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

Year ended 31 December 2007
Together with Independent Auditors' Report

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INDEPENDENT AUDITORS' REPORT

To the Shareholders, Supervisory Board and Executive Committee 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 subsidiaries (together the "Bank"), which comprise the consolidated balance sheet as at 31 December 2007, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement 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 2007, 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

4 April 2008

CONSOLIDATED BALANCE SHEET
As at 31 December 2007

(Thousands of US dollars)

	Notes	2007	2006
Assets			
Cash and cash equivalents	6	778,637	795,783
Trading securities		38,400	-
Amounts due from credit institutions	7	45,136	7,495
Loans to customers	9	7,247,727	4,094,437
Investment securities:	11		
- designated at fair value through profit or loss		198,289	74,232
- available-for-sale		262	262
- held-to-maturity		792	773
Property and equipment	12	387,717	315,099
Intangible assets	13	25,034	16,722
Other assets	16	44,037	36,187
Total assets		**8,766,031**	**5,340,990**
Liabilities			
Amounts due to the National Bank of Ukraine	17	-	501
Amounts due to credit institutions	18	2,860,795	1,305,207
Amounts due to customers	19	4,453,039	3,321,464
Debt securities issued	10	278,698	-
Current income tax liabilities		-	5,824
Deferred income tax liabilities	14	17,520	22,238
Subordinated debt	20	68,154	70,590
Provisions	15	19,263	1,869
Other liabilities	16	72,489	39,302
Total liabilities		**7,769,958**	**4,766,995**
Equity			
Share capital		467,488	431,445
Additional paid-in capital		281,902	13,498
Revaluation reserve		93,123	108,983
Retained earnings		151,703	19,641
Total equity attributable to shareholders of the Bank	21	**994,216**	**573,567**
Minority interest		**1,857**	**428**
Total equity		**996,073**	**573,995**
Total equity and liabilities		**8,766,031**	**5,340,990**

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

Volodymyr Lavrenchuk — Chairman of the Board

Margarita Travkina — Chief Financial Officer

4 April 2008

The accompanying notes on pages 5 to 50 are an integral part of these consolidated financial statements.

CONSOLIDATED INCOME STATEMENT
For the year ended 31 December 2007

(Thousands of US dollars)

	Notes	*2007*	*2006*
Interest income			
Loans to customers		822,339	525,766
Amounts due from credit institutions		9,642	7,374
Investment securities		11,678	6,752
Due from the NBU		-	102
Other		193	-
		843,852	539,994
Interest expenses			
Due to customers		(266,197)	(181,313)
Due to credit institutions		(119,779)	(43,475)
Subordinated debt		(7,769)	(7,555)
Due to the NBU		(242)	(963)
		(393,987)	(233,306)
Net interest income		**449,865**	**306,688**
Allowance for loan impairment	9	(75,009)	(80,802)
Net interest income after allowance for loan impairment		**374,856**	**225,886**
Fee and commission income		205,721	157,255
Fee and commission expense		(18,185)	(15,063)
Fees and commissions, net	23	**187,536**	**142,192**
Net gains/(losses) from foreign currencies:			
- dealing		35,254	27,928
- translation differences		(1,473)	1,967
Net gains from trading securities		543	439
Re-measurement of financial instruments		125	3,632
Other income		5,846	2,414
Non-interest income		**40,295**	**36,380**
Personnel expenses	24	(209,032)	(148,132)
Depreciation and amortisation	12,13	(34,626)	(29,263)
Other administrative and operating expenses	24	(136,956)	(113,604)
Impairment of other assets and provisions	15	(17,992)	(4,280)
Non interest expense		**(398,606)**	**(295,279)**
Profit before income tax expenses		**204,081**	**109,179**
Income tax expense	14	(52,580)	(29,161)
Profit for the year		**151,501**	**80,018**
Attributable to:			
- shareholders of the Bank		150,528	80,060
- minority interest		973	(42)
		151,501	**80,018**

The accompanying notes on pages 5 to 50 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2007

(Thousands of US dollars)

	Attributable to equity holders of the parent							
	Share capital	***Treasury shares***	***Additional paid-in capital***	***Retained earnings/ (accumulated deficit)***	***Other reserves***	***Total***	***Minority interest***	***Total equity***
31 December 2005	**313,044**	**(5,384)**	**-**	**(61,288)**	**24,116**	**270,488**	**-**	**270,488**
Revaluation of property and equipment, net of tax (Notes 12, 21)					88,110	88,110		88,110
Depreciation transfer on revalued buildings, 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)
Total income and expense for the year recognised directly in equity				1,034	84,867	85,901		85,901
Profit for the year				80,060	-	80,060	(42)	80,018
Total income and expense for the year				80,060	-	80,060	(42)	80,018
Issue of share capital (Note 21)	118,800	-	-	-	-	118,800		118,800
Dividends to shareholders of the Bank (Note 21)				(139)	-	(139)		(139)
Minority interests arising on acquisition of subsidiary							470	470
Purchase of treasury shares (Note 21)		(399)	(1,044)	(26)		(1,469)		(1,469)
Sale of treasury shares (Note 21)		5,384	14,542	-	-	19,926		19,926
31 December 2006	**431,844**	**(399)**	**13,498**	**19,641**	**108,983**	**573,567**	**428**	**573,995**
Depreciation transfer on revalued buildings, net of tax				1,762	(1,762)	-		-
Revaluation of tangible assets' disposal				1,897	(1,897)	-		-
Net losses on cash flow hedges				-	(12,201)	(12,201)		(12,201)
Total income and expense for the year recognised directly in equity				3,659	(15,860)	(12,201)		(12,201)
Profit for the year				150,528	-	150,528	973	151,501
Total income and expense for the year				150,528	-	150,528	973	151,501
Issue of share capital (Note 21)	35,644	-	267,327	-	-	302,971		302,971
Dividends to shareholders of the Bank (Note 21)				(22,125)	-	(22,125)		(22,125)
Minority interest contribution					-	-	456	456
Sale of treasury shares (Note 21)		399	1,077		-	1,476	-	1,476
31 December 2007	**467,488**	**-**	**281,902**	**151,703**	**93,123**	**994,216**	**1,857**	**996,073**

The accompanying notes on pages 5 to 50 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 31 December 2007

(Thousands of US dollars)

	Notes	Year ended 31 December 2007	2006
Cash flows from operating activities			
Interest and commissions received		1,050,717	671,677
Interest and commissions paid		(370,078)	(245,495)
Gains less losses from dealing in foreign currencies and securities		35,797	28,367
Other operating income received		5,846	2,355
Personnel expenses		(198,763)	(134,209)
Other operating and administrative expenses		(135,254)	(108,901)
Cash flow from operating activities before changes in operating assets and liabilities		**388,265**	**213,794**
Net (increase) / decrease in operating assets			
Amounts due from credit institutions		(37,672)	9,484
Loans to customers		(3,255,437)	(1,820,864)
Other assets		(9,775)	(20,920)
Net increase / (decrease) in operating liabilities			
Amounts due to credit institutions		625,295	455,198
Amounts due to customers		1,142,851	511,974
Other liabilities		14,397	(2,231)
Net cash flows (used in)/from operating activities before income tax		**(1,132,083)**	**(653,704)**
Income tax paid		(62,838)	(35,860)
Net cash flows (used in)/from operating activities		**(1,194,914)**	**(689,425)**
Cash flows from financing activities			
Amounts due to credit institutions		942,945	380,921
Amounts due to the National Bank of Ukraine		(496)	(12,680)
Share capital issued		302,971	118,800
Sale/(purchase) of treasury shares		1,476	18,457
Minority interest contribution		456	470
Dividends paid		(22,125)	(139)
Proceeds from debt securities issued		255,941	-
Net cash flows from financing activities		**1,481,168**	**505,829**
Cash flows used in investing activities			
Purchase/(sale) of investment securities, net		(164,411)	97,950
Proceeds from assets held for sale		443	218
Purchase of property and equipment		(118,303)	(48,324)
Purchase of intangible assets		(11,783)	(8,086)
Proceeds from the sale of property and equipment		14,564	4,033
Net cash flows (used in) / from investing activities		**(279,490)**	**45,791**
Effect of exchange rate changes on cash and cash equivalents		(23,910)	(19,529)
Net change in cash and cash equivalents		**(17,146)**	**(157,334)**
Cash and cash equivalents, beginning of the year	6	**795,783**	**953,117**
Cash and cash equivalents, ending of the year	6	**778,637**	**795,783**

The accompanying notes on pages 5 to 50 are an integral part of these consolidated financial statements.

(Thousands of US dollars)

1. Principal activities

Joint Stock Commercial Bank "Aval" ("Aval" or "AvalBank") 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, AvalBank was re-registered as Joint Stock Post-Pension Bank "Aval". In 2006, AvalBank was re-registered as Open Joint Stock Company "Raiffeisen Bank Aval". Currently, the AvalBank operates under a general banking licence, renewed by the NBU on 3 December 2001, which provides AvalBank with the right to conduct banking operations, including currency operations, and to service the accounts of Ukrainian budgetary organisations.

AvalBank 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.

These consolidated financial statements comprise AvalBank and its subsidiaries (together referred to as the "Bank"). A list of consolidated subsidiaries is disclosed in Note 2. Its main office is in Kyiv and it has 28 branches and sub-branches, plus 1,179 operating outlets throughout Ukraine (2006 - 35 branches and sub-branches, and 1,342 operating outlets). AvalBank's registered legal address is 9 Leskova St., Kyiv, Ukraine.

As at 31 December 2007 and 2006, AvalBank's shareholders ownership structure based on the amount of outstanding shares was as follows:

Shareholders	***2007*** *%*	***2006*** *%*
Raiffeisen International Bank-Holding AG	95.68	95.64
Other legal entities	4.02	4.00
Individuals	0.30	0.36
Total	**100.00**	**100.00**

Raiffeisen-Landesbanken-Holding GmbH is the ultimate parent of the Bank.

