

JSIB UKRSIBBANK

**Consolidated Financial Statements and
Auditor's Report**

31 December 2006

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AUDITOR'S REPORT

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of JSIB UkrSibbank:

1 We have audited the accompanying consolidated financial statements of JSIB UkrSibbank and its subsidiaries (the "Bank") which comprise the consolidated balance sheet as at 31 December 2006 and the consolidated income statement, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

2 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 financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

3 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 financial statements are free from material misstatement.

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

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

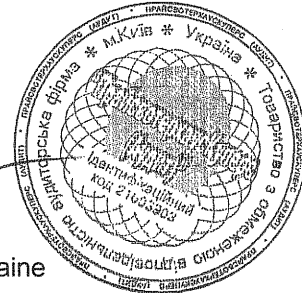
Opinion

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

LLC PricewaterhouseCoopers (Audit)

Kyiv, Ukraine
30 May 2007

Auditor L. Pakhucha
Audit certificate # 0000025 issued by the National Bank of Ukraine



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UKRSIBBANK
Consolidated Balance Sheet

	Note	31 December 2006	31 December 2005 (restated, Note 3)
<i>In thousands of Ukrainian hryvnias</i>			
ASSETS			
Cash and cash equivalents and mandatory reserves	7	1,639,159	991,950
Trading securities	8	499,105	749,726
Due from other banks	9	334,993	339,373
Loans and advances to customers	10	18,060,520	7,758,906
Investment securities available-for-sale	11	165,881	79,205
Investment securities held to maturity		-	19,045
Current income tax prepayment		279	-
Intangible assets	12	54,516	46,087
Premises, leasehold improvements and equipment	12	1,122,665	853,172
Deferred tax assets	27	9,065	-
Other assets	13	132,221	88,207
TOTAL ASSETS		22,018,404	10,925,671
LIABILITIES			
Due to other banks	14	6,710,969	1,122,024
Customer accounts	15	6,548,192	5,331,756
Due to the National Bank of Ukraine	16	198,000	17,033
Domestic debt securities in issue	17	1,352,420	847,835
Eurobonds issued	18	3,689,405	1,165,641
Other borrowed funds	19	433,062	1,019,162
Subordinated debt	20	729,096	276,895
Current income tax liability		9,098	1,762
Deferred income tax liability	27	51,367	47,737
Other liabilities	21	300,440	142,827
TOTAL LIABILITIES		20,022,049	9,972,672
EQUITY			
Share capital	22	2,693,684	1,693,684
Share premium		5,377	2,060
Additional capital		6,974	6,974
Revaluation reserve for investment securities available-for-sale		1,061	4,591
Currency translation reserve		518	(2,236)
Accumulated deficit		(711,259)	(755,351)
Net assets attributable to the Company's equity holders		1,996,355	949,722
Minority interest		-	3,277
TOTAL EQUITY		1,996,355	952,999
TOTAL LIABILITIES AND EQUITY		22,018,404	10,925,671

Approved for issue and signed on behalf of the Board of Directors on 30 May 2007.

 Oleksandr Adarich
 Chairman of the Board

 Ganna Samarina
 Head of Finance

UKRSIBBANK
Consolidated Income Statement

<i>In thousands of Ukrainian hryvnias</i>	Note	2006	2005 (restated, Note 3)
Interest income	23	1,688,813	841,239
Interest expense	23	(990,747)	(541,833)
Net interest income		698,066	299,406
Provision for loan impairment	9, 10	(248,193)	(11,392)
Net interest income after provision for loan impairment		449,873	288,014
(Losses net of gains)/gains less losses from trading securities		(17,337)	33,651
Gains less losses from disposal of investment securities available-for-sale		23,116	52,939
Gains less losses from trading in foreign currencies		56,551	123,141
Foreign exchange translation gains less losses/(losses net of gains)		72,761	(39,475)
Fee and commission income	24	373,600	126,331
Fee and commission expense	24	(35,769)	(14,593)
Losses on initial recognition of investment securities available-for-sale	11	(24,554)	-
Impairment of investment securities available-for-sale (Provision for)/reversal of provision for losses on credit related commitments	11	(2,613)	-
	31	(4,207)	2,175
Net premiums earned	26	97,235	43,227
Net claims incurred	26	(61,697)	(17,101)
Other operating income		6,442	4,652
Administrative and other operating expenses	25	(850,576)	(532,823)
Excess of the Bank's interest in the net fair value of subsidiary's identifiable assets, liabilities and contingent liabilities over cost	36	-	137
Gain on purchase of minority	36	-	2,065
Loss on disposal of subsidiaries		-	(706)
Profit before tax		82,825	71,634
Income tax expense	27	(42,246)	(23,882)
Profit for the year		40,579	47,752
Profit is attributable to			
Equity holders of the Company		44,092	47,477
Minority interest		(3,513)	275
Profit for the year		40,579	47,752
Earnings per share for profit attributable to the equity holders of the Company, basic and diluted (expressed in UAH per share)	28	0.0019	0.0037

The notes set out on pages 5 to 63 form an integral part of these consolidated financial statements.

UKRSIBBANK
Consolidated Statement of Changes in Equity

Note	Attributable to equity holders of the Company							Total	Minority interest	Total equity
	Share capital	Share premium	Additional capital	Revaluation reserve for investment securities available-for-sale	Revaluation reserve for equipment	Currency translation reserve	Accumulated deficit			
<i>In thousands of Ukrainian hryvnias</i>										
Balance at 31 December 2004	1,543,684	2,060	6,974	8,231	3,958	- (806,786)	758,121	9,382	767,503	
Available-for-sale investments:										
- Fair value gains less losses	11	-	-	48,086	-	-	48,086	-	48,086	
- Disposal of investment securities available-for-sale		-	-	(52,939)	-	-	(52,939)	-	(52,939)	
Premises and equipment:										
- Realised revaluation reserve		-	-	-	(5,277)	-	5,277	-	-	
Currency translation differences		-	-	-	-	(2,236)	(2,236)	(129)	(2,365)	
Income tax recorded in equity	27	-	-	1,213	1,319	-	(1,319)	1,213	1,213	
Net loss recognised directly in equity		-	-	(3,640)	(3,958)	(2,236)	3,958	(5,876)	(129)	(6,005)
Profit for the year (restated, Note 3)		-	-	-	-	-	47,477	47,477	275	47,752
Total recognised income for 2005 (restated, Note 3)		-	-	(3,640)	(3,958)	(2,236)	51,435	41,601	146	41,747
Share issue	22	150,000	-	-	-	-	-	150,000	-	150,000
Acquisition of subsidiaries	36	-	-	-	-	-	-	-	17,376	17,376
Purchase of minority		-	-	-	-	-	-	-	(16,878)	(16,878)
Disposal of subsidiaries	36	-	-	-	-	-	-	-	(6,793)	(6,793)
Change in share of ownership in subsidiaries		-	-	-	-	-	-	-	44	44
Balance at 31 December 2005 (restated, Note 3)		1,693,684	2,060	6,974	4,591	- (2,236)	(755,351)	949,722	3,277	952,999
Available-for-sale investments:										
- Fair value gains less losses		-	-	18,049	-	-	18,049	-	18,049	
- Disposal of investment securities available-for-sale		-	-	(23,116)	-	-	(23,116)	-	(23,116)	
Currency translation differences		-	-	-	-	2,754	2,754	28	2,782	
Income tax recorded in equity	27	-	-	1,177	-	-	1,177	-	1,177	
Net loss recognised directly in equity		-	-	(3,530)	-	2,754	-	(776)	28	(748)
Profit for the year		-	-	-	-	-	44,092	44,092	(3,513)	40,579
Total recognised income for 2006		-	-	(3,530)	-	2,754	44,092	43,316	(3,485)	39,831
Share issue	22	1,000,000	3,317	-	-	-	-	-1,003,317	-	-1,003,317
Change in share of ownership in subsidiaries		-	-	-	-	-	-	-	208	208
Balance at 31 December 2006		2,693,684	5,377	6,974	1,061	-	518 (711,259)	1,996,355	-	1,996,355

The notes set out on pages 5 to 63 form an integral part of these consolidated financial statements.

UKRSIBBANK
Consolidated Statement of Cash Flows

<i>In thousands of Ukrainian hryvnias</i>	Note	2006	2005
Cash flows from operating activities			
Interest received on loans and placements		1,528,630	813,231
Interest received on securities		70,717	39,194
Interest paid		(917,272)	(465,150)
Income received from trading in trading securities		1,100	17,793
Income received from trading in foreign currencies		56,551	119,972
Fees and commissions received		373,600	126,194
Fees and commissions paid		(35,769)	(14,593)
Insurance premiums received, net of reinsurance		154,860	69,954
Insurance claims paid, net of reinsurance		(30,488)	(11,869)
Other operating income received		6,442	4,652
Staff costs paid		(408,827)	(240,060)
Administrative and other operating expenses paid		(338,425)	(231,212)
Income tax paid		(39,346)	(15,849)
Cash flows from operating activities before changes in operating assets and liabilities		421,773	212,257
Changes in operating assets and liabilities			
Net decrease/(increase) in mandatory reserve balances		194,391	(158,552)
Net decrease/(increase) in trading securities		231,230	(457,926)
Net decrease/(increase) in due from other banks		12,660	(240,381)
Net increase in loans and advances to customers		(10,328,779)	(4,458,232)
Net decrease in guarantee deposits with the NBU		-	115,668
Net (increase)/decrease in other assets		(23,152)	1,871
Net increase in due to other banks		5,419,033	979,218
Net increase in customer accounts		1,166,106	2,127,787
Net increase/(decrease) in due to the NBU		180,967	(373,110)
Net (decrease)/increase in domestic debt securities in issue		(500)	19,342
Net increase in other liabilities		54,809	12,162
Net cash used in operating activities		(2,671,462)	(2,219,896)
Cash flows from investing activities			
Acquisition of investment securities available-for-sale		(807,406)	(128,639)
Proceeds from disposal of investment securities available-for-sale		704,211	289,546
Proceeds from redemption of investment securities held to maturity		18,861	29,016
Acquisition of premises, leasehold improvements, equipment and intangible assets		(375,723)	(534,915)
Proceeds from disposal of premises and equipment		6,567	6,870
Cash of subsidiary acquired, net of consideration paid	36	708	3,379
Cash of subsidiaries disposed, net of disposal proceeds		-	(204)
Cash paid on acquisition of minority	36	(16,807)	-
Net cash used in investing activities		(469,589)	(334,947)
Cash flows from financing activities			
Issue of long-term domestic debt securities		555,034	792,809
Redemption of long-term domestic debt securities		(50,000)	-
Issue of Eurobonds		2,514,185	631,875
Proceeds from other borrowed funds		618,363	1,020,412
Repayment of other borrowed funds		(1,209,432)	-
Issue of subordinated debt		442,809	202,100
Issue of ordinary shares		1,003,317	150,000
Net cash from financing activities		3,874,276	2,797,196
Effect of exchange rate changes on cash and cash equivalents		108,375	(27,445)
Net increase in cash and cash equivalents		841,600	214,908
Cash and cash equivalents at the beginning of the year		614,498	399,590
Cash and cash equivalents at the end of the year	7	1,456,098	614,498

The notes set out on pages 5 to 63 form an integral part of these consolidated financial statements.

1 Introduction

These financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2006 for Joint-Stock Innovation Bank UKRSIBBANK ("UkrSibbank" or the "Company") and its subsidiaries and special purpose entities (together referred to as the "Bank").

UkrSibbank was incorporated and is domiciled in Ukraine. UkrSibbank is a joint stock company limited by shares and was set up in accordance with Ukrainian regulations.

In December 2005 BNP Paribas SA signed a share purchase agreement for the purchase of 51% of the outstanding shares of UkrSibbank. In January 2006 the Antimonopoly Committee of Ukraine provided permission to BNP Paribas SA for acquisition of 51% of the share capital of the Company. In February and March 2006, shareholders of the Company (3 legal entities and 2 individuals) sold part of their shares to BNP Paribas S.A. In April 2006 the National Bank of Ukraine provided preliminary permission to BNP Paribas SA for acquisition of 51% of the share capital of the Company. In April 2006 51% of the outstanding shares of UkrSibbank were transferred to BNP Paribas SA which became the parent company of UkrSibbank.

Principal activity. UkrSibbank operates under a banking license issued by the National Bank of Ukraine (the "NBU"). UkrSibbank's principal business activity is commercial and retail banking operations within Ukraine. UkrSibbank was formed in 1990 as Commercial Innovation Bank Kharkovincomebank and registered by Gosbank of USSR. In 1991 UkrSibbank was reorganised as an open-type joint-stock company and registered by the NBU. In 1992 it was renamed as UKRSIBBANK.

As at 31 December 2006 UkrSibbank has 12 branches and 992 outlets in Ukraine (2005: 20 branches and 796 outlets). Additionally, UkrSibbank has representative offices in Kyiv and Kharkiv (Ukraine) and a subsidiary bank in Russia. A list of consolidated subsidiaries and special purpose entities is disclosed in Note 35.

The Bank's subsidiary, Closed Joint-Stock Insurance Company "Ukrainian Insurance Alliance" is engaged mainly in vehicle insurance, property insurance and insurance against accidents.

Registered address and place of business. UkrSibbank's registered office is located at the following address:

60 Moskovsky Ave.
61005, Kharkiv
Ukraine.

UkrSibbank's principal place of business is located at the following address:

2/12 Andreyevskaya Str.
Kyiv
Ukraine.

Presentation currency. These financial statements are presented in thousands of Ukrainian hryvnias ("UAH thousands").

2 Operating Environment of the Bank

Whilst there have been improvements in economic trends in the country, Ukraine continues to display certain characteristics of an emerging market. These characteristics include, but are not limited to, the existence of a currency that is not freely convertible outside of Ukraine, restrictive currency controls, and inflation of 11.6% for the year ended 31 December 2006 (2005: 10.3%). The tax, currency and customs legislation within Ukraine is subject to varying interpretations and changes, which can occur frequently.

The future economic direction of Ukraine is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory, and political developments.

The banking sector in Ukraine is particularly sensitive to adverse fluctuations in confidence and economic conditions. Furthermore, the need for further developments in the anti-money laundering legislation, bankruptcy laws, formalised procedures for the registration and enforcement of collateral, and other legal and fiscal impediments contribute to the difficulties experienced by banks currently operating in Ukraine.

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

3 Basis of Preparation and Significant Accounting Policies

Basis of Preparation. These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention, as modified by the revaluation of trading securities, derivatives and available-for-sale financial assets. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated (refer to Note 5, Adoption of New or Revised Standards and Interpretations).

Consolidated financial statements. Subsidiaries are those companies and other entities (including special purpose entities) in which the Bank, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies so as to obtain benefits. The existence and effect of potential voting rights that are presently exercisable or presently convertible are considered when assessing whether the Bank controls another entity. Subsidiaries are consolidated from the date on which control is transferred to the Bank (acquisition date) and are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. The date of exchange is the acquisition date where a business combination is achieved in a single transaction, and is the date of each share purchase where a business combination is achieved in stages by successive share purchases.

The excess of the cost of acquisition over the acquirer's share of the fair value of the net assets of the acquiree at each exchange transaction is recorded as goodwill. The excess of the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired over cost ("negative goodwill") is recognised immediately in profit or loss.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any minority interest. The difference, if any, between the fair values of the net assets at the dates of exchange and at the date of acquisition is recorded directly in equity.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. The Company and all of its subsidiaries use uniform accounting policies consistent with the Bank's policies.

Minority interest is that part of the net results and of the net assets of a subsidiary attributable to interests which are not owned, directly or indirectly, by the Company. Minority interest forms a separate component of the Bank's equity.

Purchases and sales of minority interests. The Bank applies the parent company model to account for transactions with minority shareholders. Any difference between the purchase consideration and the carrying amount of minority interest acquired is recognised as goodwill. The difference between sales consideration and carrying amount of minority interest sold is recognised as a gain in the consolidated income statement.

Key measurement terms. Depending on their classification financial instruments are carried at fair value, cost, or amortised cost as described below.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Fair value is the current bid price for financial assets and current asking price for financial liabilities which are quoted in an active market. For assets and liabilities with offsetting market risks, the Bank may use mid-market prices as a basis for establishing fair values for the offsetting risk positions and apply the bid or asking price to the net open position as appropriate. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange or other institution and those prices represent actual and regularly occurring market transactions on an arm's length basis.

In other than active markets, the most recent arms length transactions are the basis of current fair values. Recent transaction prices are appropriately adjusted if they do not reflect current fair values, for example because the transaction was a distress sale. Fair value is not the amount that an entity would receive or pay in a forced transaction, involuntary liquidation or distress sale.

Valuation techniques such as discounted cash flows models or models based on recent arm's length transactions and consideration of financial data of the investees are used to fair value certain financial instruments for which external market pricing information is not available. Valuation techniques may require assumptions not supported by observable market data. Disclosures are made in these financial statements if changing any such assumptions to a reasonably possible alternative would result in significantly different profit, income, total assets or total liabilities.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition and includes *transaction costs*. Measurement at cost is only applicable to investments in equity instruments that do not have a quoted market price and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments.

3 Basis of Preparation and Significant Accounting Policies (Continued)

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Amortised cost is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination if any), are not presented separately and are included in the carrying values of related balance sheet items.

The effective interest method is a method of allocating interest income or interest expense over the relevant period so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest reprising date except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (refer to income and expense recognition policy).

Initial recognition of financial instruments. Trading securities and derivatives are initially recorded at fair value. All other financial instruments are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date that the Bank commits to deliver a financial asset. All other purchases and sales are recognised on the settlement date with the change in value between the commitment date and settlement date not recognised for assets carried at cost or amortised cost; recognised in profit or loss for trading securities, derivatives and other financial assets at fair value through profit or loss; and recognised in equity for assets classified as available-for-sale.

Cash and cash equivalents. Cash and cash equivalents are items which can be converted into cash at short notice and which are subject to an insignificant risk of changes in value. All short term interbank placements, other than overnight placements, are included in due from other banks. Amounts, which relate to funds that are of a restricted nature, are excluded from cash and cash equivalents. Cash and cash equivalents are carried at amortised cost.

Mandatory reserve balances. Mandatory reserve balances are carried at amortised cost and represent non-interest bearing mandatory reserve assets which are not available to finance the Bank's day to day operations and hence are not considered as part of cash and cash equivalents for the purposes of the consolidated cash flow statement.

Trading securities. Trading securities are securities, which are either acquired for generating a profit from short-term fluctuations in price or trader's margin, or are securities included in a portfolio in which a pattern of short-term trading exists. The Bank classifies securities into trading securities if it has an intention to sell them within a short period after purchase, i.e. within 3 months. Trading securities are not reclassified out of this category even when the Bank's intentions subsequently change.

