commission income		
Cash and settlement operations	134,586	110,426
Currency conversion	11,243	10,727
Operations with banks	2,460	1,167
Off-balance sheet operations	6,131	7,239
Other	2,834	798
	157,254	**130,357**
Fees and commission expenses		
Cash and settlement operations	(9,315)	(6,965)
Commission for off-balance sheet operations	(4,135)	(4,206)
Commission paid for loan services	(1,407)	(814)
Other	(205)	(1,153)
	(15,062)	**(13,138)**
Fees and commissions, net	**142,192**	**117,219**

22. Salaries and other administrative and operating expenses

Salaries and benefits, other administrative and operating expenses comprise:

	2006	*2005*
Salaries and bonuses	114,467	84,609
Employment taxes	33,665	22,712
Salaries and benefits	**148,132**	**107,321**
Occupancy and rent	17,538	12,080
Repair and maintenance expenses	12,958	11,036
Legal and consultancy	12,528	1,598
Expenses related to deposit insurance fund	9,371	5,608
Sundry expenses	9,024	6,334
Communications	7,396	5,005
EDP costs	7,174	6,362
Marketing and advertising	6,441	2,239
Business travel and related expenses	3,695	1,886
Cards transaction processing	3,640	2,571
Security	3,163	2,987
Expenses for cash collection	2,622	2,342
Operating taxes	2,231	2,190
Loss on property and equipment disposals	923	705
Insurance expenses	732	11,149
Charity	496	674
Other	13,670	6,467
Other administrative and operating expenses	**113,602**	**81,233**

The aggregate remuneration and other benefits paid to 8 members of the Management Board for 2006 is USD 2,198 thousand (2005: USD 7,021 thousand paid to 8 members).

23. Risk management policies

Risk management is fundamental to the banking business and is an essential element of the Bank's operations. The main risks inherent in the Bank's operations are those relating 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.

(Thousands of US dollars)

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. Normally, 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 consolidated financial statements and the disclosed financial commitments.

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, margin and collateral requirements. The main components of the market risks are analysed below.

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 Bank 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 NBU. The Bank's exposure to foreign currency exchange rate risk follows:

			2006		
	UAH	***USD***	***Euro***	***Other currencies***	***Total***
Assets:					
Cash and cash equivalents	597,891	177,796	49,103	18,994	843,784
Due from credit institutions	4,945	1,812	736	2	7,495
Loans to customers	1,730,342	2,145,495	198,606	2,622	4,077,065
Investment securities	74,494	773	-	-	75,267
Assets held for disposal	443	-	-	-	443
Deferred income tax assets	37	-	-	-	37
Other monetary assets	23,450	3,390	277	238	27,355
	2,431,602	**2,329,266**	**248,722**	**21,856**	**5,031,446**
Liabilities:					
Due to the NBU	-	501	-	-	501
Due to credit institutions	129,046	1,140,228	76,618	2,324	1,348,216
Due to customers	2,047,224	1,034,212	230,067	9,961	3,321,464
Subordinated debt	-	70,590	-	-	70,590
Current income tax liabilities	5,824				5,824
Deferred income tax liabilities	17,895				17,895
Other liabilities	31,754	3,865	3,503	181	39,303
Provisions	510	1,314	45	-	1,869
	2,232,253	**2,250,710**	**310,233**	**12,466**	**4,805,662**
Net balance sheet position	**199,349**	**78,556**	**(61,511)**	**9,390**	

(Thousands of US dollars)

	2005				
	UAH	***USD***	***Euro***	***Other currencies***	***Total***
Assets:					
Cash and cash equivalents	647,060	96,221	186,128	23,707	953,116
Due from credit institutions	8,247	6,803	2,033	-	17,083
Loans to customers	1,167,405	965,102	219,354	2,262	2,354,123
Investment securities	172,988	-	-	-	172,988
Assets held for disposal	2,138	-	-	-	2,138
Other monetary assets	3,424	6,695	419	43	10,581
	2,001,262	**1,074,821**	**407,934**	**26,012**	**3,510,029**
Liabilities:					
Due to the NBU	9,114	4,100	-	-	13,214
Due to credit institutions	26,370	197,420	264,270	8,036	496,096
Due to customers	1,917,621	732,562	165,106	12,068	2,827,357
Subordinated debt	-	69,908	-	-	69,908
Current income tax liabilities	4,135				4,135
Deferred income tax liabilities	1,958	-	-	-	1,958
Other liabilities	14,045	6,765	521	631	21,962
Provisions	815	68	37	-	920
	1,974,058	**1,010,823**	**429,934**	**20,735**	**3,435,550**
Net balance sheet position	**27,204**	**63,998**	**(22,000)**	**5,277**	