2. Basis of preparation

General

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

The Bank is required to maintain its books of account in Ukrainian hryvnia and prepare statements for regulatory purposes in accordance with the "Regulations on the Organisation of Accounting and Reporting for Ukrainian Banking Institutions" issued by the National Bank of Ukraine and in accordance with Ukrainian Accounting Standards ("UAR"). These consolidated financial statements are based on the books and records of the Bank's UAR books and records, 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. For example, available for sale securities and buildings have been measured at fair value.

The consolidated financial statements are presented in thousands of US dollars ("USD") unless otherwise indicated.

Inflation accounting

The Ukrainian economy was considered hyperinflationary until 31 December 2000. As such, the Bank has applied IAS 29 "Financial accounting 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 accounting periods.

(Thousands of US dollars)

Subsidiaries

The consolidated financial statements include the following subsidiaries:

2007

Subsidiary	*Ownership/ Voting, %*	*Country*	*Date of incorporation*	*Industry*
LLC "Raiffeisen Leasing Aval"	60%	Ukraine	29 June 2006	Financial leasing
LLC "Raiffeisen Aval Asset management"	100%	Ukraine	12 September 2007	Asset management

2006

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

Reclassifications

The following reclassifications have been made to 2006 balances to conform to the 2007 presentation.

Amount	*Previously reported*	*As reclassified*	*Comment*
4,977	Cash and cash equivalents	Other assets	Reclassification of precious metals from cash based on substance of cash equivalents
443	Assets held for sale	Other assets	The item is immaterial to present it separately on the balance sheet
37	Deferred income tax assets	Other assets	The item is immaterial to present it separately on the balance sheet
645	Share premium	Share capital	To adjust misclassification of Equity internal movements.
(2,209)	Retained earnings/(Accumulated deficit)	Revaluation reserve	Reclassification of revaluation loss on available-for-sale securities to Revaluation reserve from Retained earnings
(139)	Interest expenses - Dividends paid on preference shares	Statement of changes in equity - Dividends to shareholders of the Bank	Reclassification of preference share dividends from interest expense based on the nature of preference share as being equity instrument rather than financial liability.
(4,609)	Interest income - Loans to customers	Impairment of interest earning assets	Separate presentation of Interest accrued on impaired loans (Note 9)
(654)	Re-measurement of financial instruments	Interest income - Loans to customers	Reclassification of loss on initial recognition of loans with the interest rate below market to interest income

(Thousands of US dollars)

3. Summary of accounting policies

Changes in accounting policies

In 2007, the Bank changed its accounting policy with respect to offsetting inter-bank deposits in different currencies simultaneously placed and received with the same counterparty bank. As management believes that such offsetting deposits are, in substance, equivalent to a currency swap, these transactions have been recorded on a net basis as derivative financial instruments rather than amounts due to/from credit institutions. The effect of this change in accounting policy is presented in the table below:

Balance sheet as at 31 December 2006	***As previously reported***	***Change in accounting policy***	***As adjusted (before reclassifications in Note 2)***
Cash and cash equivalents	843,784	(43,023)	800,761
Amounts due to credit institutions	1,348,216	43,009	1,305,207
Other assets	30,716	14	30,730

Income statement for the year ended 31 December 2006	***As previously reported***	***Change in accounting policy***	***As adjusted (before reclassifications in Note 2)***
Interest income - Amounts due from credit institutions	7,445	(71)	7,374
Interest expenses - Due to credit institutions	(43,520)	45	(43,475)
Re-measurement of financial instruments	2,946	27	2,973
Gains less losses from foreign currencies - translation differences	1,968	(1)	1,967

The Bank has adopted the following new and amended IFRS during the year. Adoption of these standards did not have any effect on the financial performance or position of the Bank.

The principal effects of these changes are as follows:

IFRS 7 "Financial Instruments: Disclosures"
This standard requires disclosures that enable users of the financial statements to evaluate the significance of the Bank's financial instruments and the nature and extent of risks arising from those financial instruments. The new disclosures are included throughout the financial statements.

Amendment to IAS 1 "Presentation of Financial Statements"
This amendment requires the Bank to make new disclosures to enable users of the financial statements to evaluate the Bank's objectives, policies and processes for managing capital. These new disclosures are shown in Note 29.

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.

(Thousands of US dollars)

Acquisition of subsidiaries

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Bank. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest.

The excess of purchase consideration over the Bank's share in the net fair value of the identifiable assets, liabilities and contingent liabilities is recorded as goodwill. If the cost of the acquisition is less than the Bank's share in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary acquired the difference is recognised directly in the consolidated income statement.

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.

Increases in ownership interests in subsidiaries

The differences between the carrying values of net assets attributable to interests in subsidiaries acquired and the consideration given for such increases are charged or credited to retained earnings.

Financial assets

Initial recognition

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

Date of recognition

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

Day 1' profit

Where the transaction price in a non-active market is different to the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets, the Bank immediately recognises the difference between the transaction price and fair value (a 'Day 1' profit) in the consolidated income statement. In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognised in the consolidated income statement when the inputs become observable, or when the instrument is derecognised.

Financial assets at fair value through profit or loss

Financial assets classified as held for trading and those designated at fair value through profit or loss at inception are included in the category 'financial assets at fair value through profit or loss'. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Financial assets are designated by the Bank at fair value through profit or loss if they 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

(Thousands of US dollars)

investment strategy. 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 through profit or loss are recognised in the consolidated income statement.

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. Gains and losses are recognised in the consolidated income statement when the investments are 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. They are not entered into with the intention of immediate or short-term resale and are not classified as trading securities or designated as investment securities available-for-sale. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the consolidated income statement 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 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 income statement. Interest calculated using the effective interest method is recognised in the consolidated income statement.

Determination of fair value

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

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

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.

Precious metals

Gold and other precious metals are recorded at NBU bid prices, which approximate fair values and are quoted at a discount to London Bullion Market rates. Changes in the NBU bid prices are recorded as translation differences from precious metals in other income.

(Thousands of US dollars)

Repurchase and reverse repurchase agreements and securities lending

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

Securities lent to counterparties are retained in the financial statements. Securities borrowed are not recorded in the consolidated financial statements, 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 income statement. The obligation to return them is recorded at fair value as a trading liability.

Derivative financial instruments

In the normal course of business, the Bank enters into various derivative financial instruments including futures, forwards, swaps and options in the foreign exchange market. Such financial instruments are held for trading and recorded at fair value. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Gains and losses resulting from these instruments are included in the consolidated income statement as gains less losses from trading securities or gains less losses from foreign currencies dealing, depending on the nature of the instrument.

Derivatives embedded in other financial instruments are treated as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contract, and the host contract is not itself held for trading or designated at fair value through profit or loss. The embedded derivatives separated from the host are carried at fair value in the trading portfolio with changes in fair value recognised in the consolidated income statement.

Hedge accounting

The Bank makes use of derivative instruments to manage exposures to interest rate, foreign currency and credit risks, including exposures arising from forecast transactions. In order to manage particular risks, the Bank applies hedge accounting for transactions, which meet the specified criteria.

At inception of the hedge relationship, the Bank formally documents the relationship between the hedged item and the hedging instrument, including the nature of the risk, the objective and strategy for undertaking the hedge and the method that will be used to assess the effectiveness of the hedging relationship.

Also at the inception of the hedge relationship, a formal assessment is undertaken to ensure the hedging instrument is expected to be highly effective in offsetting the designated risk in the hedged item. Hedges are formally assessed each quarter. A hedge is regarded as highly effective if the changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated are expected to offset in a range of 80% to 125%. For situations where that hedged item is a forecast transaction, the Bank assesses whether the transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect the income statement.

Cash flow hedges

For designated and qualifying cash flow hedges, the effective portion of the gain or loss on the hedging instrument is initially recognised directly in equity in the cash flow hedge reserve. The ineffective portion of the gain or loss on the hedging instrument is recognised immediately in the consolidate income statement in 'Net trading income'.

When the hedged cash flow affects the consolidated income statement, the gain or loss on the hedging instrument is 'recycled' in the corresponding income or expense line of the income statement. When a hedging instrument expires, or is sold, terminated, exercised, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the hedged forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement in 'Net trading income'.

(Thousands of US dollars)

Promissory notes

Promissory notes purchased are included in available for sale investment 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

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

If the Bank purchases its own debt, it is removed from the balance sheet and the difference between the carrying amount of the liability and the consideration paid is recognised in the consolidated income statement.

Leases

i. 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.

ii. Finance - Bank as lessor

The Bank recognises lease receivables at a 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.

iii. 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.

iv. 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 income statement 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.

Impairment of financial assets

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

reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Amounts due from credit institutions and loans to customers

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

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

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

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

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

Held-to-maturity financial investments

For held-to-maturity investments the Bank assesses individually whether there is objective evidence of impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated income statement.

If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognised, any amounts formerly charged are credited to the consolidated income statement.

Available-for-sale financial investments

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

(Thousands of US dollars)

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition coast and the current fair value, less any impairment loss on that investment previously recognised in the consolidated income statement – is removed from equity and recognised in the consolidated income statement. Impairment losses on equity investments are not reversed through the consolidated income statement; increases in their fair value after impairment are recognised directly in equity.

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

Renegotiated loans

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

Derecognition of financial assets and liabilities

Financial assets

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

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

Where the Bank has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Bank'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.

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 income statement.

Financial guarantees

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

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

Taxation

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

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

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

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.

Property and equipment

Equipment is carried at cost or restated cost (for assets acquired prior to 31 December 2000), excluding the costs of day-to-day servicing, less accumulated depreciation and any accumulated impairment. Buildings are measured at fair value less depreciation and impairment charged subsequent to the date of the revaluation.

The carrying values of 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, buildings are carried at their revalued amount, which is the fair value at the date of the revaluation less any subsequent accumulated depreciation 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 revaluation reserve for property, which included in equity, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in the consolidated income statement, in which case the increase is recognised in the consolidated income statement. A revaluation deficit is recognised in the consolidated income statement, 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 revaluation reserve for property 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.

