# UKRSIBBANK

## Consolidated Financial Statements and Independent Auditor's Report

## 31 December 2007

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PRICEWATERHOUSECOOPERS

**LLC Audit firm**
**"PricewaterhouseCoopers (Audit)"**
75 Zhylyanska Str.
Kyiv, 01032, Ukraine
Telephone +380 44 490 6777
Facsimile +380 44 490 6738

## INDEPENDENT AUDITOR'S REPORT

To the Shareholders and the Board of Directors of UkrSibbank:

1 We have audited the accompanying consolidated financial statements of UkrSibbank and its subsidiaries (the "Bank") which comprise the consolidated balance sheet as at 31 December 2007 and the consolidated income statement, consolidated statement of changes in equity and consolidated 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 2007, 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
15 April 2008

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

| *In thousands of Ukrainian hryvnias* | Note | 31 December 2007 | 31 December 2006 |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and cash equivalents and mandatory reserves | 7 | 2,626,644 | 1,639,159 |
| Trading securities | 8 | 207,692 | 499,105 |
| Due from other banks | 9 | 1,042,023 | 334,993 |
| Loans and advances to customers | 10 | 30,430,963 | 18,060,520 |
| Investment securities available-for-sale | 11 | 691,854 | 165,881 |
| Investments accounted for using the equity method | 12 | 120,577 | - |
| Current income tax prepayment | | 10,324 | 279 |
| Deferred income tax asset | 28 | 7,448 | 9,065 |
| Intangible assets | 13 | 94,761 | 54,516 |
| Premises, leasehold improvements and equipment | 13 | 1,259,934 | 1,122,665 |
| Other financial and non-financial assets | 14 | 175,238 | 132,221 |
| **TOTAL ASSETS** | | **36,667,458** | **22,018,404** |
| **LIABILITIES** | | | |
| Due to other banks | 15 | 12,826,568 | 6,710,969 |
| Customer accounts | 16 | 11,627,923 | 6,548,192 |
| Due to the National Bank of Ukraine | 17 | - | 198,000 |
| Domestic debt securities in issue | 18 | 859,471 | 1,352,420 |
| Eurobonds issued | 19 | 4,213,353 | 3,689,405 |
| Syndicated loans and other borrowed funds | 20 | 1,819,422 | 433,062 |
| Current income tax liability | | 58 | 9,098 |
| Deferred income tax liability | 28 | 84,332 | 51,367 |
| Provisions for liabilities and charges and other liabilities | 21 | 635,816 | 300,440 |
| Subordinated debt | 22 | 1,382,506 | 729,096 |
| **TOTAL LIABILITIES** | | **33,449,449** | **20,022,049** |
| **EQUITY** | | | |
| Share capital | 23 | 3,518,684 | 2,693,684 |
| Share premium | | 5,620 | 5,377 |
| Additional capital | | - | 6,974 |
| Revaluation reserve for investment securities available-for-sale | | (305) | 1,061 |
| Currency translation reserve | | - | 518 |
| Accumulated deficit | | (315,696) | (711,259) |
| **Net assets attributable to the Company's equity holders** | | **3,208,303** | **1,996,355** |
| **Minority interest** | | **9,706** | **-** |
| **TOTAL EQUITY** | | **3,218,009** | **1,996,355** |
| **TOTAL LIABILITIES AND EQUITY** | | **36,667,458** | **22,018,404** |

Approved for issue and signed on behalf of the Board of Directors on 15 April 2008.

Oleksander Adarich
Chairman of the Board

Ganna Samarina
Head of Finance

The notes set out on pages 5 to 82 form an integral part of these consolidated financial statements.

| *In thousands of Ukrainian hryvnias* | **Note** | **2007** | **2006** |
|---|---|---|---|
| Interest income | 24 | 3,091,584 | 1,688,813 |
| Interest expense | 24 | (1,745,124) | (990,747) |
| **Net interest income** | | **1,346,460** | **698,066** |
| Provision for loan impairment | 10 | (336,804) | (248,193) |
| **Net interest income after provision for loan impairment** | | **1,009,656** | **449,873** |
| Fee and commission income | 25 | 425,302 | 373,600 |
| Fee and commission expense | 25 | (38,862) | (35,769) |
| Gains less losses/(losses less gains) from trading securities | | 19,378 | (17,337) |
| Losses on initial recognition of investment securities available-for-sale | 11 | - | (24,554) |
| Gains less losses from trading in foreign currencies | | 160,769 | 56,551 |
| Foreign exchange translation gains less losses | | 3,502 | 72,761 |
| Impairment of investment securities available-for-sale | 11 | - | (2,613) |
| Gains less losses from disposals of investment securities available-for-sale | 11 | 10,433 | 23,116 |
| Net premiums earned | 27 | 165,964 | 97,235 |
| Net claims incurred | 27 | (102,814) | (61,697) |
| Gains less losses from derivative financial instruments | | 4,803 | - |
| Recovery of provision/(provision) for credit related commitments | 33 | 8,681 | (4,207) |
| Other operating income | | 23,828 | 6,442 |
| Administrative and other operating expenses | 26 | (1,279,215) | (850,576) |
| Gains less losses from disposal of subsidiaries | 39 | 87,004 | - |
| Share of the loss of joint ventures accounted for using the equity method | 12 | (4,183) | - |
| **Profit before tax** | | **494,246** | **82,825** |
| Income tax expense | 28 | (138,277) | (42,246) |
| **Profit for the year** | | **355,969** | **40,579** |
| **Profit is attributable to** | | | |
| Equity holders of the Company | | 352,404 | 44,092 |
| Minority interest | | 3,565 | (3,513) |
| **Profit for the year** | | **355,969** | **40,579** |
| **Earnings per share for profit attributable to the equity holders of the Company, basic and diluted** (expressed in UAH per share) | 29 | **0.0075** | **0.0019** |

| *In thousands of Ukrainian hryvnias* | Note | Attributable to equity holders of the Company: Share capital | Share premium | Additional capital | Revaluation reserve for investment securities available-for-sale | Currency translation reserve | Accumulated deficit | Total | Minority interest | Total equity |
|---|---|---|---|---|---|---|---|---|---|---|
| **Balance at 31 December 2005** | | **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 | 11 | - | - | - | 18,049 | - | - | 18,049 | - | 18,049 |
| - Disposal of investment securities available-for-sale | 11 | - | - | - | (23,116) | - | - | (23,116) | - | (23,116) |
| Currency translation differences | | - | - | - | - | 2,754 | - | 2,754 | 28 | 2,782 |
| Income tax recorded in equity | 28 | - | - | - | 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 | 23 | 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** |
| Available-for-sale investments: | | | | | | | | | | |
| - Fair value gains less losses | 11 | - | - | - | 8,612 | - | - | 8,612 | - | 8,612 |
| - Derecognition of investment securities available-for-sale | 11 | - | - | - | (10,433) | - | - | (10,433) | - | (10,433) |
| Currency translation differences | | - | - | - | - | 355 | - | 355 | - | 355 |
| Income tax recorded in equity | 28 | - | - | - | 455 | - | - | 455 | - | 455 |
| Net loss recognised directly in equity | | - | - | - | (1,366) | 355 | - | (1,011) | - | (1,011) |
| Profit for the year | | - | - | - | - | - | 352,404 | 352,404 | 3,565 | 355,969 |
| Total recognised income for 2007 | | - | - | - | (1,366) | 355 | 352,404 | 351,393 | 3,565 | 354,958 |
| Share issue | 23 | 825,000 | 243 | - | - | - | - | 825,243 | - | 825,243 |
| Additional capital from shareholders | 37 | - | - | 36,185 | - | - | - | 36,185 | - | 36,185 |
| Transfer of additional capital | 23 | - | - | (43,159) | - | - | 43,159 | - | - | - |
| Disposal of subsidiaries | | - | - | - | - | (873) | - | (873) | - | (873) |
| Change in share of ownership in subsidiaries | 39 | - | - | - | - | - | - | - | 6,141 | 6,141 |
| **Balance at 31 December 2007** | | **3,518,684** | **5,620** | **-** | **(305)** | **-** | **(315,696)** | **3,208,303** | **9,706** | **3,218,009** |

| *In thousands of Ukrainian hryvnias* | Note | 2007 | 2006 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Interest received on loans and placements | | 2,947,886 | 1,528,630 |
| Interest received on securities | | 70,768 | 70,717 |
| Interest paid | | (1,568,094) | (917,272) |
| Income received from trading in trading securities | | 11,266 | 1,100 |
| Income received from trading in foreign currencies | | 160,769 | 56,551 |
| Fees and commissions received | 25 | 425,302 | 373,600 |
| Fees and commissions paid | 25 | (38,862) | (35,769) |
| Insurance premiums received, net of reinsurance | | 200,948 | 154,860 |
| Insurance claims paid, net of reinsurance | | (87,884) | (30,488) |
| Other operating income received | | 24,529 | 6,442 |
| Staff costs paid | | (651,449) | (408,827) |
| Administrative and other operating expenses paid | | (386,982) | (338,425) |
| Income tax paid | | (138,982) | (39,346) |
| **Cash flows from operating activities before changes in operating assets and liabilities** | | **969,215** | **421,773** |
| **Changes in operating assets and liabilities** | | | |
| Net (increase)/decrease in mandatory reserve balances | | (757,924) | 194,391 |
| Net decrease in trading securities | | 300,434 | 231,230 |
| Net (increase)/decrease in due from other banks | | (794,072) | 12,660 |
| Net increase in loans and advances to customers | | (12,674,397) | (10,328,779) |
| Net increase in other assets | | (142,698) | (23,152) |
| Net increase in due to other banks | | 6,162,661 | 5,419,033 |
| Net increase in customer accounts | | 5,008,136 | 1,166,106 |
| Net (decrease)/increase in due to the NBU | | (198,000) | 180,967 |
| Net decrease in domestic debt securities in issue | | (39) | (500) |
| Net increase in other liabilities | | 337,480 | 54,809 |
| **Net cash used in operating activities** | | **(1,789,204)** | **(2,671,462)** |
| **Cash flows from investing activities** | | | |
| Acquisition of investment securities available-for-sale | 11 | (3,247,492) | (807,406) |
| Proceeds from disposal of investment securities available-for-sale | 11 | 2,735,465 | 704,211 |
| Acquisition of interest in a jointly controlled entity | 12 | (124,759) | - |
| Proceeds from redemption of investment securities held to maturity | | - | 18,861 |
| Acquisition of premises, leasehold improvements, equipment and intangible assets | | (271,993) | (375,723) |
| Proceeds from disposal of premises and equipment | | 4,524 | 6,567 |
| Cash of subsidiary acquired, net of consideration paid | 39 | - | 708 |
| Cash outflow on acquisition of subsidiary | 39 | (129) | - |
| Cash outflow on disposal of subsidiary | 39 | (69,662) | - |
| Proceeds from disposal of subsidiaries | 39 | 79,338 | - |
| Cash paid on acquisition of minority | | - | (16,807) |
| **Net cash used in investing activities** | | **(894,708)** | **(469,589)** |
| **Cash flows from financing activities** | | | |
| Issue of long-term domestic debt securities | | 301,676 | 555,034 |
| Redemption of long-term domestic debt securities | | (801,611) | (50,000) |
| Redemption of Eurobonds | | (505,000) | - |
| Issue of Eurobonds | | 1,003,510 | 2,514,185 |
| Proceeds from other borrowed funds | | 1,804,789 | 618,363 |
| Repayment of other borrowed funds | | (426,834) | (1,209,432) |
| Issue of subordinated debt | | 631,027 | 442,809 |
| Issue of ordinary shares | 23 | 825,243 | 1,003,317 |
| Additional capital received | 37 | 36,185 | - |
| **Net cash from financing activities** | | **2,868,985** | **3,874,276** |
| **Effect of exchange rate changes on cash and cash equivalents** | | **44,488** | **108,375** |
| **Net increase in cash and cash equivalents** | | **229,561** | **841,600** |
| Cash and cash equivalents at the beginning of the year | | 1,456,098 | 614,498 |
| **Cash and cash equivalents at the end of the year** | 7 | **1,685,659** | **1,456,098** |

## 1 Introduction

These financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2007 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. The Bank participates in the state deposit insurance scheme (registration #86 dated 02 September 1999), which operates according to the Law #2740-III "On Individuals Deposits Guarantee Fund" dated 20 September 2001. Individuals Deposits Guarantee Fund guarantees repayment of individual deposits up to UAH 50 thousand (2006: UAH 15 thousand) per individual in case bank liquidation procedure is started.

As at 31 December 2007 UkrSibbank has 1,004 outlets in Ukraine (2006: 12 branches and 992 outlets). Additionally, UkrSibbank has representative offices in Kyiv and Kharkiv (Ukraine). As at 31 December 2006 UkrSibbank had a subsidiary bank in Russia, which was disposed of on 19 July 2007. In addition, in November 2007 the Bank disposed its insurance subsidiary, Insurance Company "Ukrainian Insurance Alliance". Please refer to Note 39. A list of consolidated subsidiaries and special purpose entities is disclosed in Note 38.

***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 16.6% for the year ended 31 December 2007 (2006: 11.6%). 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.

## 2 Operating Environment of the Bank (Continued)

***Recent volatility in financial markets.*** The last few months have seen a sharp rise in foreclosures in the US subprime mortgage market. The effects have spread beyond the US housing market as global investors were forced to re-evaluate the risks they were taking which resulted in increased volatility and lower liquidity in the fixed income, equity, and derivative markets. The tighter credit markets may affect the ability of the Bank to refinance its borrowings, deposits from customers or other liabilities and affect the value of its loan portfolio. Under IFRS, a decline in the fair value of a financial asset below its amortised cost that results from an increase in the base interest rate is generally not evidence of impairment. Management is unable to estimate the effects on the Bank's financial position of any further possible deterioration in the financial markets' liquidity and increased volatility.

## 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 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).

***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.

***Interest in joint venture.*** A joint venture is created through an agreement establishing joint control over the financial and operating policies of the joint venture together with other investors. A jointly controlled entity is a joint venture that involves the establishment of a separate legal entity in which each venturer has an interest. The Bank recognises its interests in a jointly controlled entities using the equity method. The joint venture is initially recorded at cost and the Bank's share of post-acquisition profit or loss of the joint venture is recognised in the Bank's income statement. Bank eliminates it's share of unrealised profits or losses from intercompany transactions with joint ventures.

***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.

## 3 Basis of Preparation and Significant Accounting Policies (Continued)

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. Refer to Note 11.

*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 repricing 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 instruments 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 except 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. Securities purchased for the purposes of liquidity management and not for the purposes of shor-term profit-taking are classified as investment securities available-for-sale.

## 3 Basis of Preparation and Significant Accounting Policies (Continued)

Trading securities are carried at fair value. Interest earned on trading 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.

When impaired financial assets are renegotiated the impairment loss and the carrying value of the renegotiated asset is determined using the original effective interest rate applicable prior to the renegotiation.

***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. The primary factors that the Bank considers whether a financial asset is impaired is its overdue status and realisability of related collateral, if any. The following other principal criteria are also used to determine that there is objective evidence that an impairment loss has occurred:

- any instalment is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;
- the borrower experiences a significant financial difficulty as evidenced by borrower's financial information that the Bank obtains;
- the borrower considers bankruptcy or a financial reorganisation;
- there is adverse change in the payment status of the borrower as a result of changes in the national or local economic conditions that impact the borrower; and
- the value of collateral significantly decreases as a result of deteriorating market conditions.

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 remaining 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.

## 3 Basis of Preparation and Significant Accounting Policies (Continued)

***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 and it is probable that the dividends will be collected. 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") which effectively provide a lender's return to the Bank 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.

Securities lent to counterparties for a fixed fee 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. The obligation to return the securities is recorded at fair value in other liabilities.

***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 (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Bank has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all the risks and rewards of ownership of the assets or (iii) neither transferring nor retaining substantially all risks and rewards of ownership but not retaining 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 or associate at the date of exchange. Goodwill on acquisitions of associates is included in the investment in associates. 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 acquirer's 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 estimated fair value at the date of acquisition.

Construction in progress is carried at cost, 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.

## 3 Basis of Preparation and Significant Accounting Policies (Continued)

All other items of premises, leasehold improvements and equipment are stated at cost less accumulated depreciation and impairment losses, if any.

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 to the extent it exceeds the previous revaluation surplus in equity. 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.

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 or revalued amounts 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 |

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.

Leases embedded in other agreements are separated if (a) fulfilment of the arrangement is dependent on the use of a specific asset or assets and (b) the arrangement conveys a right to use the asset.

***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 lease 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.

## 3 Basis of Preparation and Significant Accounting Policies (Continued)

***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.

***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. Provisions for unearned premiums represent 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. As disclosed in Note 39, the Bank disposed its insurance subsidiary in 2007. Following the disposal of its subsidiary, the Bank has no insurance activities.

***Reinsurance.*** The Bank cedes reinsurance in the normal course of business. Ceded reinsurance 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 derivative financial instruments. 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.

## 3 Basis of Preparation and Significant Accounting Policies (Continued)

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 Bank. 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, except where the Bank does not control the subsidiary's dividend policy or it is probable that the difference will reverse through dividends or otherwise in the foreseeable future.

***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.

## 3 Basis of Preparation and Significant Accounting Policies (Continued)

***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.

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 2007, UAH** | **31 December 2006, UAH** |
|---|---|---|
| 1 US dollar (USD) | 5.050000 | 5.050000 |
| 1 euro (EUR) | 7.419460 | 6.650850 |
| 1 Russian Rouble (RUB) | 0.205790 | 0.191790 |

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 assets.*** Assets 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 33. For the purposes of disclosure, fiduciary activities do not encompass safe custody functions. Commissions received from fiduciary activities are shown 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.

## 3 Basis of Preparation and Significant Accounting Policies (Continued)

***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. Geographical segments of the Bank have been reported separately within these consolidated financial statements based on the ultimate domicile of the counterparty, e.g. based on economic risk rather than legal risk of the counterparty.

***Changes in presentation*.** Where necessary, corresponding figures have been adjusted to conform with changes in the presentation of the current period.

The effect of reclassifications is as follows (refer to Note 33):

| *In thousands on Ukrainian hryvnias* | **31 December 2006** |
|---|---|
| **Increase in** | |
| Revocable commitments to extend credit | 1,539,499 |
| **Decrease in** | |
| Irrevocable commitments to extend credit | (1,539,499) |

Any further changes to these consolidated financial statements require approval of the Board of Directors who authorised these consolidated 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 15,875 thousand (31 December 2006: UAH 9,948 thousand) higher or UAH 15,875 thousand (31 December 2006: UAH 9,948 thousand) lower.

***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, 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 decrease in net assets by UAH 10,712 thousand (2006: increase in net assets by UAH 1,162 thousand) and decrease in results by UAH 11,090 thousand (2006: increase in results by UAH 508 thousand).

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

***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 33.

***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.

***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 were drawn down from such current account, the Bank charged 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 had an alternative to receive loan funds in cash, thus avoiding payment of such commission. As such, the Bank believed that such type of commission was not part of the effective interest rate of the loan but represented a settlement fee and should be recognised as services are provided. Total amount of such commission for 2007 was approximately UAH 63 million (2006: approximately UAH 116 million). This treatment was applied by the Bank till the end of May 2007. In June 2007 the Bank also started to charge commissions on cash withdrawals and from this period commissions received are included in the calculation of the effective interest rate of loans.

## 5 Adoption of New or Revised Standards and Interpretations

Certain new IFRSs became effective for the Bank from 1 January 2007. 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 2006, unless otherwise described below.

***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 introduced new disclosures to improve the information about financial instruments, including about quantitative aspects of risk exposures and the methods of risk management. The new quantitative disclosures 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 cover exposure to credit risk, liquidity risk and market risk including sensitivity analysis to market risk. IFRS 7 replaced 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 introduced disclosures about the level of an entity's capital and how it manages capital. The new disclosures are made in these financial statements.

***Other new standards or interpretations.*** The Bank has adopted the following other new standards or interpretations which became effective from 1 January 2007:

- IFRIC 7, *Applying the Restatement Approach under IAS 29* (effective for periods beginning on or after 1 March 2006);
- IFRIC 8, *Scope of IFRS 2* (effective for periods beginning on or after 1 May 2006);
- 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).

The new IFRIC interpretations 7 to 10 did not significantly affect the Bank's consolidated financial statements.

## 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 2008 or later periods and which the Bank has not early adopted:

***IAS 1, Presentation of Financial Statements (revised September 2007; effective for annual periods beginning on or after 1 January 2009).*** The revised IAS 1 replaces the financial statement titles 'balance sheet' and 'cash flow statement' with 'statement of financial position' and 'statement of cash flows'. The main change in IAS 1 is the replacement of the income statement by a statement of comprehensive income which will also include all non-owner changes in equity, such as the revaluation of available-for-sale financial assets. Alternatively, entities will be allowed to present two statements: a separate income statement and a statement of comprehensive income. The revised IAS 1 also introduces a requirement to present a statement of financial position at the beginning of the earliest comparative period whenever the entity restates comparatives due to reclassifications, changes in accounting policies, or corrections of errors. The Bank expects the revised IAS 1 to impact the presentation of its financial statements but to have no impact on the recognition or measurement of specific transactions and balances.

***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 requires an entity to report financial and descriptive information about its operating segments and specifies how an entity should report such information.

***IAS 27, Consolidated and Separate Financial Statements (revised January 2008; effective for annual periods beginning on or after 1 July 2009).*** The revised IAS 27 will require an entity to attribute total comprehensive income to the owners of the parent and to the non-controlling interests (previously "minority interests") even if this results in the non-controlling interests having a deficit balance (the current standard requires the excess losses to be allocated to the owners of the parent in most cases). The revised standard specifies that changes in a parent's ownership interest in a subsidiary that do not result in the loss of control must be accounted for as equity transactions. It also specifies how an entity should measure any gain or loss arising on the loss of control of a subsidiary. At the date when control is lost, any investment retained in the former subsidiary will have to be measured at its fair value. The Bank is currently assessing the impact of the amended standard on its consolidated financial statements.