Trading securities are carried at fair value. Interest earned on trading debt securities calculated using the effective interest method is presented in the consolidated income statement as interest income. All other elements of the changes in the fair value and gains or losses on derecognition are recorded in profit or loss as gains less losses from trading securities in the period in which they arise.

Due from other banks. Amounts due from other banks are recorded when the Bank advances money to counterparty banks with no intention of trading the resulting unquoted non-derivative receivable due on fixed or determinable dates. Amounts due from other banks are carried at amortised cost.

Loans and advances to customers. Loans and advances to customers are recorded when the Bank advances money to purchase or originate an unquoted non-derivative receivable from a customer due on fixed or determinable dates and has no intention of trading the receivable. Loans and advances to customers are carried at amortised cost.

3 Basis of Preparation and Significant Accounting Policies (Continued)

Impairment of financial assets carried at amortised cost. Impairment losses are recognised in profit or loss when incurred as a result of one or more events (“loss events”) that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If the Bank determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors’ ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets and the experience of management in respect of the extent to which amounts will become overdue as a result of past loss events and the success of recovery of overdue amounts. Past experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods and to remove the effects of past conditions that do not exist currently.

Impairment losses are recognised through an allowance account to write down the asset’s carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the effective interest rate of the asset. 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.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor’s credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account through profit or loss.

Uncollectible assets are written off against the related impairment loss provision after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined.

Credit related commitments. In the normal course of business, the Bank enters into credit related commitments, including commitments to extend credit, underwriting commitments, letters of credit, guarantees and promissory note endorsements. Financial guarantees represent irrevocable assurances to make payments in the event that a customer cannot meet its obligations to third parties and carry the same credit risk as loans. Financial guarantees and commitments to provide a loan are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the commitment, except for commitments to originate loans if it is probable that the Bank will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination; such loan commitment fees are deferred and included in the carrying value of the loan on initial recognition. At each balance sheet date, the commitments are measured at the higher of (i) the unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the commitment at the balance sheet date.

Investment securities available-for-sale. This classification includes investment securities which the Bank intends to hold for an indefinite period of time and which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. The Bank classifies investments as available-for-sale at the time of purchase.

Investment securities available-for-sale are carried at fair value. Interest income on available-for-sale debt securities is calculated using the effective interest method and recognised in profit or loss. Dividends on available-for-sale equity instruments are recognised in profit or loss when the Bank’s right to receive payment is established. All other elements of changes in the fair value are deferred in equity until the investment is derecognised or impaired, at which time the cumulative gain or loss is removed from equity to profit or loss.

Impairment losses are recognised in profit or loss when incurred as a result of one or more events (“loss events”) that occurred after the initial recognition of investment securities available-for-sale. A significant or prolonged decline in the fair value of an equity security below its cost is an indicator that it is impaired. The cumulative impairment loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss. Impairment losses on equity instruments are not reversed through profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through current period’s profit or loss.

Sale and repurchase agreements and lending of securities. Sale and repurchase agreements (“repo agreements”) are treated as secured financing transactions. Securities sold under sale and repurchase agreements are not derecognised. The securities are not reclassified in the balance sheet unless the transferee has the right by contract or custom to sell or repledge the securities, in which case they are reclassified as repurchase receivables. The corresponding liability is presented within amounts due to other banks or customer accounts.

Securities purchased under agreements to resell (“reverse repo agreements”) are recorded as due from other banks or loans and advances to customers, as appropriate. The difference between the sale and repurchase price is treated as interest income and accrued over the life of repo agreements using the effective interest method.

3 Basis of Preparation and Significant Accounting Policies (Continued)

Securities lent to counterparties are retained in the consolidated financial statements in their original balance sheet category unless the counterparty has the right by contract or custom to sell or repledge the securities, in which case they are reclassified and presented separately. 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 in profit or loss within gains less losses arising from trading securities.

Investment securities held to maturity. This classification includes quoted non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank has both the intention and ability to hold to maturity. Management determines the classification of investment securities held to maturity at their initial recognition and reassesses the appropriateness of that classification at each balance sheet date. Investment securities held to maturity are carried at amortised cost.

Promissory notes purchased. Promissory notes purchased are included in trading securities, investment securities available-for-sale or in loans and advances to customers, depending on their substance and are recorded, subsequently remeasured and accounted for in accordance with the accounting policies for these categories of assets.

Derecognition of financial assets. The Bank derecognises financial assets when (i) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (ii) the Bank has transferred substantially all the risks and rewards of ownership of the assets or (iii) the Bank has neither transferred nor retained substantially all risks and rewards of ownership but has not retained control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

Goodwill. Goodwill represents the excess of the cost of an acquisition over the fair value of the acquirer's share of the identifiable assets, liabilities and contingent liabilities of the acquired subsidiary at the date of exchange. Goodwill is carried at cost less accumulated impairment losses, if any.

The Bank tests goodwill for impairment at least annually and whenever there are indications that goodwill may be impaired. Goodwill is allocated to the cash-generating units, or group of cash-generating units, that are expected to benefit from the synergies of the business combination. Such units or group of units represent the lowest level at which the Bank monitors goodwill and are not larger than a segment. Gains or losses on disposal of an operation within a cash generating unit to which goodwill has been allocated include the carrying amount of goodwill associated with the operation disposed of, generally measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit which is retained.

Premises, leasehold improvements and equipment. Premises, leasehold improvements and equipment are stated at cost, restated to the equivalent purchasing power of the Ukrainian hryvnia at 31 December 2000 for assets acquired prior to 1 January 2001, less accumulated depreciation and provision for impairment, where required. Cost of premises, leasehold improvements and equipment of acquired subsidiaries is the fair value at the date of acquisition.

Construction in progress is carried at cost, restated to the equivalent purchasing power of the Ukrainian hryvnia at 31 December 2000 for assets acquired prior to 1 January 2001, less provision for impairment where required. Upon completion, assets are transferred to premises and leasehold improvements, at their carrying amount. Construction in progress is not depreciated until the asset is available for use.

Costs of minor repairs and maintenance are expensed when incurred. Cost of replacing major parts or components of premises and equipment items are capitalised and the replaced part is retired.

If impaired, premises, leasehold improvements and equipment are written down to the higher of their value in use and fair value less costs to sell. The decrease in carrying amount is charged to profit or loss. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

The Bank previously owned an aircraft which was carried at a revalued amount. The aircraft was sold during 2005 and the revaluation surplus previously recorded in equity in respect of this item was transferred to retained earnings.

Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in profit or loss.

Depreciation. Depreciation of premises, leasehold improvements and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives as follows:

Premises	30 years
Office and computer equipment	5-15 years
Motor vehicles	5 years
Leasehold improvements	Over the term of the underlying lease

3 Basis of Preparation and Significant Accounting Policies (Continued)

The residual value of an asset is the estimated amount that the Bank would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The residual value of an asset is nil if the Bank expects to use the asset until the end of its physical life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Intangible assets. All of the Bank's intangible assets have definite useful life and primarily include capitalised computer software.

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Development costs that are directly associated with identifiable and unique software controlled by the Bank are recorded as intangible assets if inflow of incremental economic benefits exceeding costs is probable. Capitalised costs include staff costs of the software development team and an appropriate portion of relevant overheads. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred. Capitalised computer software is amortised on a straight line basis over expected useful lives of 3 years.

Operating leases. Where the Bank is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Bank, the total lease payments, including those on expected termination, are charged to profit or loss on a straight-line basis over the period of the lease.

Finance leases. Where the Bank is a lessor in a lease which transfers substantially all the risks and rewards incidental to ownership to the lessee, the assets leased out are presented as a finance lease receivable and carried at the present value of the future lease payments. Finance lease receivables are initially recognised at commencement (when the lease term begins) using a discount rate determined at inception (the earlier of the date of the lease agreement and the date of commitment by the parties to the principal provisions of the lease).

The difference between the gross receivable and the present value represents unearned finance income. This income is recognised over the term of the lease using the net investment method (before tax), which reflects a constant periodic rate of return. Incremental costs directly attributable to negotiating and arranging the lease are included in the initial measurement of the finance lease receivable and reduce the amount of income recognised over the lease term. Finance income from leases is recorded within interest income in the consolidated income statement.

Impairment losses are recognised in profit or loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of finance lease receivables. Impairment losses are recognised through an allowance account to write down the receivables' net carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the interest rates implicit in the finance leases. The estimated future cash flows reflect the cash flows that may result from obtaining and selling the assets subject to the lease.

Where the Bank is a lessee in a lease which transferred substantially all the risks and rewards incidental to ownership to the Bank, the assets leased are capitalised in premises, leasehold improvements and equipment at the commencement of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of future finance charges, are included in other liabilities. The interest cost is charged to the income statement over the lease period using the effective interest method. The assets acquired under finance leases are depreciated over their useful life or the shorter lease term if the Bank is not reasonably certain that it will obtain ownership by the end of the lease term.

Due to other banks. Amounts due to other banks are recorded when money or other assets are advanced to the Bank by counterparty banks. The non-derivative liability is carried at amortised cost. If the Bank purchases its own debt, it is removed from the consolidated balance sheet and the difference between the carrying amount of the liability and the consideration paid is included in gains or losses arising from retirement of debt.

Customer accounts. Customer accounts are non-derivative liabilities to individuals, state or corporate customers and are carried at amortised cost.

Domestic debt securities in issue. Domestic debt securities in issue include bonds, promissory notes and certificates of deposit issued by the Bank. Domestic debt securities are stated at amortised cost. If the Bank purchases its own debt securities in issue, they are removed from the consolidated balance sheet and the difference between the carrying amount of the liability and the consideration paid is included in gains arising from retirement of debt.

Eurobonds issued. Eurobonds issued include debt issued by the Bank in the form of loan participation notes. Eurobonds issued are stated at amortised cost. If the Bank purchases its Eurobonds issued, they are removed from the consolidated balance sheet and the difference between the carrying amount of the liability and the consideration paid is included in gains arising from retirement of debt.

3 Basis of Preparation and Significant Accounting Policies (Continued)

Other borrowed funds. Other borrowed funds include trade financing received from non-banking financial institutions and Government institutions. Other borrowed funds are carried at amortised cost.

Subordinated debt. Subordinated debt represents long-term borrowing agreements that, in case of the Bank's default, would be secondary to the Bank's primary debt obligations. Subordinated debt is carried at amortised cost.

Insurance reserves. Insurance reserves include provision for unearned premiums, outstanding claims provision, provision for losses incurred but not yet reported and unexpired risk provision. Provision for unearned premiums represents the proportion of premiums written in the year that relate to unexpired terms of policies in force as at the balance sheet date, calculated on a time apportionment basis. Outstanding claims provision is recorded in respect of claims reported, but not settled as at the balance sheet date. The estimation is made on the basis of information received by the Bank during investigation of insurance cases after the balance sheet date. Provision for losses incurred but not yet reported is actuarially determined and includes assumptions based on prior years' claims and claims handling experience. Outstanding claims provision and provision for losses incurred but not yet reported represent the accumulation of estimates for ultimate losses and are estimated on an undiscounted basis due to the relatively quick pattern of claims notification and payment. The methods of determining such estimates and establishing the resulting provisions are continually reviewed and updated. Resulting adjustments are reflected in the consolidated income statement as they arise. Unexpired risk provision is recognised when unearned premiums are insufficient to meet claims and expenses, which may be incurred after the end of the financial year. To estimate the unexpired risk provision the Bank uses historical experience and forward looking assumptions of ultimate loss ratios (including claims handling expenses) and the level of in-force portfolio maintenance expenses. The expected claims are calculated having regard to events that have occurred prior to the balance sheet date.

Reinsurance. The Bank cedes insurance in the normal course of business. Ceded insurance contracts do not relieve the Bank from its obligations to policyholders. Reinsurance assets include balances due from reinsurance companies for paid claims, including claims handling expenses. Amounts recoverable from reinsurers are estimated in a manner consistent with the claim liability associated with the reinsured policy.

Derivative financial instruments. Derivative financial instruments, including foreign exchange contracts, are carried at their fair value.

All derivative instruments are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of derivative instruments are included in profit or loss as gains less losses arising from trading in foreign currency and gains less losses arising from trading securities depending on the related contracts. The Bank does not apply hedge accounting.

Income taxes. Income taxes have been provided for in the consolidated financial statements in accordance with legislation enacted or substantively enacted by the balance sheet date. The income tax charge comprises current tax and deferred tax and is recognised in the consolidated income statement except if it is recognised directly in equity because it relates to transactions that are also recognised, in the same or a different period, directly in equity.

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxable profits or losses are based on estimates if financial statements are authorised prior to filing relevant tax returns. Taxes, other than on income, are recorded within administrative and other operating expenses.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax liabilities are not recorded for temporary differences on initial recognition of goodwill and subsequently for goodwill which is not deductible for tax purposes. Deferred tax balances are measured at tax rates enacted or substantively enacted at the balance sheet date which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets and liabilities are netted only within the individual companies of the consolidated group. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

Deferred income tax is not provided on post acquisition retained earnings of subsidiaries, as the Bank controls the subsidiary's dividend policy and it is probable that the difference will not reverse through dividends or otherwise in the foreseeable future.

Uncertain tax positions. The Bank's uncertain tax positions are reassessed by management at every balance sheet date. Liabilities are recorded for income tax positions that are determined by management as less likely than not to be sustained if challenged by tax authorities, based on the interpretation of tax laws that have been enacted or substantively enacted by the balance sheet date. Liabilities for penalties, interest and taxes other than on income are recognised based on management's best estimate of the expenditure required to settle the obligations at the balance sheet date.

3 Basis of Preparation and Significant Accounting Policies (Continued)

Provisions for liabilities and charges. Provisions for liabilities and charges are non-financial liabilities of uncertain timing or amount. They are accrued when the Bank has a present legal or constructive obligation as a result of past events, 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 the obligation can be made.

Trade and other payables. Trade payables are accrued when the counterparty performed its obligations under the contract and are carried at amortised cost.

Share premium. Share premium represents the excess of contributions over the nominal value of the shares issued.

Dividends. Dividends are recorded in equity in the period in which they are declared. Dividends declared after the balance sheet date and before the financial statements are authorised for issue are disclosed in the subsequent events note. The statutory accounting reports of the Company are the basis for profit distribution and other appropriations. Ukrainian legislation identifies the basis of distribution as retained earnings.

Income and expense recognition. Interest income and expense are recorded in the consolidated income statement for all debt instruments on an accrual basis using the effective interest method. This method defers, as part of interest income or expense, all fees paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Fees integral to the effective interest rate include origination fees received or paid by the entity relating to the creation or acquisition of a financial asset or issuance of a financial liability, for example fees for evaluating creditworthiness, evaluating and recording guarantees or collateral, negotiating the terms of the instrument and for processing transaction documents. Commitment fees received by the Bank to originate loans at market interest rates are integral to the effective interest rate if it is probable that the Bank will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination. The Bank does not designate loan commitments as financial liabilities at fair value through profit or loss.

When loans and other debt instruments become doubtful of collection, they are written down to present value of expected cash inflows and interest income is thereafter recorded for the unwinding of the present value discount based on the asset's effective interest rate which was used to measure the impairment loss.

All other fees, commissions and other income and expense items are generally recorded on an accrual basis by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided. Loan syndication fees are recognised as income when the syndication has been completed and the Bank retained no part of the loan package for itself or retained a part at the same effective interest rate for the other participants.

Commissions and fees arising from negotiating, or participating in the negotiation of a transaction for a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses, which are earned on execution of the underlying transaction are recorded on its completion. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-proportion basis. Asset management fees related to investment funds are recorded rateably over the period the service is provided. The same principle is applied for wealth management, financial planning and custody services that are continuously provided over an extended period of time.

Acquisition costs. Acquisition costs, representing commissions, salaries and certain other underwriting expenses, which vary with and are incurred in connection with the acquisition or renewal of insurance policies, are expensed as incurred.

Insurance income. Upon inception of a contract, premiums are recorded as written and a corresponding provision for unearned premiums is recorded. This provision is released to income as premiums are earned on a pro-rata basis over the term of the related policy coverage.

Claims paid. Claims and claims handling expenses are charged to the consolidated income statement when funds are transferred to the claimants. In addition, provisions are created through profit or loss for outstanding claims and claims incurred but not reported. Refer to the insurance reserves policy.

Foreign currency translation. The functional currency of each of the Bank's consolidated entities is the currency of the primary economic environment in which the entity operates. The Company's functional currency and the Bank's presentation currency is the national currency of Ukraine, Ukrainian hryvnias ("UAH").

Monetary assets and liabilities are translated into each entity's functional currency at the official exchange rate at the respective balance sheet dates. Foreign exchange gains and losses resulting from the settlement of the transactions and from the translation of monetary assets and liabilities into each entity's functional currency at year-end official exchange rates are recognised in profit or loss. Translation at year-end rates does not apply to non-monetary items, including equity investments. Effects of exchange rate changes on the fair value of equity securities are recorded as part of the fair value gain or loss.

3 Basis of Preparation and Significant Accounting Policies (Continued)

The results and financial position of each group entity (functional currency of none of which is a currency of a hyperinflationary economy) are translated into the presentation currency as follows:

- (i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- (ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- (iii) all resulting exchange differences are recognised as a separate component of equity.

When a subsidiary is disposed of through sale, liquidation, repayment of share capital or abandonment of all, or part of, that entity, the exchange differences deferred in equity are reclassified to profit or loss.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

The principal rates of exchange used for translating foreign currency balances were:

	31 December 2006, UAH	31 December 2005, UAH
1 US dollar (USD)	5.050000	5.050000
1 euro (EUR)	6.650850	5.971625
1 Russian Rouble (RUB)	0.191790	0.175410

Exchange restrictions and controls exist relating to converting Ukrainian hryvnia into other currencies. At present, Ukrainian hryvnia is not a freely convertible currency outside Ukraine.

Fiduciary activities. Assets and liabilities held by the Bank in its own name, but on the account of third parties, are not reported on the consolidated balance sheet. The extent of such balances and transactions is indicated in Note 31. For the purposes of disclosure, fiduciary activities do not encompass safe custody functions. Commissions received from fiduciary activities are included in fee and commission income.

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

Accounting for the effects of hyperinflation. Ukraine has previously experienced relatively high levels of inflation and was considered to be hyperinflationary as defined by IAS 29 "Financial Reporting in Hyperinflationary Economies" ("IAS 29"). IAS 29 requires that the financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date. It states that reporting operating results and financial position in the local currency without restatement is not useful because money loses purchasing power at such a rate that the comparison of amounts from transactions and other events that have occurred at different times, even within the same accounting period, is misleading.