(Thousands of US dollars)

Depreciation of an asset begins when it is available for use. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

	Years
Buildings	6-50 years
Furniture, fixtures and other assets	2-25 years
Equipment and computers	2-15 years
Motor vehicles	6 years

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

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

Intangible assets

Intangible assets include acquired computer software and licences. Intangible assets acquired separately are measured on initial recognition at cost or restated cost (for assets acquired prior to 31 December 2000). 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.

Provisions

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

Retirement and other benefit obligations

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

Share capital

Share capital

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.

(Thousands of US dollars)

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.

Segment reporting

A segment is a distinguishable component of the Bank that is engaged in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. Segment income, segment expenses and segment performance include transfers between business segments and between geographical segments.

Contingencies

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

Recognition of income and expense

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

Interest and similar income and expense

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

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

Fee and commission income

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

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

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

- *Fee income from providing transaction services*

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

(Thousands of US dollars)

Dividend income

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

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 the 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 income statement as gains less losses from foreign currencies – translation differences. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Differences between the contractual exchange rate of a certain transaction 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 were UAH 5.05 and UAH 5.05 to 1 US dollar and UAH 7.4195 and UAH 6.6509 to 1 Euro at 31 December 2007 and 2006, respectively.

For the 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, the income statements are translated at the average exchange rates for the year. The exchange differences arising on translation are taken directly to a separate component of equity.

Future changes in accounting policies

Standards and interpretations issued but not yet effective

IFRS 2 "Share-based Payments – Vesting Conditions and Cancellations"

The amendment to IFRS 2 "*Share-based payments"* was published in January 2008 and becomes effective for financial years beginning on or after 1 January 2009. The standard restricts the definition of "vesting condition" to a condition that includes an explicit or implicit requirement to provide services. Any other conditions are non-vesting conditions, which have to be taken into account to determine the fair value of the equity instruments granted. In the case that the award does not vest as the result of a failure to meet a non-vesting condition that is within the control of either the entity or the counterparty, this must be accounted for as a cancellation. The Bank has not entered into share-based payment schemes with non-vesting conditions attached and, therefore, does not expect any implications on its accounting for share-based payments.

IFRS 3R " Business Combinations" and IAS 27R "Consolidated and Separate Financial Statements"

The revised standards were issued in January 2008 and become effective for financial years beginning on or after 1 July 2009. IFRS 3R introduces a number of changes in the accounting for business combinations that will impact on amount of goodwill recognized, the reported results in the period that an acquisition occurs, and future reported results. IAS 27R requires that a change in the ownership interest of a subsidiary is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give raise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes introduced by IFRS 3R and IAS 27R must be applied prospectively and will affect future acquisitions and transactions with minority interests.

(Thousands of US dollars)

IAS 1 Revised "Presentation of Financial Statements"

The revised IAS 1 "*Presentation of Financial Statements"* was issued in September 2007 and becomes effective for financial years beginning on or after 1 January 2009. The Standard separates owner and non-owner changes in equity. The statement of changes in equity will include only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, the Standard introduces the statement of comprehensive income: it presents all items of income and expense recognised in profit or loss, together with all other items of recognised income and expense, either in one single statement or in two linked statements. The Bank is still evaluating whether it will have one or two statements.

Amendments to IAS 32 and IAS 1 "Puttable Financial Instruments"

Amendments to IAS 32 and IAS 1 were issued in February 2008 and become effective for annual periods beginning on or after 1 January 2009. The amendment to IAS 32 requires certain puttable financial instruments and obligations arising on liquidation to be classified as equity if certain criteria are met. The amendment to IAS 1 requires disclosure of certain information relating to puttable instruments classified as equity. The Bank does not expect these amendments to impact the financial statements of the Bank.

IAS 23 "Borrowing Costs"

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

IFRIC 12 "Service Concession Arrangements"

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

IFRIC 13 "Customer Loyalty Programmes"

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

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

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

(Thousands of US dollars)

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

In the process of applying the Bank's accounting policies, management has used its judgements and made estimates in determining the amounts recognised in the consolidated financial statements. The most significant use of judgements and estimates are as follows:

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.

5. Segment information

The primary segment reporting format is determined to be business segments as the Bank's risks and rates of return are affected predominantly by differences in the products and services produced. Secondary information is not reported geographically due to the fact that the Bank operates solely in Ukraine, which determines the primary location of the Bank's assets and location of its clients. The operating businesses are organised and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets.

For management purposes, the Bank is organised into five business segments:

Corporate customers	Principally handling loans and other credit facilities, deposit and current accounts for corporate and institutional customers.
SME and micro business	Principally handling loans and other credit facilities, deposits and current accounts for small and medium sized entities (SME) and micro customers
Private individuals lending	Principally handling individual customers' deposits, and providing consumer loans, overdrafts, credit card facilities and settlement facilities.
Financial institutions	Principally handling loans and deposits to financial institutions.
Proprietary business	Treasury and finance and other central functions.

(Thousands of US dollars)

The following table presents income and profit and certain asset and liability information regarding the Bank's business segments for the year ended 31 December 2007:

	Corporate	*SME and micro business*	*Private individuals*	*Financial institutions*	*Proprietary business*	*Total*
Net interest income	89,345	89,703	156,301	20,305	94,211	449,865
Allowance for loan impairment	(12,810)	(9,454)	(52,745)	-	-	(75,009)
Net interest income after allowance for loan impairment	**76,535**	**80,249**	**103,556**	**20,305**	**94,211**	**374,856**
Net fee and commission income	21,345	53,867	101,539	1,195	9,590	187,536
Other non-interest income	-	-	-	-	40,295	40,295
Non-interest expense	(49,956)	(108,211)	(207,079)	(2,877)	(30,483)	(398,606)
Segment results	**47,924**	**25,909**	**(1,984)**	**18,623**	**113,613**	**204,081**
Income tax expense						(52,580)
Profit for the year						151,501
Assets and liabilities						
Segment assets	3,029,818	1,451,224	2,766,684	244,217	821,163	8,313,106
Unallocated assets						452,925
Total assets						8,766,031
Segment liabilities	851,098	660,886	3,069,930	2,860,795	278,698	7,721,407
Unallocated liabilities						48,551
Total liabilities						7,769,958
Other segment information						
Capital expenditure						
Property and equipment						118,303
Intangible fixed assets						11,358
Depreciation						31,154
Amortization of other intangible assets						3,472
Other impairment and provisions						17,992

(Thousands of US dollars)

The following table presents income and profit and certain asset and liability information regarding the Bank's business segments for the year ended 31 December 2006:

	Corporate	*SME and micro business*	*Private individuals*	*Financial institutions*	*Proprietary business*	*Total*
Net interest income	72,705	73,154	77,673	18,000	65,156	306,688
Allowance for loan impairment	(21,313)	(19,234)	(40,255)	-	-	(80,802)
Net interest income after allowance for loan impairment	**51,392**	**53,920**	**37,418**	**18,000**	**65,156**	**225,886**
Net fee and commission income	14,064	75,400	45,099	7,629	-	142,192
Other non-interest income	-	-	-	-	36,380	36,380
Non-interest expense	(24,833)	(64,756)	(191,974)	(2,032)	(11,684)	(295,279)
Segment results	**40,623**	**64,564**	**(109,457)**	**23,597**	**89,852**	**109,179**
Income tax expense						(29,161)
Profit for the year						80,018
Assets and liabilities						
Segment assets	1,511,264	960,313	1,622,861	101,847	706,410	4,902,695
Unallocated assets						438,295
Total assets						5,340,990
Segment liabilities	533,880	529,022	2,258,742	1,171,457	204,840	4,697,941
Unallocated liabilities						69,054
Total liabilities						4,766,995
Other segment information						
Capital expenditure						
Property and equipment						47,817
Intangible fixed assets						8,109
Depreciation						26,467
Amortization of other intangible assets						2,796
Other impairment and provisions						4,280

(Thousands of US dollars)

6. Cash and cash equivalents

Cash and cash equivalents comprise:

	2007	*2006*
Cash on hand	372,437	254,462
Current account with the National Bank of Ukraine	104,783	204,302
Current accounts with other credit institutions	121,882	242,667
Time deposits with credit institutions up to 90 days	179,535	82,313
Reverse repurchase agreements with credit institutions up to 90 days	-	12,039
Cash and cash equivalents	**778,637**	**795,783**

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 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 2007 was USD 190,430 thousand (2006 - USD 69,159 thousand). The Bank complied with the NBU obligatory reserve requirements as at 31 December 2007 and 2006.

7. Amounts due from credit institutions

Amounts due from credit institutions comprise:

	2007	*2006*
Loans and deposits		
OECD banks	-	1,278
Ukrainian banks	44,489	5,472
	44,489	**6,750**
Other amounts due from credit institutions	647	745
Due from credit institutions	**45,136**	**7,495**

As at 31 December 2007, 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

8. Derivative financial instruments

The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are not indicative of the credit risk.

	2007			*2006*		
	Notional principal	*Fair values*		*Notional principal*	*Fair value*	
		Asset	*Liability*		*Asset*	*Liability*
Derivatives held as cash flow hedges:						
Interest rate swaps	515,640	-	(12,198)	-	-	-
Derivatives held for trading:						
Currency swaps	42,454	23	-	43,009	14	-
Total derivative assets/liabilities (Note 16)		23	(12,198)		14	-

(Thousands of US dollars)

As of 31 December 2007, the Bank has positions in the following types of derivatives:

Swaps
Swaps are contractual agreements between two parties to exchange movements in interest and foreign currency rates and equity indices, and (in the case of credit default swaps) to make payments with respect to defined credit events based on specified notional amounts.

Derivative financial instruments held or issued for hedging purposes
As part of its asset and liability management, the Bank uses derivatives for hedging purposes in order to reduce its exposure to credit and market risks. This is achieved by hedging specific financial instruments, portfolios of fixed rate financial instruments and forecast transactions as well as strategic hedging against overall balance sheet exposures. The accounting treatment explained in Note 3 Summary of accounting policies - 'Hedge accounting' varies according to the nature of the item hedged and compliance with the hedge criteria. Hedges entered into by the Bank which provide economic hedges but do not meet the hedge accounting criteria are treated as 'Derivatives held or issued for trading purposes'.