***IFRS 3, Business Combinations (revised January 2008; effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009).*** The revised IFRS 3 will allow entities to choose to measure non-controlling interests using the existing IFRS 3 method (proportionate share of the acquiree's identifiable net assets) or at fair value. The revised IFRS 3 is more detailed in providing guidance on the application of the purchase method to business combinations. The requirement to measure at fair value every asset and liability at each step in a step acquisition for the purposes of calculating a portion of goodwill has been removed. Instead, goodwill will be measured as the difference at acquisition date between the fair value of any investment in the business held before the acquisition, the consideration transferred and the net assets acquired. Acquisition-related costs will be accounted for separately from the business combination and therefore recognised as expenses rather than included in goodwill. An acquirer will have to recognise at the acquisition date a liability for any contingent purchase consideration. Changes in the value of that liability after the acquisition date will be recognised in accordance with other applicable IFRSs, as appropriate, rather than by adjusting goodwill. The revised IFRS 3 brings into its scope business combinations involving only mutual entities and business combinations achieved by contract alone. The Bank is currently assessing the impact of the amended standard on its consolidated financial statements.

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

- 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);
- IFRIC 13, *Customer Loyalty Programmes* (effective for annual periods beginning on or after 1 July 2008);
- IFRIC 14, *IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* (effective for annual periods beginning on or after 1 January 2008);
- IAS 23, Borrowing Costs, revised March 2007 (effective for annual periods beginning on or after 1 January 2009);
- IAS 32 and IAS 1 Amendment - Puttable financial instruments and obligations arising on liquidation (effective for annual periods beginning on or after 1 January 2009);
- IFRS 2 Amended - Share-based Payment (issued in January 2008; 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 financial statements.

## 7 Cash and Cash Equivalents and Mandatory Reserves

| *In thousands of Ukrainian hryvnias* | **2007** | **2006** |
|---|---|---|
| Cash on hand | 869,735 | 557,839 |
| Cash balances with the National Bank of Ukraine | 1,192,764 | 491,480 |
| Cash balances with the Central Bank of Russian Federation | - | 95,276 |
| Correspondent accounts and overnight placements with other banks | | |
| - Ukraine | 5,455 | 154 |
| - other countries | 558,690 | 494,410 |
| **Total cash and cash equivalents and mandatory reserves** | **2,626,644** | **1,639,159** |

As at 31 December 2007 the mandatory reserve balance with the NBU is calculated on the basis of a simple average over a monthly period (31 December 2006: monthly period) and should be maintained at the level of 0.5 to 5 per cent (31 December 2006: 0,5 to 5 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 2007 was UAH 940,985 thousand (2006: UAH 178,541 thousand). As at 31 December 2007 the Bank can only satisfy its mandatory reserve requirement exclusively with its balance on account with the NBU (31 December 2006: exclusively with balance on account with the NBU). Mandatory reserves carry 0% interest rate.

As at 31 December 2007 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 2006: not less than 100% 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 4,520 thousand.

As the respective liquid 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 balance is excluded from cash and cash equivalents.

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

| | **2007** | **2006** |
|---|---|---|
| Total cash and cash equivalents and mandatory reserves | 2,626,644 | 1,639,159 |
| Less: mandatory reserves balances | (940,985) | (183,061) |
| **Cash and cash equivalents for the purposes of cash flow statement** | **1,685,659** | **1,456,098** |

Analysis by credit quality of cash and cash equivalents and mandatory reserve balances at 31 December 2007 is as follows:

| *In thousands of Ukrainian hryvnias* | **Cash on hand** | **Cash balances with the National Bank of Ukraine** | **Correspondent accounts and overnight placements with other banks** | **Total** |
|---|---|---|---|---|
| *Current and not impaired* | | | | |
| Cash on hand | 869,735 | - | - | 869,735 |
| Cash balances with the NBU | - | 1,192,764 | - | 1,192,764 |
| Top 20 Ukrainian banks | - | - | 5,455 | 5,455 |
| Large OECD banks | - | - | 516,743 | 516,743 |
| Non-OECD banks | - | - | 41,947 | 41,947 |
| **Total cash and cash equivalents and mandatory reserve balances** | **869,735** | **1,192,764** | **564,145** | **2,626,644** |

## 7 Cash and Cash Equivalents and Mandatory Reserves (Continued)

Analysis by credit quality of cash and cash equivalents and mandatory reserve balances at 31 December 2006 is as follows:

| *In thousands of Ukrainian hryvnias* | **Cash on hand** | **Cash balances with the National Bank of Ukraine** | **Cash balances with the Central Bank of Russian Federation** | **Correspondent accounts and overnight placements with other banks** | **Total** |
|---|---|---|---|---|---|
| *Current and not impaired* | | | | | |
| Cash on hand | 557,839 | - | - | - | 557,839 |
| Cash balances with the National Bank of Ukraine | - | 491,480 | - | - | 491,480 |
| Cash balances with the Central Bank of Russian Federation | - | - | 95,276 | - | 95,276 |
| Top 20 Ukrainian banks | - | - | - | 154 | 154 |
| Large OECD banks | - | - | - | 323,258 | 323,258 |
| Non-OECD banks | - | - | - | 171,152 | 171,152 |
| **Total cash and cash equivalents and mandatory reserve balances** | **557,839** | **491,480** | **95,276** | **494,564** | **1,639,159** |

Geographical, currency and interest rate analyses of cash and cash equivalents and mandatory reserves are disclosed in Note 31. Information on balances with related parties is disclosed in Note 37.

## 8 Trading Securities

| *In thousands of Ukrainian hryvnias* | 2007 | 2006 |
|---|---|---|
| Corporate bonds | 65,932 | 265,110 |
| Ukrainian government bonds | 123,689 | 120,222 |
| Russian government bonds | - | 11,704 |
| Bonds issued by local authorities | 10,989 | 94,342 |
| **Total debt securities** | **200,610** | **491,378** |
| Quoted corporate shares | 7,082 | 7,727 |
| **Total trading securities** | **207,692** | **499,105** |

Analysis by credit quality of debt trading securities outstanding at 31 December 2007 is as follows:

| *In thousands of Ukrainian hryvnias* | Corporate bonds | Ukrainian government bonds | Bonds issued by local authorities | Total |
|---|---|---|---|---|
| *Current (at fair value)* | | | | |
| - Government | - | 123,689 | - | 123,689 |
| - Bonds issued by local authorities | - | - | 10,989 | 10,989 |
| - Large Ukrainian corporates | 65,932 | - | - | 65,932 |
| **Total debt trading securities** | **65,932** | **123,689** | **10,989** | **200,610** |

Analysis by credit quality of debt trading securities outstanding at 31 December 2006 is as follows:

| *In thousands of Ukrainian hryvnias* | Corporate bonds | Ukrainian government bonds | Russian government bonds | Bonds issued by local authorities | Total |
|---|---|---|---|---|---|
| *Current (at fair value)* | | | | | |
| - Government | - | 120,222 | 11,704 | - | 131,926 |
| - Bonds issued by local authorities | - | - | - | 94,342 | 94,342 |
| - Large Ukrainian corporates | 265,110 | - | - | - | 265,110 |
| **Total debt trading securities** | **265,110** | **120,222** | **11,704** | **94,342** | **491,378** |

At 31 December 2007 included in trading securities are securities pledged under sale and repurchase agreements whose fair value is UAH 20,761 thousand (2006: UAH 57,392 thousand). Refer to Notes 15, 16 and 33.

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 17 and 33.

Geographical, currency, maturity and interest rate analyses of trading securities are disclosed in Note 31. The information on trading securities issued by related parties is disclosed in Note 37.

The Bank is licensed by the State Commission on Securities and Stock Markets for trading in securities.

## 9 Due from Other Banks

| *In thousands of Ukrainian hryvnias* | **2007** | **2006** |
|---|---|---|
| Overnights and short-term placements with other banks | 882,058 | 303,511 |
| Reverse sale and repurchase agreements with other banks | 158,955 | 26,947 |
| Guarantee deposits with other banks | 1,010 | 4,535 |
| **Total due from other banks** | **1,042,023** | **334,993** |

At 31 December 2007 amounts due from other banks of UAH 158,955 thousand (2006: UAH 26,947 thousand) are effectively collateralised by securities purchased under reverse sale and repurchase agreements at a fair value of UAH 159,221 thousand (2006: UAH 26,897 thousand).

Guarantee deposits include balances placed with other banks on behalf of the Bank's customers as cover for letters of credit totalling UAH 1,010 thousand (2006: UAH 1,079 thousand). The Bank does not have the right to use these funds for the purposes of funding its own activities. In addition, as at 31 December 2006 guarantee deposits included 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. Refer to Note 33.

Analysis by credit quality of amounts due from other banks outstanding at 31 December 2007 is as follows:

| *In thousands of Ukrainian hryvnias* | **Term placements with other banks** | **Reverse sale and repurchase agreements with other banks** | **Guarantee deposits with other banks** | **Total** |
|---|---|---|---|---|
| - Top 20 Ukrainian banks | 359,589 | 126,096 | - | 485,685 |
| - Other Ukrainian banks | 211,266 | 32,859 | - | 244,125 |
| - OECD Banks | 296,786 | - | 1,010 | 297,796 |
| - Non-OECD Banks | 14,417 | - | - | 14,417 |
| **Total due from other banks** | **882,058** | **158,955** | **1,010** | **1,042,023** |

Analysis by credit quality of amounts due from other banks outstanding at 31 December 2006 is as follows:

| *In thousands of Ukrainian hryvnias* | **Term placements with other banks** | **Reverse sale and repurchase agreements with other banks** | **Guarantee deposits with other banks** | **Total** |
|---|---|---|---|---|
| - Top 20 Ukrainian banks | 123,657 | 26,947 | 3,456 | 154,060 |
| - Other Ukrainian banks | 179,854 | - | - | 179,854 |
| - OECD Banks | - | - | 1,079 | 1,079 |
| **Total due from other banks** | **303,511** | **26,947** | **4,535** | **334,993** |

Carrying value of each class of amounts due from other banks approximates fair value at 31 December 2007 and 31 December 2006. At 31 December 2007 the estimated fair value of due from other banks was UAH 1,042,023 thousand (2006: UAH 334,993 thousand). Refer to Note 35.

The total aggregate amount of top 10 balances due from other banks was UAH 693,760 thousand (2006: UAH 236,033 thousand) or 79% of the total amount due from other banks (2006: 78%).

Geographical, currency, maturity and Interest rate analysis of due from other banks is disclosed in Note 31. The information on related party balances is disclosed in Note 37.

## 10 Loans and Advances to Customers

| *In thousands of Ukrainian hryvnias* | **2007** | **2006** |
|---|---|---|
| Car loans | 4,768,487 | 2,444,673 |
| Mortgage loans | 11,101,932 | 6,168,090 |
| Other term loans | 14,093,350 | 9,120,993 |
| Overdrafts | 835,922 | 631,148 |
| Net investment in finance leases | 357,852 | 128,873 |
| Reverse sale and repurchase agreements | 109,432 | 82,734 |
| Less: Provision for loan impairment | (836,012) | (515,991) |
| **Total loans and advances to customers** | **30,430,963** | **18,060,520** |

Other term loans include term loans provided to corporates, small and medium enterprises and individuals.

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 2007 loans and advances to customers of UAH 109,432 thousand (2006: UAH 82,734 thousand) are effectively collateralised by securities purchased under reverse sale and repurchase agreements at a fair value of UAH 109,392 thousand (2006: UAH 85,693 thousand).

Movements in the provision for loan impairment during 2007 are as follows:

| *In thousands of Ukrainian hryvnias* | **Car loans** | **Mort-gage loans** | **Other term loans** | **Over-drafts** | **Net invest-ment in finance leases** | **Reverse sale and repur-chase agree-ments** | **Total** |
|---|---|---|---|---|---|---|---|
| **Provision for loan impairment at 1 January 2007** | **67,429** | **92,680** | **339,337** | **15,675** | **870** | **-** | **515,991** |
| Provision for impairment during the year | 104,296 | 132,905 | 71,036 | 27,356 | 1,211 | - | 336,804 |
| Amounts written off during the year as uncollectible | (217) | - | (4,813) | - | - | - | (5,030) |
| Disposal of subsidiaries | - | - | (11,753) | - | - | - | (11,753) |
| **Provision for loan impairment at 31 December 2007** | **171,508** | **225,585** | **393,807** | **43,031** | **2,081** | **-** | **836,012** |

## 10 Loans and Advances to Customers (Continued)

Movements in the provision for loan impairment during 2006 are as follows:

| *In thousands of Ukrainian hryvnias* | Car loans | Mort-gage loans | Other term loans | Over-drafts | Net invest-ment in finance leases | Reverse sale and repur-chase agree-ments | Total |
|---|---|---|---|---|---|---|---|
| **Provision for loan impairment at 1 January 2006** | **26,148** | **19,195** | **222,823** | **7,647** | **-** | **-** | **275,813** |
| Provision for impairment during the year | 41,281 | 73,485 | 124,529 | 8,028 | 870 | | 248,193 |
| Currency translation difference | - | - | 330 | - | - | - | 330 |
| Amounts written off during the year as uncollectible | - | - | (8,345) | - | - | - | (8,345) |
| **Provision for loan impairment at 31 December 2006** | **67,429** | **92,680** | **339,337** | **15,675** | **870** | **-** | **515,991** |

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

| | 2007 | | 2006 | |
|---|---|---|---|---|
| *In thousands of Ukrainian hryvnias* | Amount | % | Amount | % |
| Individuals | 17,964,419 | 58 | 9,899,679 | 53 |
| Commerce and finance | 5,710,709 | 18 | 3,173,056 | 17 |
| Agriculture and food | 2,200,074 | 7 | 1,692,001 | 9 |
| Manufacture and machinery building | 1,257,881 | 4 | 760,386 | 4 |
| Air and other transport services | 825,931 | 3 | 375,388 | 2 |
| Property construction | 752,168 | 2 | 432,266 | 2 |
| Metallurgy and mining | 598,472 | 2 | 280,085 | 2 |
| Motor vehicles trading | 595,453 | 2 | 507,090 | 3 |
| Chemical industry | 579,857 | 2 | 629,463 | 3 |
| Oil and gas | 369,768 | 1 | 306,778 | 2 |
| Other | 412,243 | 1 | 520,319 | 3 |
| **Total loans and advances to customers (before impairment)** | **31,266,975** | **100** | **18,576,511** | **100** |

At 31 December 2007 total aggregate amount of loans to top 10 borrowers of the Bank was UAH 2,248,073 thousand (31 December 2006: UAH 2,055,476 thousand) or 7 % of the gross loan portfolio (31 December 2006: 11 %).

The Bank does not have exposures exceeding 10% of net assets.

As disclosed in Note 16, at 31 December 2007 loans with the carrying value of UAH 827,895 thousand (2006: UAH 812,832 thousand) were collateralised by customer accounts totalling UAH 997,690 thousand (2006: UAH 1,089,923 thousand).

## 10 Loans and Advances to Customers (Continued)

Information about collateral at 31 December 2007 is as follows:

| *In thousands of Ukrainian hryvnias* | **Car loans** | **Mortgage loans** | **Other term loans** | **Over-drafts** | **Net invest-ment in finance leases** | **Reverse sale and repur-chase agree-ments** | **Total** |
|---|---|---|---|---|---|---|---|
| Unsecured loans | - | - | - | 834,600 | - | - | 834,600 |
| Loans collateralised by: | | | | | | | |
| - real estate | - | 11,029,744 | - | - | - | - | 11,029,744 |
| - auto | 4,766,878 | - | - | - | - | - | 4,766,878 |
| - securities | - | - | 105,960 | - | - | 109,432 | 215,392 |
| - cash deposits | 764 | 6,337 | 819,755 | 1,039 | - | - | 827,895 |
| - equipment | - | - | 445,955 | - | - | - | 445,955 |
| - other assets | 845 | 65,851 | 12,721,680 | 283 | 357,852 | - | 13,146,511 |
| **Total loans and advances to customers (before impairment)** | **4,768,487** | **11,101,932** | **14,093,350** | **835,922** | **357,852** | **109,432** | **31,266,975** |

Information about collateral at 31 December 2006 is as follows:

| *In thousands of Ukrainian hryvnias* | **Car loans** | **Mortgage loans** | **Other term loans** | **Over-drafts** | **Net invest-ment in finance leases** | **Reverse sale and repur-chase agree-ments** | **Total** |
|---|---|---|---|---|---|---|---|
| Unsecured loans | - | - | - | 630,963 | - | - | 630,963 |
| Loans collateralised by: | | | | | | | |
| - real estate | - | 6,164,094 | - | - | - | - | 6,164,094 |
| - auto | 2,444,527 | - | - | - | - | - | 2,444,527 |
| - securities | - | - | 1,486 | - | - | 82,734 | 84,220 |
| - cash deposits | 146 | 2,056 | 810,630 | - | - | - | 812,832 |
| - equipment | - | - | 93,099 | - | - | - | 93,099 |
| - other assets | - | 1,940 | 8,215,778 | 185 | 128,873 | - | 8,346,776 |
| **Total loans and advances to customers (before impairment)** | **2,444,673** | **6,168,090** | **9,120,993** | **631,148** | **128,873** | **82,734** | **18,576,511** |

Collateral for other assets includes tradable goods, freehold rights and guarantees.

## 10 Loans and Advances to Customers (Continued)

Analysis by credit quality of loans outstanding at 31 December 2007 is as follows:

| *In thousands of Ukrainian hryvnias* | Car loans | Mortgage loans | Other term loans | Over-drafts | Net invest-ment in finance leases | Reverse sale and repur-chase agree-ments | Total |
|---|---|---|---|---|---|---|---|
| *Current and not impaired* | | | | | | | |
| - short-term financing - up to 1 year | 25,681 | 48,976 | 4,361,787 | 786,227 | 6,544 | 109,432 | 5,338,647 |
| - medium term facilities - from 1 to 10 years | 4,363,913 | 4,070,256 | 7,807,876 | - | 345,093 | - | 16,587,138 |
| - investment loans - over 10 years | 1,331 | 6,298,337 | 1,088,419 | 221 | - | - | 7,388,308 |
| - Loans renegotiated in 2007 | - | 5,610 | 457,665 | - | - | - | 463,275 |
| **Total current and not impaired** | **4,390,925** | **10,423,179** | **13,715,747** | **786,448** | **351,637** | **109,432** | **29,777,368** |
| *Past due but not impaired* | | | | | | | |
| - 1 to 10 days overdue | 70,255 | 149,179 | 104,150 | 45,907 | - | - | 369,491 |
| - 11 to 30 days overdue | 79,314 | 164,340 | 75,557 | - | - | - | 319,211 |
| - 31 to 90 days overdue | 52,208 | 87,558 | 44,695 | - | - | - | 184,461 |
| **Total past due but not impaired** | **201,777** | **401,077** | **224,402** | **45,907** | **-** | **-** | **873,163** |
| *Loans individually determined to be impaired (gross)* | | | | | | | |
| - less than 30 days overdue | 11,621 | 19,953 | 17,107 | - | - | - | 48,681 |
| - 31 to 90 days overdue | 30,730 | 58,788 | 23,332 | 1,069 | - | - | 113,919 |
| - 91 to 180 days overdue | 59,798 | 90,144 | 32,618 | 716 | 5,730 | - | 189,006 |
| - 181 – 360 days overdue | 39,334 | 70,312 | 39,228 | 288 | 485 | - | 149,647 |
| - over 360 days overdue | 34,302 | 38,479 | 40,916 | 1,494 | - | - | 115,191 |
| **Total individually impaired loans (gross)** | **175,785** | **277,676** | **153,201** | **3,567** | **6,215** | **-** | **616,444** |
| **Less impairment provisions** | **(171,508)** | **(225,585)** | **(393,807)** | **(43,031)** | **(2,081)** | **-** | **(836,012)** |
| **Total loans and advances to customers** | **4,596,979** | **10,876,347** | **13,699,543** | **792,891** | **355,771** | **109,432** | **30,430,963** |

## 10 Loans and Advances to Customers (Continued)

Analysis by credit quality of loans outstanding at 31 December 2006 is as follows:

| *In thousands of Ukrainian hryvnias* | Car loans | Mortgage loans | Other term loans | Over-drafts | Net invest-ment in finance leases | Reverse sale and repur-chase agree-ments | Total |
|---|---|---|---|---|---|---|---|
| *Current and not impaired* | | | | | | | |
| - short-term financing - up to 1 year | 14,697 | 5,325 | 2,676,922 | 408,273 | 128,873 | 82,734 | 3,316,824 |
| - medium term facilities - from 1 to 10 years | 2,192,160 | 1,767,097 | 5,122,408 | - | - | - | 9,081,665 |
| - investment loans - over 10 years | 994 | 3,986,657 | 804,099 | - | - | - | 4,791,750 |
| - Loans renegotiated in 2007 | - | - | 203,856 | - | - | - | 203,856 |
| **Total current and not impaired** | **2,207,851** | **5,759,079** | **8,807,285** | **408,273** | **128,873** | **82,734** | **17,394,095** |
| *Past due but not impaired* | | | | | | | |
| - 1 to 10 days overdue | 64,055 | 108,773 | 191,580 | 197,520 | - | - | 561,928 |
| - 11 to 30 days overdue | 69,066 | 131,476 | 30,533 | 2,457 | - | - | 233,532 |
| - 31 to 90 days overdue | 26,357 | 52,156 | 20,366 | 718 | - | - | 99,597 |
| **Total past due but not impaired** | **159,478** | **292,405** | **242,479** | **200,695** | **-** | **-** | **895,057** |
| *Loans individually determined to be impaired (gross)* | | | | | | | |
| - less than 30 days overdue | 15,344 | 19,264 | 20,840 | 17,861 | - | - | 73,309 |
| - 31 to 90 days overdue | 18,200 | 35,241 | 18,602 | 1,222 | - | - | 73,265 |
| - 91 to 180 days overdue | 21,803 | 40,579 | 16,327 | 1,218 | - | - | 79,927 |
| - 181 – 360 days overdue | 13,867 | 16,697 | 9,389 | 1,539 | - | - | 41,492 |
| - over 360 days overdue | 8,130 | 4,825 | 6,071 | 340 | - | - | 19,366 |
| **Total individually impaired loans (gross)** | **77,344** | **116,606** | **71,229** | **22,180** | **-** | **-** | **287,359** |
| **Less impairment provisions** | **(67,429)** | **(92,680)** | **(339,337)** | **(15,675)** | **(870)** | **-** | **(515,991)** |
| **Total loans and advances to customers** | **2,377,244** | **6,075,410** | **8,781,656** | **615,473** | **128,003** | **82,734** | **18,060,520** |

The primary factors that the Bank considers whether a loan is impaired is its overdue status and realisability of related collateral, if any. As a result, the Bank presents above an ageing analysis of loans that are individually determined to be impaired. Although included in past due but not impaired for the purposes of this table, the Bank considers that loans and advances to customers with overdue period up to 10 days do not show sufficient evidence of the borrower being in financial difficulty. Accordingly, Management consider these loans as current.