The characteristics of the economic environment of Ukraine indicate that hyperinflation has ceased effective from 1 January 2001. Restatement procedures of IAS 29 are therefore only applied to assets acquired or revalued and liabilities incurred or assumed prior to that date. For these balances, the amounts expressed in the measuring unit current at as 31 December 2000 are the basis for the carrying amounts in these consolidated financial statements. This restatement was prepared by indexing the historical balances by changes in the general price index up to 31 December 2000.

Staff costs and related contributions. Wages, salaries, contributions to the state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits are accrued in the year in which the associated services are rendered by the employees of the Bank.

Segment reporting. A segment is a distinguishable component of the Bank that is engaged either 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. Segments with a majority of revenue earned from sales to external customers and whose revenue, result or assets are ten percent or more of all the segments are reported separately.

3 Basis of Preparation and Significant Accounting Policies (Continued)

Restatement of previously reported balances. During 2006 the Bank has determined that the amount of provision raised in respect of unused vacations as at 31 December 2005 was significantly lower than the amount of existing liability. As a result of this error other liabilities as at 31 December 2005 were understated by UAH 8,959 thousand, deferred tax liability was overstated by UAH 2,240 thousand, profit for 2005 was overstated by UAH 6,719 thousand and accumulated deficit as at 31 December 2005 was understated by the same amount. Profit for 2005 and accumulated deficit as at 31 December 2005 have been restated to reflect the correction of this error in accordance with International Accounting Standard 8 "Accounting Policies, Changes in Accounting Estimates and Errors". The staff costs in the consolidated statement of income for the year ended 31 December 2005 have been increased by UAH 8,959 thousand, income tax expense has been decreased by UAH 2,240 thousand and earnings per share decreased by UAH 0.0005 per share.

In addition, during 2006 the Bank has determined that it did not recognise the purchase of a minority share in its Russian subsidiary, Commercial Bank "UkrSibbank" LLC, after entering into agreement with minority shareholders in March 2005. As a result, other liabilities as at 31 December 2005 were understated by UAH 15,211 thousand, negative balance of currency translation reserve was understated by UAH 1,244 thousand, minority interest was overstated by UAH 14,725 thousand, profit for 2005 was understated by UAH 1,667 thousand and accumulated deficit as at 31 December 2005 was overstated by UAH 758 thousand. The comparative figures as at 31 December 2005 have been restated to reflect this revision in accordance with International Accounting Standard 8 "Accounting Policies, Changes in Accounting Estimates and Errors". The following adjustments have been recorded in the consolidated statement of income for the year ended 31 December 2005: the interest expense has been increased by UAH 1,543 thousand, foreign exchange translations gain was increased by UAH 1,145 thousand, the Bank recognised gain on acquisition of minority of UAH 2,065 thousand and earnings per share increased by UAH 0.0001 per share.

Any further changes to these financial statements require approval of the Board of Directors who authorised these financial statements for issue.

4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Impairment losses on loans and advances. The Bank regularly reviews its loan portfolios to assess impairment. In determining whether an impairment loss should be recorded in the income statement, the Bank makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include 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 Bank or national or local economic conditions that correlate with defaults on assets in the Bank. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. To the extent that the assessed delay in repayment of principal on 5% of the total loans and advances to customers differs by +/- one month, the provision would be approximately UAH 9,948 thousand (31 December 2005: UAH 6,977 thousand) higher or UAH 9,948 thousand (31 December 2005: UAH 6,977 thousand) lower.

Fair value of derivatives. The fair values of financial derivatives that are not quoted in active markets are determined by using valuation techniques. To the extent practical, techniques use only observable data, however areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair values. Changing the assumptions not supported by observable market data to a reasonably possible alternative would not result in a significantly different profit, income, total assets or total liabilities.

Finance leases and derecognition of financial assets. Management applies judgement to determine if substantially all the significant risks and rewards of ownership of financial assets and lease assets are transferred to counterparties, in particular which risks and rewards are the most significant and what constitutes substantially all risks and rewards.

Special Purpose Entities. Judgement is also required to determine whether the substance of the relationship between the Bank and a special purpose entity indicates that the special purpose entity is controlled by the Bank.

The Bank does not consolidate SPEs that it does not control. As it can sometimes be difficult to determine whether the Bank does control an SPE, Management makes judgements about its exposure to the risks and rewards, as well as about its ability to make operational decisions for the SPE in question. In many instances, elements are present that, considered in isolation, may indicate control or lack of control over an SPE, but when considered together make it difficult to reach a clear conclusion. In such cases, the SPE is consolidated.

Were the Bank not to consolidate the assets, liabilities and the results of these consolidated SPEs, the net effect on the balance sheet would be a increase in net assets by UAH 1,162 thousand (2005: decrease in net assets by UAH 3,040 thousand) and increase in results by UAH 508 thousand (2005: decrease in results by UAH 557 thousand).

Recognition of financial instruments. Management applies judgement to determine whether financial asset and financial liability should be recognised in the transaction where the counterparty for both asset and liability is the same. No asset and liability is recognised in the balance sheet where the arrangement is for the same amount and with the same maturity, unless there is a substantial business purpose for such an arrangement.

Tax legislation. Ukrainian tax, currency and customs legislation is subject to varying interpretations. Refer to Note 31.

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

4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies (Continued)

Revenue recognition. In February 2006 the Bank introduced a new service which was offered to clients who apply for a loan. Clients were offered to open a current account, to which loan funds would be transferred. Such account could be used by the client for loan drawdown and for any other personal purpose. Every time funds are drawn down from such current account, the Bank charges a certain level of commission. Such service is not obligatory and was introduced for the convenience of the Bank's clients. Clients of the Bank have an alternative to receive loan funds in cash, thus avoiding payment of such commission. As such, the Bank believes, that such type of commission is not part of the effective interest rate of the loan but represents a settlement fee and should be recognised as services are provided. Total amount of such commission for 2006 was approximately UAH 116 million.

5 Adoption of New or Revised Standards and Interpretations

Certain new IFRSs became effective for the Bank from 1 January 2006. Listed below are those new or amended standards or interpretations which are or in the future could be relevant to the Bank's operations and the nature of their impact on the Bank's accounting policies. All changes in accounting policies were applied retrospectively with adjustments made to the retained earnings at 1 January 2005, unless otherwise described below.

IFRIC 4, Determining whether an Arrangement contains a Lease (effective from 1 January 2006). IFRIC 4 requires that determining whether an arrangement is, or contains, a lease be based on the substance of the arrangement. It requires an assessment of whether (a) fulfilment of the arrangement is dependent on the use of a specific asset or assets (the asset); and (b) the arrangement conveys a right to use the asset. The Bank reassessed its arrangements and concluded that no adjustments are required as a result of adoption of IFRIC 4.

IAS 39 (Amendment) – The Fair Value Option. IAS 39 (as revised in 2003) permitted entities to designate irrevocably on initial recognition practically any financial instrument as one to be measured at fair value with gains and losses recognised in profit or loss ("fair value through profit or loss"). The Fair Value Option Amendment changes the definition of financial instruments "at fair value through profit or loss" and restricts the ability to designate financial instruments as part of this category.

The Bank had designated available-for-sale financial instruments into the "at fair value through profit or loss" category prior to the issuance of the Fair Value Option Amendment, when the Bank initially applied IAS 39 (as revised in 2003) in its interim consolidated financial statements for the period ended 30 June 2005.

The Fair Value Option Amendment issued in June 2005 was early adopted by the Bank in its 2005 annual consolidated financial statements. The Bank therefore de-designated investments from the "at fair value through profit or loss" category back to the "available-for-sale" category as these investments do not qualify for this designation under the Fair Value Option Amendment.

IAS 39 (Amendment) - Cash Flow Hedge Accounting of Forecast Intragroup Transactions (effective from 1 January 2006). The amendment allows the foreign currency risk of a highly probable forecast intragroup transaction to qualify as a hedged item in the consolidated financial statements provided that the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction and the foreign currency risk will affect consolidated profit or loss. The Bank does not apply hedge accounting and therefore the amendment did not have an impact on these financial statements.

IAS 39 (Amendment) – Financial Guarantee Contracts (effective from 1 January 2006). As a result of this amendment, the Bank measures issued financial guarantees initially at their fair value, which is normally evidenced by the amount of fees received. This amount is then amortised on a straight line basis over the life of the guarantee. At each balance sheet date, the guarantees are measured at the higher of (i) the unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the commitment at the balance sheet date. This amendment did not have a significant impact on these financial statements.

IAS 21 (Amendment) - Net Investment in a Foreign Operation (effective from 1 January 2006). This amendment requires foreign exchange gains and losses on monetary items that form part of net investment in a foreign operation (e.g. quasi-equity intercompany loans) to be reported in consolidated equity even if the loans are not in the functional currency of either the lender or the borrower. Previously, such exchange differences were required to be recognised in consolidated profit or loss. It also extended the definition of 'net investment in a foreign operation' to include loans between sister companies. This amendment did not have a significant impact on these financial statements.

IAS 19 (Amendment) - Employee Benefits (effective from 1 January 2006). The amendment introduced an additional option to recognise actuarial gains and losses arising in post-employment defined benefit plans in full directly in retained earnings in equity. It also requires new disclosures about defined benefit plans and clarifies accounting for a contractual agreement between a multi-employer plan and participating employers. As the Bank does not have post-employment defined benefit plans this amendment did not have an impact on these financial statements.

Effect of Adoption of New or Revised Standards. The effect of adoption of the above new or revised standards and interpretations on the Bank's consolidated financial statements at 31 December 2006 and 31 December 2005 and on the results of its operations for the years then ended was not significant.

6 New Accounting Pronouncements

Certain new standards and interpretations have been published that are mandatory for the Bank's accounting periods beginning on or after 1 January 2007 or later periods and which the Bank has not early adopted:

IFRS 7 Financial Instruments: Disclosures and a complementary Amendment to IAS 1 Presentation of Financial Statements - Capital Disclosures (effective from 1 January 2007). The IFRS introduces new disclosures to improve the information about financial instruments. The volume of disclosures will increase significantly with an emphasis on quantitative aspects of risk exposures and the methods of risk management. The quantitative disclosures will provide information about the extent of exposure to risk, based on information provided internally to the entity's key management personnel. Qualitative and quantitative disclosures will cover exposure to credit risk, liquidity risk and market risk including sensitivity analysis to market risk. IFRS 7 replaces IAS 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions, and some of the requirements in IAS 32, Financial Instruments: Disclosure and Presentation. The Amendment to IAS 1 introduces disclosures about level of an entity's capital and how it manages capital. The Bank is currently assessing what impact the new IFRS and the amendment to IAS 1 will have on disclosures in its financial statements.

IFRS 8 Operating Segments (effective for annual periods beginning on or after 1 January 2009). The Standard applies to entities whose debt or equity instruments are traded in a public market or that file, or are in the process of filing, their financial statements with a regulatory organisation for the purpose of issuing any class of instruments in a public market. IFRS 8 specifies how an entity should report information about its operating segments. The Standard requires an entity to report financial and descriptive information about its reportable segments. IFRS 8 replaces IAS 14 and aligns segment reporting with the requirements of the US standard SFAS 131 Disclosures about Segments of an Enterprise and Related Information. Management is currently assessing what impact the Standard will have on segment disclosures in the Bank's financial statements, including interim financial reports.

IAS 23, Borrowing Costs (revised March 2007; effective for annual periods beginning on or after 1 January 2009). The revised IAS 23 was issued in March 2007. The main change to IAS 23 is the removal of the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. An entity is, therefore, required to capitalise such borrowing costs as part of the cost of the asset. The revised Standard applies prospectively to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009. The Bank is currently assessing the impact the amended Standard on its financial statements.

Other new standards or interpretations. The Bank has not early adopted the following other new standards or interpretations:

- IFRIC 7, Applying the Restatement Approach under IAS 29 (effective for periods beginning on or after 1 March 2006, that is from 1 January 2007).
- IFRIC 8, Scope of IFRS 2 (effective for periods beginning on or after 1 May 2006, that is from 1 January 2007).
- IFRIC 9, Reassessment of Embedded Derivatives (effective for annual periods beginning on or after 1 June 2006);
- IFRIC 10, Interim Financial Reporting and Impairment (effective for annual periods beginning on or after 1 November 2006);
- IFRIC 11, IFRS 2, Group and Treasury Share Transactions (effective for annual periods beginning on or after 1 March 2007);
- IFRIC 12, Service Concession Arrangements (effective for annual periods beginning on or after 1 January 2008);

Unless otherwise described above, the new standards and interpretations are not expected to significantly affect the Bank's consolidated financial statements.

7 Cash and Cash Equivalents and Mandatory Reserves

<i>In thousands of Ukrainian hryvnias</i>	2006	2005
Cash on hand	557,839	264,433
Cash balances with the National Bank of Ukraine	491,480	444,248
Cash balances with the Central Bank of Russian Federation	95,276	19,158
Correspondent accounts and overnight placements with other banks		
- Ukraine	154	6,640
- other countries	494,410	257,471
Total cash and cash equivalents and mandatory reserves	1,639,159	991,950

As at 31 December 2006 the mandatory reserve balance with the NBU is calculated on the basis of a simple average over a monthly period (31 December 2005: monthly period) and should be maintained at the level of 0.5 to 5 per cent (31 December 2005: 6 to 8 per cent) of certain obligations of the Bank. As such, the balance can vary from day-to-day. The Bank's mandatory reserve balance with the NBU for December 2006 was UAH 178,542 thousand (2005: UAH 375,343 thousand). As at 31 December 2006 the Bank may satisfy its mandatory reserve requirement exclusively with its balance on account with the NBU (31 December 2005: exclusively balance on account with the NBU). Mandatory reserves carry 0% interest rate.

As at 31 December 2006 in accordance with the NBU regulations the Bank was required to maintain the balance on account with the NBU at the level not less than 100% of the mandatory reserves balance for the preceding month (31 December 2005: not less than 90% of the mandatory reserve balance for the preceding month).

As at 31 December 2006 the mandatory reserve balance of the Bank's subsidiary with the Central Bank of Russian Federation (the "CBR") was UAH 4,519 thousand (2005: UAH 2,109 thousand).

As the respective assets are not freely available to finance the Bank's day-to-day operations, for the purposes of the consolidated cash flow statement, the mandatory reserve balances are excluded from cash and cash equivalents.

The Bank's cash and cash equivalents for the purposes of consolidated cash flow statement were as follows:

	2006	2005
Total cash and cash equivalents and mandatory reserves	1,639,159	991,950
Less: mandatory reserves balances	(183,061)	(377,452)
Cash and cash equivalents for the purposes of cash flow statement	1,456,098	614,498

Geographical, currency and interest rate analyses of cash and cash equivalents and mandatory reserves are disclosed in Note 30. Information on balances with related parties is disclosed in Note 34.

8 Trading Securities

<i>In thousands of Ukrainian hryvnias</i>	2006	2005
Corporate bonds	265,110	473,540
Ukrainian government bonds	120,222	125,146
Bonds issued by local authorities	94,342	138,470
Russian government bonds	11,704	-
Corporate shares	7,727	-
Bank bonds	-	12,570
Total trading securities	499,105	749,726

Corporate bonds are interest bearing securities denominated in UAH, issued by Ukrainian companies. Corporate bonds have maturity dates from February 2009 to April 2010, coupon rates from 10% to 15% per annum in 2006 and yield to maturity from 9% to 15% per annum at 31 December 2006 (2005: maturity dates from November 2006 to June 2010, coupon rates from 10% to 18% per annum in 2005 and yields to maturity from 10% to 17% per annum), depending on the credit rating of the issuer and maturity of the bonds. Fair value of these bonds was determined based on quoted bid prices.

8 Trading Securities (Continued)

Government bonds are interest bearing securities denominated in UAH and RUB, issued by Ukrainian and Russian Government. Government bonds have maturity dates from April 2008 to November 2021, coupon rates from 6% to 12% per annum in 2006 and yield to maturity from 1% to 7% per annum at 31 December 2006 (2005: maturity dates from December 2008 to December 2009, coupon rates from 11% to 12% per annum in 2005 and yields to maturity from 0% to 11% per annum), depending on maturity of the bonds. Fair value of these bonds was determined based on quoted bid prices.

Bonds issued by local authorities are interest bearing securities denominated in UAH, issued by city authorities of Kyiv, Zaporizhya and Odessa. Bonds issued by local authorities have maturity dates from December 2007 to July 2010, coupon rates from 11% to 13% per annum in 2006 and yield to maturity from 7% to 32% per annum at 31 December 2006 (2005: maturity dates from July 2007 to July 2010, coupon rates from 10% to 13% per annum in 2005 and yields to maturity from 7% to 13% per annum), depending on the credit rating of the issuer and maturity of the bonds. Fair value of these bonds was determined based on quoted bid prices.

Corporate shares are shares of Ukrainian companies.

As at 31 December 2006 trading securities included securities pledged under sale and repurchase agreements whose fair value at 31 December 2006 was UAH 57,392 thousand (2005: UAH 208,847 thousand). Refer to Notes 14, 15 and 31.

In addition, at 31 December 2006 trading securities with a fair value of UAH 311,975 thousand have been pledged as collateral with respect to short-term loans received from the NBU. Refer to Notes 16 and 31.

The geographical, currency, maturity and interest rate analyses of trading securities are disclosed in Note 30.

9 Due from Other Banks

<i>In thousands of Ukrainian hryvnias</i>	2006	2005
Term placements with other banks	303,511	324,494
Reverse sale and repurchase agreements with other banks	26,947	10,336
Guarantee deposits with other banks	4,535	4,543
Total due from other banks	334,993	339,373

At 31 December 2006 amounts due from other banks of UAH 26,947 thousand (2005: UAH 10,336 thousand) are effectively collateralised by securities purchased under reverse sale and repurchase agreements at a fair value of UAH 26,897 thousand (2005: UAH 10,317 thousand).

Guarantee deposits include balances placed with other banks as cover for letters of credit totalling UAH 1,079 thousand (2005: UAH 1,073 thousand). The Bank does not have the right to use these funds for the purposes of funding its own activities. In addition, guarantee deposits include balances placed with other banks as cover for guarantees issued by the Bank and for international payments in the amount of UAH 3,456 thousand (2005: UAH 3,470 thousand). Refer to Note 31.

Movements in the provision for impairment of due from other banks are as follows:

<i>In thousands of Ukrainian hryvnias</i>	2006	2005
Provision for impairment of due from other banks at 1 January	-	1,125
(Recovery of)/provision for impairment of due from other banks during the year	-	(1,125)
Provision for impairment of due from other banks at 31 December	-	-

At 31 December 2006 the estimated fair value of due from other banks was UAH 334,993 thousand (2005: UAH 339,373 thousand). Refer to Note 33.

Geographical, currency, maturity and interest rate analyses of due from other banks are disclosed in Note 30.