9. Loans to customers

Loans to customers comprise:

	2007	*2006*
Corporate lending	3,101,121	1,572,680
SME lending	1,070,557	566,087
Private individuals lending	2,889,823	1,693,564
Micro customers lending	468,950	493,746
Gross loans to customers	7,530,451	4,326,077
Less – Allowance for impairment	(282,724)	(231,640)
Loans to customers	**7,247,727**	**4,094,437**

Allowance for impairment of loans to customers

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

	Corporate lending 2007	*SME lending 2007*	*Private individuals lending 2007*	*Micro customers lending 2007*	*Total 2007*
At 1 January 2007	61,418	43,843	70,702	55,677	231,640
Charge for the year	12,810	36,067	52,745	(26,613)	75,009
Recoveries	-	-	-	318	318
Amounts written off	(2,273)	(9,467)	(191)	(7,300)	(19,231)
Interest accrued on impaired loans	(1,875)	(3,004)	(117)	(1,611)	(6,607)
Translation difference	1,224	305	-	66	1,595
At 31 December 2007	**71,304**	**67,744**	**123,139**	**20,537**	**282,724**
Individual impairment	67,477	54,226	59,698	7,900	189,301
Collective impairment	3,827	13,518	63,441	12,637	93,423
	71,304	**67,744**	**123,139**	**20,537**	**282,724**
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	**124,918**	**164,795**	**68,565**	**39,684**	**397,962**

(Thousands of US dollars)

	Corporate lending 2006	***SME lending 2006***	***Private individuals lending 2006***	***Micro customers lending 2006***	***Total 2006***
At 1 January 2006	43,141	46,934	30,562	53,003	173,640
Charge for the year	21,313	6,880	40,255	12,354	80,802
Recoveries	-	-	-	195	195
Amounts written off	(1,407)	(8,125)	-	(9,449)	(18,981)
Interest accrued on impaired loans	(1,769)	(1,945)	(282)	(616)	(4,612)
Translation difference	140	99	167	190	596
At 31 December 2006	**61,418**	**43,843**	**70,702**	**55,677**	**231,638**
Individual impairment	61,418	43,843	-	55,677	160,938
Collective impairment	-	-	70,702	-	70,702
	61,418	**43,843**	**70,702**	**55,677**	**231,640**
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	**174,996**	**79,607**	**-**	**81,646**	**336,249**

Individually impaired loans

The fair value of collateral that the Bank holds relating to loans to Corporate customers individually determined to be impaired at 31 December 2007 amounts to USD 38,961 thousand (2006 - USD 10,244 thousand). The collateral amount for the purpose of private individuals, SME and micro loan to customers impairment is not considered according to the RZB rules and accounting policy of the Bank. In accordance with the NBU requirements, loans may only be written off with the approval of the Supervisory Board and, in certain cases, with the respective court decision.

Collateral and other credit enhancements

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

The main types of collateral obtained are as follows:

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

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

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

Reverse repurchase agreements

The Bank has entered into reverse repurchase agreements with a number of Ukrainian companies. The amount of USD 1,350 thousand (2006 – USD 2,090 thousand) is included in loans to customers at year-end. The subject of these agreements are bonds issued by Ukrainian companies amounting to USD 1,376 thousand (2006 – USD 2,245 thousand).

(Thousands of US dollars)

Concentration of loans to customers

As of 31 December 2007, the Bank had a concentration of loans represented by USD 643,107 thousand due from the ten largest third party borrowers (9% of gross loan portfolio) (2006 – USD 410,728 thousand or 10% due from ten largest third party borrowers). An allowance of USD 1,253 thousand (2006 – USD 6,598 thousand) was recognised against these loans. Loans are made principally within Ukraine to companies of the following industry sectors:

	2007	***%***	***2006***	***%***
Individuals	2,889,823	38	1,693,564	39
Trade enterprises	2,226,279	30	1,318,919	30
Agriculture and food processing	831,731	11	336,144	8
Manufacturing	534,494	7	633,928	15
Real estate and construction	433,080	6	141,658	3
Services	290,356	4	124,813	3
Transport and communications	312,605	4	66,892	2
Other industries	12,083	-	10,159	-
	7,530,451	**100**	**4,326,077**	**100**

Loans to customers include finance lease receivables that may be analysed as follows:

	2007	***2006***
Gross investment in finance leases, receivable:		
Not later than 1 year	36,443	1,627
Later than 1 year and not later than 5 years	117,374	3,219
	153,817	4,846
Unearned future finance income on finance leases	(18,237)	(790)
Net investment in finance leases	**135,580**	**4,056**

As at 31 December 2007, loans to customers include loans granted under EBRD financing programmes amounting to USD 14,692 thousand (2006 - USD 2,390 thousand).

As at 31 December 2007, loans to customers include loans granted under the German-Ukrainian fund programme amounting to USD 17,917 thousand net of allowances (2006 - USD 14,887 thousand).

10. Debt securities issued

As at 31 December 2007, the Bank issued interest-bearing debentures having an aggregate nominal value of USD 255,941 thousand (2006 - nil) maturing in 2008-2012. Annual interest rates range from 10% to 13.5%.

11. Investment securities

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

	2007	***2006***
Corporate bonds	5,079	14,214
Ukrainian State bonds	193,210	60,018
Investment securities designated at fair value	**198,289**	**74,232**

(Thousands of US dollars)

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

	2007		*2006*	
	%	*Maturity*	*%*	*Maturity*
Corporate bonds	13%-15%	2008	15.0%	2009-2013
Ukrainian State bonds	7%-12%	2007-2010	5.9%-9.4%	2007

As at 31 December 2007, available-for-sale investment securities comprise corporate shares with the fair value of USD 262 thousand (2006 - USD 262 thousand) and investments into shares of other companies that do not have a quoted market price in any active market and their fair value can not be reliably measured. Consequently, these investments are carried at cost of USD 5,470 thousand (2006 - USD 5,470 thousand) less allowance for impairment, if any. Unquoted equity instruments were fully impaired at 31 December 2007 and 2006.

Held-to-maturity investment securities comprise the following:

	2007		*2006*	
	Nominal value	*Carrying value*	*Nominal value*	*Carrying value*
Russian state bonds	800	792	800	773
Held-to-maturity investments		**792**		**773**

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

	2007		*2006*	
	%	*Maturity*	*%*	*Maturity*
Russian state bonds	3.0%	2008	3.0%	2008
Corporate bonds	13% - 15%	2007-2008		-

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 2006	**247,729**	**124,969**	**47,849**	**14,224**	**16,324**	**451,095**
Additions	42,865	27,943	16,511	3,621	27,363	118,303
Disposals	(4,414)	(12,949)	(2,968)	(2,249)	(1,200)	(23,780)
Transfers	1,553	14,352	5,491	1,007	(22,403)	-
31 December 2007	**287,733**	**154,315**	**66,883**	**16,603**	**20,084**	**545,618**
Accumulated depreciation						
31 December 2006	**(11,114)**	**(89,451)**	**(25,661)**	**(9,770)**		**(135,996)**
Charge for the year	(4,948)	(20,309)	(3,982)	(1,915)		(31,154)
Disposals	499	5,752	829	2,169		9,249
31 December 2007	**(15,563)**	**(104,008)**	**(29,814)**	**(9,516)**		**(157,901)**
Net book value:						
31 December 2006	**236,615**	**35,518**	**22,188**	**4,454**	**16,324**	**315,099**
31 December 2007	**272,170**	**50,307**	**38,069**	**7,087**	**20,084**	**387,717**

(Thousands of US dollars)

	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**

As at 31 December 2007, property includes leasehold improvements with a net book value of USD 12,456 thousand (2006 - USD 10,580 thousand).

During the year 2006, the Bank revalued its buildings and, consequently changed its accounting policy for buildings from the cost model to the revaluation model. 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. In 2007, the Bank's management considered that the fair value of revalued buildings did not differ materially from its carrying amount and did not proceed with further revaluation in 2007.

If the buildings were measured using the cost model, the carrying amounts would be as follows:

	2007	*2006*
Cost	181,077	138,085
Accumulated depreciation and impairment	(21,182)	(17,996)
Net carrying amount	**159,895**	**120,089**

(Thousands of US dollars)

13. Intangible assets

The movements of intangible assets were as follows:

	Computer software	*Licences*	*Total*
Cost			
31 December 2006	**14,658**	**9,013**	**23,671**
Additions	10,389	1,394	11,783
Disposals	(14)	-	(14)
31 December 2007	**25,033**	**10,407**	**35,440**
Accumulated amortisation			
31 December 2006	**(3,703)**	**(3,246)**	**(6,949)**
Charge for the year	(2,184)	(1,288)	(3,472)
Disposals	15	-	15
31 December 2007	**(5,872)**	**(4,534)**	**(10,406)**
Net book value:			
31 December 2006	**10,955**	**5,767**	**16,722**
31 December 2007	**19,161**	**5,873**	**25,034**

	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**

14. Taxation

The corporate income tax charge comprises:

	2007	*2006*
Current tax charge	56,041	37,552
Deferred tax charge/(credit) – origination and reversal of temporary differences	(4,681)	20,243
Less: deferred tax recognised directly in equity	1,220	(28,634)
Income tax expense	**52,580**	**29,161**

Ukrainian legal entities must file individual tax declarations. The profit tax rate for banks was 25% for 2007 and 2006. The profit tax rate for companies other than banks was also 25% for 2007 and 2006.