Current and not impaired, but renegotiated loans represent the carrying amount of loans that would otherwise be past due or impaired whose terms have been renegotiated. Past due but not impaired loans primarily represent collateralized loans where the fair value of collateral covers the overdue interest and principal repayments. The amount reported as past due but not impaired is the whole balance of such loans, not only the individual installments that are past due.

## 10 Loans and Advances to Customers (Continued)

Fair value of collateral in respect of loans past due but not impaired and in respect of loans individually determined to be impaired at 31 December 2007 was as follows:

| *In thousands of Ukrainian hryvnias* | **Car loans** | **Mortgage loans** | **Other term loans** | **Over-drafts** | **Net invest-ment in finance leases** | **Reverse sale and repur-chase agree-ments** | **Total** |
|---|---|---|---|---|---|---|---|
| *Fair value of collateral - loans past due but not impaired* | | | | | | | |
| - real estate | 140 | 357,879 | 135,230 | - | - | - | 493,249 |
| - auto | 194,910 | 103 | 4,193 | - | - | - | 199,206 |
| - cash deposits | - | - | 1,725 | - | - | - | 1,725 |
| - equipment | - | - | 33,990 | - | - | - | 33,990 |
| - other assets | - | - | 3,051 | - | - | - | 3,051 |
| *Fair value of collateral - individually impaired loans* | | | | | | | |
| - real estate | 284 | 232,940 | 67,916 | - | - | - | 301,140 |
| - auto | 140,460 | 310 | 5,599 | - | - | - | 146,369 |
| - cash deposits | - | - | 1,419 | - | - | - | 1,419 |
| - equipment | - | - | 9,650 | - | - | - | 9,650 |
| - other assets | - | - | 8,829 | - | - | - | 8,829 |
| **Total** | **335,794** | **591,232** | **271,602** | **-** | **-** | **-** | **1,198,628** |

Fair value of collateral in respect of loans past due but not impaired and in respect of loans individually determined to be impaired at 31 December 2006 was as follows:

| *In thousands of Ukrainian hryvnias* | **Car loans** | **Mortgage loans** | **Other term loans** | **Over-drafts** | **Net invest-ment in finance leases** | **Reverse sale and repur-chase agree-ments** | **Total** |
|---|---|---|---|---|---|---|---|
| *Fair value of collateral - loans past due but not impaired* | | | | | | | |
| - real estate | 148 | 88,245 | 60,432 | - | - | - | 148,825 |
| - auto | 73,334 | 221 | 10,869 | - | - | - | 84,424 |
| - equipment | - | - | 5,914 | - | - | - | 5,914 |
| - other assets | 1,214 | 62,675 | 17,781 | - | - | - | 81,670 |
| *Fair value of collateral - individually impaired loans* | | | | | | | |
| - real estate | - | 46,681 | 23,326 | - | - | - | 70,007 |
| - auto | 37,084 | 299 | 4,296 | - | - | - | 41,679 |
| - equipment | - | - | 3,528 | - | - | - | 3,528 |
| - other assets | 2,123 | 27,026 | 12,555 | - | - | - | 41,704 |
| **Total** | **113,903** | **225,147** | **138,701** | **-** | **-** | **-** | **477,751** |

During 2007, the Bank obtained cash of UAH 35,916 thousand (2006: UAH 25 thousand) by taking possession of collateral.

Fair value of loans and advances to customers the balance sheet date was estimated by discounting future cash flaws using market interest rate. For those loans whose market interest rate was unavailable, expected cash flows were discounted using latest rates in the portfolio.

## 10 Loans and Advances to Customers (Continued)

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

| | 2007 | 2006 |
|---|---|---|
| Gross investment in finance leases, receivable: | | |
| - Not later than 1 year | 138,531 | 65,747 |
| - Later than 1 year and not later than 5 years | 268,808 | 99,407 |
| - Later than 5 years | 30,907 | - |
| Less: unearned finance income | (80,394) | (36,281) |
| **Net investment in finance leases** | **357,852** | **128,873** |

Net investment in finance leases are analysed as follows:

| | 2007 | 2006 |
|---|---|---|
| Net investment in finance leases, receivable: | | |
| - Not later than 1 year | 126,900 | 47,766 |
| - Later than 1 year and not later than 5 years | 216,866 | 81,107 |
| - Later than 5 years | 14,086 | |
| **Net investment in finance leases** | **357,852** | **128,873** |

Carrying value of each class of loans and advances to customers approximates fair value at 31 December 2007 and 31 December 2006. At 31 December 2007 the estimated fair value of loans and advances to customers was UAH 30,665,985 thousand (2006: UAH 18,072,007 thousand). Refer to Note 35.

Geographical, currency, maturity and interest rate analysis of loans and advances to customers is disclosed in Note 31. The information on related party balances is disclosed in Note 37.

## 11 Investment Securities Available-for-Sale

| *In thousands of Ukrainian hryvnias* | 2007 | 2006 |
|---|---|---|
| Corporate bonds | 323,851 | 88,353 |
| Bank bonds | 200,075 | 10,000 |
| Ukrainian government bonds | 133,517 | 56 |
| Municipal bonds | 28,068 | 51,331 |
| **Total debt securities** | **685,511** | **149,740** |
| Corporate shares – quoted | - | 11,281 |
| Corporate shares – unquoted | 8,984 | 7,473 |
| **Less: Provision for impairment of investment securities available-for-sale** | **(2,641)** | **(2,613)** |
| **Total investment securities available-for-sale** | **691,854** | **165,881** |

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 2007 amounted to UAH 2,000 thousand (31 December 2006: UAH 2,112 thousand). The Bank does not intend to dispose of these investments.

## 11 Investment Securities Available-for-Sale (Continued)

Analysis by credit quality of debt securities outstanding at 31 December 2007 is as follows:

| *In thousands of Ukrainian hryvnias* | Ukrainian government bonds | Municipal bonds | Corporate bonds | Bank bonds | Total |
|---|---|---|---|---|---|
| *Current and not impaired* | | | | | |
| - Ukrainian Government | 133,517 | - | - | - | 133,517 |
| - Ukrainian municipalities | - | 28,068 | - | - | 28,068 |
| - Large Ukrainian legal entities | - | - | 323,851 | 200,075 | 523,926 |
| **Total debt securities available-for-sale** | **133,517** | **28,068** | **323,851** | **200,075** | **685,511** |

Analysis by credit quality of debt securities outstanding at 31 December 2006 is as follows:

| *In thousands of Ukrainian hryvnias* | Ukrainian government bonds | Municipal bonds | Corporate bonds | Bank bonds | Total |
|---|---|---|---|---|---|
| *Current and not impaired* | | | | | |
| - Ukrainian Government | 56 | - | - | - | 56 |
| - Ukrainian municipalities | - | 51,331 | - | - | 51,331 |
| - Large Ukrainian legal entities | - | - | 88,353 | 10,000 | 98,353 |
| **Total debt securities available-for-sale** | **56** | **51,331** | **88,353** | **10,000** | **149,740** |

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

| *In thousands of Ukrainian hryvnias* | 2007 | 2006 |
|---|---|---|
| **Carrying amount at 1 January** | 165,881 | 79,205 |
| Purchases of investment securities available-for-sale | 3,247,492 | 807,406 |
| Interest income accrued on investment securities available-for-sale | 6,727 | 949 |
| Fair value gains less losses recognised directly in equity | 8,612 | 18,049 |
| Amounts removed from equity and recognised in income statement | (10,433) | (23,116) |
| Impairment of investment securities available-for-sale | - | (2,613) |
| Losses on initial recognition | - | (24,554) |
| Other movements | - | (8,350) |
| Disposals of subsidiaries | (1,393) | - |
| Gains less losses from disposal of investment securities available-for-sale | 10,433 | 23,116 |
| Disposals of investment securities available-for-sale | (2,735,465) | (704,211) |
| **Carrying amount at 31 December** | **691,854** | **165,881** |

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 (Note 37).

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.

## 11 Investment Securities Available-for-Sale (Continued)

At 31 December 2007 included in investment securities available-for-sale are securities pledged under sale and repurchase agreements whose fair value is UAH 156,781 thousand (2006: UAH 60,109 thousand).

Geographical, currency, maturity and interest rate analysis of investment securities available-for-sale is disclosed in Note 31. The information on related party debt investment securities available-for-sale is disclosed in Note 37.

## 12 Investments Accounted for Using the Equity Method

The table below summarises the movements in the carrying amount of the Bank's investment in joint ventures.

| *In thousands of Ukrainian hryvnias* | **2007** | **2006** |
|---|---|---|
| **Carrying amount at 1 January** | **-** | **-** |
| Fair value of net assets of joint venture acquired | 26,124 | - |
| Goodwill arising on acquisition of joint venture | 98,636 | - |
| Share of loss of joint venture | (4,183) | - |
| **Carrying amount at 31 December** | **120,577** | **-** |

At 31 December 2007, the Bank's interests in its principal joint ventures and their summarised financial information, including total assets, liabilities, revenues and profit or loss for the period after acquisition, were as follows:

| **Name** | **Total assets (in thousand UAH)** | **Total Liabilities (in thousand UAH)** | **Revenue (in thousand UAH)** | **Loss (in thousand UAH)** | **% of interest held** | **Country of incorporation** |
|---|---|---|---|---|---|---|
| IC Vesko | 202,773 | (158,349) | 12,133 | (8,469) | 49,39% | Ukraine |
| IC UIA | 201,799 | (213,158) | 23,175 | (2,216) | 49,998% | Ukraine |
| **Total** | **404,572** | **(371,507)** | **35,308** | **(10,685)** | | |

On 13 November 2007, the Bank signed an agreement to purchase 49.4% in Insurance Company Vesko and created a joint venture with AXA. The acquisition cost was UAH 124,759 thousand.

On 7 June 2007 the Bank signed a contract for sale of 50%+1 share in IC UIA and creation of joint venture with AXA. The transaction was completed on 23 November 2007.

The Bank and AXA have equal voting rights in the joint venture, but the actual management of activity of the joint venture is carried out by AXA. The Bank and AXA has equal representation in the supervisory boards of each of the individual companies. According to the joint venture contract with AXA, the Bank does not incur any obligation for the excess of losses over net assets of the jointly controlled entity. Therefore, the Bank has not reflected in its consolidated financial statements the share in losses of UIA in the amount of UAH 4,572 thousand at the moment of joint venture creation and the share in losses of UIA which arose after creation of the joint venture with AXA in the amount of UAH 1,108 Thousand. The total amount of unrecognized losses is UAH 5,680 thousand. In the future, the Bank's share in profit of UIA will be reduced by the amount of previously unrecognized losses.

## 12 Investment Accounted for Using the Equity Method (Continued)

Assets and liabilities of the joint ventures as at 31 December 2007 are as follows:

| *In thousands of Ukrainian hryvnias* | IC Vesko | IC UIA | Total |
|---|---|---|---|
| Premises, leasehold improvements and equipment | 2,594 | 7,070 | 9,664 |
| Intangible assets | 27 | 556 | 583 |
| Investment securities available-for-sale | 362 | 41,597 | 41,959 |
| Trading securities | - | 6,678 | 6,678 |
| Reinusrer's portion in provisions | 15,687 | 7,096 | 22,783 |
| Other assets | 2,553 | 8,361 | 10,914 |
| Deferred tax asset | 17,142 | 9,733 | 26,875 |
| Due from other banks | 132,892 | 111,721 | 244,613 |
| Cash and cash equivalents and mandatory reserve | 31,516 | 8,987 | 40,503 |
| **Total assets** | **202,773** | **201,799** | **404,572** |
| Insurance provisions | (144,323) | (193,724) | (338,047) |
| Other liabilities | (12,497) | (18,104) | (30,601) |
| Current income tax liability | (1,529) | (1,330) | (2,859) |
| **Total liability** | **(158,349)** | **(213,158)** | **(371,507)** |

Income and expenses related to Bank's interests in joint ventures are as follows:

| *In thousands of Ukrainian hryvnias* | IC Vesko (14 November 2007- 31 December 2007) | IC UIA (24 November 2007- 31 December 2007) | Total |
|---|---|---|---|
| Net premiums earned | 10,336 | 21,391 | 31,727 |
| Net claims incurred | (9,515) | (14,188) | (23,703) |
| Other operating income | - | 9 | 9 |
| Losses less gains from trading securities | - | (30) | (30) |
| Gains less losses from trading in foreign currencies | 67 | - | 67 |
| Gains less losses arising from investment securities available-for-sale | (273) | - | (273) |
| Interest income | 1,797 | 1,784 | 3,581 |
| Impairment provision | (1,013) | - | (1,013) |
| Administrative expenses | (1,678) | (2,050) | (3,728) |
| Fee and commission expense | (4,891) | (5,993) | (10,884) |
| Depreciation | (109) | (306) | (415) |
| Staff costs | (1,564) | (2,719) | (4,283) |
| Tax charge | (1,845) | (1,354) | (3,199) |
| Deferred taxes | 219 | 1,240 | 1,459 |
| **Profit for the period** | **(8,469)** | **(2,216)** | **(10,685)** |

## 13 Premises, Leasehold improvements, Equipment and Intangible Assets

| *In thousands of Ukrainian hryvnias* | **Note** | **Premises** | **Leasehold improvements** | **Office and computer equipment** | **Vehicles** | **Construction in progress** | **Total** | **Intangible assets** | **Total** |
|---|---|---|---|---|---|---|---|---|---|
| Cost or valuation at 1 January 2006 | | 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 1 January 2006** | | **286,235** | **20,615** | **159,608** | **29,067** | **357,647** | **853,172** | **46,087** | **899,259** |
| Acquisitions through business combinations | | | | | | | | | |
| 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 | 26 | (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** |
| Additions | | - | - | 97,834 | 15,589 | 125,315 | 238,738 | 52,264 | 291,002 |
| Transfers | | 215,164 | 15,395 | - | - | (230,559) | - | - | - |
| Disposals | | (4,468) | (643) | (2,768) | (834) | - | (8,713) | - | (8,713) |
| Depreciation and amortisation charge | 26 | (24,776) | (6,878) | (52,781) | (4,745) | - | (89,180) | (11,879) | (101,059) |
| Disposals of subsidiaries | | - | - | (2,390) | (1,186) | - | (3,576) | (140) | (3,716) |
| **Carrying amount at 31 December 2007** | | **810,304** | **39,575** | **241,443** | **26,294** | **142,318** | **1,259,934** | **94,761** | **1,354,695** |
| Cost at 31 December 2007 | | 861,232 | 60,957 | 404,036 | 44,851 | 142,318 | 1,513,394 | 123,503 | 1,636,897 |
| Accumulated depreciation | | (50,928) | (21,382) | (162,593) | (18,557) | - | (253,460) | (28,742) | (282,202) |
| **Carrying amount at 31 December 2007** | | **810,304** | **39,575** | **241,443** | **26,294** | **142,318** | **1,259,934** | **94,761** | **1,354,695** |

At 31 December 2007 premises, leasehold improvements and equipment include assets totalling UAH 71,186 thousand at cost, which are fully depreciated (2006: UAH 57,263 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 8,445 thousand (2006: UAH 10,506 thousand). Refer to Note 21.

## 14 Other Financial and Non-financial Assets

| *In thousands of Ukrainian hryvnias* | Note | 2007 | 2006 |
|---|---|---|---|
| *Other non-financial assets* | | | |
| Prepayments for premises and equipment | | 31,588 | 54,609 |
| Prepaid expenses | | 14,432 | 9,875 |
| Inventory | | 6,786 | 14,051 |
| Goodwill | | - | 532 |
| Other prepayments, sundry debtors and accruals | | 20,420 | 21,093 |
| Less: Provision for impairment of sundry debtors | | (6,679) | (5,258) |
| Total other non-financial assets | | 66,547 | 94,902 |
| *Other financial and insurance assets* | | | |
| Reinsurer's share of provision for unearned premium | 21 | - | 4,913 |
| Reinsurer's share of loss provision | 21 | - | 7,608 |
| Amounts in the course of settlements | | 92,157 | 12,903 |
| Derivative financial instruments | | 974 | 4 |
| Receivables on settlements for securities | | 5,317 | 6,358 |
| Accrued income receivable | | 12,399 | 6,796 |
| Less: Provision for impairment | | (2,156) | (1,263) |
| Total other financial assets | | 108,691 | 37,319 |
| **Total other financial and non-financial assets** | | **175,238** | **132,221** |

Movements in the provision for impairment are as follows:

| *In thousands of Ukrainian hryvnias* | Note | 2007 | | 2006 | |
|---|---|---|---|---|---|
| | | *non-financial* | *financial* | *non-financial* | *financial* |
| **Provision for impairment at 1 January** | | 5,258 | 1,263 | 4,439 | 416 |
| Provision for impairment during the year | 26 | 9,012 | 893 | 839 | 847 |
| Amounts written off during the year as uncollectible | | (135) | - | (20) | - |
| Disposal of subsidiaries | | (7,456) | - | - | - |
| **Provision for impairment at 31 December** | | **6,679** | **2,156** | **5,258** | **1,263** |

Geographical, currency and maturity analyses of other assets are disclosed in Note 31. The information on related party balances is disclosed in Note 37.

## 15 Due to Other Banks

| *In thousands of Ukrainian hryvnias* | **2007** | **2006** |
|---|---|---|
| Loans received from other banks | 12,627,001 | 6,575,830 |
| Amounts payable under repurchase agreements | 127,433 | 116,530 |
| Correspondent accounts and overnight placements of other banks | 70,245 | 16,566 |
| Guarantees deposits of other banks | 1,889 | 2,043 |
| **Total due to other banks** | **12,826,568** | **6,710,969** |

As at 31 December 2007 securities sold under sale and repurchase agreements were bonds issued by central and local government with a fair value of UAH 106,360 thousand and corporate bonds with a fair value of UAH 20,761 thousand (31 December 2006: UAH 80,806 thousand and UAH 35,132 thousand respectively). As at 31 December 2007 bonds issued by local government were recorded in the consolidated balance sheet within investment securities available-for-sale in amount of UAH 106,360 thousand (31 December 2006: UAH 40,331 thousand within investment securities available-for-sale and trading securities in amount UAH 40,475 thousand). Corporate bonds were recorded in the consolidated balance sheet within trading securities in amount of UAH 20,761 thousand (31 December 2006: UAH 18,567 thousand within investment securities available-for-sale and trading securities in amount of UAH 16,565 thousand). Refer to Notes 8 and 11.

As at 31 December 2007 loans received from other banks totalling UAH 754,476 thousand (2006: UAH 707,944 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 6m EURIBOR + margin of 0.875-3.3% per annum. The interest rate is revised quarterly or semi-annually.

Included in loans received from other banks as at 31 December 2007 are loans received from BNP Paribas, Paris and its related entities in the amount of UAH 10,906,704 thousand (2006: UAH 5,386,388 thousand).

As at 31 December 2007 the estimated fair value of due to other banks was UAH 12,755,380 thousand (2006: UAH 6,711,511 thousand). Refer to Note 35.

Geographical, currency, maturity and interest rate analyses of due to other banks are disclosed in Note 31. Information on related party balances is disclosed in Note 37.

## 16 Customer Accounts

| *In thousands of Ukrainian hryvnias* | **2007** | **2006** |
|---|---|---|
| **Legal entities** | | |
| - Current/settlement accounts | 2,612,101 | 1,608,545 |
| - Term deposits | 2,597,775 | 1,266,729 |
| **Individuals** | | |
| - Current/demand accounts | 1,520,506 | 508,965 |
| - Term deposits | 4,897,541 | 3,163,953 |
| **Total customer accounts** | **11,627,923** | **6,548,192** |

## 16 Customer Accounts (Continued)

As at 31 December 2007 included in term deposits of legal entities are liabilities of UAH 50,157 thousand (2006: UAH 1,561 thousand) from sale and repurchase agreements. As at 31 December 2007 securities sold under sale and repurchase agreements were corporate bonds with a fair value of UAH 50,421 thousand. As at 31 December 2007 corporate bonds were recorded in the consolidated balance sheet within investment securities available-for-sale (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).

Economic sector concentrations within customer accounts are as follows:

| | 2007 | | 2006 | |
|---|---|---|---|---|
| *In thousands of Ukrainian hryvnias* | **Amount** | **%** | **Amount** | **%** |
| Individuals | 6,418,047 | 55 | 3,672,918 | 56 |
| Commerce and trade | 2,102,901 | 18 | 863,184 | 13 |
| Transport and communication | 1,622,588 | 14 | 712,041 | 11 |
| Manufacturing | 894,704 | 8 | 617,159 | 9 |
| Financial services | 381,596 | 3 | 498,917 | 8 |
| Cultural and educational services | 106,257 | 1 | 73,304 | 1 |
| Other | 101,830 | 1 | 110,669 | 2 |
| **Total customer accounts** | **11,627,923** | **100** | **6,548,192** | **100** |

At 31 December 2007 the aggregate balance on accounts of top 10 customers of the Bank was UAH 2,406,547 thousand (2006: UAH 1,359,828 thousand) or 21% (2006: 21%) of total customer accounts.

At 31 December 2007 included in customer accounts are balances totaling UAH 997,690 thousand (2006: UAH 1,089,923 thousand) placed by customers as collateral for loans to customers totaling UAH 827,895 thousand (2006: UAH 812,832 thousand) and commitments under guarantees, promissory note endorsements and letters of credit totaling UAH 118,690 thousand (2006: UAH 167,813 thousand). Refer to Notes 10 and 33.