The Bank does not enter into foreign exchange contracts to hedge its foreign exchange risk as such financial instruments are not readily available for currencies where the Bank has exposure.

The Bank's principal cash flows (revenues, operating expenses) are largely generated in Ukrainian hryvnia and US dollars. 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.

Certain of the Bank's loan contracts and other financial assets and liabilities that bear interest are either variable or contain clauses enabling the interest rate to be changed at the option of the lender. As disclosed below, the maturity dates applicable to the large portion of the Bank's assets and liabilities are relatively short-term. The Bank analyses changes in its interest rate margin and consequently does not consider itself exposed to significant interest rate risk or consequential cash flow risk.

The table below summarises the Bank 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 repricing or maturity dates.

(Thousands of US dollars)

	2006				
	Less than 1 month	1 to 3 months	3 months to 1 year	Over 1 year	Total
Assets:					
Cash and cash equivalents	830,836	12,948	-	-	843,784
Due from credit institutions	2,313	1,367	3,815	-	7,495
Loans to customers	345,767	372,539	1,061,417	2,297,342	4,077,065
Investment securities	74,509	-	-	758	75,267
	1,253,425	**386,855**	**1,065,232**	**2,298,100**	**5,003,612**
Liabilities:					
Due to the NBU	-	501	-	-	501
Due to credit institutions	410,539	91,726	141,633	704,318	1,348,216
Due to customers	1,398,263	859,205	971,292	92,704	3,321,465
Subordinated debt	-	-	20,400	50,190	70,590
	1,808,802	**951,432**	**1,133,325**	**847,212**	**4,740,772**
Net position	**(555,377)**	**(564,578)**	**(68,093)**	**1,450,888**	**262,840**

	2005				
	Less than 1 month	1 to 3 months	3 months to 1 year	Over 1 year	Total
Assets:					
Cash and cash equivalents	953,095	21	-	-	953,116
Due from credit institutions	3,189	11,511	2,383	-	17,083
Loans to customers	110,463	304,524	809,607	1,129,529	2,354,123
Investment securities	53,821	71,276	47,151	740	172,988
	1,120,568	**387,332**	**859,141**	**1,130,269**	**3,497,310**
Liabilities:					
Due to the NBU	810	1,640	10,764	-	13,214
Due to credit institutions	186,572	56,976	242,548	10,000	496,096
Due to customers	1,274,501	289,552	1,129,937	133,367	2,827,357
Subordinated debt	-	-	69,908	-	69,908
	1,461,883	**348,168**	**1,453,157**	**143,367**	**3,406,575**
Net position	**(341,315)**	**39,164**	**(594,016)**	**986,902**	**90,735**

The Bank does not enter into interest rate derivative contracts as such contracts are generally not available in Ukraine.

As at 31 December, 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
Due from credit institutions	15.0%	4.3%	7.7%	3.9%
Loans to customers	16.3%	12.1%	17.9%	12.6%
Interest bearing securities	8.5%	3.0%	7.1%	n/a
Due to the NBU	n/a	8.4%	7.0%	7.5%
Due to credit institutions	10.0%	6.4%	3.7%	4.6%
Customer deposits	12.1%	7.3%	14.2%	8.8%
Subordinated debt	n/a	10.3%	n/a	10.3%

During 2006, the NBU discount rate decreased from 9.5% to 8.5% (2005: increased from 9.0% to 9.5%).