(Thousands of US dollars)

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

	2007	*2006*
Profit before tax	**204,081**	**109,179**
Statutory tax rate	25%	25%
Theoretical income tax expense at the statutory rate	**51,020**	**27,295**
Tax exempt income	(48)	(4)
Non - deductible expenses:		
- charity	173	124
- advertising	777	400
- business trip costs	45	19
- representative and other related expenses	105	502
- other	508	825
Income tax expense	**52,580**	**29,161**

Deferred tax assets and liabilities as of 31 December and their movements for the respective years comprise:

		Origination and reversal of temporary differences			*Origination and reversal of temporary differences*		
	2005	*In the income statement*	*Directly in equity*	*2006*	*In the income statement*	*Directly in equity*	*2007*
Tax effect of deductible temporary differences:							
Allowance for loan impairment	16,377	4,207	-	20,584	11,153	-	31,737
Investment securities valuation	3,547	(3,547)	-	-	1,416	-	1,416
Valuation of financial instruments	5	698	736	1,439	(1,439)	-	-
Accruals and provisions	-	5,375	-	5,375	(3,407)	-	1,968
Other	-	99	-	99	804	-	903
Deferred tax asset	**19,929**	**6,832**	**736**	**27,497**	**8,527**	**-**	**36,024**
Tax effect of taxable temporary differences:							
Property, equipment and computer software	(14,453)	2,013	(29,370)	(41,810)	(12,049)	1,220	(52,639)
Investment securities valuation	-	(7,024)	-	(7,024)	7,024	-	-
Accruals and provisions	(7,384)	7,384	-	-	-	-	-
Other	(50)	(814)	-	(864)	(41)	-	(905)
Deferred tax liability	**(21,887)**	**1,559**	**(29,370)**	**(49,698)**	**(5,066)**	**1,220**	**(53,544)**
Deferred tax asset / (liability)	**(1,958)**	**8,391**	**(28,634)**	**(22,201)**	**3,461**	**1,220**	**(17,520)**

(Thousands of US dollars)

15. Other impairment and provisions

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

	Available-for-sale securities	*Other assets*	*Legal claims, guarantees and commitments*	*Total*
31 December 2005	**3,508**	**1,152**	**920**	**5,580**
Charge	1,980	1,449	851	4,280
Write-offs	(18)	(393)	-	(411)
Recoveries	-	27	-	27
Translation differences	-	1	98	99
31 December 2006	**5,470**	**2,236**	**1,869**	**9,575**
Charge	-	973	17,019	17,992
Write-offs	-	(71)	-	(71)
Recoveries	-	79	-	79
Translation differences	-	380	375	755
31 December 2007	**5,470**	**3,597**	**19,263**	**28,330**

Allowance for impairment of assets is deducted from the carrying amounts of the related assets. Provisions for claims, guarantees and commitments are recorded in liabilities.

16. Other assets and liabilities

Other assets comprise:

	2007	*2006*
Prepayments	22,743	9,810
Receivables for operations with clients	7,359	2,947
Settlements on transactions with plastic cards	5,208	11,976
Precious metals	4,126	4,977
Inventory	3,284	3,410
Other accrued income	1,590	525
Current income tax asset	973	-
Net position on derivative financial instruments (Note 8)	23	14
Service fee for financial guarantees	-	2,235
Assets held for sale	-	443
Deferred income tax assets	-	37
Other	2,328	2,049
Gross other assets	**47,634**	**38,424**
Less – allowance for impairment	(3,597)	(2,236)
Other assets	**44,037**	**36,187**

Other liabilities comprise:

	2007	*2006*
Accrued salary payable	14,215	9,551
Other accrued expenses	9,185	8,395
Provision on unused vacations	13,784	6,077
Settlements on transactions with customers	8,136	4,216
Other taxes payable	1,032	3,034
Carrying value of issued financial guarantees	3,383	3,335
Payables to Guarantee Fund of Individuals' Deposits	3,519	2,380
Payables for equipment	3,037	1,079
Net position on derivative financial instruments (Note 8)	12,198	-
Other liabilities	4,000	1,236
Other liabilities	**72,489**	**39,302**

(Thousands of US dollars)

17. Amounts due to the National Bank of Ukraine

As at 31 December 2007, there were no amounts due to the NBU (2006 includes credit lines received from the NBU under the Small and Medium Enterprise Support Programme of the EBRD of USD 501 thousand).

18. Amounts due to credit institutions

Amounts due to credit institutions comprise:

	2007	*2006*
Current accounts		
Ukrainian banks	45,510	127,798
CIS and other foreign banks	10,119	5,951
	55,629	**133,749**
Loans and deposits		
OECD banks	2,612,515	1,075,150
Ukrainian banks	132,018	42,104
CIS and other foreign banks	3,130	19,525
	2,747,663	**1,136,779**
Loans due to International financial organisations	57,503	34,679
Due to credit institutions	**2,860,795**	**1,305,207**

The loans due to International financial institutions include a loan amounting to USD 9,375 thousand, which is secured by a lien over loans to customers of USD 9,375 thousand.

19. Amounts due to customers

Amounts due to customers comprise:

	2007	*2006*
Current accounts		
- Budget fund organisations	2,666	5,176
- Legal entities	991,698	707,882
- Individuals	930,717	618,050
	1,925,081	**1,331,108**
Time deposits		
- Budget fund organisations	13,863	31,797
- Legal entities	327,832	328,175
- Individuals	2,186,263	1,630,384
	2,527,958	**1,990,356**
Amounts due to customers	**4,453,039**	**3,321,464**
Held as security against letters of credit and guarantees	7,893	9,264

As at 31 December 2007, time deposits due to legal entities include USD 118,595 thousand (2006 - USD 190,952 thousand) due to five legal entities.

(Thousands of US dollars)

An analysis of customer accounts by economic sector is as follows:

	2007	*2006*
Individuals	3,116,980	2,248,434
Trade	339,010	291,142
Agriculture	164,663	136,608
Real estate constructions	103,493	77,733
Transport and communication	94,234	144,071
Manufacturing	70,180	74,849
Insurance	67,365	45,736
Metallurgy	61,555	31,512
Machine building	55,894	51,689
Chemical	37,160	28,477
Energy	14,105	14,009
Fuel	2,363	2,130
Other	326,037	175,074
Amounts due to customers	**4,453,039**	**3,321,464**

20. Subordinated debt

In February 2005, the Bank obtained a loan in the principal amount of USD 20,000 thousand from the international financial organization and in August 2005, the Bank obtained another loan from the same organization with a principal of USD 50,000 thousand (carrying value of both loans of USD 68,154 thousand as at 31 December 2007).

21. Equity

As at 31 December 2007, the Bank's authorised issued share capital comprised 22,299,349,080 ordinary shares and 50,000,000 preference shares (2006 - 20,949,349,754 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 2007, 22,299,349,080 ordinary shares and 50,000,000 preference shares were fully paid and registered (2006 - 20,929,224,702 ordinary shares and 49,994,576 preference shares were fully paid and registered).

On October 2007, the ordinary shareholders of the Bank approved an issue of 1,799,999,326 ordinary shares. The total consideration received for these shares was comprised of cash for the total amount of UAH 1,529,999,427 (equivalent of USD 302,971 thousand, including an amount of USD 267,327 recorded as additional paid-in capital). This share issue was registered by *State Securities and Exchange Commission* on 27 December 2007.

At the Shareholders' Meeting in April 2007, the Bank declared dividends in respect of the year ended 31 December 2006, totalling UAH 11,031,553.70 (equivalent of USD 21,986 thousand) on the ordinary shares and UAH 700,000 (equivalent of USD 139 thousand) on the preferred shares. At the Shareholders' Meeting in April 2006, the Bank declared dividends in respect of the year ended 31 December 2005, totalling UAH 700,000 (equivalent of USD 139 thousand) on the preferred shares only.

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.

(Thousands of US dollars)

The movements in share capital for the years ended 31 December 2007 and 2006 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 2005	**14,726,090**	**1,992**	**1,472,808**	**307,660**
Cost of shares issued	5,999,350	-	599,938	118,800
Purchase of treasury shares	(20,124)	(9)	(2,016)	(399)
Sale of treasury shares	223,909	48,012	27,192	5,384
31 December 2006	**20,929,225**	**49,995**	**2,097,922**	**431,445**
Cost of shares issued	1,799,999	-	179,999	35,644
Sale of treasury shares	20,125	5	2,013	399
31 December 2007	**22,749,349**	**50,000**	**2,279,934**	**467,488**

The respective interests of shareholders are as follows:

	2007		***2006***	
	Number of shares	***Share in issued capital***	***Number of shares***	***Share in issued capital***
Legal entities:				
Raiffeisen International Bank Holding AG	21,815,402,337	95.68%	20,062,508,956	95.54%
Bank Austria Creditanstalt AG	66,137,966	0.29%	205,921,211	0.98%
Julius Baer International Equity Fund	183,743,363	0.81%	191,865,265	0.91%
UIFL (Cyprus) Limited	106,133,450	0.47%	77,738,179	0.37%
Concentra Limited	56,142,428	0.25%	41,440,000	0.20%
Raiffeisen Zentralbank	63,955,338	0.28%	40,615,815	0.19%
Other legal entities	438,524,137	1.92%	282,555,883	1.35%
	22,730,039,019	**99.70%**	**20,902,645,309**	**99.54%**
Individuals:				
Management of the Bank	100	0.00%	100	0.00%
Employees	9,416,345	0.04%	11,075,175	0.05%
Other individuals	59,893,616	0.26%	65,498,881	0.31%
	69,310,061	**0.30%**	**76,574,156**	**0.36%**
Treasury shares	-	-	20,130,289	0.10%
Total shares issued	**22,799,349,080**	**100.00%**	**20,999,349,754**	**100.00%**

(Thousands of US dollars)

Movements in other reserves

Movements in other reserves were as follows:

	Cash flow hedge reserve	***Revaluation reserve for property and equipment***	***Unrealised gains/(losses) on investment securities available-for-sale***	***Total***
At 1 January 2006		21,907	2,209	24,116
Revaluation of buildings		117,480		117,480
Tax effect of revaluation of buildings		(29,370)		(29,370)
Disposal of revaluation of buildings		(101)		(101)
Tax effect of disposal of revaluation of buildings		25		25
Depreciation of revaluation reserve		(1,277)		(1,277)
Tax effect of depreciation of revaluation reserve		319		319
Net unrealised gains / (losses) on available-for-sale investments			(2,945)	(2,945)
Tax effect of net gains on investment securities available-for-sale			736	736
At 31 December 2006		108,983		108,983
Disposal of revaluation of buildings		(2,529)		(2,529)
Tax effect of disposal of revaluation of buildings		632		632
Depreciation of revaluation reserve		(2,349)		(2,349)
Tax effect of depreciation of revaluation reserve		587		587
Net unrealised loss on cash flow hedges	(12,201)			(12,201)
At 31 December 2007	**(12,201)**	**105,324**	**-**	**93,123**

Nature and purpose of other reserves

Revaluation reserve for property and equipment

The revaluation reserve for property and equipment is used to record increases in the fair value of buildings and decreases to the extent that such decrease relates to an increase on the same asset previously recognised in equity.