10 Loans and Advances to Customers

<i>In thousands of Ukrainian hryvnias</i>	2006	2005
Current loans	17,480,877	7,410,478
Finance lease receivables	128,873	80,342
Cash-covered loans	812,832	478,534
Overdue loans	71,195	64,041
Reverse sale and repurchase agreements	82,734	1,323
Less: Provision for loan impairment	(515,991)	(275,812)
Total loans and advances to customers	18,060,520	7,758,906

Overdue loans include outstanding loans that matured before 31 December 2006 and loan instalments due but not paid. Loan instalments not yet due are included in current loans. Total amount of such loans is UAH 850,575 thousand (31 December 2005: UAH 200,084 thousand).

The borrowers have the contractual right to early repay the loans. Based on the types of the loan products the Bank may charge penalties for such early repayments.

At 31 December 2006 loans and advances to customers of UAH 82,734 thousand (2005: UAH 1,323 thousand) are effectively collateralised by securities purchased under reverse sale and repurchase agreements at a fair value of UAH 85,693 thousand (2005: UAH 1,592 thousand).

Movements in the provision for loan impairment are as follows:

<i>In thousands of Ukrainian hryvnias</i>	2006	2005
Provision for loan impairment at 1 January	275,812	264,325
Provision for loan impairment during the year	248,193	12,517
Currency translation difference	331	842
Loans and advances to customers written off during the year as uncollectible	(8,345)	(1,872)
Provision for loan impairment at 31 December	515,991	275,812

Economic sector risk concentrations within the customer loan portfolio are as follows:

<i>In thousands of Ukrainian hryvnias</i>	2006		2005	
	Amount	%	Amount	%
Individuals	9,899,679	53	3,186,676	40
Commerce and finance	3,173,056	17	1,870,888	23
Agriculture and food	1,692,001	9	991,158	12
Manufacture and machinery building	760,386	4	166,721	2
Chemical industry	629,463	3	541,945	7
Motor vehicles trading	507,090	3	338,267	4
Property construction	432,266	2	225,684	3
Air and other transport services	375,388	2	50,675	1
Oil and gas	306,779	2	234,022	3
Metallurgy and mining	280,085	2	51,864	1
Other	520,318	3	376,818	4
Total loans and advances to customers (before impairment)	18,576,511	100	8,034,718	100

At 31 December 2006 total aggregate amount of loans to top 10 borrowers of the Bank was UAH 2,055,476 thousand (2005: UAH 1,207,942 thousand) or 11% of the gross loan portfolio (2005: 15%).

At 31 December 2006 loans to customers with carrying value of UAH 23,247 thousand have been pledged as collateral against other borrowed funds received from the State Mortgage Institution in the amount of UAH 22,834 thousand. Refer to Notes 19 and 31.

10 Loans and Advances to Customers (Continued)

The loans and advances to customers include finance lease receivables, which are analysed as follows:

	2006	2005
Gross investment in finance leases, receivable:		
- Not later than 1 year	65,747	39,786
- Later than 1 year and not later than 5 years	99,407	65,905
- Later than 5 years	-	-
Less: unearned finance income	(36,281)	(25,349)
Net investment in finance leases	128,873	80,342

Net investment in finance leases are analysed as follows:

	2006	2005
Net investment in finance leases, receivable:		
- Not later than 1 year	47,766	30,414
- Later than 1 year and not later than 5 years	81,107	49,928
Net investment in finance leases	128,873	80,342

At 31 December 2006 the estimated fair value of loans and advances to customers was UAH 18,072,007 thousand (2005: UAH 7,744,055 thousand). Refer to Note 33.

Geographical, currency, maturity and interest rate analyses of loans and advances to customers are disclosed in Note 30. The information on related party balances is disclosed in Note 34.

11 Investment Securities Available-for-Sale

<i>In thousands of Ukrainian hryvnias</i>	2006	2005
Corporate bonds	88,353	-
Bonds issued by local authorities	51,331	-
Quoted corporate shares	11,281	309
Bank bonds	10,000	-
Unquoted corporate shares	7,473	71,106
Government bonds	56	-
Investment certificates	-	7,790
Less: Provision for impairment of investment securities available-for-sale	(2,613)	-
Total investment securities available-for-sale	165,881	79,205

Corporate shares are shares of Ukrainian companies. Quoted shares are reflected at year-end market value, which has been determined by the Management using last trade prices or bid prices obtained from Ukrainian trading system (PFTS). External independent market quotations were not available for certain investment securities available-for-sale. The fair value of these assets was determined by Management on the basis of results of recent sales of equity interests in the investees between unrelated third parties, consideration of other relevant information such as discounted cash flows and financial data of the investees. Those equity securities for which fair value cannot be reliably determined, are carried at cost less impairment. Carrying value of equity securities carried at cost less impairment as at 31 December 2006 amounted to UAH 2,112 thousand (31 December 2005: UAH 58,387 thousand). In 2006, the Group sold its investments in shares of Ukrainian companies, previously carried at cost of UAH 58,387 thousand because their fair value could not be reliably determined. The Group recognised a gain of UAH 223 thousand on the sale in the consolidated income statement.

11 Investment Securities Available-for-Sale (Continued)

On 28 April 2006 the Bank purchased from related parties 2,858,738 shares of a Ukrainian company which is also a related party of the Bank for the consideration of UAH 45,043 thousand. The fair value of the package as at the date of purchase was UAH 27,073 thousand. The fair value was determined using trade prices on the Ukrainian trading system (PFTS). At the date of initial recognition of these shares the Bank recorded a loss of UAH 17,970 thousand. In December 2006 the Bank sold these securities to the related parties for UAH 45,043 thousand. As a result of these transactions, the Bank recorded a gain of UAH 17,970 thousand.

In October 2006 Ukrainian Insurance Alliance purchased 2,681,235 quoted shares of Ukrainian companies for consideration of UAH 15,910 thousand. The fair value of these packages as at the date of purchase was UAH 9,326 thousand. The fair value was determined using sale price for those shares that were sold in January-March 2007 and quoted market prices for those shares that were not sold. At the date of initial recognition of these shares the Bank recorded a loss of UAH 6,584 thousand.

The movements in investment securities available-for-sale are as follows:

<i>In thousands of Ukrainian hryvnias</i>	Note	2006	2005
Carrying amount at 1 January		79,205	192,644
Purchases of investment securities available-for-sale		807,406	134,514
Interest income accrued on investment securities available-for-sale		949	804
Fair value gains less losses recognised directly in equity		18,049	48,086
Amounts removed from equity and recognised in income statement		(23,116)	(52,939)
Impairment of investment securities available-for-sale		(2,613)	-
Losses on initial recognition		(24,554)	-
Other movements		(8,350)	-
Disposal of subsidiaries		-	(7,297)
Gains less losses from disposal of investment securities available-for-sale		23,116	52,939
Disposals of investment securities available-for-sale		(704,211)	(289,546)
Carrying amount at 31 December		165,881	79,205

At 31 December 2006 included in investment securities available for sale are securities pledged under sale and repurchase agreements whose fair value is UAH 60,109 thousand (2005: none). Refer to Note 14 and 15.

Geographical, currency, maturity and interest rate analyses of investment securities available-for-sale are disclosed in Note 30. The information on related party investment securities available-for-sale is disclosed in Note 34.

12 Premises, Leasehold improvements, Equipment and Intangible Assets

	Note	Premises	Leasehold improvements	Office and computer equipment	Aircraft and motor vehicles	Construction in progress	Total	Intangible assets	Total
<i>In thousands of Ukrainian hryvnias</i>									
Cost or valuation at 1 January 2005		103,194	18,789	118,750	30,946	191,525	463,204	28,641	491,845
Accumulated depreciation		(6,122)	(9,741)	(39,500)	(5,828)	-	(61,191)	(9,772)	(70,963)
Carrying amount at 1 January 2005		97,072	9,048	79,250	25,118	191,525	402,013	18,869	420,882
Acquisitions through business combinations	36	-	-	185	1,165	-	1,350	-	1,350
Additions		-	-	116,395	13,880	377,931	508,206	29,747	537,953
Transfers		195,449	16,360	-	-	(211,809)	-	-	-
Disposals		(151)	(478)	(751)	(5,965)	-	(7,345)	-	(7,345)
Depreciation and amortisation charge	25	(6,135)	(4,305)	(35,388)	(5,040)	-	(50,868)	(2,529)	(53,397)
Effect of translation to presentation currency		-	(10)	(83)	(91)	-	(184)	-	(184)
Carrying amount at 31 December 2005		286,235	20,615	159,608	29,067	357,647	853,172	46,087	899,259
Cost at 31 December 2005		298,488	33,863	234,073	37,452	357,647	961,523	58,373	1,019,896
Accumulated depreciation		(12,253)	(13,248)	(74,465)	(8,385)	-	(108,351)	(12,286)	(120,637)
Carrying amount at 31 December 2005		286,235	20,615	159,608	29,067	357,647	853,172	46,087	899,259
Additions		-	-	91,566	5,717	261,487	358,770	13,664	372,434
Transfers		358,064	13,508	-	-	(371,572)	-	-	-
Disposals		(2,927)	(67)	(1,362)	(5,144)	-	(9,500)	(5)	(9,505)
Depreciation and amortisation charge	25	(16,988)	(2,355)	(48,546)	(12,304)	-	(80,193)	(5,230)	(85,423)
Effect of translation to presentation currency		-	-	282	134	-	416	-	416
Carrying amount at 31 December 2006		624,384	31,701	201,548	17,470	247,562	1,122,665	54,516	1,177,181
Cost at 31 December 2006		652,296	47,034	321,391	33,195	247,562	1,301,478	71,892	1,373,370
Accumulated depreciation		(27,912)	(15,333)	(119,843)	(15,725)	-	(178,813)	(17,376)	(196,189)
Carrying amount at 31 December 2006		624,384	31,701	201,548	17,470	247,562	1,122,665	54,516	1,177,181

At 31 December 2006 premises, leasehold improvements and equipment include assets totalling UAH 57,263 thousand at cost, which are fully depreciated (2005: UAH 38,268 thousand). These assets are still used by the Bank.

Construction in progress consists mainly of construction and refurbishment of the new premises for branches.

Included in office and computer equipment are assets held under finance leases at carrying amount of UAH 10,506 thousand (2005: UAH 12,567 thousand). Refer to Note 21.

13 Other Assets

<i>In thousands of Ukrainian hryvnias</i>	Note	2006	2005
Prepayments for premises and equipment		54,609	34,466
Inventory		14,051	5,902
Amounts in the course of settlements		12,903	8,063
Prepaid expenses		9,875	13,445
Reinsurer's share of loss provision	21	7,608	1,900
Accrued income receivable		6,796	-
Receivables on insurance contracts		6,603	-
Receivables on settlements for securities		6,358	-
Reinsurer's share of provision for unearned premium	21	4,913	11,539
Goodwill		532	96
Derivative financial instruments	32	4	3,228
Restricted cash		-	1,216
Other prepayments, sundry debtors and accruals		14,490	13,207
Less: Provision for impairment of sundry debtors		(6,521)	(4,855)
Total other assets		132,221	88,207

Movements in the provision for impairment of sundry debtors are as follows:

<i>In thousands of Ukrainian hryvnias</i>	Note	2006	2005
Provision for impairment of sundry debtors at 1 January		4,855	9,134
Provision for/(recovery of provision) for impairment of sundry debtors during the year	25	1,686	(4,209)
Sundry debtors written off during the year as uncollectible		(20)	(70)
Provision for impairment of sundry debtors at 31 December		6,521	4,855

Geographical, currency and maturity analyses of other assets are disclosed in Note 30. The information on related party balances is disclosed in Note 34.

14 Due to Other Banks

<i>In thousands of Ukrainian hryvnias</i>	2006	2005
Loans received from other banks	6,575,830	934,862
Amounts payable under repurchase agreements	116,530	152,263
Correspondent accounts and overnight placements of other banks	16,566	34,394
Guarantees deposits of other banks	2,043	505
Total due to other banks	6,710,969	1,122,024

As at 31 December 2006 securities sold under sale and repurchase agreements were bonds issued by central and local government with a fair value of UAH 80,806 thousand and corporate bonds with a fair value of UAH 35,132 thousand (31 December 2005: UAH 64,171 thousand and UAH 115,322 thousand respectively). As at 31 December 2006 bonds issued by local government were recorded in the consolidated balance sheet within investment securities available-for-sale in amount of UAH 40,331 thousand and trading securities in amount of UAH 40,475 thousand (31 December 2005: within trading securities in the amount of UAH 64,171 thousand). Corporate bonds were recorded in the consolidated balance sheet within investment securities available-for-sale in amount of UAH 18,567 thousand and trading securities in amount of UAH 16,565 thousand (31 December 2005: within trading securities in the amount of UAH 115,322 thousand). Refer to Notes 8 and 31.

As at 31 December 2006 loans received from other banks totalling UAH 707,944 thousand (2005: UAH 33,693 thousand) represent long-term loans received from foreign banks for the purposes of financing purchase of import equipment by the Bank's customers. These loans carry interest rate based on EURIBOR + margin of 1-1.125% per annum. The interest rate is revised quarterly or semi-annually.

14 Due to Other Banks (Continued)

Included in loans received from other banks as at 31 December 2006 are loans received from BNP Paribas, Paris and its related entities in the amount of UAH 5,386,388 thousand.

As at 31 December 2006 the estimated fair value of due to other banks was UAH 6,711,511 thousand (2005: UAH 1,122,576 thousand). Refer to Note 33.

Geographical, currency, maturity and interest rate analyses of due to other banks are disclosed in Note 30. The information on related party balances is disclosed in Note 34.

15 Customer Accounts

<i>In thousands of Ukrainian hryvnias</i>	2006	2005
Legal entities		
- Current/settlement accounts	1,608,545	1,257,932
- Term deposits	1,266,729	1,398,748
Individuals		
- Current/demand accounts	508,965	295,189
- Term deposits	3,163,953	2,379,887
Total customer accounts	6,548,192	5,331,756

As at 31 December 2006 included in term deposits of legal entities are liabilities of UAH 1,561 thousand (2005: UAH 36,281 thousand) from sale and repurchase agreements. As at 31 December 2006 securities sold under sale and repurchase agreements were corporate bonds with a fair value of UAH 1,563 thousand. As at 31 December 2006 corporate bonds were recorded in the consolidated balance sheet within investment securities available-for-sale in amount of UAH 1,211 thousand and trading securities in amount of UAH 352 thousand. Refer to Notes 8 and 31.

Economic sector concentrations within customer accounts are as follows:

<i>In thousands of Ukrainian hryvnias</i>	2006		2005	
	Amount	%	Amount	%
Individuals	3,672,918	56	2,675,077	50
Commerce and trade	863,184	13	808,683	15
Transport and communication	712,041	11	651,746	12
Manufacturing	617,159	9	701,509	13
Financial services	498,917	8	303,673	6
Cultural and educational services	73,304	1	15,830	1
Other	110,669	2	175,238	3
Total customer accounts	6,548,192	100	5,331,756	100

At 31 December 2006 the aggregate balance on accounts of top 10 customers of the Bank was UAH 1,359,828 thousand (2005: UAH 1,356,340 thousand) or 21% (2005: 25%) of total customer accounts.

At 31 December 2006 included in customer accounts are balances totaling UAH 1,089,923 thousand (2005: UAH 691,628 thousand) placed by customers as collateral for loans to customers totaling UAH 812,832 thousand (2005: UAH 471,335 thousand) and commitments under guarantees, promissory note endorsements and letters of credit totaling UAH 167,813 thousand (2005: UAH 120,504 thousand). Refer to Notes 10 and 31.

As at 31 December 2006 the estimated fair value of customer accounts was UAH 6,558,482 thousand (2005: UAH 5,385,500 thousand). Refer to Note 33.

Geographical, currency, maturity and interest rate analyses of customer accounts are disclosed in Note 30. The information on related party balances is disclosed in Note 34.

16 Due to the National Bank of Ukraine

<i>In thousands of Ukrainian hryvnias</i>	2006	2005
Short-term loans	198,000	-
Long-term loans	-	17,033
Total due to the National Bank of Ukraine	198,000	17,033

As at 31 December 2006 short-term loans from the NBU included loans totaling UAH 103,000 thousand carrying a nominal rate of 10% per annum and loans totaling UAH 95,000 thousand with nominal interest rate of 9% per annum. Short-term loans have been repaid during January 2007.

Long-term loans from the NBU mature in 3 years after origination and carry a nominal interest rate of 7% per annum. These loans were provided against collateral of corporate bonds with a carrying value of UAH 19,045 thousand as at 31 December 2005. During 2006 long-term loans from the NBU have been repaid.

As at 31 December 2006 short-term loans received from the NBU were effectively collateralised by trading securities in the amount of UAH 311,975 thousand. Refer to Notes 8 and 31.

As at 31 December 2006 the estimated fair value of due to the NBU was UAH 198,000 thousand (2005: UAH 17,227 thousand). Refer to Note 33.

Currency, maturity and interest rate analyses of due to the National Bank of Ukraine are disclosed in Note 30.

17 Domestic Debt Securities in Issue

<i>In thousands of Ukrainian hryvnias</i>	2006	2005
Domestic bonds	1,350,736	847,267
Deposit certificates	46	566
Promissory notes	1,638	2
Total domestic debt securities in issue	1,352,420	847,835

Bonds with the nominal value of UAH 550,000 thousand were issued by UkrSibbank in April-December 2006 for consideration of UAH 553,423 thousand. As at 31 December 2006 domestic bonds issued by UkrSibbank have maturity dates from September 2007 to December 2008 and carry fixed coupon interest rate from 9% to 12%.

As at 31 December 2006 the fair value of domestic debt securities in issue was UAH 1,348,774 thousand (2005: UAH 857,836 thousand). Refer to Note 33.

Geographical, currency, maturity and interest rate analyses of domestic debt securities in issue are disclosed in Note 30.

18 Eurobonds Issued

In April 2004 the Bank issued Eurobonds in the form of loan participation notes with a par value of USD 100,000 thousand (UAH 532,930 thousand at the exchange rate at the time of issue). The bonds carry a fixed coupon rate of 10.5% per annum, effective interest rate of 11.73% per annum and mature in April 2007. The Eurobonds are listed on the Luxembourg Stock Exchange. As at 31 December 2006 the carrying value of these bonds was UAH 516,670 thousand (2005: UAH 513,227 thousand). The Eurobonds were repaid in April 2007.

In June 2005 the Bank issued Eurobonds in the form of loan participation notes with a par value of USD 125,000 thousand (UAH 631,875 thousand at the exchange rate at the time of issue). The bonds carry a fixed coupon rate of 8.95% per annum, effective interest rate of 9.87% per annum and mature in July 2008. The Eurobonds are listed on the Luxembourg Stock Exchange. As at 31 December 2006 the carrying value of these bonds was UAH 653,240 thousand (2005: UAH 652,414 thousand).