(Thousands of US dollars)

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 monitors, on a daily basis, the expected cash flows on clients' and banking operations. This is a part of the normal asset and liability 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 tables below 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				
	Less than 1 month	*1 to 3 months*	*3 months to 1 year*	*Over 1 year*	*Total*
Assets:					
Cash and cash equivalents	830,836	12,948	-	-	843,784
Due from credit institutions	2,313	1,367	3,815	-	7,495
Loans to customers	148,681	307,768	1,209,434	2,411,182	4,077,065
Investment securities	74,509	-	-	758	75,267
Assets held for disposal	-	-	443	-	443
Deferred income tax assets	-	-	37	-	37
Other monetary assets	17,434	553	8,492	876	27,355
	1,073,773	**322,636**	**1,222,221**	**2,412,816**	**5,031,446**
Liabilities:					
Due to the NBU	-	-	501	-	501
Due to credit institutions	410,539	91,726	125,303	720,648	1,348,216
Due to customers	1,398,263	859,205	971,292	92,704	3,321,464
Subordinated debt	-	-	20,400	50,190	70,590
Current income tax liabilities	-	5,824	-	-	5,824
Deferred income tax liabilities		-	-	17,895	17,895
Other liabilities	26,820	9,599	1,974	911	39,303
Provisions	56	195	1,387	231	1,869
	1,835,678	**966,549**	**1,120,857**	**882,578**	**4,805,662**
Net position	**(761,905)**	**(643,913)**	**101,364**	**1,530,238**	**225,784**
Accumulated gap	**(761,905)**	**(1,405,818)**	**(1,304,454)**	**225,784**	

(Thousands of US dollars)

	2005				
	Less than 1 month	*1 to 3 months*	*3 months to 1 year*	*Over 1 year*	*Total*
Assets:					
Cash and cash equivalents	953,095	21	-	-	953,116
Due from credit institutions	3,189	11,511	2,383	-	17,083
Loans to customers	104,411	296,332	803,566	1,149,814	2,354,123
Investment securities	53,821	71,275	47,151	741	172,988
Assets held for disposal	-	-	2,138	-	2,138
Other monetary assets	10,581	-	-	-	10,581
	1,125,097	**379,139**	**855,238**	**1,150,555**	**3,510,029**
Liabilities:					
Due to the NBU	810	1,640	8,702	2,062	13,214
Due to credit institutions	133,332	41,537	97,739	223,488	496,096
Due to customers	1,274,501	289,552	1,129,937	133,367	2,827,357
Subordinated debt	-	-	307	69,601	69,908
Current income tax liabilities	-	4,135	-	-	4,135
Deferred income tax liabilities	-	-	-	1,958	1,958
Other liabilities	21,962	-	-	-	21,962
Provisions	34	11	805	70	920
	1,430,639	**336,875**	**1,237,490**	**430,546**	**3,435,550**
Net position	**(305,542)**	**42,264**	**(382,252)**	**720,009**	**74,479**
Accumulated gap	**(305,542)**	**(263,278)**	**(645,530)**	**74,479**	

As at 31 December 2006, overdue loans amounting to USD 17,809 thousand net of allowance (2005: USD 21,955 thousand net of allowance) are included as amounts due in less than one month.

In Ukraine, there is currently no market for derivative financial instruments to manage liquidity risk.

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

The maturity gap analysis does not reflect the historical stability of current accounts, whose maturity is generally longer than that indicated in the table above. The table is based upon the account holder's entitlement to withdraw on demand.

Investment securities designated as being at fair value through profit and loss and available for sale have been included in the category "less than 1 month".

In the Ukrainian marketplace, many short-term loans are granted with the expectation of renewing the loans at maturity. Accordingly, the effective maturity of the loan portfolio may be longer than indicated by a classification based on contractual terms. Additionally, in the case of liabilities, the earliest repayment date is shown whereas the expectation is that the real maturity of liabilities is greater than that indicated by contractual maturity.

24. 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 between knowledgeable willing parties in an arm's length transaction, other than in a forced or liquidation sale. As no readily available market exists for a large part of the Bank's financial instruments, judgement 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 methods and assumptions are used by the Bank to estimate the fair value of those classes of financial instrument not shown on the Bank's balance sheet at their fair value:

(Thousands of US dollars)

Cash and cash equivalents

These assets mature within one month and the carrying amount approximates fair value due to the relatively short-term maturity of these financial instruments.

Amounts due from and to credit institutions

For assets maturing within one month, the carrying amount approximates fair value due to the relatively short-term maturity of these financial instruments. For longer-term deposits and loans, the interest rates applicable reflect current year-end market rates and consequently the fair value approximates the carrying amounts.