Unrealised gains(losses) on investment securities available-for-sale

This reserve reflects fair value changes on available-for-sale investments.

Cash flow hedge reserve

This reserve comprises the portion of the gain or loss on a hedging instrument in a cash flow hedge that is determined to be an effective hedge.

(Thousands of US dollars)

22. 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.

Taxation

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 varying interpretations by local, regional and national authorities, and other Governmental bodies. Instances of inconsistent interpretations are not unusual. Management believes that the Bank and its subsidiary have complied with 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 believes that obligations that could arise as a result of these contingencies, as relating to its operations, would not be more significant than those of similar enterprises in Ukraine.

Commitments and contingencies

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

	2007	*2006*
Letters of credit	63,518	85,203
Guarantees	197,569	69,694
Avals on promissory notes	52,407	59,294
	313,494	**214,191**
Less – Cash held as security against letters of credit, avals and guarantees	(7,893)	(9,264)
Financial commitments and contingencies	**305,601**	**204,927**

Insurance

The Bank's premises were not insured as at 31 December 2007 and 2006. 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)

23. Net fee and commission income

Fees and commissions comprise:

	2007	*2006*
Fees and commission income		
Cash and settlement operations	173,271	134,586
Currency conversion	14,355	11,243
Operations with banks	3,736	2,460
Off-balance sheet operations	8,260	6,131
Other	6,099	2,835
	205,721	**157,255**
Fees and commission expenses		
Cash and settlement operations	(14,290)	(9,315)
Commission for off-balance sheet operations	(12)	(4,135)
Commission paid for loan services	(899)	(1,407)
Other	(2,984)	(206)
	(18,185)	**(15,063)**
Fees and commissions, net	**187,536**	**142,192**

24. Personnel and other administrative and operating expenses

Personnel other administrative and operating expenses comprise:

	2007	*2006*
Salaries and bonuses	163,061	114,467
Employment taxes	45,971	33,665
Personnel expenses	**209,032**	**148,132**
Occupancy and rent	30,484	17,538
Repair and maintenance expenses	17,755	12,958
Expenses related to deposit insurance fund	12,783	9,371
Communications	9,309	7,396
Legal and consultancy	8,272	12,528
Marketing and advertising	7,966	6,441
EDP costs	7,916	7,174
Sundry expenses	7,383	9,024
Cards transaction processing	6,138	3,640
Security	3,650	3,163
Expenses for cash collection	3,462	2,622
Business travel and related expenses	3,253	3,695
Operating taxes	1,389	2,231
Charity	696	496
Insurance expenses	1,244	732
Other	15,256	14,595
Other administrative and operating expenses	**136,956**	**113,604**

(Thousands of US dollars)

25. Risk management

Introduction

Risk is inherent in the Bank's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Bank's continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities.

The Bank is exposed to financial risks (credit, liquidity, and market risks) and non-financial risks (legal, operational, and other risks).

Risk management structure

The Supervisory Board is ultimately responsible for final setting and approving the Bank's risk and capital objectives; however, there are separate independent departments responsible for managing and monitoring risks.

Management Board

The Management Board of Raiffeisen Bank Aval is responsible for proposing and implementing all of the Bank's risk and capital targets as well as for the overall risk management, control and implementing Raiffeisen Group's risk management policy throughout the Bank. Regular risk management reports and on-going risk analysis provide sound basis for the members of the Management Board to decide which procedures are relevant in identifying, measuring, and minimizing risks.

Credit Committee

The Credit Committee bears the overall responsibility for the development of the credit risk management strategy and implementing related principles, frameworks, policies and limits. It is responsible for the fundamental risk issues and manages and monitors relevant risk decisions. It is also responsible for individual limit approvals within limits set by the Bank's Supervisory Board. Any and all lending authority within the Bank is derived from the Credit Committee.

The Assets and Liabilities Management Committee

The Assets and Liabilities Management Committee is responsible for implementing the liquidity objectives and their monitoring, as well as for the strategy development and its implementation.

Risk Management

The Bank has established Risk Management division that is independent of the business line and responsible for implementing and maintaining risk related procedures to ensure an independent control process.

Bank Treasury

The Bank Treasury is responsible for managing the Bank's assets and liabilities and the overall financial structure. It is also primarily responsible for the liquidity and funding risks of the Bank.

Internal Audit

Risk management processes throughout the Bank are audited annually by the Internal Audit, which examines both the adequacy of the procedures and the Bank's compliance with the procedures.

Risk measurement and reporting systems

The Market and Operational Risk Management Department monitors and examines risks related to the Bank's operations on a regular basis. Specifically, it monitors the interest risk related to the Bank's portfolios (as regards the

trading portfolio - after each new agreement; as regards other portfolios - on a monthly basis), currency risk (the Bank's currency position is monitored on a daily basis).

The monitoring and controlling of risks is primarily performed based on limits established by the National Bank of Ukraine and RZB. The information on risks in various businesses lines of the Bank is communicated to the respective divisions of the Bank. Specifically, the information on interest rate risk within the trading portfolio is provided to the Capital Market Department (upon signing each new agreement, if the relevant information is available); the information on the Bank's currency position is provided to the Bank's Treasury and monitored independently by Risk Management. The respective reports, including the report on the Bank's liquidity, are also provided to RZB on a weekly basis. Interest rate risk for all portfolios of the Bank is monitored on an ongoing basis.

Risk mitigation

The Bank often requires to provide collateral to mitigate its credit risk. The use of collateral to secure a loan enables the Bank to control assets in the event of a borrower's default. The collateral represents potential source of the credit repayment. However, the Bank's decision to lend is not limited to the availability of solid collateral or a guarantee. Each decision to issue a loan to a borrower is supported by a comprehensive credit analysis that mitigates the credit risk and enhances the quality of Bank's credit portfolio.

The Bank undertakes a number of measures to ensure the repayment of loans. After issuing a credit, the Risk Management Department is responsible for loan administration. This involves continuous monitoring of the borrower's financial position, the borrower's compliance with financial covenants set up by the loan agreement, as well as seeking new opportunities for collaboration with clients. Credit monitoring provides for earlier detection of indications that the borrower may face financial difficulties in loan repayment and is performed in the early stages in order to maximise the effect of the Bank's corrective actions and reduce possible losses. Credit monitoring is critical at the stage of loan repayment or when loans become past due, or in case of violation of covenants, terms of collateral agreements or financial ratios.

In 2007, the Bank started using interest rate swaps as hedge instruments to reduce the interest rate risk of floating rate borrowings.

Excessive risk concentration

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

Key elements of effective management to avoid the excessive risk concentration are well developed credit policies and procedures aimed at maintaining of a diversified loan portfolio. The whole process of loans management is performed under the established credit policy..

Credit risk

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

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

Derivative financial instruments

Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded in the balance sheet.

(Thousands of US dollars)

Credit-related commitments risks

The Bank makes available to its customers guarantees under which the Bank may be required to make payments on their behalf. Such payments are collected from customers based on the terms of guarantees. Guarantees issued bear the same risk exposure for the Bank as loans issued and, consequently, are mitigated by the same control processes and policies.

The table below shows the maximum exposure to credit risk for the components of the balance sheet, including derivatives. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting and collateral agreements and after deducting the loan loss allowance.

	Notes	Maximum exposure 2007	Maximum exposure 2006
Cash and cash equivalents (excluding cash on hand)	6	406,200	541,321
Trading securities	11	38,400	-
Amounts due from credit institutions	7	45,136	7,495
Derivative financial assets	8	23	14
Loans to customers	9	7,247,727	4,094,437
Investment securities	11	199,343	72,267
Other assets	16	33,326	23,036
Financial commitments and contingencies	22	313,494	214,191
Total credit risk exposure		**8,283,649**	**4,952,761**

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

For more detail on the maximum exposure to credit risk for each class of financial instrument, references shall be made to the specific notes. The effect of collateral and other risk mitigation techniques is shown in Note 9.