In December 2006 the Bank issued Eurobonds in the form of loan participation notes with a par value of USD 500,000 thousand (UAH 2,525,000 thousand at the exchange rate at the time of issue). The bonds carry a fixed coupon rate of 7.75% per annum, effective interest rate of 8% per annum and mature in December 2011. The Eurobonds are listed on the Luxembourg Stock Exchange. As at 31 December 2006 the carrying value of these bonds was UAH 2,519,495 thousand.

18 Eurobonds Issued (Continued)

As at 31 December 2006 the fair value of Eurobonds issued was UAH 3,740,990 thousand (2005: UAH 1,181,359 thousand). Refer to Note 33.

Geographical, currency, maturity and interest rate analyses of Eurobonds issued are disclosed in Note 30.

19 Other Borrowed Funds

<i>In thousands of Ukrainian hryvnias</i>	2006	2005
Syndicated loans	-	768,279
Trade financing received from non-banking financial institution	410,228	250,883
Short-term borrowings received from State Mortgage Institution	22,834	-
Total other borrowed funds	433,062	1,019,162

In July-August 2006 in the course of state program of developing Ukrainian mortgage market the Bank received borrowings from State Mortgage Institution totaling UAH 22,834 thousand. The borrowing is repayable in July-August 2007 and carrying nominal interest rate of 12% per annum.

In July 2006 the Bank received borrowings from non-banking financial institution BNP Finance PLC – a subsidiary of BNP Paribas – totaling USD 80,000 thousand. The borrowing is repayable in July 2007 and has a nominal interest rate of 7.5% per annum.

As at 31 December 2006 the estimated fair value of other borrowed funds was UAH 433,062 thousand (2005: UAH 1,018,802 thousand). Refer to Note 33.

Geographical, currency, maturity and interest rate analyses of other borrowed funds are disclosed in Note 30. The information on related party balances is disclosed in Note 34.

20 Subordinated Debt

Issuer	Currency	Year of issue	Year of maturity	Interest rate, %	2006	2005
EFG Bank	USD	2003	2009	8.75	23,282	23,306
EFG Bank	USD	2004	2009	8.75	46,547	46,596
EFG Bank	USD	2005	2011	8.75	103,472	103,581
Tarpal Management Limited	USD	2005	2011	8.75	103,472	103,412
Tarpal Management Limited	USD	2006	2012	8.75	206,260	-
BNP Paribas	USD	2006	2016	8.75	246,063	-
Total subordinated debt					729,096	276,895

In accordance with the Law of Ukraine on Banks and Banking Activities, subordinated debt cannot be withdrawn from a bank for at least five years from the date of receipt. However, the subordinated debt agreements do have a provision that allows to change the terms of the debt including its maturity based on mutual agreement with the Bank.

As at 31 December 2006 the estimated fair value of subordinated debt was UAH 754,464 thousand (2005: UAH 280,134 thousand). Refer to Note 33.

Geographical, currency, maturity and interest rate analyses of subordinated debt are disclosed in Note 30. The information on related party balances is disclosed in Note 34.

21 Other Liabilities

Other liabilities comprise the following:

<i>In thousands of Ukrainian hryvnias</i>	Note	2006	2005 (restated, Note 3)
Provision for unearned premiums, gross		102,425	49,913
Accrued employee benefit costs		48,240	8,959
Loss reserve, gross		45,801	8,884
Accrued expenses on professional services		26,355	-
Present value of minimum finance lease payments		12,639	14,353
Funds in settlements		11,178	2,306
Provision for losses on credit related commitments	31	10,497	6,290
Taxes payable other than income tax		8,370	2,119
Payables for purchased premises and equipment		4,461	11,295
Payables to Individuals Deposits Guarantee Fund		3,714	2,733
Settlements for securities transactions		886	5,162
Derivative financial instruments	32	79	62
Other		25,795	30,751
Total other liabilities		300,440	142,827

Finance lease payables relate to the lease of automatic teller machines by the Bank. As at 31 December 2006 the carrying value of these assets was UAH 10,506 thousand (2005: 12,567 thousand). Refer to Note 12.

Minimum finance lease payments are analysed as follows:

<i>In thousands of Ukrainian hryvnias</i>	2006	2005
Gross minimum finance lease payments due:		
- Not later than 1 year	3,261	3,261
- Later than 1 year and not later than 5 years	13,043	13,043
- Later than 5 years	951	3,751
Less: future finance charges	(4,616)	(5,702)
Present value of minimum finance lease payments	12,639	14,353

Present value of minimum finance lease payments is analysed by maturity as follows:

<i>In thousands of Ukrainian hryvnias</i>	2006	2005
Present value of minimum finance lease payments:		
- Not later than 1 year	1,920	1,714
- Later than 1 year and not later than 5 years	9,844	9,175
- Later than 5 years	875	3,464
Present value of minimum finance lease payments	12,639	14,353

21 Other liabilities (Continued)

Movements in the provision for unearned premium are as follows:

	2006			2005		
	Gross	Reinsurer's Share	Net	Gross	Reinsurer's Share	Net
Provision for unearned premium as at 1 January	49,913	(11,539)	38,374	25,334	(3,006)	22,328
Decrease in provision, gross/(increase in reinsurer's share of provision)	52,512	6,626	59,138	24,579	(8,533)	16,046
Provision for unearned premium as at 31 December	102,425	(4,913)	97,512	49,913	(11,539)	38,374

Loss provision consists of:

	31 December 2006			31 December 2005		
	Outstanding claims provision	IBNR	Total	Outstanding claims provision	IBNR	Total
Gross provision	21,886	23,915	45,801	8,884	-	8,884
Reinsurer's share in provision (Note 13)	(2,789)	(4,819)	(7,608)	(1,900)	-	(1,900)
Loss provision, net of reinsurance	19,097	19,096	38,193	6,984	-	6,984

Movements in loss provision are as follows:

	2006			2005		
	Outstanding claims provision	IBNR	Total	Outstanding claims provision	IBNR	Total
Provision, net of reinsurance as at 1 January	6,984	-	6,984	1,335	-	1,335
Increase in provision, gross	13,002	23,915	36,917	6,861	-	6,861
Increase in reinsurer's share of provision	(889)	(4,819)	(5,708)	(1,212)	-	(1,212)
Provision, net of reinsurance as at 31 December	19,097	19,096	38,193	6,984	-	6,984

Geographical, currency and maturity analyses of other liabilities are disclosed in Note 30. The information on related party balances is disclosed in Note 34.

22 Share Capital

<i>In thousands of Ukrainian hryvnias</i>	Number of outstanding shares, thousands	Nominal amount	Inflation adjusted amount
Shares issued and fully paid as at 1 January 2005	12 000 000	600 000	1 543 684
New shares issued and fully paid	3 000 000	150 000	150 000
Shares issued and fully paid as at 31 December 2005	15 000 000	750 000	1 693 684
New shares issued and paid	20 000 000	1 000 000	1 000 000
Shares issued and fully paid as at 31 December 2006	35 000 000	1 750 000	2 693 684

At 31 December 2006 all of the Company's outstanding shares were authorised, issued and fully paid.

All ordinary shares have a nominal value of UAH 0.05 per share (31 December 2005: UAH 0.05 per share), rank equally and each share carries one vote.

On 27 March 2006 the shareholders of the Company took a decision to issue 10 billion additional shares totalling UAH 500,000 thousand. The placement of shares was completed in May 2006. All shares were fully paid by the end of May 2006. The shareholders meeting of 18 May 2006 approved the results of the new share issue and decided to make the respective changes to the Company's Charter. On 7 July 2006 the NBU registered the increase in the share capital of the Company in the amount of UAH 500,000 thousand.

On 8 September 2006 the shareholders of the Company took a decision to issue 10 billion additional shares totalling UAH 500,000 thousand. The placement of shares commenced in October 2006 and was completed in November 2006. All shares were fully paid by the end of November 2006. The shareholders meeting of 8 November 2006 approved the results of the new share issue and decided to make the respective changes to the Company's Charter. On 30 November 2006 the NBU registered the increase in the share capital of the Company in the amount of UAH 500,000 thousand.

On 20 December 2006 the shareholders of the Company took a decision to issue 7.5 billion additional shares totalling UAH 375,000 thousand. The placement of shares was completed in February 2007. The shareholders meeting of 23 February 2007 approved the results of the new share issue and decided to make the respective changes to the Company's Charter. On 28 March 2007 the NBU registered the increase in the share capital of the Company in the amount of UAH 375,000 thousand. Refer to Note 37.

23 Interest Income and Expense

<i>In thousands of Ukrainian hryvnias</i>	2006	2005
Interest income		
Loans and advances to corporate customers	849,969	524,731
Loans and advances to individuals	682,255	242,296
Debt securities	77,702	39,380
Due from other banks	55,967	24,851
Finance lease receivables	22,920	9,981
Total interest income	1,688,813	841,239
Interest expense		
Due to other banks	257,405	35,628
Term deposits of individuals	251,428	220,742
Term deposits of legal entities	123,651	110,974
Eurobonds issued	121,810	84,686
Domestic debt securities in issue	88,316	17,456
Subordinated debt	49,571	14,703
Current/settlement accounts	48,741	21,559
Other borrowed funds	37,554	26,218
Due to the National Bank of Ukraine	10,724	6,595
Finance leases	1,547	1,729
Other liabilities	-	1,543
Total interest expense	990,747	541,833
Net interest income	698,066	299,406

Information on interest income and expense from transactions with related parties is disclosed in Note 34.

24 Fee and Commission Income and Expense

<i>In thousands of Ukrainian hryvnias</i>	2006	2005
Fee and commission income		
- Cash and settlement transactions	314,785	94,684
- Foreign exchange transactions	38,340	16,455
- Transactions with securities and trade finance operations	18,503	13,033
- Other fee and commission income	1,972	2,159
Total fee and commission income	373,600	126,331
Fee and commission expense		
- Settlement transactions	16,091	10,750
- Other	19,678	3,843
Total fee and commission expense	35,769	14,593
Net fee and commission income	337,831	111,738

Information on fee and commission income from transactions with related parties is disclosed in Note 34.

25 Administrative and Other Operating Expenses

<i>In thousands of Ukrainian hryvnias</i>	Note	2006	2005
Staff costs		420,648	249,019
Depreciation and amortisation of premises, leasehold improvements, equipment and intangible assets	12	85,423	53,397
Professional services		75,200	4,328
Rent		62,841	42,763
Maintenance of premises and equipment		52,591	41,916
Mail and telecommunication		38,899	28,001
Advertising and marketing services		19,389	15,682
Taxes other than on income		18,320	5,717
Security services		14,325	12,356
Individuals Deposits Guarantee Fund		14,199	9,094
Insurance of property and equipment		9,466	9,444
Business trip expenses		8,690	4,295
Provision/(recovery of provision) for impairment of sundry debtors	13	1,686	(4,209)
Charity		1,003	844
Insurance of financial risks		90	15,658
Other		27,806	44,518
Total administrative and other operating expenses		850,576	532,823

Included in staff costs are statutory social security and pension contributions of UAH 81,703 thousand (2005: UAH 56,114 thousand). Pension contributions are made into State pension fund which is a defined contribution plan and amounted to UAH 71,046 thousand in 2006 (2005: UAH 44,695 thousand).

Expenses for insurance of property and equipment include UAH 9,466 thousand paid by the Company at the end of 2005 in accordance with the insurance contracts with a Ukrainian insurance company. The contracts were to insure property and computer equipment for a one year period. The insurance tariff paid under these contracts was 4.9% of the insured amount.

Professional services expenses mainly relate to process of restructuring and transformation of the Bank after acquisition by BNP Paribas in 2006.

Information on administrative and other operating expenses from transactions with related parties is disclosed in Note 34.

26 Income from Insurance Contracts

<i>In thousands of Ukrainian hryvnias</i>	Note	2006	2005
Gross premiums written		167,373	83,670
Change in provision for unearned premium	21	(52,512)	(24,579)
Reinsurer's share in provision for unearned premium	21	(6,626)	8,533
Net premiums written		108,235	67,624
Premiums ceded to reinsurers		(11,000)	(24,397)
Net premiums earned		97,235	43,227
Gross claims paid		(40,136)	(14,706)
Claims recovered from reinsurers		9,648	3,254
Net claims paid		(30,488)	(11,452)
Change in loss provision	21	(36,917)	(6,861)
Reinsurer's share in loss provision	21	5,708	1,212
Net claims incurred		(61,697)	(17,101)
Net income from insurance contracts		35,538	26,126

27 Income Taxes

Income tax expense comprises the following:

<i>In thousands of Ukrainian hryvnias</i>	2006	2005
Current tax	46,403	17,611
Deferred tax	(4,157)	6,271
Income tax expense for the year	42,246	23,882

The income tax rate applicable to the majority of the Company's income is 25% (2005: 25%). The income tax rate applicable to the majority of subsidiaries income is 25% (2005: 25%), except for income arising from insurance activities which is taxed at 3% and income of the Bank's subsidiary in Russia which is taxed at 24%. A reconciliation between the expected and the actual taxation charge is provided below.

<i>In thousands of Ukrainian hryvnias</i>	2006	2005
IFRS profit before tax	82,825	71,634
Theoretical tax charge at statutory rate (2006: 25%; 2005: 25%)	20,706	17,909
Non deductible expenses		
- Expenses which relates to insurance activity	32,881	11,231
- Other non-deductible expenses	9,427	3,840
Income taxed at different rates	(20,768)	(9,098)
Income tax expense for the year	42,246	23,882

During 2006 a deferred tax liability of UAH 1,177 thousand (2005: UAH 1,213 thousand) has been recorded directly in equity in respect of the fair valuation of investment securities available-for-sale.

27 Income Taxes (Continued)

Differences between IFRS and taxation regulations in Ukraine and other countries give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below and is recorded at the rate of 25% (2005: 25%), except for income from insurance operations which is taxed at 3% and income of the Bank's subsidiary in Russia which is taxed at 24%.

	31 December 2005 (restated, Note 3)	Currency translation reserve	Credited directly to equity	(Charged)/ credited to profit or loss	31 December 2006
<i>In thousands of Ukrainian hryvnias</i>					
Tax effect of deductible temporary differences					
Remeasurement of financial instruments at amortised cost	2,168	3	-	7,294	9,465
Other liabilities	8,300	142	-	18,796	27,238
Provision for credit related commitments	261	-	-	822	1,083
Accrued interest expense	1,282	-	-	641	1,923
Gross deferred tax asset	12,011	145	-	27,553	39,709
<i>Less offsetting with deferred tax liabilities</i>	<i>(12,011)</i>	<i>(44)</i>	<i>-</i>	<i>(18,589)</i>	<i>(30,644)</i>
Recognised net deferred tax asset	-	101	-	8,964	9,065
Tax effect of taxable temporary differences					
Premises, leasehold improvements and equipment	(8,293)	(10)	-	(12,855)	(21,158)
Trading securities, investment securities available-for-sale and investment securities held to maturity	(29,833)	(52)	1,177	21,214	(7,494)
Provision for loan impairment	(17,231)	57	-	(27,431)	(44,605)
Accrued interest income	(575)	-	-	(961)	(1,536)
Other assets	(3,816)	(39)	-	(3,363)	(7,218)
Gross deferred tax liability	(59,748)	(44)	1,177	(23,396)	(82,011)
<i>Less offsetting with deferred tax assets</i>	<i>12,011</i>	<i>44</i>	<i>-</i>	<i>18,589</i>	<i>30,644</i>
Recognised net deferred tax liability	(47,737)	-	1,177	(4,807)	(51,367)

27 Income Taxes (Continued)

In the context of the group's current structure, tax losses and current tax assets of different group companies may not be offset against current tax liabilities and taxable profits of other group companies and, accordingly, taxes may accrue even where there is a consolidated tax loss. Therefore, deferred tax assets and liabilities are offset only when they relate to the same taxable entity.

	1 January 2005	Business combina- tions	Currency translation reserve	Credited directly to equity	(Charged)/ credited to profit or loss	31 December 2005 (restated, Note 3)
<i>In thousands of Ukrainian hryvnias</i>						
Tax effect of deductible temporary differences						
Remeasurement of financial instruments at amortised cost	242	-	-	-	1,926	2,168
Other liabilities	(1,964)	-	-	-	10,264	8,300
Provision for credit related commitments	(1,855)	-	-	-	2,116	261
Accrued interest expense	-	-	-	-	1,282	1,282
Gross deferred tax asset	(3,577)	-	-	-	15,588	12,011
<i>Less offsetting with deferred tax liabilities</i>	<i>3,577</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>(15,588)</i>	<i>(12,011)</i>
Recognised net deferred tax asset	-	-	-	-	-	-
Tax effect of taxable temporary differences						
Premises, leasehold improvements and equipment	(3,773)	-	(24)	-	(4,496)	(8,293)
Trading securities, investment securities available-for-sale and investment securities held to maturity	(15,650)	-	(172)	1,213	(15,224)	(29,833)
Finance lease receivable	(623)	-	-	-	623	-
Provision for loan impairment	(13,750)	181	174	-	(3,836)	(17,231)
Accrued interest income	99	-	-	-	(674)	(575)
Other assets	(5,564)	-	-	-	1,748	(3,816)
Gross deferred tax liability	(39,261)	181	(22)	1,213	(21,859)	(59,748)
<i>Less offsetting with deferred tax assets</i>	<i>(3,577)</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>15,588</i>	<i>12,011</i>
Recognised net deferred tax liability	(42,838)	181	(22)	1,213	(6,271)	(47,737)

28 Earnings per Share

Basic earnings per share are calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

The Company has no dilutive potential ordinary shares; therefore, the diluted earnings per share equal the basic earnings per share.

<i>In thousands of Ukrainian hryvnias</i>	2006	2005
Profit attributable to equity holders of the Company	44,092	47,477
Weighted average number of ordinary shares in issue (thousands)	23,122,107	12,945,205
Basic and diluted earnings per share (expressed in UAH per share)	0.0019	0.0037

29 Segment Analysis

The Bank's primary format for reporting segment information is business segments and the secondary format is geographical segments.

Business Segments. The Bank is organised on a basis of three main business segments:

- Corporate banking – representing current accounts of legal entities, deposits, overdrafts, loan and other credit facilities, foreign currency and trading finance products.
- Retail banking – representing private banking services, private customer current accounts, savings, deposits, credit and debit cards, consumer loans and mortgages.
- Investment banking – includes financial instruments trading, debt and equity capital markets, securities, foreign exchange and banknote trading and corporate finance.