As at 31 December 2007 the estimated fair value of customer accounts was UAH 11,644,149 thousand (2006: UAH 6,558,482 thousand). Refer to Note 35.

Geographical, currency, maturity and interest rate analyses of customer accounts are disclosed in Note 31. The information on related party balances is disclosed in Note 37.

## 17 Due to the National Bank of Ukraine

| *In thousands of Ukrainian hryvnias* | **2007** | **2006** |
|---|---|---|
| Short-term loans | - | 198,000 |
| **Total due to the National Bank of Ukraine** | **-** | **198,000** |

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

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 33.

As at 31 December 2006 the estimated fair value of due to the NBU was UAH 198,000 thousand. Refer to Note 35.

Currency, maturity and interest rate analyses of due to the National Bank of Ukraine are disclosed in Note 31.

## 18 Domestic Debt Securities in Issue

| *In thousands of Ukrainian hryvnias* | 2007 | 2006 |
|---|---|---|
| Domestic bonds: | | |
| - B series | - | 301,623 |
| - C,D series | - | 498,933 |
| - E series | 250,162 | 246,614 |
| - F series | 302,463 | 303,566 |
| - G series | 306,838 | - |
| Total domestic bonds | 859,463 | 1,350,736 |
| Deposit certificates | 6 | 46 |
| Promissory notes | 2 | 1,638 |
| **Total domestic debt securities in issue** | **859,471** | **1,352,420** |

In September 2005 the Bank issued domestic bonds (issue B) with a par value UAH 300,000 thousand for consideration of UAH 302,818 thousand; the bonds carried fixed coupon interest rate of 10%. The Issue B was repaid in September 2007.

In November 2005 the Bank issued domestic bonds (issue C and D) with a par value UAH 500,000 thousand for consideration of UAH 489,991 thousand; the bonds carried fixed coupon interest rate of 9%. Issues C and D were repaid in November 2007.

In January-October 2007 the Bank issued domestic bonds (issue G) with a par value UAH 300,000 thousand for consideration of UAH 301,676 thousand; the bonds carry fixed coupon interest rate of 11% and has maturity date in January 2011.

As at 31 December 2007 the fair value of domestic debt securities in issue was UAH 851,417 thousand (2006: UAH 1,348,774 thousand). Refer to Note 35.

Geographical, currency, maturity and interest rate analyses of domestic debt securities in issue are disclosed in Note 31.

## 19 Eurobonds Issued

| *In thousands of Ukrainian hryvnias* | 2007 | 2006 |
|---|---|---|
| LPN with maturity in July 2007 (Dresdner) | - | 516,670 |
| LPN with maturity in 2008 (HVB) | 656,381 | 653,240 |
| LPN with maturity in July 2010 (HSBC Bank PLC) | 1,037,121 | - |
| LPN with maturity in December 2011 (HSBC Bank PLC) | 2,519,851 | 2,519,495 |
| **Total Eurobonds in issue** | **4,213,353** | **3,689,405** |

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 2007 the carrying value of these bonds was UAH 656,381 thousand (2006: UAH 653,240 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 2,519,851 thousand (2006: UAH 2,519,495 thousand).

In June 2007 the Bank issued Eurobonds in the form of loan participation notes with a par value of USD 200,000 thousand (UAH 1,010,000 thousand at the exchange rate at the time of issue). The bonds carry a fixed coupon rate of 7.375% per annum, effective interest rate of 7.75% per annum and mature in July 2010. The Eurobonds are listed on the Luxembourg Stock Exchange. As at 31 December 2007 the carrying value of these bonds was UAH 1,037,121 thousand.

As at 31 December 2007 the fair value of Eurobonds issued was UAH 4,167,962 thousand (2006: UAH 3,740,990 thousand). Refer to Note 35.

Geographical, currency, maturity and interest rate analyses of Eurobonds issued are disclosed in Note 31.

## 20 Syndicated Loans and Other Borrowed Funds

| *In thousands of Ukrainian hryvnias* | **2007** | **2006** |
|---|---|---|
| Syndicated loan | 1,819,422 | - |
| Trade financing received from non-banking financial institution | - | 410,228 |
| Short-term borrowings received from State Mortgage Institution | - | 22,834 |
| **Total syndicated loans and other borrowed funds** | **1,819,422** | **433,062** |

In May 2007 UkrSibbank received a syndicated loan of USD 250,000 thousand (equivalent of UAH 1,262,500 thousand at the exchange rate at the date of receipt) with floating interest rate 6 month LIBOR+1.10% per annum and maturity in May 2009. In October 2007 UkrSibbank received a syndicated loan of USD 110,000 thousand (equivalent of UAH 555,500 thousand at the exchange rate at the date of receipt). The syndicated loan is divided into two parts: USD 30,000 thousand with floating interest rate 6 months LIBOR+1.2% per annum and maturity in October 2008; USD 80,000 thousand with floating interest rate 6 months LIBOR+0.8% per annum and maturity in October 2009.

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 with the nominal interest rate of 12% per annum. The borrowing was repaid in July-August 2007.

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 (equivalent of UAH 404,000 thousand) with the nominal interest rate of 7.5% per annum. The borrowing was repaid in July 2007.

As at 31 December 2007 the estimated fair value of syndicated loans and other borrowed funds was UAH 1,819,422 thousand (2006: UAH 433,062 thousand). Refer to Note 35.

Geographical, currency, maturity and interest rate analyses of syndicated loans and other borrowed funds are disclosed in Note 31. Information on related party balances is disclosed in Note 37.

## 21 Provisions for Liabilities and Charges and Other Liabilities

Other liabilities comprise the following:

| *In thousands of Ukrainian hryvnias* | **Note** | **2007** | **2006** |
|---|---|---|---|
| Unregistered contribution to share capital | | 302,500 | - |
| Funds in settlements | | 123,735 | 11,178 |
| Settlements for securities transactions | | 25,716 | 886 |
| Accrued expenses on professional services | | 13,429 | 26,355 |
| Present value of minimum finance lease payments | | 10,720 | 12,639 |
| Provision for losses on credit related commitments | 33 | 1,816 | 10,497 |
| Payables for purchased premises and equipment | | 361 | 4,460 |
| Derivative financial instruments | | 273 | 79 |
| Provision for unearned premiums, gross | | - | 102,425 |
| Loss reserve, gross | | - | 45,801 |
| **Total other financial and insurance liabilities** | | **478,550** | **214,320** |
| Accrued employee benefit costs | | 112,469 | 48,240 |
| Taxes payable other than income tax | | 6,925 | 8,370 |
| Payables to Individuals Deposits Guarantee Fund | | 4,905 | 3,714 |
| Other | | 32,967 | 25,796 |
| **Total non-financial other liabilities** | | **157,266** | **86,120** |
| **Total provisions for liabilities and charges and other liabilities** | | **635,816** | **300,440** |

## 21 Provisions for Liabilities and Charges and Other Liabilities (Continued)

On 19 September 2007 the shareholders of the Company took a decision to issue 10 billion shares totalling UAH 500,000 thousand. The placement of shares commenced on 21 December 2007 and was completed on 10 January 2008. Unregistered contribution to share capital of UAH 302,500 thousand represents contributions partially paid off by the shareholders of the Bank by the end of 2007. Balance of contributions outstanding was paid off by the shareholders of the Bank in January 2008. Result of share subscription was approved by the shareholders in January 2008. Share issue was registered by the relevant Ukrainian authorities in February 2008. Refer to Note 23.

Minimum finance lease payments are analysed as follows:

| *In thousands of Ukrainian hryvnias* | 2007 | 2006 |
|---|---|---|
| Gross minimum finance lease payments: | | |
| - Not later than 1 year | 3,261 | 3,261 |
| - Later than 1 year and not later than 5 years | 10,273 | 13,043 |
| - Later than 5 years | - | 951 |
| Less: future finance charges | (2,814) | (4,616) |
| **Present value of minimum finance lease payments** | **10,720** | **12,639** |

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

| *In thousands of Ukrainian hryvnias* | 2007 | 2006 |
|---|---|---|
| Present value of minimum finance lease payments: | | |
| - Not later than 1 year | 2,150 | 1,920 |
| - Later than 1 year and not later than 5 years | 8,570 | 9,844 |
| - Later than 5 years | - | 875 |
| **Present value of minimum finance lease payments** | **10,720** | **12,639** |

Geographical, currency and maturity analyses of other liabilities are disclosed in Note 31. The information on related party balances is disclosed in Note 37.

Movements in the provision for unearned premiums are as follows:

| | 2007 | | | 2006 | | |
|---|---|---|---|---|---|---|
| *In thousands of Ukrainian hryvnias* | Gross | Reinsurer's Share | Net | Gross | Reinsurer's Share | Net |
| **Provision for unearned premiums as at 1 January** | **102,425** | **(4,913)** | **97,512** | **49,913** | **(11,539)** | **38,374** |
| Decrease in provision, gross/(increase in reinsurer's share of provision) (Note 27) | 22,318 | (234) | 22,084 | 52,512 | 6,626 | 59,138 |
| Disposal of subsidiary | (124,743) | 5,147 | (119,596) | - | - | - |
| **Provision for unearned premiums as at 31 December** | **-** | **-** | **-** | **102,425** | **(4,913)** | **97,512** |

## 21 Provisions for Liabilities and Charges and Other Liabilities (Continued)

Loss provision consists of:

| *In thousands of Ukrainian hryvnias* | 31 December 2007 Outstanding claims provision | IBNR | Total | 31 December 2006 Outstanding claims provision | IBNR | Total |
|---|---|---|---|---|---|---|
| Gross provision | - | - | - | **21,886** | **23,915** | **45,801** |
| Reinsurer's share in provision (Note 14) | - | - | - | (2,789) | (4,819) | (7,608) |
| **Loss provision, net of reinsurance** | **-** | **-** | **-** | **19,097** | **19,096** | **38,193** |

Movements in loss provision are as follows:

| *In thousands of Ukrainian hryvnias* | 2007 Outstanding claims provision | IBNR | Total | 2006 Outstanding claims provision | IBNR | Total |
|---|---|---|---|---|---|---|
| **Provision, net of reinsurance as at 1 January** | **19,097** | **19,096** | **38,193** | **6,984** | **-** | **6,984** |
| Increase in provision, gross (Note 27) | 7,483 | 1,711 | 9,194 | 13,002 | 23,915 | 36,917 |
| Decrease/(Increase) in reinsurer's share of provision (Note 27) | 1,763 | 3,973 | 5,736 | (889) | (4,819) | (5,708) |
| Disposal of subsidiary | (28,343) | (24,780) | (53,123) | - | - | - |
| **Provision, net of reinsurance as at 31 December** | **-** | **-** | **-** | **19,097** | **19,096** | **38,193** |

## 22 Subordinated Debt

| Issuer | Currency | Year of issue | Year of maturity | Interest rate, % | 2007 | 2006 |
|---|---|---|---|---|---|---|
| BNP Paribas | USD | 2003 | 2009 | 8.75 | 24,953 | 23,282 |
| BNP Paribas | USD | 2004 | 2009 | 8.75 | 45,951 | 46,547 |
| BNP Paribas | USD | 2005 | 2011 | 8.75 | 102,002 | 103,472 |
| BNP Paribas | USD | 2005 | 2011 | 8.75 | 103,228 | 103,472 |
| BNP Paribas | USD | 2006 | 2012 | 8.75 | 206,455 | 206,260 |
| BNP Paribas | USD | 2006 | 2016 | 8.75 | 246,120 | 246,063 |
| BNP Paribas | USD | 2007 | 2017 | 8.75 | 154,841 | - |
| BNP Paribas | USD | 2007 | 2013 | 8.62 | 335,382 | - |
| BNP Paribas | CHF | 2007 | 2013 | 6.68 | 163,574 | - |
| **Total subordinated debt** | | | | | **1,382,506** | **729,096** |

As at 31 December 2007 the estimated fair value of subordinated debt was UAH 1,438,264 thousand (2006: UAH 754,464 thousand).

Geographical, currency, maturity and interest rate analyses of subordinated debt are disclosed in Note 31. The information on related party balances is disclosed in Note 37.

## 23 Share Capital

| | Number of outstanding shares, thousands | Nominal amount | Inflation adjusted amount |
|---|---|---|---|
| **Shares issued and fully paid as at 1 January 2006** | **15 000 000** | **750 000** | **1 693 684** |
| New shares issued, fully paid and registered | 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** |
| New shares issued, fully paid and registered | 16 500 000 | 825 000 | 825 000 |
| **Shares issued and fully paid as at 31 December 2007** | **51 500 000** | **2 575 000** | **3 518 684** |

At 31 December 2007 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 2006: UAH 0.05 per share), rank equally and each share carries one vote.

On 20 December 2006 the shareholders of the Company took a decision to issue 7.5 billion shares totalling UAH 375,000 thousand. The placement of shares commenced on 7 February 2007 and was completed on 16 February 2007. All shares were fully paid by the end of 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 respective changes in the Company's Charter.

On 7 May 2007 the shareholders of the Company took a decision to issue 9 billion shares totalling UAH 450,000 thousand. The placement of shares commenced on 6 June 2007 and was completed on 19 June 2007. All shares were fully paid by the end of June 2007. In total UAH 450,243 thousand was paid by the Company's shareholders in respect of the new share issue. The shareholders meeting of 25 June 2007 approved the results of the new share issue and decided to make the respective changes to the Company's Charter. On 27 July 2007 the National Bank of Ukraine registered the respective changes in the Company's Charter.

***Contributions to share capital paid but not registered.*** On 19 September 2007 the shareholders of the Company took a decision to issue 10 billion shares totalling UAH 500,000 thousand. The placement of shares commenced on 21 December 2007 and was completed on 10 January 2008. All shares were fully paid by the end of January 2008. The shareholders meeting of 11 January 2008 approved the results of the new share issue and decided to make the respective changes to the Company's Charter. On 29 February 2008 the National Bank of Ukraine registered the respective changes in the Company's Charter. Please refer to Notes 21 and 40.

***Other reserves.*** In accordance with Ukrainian legislation, the Bank distributes profits or transfers them to reserves (fund accounts) on the basis of financial statements prepared in accordance with Ukrainian Accounting Rules. The Bank's reserves under Ukrainian Accounting Rules at 31 December 2007 are UAH 245,093 thousand (31 December 2006: UAH 175,397 thousand).

***Transfer of additional capital.*** In 2007 the Bank decided to transfer the balance of previously accumulated additional capital to the accumulated deficit of the Bank in the amount of UAH 43,159 thousand, as transactions, to which this additional capital related, were completed.

Additional capital arose as a result of the following transactions:

a) During 2003 the Bank attracted subordinated debts at rates below market. As a result in 2003 the Bank recorded the gain on initial recognition in the amount of UAH 6,974 thousand directly in equity as additional capital. These subordinated debts were repaid in 2005.

b) During March and June 2007 BNP Paribas "Vostok" (formerly Commercial Bank "UkrSibbank" LLC (Russia)) received non-refundable financial aid from the parent company BNP Paribas SA. For the purposes of these consolidated financial statements, this amount totalling UAH 36,185 thousand was recorded as additional capital. Subsequently, in July 2007 the Bank sold 100% of the shares in BNP Paribas "Vostok" to its parent, BNP Paribas S.A. Please refer to Note 37.

## 24 Interest Income and Expense

| *In thousands of Ukrainian hryvnias* | **2007** | **2006** |
|---|---|---|
| **Interest income** | | |
| Loans and advances to individuals | 1,688,292 | 682,255 |
| Loans and advances to corporate customers | 1,253,929 | 849,969 |
| Debt securities | 61,304 | 77,702 |
| Finance lease receivables | 48,847 | 22,920 |
| Due from other banks | 39,212 | 55,967 |
| **Total interest income** | **3,091,584** | **1,688,813** |
| **Interest expense** | | |
| Due to other banks | 603,057 | 257,405 |
| Term deposits of individuals | 348,297 | 251,428 |
| Eurobonds issued | 306,746 | 121,810 |
| Domestic debt securities in issue | 160,922 | 88,316 |
| Term deposits of legal entities | 150,474 | 123,651 |
| Subordinated debt | 86,931 | 49,571 |
| Current/settlement accounts | 68,430 | 48,741 |
| Syndicated loans and other borrowed funds | 17,359 | 37,554 |
| Finance leases | 1,923 | 1,547 |
| Due to the National Bank of Ukraine | 985 | 10,724 |
| **Total interest expense** | **1,745,124** | **990,747** |
| **Net interest income** | **1,346,460** | **698,066** |

Information on interest income and expense from transactions with related parties is disclosed in Note 37.

## 25 Fee and Commission Income and Expense

| *In thousands of Ukrainian hryvnias* | **2007** | **2006** |
|---|---|---|
| **Fee and commission income** | | |
| *Fee and commission income in respect of financial instruments not at fair value through profit or loss:* | | |
| - Cash and settlement transactions | 313,232 | 305,625 |
| - Foreign exchange transactions | 45,290 | 38,340 |
| - Trade finance operations (Note 33) | 37,766 | 20,790 |
| - Transactions with securities | 14,923 | 6,873 |
| - Fiduciary activities | 1,737 | 552 |
| - Other fee and commission income | 12,354 | 1,420 |
| **Total fee and commission income** | **425,302** | **373,600** |

## 25 Fee and Commission Income and Expense (Continued)

| *In thousands of Ukrainian hryvnias* | **2007** | **2006** |
|---|---|---|
| **Fee and commission expense** | | |
| *Fee and commission expense in respect of financial instruments not at fair value through profit or loss* | | |
| - Settlement transactions | 18,139 | 16,091 |
| - Other | 20,723 | 19,678 |
| **Total fee and commission expense** | **38,862** | **35,769** |
| **Net fee and commission income** | **386,440** | **337,831** |

Information on fee and commission income from transactions with related parties is disclosed in Note 37.

## 26 Administrative and Other Operating Expenses

| *In thousands of Ukrainian hryvnias* | **Note** | **2007** | **2006** |
|---|---|---|---|
| Staff costs | | 716,374 | 420,648 |
| Depreciation and amortisation of premises, leasehold improvements, equipment and intangible assets | 13 | 101,059 | 85,423 |
| Rent | | 95,881 | 62,841 |
| Maintenance of premises and equipment | | 84,335 | 52,591 |
| Professional services | | 61,783 | 75,200 |
| Advertising and marketing services | | 53,450 | 19,389 |
| Mail and telecommunication | | 49,595 | 38,899 |
| Security services | | 25,370 | 14,325 |
| Individuals Deposits Guarantee Fund | | 19,014 | 14,199 |
| Business trip expenses | | 12,927 | 8,689 |
| Provision for impairment of sundry debtors | 14 | 9,905 | 1,686 |
| Taxes other than on income | | 9,776 | 18,320 |
| Insurance of property and equipment | | 5,306 | 9,556 |
| Charity | | 1,100 | 1,003 |
| Other | | 33,340 | 27,807 |
| **Total administrative and other operating expenses** | | **1,279,215** | **850,576** |

Included in staff costs are statutory social security and pension contributions of UAH 136,504 thousand (2006: UAH 81,703 thousand). Pension contributions are made into State pension fund which is a defined contribution plan and amounted to UAH 123,427 thousand in 2007 (2006: UAH 71,046 thousand).

Information on administrative and other operating expenses from transactions with related parties is disclosed in Note 37.

## 27 Income from Insurance Contracts

| *In thousands of Ukrainian hryvnias* | Note | 2007 | 2006 |
|---|---|---|---|
| Gross premiums written | | 197,563 | 167,373 |
| Change in provision for unearned premium | 21 | (22,318) | (52,512) |
| Reinsurer's share in provision for unearned premium | 21 | 234 | (6,626) |
| **Net premiums written** | | **175,479** | **108,235** |
| Premiums ceded to reinsurers | | (9,515) | (11,000) |
| **Net premiums earned** | | **165,964** | **97,235** |
| Gross claims paid | | (98,898) | (40,136) |
| Claims recovered from reinsurers | | 11,014 | 9,648 |
| **Net claims paid** | | **(87,884)** | **(30,488)** |
| Change in loss provision | 21 | (9,194) | (36,917) |
| Reinsurer's share in loss provision | 21 | (5,736) | 5,708 |
| **Net claims incurred** | | **(102,814)** | **(61,697)** |
| **Net income from insurance contracts** | | **63,150** | **35,538** |

## 28 Income Taxes

Income tax expense comprises the following

| *In thousands of Ukrainian hryvnias* | 2007 | 2006 |
|---|---|---|
| Current tax | 119,863 | 46,403 |
| Deferred tax | 18,414 | (4,157) |
| **Income tax expense for the year** | **138,277** | **42,246** |

The income tax rate applicable to the majority of the Company's income is 25% (2006: 25%). The income tax rate applicable to the majority of subsidiaries' income is 25% (2006: 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.

| *In thousands of Ukrainian hryvnias* | 2007 | 2006 |
|---|---|---|
| **IFRS profit before tax** | **494,246** | **82,825** |
| Theoretical tax charge at statutory rate (2007: 25%; 2006: 25%) | 123,562 | 20,706 |
| Non deductible expenses: | | |
| - Expenses which relate to a subsidiary - insurance company | 5,862 | 32,881 |
| - Other non-deductible expenses | 17,445 | 9,427 |
| Income taxed at different rates | (8,592) | (20,768) |
| **Income tax expense for the year** | **138,277** | **42,426** |

## 28 Income Taxes (Continued)

During 2007 a deferred tax liability of UAH 455 thousand (2006: UAH 1,177 thousand) has been recorded directly in equity in respect of the fair valuation of investment securities available-for-sale.