Loans to customers

The fair value of the loan portfolio is based on the credit and interest rate characteristics of individual loans within each sector of the portfolio. The estimation of the allowance for loan impairment includes consideration of risk premiums applicable to various types of loans based on factors such as the current situation of the economic sector in which each borrower operates, the economic situation of each borrower and guarantees obtained. Accordingly, the allowance for loan impairment is considered a reasonable estimate of the discount required to reflect the impact of credit risk.

Loans are generally granted at market rates and consequently the carrying amount of loans is a reasonable estimate of their fair value. For loans issued under preferential terms, the fair value of consideration given is recognised as the cost at initial measurement. Consequently, the carrying value calculated as the amortised cost of such instruments is a reasonable estimate of their fair value.

For long-term fixed interest bearing loans, the estimated fair value is based on discounted cash flows using interest rates applicable to new instruments with similar remaining maturities and risk characteristics.

As at 31 December 2006, the total fair value of loans to customers was USD 4,077,225 thousand (2005: USD 2,355,886 thousand).

Investment securities

Available-for-sale securities and trading securities are measured as described in Note 4. As at 31 December 2006, the carrying amount of available-for-sale securities approximates their fair value. Held-to-maturity securities bear interest rates, which reflect fair market rates, and consequently the fair value approximates the carrying amount of such instruments.

Amounts due to the NBU

For short-term loans due to the NBU, the interest rates applicable reflect market rates and consequently the fair value approximates the carrying amounts.

As at 31 December 2006, the total fair value of amounts due to the NBU was USD 501 thousand (2005: USD 13,214 thousand).

Amounts due to customers

For deposits maturing within one month the carrying amount approximates fair value due to the relatively short-term maturity of these financial instruments. For longer-term deposits, the interest rates applicable reflect market rates and consequently the fair value approximates the carrying amounts.

(Thousands of US dollars)

Subordinated debt

Subordinated debt bears interest rates, which reflect fair market rates and consequently the fair value approximates the carrying amount of subordinated debt.

25. Related party transactions

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

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

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

	2006	*2005*
Amounts due from credit institutions	103,077	119,642
Loans to customers, gross	-	1,646
Other assets, gross	4	-
Amounts due to credit institutions	1,031,081	174,186
Amounts due to customers	541	301
Other liabilities	1,334	354
Interest income	2,989	-
Interest expenses	(32,373)	-
Commission income	59	
Commission expenses	(4,678)	
Other administrative and operating expenses	(2,802)	13,801

26. Capital adequacy

The NBU requires banks to maintain a capital adequacy ratio of 10% of risk-weighted assets (2005: 10%), computed on the basis of UAR. At 31 December 2006, the Bank's capital adequacy ratio on this basis was 12.14% (2005: 12.96%) and exceeded the statutory minimum.

The Bank's international risk based capital adequacy ratio as at 31 December 2006 was 17.05% (2005: 14.58%), which exceeds the minimum ratio of 8% recommended under the Basle Capital Accord. Capital adequacy was assessed based on the requirements and methodology defined in the 1988 Basle Accord not adjusted for market risk.

27. Subsequent events

In March 2007, the shareholders' meeting of the Bank approved the decision to pay dividends on ordinary shares of UAH 111,032 thousand and on preferential shares of UAH 700 thousand. The dividends are to be paid between 1 June 2007 and 3 January 2008.

In March 2007, the shareholders' meeting of the Bank approved the decision to increase the share capital by issuing 1,800,000,000 ordinary shares with a total nominal amount of UAH 180,000 thousand and at a price per share of UAH 0.85.

(Thousands of US dollars)

In January- April 2007, the Bank issued local bonds amounting to UAH 900,000 thousand by way of a private placement. The bonds have coupon interest rates of 13%-13.5% per annum and mature in 2008-2012.

In May 2007, the Bank concluded a syndicated loan agreement amounting to USD 500,000 thousand with Standard Bank Plc (United Kingdom), with a coupon interest rate of LIBOR plus 1.2% and maturity in 2 years. The Bank received USD 150,000 thousand in May 2007 and a further USD 350,000 thousand will be received in June 2007.