Transactions between the business segments are on normal commercial terms and conditions. Funds are ordinarily reallocated between segments, resulting in funding cost transfers disclosed in operating income. Interest charged for these funds is based on the Bank's cost of capital. There are no other material items of income or expense between the business segments. Segment assets and liabilities comprise operating assets and liabilities, being the majority of the balances sheet, but excluding taxation. Internal charges and transfer pricing adjustments have been reflected in the performance of each business segment.

29 Segment Analysis (Continued)

Segment information for the main reportable business segments of the Bank for the years ended 31 December 2006 and 2005 is set out below:

<i>In thousands of Ukrainian hryvnias</i>	Corporate banking	Retail banking	Invest- ment banking	Other	Elimina- tions	Total
2006						
External revenues	1,042,006	837,652	159,835	120,155	-	2,159,648
Revenues from other segments	-	-	467,042	-	(467,042)	-
Total revenues	1,042,006	837,652	626,877	120,125	(467,042)	2,159,648
Total revenues comprise:						
- Interest income	849,969	682,255	600,711	22,920	(467,042)	1,688,813
- Fee and commission income	192,037	155,397	26,166	-	-	373,600
- Insurance income	-	-	-	97,235	-	97,235
Total revenues	1,042,006	837,652	626,877	120,155	(467,042)	2,159,648
Profit before tax/Segment result	11,103	(159,636)	175,566	55,792	-	82,825
Income tax expense						(42,246)
Profit						40,579
Total segment assets	9,663,064	10,631,302	1,488,241	226,453	-	22,009,060
Current and deferred tax assets						9,344
Total assets						22,018,404
Total segment liabilities	4,097,313	3,746,473	11,947,247	170,551	-	19,961,584
Current and deferred tax liabilities						60,465
Total liabilities						20,022,049
Other segment items						
Capital expenditure	(165,751)	(191,854)	(10,567)	(4,262)	-	(372,434)
Depreciation and amortisation expense	(37,564)	(43,480)	(2,395)	(1,984)	-	(85,423)
Provisions for loan impairment and losses on credit related commitments	(113,795)	(137,735)	-	(870)	-	(252,400)

29 Segment Analysis (Continued)

<i>In thousands of Ukrainian hryvnias</i>	Corporate banking	Retail banking	Investment banking	Other	Eliminations	Total
2005						
External revenues	583,670	293,780	73,962	59,385	-	1,010,797
Revenues from other segments	-	100,148	140,414	551	(241,113)	-
Total revenues	583,670	393,928	214,376	59,936	(241,113)	1,010,797
Total revenues comprise:						
- Interest income	524,731	342,444	198,468	16,709	(241,113)	841,239
- Fee and commission income	58,939	51,484	15,908	-	-	126,331
- Insurance income	-	-	-	43,227	-	43,227
Total revenues	583,670	393,928	214,376	59,936	(241,113)	1,010,797
Segment result	29,831	(101,708)	144,183	(2,168)	-	70,138
Excess of the Bank's interest in the net fair value of subsidiary's identifiable assets, liabilities and contingent liabilities over cost						137
Gain on purchase of minority						2,065
Loss on disposal of subsidiaries						(706)
Profit before tax						71,634
Income tax expense						(23,882)
Profit						47,752
Total segment assets	5,485,037	3,862,896	1,456,716	121,022	-	10,925,671
Total segment liabilities	2,980,517	2,696,148	4,172,674	73,834	-	9,923,173
Current and deferred tax liabilities						49,499
Total liabilities						9,972,672
Other segment items						
Capital expenditure	(188,437)	(341,916)	(4,979)	(2,621)	-	(537,953)
Depreciation and amortisation expense	(17,810)	(32,317)	(471)	(2,799)	-	(53,397)
Provisions for loan impairment and losses on credit related commitments	(41,026)	30,684	1,125	-	-	(9,217)

The Bank changed its accounting policy for segment revenues to exclude gains (net of losses) from segment revenues. The change was applied retrospectively from 1 January 2005. Management believes that the revised definition of segment revenue better reflects objectives of reporting segment information. The effect of the change was to reduce 2005 segment revenues in the retail banking segment by UAH 28,164 thousand, in the corporate banking segment by UAH 52,816 thousand, in the investment banking segment by UAH 91,955 thousand. The change did not have an impact on segment results.

29 Segment Analysis (Continued)

Geographical segments. Segment information for the main geographical segments is set out below for the years ended 31 December 2006 and 2005.

<i>In thousands of Ukrainian hryvnias</i>	Ukraine	OECD	Non-OECD	Total
2006				
Segment assets	20,924,003	508,840	576,217	22,009,060
External revenues	2,136,348	42	23,258	2,159,648
Capital expenditure	(371,757)	-	(677)	(372,434)
Credit related commitments	2,580,499	-	43,425	2,623,924
2005				
Segment assets	10,509,578	257,871	158,222	10,925,671
External revenues	1,003,441	28	7,328	1,010,797
Capital expenditure	(534,752)	-	(3,201)	(537,953)
Credit related commitments	1,186,924	-	6,997	1,193,921

External revenues and assets, other than as detailed below, and credit related commitments have generally been allocated based on domicile of the counterparty. Cash on hand, premises and equipment and capital expenditure have been allocated based on the country in which they are physically held. Segment assets do not include income tax balances.

30 Financial Risk Management

The risk management function within the Bank is carried out in respect of financial risks (credit, market, geographical, currency, liquidity and interest rate), operational risks and legal risks. The primary objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risks stays within these limits. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures to minimise operational and legal risks.

Credit risk. The Bank takes on exposure to credit risk which is the risk that a counterparty will be unable to pay all amounts in full when due. The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or group of borrowers, and to geographical and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review. Limits on the level of credit risk by product, borrower and industry sector are approved regularly by the Credit Committee of the Bank.

The exposure to any one borrower including banks and brokers is further restricted by sub-limits covering on and off-balance sheet exposures and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored daily.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and principal repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed, in part, by obtaining collateral and corporate and personal guarantees.

30 Financial Risk Management (Continued)

The Bank's maximum exposure to credit risk is primarily reflected in the carrying amounts of financial assets on the consolidated balance sheet. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant.

Credit risk for off-balance sheet financial instruments is defined as the possibility of sustaining a loss as a result of another party to a financial instrument failing to perform in accordance with the terms of the contract. The Bank uses the same credit policies in making conditional obligations as it does for on-balance sheet financial instruments through established credit approvals, risk control limits and monitoring procedures.

Market risk. The Bank takes on exposure to market risks. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The Asset/Liability Committee sets limits on the value of risk that may be accepted. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

Geographical risk. The geographical concentration of the Bank's assets and liabilities at 31 December 2006 is set out below:

<i>In thousands of Ukrainian hryvnias</i>	Ukraine	OECD	Non-OECD	Total
Assets				
Cash and cash equivalents and mandatory reserves	962,659	505,348	171,152	1,639,159
Trading securities	487,401	-	11,704	499,105
Due from other banks	333,914	1,079	-	334,993
Loans and advances to customers	17,690,380	723	369,417	18,060,520
Investment securities available-for-sale	164,488	-	1,393	165,881
Current income tax prepayment	8	-	271	279
Intangible assets	54,516	-	-	54,516
Premises, leasehold improvements and equipment	1,118,508	-	4,157	1,122,665
Deferred tax assets	5,477	-	3,588	9,065
Other assets	112,137	1,690	18,394	132,221
Total assets	20,929,488	508,840	580,076	22,018,404
Liabilities				
Due to other banks	313,518	6,394,227	3,224	6,710,969
Customer accounts	6,366,648	9,412	172,132	6,548,192
Due to the National Bank of Ukraine	198,000	-	-	198,000
Domestic debt securities in issue	1,350,784	-	1,636	1,352,420
Eurobonds issued	-	3,689,405	-	3,689,405
Other borrowed funds	22,834	410,228	-	433,062
Subordinated debt	-	419,364	309,732	729,096
Current income tax liability	9,098	-	-	9,098
Deferred income tax liability	51,367	-	-	51,367
Other liabilities	297,203	426	2,811	300,440
Total liabilities	8,609,452	10,923,062	489,535	20,022,049
Net balance sheet position	12,320,036	(10,414,222)	90,541	1,996,355
Credit related commitments (Note 31)	2,372,363	-	251,561	2,623,924

Assets, liabilities and credit related commitments have been allocated based on the country in which the counterparty is located. Cash on hand and premises, leasehold improvements and equipment have been allocated based on the country in which they are physically held.

OECD assets and liabilities mainly include balances with counterparties in USA, Germany, UK, Switzerland and Austria.

Non-OECD concentrations mainly represent balances with counterparties in the Russian Federation and Cyprus.

30 Financial Risk Management (Continued)

The geographical concentration of the Bank's assets and liabilities at 31 December 2005 is set out below:

<i>In thousands of Ukrainian hryvnias</i>	Ukraine	OECD	Non-OECD	Total
Assets				
Cash and cash equivalents and mandatory reserves	713,338	240,494	38,118	991,950
Trading securities	731,848	-	17,878	749,726
Due from other banks	322,063	17,309	1	339,373
Loans and advances to customers	7,664,360	-	94,546	7,758,906
Investment securities available-for-sale	79,205	-	-	79,205
Investment securities held to maturity	19,045	-	-	19,045
Intangible assets	46,087	-	-	46,087
Premises, leasehold improvements and equipment	849,261	-	3,911	853,172
Other assets	84,371	68	3,768	88,207
Total assets	10,509,578	257,871	158,222	10,925,671
Liabilities				
Due to other banks	573,586	548,216	222	1,122,024
Customer accounts	4,666,543	624	664,589	5,331,756
Due to the National Bank of Ukraine	17,033	-	-	17,033
Domestic debt securities in issue	847,835	-	-	847,835
Eurobonds issued	-	1,165,641	-	1,165,641
Other borrowed funds	-	843,968	175,194	1,019,162
Subordinated debt	-	173,482	103,413	276,895
Current income tax liability	1,762	-	-	1,762
Deferred income tax liability	47,613	-	124	47,737
Other liabilities	127,111	352	15,364	142,827
Total liabilities	6,281,483	2,732,283	958,906	9,972,672
Net balance sheet position	4,228,095	(2,474,412)	(800,684)	952,999
Credit related commitments (Note 31)	1,186,924	-	6,997	1,193,921

As at 31 December 2005 OECD assets and liabilities mainly include balances with counterparties in USA, Germany, UK, Switzerland and Austria.

As at 31 December 2005 non-OECD concentrations mainly represent balances with counterparties in the Russian Federation and Cyprus.

30 Financial Risk Management (Continued)

Currency risk. The Bank takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Asset/ Liability Committee sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily. The table below summarises the Bank's exposure to foreign currency exchange rate risk at 31 December 2006:

<i>In thousands of Ukrainian hryvnias</i>	UAH	USD	Euro	Other currencies	Non-monetary items	Total
Assets						
Cash and cash equivalents and mandatory reserves	743,367	615,849	128,029	151,914	-	1,639,159
Trading securities	479,674	-	-	11,704	7,727	499,105
Due from other banks	192,444	125,160	17,389	-	-	334,993
Loans and advances to customers	4,319,598	11,178,518	734,114	1,828,290	-	18,060,520
Investment securities available-for-sale	149,740	-	-	-	16,141	165,881
Current income tax prepayment	279	-	-	-	-	279
Intangible assets	-	-	-	-	54,516	54,516
Premises, leasehold improvements and equipment	-	-	-	-	1,122,665	1,122,665
Deferred tax assets	5,477	-	-	3,588	-	9,065
Other assets	90,316	5,608	3,915	18,395	13,987	132,221
Total assets	5,980,895	11,925,135	883,447	2,013,891	1,215,036	22,018,404
Liabilities						
Due to other banks	273,748	4,395,753	209,918	1,831,550	-	6,710,969
Customer accounts	3,046,144	2,699,587	658,664	143,797	-	6,548,192
Due to the National Bank of Ukraine	198,000	-	-	-	-	198,000
Domestic debt securities in issue	1,350,778	6	-	1,636	-	1,352,420
Eurobonds issued	-	3,689,405	-	-	-	3,689,405
Other borrowed funds	22,834	410,228	-	-	-	433,062
Subordinated debt	-	729,096	-	-	-	729,096
Current income tax liability	9,098	-	-	-	-	9,098
Deferred income tax liability	51,367	-	-	-	-	51,367
Other liabilities	276,511	12,551	8,425	2,953	-	300,440
Total liabilities	5,228,480	11,936,626	877,007	1,979,936	-	20,022,049
Less fair value of currency derivatives	-	(76)	(3)	4	-	(75)
Net balance sheet position, excluding currency derivatives	752,415	(11,415)	6,443	33,951	1,215,036	1,996,430
Currency derivatives (Note 32)	-	65,888	(12,241)	(53,722)	-	(75)
Credit related commitments (Note 31)	1,063,440	1,078,244	189,945	292,295	-	2,623,924

30 Financial Risk Management (Continued)

At 31 December 2005, the Bank had the following positions in currencies:

	UAH	USD	Euro	Other curren- cies	Non- mone- tary items	Total
<i>In thousands of Ukrainian hryvnias</i>						
Assets						
Cash and cash equivalents and mandatory reserves	584,499	236,741	132,769	37,941	-	991,950
Trading securities	731,848	-	-	17,878	-	749,726
Due from other banks	155,840	129,697	53,835	1	-	339,373
Loans and advances to customers	2,581,281	4,681,225	317,492	178,908	-	7,758,906
Investment securities available-for-sale	-	-	-	-	79,205	79,205
Investment securities held to maturity	19,045	-	-	-	-	19,045
Intangible assets	-	-	-	-	46,087	46,087
Premises, leasehold improvements and equipment	-	-	-	-	853,172	853,172
Other assets	74,675	2,940	922	3,768	5,902	88,207
Total assets	4,147,188	5,050,603	505,018	238,496	984,366	10,925,671
Liabilities						
Due to other banks	299,289	675,213	97,924	49,598	-	1,122,024
Customer accounts	2,926,268	1,988,714	326,845	89,929	-	5,331,756
Due to the National Bank of Ukraine	17,033	-	-	-	-	17,033
Domestic debt securities in issue	847,830	5	-	-	-	847,835
Eurobonds issued	-	1,165,641	-	-	-	1,165,641
Other borrowed funds	-	1,019,162	-	-	-	1,019,162
Subordinated debt	-	276,895	-	-	-	276,895
Current income tax liability	1,762	-	-	-	-	1,762
Deferred income tax liability	47,613	-	-	124	-	47,737
Other liabilities	116,496	9,290	887	16,154	-	142,827
Total liabilities	4,256,291	5,134,920	425,656	155,805	-	9,972,672
Less fair value of currency derivatives	2,129	443	-	635	-	3,207
Net balance sheet position, excluding currency derivatives	(109,103)	(84,317)	79,362	82,691	984,366	952,999
Currency derivatives (Note 32)	(36,812)	96,457	-	(56,438)	-	3,207
Credit related commitments (Note 31)	582,730	556,543	48,075	6,573	-	1,193,921

Other currencies mainly include the Russian Roubles and Swiss Francs.

The Bank has extended loans and advances denominated in foreign currencies. Movements in foreign exchange rates affect the borrowers' repayment ability and incurrence of loan losses.

Liquidity risk. Liquidity risk is defined as the risk when the maturity of assets and liabilities does not match. The Bank is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw downs and guarantees and from margin and other calls on cash settled derivative instruments. The Bank does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. The liquidity risk is managed by the Asset/Liability Committee of the Bank.

30 Financial Risk Management (Continued)

The table below shows assets and liabilities at 31 December 2006 by their remaining contractual maturity, unless there is evidence that any of the assets are impaired and will be settled after their contractual maturity dates, in which case the expected date of settlement of the assets is used. Some of the assets and liabilities, however, may be of a longer term nature; for example, loans are frequently renewed and accordingly short term loans can have a longer term duration.

Overdue liabilities, such as term deposits not withdrawn by the Bank's customers, are classified within the "demand and less than 1 month" column. Overdue assets are allocated based on their expected maturity. The entire portfolio of trading securities is classified within demand and less than one month based on management's assessment of portfolio's realisability and their view that it is a fairer portrayal of the Bank's liquidity position.

The liquidity position of the Bank at 31 December 2006 is set out below.

<i>In thousands of Ukrainian hryvnias</i>	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	Over 12 months	No stated maturity	Total
Assets						
Cash and cash equivalents and mandatory reserves	1,639,159	-	-	-	-	1,639,159
Trading securities	499,105	-	-	-	-	499,105
Due from other banks	286,060	-	48,933	-	-	334,993
Loans and advances to customers	510,797	472,459	2,863,411	14,213,853	-	18,060,520
Investment securities available-for-sale	-	-	-	149,740	16,141	165,881
Current income tax prepayment	-	279	-	-	-	279
Intangible assets	-	-	-	-	54,516	54,516
Premises, leasehold improvements and equipment	-	-	-	-	1,122,665	1,122,665
Deferred tax assets	-	-	-	-	9,065	9,065
Other assets	62,435	14,403	33,529	11,542	10,312	132,221
Total assets	2,997,556	487,141	2,945,873	14,375,135	1,212,699	22,018,404
Liabilities						
Due to other banks	551,822	122,089	4,000,676	2,036,382	-	6,710,969
Customer accounts	2,627,462	928,451	2,317,373	674,906	-	6,548,192
Due to the National Bank of Ukraine	-	-	198,000	-	-	198,000
Domestic debt securities in issue	48	7,487	796,851	548,034	-	1,352,420
Eurobonds issued	26,743	-	522,106	3,140,556	-	3,689,405
Other borrowed funds	-	6,228	426,834	-	-	433,062
Subordinated debt	-	16,112	-	712,984	-	729,096
Current income tax liability	-	9,098	-	-	-	9,098
Deferred income tax liability	-	-	-	-	51,367	51,367
Other liabilities	37,399	36,326	184,922	41,761	32	300,440
Total liabilities	3,243,474	1,125,791	8,446,762	7,154,623	51,399	20,022,049
Net liquidity gap	(245,918)	(638,650)	(5,500,889)	7,220,512	1,161,300	1,996,355
Cumulative liquidity gap at 31 December 2006	(245,918)	(884,568)	(6,385,457)	835,055	1,996,355	-

30 Financial Risk Management (Continued)

The liquidity position of the Bank at 31 December 2005 is set out below.