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% (2006: 25%).

| *In thousands of Ukrainian hryvnias* | **31 December 2006** | **Movement recognised directly in equity** | **Disposal of subsidiaries** | **Movements charged to income statement** | **31 December 2007** |
|---|---|---|---|---|---|
| **Tax effect of deductible temporary differences** | | | | | |
| Remeasurement of financial instruments at amortised cost | 9,465 | - | - | (9,465) | - |
| Other liabilities | 27,238 | | (7,885) | 17,817 | 37,170 |
| Provision for credit related commitments | 1,083 | - | - | (1,083) | - |
| Other assets | - | - | - | 464 | 464 |
| Accrued interest expense | 1,923 | - | - | 259 | 2,182 |
| **Gross deferred tax asset** | **39,709** | **-** | **(7,885)** | **7,992** | **39,816** |
| *Less offsetting with deferred tax liabilities* | *(30,644)* | - | 7,885 | (9,609) | (32,368) |
| **Recognised deferred tax asset** | **9,065** | **-** | **-** | **(1,617)** | **7,448** |
| **Tax effect of taxable temporary differences** | | | | | |
| Premises, leasehold improvements and equipment | (21,158) | - | 71 | (8,297) | (29,384) |
| Trading securities and investment securities available-for-sale | (7,494) | 455 | (8,473) | 9,936 | (5,576) |
| Remeasurement of financial instruments at amortised cost | - | - | - | (2,211) | (2,211) |
| Provision for loan impairment | (44,605) | - | (331) | (17,375) | (62,311) |
| Provision for credit related commitments | - | - | - | (12,836) | (12,836) |
| Accrued interest income | (1,536) | - | 109 | (2,955) | (4,382) |
| Other assets | (7,218) | - | (114) | 7,332 | - |
| **Gross deferred tax liability** | **(82,011)** | **455** | **(8,738)** | **(26,406)** | **(116,700)** |
| *Less offsetting with deferred tax assets* | 30,644 | - | (7,885) | 9,609 | 32,368 |
| **Recognised deferred tax liability** | **(51,367)** | **455** | **(16,623)** | **(16,797)** | **(84,332)** |

## 28 Income Taxes (Continued)

In the context of the Bank's current structure, tax losses and current tax assets of different Bank companies may not be offset against current tax liabilities and taxable profits of other Bank 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.

| *In thousands of Ukrainian hryvnias* | **1 January 2006** | **Movement recognised directly in equity** | **Currency translation reserve** | **Movements charged to income statement** | **31 December 2006** |
|---|---|---|---|---|---|
| **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 |
| *Less offsetting with deferred tax liabilities* | (12,011) | - | (44) | (18,589) | (30,644) |
| **Recognised 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 and investment securities available-for-sale | (29,833) | 1,177 | (52) | 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) | 1,177 | (44) | (23,396) | (82,011) |
| *Less offsetting with deferred tax assets* | 12,011 | - | 44 | 18,589 | 30,644 |
| **Recognised deferred tax liability** | **(47,737)** | **1,177** | **-** | **(4,807)** | **(51,367)** |

## 29 Earnings per Share

Basic earnings per share are calculated by dividing the profit or loss 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.

| *In thousands of Ukrainian hryvnias* | **2007** | **2006** |
|---|---|---|
| Profit attributable to equity holders of the Company | 352,404 | 44,092 |
| Weighted average number of ordinary shares in issue (thousands) | 46,882,946 | 23,122,107 |
| **Basic and diluted earnings per share (expressed in UAH per share)** | **0.0075** | **0.0019** |

## 30 Segment Analysis

The Bank's primary format for reporting segment information is business segments.

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

- Corporate banking – representing current accounts of large legal entities, deposits, overdrafts, card accounts, loan and other credit facilities, foreign currency and trading finance products. Main principle for allocation of clients to the corporate segment is the amount of their annual income (more than USD 8 million).
- Small and medium enterprises - small and medium enterprises and private entrepreneurs – includes the same types of products as for Corporate banking and accounts of private entrepreneurs including accounts for personal use.
- Retail banking – representing private customer current accounts, savings, deposits, credit and debit cards, consumer loans and mortgages.
- Private banking – includes individuals with the same types of products as retail banking that make an agreement with the bank on using special services.
- 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.

In 2007 the Bank changed its accounting policy for presenting segment information and started to present small and medium enterprises segment and private banking segments separately from corporate banking and retail banking. Management believes that the revised presentation of segment better reflects objectives of reporting segment information and is closer to management reporting. The change was applied retrospectively from 1 January 2006. The effect of the change was to reduce revenues for the year ended 31 December 2006 in corporate banking by UAH 318,901 thousand, in retail banking by UAH 341,846 thousand and in eliminations by UAH 36,255 thousand and increase revenues in small and medium enterprises by UAH 673,156 thousand and increase in private banking by UAH 49,955 thousand; segment assets as at 31 December 2006 in corporate banking were reduced by UAH 2,862,814 thousand and in retail banking by UAH 4,469,865 thousand; whilst segment assets in small and medium enterprises increased by UAH 7,048,654 thousand, in private banking by UAH 156,703 thousand and in investment banking by UAH 127,322 thousand. Segment liabilities as at 31 December 2006 of corporate banking were reduced by UAH 1,982,181 thousand and of retail banking by UAH 1,169,937 thousand; whilst segment liabilities of small and medium enterprises were increased by UAH 1,321,661 thousand, in private banking by UAH 691,033 thousand and in investment banking by UAH 1,139,425 thousand.

## 30 Segment Analysis (Continued)

Segment information for the main reportable business segments of the Bank for the year ended 31 December 2007 is set out below:

| *In thousands of Ukrainian hryvnias* | **Corporate banking** | **Small and medium entities** | **Retail banking** | **Private banking** | **Investment banking** | **Other /Unallocated** | **Elimi-nations** | **Total** |
|---|---|---|---|---|---|---|---|---|
| **2007** | | | | | | | | |
| External revenues | 1,080,427 | 1,270,505 | 971,378 | 27,954 | 107,983 | 248,431 | - | **3,706,678** |
| Revenues from other segments | - | - | - | 80,230 | 1,373,951 | - | (1,454,181) | - |
| **Total revenues** | **1,080,427** | **1,270,505** | **971,378** | **108,184** | **1,481,934** | **248,431** | **(1,454,181)** | **3,706,678** |
| **Total revenues comprise**: | | | | | | | | |
| - Interest income | 953,983 | 1,109,180 | 865,392 | 104,649 | 1,445, 409 | 67,152 | (1,454,181) | 3,091,584 |
| - Fee and commission income | 125,844 | 158,568 | 104,464 | 3,211 | 30,228 | 2,987 | - | 425,302 |
| - Insurance income | - | - | - | - | - | 165,964 | - | 165,964 |
| - Other operating income | 600 | 2,757 | 1,522 | 324 | 6,297 | 12,328 | - | 23,828 |
| **Total revenues** | **1,080,427** | **1,270,505** | **971,378** | **108,184** | **1,481,934** | **248,431** | **(1,454,181)** | **3,706,678** |
| **Segment result** | **275,037** | **(43,126)** | **(132,566)** | **8,707** | **418,740** | **(28,363)** | **-** | **498,429** |
| Share of after tax result of joint ventures | **-** | **-** | **-** | **-** | **-** | **(4,183)** | **-** | **(4,183)** |
| **Profit before tax** | | | | | | | | **494,246** |
| Income tax expense | | | | | | | | (138,277) |
| **Profit** | | | | | | | | **355,969** |
| Total segment assets | 10,594,616 | 12,138,561 | 10,359,228 | 326,159 | 2,452,003 | 779,119 | - | 36,649,686 |
| Current and deferred tax assets | | | | | | | | 17,772 |
| **Total assets** | | | | | | | | **36,667,458** |
| Total segment liabilities | 4,123,516 | 2,299,639 | 4,192,656 | 1,598,289 | 20,611,683 | 539,276 | - | 33,365,059 |
| Current and deferred tax liabilities | | | | | | | | 84,390 |
| **Total liabilities** | | | | | | | | **33,449,449** |
| **Other segment items** | | | | | | | | |
| Capital expenditure | (35,247) | (118,405) | (118,316) | (3,501) | (7,932) | (7,601) | | (291,002) |
| Depreciation and amortisation expense | (11,906) | (42,934) | (38,235) | (894) | (1,723) | (5,367) | | (101,059) |
| Provisions for loan impairment | (47,579) | (152,316) | (129,817) | (3,941) | 637 | (3,788) | | (336,804) |

## 30 Segment Analysis (Continued)

Segment information for the main reportable business segments of the Bank as at 31 December 2006 is set out below:

| *In thousands of Ukrainian hryvnias* | **Corporate banking** | **Small and medium entities** | **Retail banking** | **Private banking** | **Investment banking** | **Other /Unallocated** | **Eliminations** | **Total** |
|---|---|---|---|---|---|---|---|---|
| **2006** | | | | | | | | |
| External revenues | 723,105 | 673,156 | 495,806 | 12,333 | 135,093 | 120,155 | - | 2,159,648 |
| Revenues from other segments | - | - | - | 37,622 | 465,675 | - | (503,297) | - |
| **Total revenues** | **723,105** | **673,156** | **495,806** | **49,955** | **600,768** | **120,155** | **(503,297)** | **2,159,648** |
| **Total revenues comprise:** | | | | | | | | |
| - Interest income | 643,808 | 532,613 | 357,867 | 47,082 | 587,820 | 22,920 | (503,297) | 1,688,813 |
| - Fee and commission income | 79,297 | 140,543 | 137,939 | 2,873 | 12,948 | - | - | 373,600 |
| - Insurance income | - | - | - | - | - | 97,235 | - | 97,235 |
| **Total revenues** | **723,105** | **673,156** | **495,806** | **49,955** | **600,768** | **120,155** | **(503,297)** | **2,159,648** |
| **Segment result** | **159,596** | **(84,582 )** | **(158,381)** | **4,338** | **106,062** | **55,792** | **-** | **82,825** |
| **Profit before tax** | | | | | | | | **82,825** |
| Income tax expense | | | | | | | | (42,246) |
| **Profit** | | | | | | | | **40,579** |
| Total segment assets | 6,800,250 | 7,048,654 | 6,161,437 | 156,703 | 1,615,563 | 226,453 | - | 22,009,060 |
| Current and deferred tax assets | | | | | | | | 9,344 |
| **Total assets** | | | | | | | | **22,018,404** |
| Total segment liabilities | 2,115,132 | 1,321,661 | 2,576,536 | 691,033 | 13,086,672 | 170,550 | **-** | 19,961,584 |
| Current and deferred tax liabilities | | | | | | | | 60,465 |
| **Total liabilities** | | | | | | | | **20,022,049** |
| **Other segment items** | | | | | | | | |
| Capital expenditure | (45,653) | (153,896) | (153,896) | (4,418) | (10,309) | (4,262) | - | (372,434) |
| Depreciation and amortisation expense | (10,346) | (34,878) | (34,878) | (1,001) | (2,336) | (1,984) | - | (85,423) |
| Provisions for loan impairment and losses on credit related commitments | (86,819) | (89,167) | (72,313) | (160) | (3,070) | (871) | - | (252,400) |

## 30 Segment Analysis (Continued)

***Geographical segments.*** Segment information for the main geographical segments is set out below for the years ended 31 December 2007 and 2006.

| *In thousands of Ukrainian hryvnias* | **Ukraine** | **OECD** | **Non-OECD** | **Total** |
|---|---|---|---|---|
| **2007** | | | | |
| Segment assets | 35,731,720 | 815,244 | 102,722 | 36,649,686 |
| External revenues | 3,706,678 | - | - | 3,706,678 |
| Capital expenditure | (291,002) | - | - | (292,002) |
| Credit related commitments | 2,665,338 | - | - | 2,665,338 |
| **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 | 1,084,425 | - | - | 1,084,425 |

## 31 Financial Risk Management

***Overview.*** The Bank carries out risk management in respect of financial, operational and legal risks. Financial risks include credit risk, foreign exchange risk, liquidity risk and interest rate risk. Operational and legal risk management involves ensuring that the Bank's internal procedures and policies are complied with so as to minimize exposure to such risks. The Bank's risk management systems are based on recommendations of the Basel Committee, although Ukrainian legislation does not yet impose obligatory compliance with such standards. The Bank's risk management policies and systems are continuously modified and enhanced to reflect changes in markets and products. The primary objective of the Bank's asset and liability management is to limit its exposure to liquidity and market risks while maximizing profitability. The Bank's policy is to maintain a structure of assets and liabilities that optimizes both long-term and short-term financial income while maintaining constant levels of income.

The basic principles of the Bank's risk management policy are to centralise risk management (i.e., risk analysis and calculation is centralized and appropriate limits are set for the Bank's business divisions); maintain a balance between the level of risk and profitability; and ensure risks are continually monitored. The Bank is currently working towards conforming its risk management policies and internal procedures to established BNP Paribas standards and is aiming to complete this exercise by the end of 2008.

***Risk Management Bodies.*** Risk management policy, monitoring and control are conducted by a number of specialised divisions and units within the Risk Management Department (''RMD'') under the supervision of the Chairman of the Board who reports on risk management to Group Risk Management at BNP Paribas' head office.

***Asset and Liability Management Committee (ALMC).*** The ALMC consists of nine of the Bank's senior managers and is chaired by the Chairman of the Bank's Management Board. The ALMC meets at least once every month. The ALMC is responsible for the control and management of the Bank's asset and liability structure. It also sets internal limits for managing liquidity, interest and foreign exchange risks.

***Credit Committees.*** The Bank's Credit Committees comprise the Head Office Credit Committee, Credit Committee First Level, Regional Department Credit Committee, Territorial Division Credit Committee and Outlet Credit Committee. The Head Office Credit Committee is chaired by the Chairman of the Management Board and also comprises the heads of the Corporate Banking, Legal, Security and Risks Departments. The Credit Committee First Level is chaired by the Deputy Chairman of the Board and has a similar structure to the Head Office Credit Committee. Each Regional Department Credit Committee has a similar structure to the Head Office Credit Committee. The authorities of Territorial Division Credit Committee and Outlet Department Credit Committees to grant loans (in terms of the amount and terms of loans which they are authorized to grant to corporate and retail customers) is set by the Head Office Credit Committee. The authority of Head Office Credit Committee is determined by the Management Board.

The Credit Committees are responsible for approving loans and for approving and controlling the Bank's lending strategy. Credit Committee approval is required to grant loans and make provisions. The Head Office Credit Committee meets twice per week, while the Regional Department Credit Committees meet on an ad-hoc basis. Regional Department Credit Committees report directly to the Head Office Credit Committee.

## 31 Financial Risk Management (Continued)

***Investment Committee (IC).*** The IC of the Bank is chaired by the Chairman of the Management Board. The IC consists of seven of the Bank's senior managers including heads of the Risk Management, Investment Banking, Legal and Security Departments. The IC meets on an ad-hoc basis.

The IC is responsible for making all decisions which relate to the Bank's investment operations, including the approving of acceptable objects for investment, the establishment of limits for investments in debt and equity securities, the establishment of underwriting limits and the approval of real estate investments. The IC is also responsible for the formulation of the investment policies of the Bank and for the analysis of the Bank's investment portfolio.

***Asset Liability Management (ALM).*** The direct management of assets and liabilities is carried out by the ALM department and Treasury. The ALM carries out assessment and planning of the Bank's open positions on a daily basis (liquidity and currency risks) and monthly basis (interest rate risk), and also prepares suggestions on managerial actions in assets and liabilities management area for the Management of the Bank. Additionally, the ALM on a daily basis carries out planning and management of the economic norm observance established by the NBU (norms of regulative and statutory capital adequacy, liquidity norms, norms of open currency position). The ALM assists ALMC and other committees in discharging their functions. Treasury manages monetary liquidity position as well as short-term (up to 3 months) liquidity position of the Bank.

In the process of managing open positions, the ALM cooperates with Treasury and subdivisions of the Bank which are engaged in borrowing of medium and long-term funds (International Business and Investment business).

The managerial reports are prepared for the management of different level on the basis of results of open positions assessment carried out by the ALM,

***Risk Management Department (RMD).*** The RMD assists the Credit Committees and the IC in discharging their functions. Its functions include evaluating and analysing financial risks, monitoring compliance with limits, and making recommendations with regard to balancing risk and profitability, based on overall levels of risk and risks associated with particular business areas and banking products.

The RMD evaluates financial risks using information on the quality of assets and liabilities (including interest rates, amounts and maturities) from the Bank's business divisions, information on exposure limits, procedures and methodologies from the ALMC and details of planned levels of assets and liabilities and investments from the Financial Analysis and Planning Department. It then provides the ALMC with the results of its risk analysis and monitoring and its recommendations on setting or changing limits, and informs the Bank's business divisions, back office and Financial Analysis and Planning Department of the normative risk levels.

The RMD submits to the Credit Committees credit risk quality ratings required for particular loan transactions and recommendations for setting and changing lending decision-making authority, and monitors the quality of all ongoing loan transactions.

Based on information concerning loan applications from the Corporate Banking Department and the Investment Business Department and information concerning customers' reliability, reputation and past payment record from the Legal Department, Security Department and back office, respectively, the RMD determines customers' creditworthiness and provides its conclusions to the Credit Committees, together with the results of its monitoring of loans, recommendations as to setting or changing limits and recommendations as to changing the Bank's internal procedures. It also determines the appropriate level of provisions.

The principal categories of risk to which the Bank is exposed through its operations, and the way the Bank manages these risks, are described below.

***Credit risk.*** The Bank takes on exposure to credit risk which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Exposure to credit risk arises as a result of the Bank's lending and other transactions with counterparties giving rise to financial assets.

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. For guarantees and commitments to extend credit, the maximum exposure to credit risk is the amount of the commitment. Refer to Note 33.

The Bank manages its credit risk by establishing internal policies aimed at maximizing risk-adjusted income by maintaining credit risk exposure within accepted limits, by setting, monitoring and reviewing credit ratings, by setting and authorising lending limits and by constantly monitoring the creditworthiness of its customers.

The RMD determines levels of overall risk by reference to customers and products. Specialised units within the RMD's Corporate Banking Risk Sub-Department and Retail Banking Risk Sub-Department regularly evaluate customers' creditworthiness and business activities.

## 31 Financial Risk Management (Continued)

The Bank has developed and is aiming to implement in the near future an internal credit rating system whereby each loan transaction is assigned four ratings respectively corresponding to (i) the structure of the transaction, (ii) the borrower's financial position, (iii) the borrower's credit history and (iv) the quality of the collateral. The Corporate Banking Risk Sub-Department or the Retail Banking Risk Sub-Department, as appropriate, assigns a final rating for the transaction, which is subject to approval by the Credit Committee. When assigning credit ratings to a particular loan transaction, the Corporate Banking Risk Sub-Department or the Retail Banking Risk Sub-Department takes into account the importance of the transaction to the Bank and the prevailing market terms for similar transactions offered by other banks. In making its credit decisions with regard to loans to banks, the Bank uses a rating scale based on the approach of international rating firms, allocating prospective borrowers to various credit rating groups, as adapted to the Ukrainian financial and economic situation. The Bank evaluates the borrower's financial statements, credit history, economic position and cash flows in order to determine the expected risk of default for such borrowers and also monitors the weighted average credit risk of borrowers on a portfolio basis and by industry sector.

All loan applications are subject to a detailed review procedure. Exposure to credit risk is also managed, in part, by obtaining collateral and corporate and personal guarantees.

*Credit Risk Related to Retail and Corporate Lending*

The Bank structures the levels of credit risk that it undertakes by placing separate limits on the amount of risk accepted in relation to each borrower and each group of borrowers within a particular industry or geographical region. Such risks are monitored and reviewed regularly. Lending limits for individual borrowers and any changes to those limits are set by the Credit Committee. Credit limits include limits on the amount and repayment schedule for each loan agreement and restrictions on the purpose of the loan and are updated on each loan approval. The Bank monitors operations with its customers on a regular basis and notifies the Credit Committee periodically, or in the event of any change in a customer's circumstances. The Bank either confirms existing limits or contacts the customer if it is necessary to review the terms of the loan.

When structuring loans to corporate customers, the Bank follows certain basic principles. It sets out repayment schedules and adapts them so as to take into account any seasonality in the borrower's business and, where applicable, also obtains guarantees from affiliates of the borrower, enters into collateral agreements to secure related loans, prescribes the borrower's own equity contribution at all levels of the project being financed and requires cash flows or turnover from the financed project or the borrower's counterparties to be transferred to the Bank.

In the case of loans to retail customers, the Bank typically takes collateral in the form a mortgage or pledge over property, depending on the type of loan.

The Bank imposes limits on the amounts which individual branches are authorized to lend without Head Office approval. Limits are set with respect to the amount of individual loans, the total amount of loans that can be granted by a branch and the maximum permitted maturity of loans. The procedure for setting such limits is contained in the Bank's internal regulations. On a regular basis, the Head Office Credit Committee approves credit limits for all branches. Branches themselves and certain Head Office departments (namely the Corporate Banking Department, Risk Management Department, Legal Department and Security Department) may apply for a review of the limits on a branch's lending authority.

As the Bank's lending policy is to give priority to the quality of the borrower over the quality of the collateral available, lending decisions are always based on risk assessment rather than on the quality of the collateral. When taking security, the Bank gives preference to the most liquid form of collateral with the highest re-sale value. It also takes into account regional variations in property prices when determining the value of collateral.

The Bank also follows a policy of diversifying its loan portfolio in order to reduce risk. For example, the Bank is increasing retail lending in order to reduce loan portfolio concentration.

*Credit Risk Related to Inter-Bank Operations*

Credit risk of inter-bank operations mainly arises as a result of exposures being unsecured, albeit such exposures typically have relatively short-term maturities (which generally range from several hours up to two months). Inter-bank exposure comprises a relatively small proportion (between approximately one and five per cent.) of the Bank's total assets. The Bank sets separate limits for counterparty banks based on its evaluation of the bank's financial condition and on any available non-financial information (such as the bank's shareholders, customers, quality of management, market position, concentration of activity and growth rate). The Head Office Credit Committee is responsible for approving and changing the limits for each category of counterparty banks. If the RMD determines that the financial performance of a counterparty bank has deteriorated or is likely to deteriorate, the RMD suspends the credit limit and notifies the Bank's management accordingly.

*Credit Risk Related to Investment Business*

Applications for investments by the Bank in corporate securities are analysed and reviewed in the same manner as loan applications. The Bank monitors the financial performance of issuers and the market for their debt and equity securities. The Bank's Investment Business Department is responsible for the Bank's investment decisions and implementing transactions. All investment decisions are taken by an Investment Risk Committee.