Credit quality per class of financial assets

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

		Neither past due nor impaired					
	Notes	High grade 2007	Standard grade 2007	Sub-standard grade 2007	No grade loans 2007	Past due or individuall y impaired 2007	Total 2007
Amounts due from credit institutions	7	45,136	-	-	-	-	45,136
Loans to customers	9						
Corporate lending		334,147	1,420,605	1,146,533	152	199,684	3,101,121
Small business lending		90,947	296,407	454,073	14,592	214,538	1,070,557
Private individuals lending		-	-	-	2,499,780	390,043	2,889,823
Micro customers lending		-	-	-	401,873	67,077	468,950
		425,094	1,717,012	1,600,606	2,916,397	871,342	7,530,451
Debt investment securities	11						
Designated at fair value through profit or loss		198,289	-	-	-	-	198,289
Available-for-sale		262	-	-	-	-	262
Held to maturity		792	-	-	-	-	792
		199,343	-	-	-	-	199,343
Total		**669,573**	**1,717,012**	**1,600,606**	**2,916,397**	**871,342**	**7,774,930**

(Thousands of US dollars)

		Neither past due nor impaired					
	Notes	High grade 2006	Standard grade 2006	Sub-standard grade 2006	No grade loans 2006	Past due or individually impaired 2006	Total 2006
Amounts due from credit institutions	7	7,495	-	-	-	-	7,495
Loans to customers	9						
Corporate lending		106,748	703,828	586,402	-	175,702	1,572,680
Small business lending		64,448	175,691	160,289	78,203	87,456	566,087
Private individuals lending		-	-	-	1,568,073	125,491	1,693,564
Micro customers lending		-	-	-	405,285	88,461	493,746
		171,196	879,519	746,691	2,051,561	477,110	4,326,077
Debt investment securities	11						
Designated at fair value through profit or loss		74,232	-	-	-	-	74,232
Available-for-sale		262	-	-	-	-	262
Held to maturity		773	-	-	-	-	773
		75,267	-	-	-	-	75,267
Total		**253,958**	**879,519**	**746,691**	**2,051,561**	**477,110**	**4,408,839**

The details of customer rating assignments per grade are as follows:

- High grade loans include borrowers with credit customer rating ranging from 0.5 to 1.5
- Standard grade loans include borrowers with credit customer rating ranging from 2.0 to 3.0
- Sub-standard grade loans include borrowers with credit customer rating ranging from 3.5 to 5.0.
- No grade loans include micro, small business and private individual borrowers, whose credit standing is evaluated based on a days-past-due analysis.

Grade breakdown is composed of 10 ratings where 0.5 is the best and 5 is the worst with the meaning as follows;

Rating Scale	Description
0.5	Minimal Risk
1.0	Excellent credit standing
1.5	Very good credit standing
2.0	Good credit standing
2.5	Average credit standing
3.0	Mediocre credit standing
3.5	Weak credit standing
4.0	Very weak credit standing (or no information available)
4.5	Doubtful and/or partial write-offs
5.0	Loss / bankruptcy or similar proceedings

Past due loans to customers include those loans that become past due by the first day. An ageing analysis of past due loans is provided below. The majority of the past due loans as at 31 December 2007 were not considered to be impaired.

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

(Thousands of US dollars)

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

	Less than 30 days 2007	***31 to 60 days 2007***	***61 to 90 days 2007***	***More than 90 days 2007***	***Total 2007***
Loans to customers					
Corporate lending	49,950	24,816	-	-	74,766
Small business lending	31,364	12,700	5,679	-	49,743
Private individuals lending	185,616	55,699	33,508	46,655	321,478
Micro customers loans	11,707	7,637	3,033	5,016	27,393
Total	**278,637**	**100,852**	**42,220**	**51,671**	**473,380**

In respect of total aggregate amount of gross past due but not impaired loans to customers, the fair value of collateral that the Bank held as at 31 December 2007 was USD 4,096 million (2006 - USD 558 million). See 'Collateral and other credit enhancements' in Note 9 for the details of types of collateral held.

	Less than 30 days 2006	***31 to 60 days 2006***	***61 to 90 days 2006***	***More than 90 days 2006***	***Total 2006***
Loans to customers					
Corporate lending	706	-	-	-	706
Small business lending	256	3,786	3,807	-	7,849
Private individuals lending	-	64,956	32,896	27,639	125,491
Micro customers loans	62	3,743	587	2,423	6,815
Total	**1,024**	**72,485**	**37,290**	**30,062**	**140,861**

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

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

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

	2007	***2006***
Loans to customers		
Corporate lending	395,289	213,153
Small business lending	16,151	9,383
Micro customers loans	3,240	1,633
Total	**414,680**	**224,169**

Impairment assessment

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

Individually assessed allowances

The Bank determines the allowances appropriate for each individually significant loan on an individual basis. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and the expected dividend payout should bankruptcy ensue, the availability of other financial support and the realisable value of collateral, and the timing

(Thousands of US dollars)

of the expected cash flows. The impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

Collectively assessed allowances

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

The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is not yet objective evidence of the impairment in an individual assessment. Impairment losses are estimated by taking into consideration the following information: historical losses on the portfolio, current economic conditions, the appropriate delay between the time a loss is likely to have been incurred and the time it will be identified as requiring an individually assessed impairment allowance, and expected receipts and recoveries once impaired. Local management is responsible for deciding the length of this period that can extend for as long as one year. The impairment allowance is then reviewed by credit management to ensure alignment with the Bank's overall policy.

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

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

	2007				***2006***			
	Ukraine	***OECD***	***CIS and other foreign banks***	***Total***	***Ukraine***	***OECD***	***CIS and other foreign banks***	***Total***
Assets:								
Cash and cash equivalents	579,929	191,895	6,813	778,637	639,019	149,417	7,347	795,783
Trading securities	38,400	-	-	38,400	-	-	-	-
Amounts due from credit institutions	45,136	-	-	45,136	6,217	1,278	-	7,495
Loans to customers	7,247,727	-	-	7,247,727	4,094,437	-	-	4,094,437
Investment securities:								
-designated at fair value through profit or loss	198,289	-	-	198,289	74,232	-	-	74,232
- available-for-sale	262	-	-	262	262	-	-	262
- held-to-maturity	-	-	792	792	-	-	773	773
Other assets (monetary)	14,180	-	-	14,180	15,499			15,499
	8.123,923	**191,895**	**7,605**	**8,323,423**	**4,829,666**	**150,695**	**8,120**	**4,988,481**
Liabilities:								
Amounts due to the National Bank of Ukraine	-			-	501			501
Amounts due to credit institutions	177,455	2,670,042	13,298	2,860,795	169,921	1,109,811	25,475	1,305,207
Amounts due to customers	4,453,039			4,453,039	3,321,464			3,321,464
Debt securities issued	10,365	267,550	783	278,698				
Current income tax liabilities	-			-	5,824			5,824
Subordinated debt	-	68,154	-	68,154	-	70,590	-	70,590
Provisions (monetary)	19,263	-	-	19,263	1,869	-	-	1,869
Other liabilities (monetary)	65,466	-	-	65,466	34,731	-	-	34,731
	4,725,588	**3,005,746**	**14,081**	**7,745,415**	**3,533,809**	**1,180,401**	**25,475**	**4,739,685**
Net balance sheet position	**3,398,335**	**(2,813,851)**	**(6,476)**	**578,008**	**1,295,857**	**(1,029,706)**	**(17,355)**	**248,796**
Net off-balance sheet position	**305,601**			**305,601**	**204,927**			**204,927**

(Thousands of US dollars)

Liquidity Risk and Funding Management

Liquidity risk is the risk that the Bank will be unable to meet its payment obligations when they fall due under normal and stress circumstances. Liquidity risk includes the inability to manage the unplanned reduction or changes in funding sources. Liquidity risk also arises as a result of inability to identify or consider changes in the market conditions which affect the ability to promptly dispose of assets with the minimum loss of their value.

Liquidity management is aimed at achieving an adequate level of liquid assets and maintenance of a diversified resource base, as well as compliance with the banking laws and regulations relating to the management of liquidity risk. The Asset and Liability Management Committee approves the amount of lending facilities as part of the annual Bank's budget planning, as agreed upon and approved by RZB.

To ensure effective liquidity management, the Bank manages both assets and liabilities.

The main funding bases include the following:

– For Ukrainian hryvnia funding: non-banking (client) deposits supplemented by money market deposits and proceeds from bonds in local currency, focusing on the development of the client deposits base with a particular emphasis on retail deposits.

– For foreign currency funding: medium- and long-term banking credits (including credits from international financial organizations, such as IFC, EBRD, etc.) supplemented by non-banking deposits. A particular emphasis should also be placed on getting medium- and long-term funding from the private placement of bonds and securitization of assets (asset-backed securities).

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

	2007, %	***2006, %***
N4 "Instant Liquidity Ratio" (assets receivable or realisable within one day / liabilities repayable on demand) >=20%	34.24	50.09
N5 "Current Liquidity Ratio" (assets receivable or realisable within 30 days / liabilities repayable within 30 days) >=40%	47.72	50.44
N6 "Long-Term Liquidity Ratio" (assets receivable in more than one year / sum of capital and liabilities repayable in more than one year) >=20%	25.47	38.41

Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Bank's financial liabilities at 31 December 2007 and 2006 based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay and the table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

Financial liabilities As at 31 December 2007	***Less than 3 months***	***3 to 12 months***	***1 to 5 years***	***Over 5 years***	***Total***
Amounts due to credit institutions	621,176	564,805	1,655,119	200,000	3,041,100
Derivative financial instruments					
- Contractual amounts payable	-	(1,232)	(1,818)	-	(3,050)
- Contractual amounts receivable	113	-	-	-	113
Amounts due to customers	2,620,652	1,908,267	30,336	641	4,559,896
Subordinated debt	-	5,480	82,917	-	88,397
Debt securities issued	69,008	90,254	203,948	-	363,210
Other liabilities	48,357	-	-	-	48,357
Total undiscounted financial liabilities	**3,359,306**	**2,567,574**	**1,970,502**	**200,641**	**8,098,023**

(Thousands of US dollars)

Financial liabilities As at 31 December 2006	***Less than 3 months***	***3 to 12 months***	***1 to 5 years***	***Over 5 years***	***Total***
Amounts due to credit institutions	528,153	149,780	894,735	-	1,572,668
Amounts due to customers	1,721,816	1,618,317	117,997	3	3,458,133
Subordinated debt	-	6,846	92,851	-	99,697
Other liabilities	29,318	-	-	-	29.318
Total undiscounted financial liabilities	**2,279,287**	**1,774,943**	**1,105,583**	**3**	**5,130,527**

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

	Less than 3 months	***3 to 12 months***	***1 to 5 years***	***Over 5 years***	***Total***
2007	97,941	160,871	54,673	9	**313,494**
2006	109,337	58,072	43,770	3,012	**214,191**

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

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

Included in due to customers are term deposits of individuals. In accordance with Ukrainian legislation, the Bank is obliged to repay such deposits upon demand of a depositor. Refer to Note 19.