<i>In thousands of Ukrainian hryvnias</i>	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	Over 12 months	No stated matu- rity	Total
Assets						
Cash and cash equivalents and mandatory reserves	991,950	-	-	-	-	991,950
Trading securities	749,726	-	-	-	-	749,726
Due from other banks	267,911	35,207	36,080	175	-	339,373
Loans and advances to customers	332,034	473,224	1,658,186	5,295,462	-	7,758,906
Investment securities available-for-sale	-	-	-	-	79,205	79,205
Investment securities held to maturity	2,602	5,035	11,408	-	-	19,045
Intangible assets	-	-	-	-	46,087	46,087
Premises, leasehold improvements and equipment	-	-	-	-	853,172	853,172
Other assets	45,724	21,993	14,481	107	5,902	88,207
Total assets	2,389,947	535,459	1,720,155	5,295,744	984,366	10,925,671
Liabilities						
Due to other banks	529,787	35,350	420,873	136,014	-	1,122,024
Customer accounts	1,578,249	999,819	922,576	1,831,112	-	5,331,756
Due to the National Bank of Ukraine	2,307	4,501	10,225	-	-	17,033
Domestic debt securities in issue	48	6,790	50,000	790,997	-	847,835
Eurobonds issued	30,821	-	77,841	1,056,979	-	1,165,641
Other borrowed funds	-	4,823	1,014,339	-	-	1,019,162
Subordinated debt	-	6,720	-	270,175	-	276,895
Current income tax liability	-	1,762	-	-	-	1,762
Deferred income tax liability	-	-	-	-	47,737	47,737
Other liabilities	39,735	414	90,039	12,639	-	142,827
Total liabilities	2,180,947	1,060,179	2,585,893	4,097,916	47,737	9,972,672
Net liquidity gap	209,000	(524,720)	(865,738)	1,197,828	936,629	952,999
Cumulative liquidity gap at 31 December 2005	209,000	(315,720)	(1,181,458)	16,370	952,999	-

30 Financial Risk Management (Continued)

All of the Group's financial assets and liabilities mature within 5 years except loans and advances to customers of UAH 9,391,738 thousand which mature within 5-21 years, due to other banks of UAH 72,916 thousand which mature within 5-6 years, customer accounts of UAH 8,413 thousand which mature within 5-8 years and subordinated debt of UAH 442,809 thousand which matures within 5-10 years (2005: all mature within 5 years except loans and advances to customers of UAH 2,286,433 thousand which mature within 5-21 years and subordinated debt of 206,994 which matures within 6-11 years).

The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Bank. It is unusual for banks ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Bank and its exposure to changes in interest and exchange rates.

The Bank has a significant cumulative maturity mismatch of the assets and liabilities maturing within 12 months. This liquidity mismatch arises due to the fact that the major source of finance for the Bank at 31 December 2006 was customer accounts and other borrowed funds being on demand and maturing in less than 12 months. Management believes that in spite of a substantial portion of customer accounts and other borrowed funds maturing in less than 12 months, diversification of these deposits by number and type of depositors, and the past experience of the Bank would indicate that these accounts provide a long-term and stable source of funding for the Bank. In addition, historically a significant portion of loans and advances to customers are prepaid ahead of schedule.

In addition, as disclosed in Note 37, in 2007 the Bank made new share issue in the amount of UAH 850,000 thousand, issued domestic debt securities amounting to UAH 300,000 thousand and attracted new subordinated debt in the amount of UAH 151,500 thousand.

Customer accounts are classified in the above analysis based on contractual maturities. However, in accordance with Ukrainian Civil Code, individuals have a right to withdraw their deposits prior to maturity if they forfeit their right to accrued interest.

Liquidity requirements to support calls under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Bank does not generally expect the third party to draw funds under the agreement. The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

30 Financial Risk Management (Continued)

Interest rate risk. The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. The table below summarises the Bank's exposure to interest rate risks at 31 December 2006. Included in the table are the Bank's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

<i>In thousands of Ukrainian hryvnias</i>	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	Over 12 months	Non-interest bearing	Total
Assets						
Cash and cash equivalents and mandatory reserves	1,639,159	-	-	-	-	1,639,159
Trading securities	-	8,747	41,366	441,265	7,727	499,105
Due from other banks	286,060	-	48,933	-	-	334,993
Loans and advances to customers	512,657	825,309	3,190,078	13,532,476	-	18,060,520
Investment securities available-for-sale	-	-	-	149,740	16,141	165,881
Current income tax prepayment	-	-	-	-	279	279
Intangible assets	-	-	-	-	54,516	54,516
Premises, leasehold improvements and equipment	-	-	-	-	1,122,665	1,122,665
Deferred tax assets	-	-	-	-	9,065	9,065
Other assets	-	-	-	-	132,221	132,221
Total assets	2,437,876	834,056	3,280,377	14,123,481	1,342,614	22,018,404
Liabilities						
Due to other banks	577,359	118,398	4,106,814	1,908,398	-	6,710,969
Customer accounts	2,627,462	928,451	2,317,373	674,906	-	6,548,192
Due to the National Bank of Ukraine	-	-	198,000	-	-	198,000
Domestic debt securities in issue	48	7,487	796,851	548,034	-	1,352,420
Eurobonds issued	26,743	-	522,106	3,140,556	-	3,689,405
Other borrowed funds	-	6,228	426,834	-	-	433,062
Subordinated debt	-	483,033	-	246,063	-	729,096
Current income tax liability	-	-	-	-	9,098	9,098
Deferred income tax liability	-	-	-	-	51,367	51,367
Other liabilities	152	464	1,304	10,719	287,801	300,440
Total liabilities	3,231,764	1,544,061	8,369,282	6,528,676	348,266	20,022,049
Net sensitivity gap	(739,888)	(710,005)	(5,088,905)	7,594,805	994,348	1,996,355

30 Financial Risk Management (Continued)

The following table summarises the Bank's exposure to interest rate risks at 31 December 2005 by showing assets and liabilities in categories based on the earlier of contractual repricing or maturity dates.

<i>In thousands of Ukrainian hryvnias</i>	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	Over 12 months	Non- interest bearing	Total
Assets						
Cash and cash equivalents and mandatory reserves	991,950	-	-	-	-	991,950
Trading securities	-	9,299	5,798	734,629	-	749,726
Due from other banks	267,911	35,207	36,080	175	-	339,373
Loans and advances to customers	332,034	473,224	1,658,186	5,295,462	-	7,758,906
Investment securities available-for-sale	-	-	-	-	79,205	79,205
Investment securities held to maturity	2,602	5,035	11,408	-	-	19,045
Intangible assets	-	-	-	-	46,087	46,087
Premises, leasehold improvements and equipment	-	-	-	-	853,172	853,172
Other assets	-	-	-	-	88,207	88,207
Total assets	2,344,223	513,466	1,705,674	5,295,637	1,066,671	10,925,671
Liabilities						
Due to other banks	529,787	46,516	545,721	-	-	1,122,024
Customer accounts	1,578,249	999,819	922,576	1,831,112	-	5,331,756
Due to the National Bank of Ukraine	2,307	4,501	10,225	-	-	17,033
Domestic debt securities in issue	48	6,790	50,000	790,997	-	847,835
Eurobonds issued	30,821	-	77,841	1,056,979	-	1,165,641
Other borrowed funds	-	191,086	828,076	-	-	1,019,162
Subordinated debt	-	6,720	-	270,175	-	276,895
Current income tax liability	-	-	-	-	1,762	1,762
Deferred income tax liability	-	-	-	-	47,737	47,737
Other liabilities	136	414	1,164	12,639	128,474	142,827
Total liabilities	2,141,348	1,255,846	2,435,603	3,961,902	177,973	9,972,672
Net sensitivity gap	202,875	(742,380)	(729,929)	1,333,735	888,698	952,999

The Bank is exposed to cash flow interest rate risk, principally through assets and liabilities for which interest rates are reset as market rates change. Such assets and liabilities are primarily presented in the above table as being repriced in the short-term. The Bank is exposed to fair value interest rate risk as a result of assets and liabilities at fixed interest rates; these are primarily presented in the above table as being repriced in the long-term. In practice, interest rates that are contractually fixed on both assets and liabilities are usually renegotiated to reflect current market conditions.

The Board of Directors monitors on a daily basis and sets limits on the level of mismatch of interest rate repricing that may be undertaken. In the absence of any available hedging instruments, the Bank normally seeks to match its interest rate positions.

30 Financial Risk Management (Continued)

The table below summarises the effective interest rates by major currencies for major debt instruments. The analysis has been prepared based on period-end effective rates used for amortisation of the respective assets/liabilities.

In % p.a.	2006			2005		
	UAH	USD	EUR	UAH	USD	EUR
Assets						
Overnight deposits with other banks	2	5	-	-	3	-
Term placements with other banks	7	6	5	9	5	2
Guarantee deposits with other banks	4	5	3	4	5	3
Reverse sale and repurchase agreements with other banks	10	-	-	10	-	-
Loans and advances to corporate customers	16	11	10	16	13	11
Loans and advances to individuals	18	12	11	16	13	11
Finance leases	19	14	-	22	-	-
Trading securities - bonds	12	-	-	11	-	-
Investment securities available-for-sale	12	-	-	-	-	-
Investment securities held to maturity – corporate bonds	-	-	-	14	-	-
Liabilities						
Term placements of other banks	7	7	5	9	7	5
Guarantee deposits of other banks	0	5	-	-	5	-
Amounts payable under repurchase agreements with other banks	11	-	-	11	-	-
Current accounts of individuals	3	1	0	6	1	0
Current accounts of legal entities	3	0	0	1	0	0
Term deposits of legal entities	11	8	7	11	6	7
Term deposits of individuals	12	8	7	15	10	9
Due to the National Bank of Ukraine	10	-	-	13	-	-
Domestic bonds issued by the Bank	11	-	-	9	-	-
Other borrowed funds	12	8	-	-	8	-
Eurobonds issued	-	9	-	-	11	-
Certificates of deposit and promissory notes	10	-	-	12	12	-
Subordinated debt	-	9	-	-	10	-
Finance leases	12	-	-	12	-	-

The sign “-“ in the table above means that the Bank does not have the respective assets or liabilities in corresponding currency.

31 Contingencies and Commitments

Legal proceedings. From time to time and in the normal course of business, claims against the Bank are received. On the basis of its own estimates and internal professional advice the Management is of the opinion that no material losses will be incurred in respect of claims and accordingly no provision has been made in these consolidated financial statements.

Tax legislation. Ukrainian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management’s interpretation of such legislation as applied to the transactions and activity of the Bank may be challenged by the relevant regional and central authorities. The tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

The tax consequence of transactions for Ukrainian taxation purposes is frequently determined by the form in which transactions are documented and the underlying accounting treatment prescribed by Ukrainian Accounting Rules. Accordingly, the Bank structures certain transactions so as to take advantage of such form driven determinations to reduce the overall effective tax rate of the Bank.

31 Contingencies and Commitments (Continued)

The Bank's Management believes that its interpretation of the relevant legislation is appropriate and the Bank's tax, currency legislation and customs positions will be sustained. Accordingly, at 31 December 2006 no provision for potential tax liabilities had been recorded (2005: no provision).

Capital expenditure commitments. At 31 December 2006 the Bank has contractual capital expenditure commitments in respect of premises and equipment totalling UAH 30,596 thousand (31 December 2005: UAH 30,282 thousand) and in respect of purchasing and implementing "SAP Banking" operating system of UAH 5,640 thousand (31 December 2005: UAH 10,878 thousand).

The Bank has already allocated the necessary resources in respect of these commitments. The Bank believes that future net income and funding will be sufficient to cover this and any similar such commitments.

Operating lease commitments. Where the Bank is the lessee, the future minimum lease payments under non-cancellable operating leases are as follows:

<i>In thousands of Ukrainian hryvnias</i>	2006	2005
Not later than 1 year	75,535	47,924
Later than 1 year and not later than 5 years	200,891	148,177
Later than 5 years	81,539	79,255
Total operating lease commitments	357,965	275,356

Compliance with covenants. The Bank is subject to certain covenants related primarily to its borrowings. Non-compliance with such covenants may result in negative consequences for the Bank including growth in the cost of borrowings and declaration of default. In particular, the Bank is required to maintain certain level of equity, a certain capital adequacy ratio, a maximum exposure to a single party to capital ratio and a level of aggregate indebtedness. Failure to comply with these requirements could lead to early withdrawal of funds by the creditors upon their discretion. As at 31 December 2006 the Bank was in compliance with the covenants specified above.

Credit related commitments. The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate or cash deposits and therefore carry less risk than a direct borrowing.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards.

Promissory notes endorsements represent guarantees undertaken by the Bank in respect of promissory notes issued by the Bank's clients.

Commitments arising in respect of underwriting activity represent commitments of the Bank arising from the Bank's acting as underwriter from placement of corporate bonds.

31 Contingencies and Commitments (Continued)

The Bank monitors the term to maturity of credit related commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments. Outstanding credit related commitments are as follows:

<i>In thousands of Ukrainian hryvnias</i>	Note	2006	2005
Commitments to extend credit		2,298,045	1,000,056
Commitments arising in respect of underwriting activity		10,000	20,000
Import letters of credit (cash covered)		70,566	77,752
Import letters of credit (uncovered)		81,251	51,026
Guarantees issued (cash covered)		92,009	29,303
Guarantees issued (uncovered)		205,402	71,338
Promissory notes endorsements (cash covered)		5,237	13,449
Promissory notes endorsements (uncovered)		39,724	57,791
Less: cash covered credit related commitments	15	(167,813)	(120,504)
Less: Provision for losses on credit related commitments	21	(10,497)	(6,290)
Total credit related commitments		2,623,924	1,193,921

Fair value of credit related commitments was UAH 10,497 thousand at 31 December 2006 (2005: UAH 6,290 thousand).

The total outstanding contractual amount of undrawn credit lines, letters of credit, and guarantees does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded. Credit related commitments are denominated in currencies as follows:

<i>In thousands of Ukrainian hryvnias</i>	2006	2005
Ukrainian hryvnias	1,063,440	582,730
US Dollars	1,078,244	556,543
Euro	189,945	48,075
Other currencies	292,295	6,573
Total	2,623,924	1,193,921

Movements in the provision for losses on credit related commitments are as follows:

<i>In thousands of Ukrainian hryvnias</i>	Note	2006	2005
Provision for losses on credit related commitments as at 1 January		6,290	8,465
Fees received		20,790	7,131
Amortisation of fees		(20,790)	(7,131)
Provision/(recovery of provision) for losses on credit related commitments during the year		4,207	(2,175)
Provision for losses on credit related commitments as at 31 December	21	10,497	6,290

The total outstanding contractual amount of commitments to extend credit, underwriting commitments, promissory notes endorsements, letters of credit, and guarantees does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded.

31 Contingencies and Commitments (Continued)

Fiduciary assets. These assets are not included in the Bank's consolidated balance sheet as they are not assets of the Bank. Nominal values disclosed below are normally different from the fair values of respective securities. The fiduciary assets fall into the following categories:

<i>In thousands of Ukrainian hryvnias</i>	2006 Nominal value	2005 Nominal value
Shares in domestic companies held by the Bank on behalf of its customers	3,121,885	2,809,350
Domestic corporate bonds held by the Bank on behalf of its customers	11,661	416,705
Domestic municipal bonds held by the Bank on behalf of its customers	-	125,009
Domestic treasury bills held by the Bank on behalf of its customers	9,787	86,937
Notes of exchange held by the Bank on behalf of its customers	8,154	10,715
Investment certificates held by the Bank on behalf of its customers	7,482	24,275
Assets managed by the Bank (Note 34)	256,259	34,792
Total	3,415,228	3,507,783

Assets pledged and restricted. The Bank has the following assets pledged as collateral:

In thousands of Ukrainian hryvnias	Notes	2006		2005	
		Asset pledged	Related liability/commitment	Asset pledged	Related liability/commitment
Cash and cash equivalents and mandatory reserves	7, 16	-	-	7,717	17,033
Investment securities held to maturity		-	-	19,045	
Trading securities	8, 14, 15	369,367	256,447	208,847	218,618
Investment securities available-for-sale	11	60,109	59,446	-	-
Due from other banks	9, 14	-	-	277,731	274,010
Loans and advances to customers	10	23,247	22,834	-	-
Total		452,723	338,727	513,340	509,661

In addition, mandatory reserve balances of UAH 183,061 thousand (2005: UAH 377,452 thousand) represent mandatory reserve assets which are not available to finance the Bank's day to day operations.

32 Derivative Financial Instruments

Foreign exchange and securities-based derivative financial instruments entered into by the Bank are generally traded in an over-the-counter market with professional market counterparties on standardised contractual terms and conditions. Derivatives have potentially favourable (assets) or unfavourable (liabilities) conditions as a result of fluctuations in market interest rates, foreign exchange rates or other variables relative to their terms. The aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

The table below sets out fair values, at the balance sheet date, of currencies receivable or payable under foreign exchange forwards contracts and fair values of securities to be sold under securities forward contracts entered into by the Bank. The table reflects gross positions before the netting of any counterparty positions and covers the contracts with settlement dates after the respective balance sheet date. The contracts are short term in nature.

	2006			2005		
	Notional amount	Derivatives with negative fair value	Derivatives with positive fair value	Notional amount	Derivatives with negative fair value	Derivatives with positive fair value
Deliverable forwards						
Foreign currency						
- sale of CHF for USD	-	-	-	60,157	-	443
- sale of USD for RUB	-	-	-	2,985	-	173
- purchase of USD for RUB	5,814	(7)	-	18,180	-	436
- purchase of RUB for UAH	-	-	-	36,812	-	2,129
- sale of CHF for USD	5,047	-	3	-	-	-
- sale of USD for RUB	-	-	-	20,200	-	26
- sale of USD for EUR	797	-	1	-	-	-
- sale of EUR for USD	14,166	(3)	-	-	-	-
- sale of CHF for EUR	1,131	-	-	-	-	-
- purchase of USD for RUB	41,735	(69)	-	-	-	-
Securities						
- sale of securities	-	-	-	9,616	(62)	21
Total	68,690	(79)	4	147,950	(62)	3,228

During 2006 in respect of foreign currency derivatives the Bank has recorded a net loss of UAH 934 thousand (2005: gain of UAH 3,215 thousand) within gains less losses arising from trading in foreign currency. In 2005 the Bank recorded a loss in the amount of UAH 41 thousand in respect of securities derivatives, which was included in "Losses net of gains from trading securities" in the consolidated income statement.

33 Fair Value of Financial Instruments

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by an active quoted market price.

The estimated fair values of financial instruments have been determined by the Bank using available market information, where it exists, and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to determine the estimated fair value. Ukraine continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. Market quotations may be outdated or reflect distress sale transactions and therefore not represent fair values of financial instruments. Management has used all available market information in estimating the fair value of financial instruments.

Financial instruments carried at fair value. Trading securities, investment securities available-for-sale and financial derivatives, are carried on the consolidated balance sheet at their fair value. Cash and cash equivalents are carried at amortised cost which approximates current fair value.