## 31 Financial Risk Management (Continued)

*Monitoring Credit Risk*

The Bank monitors borrowers' performance of the terms of their loan agreements, primarily repayment of principal and interest. It also monitors borrowers' financial condition on the basis of information provided by the relevant borrower on a monthly and quarterly basis; whether the loan is being used for its prescribed purposes; whether a corporate borrower is meeting the targets set out in its business plan; collateral; and non-financial information, such as any available information on actual or pending legal proceedings involving the borrower and the borrower's reputation.

Constant monitoring of the Bank's loan portfolio enables the Bank to react to changes in the quality of particular loans and determine whether changes to their terms and conditions are necessary. The Credit Committee is notified of the results of such monitoring on a regular basis and in the event of any warning signals. Based on its analysis, the Bank either confirms the terms and conditions of outstanding loans or where necessary negotiates amendments with the borrower.

*Off-Balance Sheet and Related Party Credit Risk*

The Bank applies the same credit policies and procedures for evaluating and monitoring credit risk for off-balance sheet and contingent liabilities. Furthermore, the Bank applies the same approach to transactions with related parties as to arm's length transactions. If the level of risk does not fall within the parameters set by the Bank, it either declines the loan application or requires the transaction to be secured by cash.

***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.

## 31 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.

Other currencies mainly include the Russian Roubles and Swiss Francs.

Derivatives in each column represent the fair value, at the balance sheet date, of the respective currency that the Bank agreed to buy (positive amount) or sell (negative amount) before netting of positions and payments with the counterparty. The amounts by currency are presented gross as stated in Note 34. The net total represents fair value of the currency derivatives.

| *In thousands of Ukrainian hryvnias* | **UAH** | **USD** | **Euro** | **Other currencies** | **Non-monetary items** | **Total** |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Cash and cash equivalents and mandatory reserves | 1,668,403 | 501,579 | 170,140 | 286,522 | - | 2,626,644 |
| Trading securities | 200,610 | - | - | - | 7,082 | 207,692 |
| Due from other banks | 529,985 | 200,720 | 296,900 | 14,418 | - | 1,042,023 |
| Loans and advances to customers | 7,844,489 | 19,322,833 | 979,329 | 2,284,312 | - | 30,430,963 |
| Investment securities available-for-sale | 685,511 | - | - | - | 6,343 | 691,854 |
| Other financial assets | 99,608 | 6,297 | 2,685 | 101 | - | 108,691 |
| **Total financial assets** | **11,028,606** | **20,031,429** | **1,449,054** | **2,585,353** | **13,425** | **35,107,867** |
| **Liabilities** | | | | | | |
| Due to other banks | 358,702 | 9,600,746 | 428,663 | 2,438,457 | - | 12,826,568 |
| Customer accounts | 6,831,669 | 3,700,623 | 1,024,955 | 70,676 | - | 11,627,923 |
| Domestic debt securities in issue | 859,465 | 6 | - | - | - | 859,471 |
| Eurobonds issued | - | 4,213,353 | - | - | - | 4,213,353 |
| Syndicated loans | - | 1,819,422 | - | - | - | 1,819,422 |
| Subordinated debt | - | 1,218,932 | - | 163,574 | - | 1,382,506 |
| Other financial liabilities | 410,267 | 11,148 | 49,507 | 7,628 | - | 478,550 |
| **Total financial liabilities** | **8,460,103** | **20,564,230** | **1,503,125** | **2,680,335** | **-** | **33,207,793** |
| Less fair value of currency derivatives | (94) | 347 | 507 | (59) | - | 701 |
| **Net balance sheet position, excluding currency derivatives** | **2,568,597** | **(533,148)** | **(54,578)** | **(94,923)** | **13,425** | **1,899,373** |
| **Currency derivatives (Note 31)** | **(597,227)** | **586,863** | **26,912** | **(15,847)** | **-** | **701** |
| **Credit related commitments (Note 33)** | **1,015,644** | **1,010,224** | **453,470** | **186,000** | **-** | **2,665,338** |

## 31 Financial Risk Management (Continued)

At 31 December 2006, the Bank had the following positions in currencies:

| *In thousands of Ukrainian hryvnias* | **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 |
| Other financial assets | 27,808 | 5,608 | 3,899 | 4 | - | 37,319 |
| **Total financial assets** | **5,912,631** | **11,925,135** | **883,431** | **1,991,912** | **23,868** | **20,736,977** |
| **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 |
| Other financial liabilities | 166,800 | 16,807 | 29,427 | 1,286 | - | 214,320 |
| **Total financial liabilities** | **5,058,304** | **11,940,882** | **898,009** | **1,978,269** | **-** | **19,875,464** |
| Less fair value of currency derivatives | 401 | (27) | 980 | 191 | - | 1,163 |
| **Net balance sheet position, excluding currency derivatives** | **853,926** | **(15,720)** | **(15,558)** | **13,834** | **23,868** | **860,350** |
| **Currency derivatives** | **81,579** | **15,334** | **(50,296)** | **(45,454)** | **-** | **1,163** |
| **Credit related commitments (Note 33)** | **773,236** | **223,552** | **79,481** | **8,156** | **-** | **1,084,425** |

## 31 Financial Risk Management (Continued)

The following table presents sensitivities of profit and loss to reasonably possible changes in exchange rates at the balance sheet date, with all other variables held constant:

| | At 31 December 2007 | At 31 December 2006 |
|---|---|---|
| *In thousands of Ukrainian hryvnias* | **Impact on profit or loss and on equity** | **Impact on profit or loss and on equity** |
| US Dollars strengthening by 2% | 10,663 | (313) |
| US Dollars weakening by 2% | (10,663) | 313 |
| Euro strengthening by 5% | (2,729) | - |
| Euro weakening by 5% | 2,729 | - |
| Euro strengthening by 10% | - | (1,458) |
| Euro weakening by 10% | - | 1,458 |
| Other strengthening by 5% | (4,746) | - |
| Other weakening by 5% | 4,476 | - |
| Other strengthening by 10% | - | 1,364 |
| Other weakening by 10% | - | (1,364) |

The exposure was calculated only for monetary balances denominated in currencies other than the functional currency of the respective entity of the Bank.

***Interest rate risk.*** The Bank is exposed to interest rate risk principally as a result of mismatches in the maturity of its interest-bearing assets and liabilities. The Bank may incur losses in the event of unfavorable movements in interest rates.

The ALMC sets limits on the level of mismatch of interest rate re-pricing that may be undertaken, which is monitored by the RMD. In the absence of any available hedging instruments, the Bank seeks to match its interest rate positions. The evaluation and analysis of interest rate risk size is performed as of the first day of each month and updated as necessary to reflect market changes, for example, a change in benchmark interest rates, market volatility or similar events. The results of such evaluation and analysis are discussed at regular ALMC meetings. In addition to applying standard calculations, the Bank uses stress-tests. These involve determining the level of loss that would apply in the event of unforeseen circumstances or contingencies arising. This approach enables the Bank to evaluate changes in net interest income for future periods and determine the priority areas for interest risk management. Standard stress-test for interest rate risk is change of interest rates by 1 percentage point. Such test is performed on a monthly basis.

The Bank assesses the level of interest rate risk based on gap analysis, which is the analysis of the imbalance between the amounts of financial assets and liabilities which mature or reprice over the same period. Limits are set at the level of loss of net interest income which Management considers acceptable in the event of adverse movements in interest rates, taking into account possible movements in interest rates for major types of interest-bearing assets and liabilities, such as corporate and retail loans, inter-bank loans, securities and corporate and retail deposits. Limits are subject to review depending on the volatility of interest rate movements. The RMD is responsible for making recommendations to review such limits, which are subject to approval by the ALMC.

The Bank continually monitors interest rate spread and net interest income and reports on these matters are provided to the Bank's senior management each week. The Bank also manages interest rate risk by setting minimum interest rates for loans and maximum interest rates for deposits. The Bank sets interest rates for major types of assets and liabilities by maturity and currency.

## 31 Financial Risk Management (Continued)

The Bank's Risk Management summarises the interest rate gap analysis of undiscounted financial assets and liabilities contractual maturities as at 31 December 2007 as follows:

| *In thousands of Ukrainian hryvnias* | Up to 1 month | From 1 to 3 months | From 3 to 6 months | From 6 to 12 months | From 1 to 3 years | From 3 to 5 years | From 5 to 10 years | From 10 to 15 years |
|---|---|---|---|---|---|---|---|---|
| **CHF** | 301,507 | 365,603 | 95,770 | (57,846) | (496,507) | (428,606) | (218,023) | (47,839) |
| **EUR** | 343,239 | 227,549 | 66,925 | (141,162) | (173,863) | (79,764) | (22,709) | (5,276) |
| **UAH** | 486,622 | 334,791 | 348,785 | 462,486 | 986,672 | 1,936,689 | 2,200,906 | 2,276,159 |
| **USD** | 6,603 | 393,902 | (352,121) | (1,076,011) | (463,720) | (2,180,340) | (1,174,438) | (284,026) |
| **Other** | 50,488 | 45,454 | 38,259 | 30,542 | 19,148 | 8,098 | 746 | 125 |

The Bank's Risk Management summarises the interest rate gap analysis of undiscounted financial assets and liabilities contractual maturities as at 31 December 2006 as follows:

| *In thousands of Ukrainian hryvnias* | Up to 1 month | From 1 to 3 months | From 3 to 6 months | From 6 to 12 months | From 1 to 3 years | From 3 to 5 years | From 5 to 10 years | From 10 to 15 years |
|---|---|---|---|---|---|---|---|---|
| **CHF** | 23,826 | 61,847 | (26,634) | (263,370) | 35,247 | (598,334) | (207,644) | (36,223) |
| **EUR** | 52,900 | 10,052 | (64,420) | (95,829) | (114,332) | (79,629) | (21,147) | (4,768) |
| **UAH** | 405,747 | 454,068 | 608,763 | 464,742 | 241,962 | 849,954 | 932,825 | 957,210 |
| **USD** | 416,397 | 749,289 | (192,996) | (988,201) | (650,790) | 1,225,046 | (601,878) | (165,755) |
| **Other** | 13,326 | 15,216 | 13,338 | 10,492 | 7,395 | 3,066 | 239 | - |

## 31 Financial Risk Management (Continued)

The table presents the aggregated amounts of the Bank's financial assets and liabilities at carrying amounts, categorized by the earlier of contractual interest repricing or maturity dates.

| *In thousands of Ukrainian hryvnias* | **Demand and less than 1 month** | **From 1 to 3 months** | **From 3 to 12 months** | **More than 1 year** | **Non-interest bearing** | **Total** |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Cash and cash equivalents and mandatory reserves | 2,626,644 | - | - | - | - | 2,626,644 |
| Trading securities | 200,610 | - | - | - | 7,082 | 207,692 |
| Due from other banks | 830,766 | 211,257 | - | - | - | 1,042,023 |
| Loans and advances to customers | 1,396,042 | 732,245 | 3,660,509 | 24,642,167 | - | 30,430,963 |
| Investment securities available-for-sale | 207,216 | - | 52,985 | 425,310 | 6,343 | 691,854 |
| Other financial assets | 104,579 | - | 951 | - | 3,161 | 108,691 |
| **Total financial assets** | **5,365,857** | **943,502** | **3,714,445** | **25,067,477** | **16,586** | **35,107,867** |
| **Liabilities** | | | | | | |
| Due to other banks | 983,014 | 390,689 | 4,124,808 | 7,328,057 | - | 12,826,568 |
| Customer accounts | 5,049,736 | 1,962,205 | 3,957,568 | 658,414 | - | 11,627,923 |
| Domestic debt securities in issue | 8 | 257,860 | 301,182 | 300,421 | - | 859,471 |
| Eurobonds issued | 59,435 | 5,436 | 629,638 | 3,518,844 | - | 4,213,353 |
| Syndicated loans | - | - | 1,819,422 | - | - | 1,819,422 |
| Subordinated debt | - | 28,906 | - | 1,353,600 | - | 1,382,506 |
| Other financial liabilities | 343,820 | 464 | 1,731 | 8,800 | 123,735 | 478,550 |
| **Total financial liabilities** | **6,436,013** | **2,645,560** | **10,834,349** | **13,168,136** | **123,735** | **33,207,793** |
| **Net sensitivity gap** | **(1,070,156)** | **(1,702,058)** | **(7,119,904)** | **11,899,341** | **(107,149)** | **1,900,074** |

## 31 Financial Risk Management (Continued)

The table below summarises the Bank's exposure to interest rate risks at 31 December 2006.

| *In thousands of Ukrainian hryvnias* | **Demand and less than 1 month** | **From 1 to 3 months** | **From 3 to 12 months** | **More than 1 year** | **Non-interest bearing** | **Total** |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Cash and cash equivalents and mandatory reserves | 1,639,159 | - | - | - | - | 1,639,159 |
| Trading securities | 491,378 | - | - | - | 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 |
| Other financial assets | 18,606 | - | 13,618 | - | 5,095 | 37,319 |
| **Total financial assets** | **2,947,860** | **825,309** | **3,252,629** | **13,682,216** | **28,963** | **20,736,977** |
| **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 |
| Other financial liabilities | 34,876 | 496 | 157,051 | 10,719 | 11,178 | 214,320 |
| **Total financial liabilities** | **3,266,488** | **1,544,093** | **8,525,029** | **6,528,676** | **11,178** | **19,875,464** |
| **Net sensitivity gap** | **(318,628)** | **(718,784)** | **(5,272,400)** | **7,153,540** | **17,785** | **861,513** |

All of the Bank's financial assets reprice within 5 years, except for loans to customers of UAH 18,073,061 thousand (2006: UAH 9,290,782 thousand), which have maturities over 5 years. All of the Bank's financial liabilities reprice within 5 years.

At 31 December 2007, if interest rates on financial instruments denominated in UAH at that date had been 100 basis points higher/lower with all other variables held constant, profit for the year would not be affected. Other components of equity would have been UAH 5,610 thousand (2006: UAH 660 thousand) lower/higher, mainly as a result of a decrease/increase in the fair value of fixed rate financial assets classified as available-for-sale.

At 31 December 2007, if interest rates on financial instruments denominated in USD at that date had been 100 basis points higher/lower with all other variables held constant, profit for the year would have been UAH 7,584 thousand (2006: UAH 51,460 thousand) higher/lower, mainly as a result of higher interest income on variable interest assets.

At 31 December 2007, if interest rates on financial instruments denominated in EUR at that date had been 100 basis points higher/lower with all other variables held constant, profit for the year would have been UAH 452 thousand (2006: UAH 12,024 thousand) higher/lower, mainly as a result of higher interest income on variable interest assets.

## 31 Financial Risk Management (Continued)

The Bank monitors interest rates for its financial instruments. The table below summarises interest rates based on reports reviewed by key management personnel:

| | 2007 | | | | 2006 | | | |
|---|---|---|---|---|---|---|---|---|
| *In % p.a.* | **UAH** | **USD** | **Euro** | **Other** | **UAH** | **USD** | **Euro** | **Other** |
| **Assets** | | | | | | | | |
| Overnight deposits with other banks | 14 | - | - | - | 2 | 5 | - | - |
| Term placements with other banks | 7 | 7 | 4 | 4 | 7 | 6 | 5 | |
| Guarantee deposits with other banks | - | 4 | - | - | 4 | 5 | 3 | - |
| Reverse sale and repurchase agreements with other banks | 10 | - | - | - | 10 | - | - | - |
| Loans and advances to corporate customers | 15 | 11 | 11 | 9 | 16 | 11 | 10 | - |
| Loans and advances to individuals | 16 | 12 | 11 | 9 | 18 | 12 | 11 | - |
| Finance leases | 20 | - | - | - | 19 | 14 | - | - |
| Trading securities - bonds | 12 | - | - | - | 12 | - | - | - |
| Investment securities available-for-sale | 12 | - | - | - | 12 | - | - | - |
| **Liabilities** | | | | | | | | |
| Term placements with other banks | 4 | 7 | 6 | 5 | 7 | 7 | 5 | - |
| Amounts payable under repurchases agreements with other banks | 11 | - | - | - | 11 | - | - | - |
| Current account of individuals | 6 | 4 | 2 | - | 3 | 1 | - | - |
| Current account of legal entities | 2 | 1 | - | - | 3 | - | - | - |
| Term deposits of legal entities | 4 | 1 | - | 6 | 11 | 8 | 7 | - |
| Term deposits of individuals | 14 | 9 | 7 | - | 12 | 8 | 7 | - |
| Due to the National Bank of Ukraine | - | - | - | - | 10 | - | - | - |
| Domestic bonds issued by the Bank | 11 | - | - | - | 11 | - | - | - |
| Syndicated loans and other borrowed funds | - | 6 | - | - | 12 | 8 | - | - |
| Eurobonds issued | - | 9 | - | - | - | 9 | - | - |
| Certificates of deposit and promissory notes | 10 | - | - | - | 10 | - | - | - |
| Subordinated debt | - | 9 | - | 7 | - | 9 | - | - |
| 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 Financial Risk Management (Continued)

***Geographical risk concentrations.*** The geographical concentration of the Bank's financial assets and liabilities at 31 December 2007 is set out below:

| *In thousands of Ukrainian hryvnias* | Ukraine | OECD | Non-OECD | Total |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and cash equivalents and mandatory reserves | 2,067,954 | 516,743 | 41,947 | 2,626,644 |
| Debt trading securities | 207,692 | - | - | 207,692 |
| Due from other banks | 729,810 | 297,796 | 14,417 | 1,042,023 |
| Loans and advances to customers | 30,384,605 | - | 46,358 | 30,430,963 |
| Debt investment securities available-for-sale | 691,854 | - | - | 691,854 |
| Other financial assets | 107,987 | 704 | - | 108,691 |
| **Total financial assets** | **34,189,902** | **815,243** | **102,722** | **35,107,867** |
| Current income tax prepayment | 10,324 | - | - | 10,324 |
| Intangible assets | 94,761 | - | - | 94,761 |
| Premises, leasehold improvements and equipment | 1,259,934 | - | - | 1,259,934 |
| Deferred tax assets | 7,448 | - | - | 7,448 |
| Other non-financial assets | 66,547 | - | - | 66,547 |
| Investments accounted for using the equity method | 120,577 | - | - | 120,577 |
| **Non-financial assets** | **1,559,591** | **-** | **-** | **1,559,591** |
| **Total assets** | **35,749,493** | **815,243** | **102,722** | **36,667,458** |
| **Liabilities** | | | | |
| Due to other banks | 556,943 | 11,945,824 | 323,801 | 12,826,568 |
| Customer accounts | 11,562,706 | 32,923 | 32,294 | 11,627,923 |
| Domestic debt securities in issue | 859,471 | - | - | 859,471 |
| Eurobonds issued | - | 4,213,353 | - | 4,213,353 |
| Syndicated loans | - | 1,819,422 | - | 1,819,422 |
| Subordinated debt | - | 1,072,823 | 309,683 | 1,382,506 |
| Other financial liabilities | 210,121 | 268,429 | - | 478,550 |
| **Total financial liabilities** | **13,189,241** | **19,352,774** | **665,778** | **33,207,793** |
| Current income tax liability | 58 | - | - | 58 |
| Deferred income tax liability | 84,332 | - | - | 84,332 |
| Other non-financial liabilities | 136,739 | 18,639 | 1,888 | 157,266 |
| **Non-financial liabilities** | **221,129** | **18,639** | **1,888** | **241,656** |
| **Total liabilities** | **13,410,370** | **19,371,413** | **667,666** | **33,449,449** |
| **Net balance sheet position** | **22,339,123** | **(18,556,170)** | **(564,944)** | **3,218,009** |
| **Credit related commitments (Note 33)** | **2,665,338** | **-** | **-** | **2,665,338** |

## 31 Financial Risk Management (Continued)

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

| *In thousands of Ukrainian hryvnias* | Ukraine | OECD | Non-OECD | Total |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and cash equivalents and mandatory reserves | 1,144,749 | 323,258 | 171,152 | 1,639,159 |
| Debt 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 |
| Debt investment securities available-for-sale | 164,488 | - | 1,393 | 165,881 |
| Other financial assets | 35,629 | 1,690 | - | 37,319 |
| **Total financial assets** | **19,856,561** | **326,750** | **553,666** | **20,736, 977** |
| 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 non-financial assets | 76,508 | - | 18,394 | 94,902 |
| **Non-financial assets** | **1,255,017** | **-** | **26,410** | **1,281,427** |
| **Total assets** | **21,111,578** | **326,750** | **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 |
| Other financial liabilities | 214,320 | - | - | 214,320 |
| **Total financial liabilities** | **8,466,104** | **10,922,636** | **486,724** | **19,875,464** |
| Current income tax liability | 9,098 | - | - | 9,098 |
| Deferred income tax liability | 51,367 | - | - | 51,367 |
| Other non-financial liabilities | 82,883 | 426 | 2,811 | 86,120 |
| **Non-financial liabilities** | **143,348** | **426** | **2,811** | **146,585** |
| **Total liabilities** | **8,609,452** | **10,923,062** | **489,535** | **20,022,049** |
| **Net balance sheet position** | **12,502,126** | **(10,596,312)** | **90,541** | **1,996,355** |
| **Credit related commitments (Note 33)** | **1,084,425** | **-** | **-** | **1,084,425** |

Assets, liabilities and credit related commitments have been 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.

## 31 Financial Risk Management (Continued)

***Other risk concentrations.*** Management monitors and discloses concentrations of credit risk by obtaining reports listing exposures to borrowers with aggregated loan balances in excess of 10% of net assets. Refer to Note 10.

***Liquidity risk.*** Liquidity risk is defined as the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. 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.

The Bank seeks to maintain a stable funding base comprising primarily amounts due to other banks, corporate and retail customer deposits and debt securities and invest the funds in diversified portfolios of liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

The liquidity management of the Bank requires considering the level of liquid assets necessary to settle obligations as they fall due; maintaining access to a range of funding sources; maintaining funding contingency plans and monitoring balance sheet liquidity ratios against regulatory requirements. The Bank calculates liquidity ratios on a daily basis in accordance with the requirement of the National Bank of Ukraine. These ratios are:

- Instant liquidity ratio (N4), which is calculated as the ratio of highly-liquid assets to liabilities payable on demand; The ratio was 63.54 December 2007 (2006:82.09), with the required ratio being not less than 20;

- Current liquidity ratio (N5), which is calculated as the ratio of liquid assets to liabilities maturing within 30 calendar days; The ratio was 81.33 at 31 December 2007 (2006:72.29), with the required ratio being not less than 40;

- Short-term liquidity ratio (N6), which is calculated as the ratio of assets maturing after one year to regulatory capital and liabilities maturing after one year; The ratio was 38.84 at 31 December 2007 (2006: 26.29), with the required ratio being not less than 20.