Market risk

Market risks are the risks related to potential losses due to fluctuations in various market factors (e.g. interest rates, exchange rates, etc.). The Bank's portfolios market risks are monitored using sensitivity analyses. Currency risk is controlled through the daily monitoring of the Bank's position in currency and precious metals.

Currently, the Bank does not calculate the Value at Risk to assess any market risks, however, it performs a monthly monitoring of VaR calculated by RZB based on data provided by the Market and Operational Risk Management Department. It is planned to implement an independent development and calculation of VaR-models in the future.

Interest rate risk

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

The sensitivity of the income statement is the effect of the assumed changes in interest rates on the net interest income for one year, based on the non-fixed rate non-trading financial assets and financial liabilities held at 31 December 2007 and 2006.

Currency	***Increase in basis points 2007***	***Sensitivity of net interest income 2007***	***Increase in basis points 2006***	***Sensitivity of net interest income 2006***
Euro	+75 bp	305	+150 bp	45
US dollars	+75 bp	(10,357)	+50 bp	(2,296)

(Thousands of US dollars)

Currency	***Decrease in basis points 2007***	***Sensitivity of net interest income 2007***	***Decrease in basis points 2006***	***Sensitivity of net interest income 2006***
Euro	-150 bp	(611)	-50 bp	(15)
US dollars	-125 bp	17,261	-100 bp	4,592

Currency risk

Currency risk is the risk of potential losses due to fluctuations in exchange rates. Currency risk is controlled by the Market and Operational Risk Management Department through daily monitoring of the Bank's currency position in all currencies and precious metals. There are limits (maximum amounts) on open currency positions in all currencies and metals and the general limit on the open position established by RZB.

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

The negative amounts in the table reflect the potentially possible decrease of the net interest income or equity, meanwhile the positive amounts reflect the potentially possible increase.

Currency	***Increase in currency rate in % 2007***	***Effect on profit before tax 2007***	***Increase in currency rate in % 2006***	***Effect on profit before tax 2006***
US dollars	+3.10%	3,749	+3.00%	2,296
Euro	+10.10%	(18,633)	+10.30%	(2,358)
Russian rouble	+7.60%	170	+7.90%	452

Currency	***Decrease in currency rate in % 2007***	***Effect on profit before tax 2007***	***Decrease in currency rate in % 2006***	***Effect on profit before tax 2006***
US dollars	-2.90%	(3,507)	-2.80%	(2,143)
Euro	-8.40%	15,497	-8.50%	1,946
Russian rouble	-6.60%	(147)	-6.80%	(389)

Prepayment risk

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

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

	10 % Mortgage	***Average mortgage interest rate***	***Time to reinvest, days***	***Average money market interest rate***	***Effect on net interest income***
2007	99,099	13.37%	60	2.90%	(1,729)
2006	31,615	13.75%	30	2.30%	(302)

(Thousands of US dollars)

Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks may cause damage to reputation, have legal or regulatory implications, or lead to financial loss. Currently, the Bank develops the operational risk controls. Controls include the effective segregation of duties, access rights, authorization procedures, staff training and assessment processes. Currently, the operational risks are considerably reduced due to more strict observance of technological processes requirements.

26. 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:

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

	Carrying value 2007	*Fair value 2007*	*Unrecognised gain/(loss) 2007*	*Carrying value 2006*	*Fair value 2006*	*Unrecognised gain/(loss) 2006*
Financial assets						
Cash and cash equivalents	778,637	778,637	-	795,783	795,783	-
Trading securities	38,400	38,400	-			-
Amounts due from credit institutions	45,136	45,136	-	7,495	7,495	-
Loans to customers	7,247,727	7,267,595	19,868	4,094,437	4,124,779	30,342
Investment securities:						
- available-for-sale	262	262	-	262	262	-
- held-to-maturity	792	792	-	773	773	-
Other assets	14,180	14,180	-	15,462	15,462	
Total	**8,125,134**	**8,145,002**	**19,868**	**4,914,212**	**4,944,554**	**30,342**
Financial liabilities						
Amounts due to National Bank and government	-	-	-	501	501	-
Amounts due to credit institutions	2,860,795	2,860,795	-	1,305,207	1,305,207	-
Amounts due to customers	4,453,039	4,453,530	(491)	3,321,464	3,323,960	(2,496)
Debt securities issued	278,698	278,698	-	-	-	-
Other liabilities	63,938	63,938	-	32,653	32,653	-
Total	**7,656,470**	**7,656,961**	**(491)**	**4,659,825**	**4,662,321**	**(2,496)**
Total unrecognised change in unrealised fair value			**19,377**			**27,846**

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

(Thousands of US dollars)

Assets for which fair value approximates carrying value

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

Fixed rate financial instruments

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

Financial instruments recorded at fair value

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

	Quoted market price 2007	***Valuation techniques – market observable inputs 2007***	***Total 2007***
Financial assets			
Derivative financial instruments	-	23	23
Trading securities	38,400	-	38,400
Investment securities – available-for-sale	-	262	262
Investment securities – designated at fair value through profit or loss	-	198,289	198,289
	38,400	**198,574**	**236,974**
Financial liabilities			
Derivative financial instruments		(12,198)	(12,198)
	-	**(12,198)**	**(12,198)**

	Quoted market price 2006	***Valuation techniques – market observable inputs 2006***	***Total 2006***
Financial assets			
Derivative financial instruments	-	14	14
Investment securities – available-for-sale	-	262	262
Investment securities – designated at fair value through profit or loss	-	74,232	74,232
	-	**74,508**	**74,508**

(Thousands of US dollars)

27. Maturity analysis of financial assets and financial liabilities

The table below shows an analysis of financial assets and liabilities according to when they are expected to be recovered or settled. See Note 25 "Risk management" for the Bank's contractual undiscounted repayment obligations.

	2007			*2006*		
	Within one year	*More than one year*	*Total*	*Within one year*	*More than one year*	*Total*
Financial assets						
Cash and cash equivalents	778,637	-	778,637	795,783	-	795,783
Trading securities	38 400	-	38,400	-	-	-
Amounts due from credit institutions	45,136	-	45,136	7,495	-	7 495
Derivative financial assets	23	-	23	14	-	14
Loans to customers	1,692,079	5,555,648	7,247,727	1,674,774	2,419,663	4,094,437
Investment securities:						
- designated at fair value through profit or loss	47 779	150 510	198 289	40 084	34 148	74 232
- available-for-sale	262	-	262	262	-	262
- held-to-maturity	792	-	792	-	773	773
Other assets	14,180	-	14,180	15,462	-	15,462
Total	2,617,288	5,706,,158	8,323,446	2,533,874	2,454,584	4,988,458
Financial liabilities						
Amounts due to NBU	-	-	-	501	-	501
Amounts due to credit institutions	1,093,002	1,767,793	2,860,795	584,559	720,648	1,305,207
Derivative financial liabilities	2,492	9,706	12,198			
Amounts due to customers	4,422,023	31,016	4,453,039	3,228,760	92,704	3,321,464
Debt securities issued	148,993	129,705	278,698	-	-	-
Other liabilities	63,938	-	63,938	32,653	-	32,653
Total	5,730,448	1,938,220	7,668,668	3,846,473	813,352	4,659,825
Net	**(3,113,160)**	**3,767,938**	**654,778**	**(1,312,599)**	**1,641,232**	**328,633**

28. 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.

(Thousands of US dollars)

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

	2007			***2006***		
	Parent	***Other affiliated entities***	***Key manage-ment personnel***	***Parent***	***Other affiliated entities***	***Key manage-ment personnel***
Loans outstanding at 1 January, gross	102,921	2,155	406	118,916	4,825	-
Loans issued during the year	2,955,228		74	2,491,360	95	472
Loan repayments during the year	(3,046,853)	(661)	(60)	(2,507,355)	(2,765)	(66)
Loans outstanding at 31 December, gross	11,296	1,494	420	102,921	2,155	406
Less: allowance for impairment at 31 December	-	(791)	-	-	(1,985)	-
Loans outstanding at 31 December net	11,296	703	420	102,921	170	406
Interest income on loans	2,976	91	37	3,030	173	-
Deposits at 1 January	1,026,577	29	14,677	173,091	20	14,940
Deposits received during the year	2,955,228		106,035	10,069,664	293	75,625
Deposits repaid during the year	(3,049,127)	(29)	(114,689)	(9,216,178)	(284)	(75,888)
Deposits at 31 December	932,678		6,023	1,026,577	29	14,677
Current accounts at 31 December	-	16	-	-	38	-
Interest expense on deposits	(81,807)	(6)	-	(32,652)	(3)	-
Commitments and guarantees issued	331	-		5,913	237	
Commitments and guarantees received	8,511	-		3,027	188	
Fee and commission income	33	3	-	9	10	-
Fee and commission expense	(3,401)	-		(3,131)	-	

The aggregate remuneration and other benefits paid to 8 members of the Management Board for 2007 is USD 4,256 thousand (2006 - USD 2,198 thousand paid to 8 members).

29. Capital adequacy

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

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

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

(Thousands of US dollars)

support its business and to maximise shareholders' value.

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

The NBU requires banks to maintain a capital adequacy ratio of 10% of risk-weighted assets (2006 - 10%), computed on the basis of UAR. At 31 December 2007, the Bank's capital adequacy ratio on this basis was 13.02% (2006 - 12.14%) and exceeded the statutory minimum.

NBU capital adequacy ratio

	2007	***2006***
Main capital	790	442
Additional capital	297	171
Less: deductions from capital	(3)	(4)
Total capital	**1,084**	**609**
Risk weighted assets	**8,326**	**5,021**
Capital adequacy ratio	13.02%	12.14%

Capital adequacy ratio under Basel Capital Accord 1988

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

	2007	***2006***
Tier 1 capital	901,273	462,374
Tier 2 capital	40,883	167,664
Total capital	**942,156**	**630,038**
Risk weighted assets	**6,263,799**	**3,636,029**
Tier 1 capital ratio	14.39%	12.72%
Total capital ratio	15.04%	17.33%