Fair values were determined based on quoted market prices except for certain investment securities available-for-sale for which there were no available external independent market price quotations. These securities have been fair valued by the Bank on the basis of results of recent sales of equity interests in the investees between unrelated third parties, consideration of other relevant information such as discounted cash flows and application of other valuation methodologies. Valuation techniques required certain assumptions that were not supported by observable market data. Changing any such used assumptions to a reasonably possible alternative would not result in a significantly different profit, income, total assets or total liabilities.

33 Fair Value of Financial Instruments (Continued)

Loans and receivables carried at amortised cost. The fair value of floating rate instruments is normally their carrying amount. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Discount rates used depend on currency of the loan and credit risk of the counterparty and ranged from 8% to 20% per annum (2005: 9% to 20% per annum). Refer to Notes 9 and 10 for the estimated fair values of due from other banks and loans and advances to customers, respectively.

Liabilities carried at amortised cost. The fair value is based on quoted market prices, if available. The estimated fair value of fixed interest rate instruments with stated maturity, for which a quoted market price is not available, was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. The fair value of liabilities repayable on demand or after a notice period (“demandable liabilities”) is estimated as the amount payable on demand, discounted from the first date that the amount could be required to be paid. Refer to Notes 14, 15, 16, 17, 18, 19 and 20 for the estimated fair values of due to other banks, customer accounts, due to the National Bank of Ukraine, domestic debt securities in issue, Eurobonds issued, other borrowed funds and subordinated debt, respectively.

Derivative financial instruments. All derivative financial instruments are carried at fair value as assets when the fair value is positive and as liabilities when the fair value is negative. Refer to Notes 13, 21 and 32.

34 Related Party Transactions

For the purposes of these consolidated financial statements, parties are considered to be related if one party has the ability to control the other party, is under common control, or can 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.

At 31 December 2006, the outstanding balances with related parties were as follows:

	Parent company	Other shareholders	Key manage- ment personnel	Entities under control of shareholders and other related parties
<i>In thousands of Ukrainian hryvnias</i>				
Cash and cash equivalents	1,870	-	-	-
Loans and advances to customers				
Gross amount of loans and advances to customers in UAH (contractual interest rate: 6 - 17%)	-	-	50	144,215
Gross amount of loans and advances to customers in USD (contractual interest rate: 9 - 14%)	-	-	16,867	761,659
Gross amount of loans and advances to customers in EUR (contractual interest rate: 8 - 12%)	-	64	144	192,712
Gross amount of loans and advances to customers in CHF (contractual interest rate: 8 - 11%)	-	-	-	241,975
Impairment provisions for loans and advances to customers at 31 December	-	-	(153)	(63,659)
Investment securities available-for-sale	-	-	-	7,520
Other assets	-	-	-	170
Due to other banks (contractual interest rate: 3 – 9%)	5,386,388	-	-	-
Customer accounts				
Current accounts (contractual interest rate: 0 – 3%)	-	2,101	1,428	108,259
Term deposits in UAH (contractual interest rate: 7 - 16%)	-	9,184	496	12,512
Term deposits in USD (contractual interest rate: 5 - 12%)	-	206,085	435	191,539
Term deposits in EUR (contractual interest rate: 5 - 9%)	-	10,570	-	146,562
Other borrowed funds (contractual interest rate: 8%)	410,228	-	-	-
Subordinated debt (contractual interest rate: 8 - 10%)	246,063	-	-	309,732
Other liabilities	-	-	-	7,271

34 Related Party Transactions (Continued)

The income and expense items with related parties for the year 2006 were as follows:

	Parent company	Shareholders	Key management personnel	Entities under control of shareholders and other related parties
<i>In thousands of Ukrainian hryvnias</i>				
Interest income on loans and advances to customers	-	211	516	111,376
Interest expense on customer accounts	-	(10,046)	(262)	(36,057)
Interest expense on subordinated debt	(8,082)	-	-	(24,582)
Interest expense on due to other banks	(96,598)	-	-	(17)
Provision/(recovery of provision) for loan impairment	-	(279)	113	27,830
Fee and commission income	510	12	24	15,294
Other operating expenses	-	-	-	(327)
Income from insurance operations	-	-	-	653

In addition, on 28 April 2006 the Bank purchased from related parties 2,858,738 shares of a Ukrainian company which is also a related party of the Bank for the consideration of UAH 45,043 thousand. The fair value of the package as at the date of purchase was UAH 27,073 thousand. The fair value was determined using trade prices on the Ukrainian trading system (PFTS). At the date of initial recognition of these shares the Bank recorded a loss of UAH 17,970 thousand. In December 2006 the Bank sold these securities to the related parties for UAH 45,043 thousand. As a result of these transactions, the Bank recorded a gain of UAH 17,970 thousand.

At 31 December 2006, other rights and obligations with related parties were as follows:

	Parent company	Shareholders	Key management personnel	Entities under control of shareholders and other related parties
<i>In thousands of Ukrainian hryvnias</i>				
Commitments to extend credit	-	3,333	1,584	286,353
Commitments to extend credit received from other banks	494,457	-	-	-
Import letters of credit (cash covered)	-	-	-	11,623
Import letters of credit (uncovered)	-	-	-	42,434
Guarantees issued (uncovered)	-	-	-	64
Promissory notes endorsements (uncovered)	-	-	-	12,359

Aggregate amounts lent to and repaid by related parties during 2006 were:

	Parent company	Shareholders	Key management personnel	Entities under control of shareholders and other related parties
<i>In thousands of Ukrainian hryvnias</i>				
Amounts lent to related parties during the period	-	24,421	30,393	3,126,163
Amounts repaid by related parties during the period	-	25,531	26,843	2,614,346

34 Related Party Transactions (Continued)

As at 31 December 2005, the outstanding balances with related parties were as follows:

	Shareholders	Key management personnel	Entities under common control and other related parties
<i>In thousands of Ukrainian hryvnias</i>			
Loans and advances to customers			
Gross amount of loans and advances to customers in UAH (contractual interest rate: 15 - 17%)	163	-	15,407
Gross amount of loans and advances to customers in USD (contractual interest rate: 10 - 14%)	2,624	5,251	235,715
Gross amount of loans and advances to customers in EUR (contractual interest rate: 9 - 14%)	-	1,309	33,803
Gross amount of loans and advances to customers in CHF (contractual interest rate: 9%)	-	-	92,451
Impairment provisions for loans and advances to customers at 31 December	(279)	(40)	(16,404)
Investment securities available-for-sale			
- Shares	-	-	9,335
Customer accounts			
Current accounts (contractual interest rate: 0 – 3%)	233	32	79,393
Term deposits in UAH (contractual interest rate: 5 - 20%)	3,277	580	151,355
Term deposits in USD (contractual interest rate: 5 - 13%)	2,013	2,579	595
Subordinated debt (contractual interest rate: 10%)	-	-	103,412
Other liabilities	-	-	126

The income and expense items with related parties for the year 2005 were as follows:

	Shareholders	Key management personnel	Entities under common control and other related parties
<i>In thousands of Ukrainian hryvnias</i>			
Interest income on debt securities	-	-	989
Interest income on loans and advances to customers	316	698	23,128
Interest expense on customer accounts	(350)	(225)	(8,960)
Interest expense on subordinated debt	-	-	(2,413)
Recovery of provision for loan impairment	598	63	4,333
Gains less losses from trading securities	-	-	330
Gains from disposal of investment securities available-for-sale	-	-	16,796
Fee and commission income	5	5	3,550
Other operating expenses	-	-	(94)

34 Related Party Transactions (Continued)

At 31 December 2005, other rights and obligations with related parties were as follows:

<i>In thousands of Ukrainian hryvnias</i>	Shareholders	Key management personnel	Entities under control of shareholders and other related parties
Commitments to extend credit	-	-	4,627
Import letters of credit (cash covered)	-	-	844
Import letters of credit (uncovered)	-	-	6,836
Guarantees issued (uncovered)	-	-	345
Promissory notes endorsements (uncovered)	-	-	3,714

Aggregate amounts lent to and repaid by related parties during 2005 were:

<i>In thousands of Ukrainian hryvnias</i>	Shareholders	Key management personnel	Entities under control of shareholders and other related parties
Amounts lent to related parties during the period	103,071	10,041	1,512,295
Amounts repaid by related parties during the period	84,673	14,233	1,349,193

As at 31 December 2006 the parent company and ultimate controlling party of the Bank was BNP Paribas (France). As at 31 December 2005 the ultimate shareholders of the Bank were 2 Ukrainian nationals, Mr O.V. Jaroslavskyy and Mr E.E. Galiyev, neither of which individually controlled the Bank. At 31 December 2005, none of the Bank's intermediate or ultimate shareholders individually or jointly controlled the Bank.

In 2006, the remuneration of members of the Board of Directors comprised salaries, discretionary bonuses and other short-term benefits totalling to UAH 12,323 thousand, including contributions to State pension fund of UAH 371 thousand (2005: UAH 2,279 thousand, including contributions to State pension fund of UAH 316 thousand). Pension contributions are made into State pension fund which is a defined contribution plan.

35 Principal Subsidiaries and Special Purpose Entities

As at 31 December 2006 the Bank consolidated the following subsidiaries:

Name	Nature of business	Country of registration	Percentage of ownership	
			2006	2005
Limited Liability Company "Ukrainian Leasing Company"	Leasing	Ukraine	99.996%	99.996%
Closed Joint-Stock Company "Asset Management Company Uksib Asset Management"	Asset management	Ukraine	99.94%	99.605%
Closed Joint-Stock Insurance Company "Ukrainian Insurance Alliance"	Insurance	Ukraine	100.00%	98.077%
Commercial Bank "UkrSibbank" Limited Liability Company (formerly Commercial Bank "National Financial Traditions" LLC)	Banking	Russian Federation	100.00%	99.278%
"Closed Non-diversified Investment Fund UkrSib Stabilnii Investicii"	Asset management	Ukraine	99.94%	100.00%

In March 2005 the Bank entered into an agreement with other shareholders of LLC Commercial Bank "UkrSibbank" (Russia) (formerly "National Financial Traditions" LLC) in respect of the acquisition of their shares with the total nominal value of RUR 90,000 thousand. The acquisition was completed in April 2006. After this transaction the Bank's share in the Russian subsidiary became 100%.

35 Principal Subsidiaries and Special Purpose Entities (Continued)

As at 31 December 2006 the Bank also consolidated "Closed Non-diversified Investment Fund UkrSib Stabilnii Investicii" (after recommencement of fund activity and control over the fund).

As at 31 December 2005 the Bank's Management consolidated two special purpose entities ("SPE") disclosed below. These SPEs were created to serve and constitute an integral part of the Bank's business. The Bank's Management has governed the financial and operating policies of the SPEs during the period.

The following special purpose entities have been consolidated in these financial statements:

Name	Nature of business	Country of registration	Percentage of ownership directly held by the Bank	
			2006	2005
Limited Liability Company "UkrSib-Finance"	Finance	Ukraine	9.90%	9.90%
Limited Liability Company "Universal Leasing Company"	Leasing	Ukraine	9.091%	8.92%

36 Business Combinations

Acquisition during 2005. On 28 February 2005 the Bank acquired 40% of the share capital of Commercial Bank National Financial Traditions LLC, Russia. The acquired subsidiary contributed revenue of UAH 20,225 thousand and profit of UAH 1,532 thousand to the Bank for the period from the date of acquisition to 31 December 2005. If the acquisition had occurred on 1 January 2005, the Bank's revenue for 2005 would have been UAH 1,164,281 thousand, and profit for 2005 would have been UAH 48,934 thousand. The Bank obtained control over the subsidiary on 28 February 2005 and treated this date as the acquisition date of the subsidiary.

The details of the assets and liabilities acquired and goodwill arising are as follows:

<i>In thousands of Ukrainian hryvnias</i>	IFRS carrying amount immediately before business combination	Fair value
Cash and cash equivalents	14,827	14,827
Mandatory reserve balance with CBR	277	277
Trading securities	4	4
Due from other banks	13,928	13,928
Loans and advances to customers	17,989	17,989
Other assets	4,536	4,536
Premises, leasehold improvements and equipment	1,350	1,350
Deferred tax asset	181	181
Due to other banks	(389)	(389)
Customer accounts	(23,497)	(23,497)
Other liabilities	(245)	(245)
Fair value of net assets of subsidiary		28,961
Less: minority interest		(17,376)
Fair value of acquired interest in net assets of subsidiary		11,585
Excess of the fair value of acquired interest in net assets of subsidiary over the cost of investment		(137)
Total purchase consideration (in cash)		11,448
Less: cash and cash equivalents of subsidiary acquired		(14,827)
Net inflow of cash and cash equivalents on acquisition		(3,379)

Fair value of assets and liabilities acquired are based on discounted cash flow models.

In March 2005 the Bank entered into an agreement with other shareholders of LLC Commercial Bank "UkrSibbank" (Russia) (formerly "National Financial Traditions" LLC) in respect of the acquisition of their shares with the total nominal value of RUR 90,000 thousand (equivalent of UAH 17,080). The acquisition was completed in April 2006. After this transaction the Bank's share in the Russian subsidiary became 100%. As a result of this transaction, gain on purchase of minority in the amount of UAH 2,065 thousand was recognised in the consolidated income statement.

On 1 July 2005 the Bank made an additional investment into the statutory capital of Commercial Bank National Financial Traditions LLC. The additional investment amounted to RUR 90,000 thousand (UAH 15,891 thousand at the exchange rate at the date of payment). The increase in the statutory capital of the Russian subsidiary has been registered by the CBR in September 2005.

36 Business Combinations (Continued)

Disposal during 2005. In March 2005 Open Joint-Stock Company “Closed Non-diversified Corporate Investment Fund UkrSib Stabilny Dohod” has issued additional shares for cash to third parties. As a result, the investment fund’s net assets have increased from UAH 513 thousand to UAH 4,491 thousand and the Bank’s interest in the investment fund has reduced from 97% to 11%. The loss on disposal represents the difference between the Bank’s share of consideration received by the former subsidiary and carrying value of the net assets disposed of through dilution of the Bank’s ownership.

On 31 March 2005 the Bank disposed of 25% of investment certificates of non-diversified investment fund “UkrSib Stabilny Investitsii”. After the disposal the Bank’s share decreased from 70% to 45%. Subsequently the investment fund issued additional certificates for cash to third parties. As at 31 December 2005 investment certificates of this fund held by the Bank are included in investment securities available-for-sale (Note 11).

The investment fund “UkrSib Stabilny Investitsii” operated in the investment banking segment and contributed operating profit of UAH 1,057 thousand to the Bank for the period from 1 January 2005 to 31 March 2005.

The details of assets and liabilities disposed and the disposal consideration are as follows:

<i>In thousands of Ukrainian hryvnias</i>	UkrSib Stabilny Dohod	UkrSib Stabilny Investitsii	Total
Cash and cash equivalents	512	4,697	5,209
Investments	-	18,824	18,824
Other liabilities	-	(2)	(2)
Net assets of subsidiary disposed	512	23,519	24,031
Less: minority interest	(13)	(6,780)	(6,793)
Disposed interest in net assets of subsidiary	499	16,739	17,238
Loss on disposal	(12)	(694)	(706)
Consideration received:			
- proceeds from sale discharged by cash	-	5,005	5,005
- fair value of shares remaining in the Bank’s ownership after disposal	487	-	487
- fair value of investment certificates remaining in the Bank’s ownership	-	11,040	11,040
Total consideration received	487	16,045	16,532
Consideration received in cash	-	5,005	5,005
Less: cash and cash equivalents in subsidiary disposed	(512)	(4,697)	(5,209)
Net cash (outflow) / inflow on sale	(512)	308	(204)

36 Business Combinations (Continued)

Acquisition during 2006. Due to recommencement of “Closed Non-diversified Investment Fund UkrSib Stabilnii Investicii” activity in 2006 this fund was included into these consolidated financial statements starting from 17 July 2006. The acquired subsidiary did not contribute any revenue and contributed profit of UAH 2,496 thousand to the Bank for the period from the date of acquisition to 31 December 2006. If the acquisition had occurred on 1 January 2006, the Bank’s revenue for 2006 would have been UAH 2,159,964 thousand, and profit for 2006 would have been UAH 41,423 thousand.

<i>In thousands of Ukrainian hryvnias</i>	IFRS carrying amount immediately before business combination	Attributed fair value
Cash and cash equivalents	29,316	29,316
Trading securities	14,645	14,645
Other liabilities	(5)	(5)
Fair value of net assets of subsidiary	43,956	43,956
Less: minority interest		8,590
Less: interest acquired previously		6,748
Fair value of acquired interest in net assets of subsidiary		28,618
Excess of the fair value of acquired interest in net assets of subsidiary over the cost of investment		(10)
Total purchase consideration (in cash)		28,608
Less: cash and cash equivalents of subsidiary acquired		(29,316)
Net inflow of cash and cash equivalents on acquisition		(708)

During 2006 the Bank made an additional investment into the fund increasing its holding to 31 982 investment certificates or 50.43% as at the purchase date. As at 31 December 2006 the Bank held directly 50.43% of the investment certificates and 49.51% of the investment certificates through its subsidiary Closed Joint-Stock Company “Asset Management Company “Ukrsib Asset Management”. As a result of this transaction, the Bank recorded a gain on the purchase of minority interest of UAH 33 thousand.

37 Subsequent Events

On 20 December 2006 the shareholders of the Company took a decision to issue 7.5 billion additional shares totalling UAH 375 000 thousand. The placement of shares was completed in February 2007. The shareholders meeting of 23 February 2007 approved the results of the new share issue and decided to make the respective changes to the Company's Charter. On 28 March 2007 the National Bank of Ukraine registered the increase in the share capital of the Company.

In November 2006 the Board of the Company took a decision to issue domestic bonds for a total nominal value of UAH 300,000 thousand with maturity in January 2011 and planned coupon rate of 11% p.a. The placement of the bonds commenced on 24 January and completed on 26 January 2007.

On 15 January and 24 January 2007 the Bank repaid loans received from the NBU in the amount of 103,000 thousand and 95,000 thousand correspondingly.

On 9 February 2007 the Bank received a subordinated debt totalling USD 30,000 thousand (UAH 151,500 thousand at the exchange rate at the date of receipt), with interest rate of 8.75% per annum. The subordinated debt matures in 2017.

On 27 February 2007 the Supervisory Board of the Bank took a decision to issue Eurobonds for a total nominal value of UAH 2,525,000 thousand.

On 21 December 2006 the shareholders of the Ukrainian Insurance Alliance took a decision to issue 25 thousand additional shares totalling UAH 25 000 thousand. All shares were purchased by the Bank on 20 March 2007.

On 7 May 2007 the shareholders of the Company took a decision to issue 9 billion additional shares totalling UAH 450 000 thousand. The placement of shares will take place in June 2007.