The Treasury Department receives information about the liquidity profile of the financial assets and liabilities. The Treasury then provides for an adequate portfolio of short-term liquid assets, largely made up of short-term liquid trading securities, deposits with banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Bank as a whole.

The daily liquidity position is monitored and regular liquidity stress testing under a variety of scenarios covering both normal and more severe market conditions is performed by the Treasury Department.

The table below shows liabilities at 31 December 2007 by their remaining contractual maturity. The amounts disclosed in the maturity table are the contractual undiscounted cash flows, including gross finance lease obligations (before deducting future finance charges), contractual amounts to be exchanged under a gross settled currency swaps, and gross loan commitments. Such undiscounted cash flows differ from the amount included in the balance sheet because the balance sheet amount is based on discounted cash flows. Net settled derivatives are included at the net amounts expected to be paid.

When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the reporting date. Foreign currency payments are translated using the spot exchange rate at the balance sheet date.

## 31 Financial Risk Management (Continued)

The contractual maturity analysis of financial liabilities at 31 December 2007 is as follows:

| *In thousands of Ukrainian hryvnias* | **Demand and less than 1 month** | **From 1 to 3 months** | **From 3 to 12 months** | **Over 1 years** | **Total** |
|---|---|---|---|---|---|
| **Liabilities** | | | | | |
| Due to other banks | 2,086,659 | 457,226 | 5,686,934 | 14,446,480 | 22,677,299 |
| Customer accounts | 5,627,569 | 1,477,372 | 4,202,022 | 724,929 | 12,031,892 |
| Domestic debt securities in issue | 8,227 | 265,208 | 351,608 | 374,047 | 999,090 |
| Eurobonds issued | 66,120 | - | 893,057 | 4,271,038 | 5,230,215 |
| Syndicated loans | - | - | 262,960 | 1,725,058 | 1,988,018 |
| Subordinated debt | - | 28,989 | 57,342 | 1,961,327 | 2,047,658 |
| Other financial liabilities | - | - | 3,261 | 10,274 | 13,535 |
| Gross settled derivatives (outflow only) | 1,448,684 | 121,200 | - | - | 1,569,884 |
| Commitments to extend credit (Note 33) | 2,859,540 | - | - | - | 2,859,540 |
| **Total potential future payments for financial obligations** | **12,096,799** | **2,349,995** | **11,457,184** | **23,513,153** | **49,417,131** |

The contractual maturity analysis of financial liabilities at 31 December 2006 is as follows:

| *In thousands of Ukrainian hryvnias* | **Demand and less than 1 month** | **From 1 to 3 months** | **From 3 to 12 months** | **Over 1 years** | **Total** |
|---|---|---|---|---|---|
| **Liabilities** | | | | | |
| Due to other banks | 1,596,834 | 392,055 | 5,244,258 | 6,443,489 | 13,676,635 |
| Customer accounts | 2,633,401 | 946,757 | 2,431,710 | 733,249 | 6,745,117 |
| Due to the National Bank of Ukraine | 198,985 | - | - | - | 198,985 |
| Domestic debt securities in issue | - | 33,907 | 894,241 | 592,134 | 1,520,282 |
| Eurobonds issued | 28,876 | - | 755,900 | 3,996,752 | 4,781,528 |
| Other borrowed funds | 8,737 | 10,086 | 431,599 | - | 450,422 |
| Subordinated debt | - | 15,597 | 31,193 | 1,060,425 | 1,107,214 |
| Other financial liabilities | - | - | 3,261 | 13,994 | 17,255 |
| Gross settled derivatives (outflow only) | 541,950 | 180,675 | - | - | 722,625 |
| Commitments to extend credit (Note 33) | 2,896,470 | - | - | - | 2,896,470 |
| **Total potential future payments for financial obligations** | **7,905,253** | **1,579,077** | **9,792,163** | **12,840,042** | **32,116,535** |

Payments in respect of gross settled currency swaps will be accompanied by related cash inflows which are disclosed at their present values in Note 34. 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.

## 31 Financial Risk Management (Continued)

The Bank does not use the above undiscounted maturity analysis to manage liquidity. Instead, the Bank monitors expected maturities, which may be summarised as follows at 31 December 2007:

| *In thousands of Ukrainian hryvnias* | **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 | 2,626,644 | - | - | - | - | 2,626,644 |
| Trading securities | 200,610 | - | - | - | 7,082 | 207,692 |
| Due from other banks | 830,766 | 211,257 | - | - | - | 1,042,023 |
| Loans and advances to customers | 1,396,042 | 731,588 | 3,659,997 | 24,643,336 | - | 30,430,963 |
| Investment securities available-for-sale | 207,216 | - | 52,985 | 425,310 | 6,343 | 691,854 |
| Other financial assets | 107,740 | - | 951 | - | - | 108,691 |
| **Total financial assets** | **5,369,018** | **942,845** | **3,713,933** | **25,068,646** | **13,425** | **35,107,867** |
| **Liabilities** | | | | | | |
| Due to other banks | 975,009 | 340,802 | 4,151,637 | 7,359,120 | - | 12,826,568 |
| Customer accounts | 5,049,736 | 1,962,205 | 3,957,568 | 658,414 | - | 11,627,923 |
| Domestic debt securities in issue | 8 | 257,860 | 301,182 | 300,421 | - | 859,471 |
| Eurobonds issued | 59,435 | 5,436 | 629,638 | 3,518,844 | - | 4,213,353 |
| Syndicated loans | - | - | 1,819,422 | - | - | 1,819,422 |
| Subordinated debt | - | 28,907 | - | 1,353,599 | - | 1,382,506 |
| Other financial liabilities | 151,626 | 316,393 | 1,731 | 8,800 | - | 478,550 |
| **Total financial liabilities** | **6,235,814** | **2,911,603** | **10,861,178** | **13,199,198** | **-** | **33,207,793** |
| **Net liquidity gap** | **(866,796)** | **(1,968,758)** | **(7,147,245)** | **11,869,448** | **13,425** | **1,900,074** |
| **Cumulative liquidity gap at 31 December 2007** | **(866,796)** | **(2,835,554)** | **(9,982,799)** | **1,886,649** | **1,900,074** | **-** |

## 31 Financial Risk Management (Continued)

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

| *In thousands of Ukrainian hryvnias* | 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 | 491,378 | - | - | - | 7,727 | 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 |
| Other financial assets | 23,701 | - | 13,618 | - | - | 37,319 |
| **Total financial assets** | **2,951,095** | **472,459** | **2,925,962** | **14,363,593** | **23,868** | **20,736,977** |
| **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 |
| Other financial liabilities | 19,699 | 496 | 157,051 | 10,719 | 26,355 | 214,320 |
| **Total financial liabilities** | **3,225,774** | **1,080,863** | **8,418,891** | **7,123,581** | **26,355** | **19,875,464** |
| **Net liquidity gap** | **(274,679)** | **(608,404)** | **(5,492,929)** | **7,240,012** | **(2,487)** | **861,513** |
| **Cumulative liquidity gap at 31 December 2006** | **(274,679)** | **(883,083)** | **(6,376,012)** | **864,000** | **861,513** | **-** |

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.

Management believes that inspite of a substantial portion of customers accounts being on demand, diversification of these deposits by number and type of depositors, and the past experience of the Bank would indicate that these customers accounts provide a long-term and stable source of funding for the Bank.

The Bank's Risk Management summarises the liquidity gap analysis of undiscounted financial assets and liabilities contractual maturities 2007 as follows:

| *In thousands of Ukrainian hryvnias* | Up to 1 month | From 1 to 2 months | From 2 to 3 months | From 3 to 6 months | From 6 to 12 months | From 1 to 3 years | From 3 to 5 years | From 5 to 10 years |
|---|---|---|---|---|---|---|---|---|
| **CHF** | 298,183 | 335,029 | 390,048 | 124,593 | 15,273 | (681,164) | (231,911) | (93,616) |
| **EUR** | 289,412 | 230,519 | 132,776 | 55,294 | (128,503) | (61,187) | (48,910) | (6,961) |
| **UAH** | 305,059 | 218,065 | 124,413 | 592,942 | 1,217,054 | 1,515,975 | 1,885,795 | 2,078,235 |
| **USD** | 675,511 | 863,378 | 1,007,747 | 1,933,112 | (237,728) | (1,517,342) | (2,114,919) | (97,108) |
| **Other** | 18,822 | 18,033 | 18,033 | 17,892 | 19,365 | 6,207 | 3,257 | 1,657 |

## 31 Financial Risk Management (Continued)

The Bank's Risk Management summarises the liquidity gap analysis of undiscounted financial assets and liabilities contractual maturities 2006 as follows:

| *In thousands of Ukrainian hryvnias* | Up to 1 month | From 1 to 2 months | From 2 to 3 months | From 3 to 6 months | From 6 to 12 months | From 1 to 3 years | From 3 to 5 years | From 5 to 10 years |
|---|---|---|---|---|---|---|---|---|
| **CHF** | 21,986 | 47,455 | 73,095 | (55,691) | (188,295) | (780,385) | (431,955) | (70,018) |
| **EUR** | 8,287 | 77,649 | (19,759) | (8,670) | (90,272) | (84,930) | (16,980) | (11,797) |
| **UAH** | 414,066 | 442,762 | 321,887 | 733,776 | 469,273 | 425,484 | 797,055 | 840,141 |
| **USD** | 464,854 | 560,369 | 553,289 | (555,082) | (1,995,078) | 509,716 | (1,166,649) | (144,084) |
| **Other** | 12,584 | 15,263 | 16,950 | 16,950 | 17,798 | 5,009 | 2,295 | 1,131 |

## 32 Management of Capital

The Bank's objectives when managing capital are (i) to comply with the capital requirements set by the National Bank of Ukraine, (ii) to safeguard the Bank's ability to continue as a going concern and (iii) to maintain a sufficient capital base to achieve a capital adequacy ratio based on Basel Accord of at least 8%. The amount of capital that the Bank manages is UAH 4,064,831 thousand (2006: UAH 2,325,331 thousand).Compliance with capital adequacy ratios set by the National Bank of Ukraine is monitored monthly with reports outlining their calculation reviewed and signed by the Bank's Chairman of the Board and Head of Finance. Other objectives of capital management are evaluated annually.

Under the current capital requirements set by the National Bank of Ukraine banks have to maintain a ratio of regulatory capital to risk weighted assets ("statutory capital ratio") above a prescribed minimum level. Regulatory capital is based on the Bank's reports prepared under Ukrainian accounting standards and comprises:

| *In thousands of Ukrainian hryvnias* | 2007 | 2006 |
|---|---|---|
| Primary capital | 2,707,590 | 1,702,995 |
| Additional capital | 1,559,892 | 731,352 |
| Deduction | (202,651) | (109,016) |
| **Total regulatory capital** | **4,064,831** | **2,325,331** |

The Bank is also subject to minimum capital requirements established by covenants stated in loan agreements, including capital adequacy levels calculated in accordance with the requirements of the Basle Accord, as defined in the International Convergence of Capital Measurement and Capital Standards (updated April 1998) and Amendment to the Capital Accord to incorporate market risks (updated November 2005), commonly known as Basel I. The composition of the Bank's capital calculated in accordance with Basel Accord is as follows:

| *In thousands of Ukrainian hryvnias* | 2007 | 2006 |
|---|---|---|
| **Tier 1 capital** | | |
| Share capital | 3,518,684 | 2,693,684 |
| Share premium | 5,620 | 5,377 |
| Accumulated deficit | (315,696) | (711,259) |
| **Total tier 1 capital** | 3,208,608 | 1,987,802 |
| **Tier 2 capital** | | |
| Revaluation reserve for investments available-for-sale | (305) | 1,061 |
| Additional capital | - | 6,974 |
| Currency translation reserve | - | 518 |
| Subordinated debt | 1,272,294 | 685,714 |
| **Total tier 2 capital** | 1,271,989 | 694,267 |
| **Total capital** | **4,480,597** | **2,682,069** |

The Bank has complied with the capital requirements imposed by the NBU and loan providers (loan covenants) throughout 2007 and 2006.

## 33 Contingencies and Commitments

***Legal proceedings*.** From time to time and in the normal course of business, claims against the Bank may be received. On the basis of its own estimates and both internal professional advice 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 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 authorities.

The Ukrainian 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.

***Capital expenditure commitments.*** At 31 December 2007 the Bank has contractual capital expenditure commitments in respect of premises and equipment totalling UAH 13,262 thousand (31 December 2006: UAH 30,596 thousand) and in respect of software developments for plastic cards services and other of UAH 6,055 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:

| *In thousands of Ukrainian hryvnias* | **2007** | **2006** |
|---|---|---|
| Not later than 1 year | 88,321 | 75,535 |
| Later than 1 year and not later than 5 years | 217,918 | 200,891 |
| Later than 5 years | 68,332 | 81,539 |
| **Total operating lease commitments** | **374,571** | **357,965** |

***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 2007 the Bank was in compliance with the covenants specified above. Also refer to Note 32.

## 33 Contingencies and Commitments (Continued)

***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.

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 irrevocable credit related commitments are as follows:

| *In thousands of Ukrainian hryvnias* | **Note** | **2007** | **2006** |
|---|---|---|---|
| Commitments to extend credit | | 712,246 | 758,546 |
| Commitments arising in respect of underwriting activity | | 50,000 | 10,000 |
| Import letters of credit (cash covered) | | 86,306 | 70,566 |
| Import letters of credit (uncovered) | | 901,222 | 81,251 |
| Guarantees issued (cash covered) | | 26,860 | 92,009 |
| Guarantees issued (uncovered) | | 882,158 | 205,402 |
| Promissory notes endorsements (cash covered) | | 5,524 | 5,237 |
| Promissory notes endorsements (uncovered) | | 121,528 | 39,724 |
| Less: cash covered credit related commitments | 16 | (118,690) | (167,813) |
| Less: Provision for losses on credit related commitments | 21 | (1,816) | (10,497) |
| **Total credit related commitments** | | **2,665,338** | **1,084,425** |

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. Fair value of credit related commitments was UAH 1,816 thousand at 31 December 2007 (2006: UAH 10,497 thousand).

In 2007 the Bank reconsidered the treatment of revocable and irrevocable commitments to extend credit which resulted in increase in 2006 in revocable commitment to extend credit by UAH 1,539,499 thousand and decrease in irrevocable commitments to extend credit for the same amount (Note 3). The Bank has concluded that from the point of view of credit risk, such commitments do not represent additional credit risk, as in case of deterioration of the financial position of the borrower or in case of existence of other factors, which would hamper the borrowers ability to repay the loan, the Bank has the right to stop the loan drawdown, thus limiting the level of the credit risk. Therefore, for the purposes of these consolidated financial statements commitments with such characteristics are treated as revocable. However, for the purpose of liquidity risk disclosure both revocable and irrevocable commitments are included in the maturity table (Note 31) as commitments to extend credit represent liquidity risk exposure in case there is no deterioration of the financial position or the credit risk of the borrower. The amount of revocable commitments outstanding as at 31 December 2007 was UAH 2,097,294 thousand (31 December 2006: UAH 2,127,924 thousand).

## 33 Contingencies and Commitments (Continued)

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:

| *In thousands of Ukrainian hryvnias* | **2007** | **2006** |
|---|---|---|
| Ukrainian hryvnias | 1,015,644 | 773,236 |
| US Dollars | 1,010,224 | 223,552 |
| Euro | 453,470 | 79,481 |
| Other currencies | 186,000 | 8,156 |
| **Total** | **2,665,338** | **1,084,425** |

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

| *In thousands of Ukrainian hryvnias* | **Note** | **2007** | **2006** |
|---|---|---|---|
| **Provision for losses on credit related commitments as at 1 January** | | **10,497** | **6,290** |
| Fees received | | 37,766 | 20,790 |
| Amortisation of fees | 25 | (37,766) | (20,790) |
| (Recovery of provision)/provision for losses on credit related commitments during the year | | (8,681) | 4,207 |
| **Provision for losses on credit related commitments as at 31 December** | 21 | **1,816** | **10,497** |

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.

***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:

| *In thousands of Ukrainian hryvnias* | **2007 Nominal value** | **2006 Nominal value** |
|---|---|---|
| Shares in domestic companies held by the Bank on behalf of its customers | 2,580,967 | 3,121,885 |
| Domestic corporate bonds held by the Bank on behalf of its customers | 308,309 | 11,661 |
| Domestic municipal bonds held by the Bank on behalf of its customers | 2,858 | - |
| Domestic treasury bills held by the Bank on behalf of its customers | 12,577 | 9,787 |
| Notes of exchange held by the Bank on behalf of its customers | 2,539 | 8,154 |
| Investment certificates held by the Bank on behalf of its customers | 108,031 | 7,482 |
| Assets managed by the Bank | 416,771 | 256,259 |

## 33 Contingencies and Commitments (Continued)

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

| In thousands of Ukrainian hryvnias | Notes | 2007 Asset pledged | 2007 Related liability/ commitment | 2006 Asset pledged | 2006 Related liability/ commitment |
|---|---|---|---|---|---|
| Trading securities | 8, 15, 16,17 | 20,761 | 20,723 | 369,367 | 256,447 |
| Investment securities available-for-sale | 11, 15, 16 | 156,781 | 156,746 | 60,109 | 59,446 |
| Due from other banks/Gross receivables under currency swaps | | 1,568,703 | 1,568,438 | 723,240 | 722,473 |
| Loans and advances to customers | 10 | - | - | 23,247 | 22,834 |
| **Total** | | **1,746,245** | **1,745,907** | **1,175,963** | **1,061,200** |

In addition, mandatory reserve balances in the amount of UAH 940,985 thousand (2006: UAH 183,061 thousand) represent mandatory reserve assets which are not available to finance the Bank's day to day operations (Note 7).

As disclosed in Note 9, in March 2007 the Bank placed a guarantee deposit in Deutsche Bank with maturity in June 2008 totalling UAH 1,010 thousand (2006: UAH 4,535 thousand).

## 34 Derivative Financial Instruments

Foreign exchange 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 swap contracts entered into by the Bank. The table reflects gross positions before the netting of any counterparty positions (and payments) and covers the contracts with settlement dates after the respective balance sheet date. The contracts are short term in nature.

| *In thousands of Ukrainian hryvnias* | 2007 Contracts with positive fair value | 2007 Contracts with negative fair value | 2006 Contracts with positive fair value | 2006 Contracts with negative fair value |
|---|---|---|---|---|
| **Foreign exchange swaps: fair values, at the balance sheet date, of** | | | | |
| - USD receivable on settlement (+) | 950,407 | 127,766 | 66,179 | 202,111 |
| - USD payable on settlement (-) | (372,448) | (118,862) | (214,908) | (38,048) |
| - Euros receivable on settlement (+) | 26,912 | - | 26,848 | 55,306 |
| - Euros payable on settlement (-) | - | - | (69,913) | (62,537) |
| - UAH receivable on settlement (+) | 346,092 | 118,790 | 285,382 | 90,400 |
| - UAH payable on settlement (-) | (949,989) | (112,120) | (91,933) | (202,270) |
| - Other currencies receivable on settlement (+) | - | 618 | - | - |
| - Other currencies payable on settlement (-) | - | (16,465) | - | (45,454) |
| **Net fair value of foreign exchange swaps** | **974** | **(273)** | **1,655** | **(492)** |

## 35 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.

***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. As interbank assets are short-term (up to 1 year), the Bank consider that fair value is equal to book value. Discount rates used depend on currency, maturity of the instrument and credit risk of the counterparty and were as follows:

| *In thousands of Ukrainian hryvnias* | **2007** | **2006** |
|---|---|---|
| *Due from other banks – Note 9* | | |
| Overnights and short-term placements with other banks | 2% to 15% p.a. | 2% to 7% p.a. |
| Reverse sale and repurchase agreements with other banks with original maturities of more than three months | 10% p.a. | 10% p.a. |
| Guarantee deposits with other banks | 4% p.a. | 3% to 5% p.a. |
| *Loans and advances to customers – Note 10* | | |
| Corporate loans | 9 % to 17% p.a. | 12 % to 19% p.a. |
| Mortgage loans | 9 % to 17% p.a. | 9 % to 18% p.a. |
| Other term loans | 12 % to 18% p.a. | 13 % to 19% p.a. |

***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 15, 16,17, 18, 19, 20 and 22 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, syndicated loans and other borrowed funds and subordinated debt, respectively. Discount rates used were consistent with the Bank's credit risk and also depend on currency and maturity of the instrument and ranged from 4.65 % p.a. to 13.29 % p.a. (2006: from 4.65 % p.a. to 13 % p.a.)

***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. Their fair values are based on observable market prices. Refer to Notes 34.

## 35 Fair Value of Financial Instruments (Continued)

Fair values of financial instruments are as follows:

| | 31 December 2007 | | 31 December 2006 | |
|---|---|---|---|---|
| *In thousands of Ukrainian hryvnias* | **Carrying value** | **Fair value** | **Carrying value** | **Fair value** |
| **FINANCIAL ASSETS CARRIED AT AMORTISED COST** | | | | |
| ***Cash and cash equivalents*** | | | | |
| Cash on hand | 869,735 | 869,735 | 557,839 | 557,839 |
| Cash balances with the National Bank of Ukraine | 1,192,764 | 1,192,764 | 491,480 | 491,480 |
| Cash balances with the Central Bank of Russian Federation | - | - | 95,276 | 95,276 |
| Correspondent accounts and overnight placements with other banks | | | | |
| - Ukraine | 5,455 | 5,455 | 154 | 154 |
| - other countries | 558,690 | 558,690 | 494,410 | 494,410 |
| ***Due from other banks*** | | | | |
| - Term placements with other banks | 882,058 | 882,058 | 303,511 | 303,511 |
| - Reverse sale and repurchase agreements with other banks | 158,955 | 158,955 | 26,947 | 26,947 |
| - Guarantee deposits with other banks | 1,010 | 1,010 | 4,535 | 4,535 |
| ***Loans and advances to customers*** | | | | |
| Car loans | 4,596,979 | 4,678,602 | 2,377,244 | 2,354,653 |
| Mortgage loans | 10,876,347 | 10,699,186 | 6,075,410 | 5,802,248 |
| Other term loans | 13,699,543 | 13,984,990 | 8,781,656 | 9,072,351 |
| Overdrafts | 792,891 | 835,923 | 615,473 | 631,148 |
| Net investment in finance leases | 355,771 | 357,852 | 128,003 | 128,873 |
| Reverse sale and repurchase agreements | 109,432 | 109,432 | 82,734 | 82,734 |
| ***Other financial assets*** | 108,691 | 108,691 | 37,319 | 37,319 |
| **FINANCIAL ASSETS CARRIED AT FAIR VALUE** | | | | |
| ***Trading securities*** | 207,692 | 207,692 | 499,105 | 499,105 |
| ***Investment securities available-for-sale*** | 691,854 | 691,854 | 165,881 | 165,881 |
| **TOTAL FINANCIAL ASSETS** | **35,107,867** | **35,339,030** | **20,736,977** | **20,748,464** |

## 35 Fair Value of Financial Instruments (Continued)

| | 31 December 2007 | | 31 December 2006 | |
|---|---|---|---|---|
| *In thousands of Ukrainian hryvnias* | **Carrying value** | **Fair value** | **Carrying value** | **Fair value** |
| **FINANCIAL LIABILITIES CARRIED AT AMORTISED COST** | | | | |
| ***Due to the National Bank of Ukraine*** | - | - | 198,000 | 198,000 |
| ***Due to other banks*** | | | | |
| -Correspondent accounts and overnight placements of Other banks | 70,245 | 70,245 | 16,566 | 16,566 |
| -Guarantees deposits of Other banks | 1,889 | 1,889 | 2,043 | 2,043 |
| -Amounts payable under repurchase agreements | 127,433 | 127,120 | 116,530 | 115,938 |
| Loans received from other banks | 12,627,001 | 12,556,126 | 6,575,829 | 6,711,511 |
| ***Customer accounts*** | | | | |
| *Legal entities* | | | | |
| - Current/settlement accounts | 2,612,101 | 2,612,101 | 1,608,545 | 1,608,545 |
| - Term deposits | 2,597,775 | 2,610,761 | 1,266,729 | 1,273,534 |
| *Individuals* | | | | |
| - Current/demand accounts | 1,520,506 | 1,520,506 | 508,965 | 508,965 |
| - Term deposits | 4,897,541 | 4,900,781 | 3,163,953 | 3,167,438 |
| ***Debt securities in issue*** | | | | |
| Domestic debt securities | 859,471 | 851,417 | 1,352,420 | 1,348,774 |
| Eurobonds issued | 4,213,353 | 4,167,962 | 3,689,405 | 3,740,990 |
| ***Syndicated loans and other borrowed funds*** | | | | |
| Syndicated loan | 1,819,422 | 1,819,422 | - | - |
| Trade financing received from non-banking financial institution | - | - | 410,228 | 410,228 |
| Short-term borrowings received from State Mortgage Institution | - | - | 22,834 | 22,834 |
| ***Subordinated debt*** | | | | |
| - Subordinated debt | 1,382,506 | 1,438,264 | 729,096 | 754,464 |
| ***Other financial liabilities*** | 478,550 | 478,550 | 214,321 | 214,321 |
| **TOTAL FINANCIAL LIABILITIES** | **33,207,793** | **33,155,144** | **19,875,464** | **20,094,151** |

## 36 Reconciliation of Classes of Financial Instruments with Measurement Categories

For the purposes of measurement, IAS 39, *Financial Instruments: Recognition of Measurement*, classifies financial assets into the following categories: (a) loans and receivables; (b) available-for-sale financial assets; (c) financial assets held to maturity and (d) financial assets at fair value through profit or loss ("FVTPL"). Financial assets at fair value through profit or loss have two subcategories: (i) assets designated as such upon initial recognition, and (ii) those classified as held for trading. The following table provides a reconciliation of classes of financial assets with these measurement categories as on 31 December 2007:

| *In thousands of Ukrainian hryvnias* | **Loans and receivables** | **Available-for-sale assets** | **Trading assets** | **Total** |
|---|---|---|---|---|
| **ASSETS** | | | | |
| ***Cash and cash equivalents*** | 2,626,644 | - | - | 2,626,644 |
| ***Trading securities*** | - | - | 207,692 | 207,692 |
| ***Due from other banks*** | | | | |
| Term placements with other banks | 882,058 | - | - | 882,058 |
| Reverse sale and repurchase agreements with other banks | 158,955 | - | - | 158,955 |
| Guarantee deposits with other banks | 1,010 | - | - | 1,010 |
| ***Loans and advances to customers*** | | | | |
| Car loans | 4,596,979 | - | - | 4,596,979 |
| Mortgage loans | 10,876,347 | - | - | 10,876,347 |
| Other term loans | 13,699,543 | - | - | 13,699,543 |
| Overdrafts | 792,891 | - | - | 792,891 |
| Net investment in finance leases | 355,771 | - | - | 355,771 |
| Reverse sale and repurchase agreements | 109,432 | - | - | 109,432 |
| ***Investment securities available-for-sale*** | - | 691,854 | - | 691,854 |
| ***Other financial assets:*** | | | | |
| - Other financial assets | 107,717 | - | 974 | 108,691 |
| **TOTAL FINANCIAL ASSETS** | **34,207,347** | **691,854** | **208,666** | **35,107,867** |
| **NON-FINANCIAL ASSETS** | - | - | - | **1,559,591** |
| **TOTAL ASSETS** | - | - | - | **36,667,458** |

## 36 Reconciliation of Classes of Financial Instruments with Measurement Categories (Continued)

The following table provides a reconciliation of classes of financial assets with these measurement categories as on 31 December 2006:

| *In thousands of Ukrainian hryvnias* | Loans and receivables | Available-for-sale assets | Trading assets | Total |
|---|---|---|---|---|
| **ASSETS** | | | | |
| ***Cash and cash equivalents*** | 1,639,159 | - | - | 1,639,159 |
| ***Trading securities*** | - | - | 499,105 | 499,105 |
| ***Due from other banks*** | | | | |
| Term placements with other banks | 303,511 | - | - | 303,511 |
| Reverse sale and repurchase agreements with other banks | 26,947 | - | - | 26,947 |
| Guarantee deposits with other banks | 4,535 | - | - | 4,535 |
| ***Loans and advances to customers*** | | | | |
| Car loans | 2,377,244 | - | - | 2,377,244 |
| Mortgage loans | 6,075,410 | - | - | 6,075,410 |
| Other term loans | 8,781,656 | - | - | 8,781,656 |
| Overdrafts | 615,474 | - | - | 615,474 |
| Net investment in finance leases | 128,002 | - | - | 128,002 |
| Reverse sale and repurchase agreements | 82,734 | - | - | 82,734 |
| ***Investment securities available-for-sale*** | - | 165,881 | - | 165,881 |
| ***Other financial assets:*** | | | | |
| - Other financial assets | 37,319 | - | - | 37,319 |
| **TOTAL FINANCIAL ASSETS** | **20,071,991** | **165,881** | **499,105** | **20,736,977** |
| **NON-FINANCIAL ASSETS** | - | - | - | **1,281,427** |
| **TOTAL ASSETS** | - | - | - | **22,018,404** |

All of the Bank's financial liabilities except for derivatives are carried at amortised cost. Derivatives belong to the fair value through profit or loss measurement category as instruments held for trading.

## 37 Related Party Transactions

Parties are generally considered to be related if the parties are under common control or one party has the ability to control the other party 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 2007, the outstanding balances with related parties were as follows:

| *In thousands of Ukrainian hryvnias* | **Parent company** | **Shareholders** | **Key management personnel** | **Entities under common control and other related parties** |
|---|---|---|---|---|
| Cash and cash equivalents | 168 | - | - | 17,363 |
| **Loans and advances to customers** | | | | |
| Gross amount of loans and advances to customers in UAH (contractual interest rate: 16 - 17%) | - | - | - | 56,453 |
| Gross amount of loans and advances to customers in USD (contractual interest rate: 8 - 14%) | - | - | 21,998 | 126,059 |
| Gross amount of loans and advances to customers in EUR (contractual interest rate: 9 - 12%) | - | - | - | 171,541 |
| Gross amount of loans and advances to customers in CHF (contractual interest rate: 8%) | - | - | - | 21,496 |
| Impairment provisions for loans and advances to customers | - | - | - | (23,053) |
| Investment securities available-for-sale | - | - | - | 121,954 |
| Trading securities | - | - | - | 4,831 |
| **Other assets** | - | - | 5 | 337 |
| **Customer accounts** | | | | |
| Current accounts | - | 6,604 | 1,538 | 52,514 |
| Term deposits in UAH (contractual interest rate: 2 - 16%) | - | 202,679 | 791 | 47,702 |
| Term deposits in USD (contractual interest rate: 6 - 11%) | - | 143,100 | 523 | 44,019 |
| Term deposits in EUR (contractual interest rate: 5 - 7%) | - | 1,541 | 216 | - |
| Subordinated debt (contractual interest rate: 7-9%) | 1,382,506 | - | - | - |
| Other liabilities | - | - | - | 3,896 |
| **Due to other banks** | | | | |
| Due to other banks in USD (contractual interest rate 6% - 9%) | 8,590,838 | - | - | 224,466 |
| Due to other banks in EUR (contractual interest rate 6% - 8%) | 134,955 | - | - | 33,868 |
| Due to other banks in CHF (contractual interest rate 4% - 7%) | 2,003,753 | - | - | - |
| Minority interests | - | - | 7 | 2,820 |

## 37 Related Party Transactions (Continued)

The income and expense items with related parties for the year 2007 were as follows:

| *In thousands of Ukrainian hryvnias* | **Parent company** | **Shareholders** | **Key management personnel** | **Entities under control of shareholders and other related parties** |
|---|---|---|---|---|
| Interest income on loans and advances to customers | - | 19 | 1,438 | 27,563 |
| Interest expense on customer accounts | | (8,438) | (88) | (34,862) |
| Interest expense on subordinated debt | (86,612) | - | - | - |
| Interest expense on due to other banks | (431,455) | - | - | (1,300) |
| Recovery of provision for loan impairment | - | | 143 | 28,546 |
| Gains less losses from trading in foreign currencies | 877 | 620 | 1 | 6,281 |
| Gains less losses from trading securities | 49 | - | - | 156 |
| Fee and commission income | 381 | 183 | 59 | 2,933 |
| Other operating expenses | (184) | - | - | (817) |
| Income from insurance operations | - | - | - | - |

During 2007 certain parties, which were treated as related as at 31 December 2006, ceased to be related. As at 31 December 2006 the Bank a raised provision for impairment in respect of these loans in the amount of UAH 12,070 thousand.

At 31 December 2007 other rights and obligations with related parties were as follows:

| *In thousands of Ukrainian hryvnias* | **Parent company** | **Shareholders** | **Key management personnel** | **Entities under control of shareholders and other related parties** |
|---|---|---|---|---|
| Commitments to extend credit | - | - | 2,469 | 59,470 |
| Commitments to extend credit received from other banks | 4,382,997 | - | - | 18,375 |
| Import letters of credit (cash covered) | - | - | - | 38,026 |
| Import letters of credit (uncovered) | - | - | - | 24,253 |
| Guarantees issued (uncovered) | - | - | - | 64 |
| Promissory notes endorsements (uncovered) | - | - | - | 594 |

Aggregate amounts lent to and repaid by related parties during 2007 were:

| *In thousands of Ukrainian hryvnias* | **Parent company** | **Shareholders** | **Key management personnel** | **Entities under control of shareholders and other related parties** |
|---|---|---|---|---|
| Amounts lent to related parties during the period | | 12 | 21,849 | 1,391,805 |
| Amounts repaid by related parties during the period | | 76 | 15,351 | 2,351,437 |

***Other transactions***. During March and June 2007 BNP Paribas "Vostok" (formerly Commercial Bank "UkrSibbank" LLC (Russia)) received non-refundable financial aid from the parent company BNP Paribas SA. For the purposes of these consolidated financial statements this amount totalling UAH 36,185 thousand was recorded as additional capital. Please also refer to Note 23.

In addition, as disclosed in Note 39, in July 2007 the Bank sold 100% of shares in its subsidiary BNP Paribas Vostok Ltd. (Moscow, Russia) to its parent, BNP Paribas. As a result of this transaction, the Bank recorded a loss on disposal of UAH 9,933 thousand.

## 37 Related Party Transactions (Continued)

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

| *In thousands of Ukrainian hryvnias* | **Parent company** | **Other shareholders** | **Key management personnel** | **Entities under control of shareholders and other related parties** |
|---|---|---|---|---|
| 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 |

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

| *In thousands of Ukrainian hryvnias* | **Parent company** | **Shareholders** | **Key management personnel** | **Entities under control of shareholders and other related parties** |
|---|---|---|---|---|
| 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 |

## 37 Related Party Transactions (Continued)

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:

| *In thousands of Ukrainian hryvnias* | **Parent company** | **Shareholders** | **Key management personnel** | **Entities under control of shareholders and other related parties** |
|---|---|---|---|---|
| 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:

| *In thousands of Ukrainian hryvnias* | **Parent company** | **Shareholders** | **Key management personnel** | **Entities under control of shareholders and other related parties** |
|---|---|---|---|---|
| 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 |

As at 31 December 2007 and 31 December 2006 the parent company and ultimate controlling party of the Bank was BNP Paribas (France).

During 2007, the remuneration of members of the Board of Directors comprised salaries, discretionary bonuses and other short-term benefits totalling to UAH 26,822 thousands (2006: UAH 12,323 thousand).

## 38 Principal Subsidiaries and Special Purpose Entities

As at 31 December 2007 the Bank consolidated the following subsidiaries:

| Name | Nature of business | Country of registration | Percentage of legal ownership 31 December 2007 | Percentage of legal ownership 31 December 2006 |
|---|---|---|---|---|
| Limited Liability Company "Ukrainian Leasing Company" | Leasing | Ukraine | 100.00% | 99.996% |
| Closed Joint-Stock Company "Asset Management Company "Ukrsib Asset Management" | Asset management | Ukraine | 99.94% | 99.94% |
| "Closed Non-diversified Investment Fund UkrSib Stabilnii Investicii" | Asset management | Ukraine | 99.93% | 99.94% |
| Closed Joint-Stock Company "UkrSib Real Estate" | Rent and sale estate | Ukraine | 99.74% | 0.50% |
| Open Joint-Stock Company " UkrSib Fond Nedvigemosty" | Asset management | Ukraine | 41.08% | 0.49% |

Closed Joint-Stock Company "UkrSib Real Estate" and Open Joint-Stock Company "UkrSib Fond Nedvigemosty" were created in 2006 to manage investor's assets in investment building projects. In the first half of 2007 the Bank reestablished control over the business of Open Joint-Stock Company "Closed Non-diversified Corporate Investment UkrSib Fond Nedvigemosty" and Open Joint-Stock Company "Fund UkrSib Real Estate". The Bank currently controls operations of these entities. Closed Joint-Stock Company "Asset Management Company "Ukrsib Asset Management" obtained ultimate control over the Open Joint-Stock Company " UkrSib Fond Nedvigemosty" despite controlling less than 50%. The individual share of other shareholders of the company does not exceed 20%. In accordance with the investment memorandum and asset management agreement "UkrSib Asset Management" has the power to determine the operational policy of "UkrSib Fond Nedvigemosty". Business planning of the activity of "UkrSib Fond Nedvigemosty" is done within the framework of the Bank's business plan and "UkrSib Asset Management" business plan. In substance, "UkrSib Asset Management" has the power to make decisions in order to benefit from the activity of the investee. In 2008 the Bank plans to make additional investments into these entities in order to participate in large real estate projects. Refer to Note 39 - "Business Combinations".

In 2007 Bank with AXA have created joint venture (in common controllable activity of the insurance companies Closed Joint-Stock Insurance Company "Ukrainian Insurance Alliance" and Closed Joint-Stock Insurance Company "Vesko"). Investments of the Bank in joint ventures are determined using the equity method. Please refer to Note 12.

As at 31 December 2007 the Bank's Management also consolidated two special purpose entities ("SPE") disclosed below. Limited Liability Company "UkrSib-Finance" and Limited Liability Company "Universal Leasing Company", were created in 2003 and 2002 to serve as an integral part of the Bank's business.

| Name | Nature of business | Country of registration | Percentage of ownership directly held by the Bank 31 December 2007 | Percentage of ownership directly held by the Bank 31 December 2006 |
|---|---|---|---|---|
| Limited Liability Company "UkrSib-Finance" | Finance | Ukraine | 9.90% | 9.90% |
| Limited Liability Company "Universal Leasing Company" | Leasing | Ukraine | 9.09% | 9.091% |

## 39 Business Combinations

***Acquisitions during 2007.*** Due to the reinstatement of control over Closed Joint-Stock Company "UkrSib Real Estate" in 2007 it has been included by the Bank in its consolidated financial statements as at and for the year ended 31 December 2007. The Bank's share during the period ended 31 December 2007 totaled 99.74% of registered capital.

Due to the re-establishment of control over the activity of Open Joint-Stock Company " UkrSib Fond Nedvigemosty" in 2007 it has been included by the Bank in its consolidated financial statements as at and for the year ended 31 December 2007. The Bank's share during the period ended 31 December 2007 totaled 41.08% of the registered share capital. In second part of 2007 Open Joint-Stock Company "UkrSib Fond Nedvigemosty" issued ordinary shares. This caused additional increase of minority interest in share capital of UAH 4,256 thousand. In future the Bank's Management plans to realize investments in fund's securities, to control and to monitor fund's policy.

## 39 Business Combinations (Continued)

The details of assets and liabilities acquired are as follows:

| *In thousands of Ukrainian hryvnias* | **IFRS carrying amount immediately before business combination** | **Fair value** |
|---|---|---|
| Cash and cash equivalents | 27 | 27 |
| Trading securities | 3,020 | 3,020 |
| Other assets | 6 | 6 |
| Other liabilities | (9) | (9) |
| **Fair value of net assets of subsidiary** | 3,044 | 3,044 |
| Less: minority interest | - | 1,885 |
| Less: interest acquired previously | - | - |
| **Fair value of acquired interest in net assets of subsidiary** | - | 1,159 |
| Excess of fair value of acquired interest in Bank's share in net assets of subsidiary over the cost of investment | - | (14) |
| **Total purchase consideration** | - | 1,145 |
| Less: carrying amount of investment in the acquiree prior to the acquisition | - | (989) |
| Less: cash and cash equivalents in subsidiary acquired | | (27) |
| **Net outfow of cash and cash equivalents of acquisition** | - | 129 |

***Disposals during 2007***. In July 2007, a contract has been signed with BNP Paribas for disposal of BNP Paribas Vostok Ltd. (NFT), the Bank's Russian subsidiary. All shares (100 %) have been sold in November 2007. Also management of the Bank has signed a contract with AXA for the sale of 50 % plus 1 share in IC Ukrainian Insurance Alliance (UIA).

Assets and liabilities disposed of are presented below:

| *In thousands of Ukrainian hryvnias* | **IFRS carrying amount immediately before sale-UIA** | **IFRS carrying amount immediately before sale -NFT** | **Total - IFRS carrying amount immediately before sale** |
|---|---|---|---|
| Cash and cash equivalents | 8,987 | 69,687 | 78,674 |
| Securities | 48,420 | 11,953 | 60,373 |
| Loans | | 293,338 | 293,338 |
| Other assets | 9,422 | 54,520 | 63,942 |
| Deferred tax assets | 8,362 | 8,261 | 16,623 |
| Reinsurer's share of provision | 7,019 | - | 7,019 |
| Due from other banks | 110,660 | - | 110,660 |
| Due to other banks | - | (330,038) | (330,038) |
| Customer accounts | - | (63,852) | (63,852) |
| Other liabilities | (22,276) | (33,911) | (56,187) |
| Insurance provisions | (179,738) | - | (179,738) |
| Goodwill (fair value of investments disposed) | 532 | - | 532 |
| **Net assets of subsidiary disposed** | **(8,612)** | **9,958** | **1,346** |
| Profit/(loss) on disposal | 96,937 | (9,933) | 87,004 |
| Proceeds from sale discharged by cash | 88,325 | 25 | 88,350 |
| **Total consideration received** | **88,325** | **25** | **88,350** |
| consideration received in cash | 88,325 | 25 | 88,350 |
| Less: cash and cash equivalents in subsidiary disposed | (8,987) | (69,687) | (78,674) |
| **Net cash inflow/(outflow) on sale** | **79,338** | **(69,662)** | **9,676** |

## 39 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.

| *In thousands of Ukrainian hryvnias* | **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.

## 40 Subsequent Events

On 19 September 2007 the shareholders of the Company took a decision to issue 10 billion shares totalling UAH 500,000 thousand. The placement of shares commenced on 21 December 2007 and was completed on 10 January 2008. All shares were fully paid by the end of January 2008. The shareholders meeting of 11 January 2008 approved the results of the new share issue and decided to make the respective changes to the Company's Charter. On 29 February 2008 the National Bank of Ukraine registered the respective changes in the Company’s Charter.

On 14 March 2008 the shareholders of the Company took a decision to issue 18.6 billion additional shares totalling UAH 930,000 thousand.

In January 2008 the Board of the Company took a decision to approve attraction of loan facility from EBRD with nominal value of USD 50,000 thousand with maturity in 2013 and planned floating rate with a margin of 2.1% p.a. The agreement was signed on 14 March 2008.

On 10 March 2008 shareholders of IC Vesko took a decision to issue ordinary shares. The Company will keep it’s interest in this company at the same level. The planned amount of contribution will be UAH 21,810 thousand.

On 13 March 2008 shareholders of IC UIA took a decision to issue ordinary shares. The Company will keep it’s interest in this company at the same level. The planned amount of contribution will be UAH 32,685 thousand.